ANNUAL REPORT 2003

Marshalls

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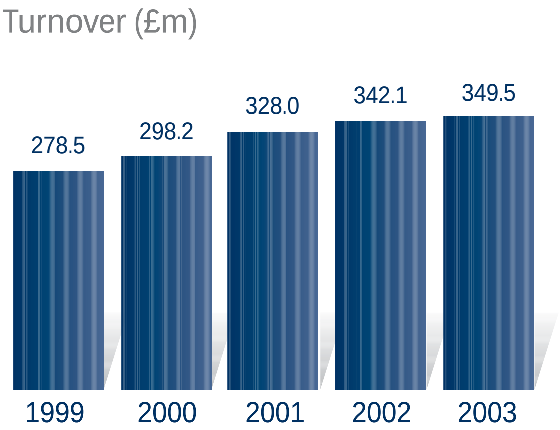
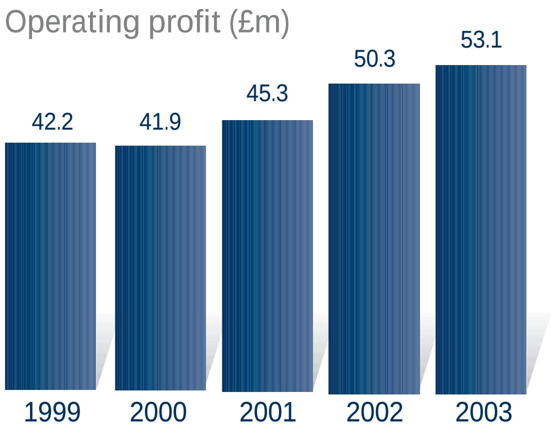
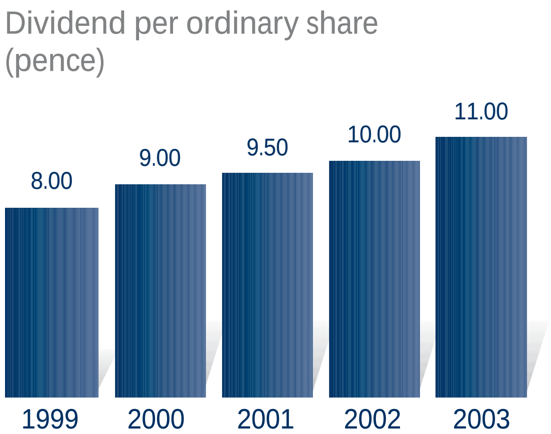
Granite Setts, Thames Embankment

Financial Highlights







Corporate Objectives

To supply our customers with the highest quality products and provide outstanding levels of sales and delivery service, incapable of being matched by our competitors, and thereby increasing our market share.

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

Cream Mix Smooth Brick, University Library, Coventry

Profile

Marshalls produces landscape, garden and patio products from concrete, clay and natural stone for domestic, commercial and public sector use.

The home improvement and home building markets are the largest users of the Group's products. Commercial and public sector applications include industrial, retail, new build projects and repair and maintenance.

Marshalls' customers are the large builders merchant groups, independent builders merchants, garden centres, contractors 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.

Tegula Cobbles, Traditional

CONTENTS

Yorkstone Paving, Trafalgar Square

Chairman's Statement

For the sixth year in a row, the Group has achieved record sales and profit before taxation. Turnover in the twelve months to 31 December 2003 increased by 2.2 per cent, to £349.5 million (2002: £342.1 million) and, on a like for like basis, this increase was 6.5%. Operating profit in the year increased by 5.6 per cent to £53.1 million (2002: £50.3 million) and on a like for like basis the growth was 7.1%. These like for like results exclude the Flooring business that was sold in November 2002 and the effect of two small acquisitions.

Group Overview

All Divisions produced good sales growth. Landscape Products increased by 6.8 per cent, Clay Products by 6.2 per cent, and Natural Stone, including acquisitions, by 14.3 per cent. In a low inflation environment this sales growth is very pleasing. Our improvement in profitability is underpinned by four things: a strong marketing and new product development programme; a commitment to the highest levels of customer service; a programme of capital investment which has amounted to over £100 million in the past three years; and a relentless drive to lower operating costs.

Landscape Products Division

The Division had sales of £288.8 million (2002: £270.4 million), an increase of 6.8 per cent over last year. Operating profit was £44.9 million (2002: £41.2 million), up 8.8 per cent.

Activity during the year was as strong in the commercial and public sectors as it was in the domestic business. Our network of Approved Installers enables us to maintain a close watch on order backlog. This information gives us confidence to believe that the outlook remains positive.

Haworth Moor Natural Sandstone, Huddersfield

Clay Products Division

The Division increased sales by 6.2 per cent to £32.1 million (2002: £30.3 million). Operating profit was £4.2 million (2002: £4.4 million).

After a poor start to 2003, which as we explained in our half-year statement was due to a shortage of supply of a certain raw material, sales in the second half were 8.7 per cent ahead of the second half of 2002. The underlying increase in operating profit has shown good progress in the second half of the year.

The outlook is encouraging with industry stocks at historically low levels and demand stronger than it has been for some years. We also believe we can achieve further improvements in our operating efficiency.

