

ANNUAL REPORT 2004

Marshalls

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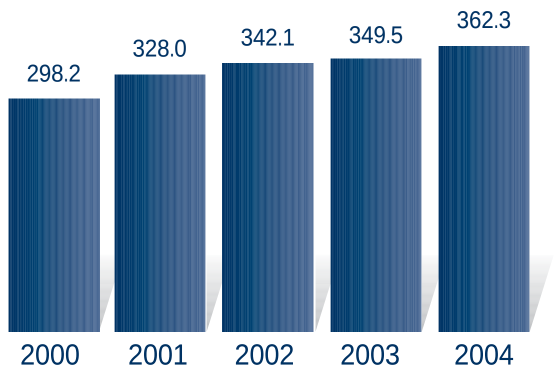
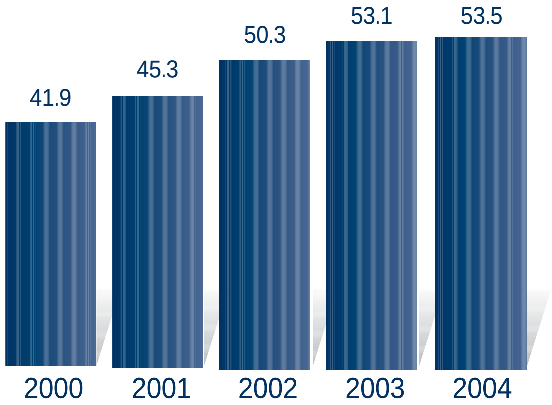
Lunar Paving, Diarmuid Range

Financial Highlights

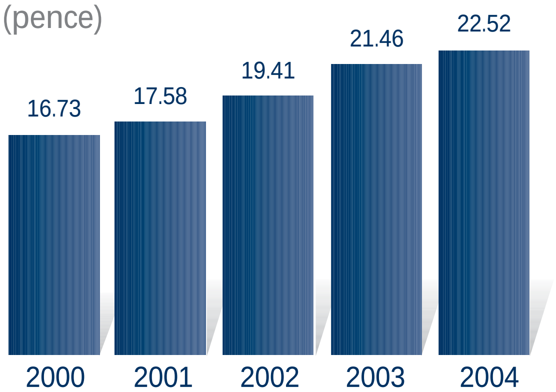
Turnover (£m)



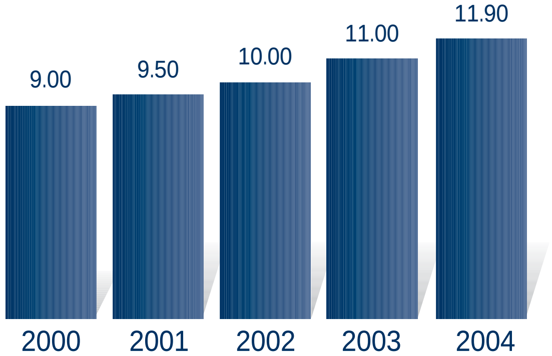
Operating profit (£m)



Adjusted basic earnings per share (pence)



Dividend per ordinary share (pence)



All figures relate to the existing and former Marshalls plc and their subsidiary companies.

Tulip Lightstacks, Canary Wharf

Corporate Objectives

Customers are at the centre of our business. We supply our customers with exclusive ranges of the highest quality products and provide outstanding levels of customer service in our chosen markets. Our achievement of these objectives will ensure that we maintain and develop our market leading position.

Marshalls undertakes this challenging task with the objective of delivering superior rates of return to our shareholders and providing opportunities and reward for our employees.

Profile

Marshalls manufactures and supplies landscape, driveway and garden products from a range of materials including concrete, natural stone, iron, steel, wood, glass and polyurethane, for domestic, commercial and public sector use.

The home improvement and home building markets are the largest users of the Groups' products and we supply goods ranging from paving and walling to greenhouses and garages. Commercial and public sector customers use Marshalls' products to transform landscapes including retail, industrial, new build as well as repair and maintenance projects.

Marshalls' customers are the large builders' merchant groups, independent builders' merchants, garden centres, contactors and local authorities. Products are distributed from a national network of manufacturing and Service Centres either to customers' depots or, at their request, direct to site.

Manor House Stone Masonry, Scout Moor Rustic Paving, Chepstow

CONTENTS

La Linia, Light Granite, BBC HQ, London

Chairman's Statement

I am pleased to report a year of further earnings growth in circumstances where market conditions have been challenging and where many initiatives have been taken by the Company.

The earnings growth of 4.9 per cent represents our fifth year of continuous growth in adjusted earnings per share and, as reported in detail in the Chief Executive's report, was achieved in the face of challenging trading conditions. Our ability to sustain earnings in these conditions says much about the resilience of the Marshalls brand.

During the year we implemented and completed the Return of Value project designed to return £75.4 million (equivalent to 45 pence per ordinary share) to our shareholders by way of redeemable B shares. As at 31 December 2004, £71.2 million of shares had been redeemed.

The Board recommends a final dividend of 8.00p (2003: 7.35p) per ordinary share making a total of 11.90p (2003: 11.00p) for the year, an increase of 8.2 per cent. The dividend will be paid on 8 July 2005 to shareholders on the Register on 10 June 2005. The ex-dividend date will be 8 June 2005.

Trustone Capital Paving

Just after the end of the year, we announced the sale of our Clay Products Division, to Hanson PLC for a consideration of £65.0 million including the repayment of all intergroup indebtedness. We believed that we had developed this business, particularly over the past two years, and that this was reflected in the value. The Board was of the opinion that disposal was the best decision for shareholders' bearing in mind the increasing concentration of global companies in this market. Gearing at the year end was 64.5 per cent and this reduced to 21.4 per cent following the receipt of the disposal proceeds. There will be an exceptional profit on sale, estimated at £31 million. The Group will, during 2005, review the acquisition and investment opportunities that are available. In the absence of value adding opportunities, the Group will consider a further return to shareholders.

Lacock Abbey Flagstones

Drivesett Tegula, Traditional

There were a number of changes in Board structure during the year. Graham Holden took office as Chief Executive on 1 January 2004, reflecting the confidence of the Board in this long-serving Marshalls Executive. On 10 June 2004 Christopher Burnett stepped down as Chairman, and John Marshall retired, thus severing the last Marshall family link at Board level. I would like to acknowledge the debt that the Company owes to these two former Board members. I would also like to acknowledge the role played by our two Non-Executives, Andrew Allner and Richard Scholes, in guiding the Company through these Board changes whilst enabling the Company to focus on continued operating performance.

I joined as Non-Executive Chairman in October, and David Sarti, Managing Director of Marshalls Landscape Products was appointed to the Board in November. On 7 March 2005 we announced the appointment of Bill Husselby as a Non-Executive Director, thus bringing the Board back to full complement. I consider that we have a Board of broad and balanced skills to assist the Executive team in the development of the business.

We look forward to 2005 with renewed confidence. We expect trading conditions to remain challenging, reflecting the widely-held uncertainties concerning the house-building and construction markets, and the well publicised debate over Government spending plans. Despite these challenges, we believe that Marshalls can make further progress, in particular by continuing to develop the added-value thrust of our marketing, and the further development of the Marshalls brand.

In my short time at Marshalls, I have come to understand that the strength of the Company is founded on the deep knowledge and commitment of our employees at all levels throughout the Company. To those people I would express the thanks of the Board, and add my own personal rider that I regard it as a privilege to serve as your Chairman.

Michael Davies
Chairman

Heritage, Calder Brown

Chief Executive's Review

2004 was a very busy year for Marshalls. During the year we announced and completed a scheme to return £75.4 million to shareholders. This incorporated the introduction of a new holding company and a Court approved reduction of capital. We completed the acquisition of four complementary businesses for an initial cash outflow of £15.7 million, achieved an operating profit of £53.5 million (after charging £1.5 million of reorganisation costs) and, just after the end of the year, completed the sale of Marshalls Clay Products Limited for £65.0 million.

Like for like sales increased by 1.0 per cent with acquisitions adding a further 2.7 per cent. Overall sales were reduced due to excessive rainfall at several key points during the year which reduced the working time available to the installers of our products, particularly by comparison with a dry 2003.

Historically, Marshalls has reported the results of three operating Divisions; Landscape, Clay and Natural Stone. Landscape and Natural Stone remain and in future these will be reported as a single focussed entity. Natural Stone is an important part of the Marshalls offer. Indeed, it is where the Group started over 100 years ago. However, the business drivers of Landscape and Natural Stone are identical. Increasingly, the focus will be on the market drivers of the business not product differences. The individual Natural Stone figures are disclosed in Note 2 for the last time.

Market Review

We are a market leader in the domestic driveway and patio markets. Our products are sold under the Marshalls and Stonemarket brands. We invest significant amounts of money in the continual development of these brands and utilise TV sponsorship (UK Style satellite channel), advertising in the national press and home interest magazines, exhibitions and competitions in the national press. We continue to innovate in product and service and continually strive to deliver quality in everything we do.

We have the Marshalls Register of approved installers which we recommend to the consumer. This comprises 1,700 installation teams around the country whose work has been vetted prior to incorporation on the Register and who we continually monitor. These installers are able to issue a ten year guarantee of their work.

The domestic business is market focussed and future development benefits from comprehensive market research. We aim to understand consumer preference and concerns and work with the installers and distributors of our products to deliver what the consumer wants. This research clearly demonstrates a demand for higher value products and a consumer willingness to pay for them. The benefit of providing an improved product mix for the consumer, installer, distributor and Marshalls is significant and hence much of our marketing investment is focussed on unlocking this opportunity.

Lunar Paving, Diarmuid Range

Sales to the domestic market were 1.4 per cent ahead of the prior year. Installers were fully committed throughout the year and worked whenever outdoor conditions allowed. Installer order books ended the year at 10.2 weeks, very similar to the 10 weeks at the end of 2003. The Marshalls Register grew by an encouraging 21 per cent during the year.

For 2005 we have launched two new product ranges under the Marshalls brand. The first is a traditional range in conjunction with the National Trust. Sophisticated scanning techniques have been used to prepare moulds from actual slabs at two National Trust sites, Lacock Abbey in Wiltshire and Polesden Lacy, near Dorking in Surrey. This will allow us to produce accurate replicas of the historic paving. At the other end of the spectrum we have worked with Diarmuid Gavin, the Landscape Designer, to develop a contemporary "lunar" paving. Stonemarket, by contrast, has significantly expanded its range of natural stone paving. Its range includes slate, sandstone, travetine and granite in many colours and textures.

Interest in domestic landscape products for the garden and patio continued although consumer confidence has declined following the interest rate rises of the past year. Our most recent survey revealed order books of 8.3 weeks. The rate of volume growth in the domestic market is governed by installer capacity. This is expanding, albeit slowly.

We are also a market leader for the supply of a wide range of natural stone, concrete and fabricated products to the commercial and public sector market including, paving, kerbs, edging, surface drainage and street furniture.

Market research also drives the approach to the public sector and commercial market. The aim is to develop products that are attractive to look at but are also practical in use and to install. We have a portfolio of products that can be combined to create an attractive landscaped area. We also look to develop solutions to customers' problems.

During 2004 fibre reinforced paving was launched to target areas of paving that may suffer from vehicle overrun. The fibres make it less likely that the paving will crack and, if it does crack, they help it retain structural integrity thus limiting the trip hazard.

Sales to the public sector and commercial market were 5.0 per cent ahead. The one area of weakness was the sale of surface drainage products that resulted from lower infrastructure spending. Following consultation, it has been decided to close the smallest of the three manufacturing locations in Halifax, West Yorkshire, currently focussed on drainage products, and transfer product to one of the two remaining sites. The closure will take place in April 2005. There will be a one-off cost which is expected to be between £1.5 million and £2.0 million.

Our Street Furniture business has tripled in size in the past year and has made two acquisitions. The Great British Bollard Company produces a range of ferrocast bollards, cycle racks and post and rail systems primarily for Local Authorities. Woodhouse supplies modern designed street furniture for prestige schemes such as Kensington High Street where the street lighting and bollards were all supplied by Woodhouse and the natural stone paving by Marshalls. Woodhouse has launched two new ranges of street furniture, "Motis" an integrated shelter, seating, lighting and signage system focussed on the transport market and "Campus" focussed on the education and healthcare markets. We are optimistic about the prospects for these product ranges.

2004 was a year of consolidation for our Natural Stone business after rapid growth in 2003. Our third acquisition was Premier Mortars which uses the sand from our quarries to produce ready to use mortar for housing and building sites.

Our fourth acquisition was the Compton Group in December 2004. The business is the UK's leading manufacturer of concrete garages, workshops and sectional commercial buildings. The business also produces timber and aluminium greenhouses under the "Alton" and "Robinsons" brands.

Geo Parklights, Woodhouse

Chief Executive's Review (continued)

Sales from these businesses in 2004 were £9.3 million. Historic annualised sales for these businesses are £36.0 million. The acquisitions do not presently deliver the same margin as the rest of the Group. This is being addressed in a systematic manner and represents a significant opportunity.

These businesses are examples of simple extensions to our existing product portfolio with obvious synergy.

Manufacturing and Distribution

The operating strategy, which we have continued to refine, combines regional manufacturing and distribution sites with national manufacturing works. The national sites produce all newly introduced and special products that have not yet reached the commercial volumes that would justify regional manufacture.

The regional sites are known as "Service Centres" and are unique in the industry. Each of them can supply customers in the area with our full range of products. The products we sell are bulky and relatively low value, and therefore expensive to distribute.

After the high levels of capital expenditure in the previous two years, 2004 saw expenditure reduced to £27.2 million. In 2004 we completed the commissioning of the Service Centre at Maltby, South Yorkshire. The emphasis thereafter, and going forward, is on smaller schemes focussed on productivity gains, improvement in health and safety and the replacement of worn out assets. These projects will generally provide a rapid payback. There is a continuing opportunity to improve the speed and automation of existing equipment which improves efficiency and increases capacity from existing equipment. Our capability in this area continues to deliver business benefit.

Customer service continues to be a priority area. We closely monitor five key statistics, focussing on stock availability and the accuracy and timeliness of deliveries. I am delighted to say that good progress has been made in all of these and customer service will continue to be an area of focus.

Stein and Design Range, La Linia and Scout Moor Natural Stone

Stocks

We manage production levels to balance operating efficiency and working capital levels. When demand is strong stock levels allow us to maintain excellent levels of product availability whilst progressively increasing output to reflect the increasing demand. This also operates in reverse. The poor weather reduced demand in the year. Progressive reductions were made in output whilst retaining manufacturing efficiency and core skills. This resulted in a short term increase in stock levels. Stock of £3 million will be managed out of the business during 2005.

Clay Products

Sales for the year increased by 5.7 per cent to £34.0 million (2003: £32.1 million). Operating profit was £6.0 million (2003: £4.2 million) an improvement of 42.5 per cent. The operating performance of the business had been improved considerably over the past two years and the capital employed had been significantly reduced. However, the business was small, positioned fifth in the UK brick market with little prospect of improving on that position. Accordingly, it was considered to be in the best interests of shareholders to sell the business. The unconditional sale of the business to Hanson PLC for a cash consideration of £65.0 million was completed and announced on 4 January 2005.

Clay Products benefited from Group services and contracted out a number of administrative functions to Marshalls Landscape Products. The total cost of these shared services was £2.0 million per annum. It is anticipated that £1.0 million of this will be saved in 2005 with the remaining £1.0 million eliminated in 2006.

Marshalls Clay Products Limited has been part of the Marshalls Group since June 1988. Our thanks go to the employees of that business, past and present, for their contribution during that period. We wish them all well in the future.

Risk Management

We maintain a Group Risk Register which is regularly reviewed by Executive Management and the Board. A formal process exists for identifying, evaluating and managing any material risks which might threaten the Group's business objectives. Further details of the Risk Management and Internal Control framework are provided in the Corporate Governance Statement on pages 30 and 31.

La Linia Yellow and Anthracite Basalt, Central Park, Birmingham

Group Outlook

There is conflicting evidence about the strength of consumer demand. Independent surveys indicate consumer confidence is similar to last year. Installer order books remain at 8.3 weeks, one week less than the same time last year.

There is expected to be an election mid-year and this creates uncertainty about taxation and Government expenditure. In the latest spending review the Government reaffirmed its commitment to continuing investment and the Construction Products Association are forecasting construction output growth of 0.8 per cent.

Overall, trading conditions are expected to remain challenging. Action has already been taken with cuts in overheads and production levels in the final quarter of 2004.

Marshalls is well invested and the workforce is well motivated. The exciting new products and services that are being launched, tight control of costs and continued improvements in manufacturing techniques and service performance allow us to face the future with confidence.

D. Graham Holden

Graham Holden
Chief Executive

Charnwood and Natural Yorkstone Paving, Cutty Sark, London

Financial Review

Marshalls achieved a number of notable milestones in 2004. The return of £75.4 million to shareholders was successfully achieved in July 2004, through a Scheme of Arrangement. The Group completed four acquisitions for an initial cash outflow of £15.7 million and, on 4 January 2005, the Group completed the sale of its Clay Products Division to Hanson PLC for £65.0 million, including repayment of all intergroup indebtedness. In addition, both turnover and operating profit increased during the year. Adjusted earnings per share (after adding back goodwill amortisation) increased by 4.9 per cent and dividends paid and proposed increased by 8.2 per cent. The key financial highlights are summarised in more detail below.

Group Results

Group turnover increased by 3.7 per cent to £362.3 million (2003: £349.5 million). Operating profit rose to £53.5 million (2003: £53.1 million) which includes a minor contribution from acquisitions and is after charging reorganisation costs of £1.5 million. Operating profit is after charging goodwill amortisation of £1.7 million (2003: £1.4 million). EBITDA was £74.3 million (2003: £72.1 million), an improvement of 3.1 per cent. Earnings growth measured by the adjusted earnings per share with goodwill amortisation added back increased by 4.9 per cent.

Net interest costs at £5.1 million (2003: £2.7 million) reflects broadly a half year servicing cost of the increased debt taken on to fund the Return of Value to shareholders together with the cash outflow of £15.7 million to finance four acquisitions in the year. Of the total interest charge, £2.3 million is in respect of the £20 million fixed rate debenture. Interest cover remained healthy at 10.4 times (2003: 19.5 times).