Natural Stone Division

Sales in the Division amounted to £28.5 million (2002: £25.0 million), 14.3 per cent ahead of 2002. These numbers include acquisition turnover that accounted for 11.3 per cent of this growth. Operating profit increased by 23.5 per cent to £4.1 million (2002: £3.3 million) of which 16.2 per cent arose from acquisitions.

The Division tends to be associated with high profile prestigious projects, most recently the pedestrianisation of Trafalgar Square, and the re-layout of the Somerset House courtyard. Currently, the Division is supplying products for Terminal 5 at Heathrow Airport. Other prestige schemes in towns and cities around the country are in the pipeline.

Rustic Paving, Arbroath Abbey

Rialta Sett Paving, Berwick-upon-Tweed

Balance Sheet

The Group balance sheet remains strong. Cash inflow from operating activities amounted to £81.3 million (2002: £54.6 million). Net borrowings at the year-end of £13.2 million (2002: £17.9 million) represent gearing of 6.1 per cent (2002: 8.8 per cent) despite capital expenditure of £40.8 million. Stock was reduced by £6.2 million in the year.

Dividend

The Board recommends a final dividend of 7.35p (2002: 6.70p) per ordinary share making a total of 11.00p (2002: 10.00p) for the year, an increase of 10.0 per cent compared with 2002. The dividend will be paid on 7 July 2004 to shareholders on the Register on 4 June 2004. The ex-dividend date will be 2 June 2004.

Improved Capital Structure / Return of Value to Shareholders

The Board of Marshalls intends, subject to the arrangement of appropriate debt financing and following approval by shareholders at a Court Meeting and an Extraordinary General Meeting which will both follow the Annual General Meeting set for 10 June 2004, to return in the order of £75 million to shareholders during the course of this summer.

It is envisaged that this return of value will be undertaken through the creation of redeemable B shares (and the subsequent redemption thereof) and will be achieved through the introduction of a new holding company for the Group via a court-approved scheme of arrangement and a subsequent reduction of capital, thereby creating additional distributable reserves for the Group.

This return of value will enable Marshalls to create a more efficient capital structure, whilst also providing it with sufficient financial flexibility to take advantage of future investment opportunities.

Management

As previously announced, Graham Holden, Chief Executive of the Landscape Products Division since November 2000, has become Group Chief Executive with effect from 1 January 2004. David Sarti, who was Operations Director of that Division, has been appointed Managing Director of Marshalls Landscape Products.

John Marshall, Deputy Chairman, who has worked at Marshalls for more than forty years, and been a member of the Board since 1972, has indicated that he would like to retire at the Annual General Meeting. This is slightly ahead of what would have been his expected retirement date, but the Board has accepted his decision.

He has made a very valuable contribution to the business over the years, especially through his unique knowledge of all our production facilities. He will be missed by everybody at Marshalls from the shop floor to his Board colleagues. He will also be remembered with affection by his many friends in the Industry both in the UK and other parts of the world.

I would like personally to record my appreciation for the loyal support, help and encouragement he has given me during my time as Chairman.

During the second half of the year, there was a complete change in Non Executive Directors with the appointment of Andrew Allner and Richard Scholes. In the light of these recent Board changes, the Board has now started the process of finding a new Chairman. This follows my decision to step down as Chairman at the conclusion of the Annual General Meeting.

I would like to thank my fellow Directors, the management team and all employees throughout the Group for their excellent contribution towards achieving another record result in 2003.

Christopher Burnett
Chairman

Drivesett Tegula Circle

Chief Executive's Review

All three Divisions made progress in 2003 and contributed to the Group achieving a profit before tax of more than £50 million for the first time. This was made possible largely through the hard work and dedication of our managers and employees in delivering our business plans. I would like to express my sincere thanks to them all. The paragraphs that follow give some insight into how this result was achieved.

Landscape Products Division

Sales in 2003 were £288.8 million (2002: £270.4 million) an increase of 6.8 per cent over last year. Operating profit rose by 8.8 per cent to £44.9 million (2002: £41.2 million).

Domestic Market

The domestic market for landscape products continued to grow in 2003. Sales increased by 7 per cent. The results were helped by increased marketing. For the first time we sponsored the lunchtime television slot on UK Style, a satellite channel focussed on gardening programmes. This and other promotional expenditure, designed to grow the market, improve brand awareness and create leads for installers who are members of the Marshalls Register worked very successfully. A total of 200,000 telephone and web based enquiries were generated during the year for the Marshalls Register members. Consumer brand awareness increased substantially. To build on this success TV sponsorship has been renewed for 2004.

Driveline Elite, Heather

Woodstone Diagonal Decking, Light Oak

The objective of our marketing is also to ensure that consumers are aware of the full range of products Marshalls has available to transform gardens and driveways. Our market research confirms a hunger for new products that are aesthetically different in terms of colour, shape, size and finish. We therefore continue to invest in product innovation to satisfy this demand. An example would be our Woodstone range introduced in 2003 which we will add to in 2004.

The Marshalls Register of approved installers, created to guarantee quality of installation, and therefore provide peace of mind for the home owner, is now in its fourth year of existence. During 2003 the number of installers on the Register increased by 11 per cent.

During the year we began working with a number of the major housebuilders to offer buyers the option of a Marshalls designed garden as part of the package. The offer includes our normal ten year guarantee, because the installation is carried out by members of the Register. The scheme is in its early stages but initial response is very encouraging.