Profit attributable to ordinary shareholders was £33.2 million (2003: £34.4 million).

Taxation

The current tax charge for 2004 was £12.8 million (2003: £14.5 million) which represented an effective rate of 26.4 per cent (2003: 28.7 per cent). The total tax charge for the year of £15.1 million (2003: £15.9 million) represents a tax rate of 31.2 per cent (2003: 31.5 per cent) and includes a deferred tax charge of £2.3 million (2003: £1.4 million).

Earnings per Share

The calculations of the basic, diluted and adjusted earnings per share are set out in Note 10 to the Financial Statements. The basic earnings per share amounts to 21.41p (2003: 20.61p), an increase of 3.9 per cent.

Adjusted basic earnings per share, prepared in order to show the underlying performance of the business, increased by 4.9 per cent to 22.52p (2003: 21.46p).

In accordance with FRS14,"Earnings per share", prior periods have not been restated as a result of the Scheme of Arrangement.

Dividends

An interim dividend of 3.90p (2003: 3.65p) per share was paid on 8 December 2004. A final dividend of 8.00p (2003: 7.35p) per share is now being recommended for payment on 8 July 2005. This gives a total of 11.90p (2003: 11.00p) per share for the year which represents an increase of 8.2 per cent over 2003. Dividend is covered 1.9 times (2003: 1.9 times). The 2004 dividends are being paid and proposed from the new holding company and based on the new share structure following the Scheme of Arrangement, details of which are set out below and in Notes 1a and 21 of the Financial Statements.

On 31 December 2004 dividends totalling £92,000, amounting to 0.775p per share, were paid to the B shareholders (11,876,624 B shareholders ranking for dividend) in respect of the period ended 31 December 2004.

Scheme of Arrangement

The Scheme of Arrangement for the Return of Value became effective on 8 July 2004. The reason for the Scheme was that the Directors believed that it was appropriate to increase the financial efficiency of the Group's balance sheet and, by increasing the relative proportion of debt finance to equity capital in the business, the Group will reduce its overall cost of capital. The Scheme which enabled the return of £75.4 million to shareholders, involved a capital reorganisation and the introduction of a new holding company which assumed the original name of Marshalls plc.

Under the terms of the Scheme, shareholders received 11 new shares and 13 B shares in the new holding company for every 13 ordinary shares held on 7 July 2004. Shareholders elected to redeem £70.1 million of the B shares immediately on 21 July 2004 and, on 31 December 2004, a further 2,638,803 B shares were redeemed at 45pence per share. At the year end 9,237,821 B shares remain in issue. The next redemption date is 30 June 2005.

The B share scheme was chosen for the return to shareholders because it provided certainty of completion, equality of treatment for all shareholders and enabled some flexibility for shareholders in terms of the timing of the receipt of such a return. In order to achieve the return to shareholders without diminishing Marshalls' existing distributable reserves a reduction of capital was effected to enable additional distributable reserves to be created.

The restructuring has been accounted for as a capital reorganisation and merger accounting principles have been applied. In accordance with the principles of merger accounting the share capital and share premium of Marshalls Group plc have been eliminated on consolidation. The adjustments to called up share capital represents the aggregate nominal value of the shares issued being £288,044,000 and the called up share capital of Marshalls Group plc, the original holding company, of £41,886,000 which has been eliminated. In addition, the difference between the aggregate nominal value of the new ordinary shares and B shares issued by the Company and the called up share capital, capital redemption reserve and share premium account of Marshalls Group plc of £226,158,000 has been transferred to a merger reserve.

The balance sheet has been adjusted to reflect the Reduction of Capital whereby the nominal value of each of the 141,766,577 new ordinary shares has been reduced from 150 pence per share to 25 pence per share resulting in a total reduction in share capital of £177,208,000 together with a corresponding increase in the profit and loss account.

Balance Sheet

The Group balance sheet has been adjusted by £71.2 million to reflect the return of capital to shareholders through the redemption of B shares together with costs of £2.5 million. The return of capital was financed by new bank facilities of £100 million from the Royal Bank of Scotland plc and Lloyds TSB Bank plc. Details of the Group's bank facilities are explained in Note 19. The nominal value of the B shares redeemed of £71.2 million has been transferred to a non-distributable capital redemption reserve. Net assets at the year end were £161.5 million (2003: £218.1 million) which amounted to 114 pence per share (2003: 130 pence per share prior to the 45 pence per share return to shareholders).

Cash Flow and Borrowings

Cash inflow from operating activities was £60.5 million (2003: £81.3 million). The reduction compared with the previous year is primarily associated with an increase in stock levels which is explained in the Chief Executive's Report on page 11 and a decrease in creditors.

Polesden Lacey, South Terrace

Following the Return of Value, the Group ended the year with net borrowings of £104.1 million (2003: £13.2 million). Details of the movements are included in the Cash Flow Statement on page 44. Gearing at the year end was 64.5 per cent (2003: 6.1 per cent), however, following the receipt of £65.0 million from the disposal of the Clay Products Division on 4 January 2005 pro forma borrowings were £41.3 million and pro forma gearing was 21.4 per cent.

As stated in Note 19, the Group secured new bank facilities during the year with the Royal Bank of Scotland plc and Lloyds TSB Bank plc. These core facilities amount, in aggregate, to £130 million. The Multi-Option Facility with the Royal Bank of Scotland plc provides for an additional facility of £15 million between February and July each year to meet the seasonal working capital requirements of the business. The facilities are unsecured subject to a composite cross guarantee given by Marshalls plc and certain subsidiary undertakings. The committed facilities incur commitment fees at market rates.

Included in the capital structure is a £20.0 million fixed rate debenture raised in 1989 at 11.375 per cent that matures in 2014. This debenture can only be redeemed early by payment of a premium linked to the gross redemption yield on 12 per cent Exchequer Stock 2013/2017. Further details are included in Note 18 on page 57.

Capital Expenditure

Prior to the end of 2003 capital expenditure in the previous three years amounted, in total, to over £100 million following a major programme of new product innovation and the development of the Regional Service Centre structure. Capital expenditure has been reduced to £27.2 million in 2004 and in 2005 it is budgeted to be reduced further.

Whilst the current phase of development sees a reduction in the cash outflow, our capital expenditure programme continues to demonstrate our commitment to new product development and overall business efficiency.

The major item of expenditure in 2004 was the completion of the new Service Centre at Maltby, South Yorkshire.

Acquisitions

On 30 January 2004 the Group acquired The Great British Bollard Company Limited, a manufacturer of street bollards for a cash consideration of £0.5 million. On 14 May 2004 the Group acquired Woodhouse Group Limited which is a supplier of high quality, innovative street furniture and lighting for an initial cash consideration of £6.5 million. On 2 July 2004 the Group acquired Rockrite Limited and its subsidiary company, Premier Mortars Limited, for an initial cash consideration of £3.7 million.

Keyblock and Mistral Concrete Block Paving, Jersey

The business is a supplier of ready to use mortar to the construction industry in the North West of England. With effect from their date of acquisition, the trade and net assets of all of these businesses has been transferred to the Group's main operating subsidiary, Marshalls Mono Limited.

On 13 December 2004 the Group acquired Compton Group Limited. The business is the UK's leading manufacturer of concrete garages, workshops and sectional commercial buildings and also produces "Alton" cedar timber greenhouses and summerhouses and "Robinsons" aluminium greenhouses. The initial cash consideration paid was £6.6 million.

The total initial cash outflow in respect of these acquisitions amounted to £15.7 million.

Alton Octagonal Greenhouse

Disposal of the Clay Products Division

On 4 January 2005 the Group completed the unconditional sale of the entire issued share capital of Marshalls Clay Products Limited (the Clay Products Division) to Hanson PLC for a cash consideration of £65.0 million, including the repayment of all intergroup indebtedness. The results of the Clay Products Division have, therefore, been disclosed separately under discontinued activities. This cash inflow, on a pro forma basis, adjusts the year end gearing to 21.4 per cent.

Segmental Reporting

Following the disposal of the Clay Products Division, the Group has undertaken a review of its continuing operations and business risks. The Directors consider that the continuing operations represent one product offering with similar risks and rewards and should be managed and reported as a single business segment. The Group's internal reporting framework has been adjusted accordingly.

Additional information in respect of the previous Landscape Products and Natural Stone Divisions has been provided in Note 2 on page 49 to aid the analysis of the 2004 results.

International Financial Reporting Standards ("IFRS")

This is the last year the results will be presented under UK GAAP.

From 1 January 2005 all European Union Listed Groups are required to adopt IFRS and consequently future financial statements will be presented in accordance with IFRS, including all comparative information. The business is well prepared for the introduction of IFRS. The figures for 2004 which will form the comparatives for 2005 have been audited.

We have completed a detailed review of the impact of IFRS and, in respect of the year ended 31 December 2004, the principal areas affected are as set out below.

The IFRS Income Statement for 2004 is approximately £1.0 million below the reported UK GAAP Profit and Loss Account at the operating profit level, of which £0.4 million relates to continuing operations and £0.6 million relates to discontinued operations. The principal changes are associated with additional pension charges following the adoption of International Accounting Standard ("IAS") 19 (£2.3 million at the operating profit level) and the absence of goodwill amortisation following the adoption of IFRS 3 and IAS 38 (£1.7 million). The net effect of all other items is an additional operating charge of £0.4 million. At the interest level an additional notional charge of £2.1 million arises in respect of the adoption of IAS 19. An additional tax credit of £1.2 million arises as a result of the additional pension and associated interest charges referred to above.

The IFRS Balance Sheet net assets as at 31 December 2004 are £28.4 million lower at £133.1 million compared with the UK GAAP net assets of £161.5 million at the same date. The principal changes are associated with the introduction of the pension deficit onto the balance sheet of £50.9 million and the related deferred taxation asset of £15.3 million, the absence of the proposed final dividend for the year in the balance sheet which at 31 December 2004 was £11.4 million and the re-analysis of the B shares as debt of £4.2 million. The net effect of all other items are not considered to be material.

In addition, IFRS will also impact on certain key financial ratios. Interest cover reduces to 7.2 times under IFRS compared with 10.4 times under UK GAAP as at 31 December 2004. Gearing increases to 81.3 per cent under IFRS compared with 64.5 per cent under UK GAAP at the same date and before the benefit of the cash proceeds from the disposal of the Clay Products Division. Basic EPS is 20.24 pence per share under IFRS compared with 21.41 pence per share as reported for 2004 under UK GAAP.

The adoption of IFRS will result in changes to the format and disclosure requirements of both the primary financial statements and notes to the financial statements.

Financing and Risk Management

The Group uses financial instruments to manage the risks arising from its operations. All transactions are undertaken only to manage the current risk associated with the Group's underlying business activities.

The Group enters into forward foreign currency contract derivative transactions of relatively small value. The purpose of such transactions is to manage the currency risks arising from the Group's operations. An interest rate hedge was entered into following the Scheme of Arrangement to manage the effect of the increased exposure to interest rate increases.

It is the Group's policy, and has been throughout the period under review, that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these are summarised in Note 19 on pages 57 to 59 of the Financial Statements. These policies have remained unchanged since 2003.

The Group manages its insurance risk by continuous review and by maintaining a balance between capped self insurance and third party cover against major catastrophes.

Total Shareholder Return (TSR)

As at 31 December 2004 the Company's share price was 297.0p per share. When dividends are included this gives a total shareholder return of 43 per cent over a five year performance period. A performance graph has been disclosed on page 35 where the Group's TSR is compared with the FTSE 250 Index. In the past, the performance has been compared against the FTSE 350 Construction and Building Materials Sector Index however, following the Mercer Review (explained on pages 32 to 33), the Directors now consider the FTSE 250 Index to be the most appropriate comparator index.

I Burrell

Ian Burrell
Finance Director

Directors Biographical Notes

Michael Davies (57) •

Non-Executive Chairman. Joined Marshalls as Non-Executive Chairman in October 2004. He is also the Senior Independent Director of Taylor Woodrow plc and a Non-Executive Director of Pendragon plc. He also serves as a Non-Executive Director on the Boards of a number of private companies.

Graham Holden (45)

Chief Executive. Joined the Company in 1986 and was appointed to the Board in 1992. He is a Chartered Accountant and was previously Finance Director and Chief Executive of the Landscape Products Division. He was appointed to his current position on 1 January 2004.

Ian Burrell (47)

Finance Director. Joined the Company and the Board in June 2001. He is a Chartered Accountant and was previously Group Finance Director at Cornwell Parker plc.

David Sarti (39)

Executive Director. Joined the Group in January 2001 and is currently Managing Director of Marshalls Landscape Products. He was appointed to the Board in November 2004.

Richard Scholes (59) *†•

Senior Independent Non-Executive Director and Chairman of the Audit Committee. He was appointed to the Board in July 2003. He is a Non-Executive Director and Chairman of the Audit Committees of Bodycote International plc, Chaucer Holdings PLC and Crest Nicholson PLC. He is also a Non-Executive Director of Keller Group PLC and is a Chartered Accountant.

Andrew Allner (51) *†•

Independent Non-Executive Director and Chairman of the Remuneration Committee. He was appointed to the Board in July 2003. He is the Group Finance Director of RHM Limited and was previously Chief Executive Officer of Enodis Plc. He is a Chartered Accountant and a former partner of Price Waterhouse. He is a Non-Executive Director of Moss Bros Group plc.

Bill Husselby (65) *†•

Independent Non-Executive Director. He was appointed to the Board on 7 March 2005. He is Chairman of Cogent Elliot Group, the independent advertising agency and is a Board member of Welsh National Opera.

* Member of the Audit Committee
† Member of the Remuneration Committee
• Member of the Nomination Committee

Advisers

Stockbrokers

HSBC Investment Bank Plc

Auditors

KPMG Audit Plc

Legal Advisers

Herbert Smith
Eversheds LLP

Financial Advisers

N M Rothschild & Sons Limited

Bankers

Royal Bank of Scotland plc
Lloyds TSB Bank plc

Registrars

Computershare Investor Services plc
PO Box 82, The Pavilions
Bridgwater Road
Bristol BS99 7NH

Shareholders' enquiries should be addressed to the Registrars at the above address (Tel: 0870 702 0000)

Registered Office

Birkby Grange
Birkby Hall Road
Huddersfield HD2 2YA
Telephone: 01484 438900
Facsimile: 01484 438945
Internet address: http://www.marshalls.co.uk

Registered in England and Wales: No. 5100353

Corporate Social Responsibility

The Board takes regular account of the significance of social, environmental and ethical matters to the business of the Group and thus its comprehensive risk management and internal control process identifies and assesses the significant risks to the Company's short and long term value arising from such matters.

Marshalls recognises its corporate social responsibilities to its shareholders, customers and suppliers and is committed to good practice.

Statement of Values and Principles

The Group's Statement of Values and Principles sets out the high standards to which all Marshalls' employees are encouraged and expected to adhere. The Statement includes guidance on business practice, entertainment, "whistleblowing" and equal opportunities.

Health and Safety

The continuing improvement of health and safety performance is a key priority. We are now into the eighth year of formal Health and Safety improvement plans. Over the course of the last three years over 90 per cent of our employees have received training in health and safety awareness and incident prevention. As a minimum, they have attended a one day Health and Safety Awareness Course with a large number taking formal qualifications in Health and Safety Management. The courses are supported by the Group's Employee Health and Safety Handbook. Health and Safety improvement remains a key area of attention for 2005 and this is reflected in the priorities of all our Managing Directors and employees.

At factory level, health and safety is promoted by Safety, Health and Incident Prevention Teams which consist of employees and managers. We have identified our major health and safety risk as being from repetitive manual handling processes and it is the Group's policy to eliminate manual handling wherever practicable.

The Group is committed to high standards of health and safety for all of its employees. However, from time to time, the operating subsidiaries have received Improvement Notices from the Health and Safety Executive ("HSE") related to their activities. Over the years the conditions of these notices have always been satisfied within the timescale agreed with the HSE. An exception concerned an Improvement Notice issued by the HSE in early 2002 at one of the factories in the former Clay Products Division which was sold on 4 January 2005. Due to the failure to meet the deadline agreed between the HSE and the former Clay Products Division the HSE commenced a personal prosecution against the former Chairman, Mr C. T. Burnett. He has denied liability and the matter is on-going. The conditions of the Improvement Notice, which were related to the installation of local extraction ventilation equipment, were met in 2003.

The Board monitors the Group's accident statistics on a monthly basis. The overall rate of workplace injuries within the Company continues to fall. The number of accidents legally reportable under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") has fallen from

Charnwood Paving, Tamworth

34.6 per 1,000 employees in 2003 to 32.8 per 1,000 employees in 2004. Our target is to reduce RIDDOR injuries by 10 per cent in 2005.

Accidents and Incidents (rate per 1,000 employees)	**2004**	2003
Major injury	**3.8**	3.8
Injury resulting in over 3 days absence from work	**29.2**	30.8
All RIDDORS	**33.0**	34.6
Total UK headcount	**3,222**	3,088

Social and Ethical Responsibilities

The Group takes its Social and Ethical responsibilities very seriously and, in respect of the expanding importation of granite from China, employed SGS, a world-wide organisation specialising in the auditing of companies for their compliance with the internationally recognised Ethical Trading Initiative Base Code.

This Ethical Trading Initiative Base Code covers such sensitive issues as Child Labour, Health and Safety, Discrimination and Working Hours, and in December 2004 our principal Chinese granite supplier became the first such company to achieve the necessary compliance. Our other key supplier is expected to receive similar status in early 2005 and the intention is now to carry out an equivalent audit on our Indian sandstone supplier.

Employees

It is Marshalls' policy to treat all its employees fairly and specifically to prohibit discrimination on the grounds of race, religion, sex, nationality or ethnic origin. Disabled people are given equal consideration for all job vacancies for which they are suitable. If employees become disabled the Group continues employment wherever possible and arranges retraining.

Tegula Harvest

Marshalls believes that people are the key to the success of the business and recognises the diversity of the community, employees and customers. The Board is committed to achieving and maintaining a working environment where all individuals are treated with dignity and respect and where individual talent is recognised and valued.

We aim to achieve this by adopting fair and merit based employment policies, with equal opportunities and other relevant legislation being applied as the minimum acceptable standard.

There is Board level commitment to ensure that all employees are properly inducted into the Company and provided with the necessary support to fulfil their roles effectively and to develop their full potential. Particular focus is placed on interpersonal skills and customer service in order to continue to improve the service provided to our customers.

Investment in management development continues with programmes in place which nurture potential, ensure consistent management practices are applied and provide opportunities for succession into senior management roles.

An increasing emphasis is being placed on internal communication to employees through the use of e-mail, intranet, newsletters, briefings and formal presentations. In addition, Marshalls will continue the development of information and consultation processes during 2005, with the intention of improving communication through the increased involvement of recognised Trades Union and employee representatives.

Employees are encouraged to become shareholders in the Company with a Save as You Earn Scheme in operation to promote this objective.

Community

The Group is keen to contribute to the communities in which it operates particularly those neighbouring its sites. This is achieved through charitable donations and other initiatives that help the community.

During the year, the Group made charitable donations of £12,335 (2003: £15,098). It is the Group's policy not to make political donations and no political donations were made in the year (2003 : £Nil).

We also operate a scheme which enables us to donate our products to community groups and local charities to help create a better environment for the people they serve.

Split Granite Paving

Environmental Statement

Board Responsibility

Mr D.N. Sarti is the Board Director responsible for the environmental performance of the Group.

Environmental Policy

The Group's Environmental Policy was reviewed in July 2004 and remains appropriate for the Group. The policy is displayed throughout the Group and on the Group's Website. The policy is:-

"Marshalls is committed to achieving the highest standards of environmental performance and continually aims to prevent pollution and minimise the impact of its operations. The Group's aim is that no lasting environmental damage occurs as a result of its activities, and policies are being implemented to ensure that all of its operations meet or exceed the requirements of legislation and applicable best practice.

Marshalls regards compliance with relevant environmental laws, and the adoption of responsible standards where no legislation exists, as an integral part of its business strategy and is committed to considering the environmental impacts associated with its products throughout their life-cycle.

Marshalls has committed to monitor its environmental performance in line with Construction Products Association ("CPA") requirements. Environmental aspects are identified at each site and corresponding objectives and targets set to reduce the significance of impacts in those areas. These will be reviewed on at least an annual basis to ensure continual improvement.

Marshalls will continue to raise environmental awareness within the Group through the development and training of its employees and will communicate openly and consult with customers, suppliers and other stakeholders on relevant environmental matters.

Marshalls strives to conserve natural habitats and create additional areas of wildlife value wherever possible. The Group also recognises the need for sympathetic restoration and after use of quarry sites and considers the character of the local environment and the concerns of the community when planning such matters".

Environmental Management

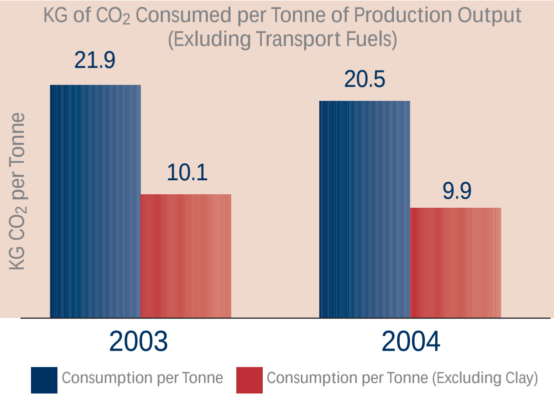
The Group has continued its roll-out programme of introducing Integrated Management Systems at each of its manufacturing sites. The Integrated Management System combines BS EN ISO9000-2000 for Quality Management, OHSAS18001 for Health and Safety Management and BS EN ISO14001 for Environmental Management. The Marshalls Group has 39 manufacturing sites and of these 28 have BS EN ISO9000-2000 Quality Management Systems in place. 18 sites have Health & Safety Management Systems in place to OHSAS18001, which is 70.4 per cent of the Group's manufacturing capacity. 14 sites have Integrated Management Systems that integrate Environmental Management in with the other systems. 55.8 per cent of the Group's manufacturing capacity is covered by such Integrated Management Systems. An Action Plan is in place to continue the roll-out programme, with the aim of completing the accreditation of the majority of the sites by the end of 2006.

Environmental Impact

The Group has identified the significant environmental impacts of its operations and uses the CPA's Key Performance Indicators ("KPI") to measure those impacts year on year. The CPA KPI's are all designed to avoid difficulties in comparison due to acquisitions and disposals. They are therefore all expressed based on the unit measured per 1 tonne of production. KPI's are as follows:

Energy

The KPI for energy consumption is "Kg of CO_2 equivalent energy consumed per tonne of production output". In order to allow measurement of the performance of this KPI, the bar chart below illustrates the total Group performance for 2003 and 2004 and the equivalent performance excluding the former Clay Products Division, which was sold in January 2005.



Climate Change Levy

This levy applied to the former Clay Products Division. The Climate Change Levy for the second milestone year was achieved. The performance of the Clay Products Division was 822.3 kwh/tonne and the target was 831.6 kwh/tonne. This improvement is equivalent to a saving of approximately 680 tonnes of CO_2 per annum.

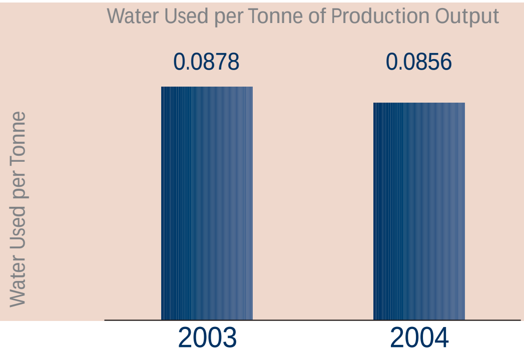
The European Union Trading Scheme Baseline Verification was completed in August 2004 with all monitoring and reporting plans being submitted to the Environment Agency within the required timescale.

Water Use

The Group has made significant progress in the recycling of water with the consequential reduction in the purchase of treated water.

The CPA KPI for water usage is "Volume of Water used on site (m^3) per tonne of production output".

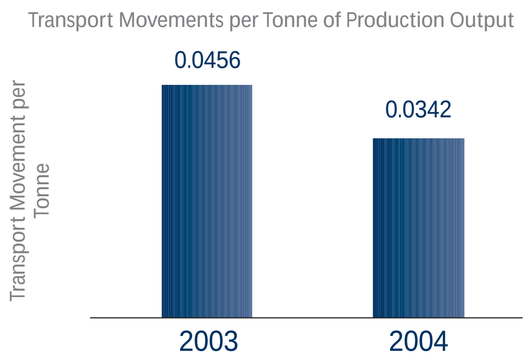
The Group monitors discharge water on a monthly basis at all sites producing precast concrete and on a quarterly basis at the former Clay Products Division sites. Throughout the year, all the discharges complied with the limits set by the Environment Agency or the Local Water Authority where water is discharged to public sewer.



Transport

The Group monitors deliveries made on its own vehicles and those made on vehicles of subcontractors employed by the Group. Own collections by Builders Merchants using their own vehicles are not included in the Group figures.

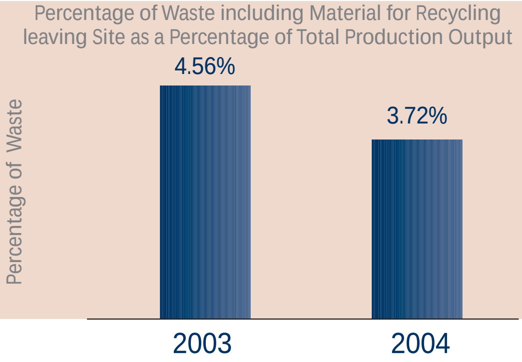
The CPA KPI is "Transport movements (number leaving site) per tonne produced." This has improved when comparing 2004 with 2003 with the average load size of despatches increasing from 21.2 tonnes to 23.7 tonnes. The introduction of new software has led to a reduction in own fleet vehicles running empty. This improvement is included in the bar chart below, which illustrates the KPI performance.



The Group continually reviews alternative transport links for both receiving incoming materials and the despatch of finished goods.

Waste Reduction

The CPA KPI for waste reduction is "Percentage of waste produced leaving the site as a percentage of total production output." The bar chart below demonstrates the improved performance of the Group in 2004 over 2003.



The Group is in the process of exploring the environmental, legal compliance and economic advantages of having a single waste contractor for all its waste disposal activities. During the ongoing tender process, considerable emphasis is being placed upon a partnership approach with clearly defined targets for waste reduction, waste recycling and minimising waste materials being disposed to landfill.

Waste materials from other industries are being used where appropriate as aggregate replacement providing the incorporation of such materials does not affect finished product quality. Materials utilised in 2004 included china clay waste, steel slag waste and slate waste.

Packaging

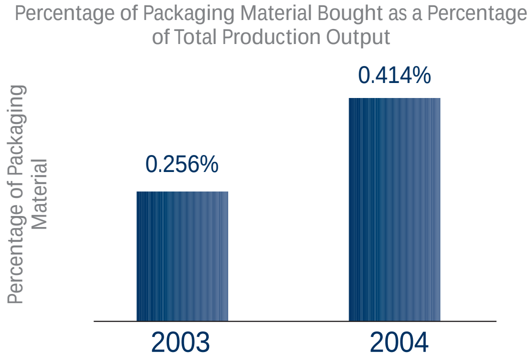
During 2004 the Group has, by changing its polythene packaging, been able to reduce both the temperature and the time taken to shrink bags onto product. This has reduced energy consumption and overall cost.

During 2004, Marshalls successfully managed a pallet recycling system delivering palletised goods to Felixstowe Docks. This resulted in pallets being used at least 7 times before being recycled and the concept will be utilised on further large scale projects.

Particular care has been taken in the selection of pallet timbers to ensure they come from sustainable sources. The majority of pallet timber is obtained from Latvia where there has been an increase in the area of land under forest from 35 per cent in 1945 to over 52 per cent today.

Polyester strap used by the Group is all manufactured from recycled material, mostly plastic bottles. Steel strapping is made entirely from recycled steel.

The CPA KPI for packaging is "Percentage of packaging material bought as a percentage of total production output." The bar chart below illustrates the Group has used a higher percentage of packaging during 2004 over 2003. This has been caused by greater use of timber pallets to give better storage conditions for product in the Group's stockyards to avoid damage to product. The majority of these pallets are recycled in the stockyards.



Land Management

The Group has continued its policy of developing on brown field sites, with a new Flag and Kerb Plant being built on the existing Maltby site, within the confines of the existing site boundary, and a new Flag and Kerb Plant is being constructed at Ramsbottom, again, within the confines of the existing site boundary.

One of our subsidiary companies is currently looking to extend an existing quarry in Derbyshire to secure unique dimensional stone for restoration, heritage and new build projects in the United Kingdom. Preparatory work is being carried out and a full programme of consultation with the relevant authorities, the local community and interest groups will be undertaken as the planning application progresses. Careful consideration is always given to the environmental impact of all our quarry development and site restoration.

Environmental Impact of Product

The bulk of the Group products are intended for long life with low maintenance with many products having a life in excess of one hundred years.

Over such a life span the initial environmental impact created during the manufacture and installation process is minimal. The majority of products produced by the Group can be easily recycled at the end of their useful life either in new construction in the case of dried laid product or can be crushed and used as a secondary aggregate.

Sustainability

The Group is receiving more enquiries regarding the use of its products in sustainable construction. In response to this demand, the Group is preparing a strategy on sustainability. During the year the Group has supported the development of the British Precast Concrete Federation Sustainability Strategy and is providing industrial support to the post-graduate student who has been appointed to develop the strategy in conjunction with Loughborough University and the British Precast Concrete Federation and its members.

Suppliers and Contractors

The Group monitors suppliers and contractors carefully and in particular place emphasis on the environmental aspects of their operations. The Group's major suppliers have all developed, or are developing, environmental management systems and environmental management is one of the criteria considered when considering the suitability of a supplier to provide materials or services to the Group.

Wildlife Trust

Marshalls strives to conserve natural habitats and create additional areas of wildlife value where possible. During 2005 biodiversity will be one of the areas in which the Group is committed to working.

Environmental Awareness and Training

The Group continues to develop environmental awareness amongst its employees. Greater emphasis is being placed upon employees seeing environmental performance as part of a wider commitment to sustainable policies.

The Group actively encourages dialogue with both its suppliers, customers and other stakeholders on environmental matters as part of a wider review of the growing emphasis on sustainability.

Pollution Prevention and Control ("PPC")

The Group has completed the A2 Applications required under the PPC legislation for the former Clay Products Division production sites. At the time of the disposal in January 2005, three of the sites had received their permits and the fourth site was operating under a Schedule 4 Agreement with the Local Authority, while further air modelling was carried out at their request.

Awards

During the year, the Group received the Environmental Awareness Award in the British Precast Concrete Federation Annual Awards for the development, commitment and performance of the Integrated Management System at its Hambrook factory.

Directors' Report

The Directors have pleasure in submitting their Report and Financial Statements for the year ended 31 December 2004.

Scheme of Arrangement

The Scheme of Arrangement included a new holding company for the Group. Marshalls plc (formerly Marshalls Group plc and "the Company") was incorporated for this purpose as detailed in this Report and in Notes 1a and 21. The Company became the new holding company on 8 July 2004 which is the date on which the Scheme became effective.

Principal Activities and Business Review

The principal activities of the Group are the manufacture and supply of landscape, driveway and garden products from a range of materials, including concrete, natural stone, iron, steel, wood, glass and polyurethane. Further details of the principal activities of the Group are set out in Note 32 on page 70.

The Chairman's Statement on pages 5 to 6 and the Chief Executive and Financial Reviews on pages 7 to 17 contain a review of these activities.

Details of the Group's policy in relation to employees and information on charitable and political donations are disclosed on pages 19 to 21.

Details of the Group's policies in relation to Corporate Governance are disclosed on pages 28 to 31.

Group Results

The consolidated profit and loss account for the year ended 31 December 2004 is shown on page 42.

Dividends

The Board is recommending a final dividend of 8.00p per share (2003: 7.35p) which, together with the interim dividend of 3.90p (2003: 3.65p) per share, makes a total for the year ended 31 December 2004 of 11.90p (2003 : 11.00p) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 8 July 2005 to shareholders registered at the close of business on 10 June 2005.

Share Capital

Details of the share capital and allotments during the year are set out in Note 21 on pages 60 to 63. Details of outstanding options under Employee and Executive Share Schemes are set out in Note 21 on pages 62 to 63.

Directors

The names of the Directors as at the date of this report together with biographical details are set out on page 18.

The Company was incorporated on 13 April 2004 under the name of Ever 2338 Limited with Eversecretary Limited as Company Secretary and Everdirector Limited as a Director pending the appointment of the current directors whose appointments were made on the dates set out below:-

Everdirector Limited	resigned	15 April 2004
Mr I.D. Burrell	appointed	15 April 2004
Mr D.G. Holden	appointed	15 April 2004
Mr A.J. Allner	appointed	6 May 2004
Mr R.T. Scholes	appointed	6 May 2004
Mr M.T. Davies	appointed	1 October 2004
Mr D. N. Sarti	appointed	30 November 2004
Mr W. E. Husselby	appointed	7 March 2005

The Company's Articles of Association require all the Directors to retire at the next Annual General Meeting and all will be eligible for election by the members of the Company.

Full details of Directors' remuneration, interests in the share capital of the Company and of their share options are set out on pages 32 to 39 in the Directors' Remuneration Report.

Acquisitions

On 30 January 2004 the Group acquired the entire share capital of The Great British Bollard Company Limited. The company manufactures street furniture products.

On 15 May 2004 the Group acquired the entire share capital of Woodhouse Group Limited. The company is a supplier of street furniture products.

On 3 July 2004 the Group acquired the entire share capital of Rockrite Limited. The company manufactures mortar products under the Premier Mortars brand.

On 13 December 2004 the Group acquired the entire share capital of Compton Group Limited. The company manufactures concrete sectional garages and greenhouses.

Fixed Assets

In the opinion of the Directors, the market value of the Group's properties is not materially different from the value included in the Group financial statements.

Development Expenditure

Development of new products is a continuous process and expenditure is written off as incurred.

Payment to Suppliers

The Group follows the CBI's prompt payment code and operates and abides by a clearly defined payment policy which has been agreed with all major suppliers. The Group's creditor payment period at 31 December 2004 was 48 days (2003: 47 days).

Substantial Shareholdings

As at 11 March 2005, the Company had been notified of the following substantial interests of 3 per cent or more in its ordinary issued share capital:

	%
AXA S.A.	6.29
Aviva plc	6.12
Legal and General Investment Management Limited	3.21

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 12 noon on Tuesday 24 May 2005, together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Report.

Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution re-appointing KPMG Audit Plc as Auditors for the ensuing year will be proposed at the Company's Annual General Meeting.

By Order of the Board
Ian Burrell
Director and Company Secretary
11 March 2005

Corporate Governance

Compliance

As a result of the Scheme of Arrangement becoming effective during the year the former Marshalls plc became an intermediate holding company and the new Marshalls plc became the new ultimate holding company of the Group on 8 July 2004. The two companies effected a name swap, the company previously called Marshalls plc now being called Marshalls Group plc and vice versa. References to "Marshalls" or "Group" relate to the ultimate holding company at that time. This report therefore includes references to both companies.

Marshalls is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Group supports the highest standards in corporate governance.

Other than as indicated below, the Board considers that the Company has complied with the Combined Code on Corporate Governance (which is incorporated into the United Kingdom Listing Authority Listing Rules) throughout the year ended 31 December 2004.

Mr A.J. Allner and Mr R.T. Scholes have been the members of the Audit and Remuneration Committees throughout the year and the Company did not therefore comply with the provisions requiring an Audit Committee and a Remuneration Committee to have at least three members all of whom should be independent Non-Executive Directors, nor did the Company comply for the whole of the year with the provision requiring that at least half of the Board, excluding the Chairman, should comprise independent Non-Executive Directors. The process to identify and appoint an additional Non-Executive Director was completed on 7 March 2005 with the appointment of Mr W. E. Husselby as a Non-Executive Director. This appointment enables these provisions to be complied with in the future.