La Linia, Light Granite

Commercial and Public Sector Market

Sales to the commercial and public sector market for landscape products grew by 7 per cent in 2003. In this important part of our business we have been working with architects and others to develop new products and product solutions.

During 2003 we launched a new range of paving offering exciting shapes and colours to allow much more scope for freedom of expression by architects in the design and layout of the landscape surrounding commercial and public sector building projects. Also, after extensive market research, we have carried this idea through to the creation of co-ordinated product solutions focussed on different types of landscape projects like schools, hospitals, offices and retail.

In addition we provide high quality technical advice and support from the conceptual stage of a project through to final installation. We have recently developed a patented method for producing our commercial block paving in a packaged format suitable for immediate machine laying in large commercial projects. This significantly speeds up installation and reduces the amount of manpower needed.

Manufacturing and Distribution

The operating strategy of the Division which we have continued to refine, combines regional manufacturing and distribution sites with national manufacturing works, that 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.

The Service Centres give Marshalls a major competitive advantage by being close to market. This will be even more significant when in 2005 the Working Time Directive is introduced in the haulage industry, predicted to increase distribution costs by an estimated 15 per cent.

During 2003 the Division spent £36 million on capital expenditure. There were two large projects carried out besides normal replacement and efficiency improvements.

The first major project involved the rebuilding and expansion of the Service Centre at Maltby, South Yorkshire. Some existing product capacity was replaced with more up to date equipment, and additional capacity added to enable other products to be made in the Region to make it self sufficient. The first phase of the project is operational. The remaining capacity is due to be commissioned in April 2004.

The second major project was for an additional production facility at Sandy, Bedfordshire, one of the National Manufacturing sites. The new facility includes plant to produce the two new product families referred to earlier, the new colours and shapes in concrete block paving, and the special packs of concrete block paving suitable for being laid by machine.

The remaining expenditure was for smaller productivity improvement schemes with a rapid payback, essential health and safety expenditure and replacement of worn out assets.

Stocks

Finished goods stock levels have been reduced by £5 million during 2003. This was achieved without reducing manufacturing efficiencies and allowing the maintenance of a stable employment pattern. Numbers employed, were therefore constant throughout the year. Production levels have now been increased, helped by further productivity gains from the investment we have made. Sophisticated production scheduling software being introduced during 2004, once fully implemented, will allow us to reduce stock levels still further.

Outlook

In the domestic sector, Register members ended the year with forward order books averaging 10 weeks. This is similar to the position at the start of 2003, and gives us confidence in terms of future demand as we enter 2004.

The forecast for new work from the Construction Products Association based on an interpretation of current Government, Local Authority and private spending plans shows continuing growth in new work over the next three years. Our on-going focus on the introduction of new product solutions resulting in improved product mix gives us confidence in our ability to deliver further growth this year in commercial and public sector sales.

New Fleet Vehicles

Cambridge Burwell White Brick, Thames Valley

Clay Products Division

Sales amounted to £32.1 million (2002: £30.3 million) an increase of 6.2 per cent. Operating profit at £4.2 million was £0.2 million below last year. This result has to be viewed against the background that, at the end of the first half, operating profit was 26.1 per cent lower than 2002.

At the half year profits were lower due mainly to a raw material supply problem at one of the brick production sites. The problem was overcome and together with the many profit improvement projects we have underway, almost all the lost ground was made up. Profits in the second half were significantly ahead of last year.

Finished goods stocks were down by 38 per cent to the lowest level since the early 1990's. The business generated net cash of £7.7 million in 2003. We have for some time been promising shareholders an improved performance from the Division in line with the standards we have achieved in the other parts of the Group. Under a new Managing Director the results are now starting to be delivered.

Outlook

The market for bricks was 4.4 per cent ahead in 2003. Industry stocks ended the year at historically low levels. Market conditions are therefore more favourable than for some time. Our business is well placed to take advantage of these improved trading conditions. With firmer prices in the market, together with further improvements in operating efficiency, we expect to show further positive progress in 2004.

Natural Stone Division

Sales at £28.5 million (2002: £25.0 million) were 14.3 per cent ahead of last year, helped by the acquisition of a sand and gravel business made just before last year end. Operating profit of £4.1 million (2002: £3.3 million) was 23.5 per cent up on last year, and 7.3 per cent ahead on a like for like basis.

A number of prestigious projects were completed during the year. These included the further pedestrianisation of Trafalgar Square. We commenced supply for the perimeter roads at Terminal 5 at Heathrow and, during 2004, will supply product for Liverpool Package X and Spitalfields in London.

We continued to invest in machinery to increase productivity throughout the business. Further benefits will result from this investment in 2004.

We have identified further stone reserves that we own for paving and aggregates. These will be developed progressively to provide additional revenue streams during 2004.

Outlook

The expansion of Natural Stone since its establishment as a separate Division has been rapid. With the investment we are making in equipment and the development of additional reserves we expect the growth to continue.

Granite Bespoke Masonry, City Square, Leeds

Group Outlook

The progress that has been made in all three Divisions during 2003, and the plans that have been outlined above for 2004 should reassure shareholders that the Group is in a strong position to meet the challenges we face. It should also be clear that we are strongly committed to maintain the market leadership and profit growth we have achieved in recent years.