The paragraphs below, together with the report on Directors' Remuneration set out on pages 32 to 39, describe how these principles are applied within Marshalls.

The Board

The Board is responsible for the overall direction, strategy, performance and management of Marshalls plc. Short biographies of each of the current Directors, which illustrate their range of experience, are set out on page 18.

For the period from 1 January 2004 until the Annual General Meeting on 10 June 2004 the Board comprised a Non-Executive Chairman (Mr C.T. Burnett), Deputy Chairman and Executive Director (Mr J.D. Marshall), Chief Executive (Mr D.G.Holden), Finance Director (Mr I.D. Burrell) and two independent Non-Executive Directors (Mr A.J. Allner and Mr R.T. Scholes). At the Annual General Meeting of the former Marshalls plc on 10 June 2004, Mr C.T. Burnett stepped down as Chairman and Mr J.D. Marshall chose to commence his retirement and, accordingly, neither joined the Board of the new Marshalls plc.

For the period from 10 June 2004 until 7 July 2004, in respect of the former Marshalls plc, and from 8 July 2004 until 1 October 2004, in respect of the new Marshalls plc, the Board comprised an Acting Non-Executive Chairman (Mr R.T. Scholes), Chief Executive (Mr D.G. Holden), Finance Director (Mr I.D. Burrell) and an independent Non-Executive Director (Mr A.J. Allner). Mr M.T. Davies was appointed as Non-Executive Chairman on 1 October 2004 and Mr D.N. Sarti was appointed as an Executive Director on 30 November 2004. Mr A.J. Allner and Mr R.T. Scholes have continued to chair Remuneration and Audit Committees respectively throughout the year. Mr R.T. Scholes has remained as the Senior Independent Director throughout the year and was also Acting Chairman from 10 June 2004 to 1 October 2004.

All the Non-Executive Directors (with the exception of Mr C.T. Burnett who had, prior to 2004, been the Executive Chairman) who served during the year are considered to be independent within the meaning of Provision A.3.1 of the Combined Code and represent a source of strong, independent advice and judgement.

The Board considers that each Director is able to bring independent judgement to the Company's affairs on all matters.

The Directors are subject to election at the Annual General Meeting immediately following their appointment and to re-election every three years. Any Director attaining the age of 70 would be subject to re-election annually.

On 7 March 2005 the Board announced the appointment of Mr W. E. Husselby as an independent Non-Executive Director. From this date the Board comprises a Non-Executive Chairman (Mr M.T. Davies), Chief Executive (Mr D.G. Holden), Finance Director (Mr I.D. Burrell), Executive Director (Mr D.N. Sarti) and three independent Non-Executive Directors (Mr A.J. Allner, Mr W. E. Husselby and Mr R.T. Scholes). The Board believes that this structure is appropriate for Marshalls and enables the Board to comply fully with the relevant provisions of the Combined Code with effect from this date.

The Board met ten times during the year which is more than the normal number of meetings, the additional meetings being needed for the Scheme of Arrangement, and all meetings were attended by all the Directors.

The Board normally meets eight times a year on a formal basis and is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. There is an agreed schedule of matters reserved to it for collective decision and the Board and Committee papers are sent out seven days before meetings take place.

The performance evaluation of the Board, its Committees and its individual Directors has been conducted by discussions between the Directors throughout the year both at and outside formal meetings. The Directors believe this is the most effective way to conduct the evaluation and that a documented process would reduce the quality and frankness of the exchange of views and information. The Non-Executive Directors will, after the elapse of an appropriate period of time following the new appointments to the Board, undertake a performance evaluation of the Chairman which will take account of the views of the Executive Directors.

The Group is centralised in its management, decision making and financial control. The Board, at its meetings, reviews the financial results of the Group. A detailed business plan and annual budget is prepared for each operation in conjunction with local management. These are then compared in detail with the monthly management accounts. Executive Directors are required to comment on areas where performance departs from current expectations.

Any significant variances are discussed at Board level and appropriate action taken. All Directors have access to the advice and services of the Company Secretary and there is an established procedure for all Directors to take independent legal advice in furtherance of their duties, if necessary, at the Company's expense.

Audit Committee

The Audit Committee meets at least three times a year and during the year comprised of Mr R.T. Scholes (Chairman) and Mr A.J. Allner, both independent Non-Executive Directors. With effect from 7 March 2005 Mr W. E. Husselby became a member of the Audit Committee.

The Board have agreed Terms of Reference for the Audit Committee and these are consistent with current best practice and are available on request from the registered office.

The Audit Committee reviews the annual Financial Statements and the interim and preliminary announcements prior to submission to the Board, compliance with accounting standards, the scope and extent of the external audit programme, and the appointment and remuneration of the Auditors. It also monitors the operation and effectiveness of the Group's internal controls.

The Board is satisfied that the members of the Committee have recent and relevant financial experience. During 2004, the Committee met four times and all meetings were attended by both Committee members.

The Committee meets the requirements of the Combined Code by fulfilling its role and responsibilities as detailed in the Terms of Reference.

The Company does not have an in-house internal audit function. Instead, it has concluded that it is more effective for firms of external accountants (other than the Company's Auditors) to carry out regular internal audit assignments of a financial and systems nature. The Audit Committee reviewed the planned Internal Audit Programme. The results of all assignments have been reported to the Audit Committee during the year. These assignments form part of a much wider programme of independently audited aspects of the Group's operations.

The Audit Committee gives specific consideration to ensuring the auditors' objectivity and independence will not be prejudiced before asking the auditors to perform any non-audit work, by assessing whether any threats to their independence may arise by the performance of such non-audit work including, but not limited to, the threats referred to in relevant published ethical standards.

The report of the Audit Committee is set out on page 40.

Remuneration Committee

The Remuneration Committee is comprised only of independent Non-Executive Directors. Mr A.J. Allner is Chairman and Mr R.T. Scholes was a member throughout the year. With effect from 7 March 2005 Mr W. E. Husselby became a member of the Remuneration Committee. The Committee meets at least twice a year and during 2004 it met eight times, the unusually high number of meetings being due in part to the effects of the Scheme of Arrangement. All meetings were attended by both members of the Committee.

The Board have agreed Terms of Reference for the Remuneration Committee and these are consistent with current best practice and are available on request from the registered office.

The report on Directors' Remuneration is set out on pages 32 to 39.

Nomination Committee

The Nomination Committee is responsible for considering the appointment of Non-Executive and Executive Directors. From 1 January 2004 the Nomination Committee comprised Mr A.J. Allner (Chairman) and Mr R.T. Scholes who were the two independent Non-Executive Directors. With effect from 10 December 2004 and 7 March 2005, Mr M.T. Davies and Mr W. E. Husselby became members of the Nomination Committee. The Nomination Committee present their recommendations to the Board. The appointment of Directors is made by the Board through a formal process. The Terms of Reference of the Committee are available on request from the registered office.

Relations with Shareholders

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood. This is achieved principally through the Annual Report and the Annual General Meeting ("AGM"). In addition, a range of corporate information is available to investors on the Company's website.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders. All Directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. Shareholders vote on a show of hands, unless a poll is validly called and after each such vote the number of proxy votes received for and against the resolution is announced.

Risk Management and Internal Control

The Directors acknowledge their responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the Group's significant risks through a Risk Committee which reports directly to the Board and which has been in place throughout the year ended 31 December 2004 and up to the date of this report.

The Risk Committee comprises Mr D.G. Holden and Mr I.D. Burrell. It is chaired by Mr D.G. Holden. The Risk Committee is responsible for identifying, evaluating and managing any material risks which might threaten the Group's business objectives. In undertaking this work, it receives regular risk reviews and an annual risk assessment report carried out by the head of each business unit. From this information, the Committee has compiled a Register which identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have. In addition, the Risk Register identifies the controls that exist to manage and, where possible, minimise or eliminate those risks. The Risk Register is used to direct action programmes to test the effectiveness, including independent audit assessment, of those controls. This process is regularly reviewed by the Board and it accords with the internal control guidance for Directors in the Combined Code.

In addition to the major risk review process, the Group operates under an established internal control framework, the key features of which include clearly defined reporting lines and authorisation procedures and a comprehensive budget and monthly reporting system.

The Board has carried out an annual assessment of the Group's risk management and internal control system for the year to 31 December 2004 by considering reports from both the Audit Committee and the Risk Committee.

Going Concern

The Directors consider, after making appropriate enquiries at the time of approving the Financial Statements, that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and accordingly, that it is appropriate to adopt the going concern basis in the preparation of the Financial Statements.

Directors' Remuneration Report

The Report is divided into two sections, unaudited and audited information in accordance with Schedule 7A of the Companies Act 1985. The audited information commences on page 37.

During the year the Remuneration Committee was composed of Mr A.J. Allner and Mr R.T. Scholes both of whom are independent Non-Executive Directors. With effect from 7 March 2005 Mr W.E. Husselby became a member of the Remuneration Committee. The Committee is chaired by Mr A.J. Allner.

The Remuneration Committee is responsible for determining, on behalf of the Board, the salary and benefits received by Executive Directors and for overseeing the remuneration of other Senior Executives to ensure that they are competitive and appropriately determined across the Group. The fees payable to Non-Executive Directors are determined by the Board.

General Policy

The Remuneration Committee seeks to ensure that remuneration packages are competitive enough to attract, retain and motivate Executive Directors and Senior Executives of the right calibre. It is intended that the remuneration package will be at the median for median performance, having taken account of market expectations, and upper quartile for exceptional performance. The Committee is advised by independent consultants and uses data from external research into the salaries and benefits paid by companies in the FTSE 250. During the year, and following the changes in structure at Board level, the Committee commissioned a full review of remuneration packages for Executive Directors and Senior Executives. This was carried out by Mercer Human Resource Consulting (the "Mercer Review"). Remuneration packages have been amended to reflect this review and the proposed incentive arrangements are a direct result of this exercise.

As a matter of policy Executive Directors are encouraged to hold shares in Marshalls plc. The target is for the Chief Executive to hold shares equal in value to twice salary and for the remaining Directors to hold shares equal in value to annual salary. Progress has been made towards those targets during the course of the year.

Both the Chairman and Chief Executive attend meetings of the Committee and participate in discussions on salary and incentive packages other than their own. In reviewing Executive Directors' salaries, consideration is given to the levels of increase granted to other employees within the Group. Basic salaries are generally reviewed annually or when a change of responsibility occurs.

Service Contracts

The Non-Executive Chairman and other Non-Executive Directors do not have service contracts. Their appointments are regulated by letters of appointment and each appointment is subject to review every three years.

The Executive Directors have service contracts which are terminable by the Company on not more than twelve months' notice and by the Director on six months' notice.

Mercer Review

As mentioned above the Committee asked Mercer to carry out a review of executive remuneration in 2004. The main conclusions of the review were that base pay levels were broadly in line with the market with the exception of the Chief Executive; that the annual bonus structure did not need to be changed but that maximum bonus levels were behind the market; that part of the annual bonus should be deferred into a new Long Term Incentive Plan; and, that the Long Term Incentive Plan should be changed so that the performance measures are more aligned with shareholder interests.

As a result of the review the Committee wishes to make a number of changes to the remuneration arrangements for Executive Directors. In recommending these changes to shareholders the Committee is convinced that the link between shareholder and Executive interests will be strengthened, not least because one of the main features of the new arrangements is that Executives will be required to invest their own funds, earned through their annual bonus, in Marshalls' shares.

When considering the new arrangements the Committee was aware that the existing Long Term Incentive Plan had ceased to act as an effective incentive for Executives. This was primarily because the group of comparator companies included housebuilders and other companies that are not direct comparators to Marshalls. The Committee has therefore decided to recommend to shareholders that the outstanding grants under the existing plan be bought out. This proposal was discussed with principal shareholders during consultation in early 2005.

2004 Remuneration

Annual Performance Bonus

During 2004 Executive Directors had the opportunity to receive an annual performance bonus if challenging Group and individual business unit operating profit and cash targets were met. The maximum potential bonus for 2004 was 50 per cent of base salary. Annual bonus payments were earned for the successful return of value to shareholders, the sale of Marshalls Clay Products Limited for £65.0 million and an operating performance that resulted in a 4.9 per cent improvement in adjusted earnings per share in what were challenging market conditions.

Long Term Incentive Plan

During 2004 the Long Term Incentive Plan ("the Plan") which was introduced in 1998 for the Executive Directors was in place. It was designed to encourage improvement in the Group's performance over the longer term. To align the interests of participants with those of the shareholders, the Plan was based on share, rather than cash, benefits. No awards under the Plan were pensionable.

Each year, subject to the approval of the Remuneration Committee, a conditional award was made and performance measures were set and a three year qualification period then commenced. For the 2002, 2003 and 2004 awards, the three year performance target set was Marshalls' total shareholder return over the period measured against companies in the Construction and Building Materials Sector with market capitalisations of £100 million and above and whose primary listing is in London.

An award only vests in full if the Company is ranked in the top quartile of the comparator group. Below that point, 50 per cent of the award vests if the Company is ranked at median, and pro-rata between these two points. There is an earnings underpin which requires that Marshalls' earnings per share must also have increased by RPI plus 6 per cent over the three year period for any part of the award to vest. In order to emphasise the long term nature of the Plan a participant will normally have to wait for a further two years after vesting before being able to call for the shares.

The value of each initial conditional award is a percentage of the participant's basic salary. For the 2002, 2003 and 2004 awards, it was 50 per cent. If the Company's share price at the end of the three year period reaches a predetermined level set by the Remuneration Committee, which for the 2002, 2003 and 2004 awards is 435p, 420p and 350p respectively, the Executive Directors receive twice the allotted shares.

For the 2002 plan, the Company's total shareholder return was ranked at the 28.1 percentile in the comparator group. This will mean that no awards will vest for that year. As explained on page 39 it is the Remuneration Committee's intention to buy out the outstanding awards for 2003 and 2004 on the basis of independently determined valuations.

2005 Remuneration

Annual Performance Bonus

The principle behind the 2005 Remuneration arrangements is to align clearly shareholder interest with Executive Director remuneration and reward Executive Directors for creating shareholder value.

Under the proposed arrangements for 2005 and beyond, the maximum potential bonus will be increased to 100 per cent. The median and maximum bonus entitlements have been increased to bring Marshalls' bonus opportunities more into line with other FTSE 250 companies and to reflect the compulsory deferral of half of the bonus award to be invested in shares of the Company for a three year peiod. No bonus will be automatically payable if operating profits do not improve over the previous year. For 2005, performance in line with market expectations, following the announcement of the year end results for 2005, will attract 50 per cent with up to 100 per cent for exceptional performance. 35 per cent of the first 50 per cent, is based on the achievement of an operating profit target with the balance of 15 per cent based on the achievement of a cash target. Half of the annual bonus will be compulsorily deferred for a further three years and must be invested in shares of the Company bought in the market. The Executive Director will have the option to defer voluntarily an additional amount up to the full value of the bonus.

Long Term Incentive Plan

Following the Mercer Review, which highlighted the difficulty associated with identifying an appropriate comparator group, a revised Long Term Incentive Plan arrangement will be proposed at the Annual General Meeting.

This will provide a share match for the amount of annual bonus deferred subject to achievement of a three year earnings per share performance target. Any additional shares awarded as a result of the share match will have to be held for a further two years. These shares will be purchased in the market. The share match will be dependent on an improvement in earnings per share measured using International Financial Reporting Standards of:-

RPI + 2 per cent per annum : 50 per cent match
RPI + 3 per cent per annum : 100 per cent match
up to
RPI + 6 per cent per annum : 200 per cent match

Full details are included in the circular for the Annual General Meeting.

Pensions

Mr D.G. Holden is a member of the Group's Defined Benefit Pension Scheme which provides him with a pension of up to two thirds of pensionable salary upon retirement at age 60, subject to his having completed at least twenty years' service with the Group. The scheme also provides lump sum death in service benefits and pensions for dependants of members. This scheme is now closed to new entrants including Directors.

Mr J.D. Marshall was a member of the Group's Defined Benefit Pension Scheme until the date of his retirement on 10 June 2004. At the date of his retirement his accrued entitlement was approximately £103,000. After allowing for a tax free cash lump sum this comprised a pension of £84,000 per annum plus an annuity of £1,000 per annum.

In addition, the scheme provides for a pension for dependents and, in the event of death within the first five years following the date of retirement, a lump sum payment equal to the balance of pension entitlement for that five year period.

Mr I.D. Burrell and Mr D.N. Sarti are members of the Group's Defined Contribution Pension Scheme. The Company made a contribution of 30 per cent of Mr I.D. Burrell's base salary in 2004 and he is required to make a minimum contribution of 4 per cent of his base salary on an amount up to the level of the earnings cap. Mr I.D. Burrell is provided with lump sum and dependants pension benefits on death in service. The Company made a contribution of 3 per cent of Mr D.N. Sarti's base salary in 2004 and he is required to make a minimum contribution of 3 per cent of his base salary on an amount up to the earnings cap. From 1 January 2005 the Company contribution for Mr D.N. Sarti will be 30 per cent. Mr D.N. Sarti is provided with lump sum death in service benefits.

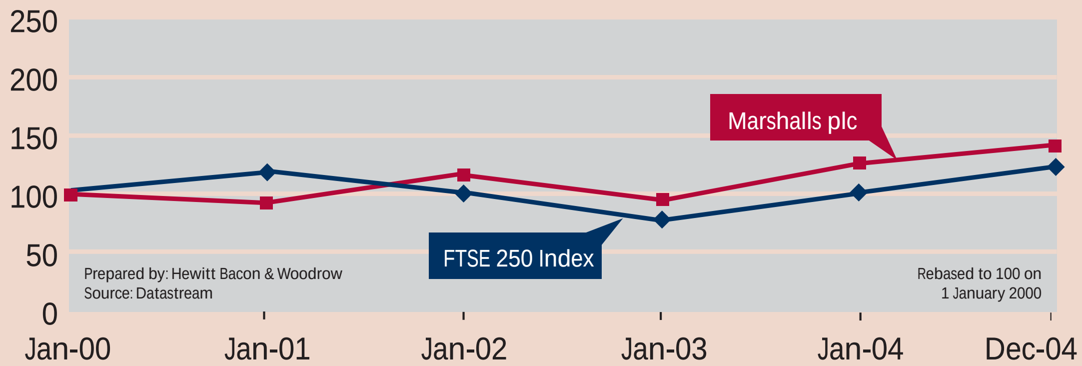
Mr C. T. Burnett was a member of the Group's Defined Contribution Pension Scheme and received a pension contribution by way of a bonus sacrifice of part of his 2003 bonus.

The Remuneration Committee will shortly be instituting a review of pensions in anticipation of the changes that are to be introduced in April 2006.

Share Options

As at 31 December 2004 there were no outstanding options under the 1993 Executive Share Option Scheme that has now terminated. All outstanding options were exercised during the year. Mr D.G. Holden has a share option under the Marshalls 2000 Savings Related Share Option Scheme. Details of this option are set out in the Directors' share options table on page 38.

Five Year Total Shareholder Return



This graph shows the Group's total shareholder return ("TSR") performance compared to the FTSE 250 Index for the period from 1 January 2000 to 31 December 2004. TSR is defined as share price growth plus reinvested dividends. This provides a basis for comparison as a relevant equity index in which Marshalls plc is a constituent member. Marshalls has a TSR for the five year period of 43 per cent compared to a TSR provided by the FTSE 250 index of 24 per cent. Following the Mercer Review, and in the opinion of the Directors, the FTSE 250 Index is considered the most appropriate index against which the TSR of the Group should be measured because it represents a wider index of investments against which the Company is competing. The FTSE 250 Index therefore replaces the FTSE 350 Construction and Building Materials Sector Index used in previous years.

Directors' Interests

The interests of the Directors (including the beneficial interests) who held office at the year end in the ordinary shares of the Company (and for the period prior to 8 July 2004, the former company, Marshalls plc) at 1 January 2004 (or in the case of Mr M.T. Davies and Mr D.N. Sarti at the date of their appointment) and 31 December 2004 are set out in the table below. Shareholdings from 8 July 2004 represent the new holding company shares. In respect of those directors who held shares prior to 8 July 2004, the number of shares held was subject to the receipt of 11 ordinary shares and 13 B shares for each previous 13 ordinary shares held. Accordingly, the ordinary shareholdings after 8 July 2004 will be lower by this proportion.

	1 January 2004		31 December 2004	
	Ordinary shares	Options Ordinary shares	Ordinary shares	Options Ordinary shares
A.J. Allner	-	-	3,600	-
I.D. Burrell	4,000	55,000	10,500	-
M.T. Davies	-	-	10,000	-
D.G. Holden	123,538	248,336	169,942	7,336
D.N. Sarti	3,482	-	3,482	-
R.T. Scholes	-	-	-	-

Additionally Mr D.G. Holden has the following ordinary shares available to be called resulting from the vesting of conditional awards under the Marshalls LTIP:-

	Cycle commencing	1 January 2004	31 December 2004	Available to be called
D.G. Holden	1999	74,674	-	8 March 2004
	2000	21,535	21,535	3 April 2005

The Register of Directors' interests, which is open to inspection at the Company's Registered Office, contains full details of Directors' shareholdings and share options. All shareholdings were unchanged as at 11 March 2005.

There are no other disclosable transactions by the Group under FRS8, "Related Party Transactions". There have been no other disclosable transactions by the Company and its subsidiaries with Directors of Group companies and with substantial shareholders since the publication of the last Annual Report.

Audited Information
Directors' Remuneration

	Salary/ fees £'000	Additional fees (Note c) £'000	Performance related and other bonuses £'000	Benefits £'000	Total remuneration (excluding pensions) 2004 £'000	2003 £'000
Chairman						
C.T. Burnett (resigned 10.06.04)	56	122	-	13	191	772
M.T. Davies (appointed 01.10.04)	31	-	-	-	31	-
Executive Directors						
I.D. Burrell	175	-	55	19	249	252
D.G. Holden	286	-	100	14	400	320
J.D. Marshall (retired 10.06.04)	57	-	-	8	65	143
D.N. Sarti (appointed 30.11.04)	13	-	-	1	14	-
Non-Executive Directors						
A.J. Allner	35	40	-	-	75	56
R.A. Barfield (resigned 13.06.03)	-	-	-	-	-	11
J.W. Footman (retired 28.05.03)	-	-	-	-	-	10
R.T. Scholes	35	68	-	-	103	56
	688	230	155	55	1,128	1,620

Notes to Directors' Remuneration

(a) The salaries, fees, performance related and other bonuses and benefits all relate to the year ended 31 December 2004.

(b) Benefits are the provision of a fully expensed company car and medical insurance.

(c) Mr C.T. Burnett was paid an additional fee of £122,000 to progress the Return of Value to shareholders and to remain with the Company until this had been approved at the shareholder meetings on 10 June 2004. The normalised Non-Executive fee was £25,000 per annum with a further £10,000 per annum in respect of being Chairman of a Board Committee. Significant additional time was required from Mr A.J. Allner and Mr R.T. Scholes as part of the Return of Value exercise from 1 January 2004 until 10 June 2004. This is reflected in the additional fee paid. In addition, Mr R.T. Scholes was Non-Executive Chairman from 10 June 2004 until 30 September 2004 and he was paid at the rate of £125,000 per annum for that period.

(d) Following the Mercer Review, the salaries of the Executive Directors as at 1 January 2005 are Mr D.G. Holden £350,000, Mr I.D. Burrell £180,775 and Mr D.N. Sarti £154,950. The fees for the Non-Executive Directors as at 1 January 2005 are Mr M.T. Davies £125,000 for the position of Chairman and the fee for Mr A.J. Allner, Mr W. E. Husselby and Mr R.T. Scholes is £30,000 per annum. In addition Mr A.J. Allner and Mr R.T. Scholes will receive £10,000 for the Chairmanship of a Board Committee. The salary and fee cost of the Board in 2005 would therefore be £916,000 (2004: £918,000 and 2003: £1,023,000).

Pension Benefits (Defined Benefit Scheme)

	Age at 31 December 2004 (or date of retirement)	Years of service	Accrued entitlement 31 December 2004 (see Note a) £'000	Increase in accrued entitlement earned during the year (see Note b) £'000	Transfer value of pension increase earned in year (see Note c) £'000
D.G. Holden	45	18	100	27	252
J.D. Marshall (Note e)	59	41	103	-	(12)

Notes to Pension Entitlements

(a) The accrued entitlement shown is that which would be paid annually on retirement based on service to 31 December 2004.
(b) The increase in accrued entitlement during the year excludes any increase for deferred revaluation.
(c) The transfer value has been calculated in accordance with Actuarial Guidance Note GN11 less Directors' contributions.
(d) No accrued lump sum is payable unless part of the accrued pension is commuted.
(e) The figures for Mr J.D. Marshall are at his retirement date of 10 June 2004. His normal retirement date would have been 20 January 2005. His final pensionable salary was enhanced by the annuity value of £30,000 in accordance with past practice which had been established for retiring Directors. This practice has now been discontinued.

Directors' Remuneration Report (continued)

Details of accrued pension valued on a transfer basis as required under the 2002 Regulations are as follows:-

	Transfer value as at 31 December 2004 (or date of retirement) £'000	Transfer value as at 31 December 2003 £'000	Increase in transfer value less member contribution over the year £'000
D.G. Holden	980	648	315
J.D. Marshall	2,071	2,056	11

The transfer value of the accrued entitlement represents the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Directors' pension benefits. They do not represent sums payable to individual Directors and, therefore, cannot be added meaningfully to annual remuneration.

The increase in the transfer value less Directors' contributions is the increase in the transfer value of the accrued benefits during the year after deducting the Director's personal contribution to the scheme.

Pension Benefits (Defined Contribution Scheme)

The Company made a pension contribution of £52,500 (2003: £17,600) in respect of Mr I.D. Burrell and £390 (2003: Nil) in respect of Mr D.N. Sarti who are members of the Defined Contribution Pension Scheme.

Directors' Interests: Share Options

	At 1 January 2004	Options granted during the year	Options exercised during the year	Options lapsed during the year	Exercise price	Market price at date of exercise	Profit on exercise £	At 31 December 2004	Exercise Period
I.D. Burrell									
Executive option	55,000	-	55,000	-	219.5p	282.5p	34,650	-	N/A
D.G. Holden									
Executive option	161,000	-	161,000	-	216.5p	280.0p	102,235	-	N/A
Executive option	80,000	-	80,000	-	219.5p	282.5p	50,400	-	N/A
SAYE	7,336	-	-	-	230.0p	-	-	7,336	01.12.05 to 31.05.06
J.D. Marshall									
SAYE	7,336	-	5,035	2,301	230.0p	287.0p	2,870	-	N/A

Notes to Share Options

(a) Neither the Chairman nor the Non-Executive Directors held any share options during the year.
(b) The market price of the Company's shares at 31 December 2004 was 297p and the range in the year then ended was 246p to 310p.
(c) The Executive options were granted at nil cost to the Directors.
(d) The total profit on exercise of options during the year was £190,155 (2003: Nil). Sufficient shares were sold to pay the income tax and national insurance on exercise with the balance of shares being retained.
(e) Mr J.D. Marshall exercised his outstanding options in relation to the Marshalls 2000 Savings Related Share Option Scheme, in accordance with the scheme rules, on 28 June 2004.

Directors' Interests: Long Term Incentive Plan

Shares awarded to Executive Directors under the Long Term Incentive Plan are as follows:-

	Award date	At 1 January 2004 Number	Shares awarded Number	Award lapsed Number	Shares vested Number	At 31 December 2004 Number	Value vested £'000	Vesting date
I.D. Burrell	16.04.02	23,972	-	-	-	23,972	-	16.04.05 see Note c
	16.04.03	35,164	-	-	-	35,164	-	16.04.06 see Note d
	24.03.04	-	30,810	-	-	30,810	-	24.03.07
D.G. Holden	17.04.01	34,642	-	34,642	-	-	-	-
	16.04.02	34,246	-	-	-	34,246	-	16.04.05 see Note c
	16.04.03	45,054	-	-	-	45,054		16.04.06
	24.03.04	-	48,415	-	-	48,415	-	24.03.07
D.N. Sarti	24.03.04	-	26,408	-	-	26,408	-	24.03.07

Notes to Long Term Incentive Plan

(a) In the case of each award, the shares are available to be called two years after the vesting date.

(b) The number of shares disclosed under the Long Term Incentive Plan awards for 2002, 2003 and 2004 is the maximum number of shares which would be delivered at the end of the period under the initial awards. As stated above, an additional award of the same number of shares would vest if the Marshalls share price reached a pre-determined level.

(c) On 16 April 2002, 23,972 shares were awarded to Mr I.D. Burrell and 34,246 shares were awarded to Mr D.G. Holden under the Long Term Incentive Plan for 2002. For the 2002 Plan, the Company's total shareholder return was ranked at the 28.1 percentile in the comparator group which means that no awards for that year will vest on the due date of 16 April 2005.

(d) The total value of shares vested under the Long Term Incentive Plan as disclosed above is Nil (2003: £96,000).

(e) Following the Mercer Review a new incentive plan will be proposed at the Annual General Meeting. The existing Long Term Incentive Plan is expensive to administer. The Remuneration Committee have taken advice and decided to terminate this scheme. The outstanding awards have been independently valued by Mercer using the "Monte Carlo method". It is the Remuneration Committee's intention to buy out the outstanding awards on the basis of these valuations with the beneficiaries being required to use the net proceeds of the buy out, after income tax and national insurance, to purchase shares in Marshalls plc which will be held for periods of three to five years after the buy out, such periods matching the time when the shares would have become available under the existing Long Term Incentive Plan. This accords with the Remuneration Committee target for Directors' shareholdings.

The gross buy out values are:-

Mr D. G Holden	£116,015
Mr I.D. Burrell	£ 77,919
Mr D.N. Sarti	£ 47,798

The Remuneration Report has been approved by the Board and signed on its behalf by:

Andrew Allner
Chairman of the Remuneration Committee
11 March 2005

Report of the Audit Committee

The members of the Audit Committee during 2004 were Mr R.T. Scholes and Mr A.J. Allner who had been appointed to the Committee in July 2003 with Mr R.T. Scholes as Chairman. With effect from 7 March 2005 Mr W.E. Husselby became a member of the Audit Committee.

Appointments to the Committee are made by the Board and each member of the Committee is independent for the purposes of the 2003 Code.

Greater detail on the qualifications and experience of all Directors is given on page 18 and their remuneration on page 37. The Committee Chairman's additional responsibilities are reflected by fees of £10,000 per annum for that role.

The Committee met four times during 2004 and has the assistance of the Company Secretary, who serves as Committee Secretary. 100 per cent attendance at Committee and General Meetings was achieved by all Committee members who served in the year. The Committee held meetings with the external Auditors without management in attendance on two occasions. Those attending meetings typically include the Finance Director, Chief Executive and the Chairman of the Board. In addition the Committee received detailed independent reports following the completion of all the internal audit assignments undertaken during the year.

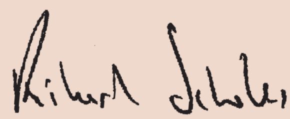
In reporting the financial results to shareholders, the Committee depends on the skill, objectivity and independence of the Auditors. In the year ended 31 December 2004 the Committee obtained confirmation of the Auditor's independence. It is the policy of the Company to use firms of accountants other than the Auditor for significant non-audit services. Details of amounts paid to the external Auditors for audit and non-audit services in 2004 are analysed in Note 3 on page 50. The aggregate amount paid to other firms of accountants for non-audit services in 2004 was £536,000.

The Committee's areas of activity during 2004 included:-

- Review of the Group Risk Report including Internal Audit;
- Review of the 2003 Financial Statements and Results announcement;
- Approval of Group accounting policies;
- Review of the Auditor's Management Letter;
- Review of the effectiveness of the Audit Process;
- Review of the effectiveness and independence of the Auditors;
- Approval of Interim Results announcement and Auditor's Review Report;
- Review of Audit Strategy;
- Approval of a Audit Fees;
- Review of the Committee's Terms of Reference; and
- Review of the implementation of International Financial Reporting Standards.

Having reviewed and expressed satisfaction with the level of fees, objectivity, independence, expertise, resources and general effectiveness of KPMG Audit Plc, the Committee recommends (and the Board agrees to propose) their re-appointment as Auditors of the Company at the Annual General Meeting.

The Report of the Audit Committee has been approved by the Board and signed on its behalf by:



Richard Scholes
Chairman of the Audit Committee
11 March 2005

Independent Auditors' Report to the Members of Marshalls plc

We have audited the Financial Statements on pages 42 to 70. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 27, this includes responsibility for preparing the Financial Statements in accordance with applicable United Kingdom law and Accounting Standards. Our responsibilities, as Independent Auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement on pages 28 to 31 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's Corporate Governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the Financial Statements, and the part of the Directors' Remuneration Report to be audited, have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants and
Registered Auditor
1 The Embankment
Neville Street
Leeds LS1 4DW

11 March 2005

Consolidated Profit and Loss Account

for the year ended 31 December 2004

	Notes	**2004 £'000**	2003 £'000
Turnover			
Continuing operations		**328,343**	317,351
Discontinued operations		**33,966**	32,130
	2	**362,309**	349,481
Operating costs	3	**(308,774)**	(296,353)
Operating profit			
Continuing operations		**47,546**	48,926
Discontinued operations		**5,989**	4,202
	2	**53,535**	53,128
Interest (net)	5	**(5,132)**	(2,725)
Profit on ordinary activities before taxation	2	**48,403**	50,403
Taxation on profit on ordinary activities	6	**(15,102)**	(15,902)
Profit for the financial year		**33,301**	34,501
Preference and "B" share dividends: Non equity shares	8	**(92)**	(54)
Profit attributable to ordinary shareholders		**33,209**	34,447
Ordinary dividends: Equity shares	9	**(16,882)**	(18,401)
Retained profit for the financial year	22	**16,327**	16,046
Earnings per share :			
Basic	10	**21.41p**	20.61p
Diluted	10	**21.38p**	20.58p
Adjusted Basic	10	**22.52p**	21.46p
Dividend per share :			
Pence per share	9	**11.90p**	11.00p

The notes on pages 46 to 70 form part of these Financial Statements.

Balance Sheets

at 31 December 2004

	Notes	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000
Fixed assets				
Intangible	11	**39,063**	23,725	**-**
Tangible	12	**218,408**	206,650	**-**
Investments	13	**-**	-	**288,340**
		257,471	230,375	**288,340**
Current assets				
Stocks	14	**66,011**	56,744	**-**
Debtors	15	**42,407**	33,412	**508**
Cash at bank and in hand		**24**	7,884	**338**
		108,442	98,040	**846**
Creditors: Amounts falling due within one year	16	**(91,545)**	(68,992)	**(72,711)**
Net current assets / (liabilities)		**16,897**	29,048	**(71,865)**
Total assets less current liabilities		**274,368**	259,423	**216,475**
Creditors: Amounts falling due after more than one year	17	**(89,184)**	(20,000)	**-**
Provisions for liabilities and charges	20	**(23,695)**	(21,275)	**-**
Net assets		**161,489**	218,148	**216,475**
Capital and reserves				
Called up share capital	21	**39,635**	41,837	**39,635**
Capital redemption reserve	22	**71,237**	1,483	**71,237**
Share premium account	22	**287**	18,138	**287**
Revaluation reserve	22	**5,166**	5,166	**-**
Merger reserve	22	**(213,067)**	13,091	**-**
Profit and loss account	22	**258,231**	138,433	**105,316**
Shareholders' funds		**161,489**	218,148	**216,475**
Analysis of shareholders' funds				
Equity		**157,332**	218,148	**212,318**
Non equity		**4,157**	-	**4,157**
		161,489	218,148	**216,475**

Approved at a Directors' meeting on 11 March 2005.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 46 to 70 form part of these Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2004

	Notes	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Cash inflow from operating activities	23		**60,481**		81,261
Returns on investments and servicing of finance	24(i)		**(4,576)**		(2,831)
Taxation			**(13,588)**		(14,018)
Capital expenditure	24(ii)		**(26,545)**		(39,802)
Acquisitions and disposals	24(iii)		**(15,671)**		(2,014)
Equity dividends paid			**(17,829)**		(17,300)
Cash (outflow)/inflow before financing			**(17,728)**		5,296
Financing					
Issue of shares		**751**		464	
Repayment of cumulative redeemable preference shares		**-**		(1,108)	
Redemption of B shares		**(71,036)**		-	
Issue/redemption expenses		**(2,195)**		-	
Increase/(decrease) in other debt and lease financing		**65,655**		(4,075)	
			(6,825)		(4,719)
(Decrease)/increase in cash in the year			**(24,553)**		577

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2004 £'000	2003 £'000
(Decrease)/increase in cash in the year		**(24,553)**	577
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		**(65,655)**	4,075
Finance leases acquired on acquisition of subsidiary undertakings		**(631)**	-
Movement in net debt in the year	27	**(90,839)**	4,652
Net debt at beginning of year		**(13,243)**	(17,895)
Net debt at end of year	27	**(104,082)**	(13,243)

The notes on pages 46 to 70 form part of these Financial Statements

Consolidated Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2004

	2004 £'000	2003 £'000
Profit for the financial year	**33,301**	34,501
Dividends (preference and ordinary)	**(16,974)**	(18,455)
Retained profit for the financial year	**16,327**	16,046
New share capital issued	**751**	464
Issue/redemption expenses	**(2,500)**	-
Redemption of B shares	**(71,237)**	-
Repayment of cumulative redeemable preference shares	**-**	(1,108)
Net (reductions in)/additions to shareholders' funds	**(56,659)**	15,402
Shareholders' funds at beginning of year	**218,148**	202,746
Shareholders' funds at end of year	**161,489**	218,148

The notes on pages 46 to 70 form part of these Financial Statements.