Graham Holden
Chief Executive

Financial Review

Marshalls achieved another record year in 2003 with profits attributable to ordinary shareholders of £34.4 million which represents an increase of 10.2 per cent over the previous year after excluding the 2002 gain on the disposal of the Flooring business. Dividends to ordinary shareholders, combining both paid and proposed, at 11.00p per share have increased by 10.0 per cent. The key financial highlights are summarised below.

Group Results

Turnover achieved a record £349.5 million (2002: £342.1 million). Excluding the turnover of our Flooring business that was sold in November 2002, this represents an increase of 7.3 per cent over the prior year.

Operating profit, excluding the Flooring business, was 8.6% ahead of the prior year.

Operating profit is after charging goodwill amortisation of £1.4 million (2002: £1.2 million). In November 2002 the Flooring business was sold and the operating profit of that business was £1.4 million in that year. In addition, in 2002, a gain on disposal of £2.3 million was disclosed as a non-operating exceptional gain.

Net interest costs at £2.7 million (2002: £3.2 million), including £2.3 million (2002: £2.3 million) relating to interest on the £20 million fixed rate debenture, have reduced and are covered 19.5 times (2002: 16.5 times).

Profit on ordinary activities before taxation was £50.4 million (2002: £49.4 million) and, after excluding the operating profit and gain on disposal of the Flooring business, represents an increase of 10.3 per cent.

Taxation

The current taxation charge for 2003 was £14.5 million (2002: £14.8 million) an effective tax rate of 28.7 per cent (2002: 29.9 per cent). The total charge for the year of £15.9 million (2002: £15.8 million) includes a deferred tax charge of £1.4 million (2002: £1.0 million).

Preference Dividends

The 1.1 million cumulative redeemable preference shares of 20p each were redeemed at £1 each on 1 October 2003. Prior to redemption, preference dividends amounting to £0.1 million were paid in the year.

Ordinary Dividends

An interim dividend of 3.65p (2002: 3.30p) per share was paid on 8 December 2003. A final dividend of 7.35p (2002: 6.70p) per share is now being recommended for payment on 7 July 2004. This gives a total of 11.00p (2002: 10.00p) per share for the year, an increase of 10.0 per cent over 2002. Dividend is covered 1.9 times (2002: 2.0 times).

Earnings per Share

The calculations of the basic, diluted and adjusted basic earnings per share are set out in Note 10 to the Financial Statements in accordance with FRS14. The basic earnings per share amounts to 20.61p (2002: 20.05p) an increase of 2.8 per cent.

Adjusted basic earnings per share, prepared in order to show the underlying performance of the business, increased by 10.6 per cent to 21.46p (2002: 19.41p).

Balance Sheet

The balance sheet continues to be strengthened with net assets increasing to £218.1 million (2002: £202.7 million). Net assets at the year end amount to £1.30 per share (2002: £1.21 per share).

Cash Flow and Borrowings

Cash inflow from operating activities was significantly above the prior year at £81.3 million (2002: £54.6 million). This improvement was achieved primarily as a result of the higher operating profit and improved working capital management, in particular stocks. In the year stock levels were significantly reduced particularly in the Landscape Products and Clay Products Divisions. The cash inflow from stocks in 2003 amounted to £6.7 million compared with an outflow in 2002 of £9.7 million representing a turnaround improvement in the cash inflow from operating activities of £16.4 million.

The Group ended the year with net borrowings of £13.2 million (2002: £17.9 million). Details of the cash movements are included in the Cash Flow Statement on page 38. Gearing at the year end is reduced to 6.1 per cent (2002: 8.8 per cent).

The Group has a Multi-Line Facility with The Royal Bank of Scotland. This provides for an additional facility between February and July to meet the seasonal working capital requirements of the business. The facility is unsecured subject to a composite cross guarantee given by Marshalls plc and certain subsidiary undertakings. The facility incurs 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 50.

Capital Expenditure

Capital expenditure in the year was £40.8 million (2002: £36.5 million). This brings the capital investment in the last three years to over £100 million. During the year, capital has been invested in plant to support new product innovations and in improving our Regional Service Centre structure. These investments demonstrate our commitment to remaining at the forefront of new product development and improvements in overall business efficiency.

Acquisitions

On 14 March 2003 the Group acquired Stone Shippers Limited for a consideration of £1 million. The Company is engaged in the importation and distribution of stone products.

Post Balance Sheet Event

On 30 January 2004 the Group acquired The Great British Bollard Company Limited for a consideration of £510,000. The company manufactures street furniture products and will join our Landscape Products Division.

Accounting Standards

The financial statements have been prepared on the basis of the accounting policies set out on pages 40 to 42.

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", it has also followed the transitional arrangements of FRS17 and additional disclosure requirements in respect of retirement benefits have been set out in note 31 on pages 59 to 62.

All European Union Listed Groups are required to adopt International Accounting Standards (IAS) for their financial statements from 2005, which will include comparative information for 2004. The Group is currently undertaking a detailed review of the impact of IAS on its published financial statements.

These standards are themselves evolving and undergoing improvement. Our ongoing review has to date identified that the principal areas affected are likely to be pension accounting (IAS19), non-amortisation of goodwill (ED3) and the timing of dividend recognition (IAS1). In addition the adoption of IAS 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 derivative transactions, principally forward foreign currency contracts of relatively small value. The purpose of such transactions is to manage the currency risks arising from the Group's operations.