The Group had no other recognised gains or losses other than those disclosed in the Consolidated Profit and Loss Account in either the current or preceding financial year. There is no material difference between historical cost profits and those reported in the profit and loss account.

Notes to the Financial Statements

1 Accounting policies

The following paragraphs summarise the main accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's Financial Statements.

a Scheme of Arrangement

On 8 July 2004 Marshalls plc ("the Company" and formerly Marshalls Group plc) was introduced as the new holding company of the Group by way of a Court approved Scheme of Arrangement ("the Scheme") under Section 425 of the Companies Act 1985. The Company had previously been incorporated as Ever 2338 Limited on 13 April 2004. It changed its name on 30 April 2004 to Marshalls Group Limited and on 5 May 2004 re-registered as a public limited company. Following the Scheme becoming effective on 8 July 2004, Marshalls Group plc changed its name to Marshalls plc. The restructuring has been accounted for as a capital reorganisation and for the year ended 31 December 2004 merger accounting principles have been applied as if the Company had always been the holding company of the Group.

Under the Scheme, Marshalls Group plc ("Marshalls Group" and formerly Marshalls plc) shareholders received from the Company 11 new ordinary shares and 13 B shares for every 13 existing ordinary shares held at the Scheme record date. In order to finance the obligations of the Group in relation to the B shares a loan of £72.5 million was made to the Company by Marshalls Group in accordance with the Scheme. This loan enabled the Company to redeem 155,665,695 B shares pursuant to the Scheme on 21 July 2004, amounting in aggregate to £70 million, and to pay the costs and expenses relating to the redemption of the B shares and the Scheme. Subsequently on 31 December 2004 a further 2,638,803 B shares were redeemed in accordance with the provisions of the Scheme.

Under the Scheme, on 8 July 2004, the Company issued 141,766,577 new ordinary shares of 150 pence each, with an aggregate nominal value of £212,650,000 and 167,542,319 B shares of 45 pence each, with an aggregate nominal value of £75,394,000, in consideration for 100 per cent of the issued ordinary share capital of Marshalls Group. The aggregate nominal value of the shares issued by the Company was £288,044,000.

Under merger accounting principles, the share capital and share premium of Marshalls Group plc have been eliminated on consolidation. The adjustment to called up share capital of £246,158,000 represents the difference between the aggregate nominal value of the shares issued and the called up share capital of Marshalls Group of £41,886,000. In addition, the difference between the aggregate nominal value of the new ordinary shares and B shares issued by the Company and the called up share capital and share premium of Marshalls Group of £226,158,000 has been transferred to other reserves.

The Group and Company balance sheets have been adjusted to reflect the Reduction of Capital, whereby the nominal value of each of the 141,766,577 New Ordinary Shares has been reduced from 150 pence per share to 25 pence per share resulting in a total reduction in share capital of £177,208,000, together with a corresponding increase to the profit and loss account.

b Financial Statements convention

The Financial Statements are prepared under the historical cost convention, modified by the revaluation of certain properties, and in accordance with applicable accounting standards. There is no material difference between historical cost profits and those reported in the profit and loss account. In respect of FRS17 *"Retirement Benefits"* the Group is following the transitional arrangements under which additional disclosure on retirement benefits is required in the Financial Statements for the year ended 31 December 2004 as set out in Note 31.

c Basis of consolidation

The Group Financial Statements include the Financial Statements of the Company and its subsidiary undertakings made up to 31 December 2004. All Financial Statements are prepared on a uniform basis throughout the Group.

The acquisition method of accounting has been adopted, unless otherwise stated. As outlined in Note 1a in relation to the Scheme of Arrangement merger accounting has been adopted and accordingly the comparative figures have

1 Accounting policies (continued)

c Basis of consolidation (continued)

been restated. Under the acquisition method of accounting, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

d Goodwill

Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS10 *"Goodwill and intangible assets"* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful economic life, up to a maximum of 20 years.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

e Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the profit and loss account in the year.

f Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or, if hedged forward, at the rate of exchange under the related forward currency contract, and the gains or losses on translation are included in the profit and loss account.

g Turnover

Turnover represents the invoiced value of sales to customers outside the Group, less returns, allowances and value added tax. Turnover is recognised in the Financial Statements upon despatch of the goods.

h Development expenditure

Development expenditure is accounted for in accordance with SSAP13 *"Accounting for Research and Development"* and is written off in the period in which it arises.

i Pension costs

Defined benefit scheme

Contributions to the Group's defined benefit pension scheme are charged to the profit and loss account on a basis which spreads the cost over employees' working lives with the Group. The regular pension costs are attributed to individual years using the discounted income projected unit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average remaining service lives of employees.

Defined contribution scheme

Contributions to the Group's defined contribution scheme are determined as a percentage of employees' earnings and are charged to the profit and loss account as incurred.

1 Accounting policies (continued)

j Stocks

Stocks of raw materials, bought in components and goods for resale are valued at the lower of invoice cost and net realisable value. Finished goods and manufactured components are valued at the lower of works cost and net realisable value. Works cost consists of direct materials, labour and factory and administrative overheads applicable to the stage of production.

k Tangible fixed assets and depreciation

Tangible fixed assets are stated at either cost or professional valuation less depreciation. On adoption of FRS15 *"Tangible Fixed Assets"*, the Group followed the transitional provisions to retain the book value of land and buildings which were revalued in 1989 but not to adopt a policy of revaluation in the future. Depreciation is provided on all fixed assets, other than freehold and long leasehold land, at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its estimated useful life. The rates are as follows:

Freehold and long leasehold buildings	-	2.5% to 5% per annum
Quarries	-	Over the expected period of mineral extraction
Short leasehold property	-	Over the period of the lease
Fixed plant and equipment	-	5% to 25% per annum
Mobile plant and vehicles	-	14% to 30% per annum

Assets under construction are not depreciated until they are ready for use.

Costs associated with opening up new stone reserves are capitalised. Depreciation commences when commercial extraction begins.

l Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash, at or close to their carrying values, or traded in an active market. Liquid resources comprise term deposits of less than one year.

m Leased assets

Elements of plant and machinery are subject to finance leases giving rights approximating to ownership. Such assets are treated as though they had been purchased outright and are included in tangible fixed assets at a value equal to the total capital payments to be made during the term of the lease. The total amount of the capital payments outstanding is included in creditors.

The amount included in tangible fixed assets is written off over the shorter of the useful economic life of the asset or the term of the lease.

The rental cost of all operating leases is charged to the profit and loss account on a straight line basis over the lives of the leases.

n Deferred taxation

Full provision is made for deferred taxation resulting from timing differences, other than those specifically excluded by FRS19 *"Deferred Taxation"*, between profits computed for taxation purposes and profits stated in the Financial Statements to the extent that there is an obligation to pay more tax in the future as a result of those timing differences. Deferred tax assets are recognised to the extent that they are expected to be recoverable. Deferred tax assets and liabilities are not discounted.

2 Segmental analysis

	Turnover		Operating costs		Operating profit	
	2004	2003	**2004**	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Continuing operations	**328,343**	317,351	**280,797**	268,425	**47,546**	48,926
Discontinued operations	**33,966**	32,130	**27,977**	27,928	**5,989**	4,202
	362,309	349,481	**308,774**	296,353	**53,535**	53,128
Interest (net)					**(5,132)**	(2,725)
Profit on ordinary activities before taxation					**48,403**	50,403

	Net Assets	
	2004	2003
	£'000	£'000
Continuing operations	**271,205**	232,260
Discontinued operations	**31,937**	37,089
	303,142	269,349
Unallocated net liabilities	**(141,653)**	(51,201)
	161,489	218,148

On 4 January 2005 the Group completed the unconditional sale of the entire issued share capital of Marshalls Clay Products Limited (the Clay Products Division) to Hanson PLC, for a cash consideration of £65.0 million including the repayment of all intergroup indebtedness. Since the disposal of the Clay Products Division meets the definition of a discontinued operation as defined by FRS3 the results of this Division have been disclosed under discontinued activities.

Following the disposal of the Clay Products Division the Group has undertaken a review of its continuing operations and the business risks associated with the Group. The Directors consider that the continuing operations should be reported as a single business segment and have adjusted the Group's internal reporting framework accordingly. The analysis of the 2004 continuing operations for the previous Landscape Products and Natural Stone Divisions for turnover would have been £298,438,000 (2003: £288,819,000) and £29,905,000 (2003: £28,532,000) respectively, in respect of operating profit, £43,484,000 (2003: £44,874,000) and £4,062,000 (2003: £4,052,000) respectively and, in respect of net assets, £230,231,000 (2003: £200,026,000) and £40,974,000 (2003: £32,234,000).

Unallocated net liabilities comprise non-operating assets and liabilities of a financing nature, principally net borrowings, corporation tax, deferred tax and dividends payable.

	2004	2003
	£'000	£'000
Geographical destination of sales:		
Continuing operations		
United Kingdom	**324,609**	313,143
Rest of the world	**3,734**	4,208
	328,343	317,351
Discontinued operations		
United Kingdom	**33,102**	31,466
Rest of the world	**864**	664
	33,966	32,130

All turnover originates in the United Kingdom and there is no material inter-segmental turnover.

3 Operating costs

	2004 £'000	2003 £'000
Raw materials and consumables	**121,181**	103,617
Changes in stocks of finished goods	**(6,140)**	6,457
Staff costs (Note 4)	**85,187**	79,083
Depreciation - owned	**18,911**	17,528
- leased	**140**	10
Own work capitalised	**(3,092)**	(2,192)
Other operating income	**(1,675)**	(558)
Other external charges	**92,538**	90,978
Amortisation of goodwill	**1,724**	1,430
	308,774	296,353

Operating profit is stated after charging/(crediting):

	2004 £'000	2003 £'000
Auditors' remuneration	**175**	101
Other fees paid to the auditors and their associates	**3**	3
Leasing costs	**6,068**	3,674
Hire of plant, machinery and vehicles	**2,899**	2,724
Development expenditure	**3,092**	2,192
(Profit)/loss on sale of tangible fixed assets	**(41)**	317

In respect of the year under review, KPMG Audit Plc carried out additional work in relation to corporate taxation which amounted in aggregate to £3,000. In addition KPMG Audit Plc undertook work in connection with the Return of Value exercise and the disposal of the Clay Products Division which has not been charged against operating profit. Total fees in relation to this work amounted to £49,000. The audit fee for the Company was £20,000 (2003: £20,000).

4 Employees

The average number of persons employed by the Group during the year was:

	2004 Number	2003 Number
Continuing operations	**2,871**	2,734
Discontinued operations	**351**	354
	3,222	3,088

Staff costs (including Directors):	2004 £'000	2003 £'000
Wages and salaries	**75,627**	70,113
Social security costs	**7,708**	7,104
Other pension costs	**1,852**	1,866
	85,187	79,083

Staff costs disclosed above do not include redundancy costs of £1,143,000 (2003: £938,000) included within other external charges.

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 32 to 39.

5 Interest (net)

	2004 £'000	2003 £'000
(a) Interest payable and similar charges:		
Bank loans, overdrafts, loan notes and other interest payable	**2,947**	511
Debenture interest	**2,275**	2,275
Finance leases	**15**	1
	5,237	2,787
(b) Other interest receivable and similar income	**(105)**	(62)
	5,132	2,725

6 Taxation on profit on ordinary activities

	2004 £'000	2003 £'000
United Kingdom corporation tax at 30.0% (2003: 30.0%)		
Current year	**14,510**	14,688
Prior year	**(1,719)**	(209)
	12,791	14,479
Deferred taxation (Note 20)		
Current year	**1,552**	1,394
Prior year	**759**	29
	15,102	15,902

The tax assessed for the period is lower (2003: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:-

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	**48,403**	50,403
Profit on ordinary activities multiplied by standard rate in the UK (30%) (2003: 30%)	**14,521**	15,121
Effects of:-		
Disallowed amortisation of goodwill	**531**	429
Net items not taxable	**1,010**	590
Prior year items	**(960)**	(238)
Accelerated capital allowances and other timing differences	**(2,311)**	(1,423)
Tax charge for the period	**12,791**	14,479
Effective rate of tax	**26.4%**	28.7%

Based on current capital investment plans, the Group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

7 Profit of Marshalls plc

As permitted by Section 230 of the Companies Act 1985, Marshalls plc has not presented its own profit and loss account. The consolidated profit for the year includes £18,819,000 which is dealt with in the Financial Statements of the Company.

8 Preference dividends: non equity shares

	2004		2003	
	per share	**£'000**	per share	£'000
B shares of 45p each	**0.775p**	**92**		-
Cumulative redeemable preference shares of 20p each		**-**	6.50p	54
		92		54

On 31 December 2004 dividends totalling £92,000, amounting to 0.775p per share, were paid to the B shareholders (11,876,624 B shares ranking for dividend) in respect of the calculation period ended 31 December 2004.

On 1 October 2003, the Company repaid the cumulative redeemable preference shares of 20p each (Note 21).

9 Ordinary dividends: equity shares

	2004		2003	
	per share	**£'000**	per share	£'000
Interim: paid 8 December 2004	**3.90p**	**5,529**	3.65p	6,101
Final: proposed	**8.00p**	**11,353**	7.35p	12,300
	11.90p	**16,882**	11.00p	18,401

On 8 July 2004, and following the Scheme of Arrangement, the number of shares in issue was reduced from 167,542,319 to 141,766,577. Accordingly, the interim dividend paid and the proposed final dividend payable are based on the new lower number of shares.

10 Earnings per share

	2004	2003
	£'000	£'000
Profit for the financial year attributable to ordinary shareholders	**33,209**	34,447
Profit for the financial year attributable to ordinary shares and potentially ordinary dilutive shares	**33,209**	34,447
Adjusted basic earnings per share reconciliation:		
Profit for the financial year attributable to ordinary shareholders	**33,209**	34,447
Goodwill amortisation	**1,724**	1,430
	34,933	35,877
Weighted average number of shares	**155,107,622**	167,159,671
Weighted average number of shares	**155,107,622**	167,159,671
Potentially dilutive shares	**241,303**	202,054
	155,348,925	167,361,725
Basic earnings per share	**21.41p**	20.61p
Diluted earnings per share	**21.38p**	20.58p
Adjusted basic earnings per share	**22.52p**	21.46p

10 Earnings per share (continued)

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of £33,209,000 (2003: £34,447,000) by the weighted average number of shares in issue during the year of 155,107,622 (2003: 167,159,671).

Diluted earnings per share is calculated by dividing profit attributable to ordinary shares and potentially ordinary dilutive shares of £33,209,000 (2003: £34,447,000) by the weighted average number of shares in issue during the year of 155,107,622 (2003: 167,159,671), plus dilutive shares of 241,303 (2003: 202,054) which totals 155,348,925 (2003: 167,361,725).

An adjusted basic earnings per share has been prepared in order to show the underlying performance of the business. The adjusted basic earnings per share is adjusted for goodwill amortisation.

In accordance with the provisions of FRS14, *"Earnings per Share"*, earnings per share for prior periods have not been restated as a result of the Scheme of Arrangement.

11 Intangible fixed assets

	Goodwill £'000
Group	
Cost	
At 1 January 2004	**28,909**
Additions (Note 25)	**17,062**
At 31 December 2004	**45,971**
Amortisation	
At 1 January 2004	**5,184**
Amounts provided	**1,724**
At 31 December 2004	**6,908**
Net book value	
At 31 December 2004	**39,063**
At 31 December 2003	23,725

12 Tangible fixed assets

	Group Land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000
Cost or valuation			
At 1 January 2004	**111,200**	**233,834**	**345,034**
Reclassification	**30**	**(30)**	**-**
Additions	**4,123**	**23,095**	**27,218**
On acquisition of subsidiary undertakings (Note 25)	**1,276**	**3,267**	**4,543**
Disposals	**(590)**	**(6,984)**	**(7,574)**
At 31 December 2004	**116,039**	**253,182**	**369,221**
Accumulated depreciation			
At 1 January 2004	**22,954**	**115,430**	**138,384**
Amounts provided	**2,873**	**16,178**	**19,051**
Disposals	**(343)**	**(6,279)**	**(6,622)**
At 31 December 2004	**25,484**	**125,329**	**150,813**
Net book value			
At 31 December 2004	**90,555**	**127,853**	**218,408**
At 31 December 2003	88,246	118,404	206,650

The net book value of tangible fixed assets includes £823,000 (2003: £4,000) in respect of assets held under finance leases of which £Nil (2003: £Nil) relates to the Company.