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 51 to 53 of the Financial Statements. These policies have remained unchanged since 2002.

Insurance

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.

La Linia, Granite

Improved Capital Structure / Return of Value to Shareholders

As outlined in the Chairman's Statement on page 7, the Board has announced that it intends to return around £75 million to shareholders during the course of the summer. This will require the arrangement of appropriate debt finance and the approval of shareholders at the Court Meeting of Shareholders and Extraordinary General Meeting.

The court approved scheme of arrangement and reduction of capital will create a more efficient capital structure. This will also leave the Group well placed to take advantage of future investment opportunities.

Total Shareholder Return

At 1 January 1999 the ordinary share price was 133p per share. By 31 December 2003 this had improved to 251p per share. When dividends are included this gives a total shareholder return of 131 per cent over a 5 year performance period. This is illustrated in the Performance graph on page 31 where the total shareholder return of Marshalls plc is compared to that of the FTSE 350 Construction and Building Materials Sector Index over the last 5 years.

Ian Burrell
Finance Director

Directors Biographical Notes

Christopher Burnett (62)

Chairman. Joined the Board in 1993. He became Non-Executive Chairman in November 1997 and was Executive Chairman from 1999 until 31 December 2003.

John Marshall (59)

Executive Director and Deputy Chairman. Joined the Company in 1963. A Board member since 1972.

Graham Holden (44)

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 (46)

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.

Richard Scholes (58) *†

Senior Non-Executive Director and Chairman of the Audit Committee. He was appointed to the Board on 23 July 2003. He is a Non-Executive Director and Chairman of the Audit Committee 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 (50) *†

Non-Executive Director and Chairman of the Remuneration Committee. He was appointed to the Board on 23 July 2003. He is 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.

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

Advisers

Stockbrokers

HSBC Investment Bank Plc

Auditors

KPMG Audit Plc

Legal Advisers

Herbert Smith
Eversheds

Financial Advisers

N M Rothschild & Sons Limited

Bankers

Royal Bank of Scotland plc

Registrars

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Registered in England and Wales: No. 481574

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

Hazard Warning Paving, City Stadium, Manchester

Health and Safety

The continuing improvement of health and safety performance is a key priority. We are now into the seventh year of formal Health and Safety improvement plans. Over the course of the last two years over 90% 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 2004 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 concerns a recent Improvement Notice issued by the HSE at one of the factories in the Clay Products Division. Due to the failure to meet the deadline agreed between the HSE and the Clay Products Division the HSE commenced a personal prosecution against the Group Chairman, Mr C.T. Burnett. He has denied liability and the matter is on-going. The conditions of the Improvement Notice, which are related to the installation of dust extraction equipment, have now been met.

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

38.8 per 1,000 employees in 2002 to 34.6 per 1,000 employees in 2003. Our target is to reduce further RIDDOR injuries by 10 per cent in 2004.

Accidents and Incidents (rate per 1,000 employees)	**2003**	2002
Major injury	**3.8**	4.5
Injury resulting in over 3 days absence from work	**30.8**	34.3
All RIDDORS	**34.6**	38.8
Total UK headcount	**3,088**	3,369

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.

The Group recognises that its reputation is very dependent on the quality, effectiveness and skill base of its employees.

There is a commitment at Board level to ensure that its employees and management are properly inducted into the Company and given the necessary training to fulfil their roles and to develop their full capabilities. With ever increasing customer demands, particular emphasis is placed on customer service and interpersonal skills. The Group's investment in management development continued to increase during the year and programmes are in place with the principal aims of ensuring consistent standards of management practice across the Group, nurturing new potential and ensuring succession to senior appointments. Electronic communication in general has resulted in a massive reduction in internal paperwork throughout the Group.

Natural Granite Paving

Arrangements exist to keep all employees informed of matters of concern to them through a variety of media including the Group's intranet, newsletters and meetings.

Employees are encouraged to become shareholders in the Company and the Group operates a Save As You Earn Scheme.

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 £15,098 (2002 : £26,410). It is the Group's policy not to make political donations and no political donations were made in the year (2002 : £Nil).

Environmental Statement

Board Responsibility

The Deputy Chairman, Mr J D Marshall, is the Board Director responsible for the Environmental performance of the Group.

Environmental Policy

The Group's Environmental Policy was revised in July 2003. 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 requirements, and to set objectives and targets to improve its impacts in key 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

During the year, the focus has been on the introduction of Integrated Management Systems (IMS), combining BS EN ISO 14001 (Environment), OHSAS 18001 (Health & Safety), and BS EN ISO 9001 – 2000 (Quality).

Six sites in the Landscape Products Division and one site in the Natural Stone Division received accreditation to the Standards forming an IMS through BSI during 2003. The roll-out programme for the introduction of IMS at all thirty-three of the Group sites will continue during 2004 with seven Landscape Products Division sites, one Clay Products Division site and four Natural Stone Division sites programmed to receive accreditation during the year. It is also intended to put in place an IMS at the Group Laboratory. The roll-out programme extends to the second quarter of 2006.

The Group has identified the significant environmental impact of its operations, which are summarised below:-

Energy

The Group has now monitored its energy consumption for its main operations since January 2000.

The environmental impact of energy consumption within the Group is monitored by two KPI's which are: Kilowatt hours consumed per production tonne and Kilograms of CO_2 produced per production tonne. The number of Kilowatt hours consumed per production tonne has reduced slightly since January 2002, and is sensitive to levels of production. More efficient production has emphasised the importance of investigation into the base load at each of the manufacturing units and further energy monitoring is being introduced.

Kilograms of CO_2 per tonne produced also reflects cyclical variations due to production levels, but since 2002 the volume of CO_2 produced per production tonne has shown improvement, although again further energy monitoring and improvement measures are being introduced.

Climate Change Levy

The second target period for the Climate Change Levy for the Clay Products Division commenced on 1 October 2003. The Group is confident that the target set will be met. The Clay Products Division is also preparing for the implementation of the European Emissions Trading Scheme, due to start on 1 January 2005.

Water Use

Considerable progress was made during 2003 in introducing improved drainage and better water recycling facilities throughout the Group. Not only has this reduced the amount of water being discharged from the sites, but has reduced the overall consumption of water from mains supply and bore holes. Particular improvements have been made at the West Lane and Brookfoot sites and further work is continuing at the Llay, Cannock and Maltby sites. The recycling of fresh waste concrete has been introduced at the West Lane Production Unit.

The Group KPI for annual water usage measures the cubic metres of water obtained from either the mains supply or from bore holes. During 2003, increased recycling of water led to a reduction of over 15% in the amount of mains supply and bore hole water purchased by the Group.

The Group monitors discharged water on a monthly basis at all the sites producing precast concrete products, and on a quarterly basis at the Clay Products Division sites. The monitoring demonstrated that discharges at our West Lane and Brookfoot sites were likely to exceed the revised discharge consents proposed by the Environment Agency. There was a short period of time when the water being discharged exceeded the revised limit set by the Environment Agency and action was taken by the Group to address the problem. Confirmation has now been received from the Environment Agency that both Production Units are fully compliant with the revised limits and in fact are exceeding the Environment Agency requirements. The majority of process water used by both sites is now treated and recycled back into production.

Transport

During the year the Group has invested heavily in new vehicles for its transport fleet and now all heavy goods vehicles are compliant to "Euro three" Enhanced Environmental Performance. The new vehicles allow a further five tonne pay load reducing the number of journeys required. New computer software will allow more efficient planning and reduce empty vehicle running by up to 50%.

The Group continues to develop alternative transportation links for incoming aggregates in co-operation with its suppliers. A major rail project is under review and transportation by waterways could still prove a viable option for two of the Landscape Products Division sites.

Waste Reduction

Further progress has been made in reducing waste from the manufacturing process. Recycling of waste product is now the norm at all sites, with the recycled material being incorporated back into the production process. The introduction of new European Standards for the majority of Group products allows greater flexibility in the use of the recycled materials for aggregates.

In the Landscape Products Division, waste material from other industries is being recycled as an aggregate replacement where it does not affect product quality. Materials utilised include increased quantities of china clay waste and steel slag waste.

Sustainable Urban Drainage Systems

Packaging

During 2003 there has been a rationalisation in the use of timber pallets that has reduced the number of designs by 39%. The designs have been modified to reduce timber content. Where possible pallets returned by customers are repaired. Those beyond repair are chipped.

There have been further reductions in the use of polyethylene for packaging, with all polyethylene being removed from kerb product during 2003. Trials with thinner film gauges are ongoing. Improved facilities for the recycling of polyethylene, including dirty polyethylene have been introduced.

The use of stretch film to replace polyethylene has continued during 2003. This has the benefit of no heat being required to shrink the packaging to the product.

Packaging waste obligations are met through Valpak's compliance scheme. An audit by the Environment Agency in 2004 confirmed that Marshalls data capture was satisfactory.

Land Management

The Group continues to develop Brownfield sites. During 2003 a new Head Office for the Landscape Products Division was completed on a former coal fired power station site.

A new manufacturing unit for concrete paving blocks was built at the Maltby site within the confines of the existing site boundary and at the Sandy site a new Concrete Block Paving Plant was installed after purchase of the adjoining industrial site. At Stonemarket an adjoining office block was refurbished for use by the Company. No development took place on any greenfield site.

One of our subsidiary companies is currently applying to re-work a quarry in Derbyshire to secure dimensional stone for restoration, heritage and new build projects. The development programme, which is being undertaken in consultation with the relevant authorities, is currently addressing some local issues which have been raised. Careful consideration is always given to the environmental impact of all our quarry development and site restoration projects.

An existing Natural Stone Quarry at Cross Platts was restored by the use of quarry waste taken from an adjoining manufacturing site and once the fill has settled the land will be restored for agricultural use. The landfill site at Howley Park has now been sealed and restored for agricultural use.

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 a 100 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 dry laid product or can be crushed as a secondary aggregate.

The Group has made application to the Building Research Establishment to develop environmental profiles for products in each of its main manufacturing areas.

Sustainability

The Group continues to have a major input into the sustainable strategies being developed by trade organisations. Following the publication of the Brick Industry Sustainability Strategy in 2002, the British Precast Concrete Federation is developing its own strategy with a strong contribution from Marshalls.

Suppliers and Contractors

The Group has increased its supplier audits, which includes the environmental aspects of their operations. The Group's major suppliers have all developed, or are developing Environmental Management Systems and many of the smaller suppliers have followed this lead. Environmental Management is one of the criteria considered when examining a supplier's qualifications for Group orders.