Group cost or valuation of land and buildings and plant and machinery includes £255,000 (2003: £2,790,000) and £7,464,000 (2003: £13,739,000) respectively for assets in the course of construction.

The Group's freehold and leasehold industrial property in the UK was revalued in March 1989 on the basis of open market value for existing use. No provision has been made for taxation which may be payable in the event of these properties being sold at their revalued amounts on the grounds that it is the Group's intention to retain them for operational purposes.

There are no tangible fixed assets in the holding company.

12 Tangible fixed assets (continued)

Analysis of Group land and buildings

	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Total £'000
Valuation at March 1989	**35,560**	**2,585**	**-**	**38,145**
Cost	**67,574**	**10,220**	**100**	**77,894**
Accumulated depreciation	**(23,461)**	**(1,923)**	**(100)**	**(25,484)**
Net book value at 31 December 2004	**79,673**	**10,882**	**-**	**90,555**
Amount not depreciable	**30,099**	**9,507**	**-**	**39,606**
Comparable amounts determined according to the historical cost convention				
Cost	**99,967**	**13,002**	**100**	**113,069**
Accumulated depreciation	**(25,460)**	**(2,120)**	**(100)**	**(27,680)**
Historical net book value at 31 December 2004	**74,507**	**10,882**	**-**	**85,389**

13 Investment in subsidiary undertakings

Company	**Shares £'000**
Cost and net book value	
Investment in the year	**288,340**
At 31 December 2004	**288,340**

Shares in subsidiary undertakings represents the Company's investment in Marshalls Group plc.

Under the Scheme, on 8 July 2004, the Company issued 141,766,577 new ordinary shares of 150 pence each, with an aggregate nominal value of £212,650,000 and 167,542,319 B shares of 45 pence each, with an aggregate nominal value of £75,394,000, in consideration for 100 per cent of the issued ordinary share capital of Marshalls Group plc. The aggregate nominal value of the shares issued by the Company was £288,044,000.

On 20 October 2004 Marshalls Group plc issued a further 135,000 shares to the Company for a value of £296,000. This additional investment arose in connection with the exercise of options previously granted in Marshalls Group plc.

Details of the principal subsidiary undertakings, their place of incorporation and particulars of Group shareholdings are set out in Note 32.

14 Stocks

	Group **2004** **£'000**	Group 2003 £'000
Raw materials and consumables	**12,493**	10,952
Finished goods and goods for resale	**53,518**	45,792
	66,011	56,744

15 Debtors

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000
Trade debtors	**34,701**	28,695	**-**
Other debtors	**3,002**	568	**-**
Corporation tax	**-**	-	**508**
Taxation and social security	**46**	31	**-**
Prepayments and accrued income	**4,658**	4,118	**-**
	42,407	33,412	**508**

No debtors were due after more than one year.

16 Creditors: Amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000
Bank overdraft	**16,693**	-	**-**
Loans (Note 18)	**-**	1,124	**-**
Trade creditors	**32,785**	29,662	**-**
Corporation tax	**9,545**	9,640	**-**
Taxation and social security	**6,156**	5,326	**-**
Other creditors	**3,068**	2,988	**230**
Accruals	**11,945**	7,952	**-**
Amounts owed to subsidiary undertakings	**-**	-	**61,128**
Dividends proposed	**11,353**	12,300	**11,353**
	91,545	68,992	**72,711**

17 Creditors: Amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000
Loans (Note 18)	**86,850**	20,000
Other creditors	**2,334**	-
	89,184	20,000

Finance lease instalments included in other creditors are repayable:

	Group 2004 £'000	Group 2003 £'000
between two and five years	**125**	-
between one and two years	**209**	-
within one year	**229**	3
	563	3

18 Loans

	Group 2004 £'000	Group 2003 £'000
Bank loans	**66,850**	-
11.375% debenture stock 1992/2014	**20,000**	20,000
Unsecured loan stock 2001	**-**	1,124
	86,850	21,124
which are repayable:		
in five years or more	**20,000**	20,000
in two to five years	**66,850**	-
within one year	**-**	1,124
	86,850	21,124

Debenture stock

The 11.375% debenture stock 1992/2014 which is secured by a first floating charge on the assets of the Company and certain subsidiary undertakings is repayable at par on 30 June 2014, or at the Company's option, between 1 January 1992 and 30 June 2014, at a price related to the gross redemption yield of the 12% Exchequer Stock 2013/2017.

There are no external loans held directly in the Company.

19 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group has, or had, in issue the following non-equity funding instruments:

- Unsecured loan stock 2001 as detailed in Note 18
- Debenture stock at 11.375% as detailed in Note 18
- B shares as detailed in Note 21

As directed by the Board the Group does not engage in trade or speculative activities using derivative financial instruments. Group cash reserves are held centrally to take advantage of the most rewarding short term investment opportunities. Forward foreign currency contracts are used in the management of currency risk.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks on a regular basis. Following the Return of Value and the resulting increase in net debt, the Board identified the need to enter into an interest rate swap in order to manage the increased interest rate risk. This is explained below in further detail.

Interest rate risk

The Group's policy is to review regularly the terms of its available short term borrowing facilities and to assess individually and manage each long term borrowing commitment accordingly. Following the Return of Value, and effective from 2 August 2004, the Group entered into an interest rate swap to manage its exposure to interest rate increases. This has the effect of fixing a 6 per cent cap and a 4.5 per cent floor in respect of a three year amortising profile of borrowings commencing at £75 million.

19 Financial instruments (continued)

Liquidity risk

Cash resources are largely and normally generated through operations. As explained in Note 33, cash proceeds of £65.0 million (including the repayment of all intergroup indebtedness) were received on 4 January 2005 on the disposal of the former Clay Products Division. Short term flexibility is achieved by overdraft facilities.

Currency risk

Exposure to currency risk primarily arises from incurring transactional foreign currency expenses. The Group's policy is to cover all significant foreign currency commitments by using forward foreign currency contracts.

Financial assets and liabilities

The Group has taken advantage of the exemptions given under FRS13 *"Derivatives and Other Financial Instruments"* in excluding short term debtors and creditors from its disclosures.

Other than cash in hand and short term debtors the Group has no other financial assets. All financial assets are held in Sterling.

At 31 December 2004, 19.8% (2003: 94.7%) of the Group's borrowings were on a fixed rate. The interest rate profile of the financial liabilities were:

			Weighted average interest rate of fixed borrowings		Weighted average period for which interest rates are fixed	
	2004 £'000	2003 £'000	**2004 %**	2003 %	**2004 Years**	2003 Years
Fixed rate liabilities: Sterling	**20,563**	20,003	**11.4**	11.4	**9.5**	10.5
Floating rate liabilities: Sterling	**83,543**	1,124				
Total financial liabilities	**104,106**	21,127				

Currency exposures

At 31 December 2004 the Group had no material currency exposures. At this date the Group had entered into certain forward foreign currency contracts which are, individually and in aggregate, not material.

Maturity of financial liabilities

At the end of the year, 19.2% (2003: 94.7%) of the Group's borrowings were due to mature in more than five years. The maturity profile of the Group's financial liabilities at 31 December 2004 is as follows:

	2004 £'000	2003 £'000
In one year or less, or on demand	**16,922**	1,127
In more than one year but not more than two years	**209**	-
In more than two years but not more than five years	**66,975**	-
In more than five years	**20,000**	20,000
	104,106	21,127

19 **Financial instruments** (continued)

Borrowing facilities

During the year the Group has arranged additional bank facilities amounting, in aggregate, to £100 million with the Royal Bank of Scotland plc and Lloyds TSB Bank plc. The total borrowing facilities at 31 December 2004 amounted to £130 million of which £46.5 million remained unutilised. Included within the £130 million are three year term facilities (dated 6 May 2004) amounting to £90 million. As detailed in Note 1, on 21 July 2004, a loan of £72.5 million was made to Marshalls plc by Marshalls Group plc to enable the redemption of 155,665,695 (92.9%) B shares and to pay the costs and expenses relating to the redemption and the Scheme. This loan was made out of the additional bank facilities referred to above. The undrawn facilities available at 31 December 2004, in respect of which all conditions precedent had been met, were as follows:

	2004	2003
	£'000	£'000
Committed:		
- Expiring in more than two years but not more than five years	**23,150**	10,000
Uncommitted:		
- Expiring in one year or less	**23,331**	20,000
	46,481	30,000

Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2004 are shown below:

	2004		2003	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Cash at bank and in hand	**24**	**24**	7,884	7,884
Short term financial liabilities	**16,922**	**16,922**	1,127	1,127
Long term borrowings:				
- 11.375% Debenture stock	**20,000**	**25,927**	20,000	26,357
- Bank loans and other long term financial liabilities	**67,184**	**67,184**	-	-
B shares	**4,157**	**4,157**	-	-
Interest rate swap	**273**	**134**	-	-

All fair values have been determined using appropriate market rates at 31 December 2004 and by discounting relevant cash flows at the prevailing rate.

20 Provisions for liabilities and charges

The liability for deferred taxation of the Group at 30.0% (2003: 30.0%) is:

	Group	
	2004	2003
	£'000	£'000
Accelerated capital allowances	**22,513**	20,217
Short term timing differences	**1,182**	1,058
	23,695	21,275

	2004	2003
	£'000	£'000
At 1 January 2004	**21,275**	19,852
On acquisition of subsidiary undertakings (Note 25)	**109**	-
Charge in the year	**2,311**	1,423
At 31 December 2004	**23,695**	21,275

There is no deferred taxation in the Company.

21 Share capital

The Company was incorporated on 13 April 2004. On incorporation, the authorised share capital of the Company was £1,000 divided into 1,000 ordinary shares of £1 each. Of such shares, 1 ordinary share was taken nil paid by the subscriber to the memorandum of association, Everdirector Limited. On 15 April 2004, 1 ordinary share of £1 was allotted to Mr D.G. Holden and was paid up in full in cash and one ordinary share was transferred, nil paid, from Everdirector Limited to Mr I.D. Burrell, following which Mr I.D. Burrell paid to the Company the par value of the share.

On 30 April 2004 the authorised share capital was increased from £1,000 to £51,000 by the creation of 50,000 redeemable preference shares of £1 each. In addition, on 30 April 2004 the 50,000 redeemable preference shares were allotted and issued paid up as to one quarter of their nominal value in cash, to Everdirector Limited.

On 12 May 2004 the authorised share capital was increased from £51,000 to £525,650,000 by the creation of 449,999,000 additional ordinary shares of £1 each and 168,000,000 B shares of 45 pence each. In addition, on 12 May 2004 each ordinary share of £1 each was sub-divided into 2 ordinary shares of 50 pence each and a further 2 ordinary shares of 50 pence each were issued and fully subscribed for in cash. Every 3 ordinary shares of 50 pence each were then consolidated into 1 ordinary share of 150 pence each.

A Reduction of Capital was approved by the High Court on 13 July 2004 and on 15 July 2004 the nominal value of each ordinary share of 150 pence was reduced to 25 pence thereby creating distributable reserves of £177,208,000.

On 16 July the 50,000 redeemable preference shares held by Everdirector Limited were redeemed in cash for an amount equal to the amount paid up on the shares and the shares were subsequently cancelled.

Under the Scheme, the Company issued new ordinary shares and B shares, credited as fully paid, to the Scheme Shareholders on the basis of 11 new ordinary shares and 13 B shares for every 13 existing ordinary shares held at the Scheme Record Time. Accordingly, the authorised, issued and fully paid share capital of the Company immediately following Admission to the Official List (on the basis that the redeemable preference shares were redeemed and that all options in the Company, exercisable before the Scheme Effective Date, were exercised) was as follows:

21 **Share capital** (continued)

	Authorised		Issued and paid up	
	Number	Nominal Value £'000	Number	Nominal Value £'000
New ordinary shares	**300,000,000**	**450,000**	**141,766,577**	**212,650**
B shares	**168,000,000**	**75,600**	**167,542,319**	**75,394**
		525,600		**288,044**

By 16 July 2004 the Company had received forms of election validly electing for deferred redemption in respect of 11,876,624 B shares and consequently, in accordance with the Scheme, 155,665,695 B shares were redeemed in cash at 45 pence per share on 21 July 2004.

On 31 December 2004 a further 2,638,803 B shares were redeemed at 45pence per share. Applications in respect of 2,191,501 B shares were received prior to 10 December 2004 and in accordance with the Articles of Association these were redeemed in cash on 31 December 2004 for an amount of £986,000. Amounts due in respect of applications received between 11 and 30 December 2004, and totalling £201,000 were paid to shareholders on 11 January 2005. At 31 December 2004, this amount is included in other creditors. Following this redemption, 9,237,821 B shares remain in issue. The next redemption date is 30 June 2005.

As at 31 December 2004, the authorised, issued and fully paid share capital was as follows:-

	Authorised		Issued and paid up	
	Number	Nominal Value £'000	Number	Nominal Value £'000
New ordinary shares	**300,000,000**	**75,000**	**141,913,313**	**35,478**
B shares	**168,000,000**	**75,600**	**9,237,821**	**4,157**
		150,600		**39,635**

Mr D.G. Holden and Mr I.D. Burrell each held 1 ordinary share of 150 pence in Marshalls Group. Under the terms of the Scheme, these individuals were treated as having received such shares as part of their entitlement under the Scheme and their entitlement to new ordinary shares under the Scheme was reduced accordingly.

B shares

(a) Income

Holders of B shares are entitled to a non-cumulative preferential dividend at a rate equal to the lower of :

i) 10 per cent per annum; and
ii) 75 per cent of LIBOR for six months deposits, as determined at 11.00am on the first business day of each calculation period.

These dividends are paid semi-annually in arrears on 30 June and 31 December.

(b) Capital

On a return of capital on a winding up (except on a redemption in accordance with the terms of issue) each holder of B shares is entitled to the sum of 45 pence in respect of each B share, together with a sum equal to the relevant proportion of the preferential dividend which would have been payable if the winding up had taken effect on the last day of the then calculation period.

21 Share capital (continued)

Holders of B shares are able to make elections to have their B shares redeemed at 45 pence per B share semi-annually on 30 June and 31 December.

At any time after the anniversary of the Scheme Effective Date or, if earlier, when the number of B shares remaining in issue becomes less than 25 per cent of the total number of B shares issued, the Company may elect to redeem all of the B shares still in issue at their 45 pence nominal value.

(c) Attendance and voting at general meetings

The holders of the B shares shall not be entitled, in their capacity as holders of such shares, to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting.

Cumulative redeemable preference shares

The cumulative redeemable preference shares of 20p each were issued at a price of £1 in June 1988 and carried, inter alia, rights to:

(a) a fixed cumulative preferential dividend payable at the rate of 6.50p per share per annum;

(b) conversion into fully paid ordinary shares of 25p each, on 1 October in each of the years 1990 to 2000, on the basis of 72 ordinary shares for every 100 cumulative redeemable preference shares so converted;

(c) redemption, if not previously converted, on 1 October 2003 at £1 per share;

(d) repayment of capital and accrued dividends in priority to ordinary shares but after the 10% cumulative preference shares of £1 each, on a return of capital on a winding up; and

(e) attend and vote at a general meeting of the Company only if, at the date of the notice convening the meeting, payment to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for winding up the Company, or for abrogating, varying or modifying any special rights attaching to them.

Having earlier ceased to be convertible the outstanding cumulative redeemable preference shares were redeemed on 1 October 2003 at £1 per share.

Share option schemes

Participants in the Marshalls SAYE, the Marshalls Executive Scheme and Marshalls LTIP had the opportunity upon the Scheme becoming effective to exchange their options or awards over existing ordinary shares for replacement options or awards over an equivalent number of new ordinary shares. Following these exchanges and the subsequent exercise of some options, details of options outstanding at 31 December 2004 (all of which are granted at market value), are as follows:-

Savings-related share option scheme

Details of the options outstanding at 31 December 2004 are:

Number of options outstanding		Number of ordinary shares		Exercise price	Normally exercisable between
31 December 2004	31 December 2003	**31 December 2004**	31 December 2003		
-	17	**-**	32,000	230.0p	1 Dec 2003 – 31 May 2004
540	606	**1,259,359**	1,400,985	230.0p	1 Dec 2005 – 31 May 2006
540	623	**1,259,359**	1,432,985		

In the year ended 31 December 2004 26,870 share options were exercised under the Marshalls Savings Related Share Option Scheme.

21 Share capital (continued)

Employee profit sharing scheme

At 31 December 2004 the scheme held 42,823 (2003: 50,777) ordinary shares in the Company.

Executive share option schemes

Details of the options at 31 December 2004 are:

Number of options outstanding		Number of ordinary shares		Exercise price	Normally exercisable between
31 December 2004	31 December 2003	**31 December 2004**	31 December 2003		
-	1	-	161,000	216.5p	17 Apr 2004 – 16 Apr 2011
-	2	-	135,000	219.5p	16 Oct 2004 – 15 Oct 2011
-	3	**-**	296,000		

22 Share capital and reserves

	Share capital			Other Reserves			
	Ordinary shares £'000	Non equity B shares £'000	Capital redemption reserve £'000	Share premium account £'000	Revaluation reserve £'000	Merger reserve £'000	Profit and loss account £'000
Group:							
At 1 January 2004	41,837	-	1,483	18,138	5,166	13,091	138,433
Shares issued prior to the capital restructure	49	-	-	379	-	-	-
Capital restructure:							
- Cancellation of old shares	(41,886)	-	(1,483)	(18,517)	-	61,886	-
- Issue of new shares	212,650	75,394	-	-	-	(288,044)	-
	212,650	75,394	-	-	5,166	(213,067)	138,433
Reduction of capital	(177,208)	-	-	-	-	-	177,208
Redemption of B shares	-	(71,237)	71,237	-	-	-	(71,237)
Issue/redemption expenses	-	-	-	-	-	-	(2,500)
Shares issued after the capital restructure	36	-	-	287	-	-	-
Retained profit for the financial year	-	-	-	-	-	-	16,327
At 31 December 2004	**35,478**	**4,157**	**71,237**	**287**	**5,166**	**(213,067)**	**258,231**
Company:							
Capital restructure	212,650	75,394	-	-	-	-	-
Reduction of capital	(177,208)	-	-	-	-	-	177,208
Redemption of B shares	-	(71,237)	71,237	-	-	-	(71,237)
Issue/redemption expenses	-	-	-	-	-	-	(2,500)
Shares issued after the capital restructure	36	-	-	287	-	-	-
Profit for the financial year	-	-	-	-	-	-	1,845
At 31 December 2004	**35,478**	**4,157**	**71,237**	**287**	**-**	**-**	**105,316**

The cumulative amount of goodwill, resulting from the acquisition of subsidiary undertakings and net of goodwill relating to subsidiary undertakings disposed of, written off against consolidated reserves prior to 1 January 1998 amounts to £37,572,000 (2003: £37,572,000).