Wildlife Trust

Marshalls strives to conserve natural habitats and create additional areas of wildlife value where possible.

The Group encourages its manufacturing sites to join local Wildlife Trusts as part of its conservation policy. Such links also improve relationships with local communities.

Environmental Awareness and Training

As part of its ongoing commitment to environmental improvement, the Group is introducing further training for its regional employees to ensure greater development of local initiatives.

Environmental Awareness continues to be improved within the Group with continued emphasis on developing dialogue on environmental matters, with its customers, suppliers and other stakeholders.

Environmental Key Performance Indicators

The Group has aligned its Environmental Key Performance Indicators with those being developed by the Construction Products Association. Databases have been established for the following areas:

- Energy consumption;
- Identifying energy from renewable and alternative sources;
- Water usage;
- Identifying the percentage of recyclable water;
- Transport movements;
- Waste reduction;
- Re-use of waste by recycling in-house and externally; and
- Packaging management and the use of recycled material in packaging.

Pollution, Prevention and Control

The Group has completed the A2 applications required under PPC legislation for its four Clay Products Division sites. There has been close co-operation with the relevant Local Authorities during the preparation of these applications.

In the Landscape Products and Natural Stone Divisions, the majority of sites will fall into the Category B Classification, although there are ongoing discussions regarding sites where the increasing recycling of water could lead to a requirement for applications to be upgraded to A1 Classification.

Awards

During the year, the Sandy Works of the Landscape Products Division received a Green Apple Award for the development and promotion of Environmental Best Practice. The Award is presented by the Royal Society of Arts. The Group also received a highly commended recommendation in the British Precast Environmental Award for 2003 for the development of water recycling and fresh waste concrete recycling at its West Lane Works.

Directors' Report

The Directors have pleasure in submitting their Report and Financial Statements for the year ended 31 December 2003.

Principal Activities and Business Review

The principal activities of the Group are the manufacture and supply of specialist landscape, clay and natural stone products. Further details of the principal activities of the Group are set out in Note 32 on page 62.

The Chairman's Statement on pages 5 to 7 and the Chief Executive and Financial Reviews on pages 8 to 16 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 page 19.

Details of the Group's policies in relation to Corporate Governance are disclosed on pages 26 to 28.

Group Results

The consolidated profit and loss account for the year ended 31 December 2003 is shown on page 36. A segmental analysis of the operating profit by activity is shown in Note 2 to the Financial Statements.

Dividends

The Board is recommending a final dividend of 7.35p per share (2002: 6.70p) which, together with the interim dividend of 3.65p (2002: 3.30p) per share, makes a total for the year ended 31 December 2003 of 11.00p (2002 : 10.00p) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 7 July 2004 to shareholders registered at the close of business on 4 June 2004.

Share Capital

Details of the share capital and allotments during the year, which arose solely from the exercise of options, are set out in Note 21 on pages 54 to 55. Details of outstanding options under Employee and Executive Share Schemes are set out in Note 21 on page 55. As outlined in the Financial Review on page 14, the cumulative redeemable preference shares were cancelled and repaid during the year.

Acquisitions

On 14 March 2003, the Group acquired Stone Shippers Limited, a company engaged in the importation and distribution of stone products.

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 2003 was 47 days (2002 : 46 days).

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.

Directors

The names of the Directors as at the date of this report together with biographical details are set out on page 17.

Mr M.A. Stacey resigned as a Director on 6 January 2003. In accordance with the Articles of Association, Mr J.W. Footman retired by rotation at the Annual General Meeting and he did not seek re-election. Mr R.A. Barfield resigned on 13 June 2003.

Mr A.J. Allner and Mr R.T. Scholes were both appointed as Directors on 23 July 2003 and in accordance with the Articles of Association offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with the Articles of Association, Mr C.T. Burnett retires by rotation at the forthcoming Annual General Meeting. Mr C.T. Burnett is not seeking re-election and will retire as Director and Chairman at the conclusion of the Annual General Meeting.

Full details of Directors' remuneration, interests in the share capital of the Company and of their share options are set out on pages 29 to 34 in the Directors' Remuneration Report.

Substantial Shareholdings

As at 5 March 2004, 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.	5.03
Aviva plc	4.72
Threadneedle Asset Management Limited	3.27
Legal and General Group plc	3.09

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 Thursday 10 June 2004, together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Report.

A Court Meeting of Shareholders and an Extraordinary General Meeting will also take place on 10 June 2004 in relation to the scheme of arrangement referred to in the Chairman's Statement on page 7.

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
5 March 2004

Corporate Governance

Compliance

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 14 Principles of Good Governance and Code of Best Practice (the "Combined Code"), which are incorporated into the United Kingdom Listing Authority Listing Rules, throughout the year ended 31 December 2003.

Due to the timing of the changes of the Directors, the Company has not complied throughout the whole of the year with all of the provisions of the Combined Code.

The Combined Code requires the role of the Chairman and Chief Executive to be separated. Throughout 2003, the Group had an Executive Chairman and a Divisional Chief Executive for the Landscape Products Division which represents over 80 per cent of Group turnover. As announced in March 2003, with effect from 1 January 2004, Mr D.G. Holden was appointed Chief Executive and from that date there is clear separation of the roles of Chairman and Chief Executive.