23 Reconciliation of operating profit to cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	**53,535**	53,128
Amortisation charges	**1,724**	1,430
Depreciation charges	**19,051**	17,538
(Profit)/loss on sale of tangible fixed assets	**(41)**	317
(Increase)/decrease in stocks	**(7,000)**	6,711
(Increase) in debtors	**(3,500)**	(1,382)
(Decrease)/increase in creditors	**(3,288)**	3,519
Cash inflow from operating activities	**60,481**	81,261

24 Analysis of cash flows for headings netted in the cash flow statement

	2004 £'000	2003 £'000
(i) Returns on investments and servicing of finance		
Interest received	**105**	30
Interest paid	**(4,574)**	(2,788)
Non-equity dividends paid	**(92)**	(72)
Interest element of finance lease rental payments	**(15)**	(1)
	(4,576)	(2,831)
(ii) Capital expenditure		
Purchase of tangible fixed assets	**(27,218)**	(40,812)
Sale of tangible fixed assets	**673**	1,010
	(26,545)	(39,802)
(iii) Acquisitions and disposals		
Purchase of businesses (Note 26)	**(15,671)**	(2,014)

25 Purchase of subsidiary undertakings

	2004 £'000
Fixed assets (Note 12)	**4,543**
Stocks	**2,267**
Debtors	**5,175**
Bank (net of overdraft)	**2,297**
Creditors	**(8,992)**
Finance leases	**(631)**
Corporation tax	**(702)**
Deferred tax (Note 20)	**(109)**
Net assets acquired	**3,848**
Goodwill (Note 11)	**17,062**
	20,910
Satisfied by:	
Cash (Note 26)	**17,260**
Deferred consideration	**2,600**
Costs	**1,050**
	20,910

On 30 January 2004 the Group acquired The Great British Bollard Company Limited, a manufacturer of street bollards. On 14 May 2004 the Group acquired Woodhouse Group Limited which is a supplier of high quality, innovative street furniture and lighting. On 2 July 2004, the Group acquired Rockrite Limited and its subsidiary company, Premier Mortars Limited. The business is a supplier of ready to use mortar to the construction industry in the North West of England. With effect from their date of acquisition, the trade and net assets of all of these businesses has been transferred to the Group's main operating subsidiary, Marshalls Mono Limited.

On 13 December 2004 the Group acquired Compton Group Limited. The business is the UK's leading manufacturer of concrete garages, workshops and sectional commercial buildings and also produces "Alton" cedar timber greenhouses and summerhouses and "Robinson's" aluminium greenhouses.

As detailed in the table above, the total consideration in respect of these acquisitions amounted to £20,910,000 and the total net assets acquired amounted to £3,848,000. The goodwill arising in respect of these acquisitions was £17,062,000 (Note 11).

No material fair value adjustments were required in respect of the assets acquired. The results of these businesses have been included in the consolidated Group Financial Statements using the acquisition method of accounting, from the date of purchase. The post acquisition results are not considered to be material and no separate disclosure has been provided in these Financial Statements.

26 Net cash outflow in respect of the purchase of subsidiary undertakings

	2004	2003
	£'000	£'000
Cash consideration (Note 25)	**17,260**	1,150
Expenses of acquisition	**708**	43
(Cash at bank and in hand acquired)/Bank overdrafts	**(2,297)**	821
	15,671	2,014

27 Analysis of net debt

	2004	**Cash Flow**	**Acquisitions**	2003
	£'000	**£'000**	**£'000**	£'000
Cash in hand and at bank	**24**	**(10,157)**	**2,297**	7,884
Debt due after one year	**(86,850)**	**(66,850)**	**-**	(20,000)
Debt due within one year	**(16,693)**	**(15,569)**	**-**	(1,124)
Finance leases	**(563)**	**71**	**(631)**	(3)
Total net debt	**(104,082)**	**(92,505)**	**1,666**	(13,243)

28 Capital commitments

	Group		Company
	2004	2003	**2004**
	£'000	£'000	**£'000**
Capital expenditure that has been contracted for but for which no provision has been made in the Financial Statements	**3,072**	3,960	**-**

29 Leasing commitments

	Group	
	2004	2003
	£'000	£'000
At 31 December 2004 there were annual commitments under non-cancellable operating leases in respect of plant, machinery and vehicles as follows:		
Expiring:		
within one year	**737**	352
between two and five years	**5,716**	5,538
over five years	**432**	-
	6,885	5,890

30 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls Group plc, irrevocable letters of credit for £1,075,000, £1,400,000 and £1,400,000 in respect of the Group's employers liability insurance cover with XL Winterthur and, on behalf of Marshalls plc, an irrevocable letter of credit of £900,000 in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the 12 months ended 21 October 2002 and the periods ended 31 October 2003, 31 October 2004 and 31 October 2005 respectively.

31 Pension scheme

The Group operates the Marshalls Pension and Life Assurance Scheme which has both a defined benefit and a defined contribution section. The assets of the scheme are held in separately managed funds which are independent of the Group's finances.

SSAP24

A funded defined benefit scheme covering certain employees is operated by Trustees as a self-administered independent fund using external investment managers. The scheme is valued by an independent Actuary and an actuarial valuation was carried out as at 6 April 2003 using the discounted income projected unit method. The main actuarial assumptions used for accounting purposes were investment returns exceeding salary growth by 3.5% per annum and pension increases of 3.0% per annum for pre 6 April 1997 benefits and at 3.25% per annum for post 6 April 1997.

The valuation showed that the market value of the scheme's assets at 6 April 2003 was £95.6 million and the market value for the purposes of the Annual Report at 31 December 2004 was £125.8 million (31 December 2003: £114.0 million). The actuarial value of the assets at 6 April 2003 was £117.1 million, whereas the actuarial valuation of the scheme liabilities was £116.9 million. The ratio of the value of the assets to the valuation of the liabilities is therefore 100% on an ongoing basis.

The contribution rate currently being paid (including the insured death in service benefits, expenses, member contributions and Age Related Rebate) is 14.7% of total pensionable salaries.

In recognition of the fact that the cost of pension provision is increasing, the Group increased its contribution rate by 1% from April 2004, and intends to increase it by a further 1% from April 2005. It is also planned that member contributions will increase by a similar amount in order for employees to maintain the current level of benefit accrual. In addition, Limited Price Indexation will replace guaranteed increases in pensions for future service.

The defined benefit scheme charge for the year was £1,472,000 (2003: £1,595,000).

Certain other employees are members of a company defined contribution scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly. The total of the defined contributions schemes' and insured schemes' costs charged for the year was £380,000 (2003: £271,000).

FRS17

Whilst the Company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 *"Accounting for Pension Costs"* under FRS17 *"Retirement Benefits"* the transitional disclosures set out below are required.

The most recent actuarial valuation of the defined benefit scheme has been updated by an independent, qualified Actuary to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 December 2004.

Main assumptions for FRS17 purposes:

	31 December 2004	31 December 2003	31 December 2002
Discount rate	**5.40%**	5.50%	5.50%
Rate of increase in salaries	**3.60%**	3.50%	3.50%
Rate of increase in pensions payment	**3.10%**	3.10%	3.10%
Inflation rate	**2.90%**	2.80%	2.25%

The assumptions used by the Actuary are the best estimates chosen from a range of possible actuarial assumptions.

31 Pension scheme (continued)

The fair value of the defined benefit scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of return expected at 31 December 2004	**Value at 31 December 2004 £'000**	Long-term rate of return expected at 31 December 2003	Value at 31 December 2003 £'000	Long-term rate of return expected at 31 December 2002	Value at 31 December 2002 £'000
Equities	**7.00%**	**88,009**	6.50%	79,908	6.50%	67,921
Bonds	**5.00%**	**36,577**	4.50%	33,108	4.50%	27,340
Other	**4.00%**	**1,262**	4.50%	949	4.50%	1,077
		125,848		113,965		96,338

The following amounts at 31 December 2004 and 31 December 2003 were measured in accordance with the requirements of FRS17:

	2004 £'000	2003 £'000
Total market value of assets	**125,848**	113,965
Present value of scheme liabilities	**(176,703)**	(159,740)
Deficit in the scheme	**(50,855)**	(45,775)
Related deferred tax asset	**15,257**	13,733
Net pension liability	**(35,598)**	(32,042)

If the above amounts had been recognised in the Financial Statements, the Group's net assets and profit and loss reserve at 31 December 2004 and 31 December 2003 would be as follows:

	2004 £'000	2003 £'000
Net assets excluding pension liability	**161,489**	218,148
Net pension liability	**(35,598)**	(32,042)
Net assets including pension liability	**125,891**	186,106
Profit and loss reserve excluding pension liability	**258,231**	138,433
Net pension liability	**(35,598)**	(32,042)
Profit and loss reserve including pension liability	**222,633**	106,391

The method of calculating the net pension asset or liability under FRS17 would be likely to lead to volatility in the amounts to be included in the Group's balance sheet and the profit and loss account financing charge if adopted.

The scheme assets, the majority of which are equities, are potentially subject to significant market movements. During the year ended 31 December 2004 the FTSE All Share Index fluctuated between 0.1% higher and 11.4% lower compared with its value at the balance sheet date.

The scheme's liabilities are measured by reference to long-term AA corporate bond yields that can again move significantly and according to market conditions. The yield on the AA corporate bond index used was in the range 5.2% to 5.9% in the year ended 31 December 2004.

31 Pension scheme (continued)

The following amounts would have been recognised in the performance statements in the year ended 31 December 2004 under the requirements of FRS17:

	2004	2003
	£'000	£'000
Operating profit:		
Current service cost	**3,750**	3,694
Past service cost	**30**	-
	3,780	3,694
Other finance income (net):		
Expected return on pension scheme assets	**6,698**	5,655
Interest on pension scheme liabilities	**(8,813)**	(7,873)
Net return	**(2,115)**	(2,218)
Consolidated statement of total recognised gains and losses ("STRGL")		
Actual return less expected return on pension scheme assets	**6,146**	12,313
Experience gains and losses arising on the scheme liabilities	**2,099**	(5,837)
Changes in assumptions underlying the present value of the scheme liabilities	**(9,236)**	(2,014)
Actuarial (deficit)/gain recognised in STRGL	**(991)**	4,462

A reconciliation of the movement in deficit during the year is set out below:

	£'000
Deficit in the scheme at 1 January 2004	**(45,775)**
Movement in year:	
Current service cost	**(3,750)**
Contributions	**1,806**
Past service cost	**(30)**
Other finance income (net)	**(2,115)**
Actuarial loss	**(991)**
Deficit in the scheme at 31 December 2004	**(50,855)**

Details of experience gains and losses were:	**2004**	2003	2002
	£'000	£'000	£'000
Difference between the expected and actual return on the scheme assets	**6,146**	12,313	(22,825)
Percentage of the scheme assets	**5%**	11%	(24%)
Experience gains and losses on the scheme liabilities	**2,099**	(5,837)	2,666
Percentage of the present value of the scheme liabilities	**1%**	(4%)	2%
Total amount recognised in the STRGL	**(991)**	4,462	(28,190)
Percentage of the present value of the scheme liabilities	**(1%)**	3%	(20%)

The Directors have concluded that it is not practicable to allocate the assets and liabilities of the Group's defined benefit pension plan to the Company. Hence the transitional disclosures required under FRS17 are provided for the Group only.

32 Subsidiary undertakings

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2004 are set out below. All the companies operate within the United Kingdom and are registered in England and Wales.

Subsidiaries	Principal activity
Marshalls Group plc	Intermediate holding company.
Marshalls Mono Limited *	Concrete products manufacturer and quarry owner producing hydraulically pressed road kerb and paving, reconstructed stone walling, garden paving, block paving, drainage products, street furniture, crushed aggregates, roadstone and natural stone products. Extraction and sale of sand and gravel. Importation and distribution of stone products.
Marshalls Clay Products Limited *	Clay products manufacturer.
Stancliffe Stone Co. Limited *	Quarrying of stone and supply of walling, paving and masonry products.
Classical Flagstones Limited *	Manufacturer and supplier of concrete products for internal and external applications.
Compton Group Limited *	Manufacturer of concrete garages, workshops and sectional commercial buildings and timber and aluminium greenhouses.

* held by subsidiary undertaking

33 Post Balance Sheet Events

On 4 January 2005 the Group completed the unconditional sale of the entire issued share capital of Marshalls Clay Products Limited (the Clay Products Division) to Hanson PLC, for a cash consideration of £65.0 million including the repayment of all intergroup indebtedness.

Shareholder Information

Shareholder analysis at 31 December 2004

Size of Shareholding	*Number of Shareholders*	*%*	*Number of Ordinary Shares*	*%*
1 to 500	2,345	40.5	353,147	0.3
501 to 1,000	752	13.0	559,399	0.4
1,001 to 2,500	1,087	18.8	1,813,949	1.3
2,501 to 5,000	703	12.1	2,464,889	1.7
5,001 to 10,000	360	6.2	2,571,192	1.8
10,001 to 25,000	201	3.5	3,093,186	2.2
25,001 to 100,000	168	2.9	8,435,679	5.9
100,001 to 250,000	73	1.3	12,267,696	8.6
250,001 to 500,000	40	0.7	14,721,024	10.4
500,001 and above	61	1.0	95,633,152	67.4
	5,790	100.0	141,913,313	100.0

Base cost of Marshalls plc shares following the Scheme of Arrangement

For the purposes of UK taxation of chargeable gains, the base cost of Marshalls plc ordinary shares and B shares can be calculated by apportioning the base cost of the shares of the former Marshalls plc shares between the Marshalls plc ordinary shares and the B shares by reference to the market value of the Marshalls plc ordinary shares on the first day of dealings on 8 July 2004 which was 273.125p (the "quarter up value") and the nominal value of the B shares which is 45 pence.

Financial calendar

Preliminary Announcement of results for the year ended 31 December 2004	Announced	11 March 2005
Annual General Meeting		24 May 2005
Final dividend for the year ended 31 December 2004	Payable	8 July 2005
Interim results for the year ending 31 December 2005	Announcement	9 September 2005
Interim dividend for the year ending 31 December 2005	Payable	9 December 2005
Results for the year ending 31 December 2005	Announcement	Early March 2006

Registrars and general

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, telephone: 0870 702 0000, fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

Amalgamation of shareholdings

If you are receiving more than one copy of our Annual Report, this may be because you have several accounts on our Share Register. If you would like these accounts amalgamated, this can be done without charge if you write to the Registrar enclosing your Share Certificates.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society should contact the Registrar for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Website

The Group has an internet website which gives information on the Group, its products and provides details of significant Group announcements. The address is www.marshalls.co.uk

Financial History

	Year to December 2000 £'000	Year to December 2001 £'000	Year to December 2002 £'000	Year to December 2003 £'000	**Year to December 2004 £'000**
Turnover	298,179	328,036	342,056	349,481	**362,309**
Operating profit before operating exceptional costs and goodwill amortisation	43,782	48,865	51,519	54,558	**55,259**
Operating exceptional costs	(1,106)	(2,508)	-	-	**-**
Goodwill amortisation	(768)	(1,024)	(1,190)	(1,430)	**(1,724)**
Operating profit	41,908	45,333	50,329	53,128	**53,535**
Gain on disposals of property	2,720	321	-	-	**-**
Gain on disposal and termination of business	-	-	2,255	-	**-**
Profit on ordinary activities before interest	44,628	45,654	52,584	53,128	**53,535**
Interest (net)	(2,772)	(2,943)	(3,193)	(2,725)	**(5,132)**
Profit on ordinary activities before taxation	41,856	42,711	49,391	50,403	**48,403**
Taxation on profit on ordinary activities	(12,770)	(14,003)	(15,750)	(15,902)	**(15,102)**
Profit for the financial year	29,086	28,708	33,641	34,501	**33,301**
Preference dividends: Non equity shares	(2,359)	(174)	(137)	(54)	**(92)**
Profit attributable to ordinary shareholders	26,727	28,534	33,504	34,447	**33,209**
Ordinary dividends: Equity shares	(13,964)	(15,846)	(16,737)	(18,401)	**(16,882)**
Retained profit for financial year	12,763	12,688	16,767	16,046	**16,327**
Earnings per share:	p	p	p	p	**p**
Basic	18.91	17.11	20.05	20.61	**21.41p**
Diluted	18.89	17.10	20.02	20.58	**21.38p**
Adjusted basic*	16.73	17.58	19.41	21.46	**22.52p**
Dividends per share	9.00	9.50	10.00	11.00	**11.90p**

* Adjusted basic earnings per share are adjusted for goodwill amortisation, gain on disposals of property, exceptional gain on disposal and termination of business, the associated taxation, and the conversion of cumulative redeemable preference shares.

	£'000	£'000	£'000	£'000	**£'000**
Fixed assets	164,911	191,218	208,812	230,375	**257,471**
Net current assets	47,254	34,344	33,789	29,048	**16,897**
Total assets less current liabilities	212,165	225,562	242,601	259,423	**274,368**
Creditors due after more than one year	(21,344)	(20,007)	(20,003)	(20,000)	**(89,184)**
Provision for liabilities and charges	(17,340)	(18,843)	(19,852)	(21,275)	**(23,695)**
Net assets	173,481	186,712	202,746	218,148	**161,489**
Net borrowings	(8,842)	(12,862)	(17,895)	(13,243)	**(104,082)**
Gearing ratio	(5.1%)	(6.9%)	(8.8%)	(6.1%)	**(64.5%)**

As outlined in Note 1a in relation to the Scheme of Arrangement merger accounting has been adopted and accordingly the comparative figures have been restated.