For the period 13 June 2003 to 23 July 2003 there were no Non-Executive Directors. The Company was, therefore, not compliant with the provision that Non-Executive Directors should comprise not less than one third of the Board nor with the provision requiring there to be an identified Senior Independent Non-Executive Director. The whole of the Board acted as the Nominations Committee thus making the Company non-compliant throughout the year with the provision requiring a majority of Non-Executive Directors. During the period from 13 June 2003 to 23 July 2003, when the Company had no Non-Executive Directors, it was unable to comply with the provision requiring that the Remuneration Committee comprise only Non-Executive Directors and similarly for the period from 7 January 2003 to 31 December 2003 the Company was unable to comply with the provision requiring an Audit Committee of at least three Directors all of whom should be Non-Executive.

The paragraphs below, together with the report on Directors' Remuneration set out on pages 29 to 34, 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 17.

For the year ended 31 December 2003, the Board comprised four Executive Directors throughout the year. There were a number of changes amongst the Non-Executive Directors which are noted below. Mr M.A. Stacey resigned as a Director on 6 January 2003. In accordance with the Articles of Association, Mr J.W. Footman retired by rotation at the Annual General Meeting and he did not seek re-election. Mr R.A. Barfield resigned on 13 June 2003. Each were members of both the Audit Committee and the Remuneration Committee during the period of their office. Mr A.J. Allner and Mr R.T. Scholes were appointed as Non-Executive Directors on 23 July 2003 and became members of both the Audit Committee and Remuneration Committee. They have remained members of each for the remainder of the year ended 31 December 2003.

All the Non-Executive Directors who served during the year are considered to be independent within the meaning of Provision A.3.2 of the Combined Code and represent a source of strong, independent advice and judgement. The Senior Independent Director was Mr J.W. Footman from 1 January 2003 until 28 May 2003 and Mr R.T. Scholes from 23 July 2003. There was no Senior Independent Director between 28 May 2003 and 23 July 2003.

From 1 January 2004, the Board comprised a Non-Executive Chairman, Deputy Chairman, Chief Executive, Finance Director and two independent Non-Executive Directors. The Board believes that this structure is appropriate for Marshalls at this time. The separation of the roles of Chairman and Chief Executive has taken place as noted on the previous page.

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.

The Board 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 Group is centralised in its management, decision making and financial control. The Board, at its meetings, reviews the financial results of all Group companies. A detailed annual budget and business plan is prepared for each operation in conjunction with local management. These are then compared in full detail with the monthly management accounts. Executive Directors are required to comment on all 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 is comprised of Mr R.T. Scholes and Mr A.J. Allner, both independent Non-Executive Directors. It was chaired from 23 July 2003 by Mr R.T. Scholes having previously been chaired by Mr R.A. Barfield up to 13 June 2003.

The Board have agreed new Terms of Reference for the Audit Committee and these are consistent with current best practice.

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 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 a number of 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.

Remuneration Committee

The Remuneration Committee is comprised only of independent Non-Executive Directors, Mr A.J. Allner and Mr R.T. Scholes, and meets at least twice a year. It was chaired by Mr A.J. Allner from 23 July 2003 having been chaired by Mr J.W. Footman until 28 May 2003.

The Board have agreed new Terms of Reference for the Remuneration Committee and these are consistent with current best practice.

The report on Directors' Remuneration is set out on pages 29 to 34.

Nomination Committee

The Nomination Committee is responsible for considering the appointment of Non-Executive and Executive Directors. The Nomination Committee in 2003 comprised all the members of the Board. From 1 January 2004 the Nomination Committee comprised Mr A.J. Allner and Mr R.T. Scholes who are the two independent Non-Executive Directors. The Nomination Committee present their recommendations to the Board. The appointment of Directors is made by the Board through a formal process.

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 2003 and up to the date of this report.

The Risk Committee comprises Mr C.T. Burnett, Mr D.G. Holden and Mr I.D. Burrell. It is chaired by Mr C.T. Burnett. 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 quarterly 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 Risk 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 2003 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 32.

The Remuneration Committee is composed of Mr A.J. Allner and Mr R.T. Scholes both of whom are independent Non-Executive Directors. 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. 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 advised by independent consultants and uses data from external research into the salaries and benefits paid by companies of a similar size and business. During the year, the Committee received salary and Annual Bonus Scheme survey information from a number of external advisers including New Bridge Street Consultants. The Committee is advised internally by the Chairman on salary and incentive packages other than his own. In reviewing Executive Directors' salaries, consideration is given to the levels of increase granted to other employees within the Group and the Committee reviews and notes the total individual remuneration packages of each of the other Senior Executives. Basic salaries are reviewed annually or when a change of responsibility occurs.

Service Contracts

The Chairman, at his insistence, did not have a service contract whilst Executive Chairman. The other 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. The 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.

Annual Performance Bonus

Executive Directors have the opportunity to receive an annual performance bonus if challenging Group and individual Divisional operating profit targets are met. There is a threshold performance level below which no bonus is paid. The Committee resets these targets each financial year and payments are only made based on performance which results in significant benefits for shareholders. The maximum bonus for 2003 was 50 per cent of base salary. Bonus payments do not form part of salary for pension purposes.

Long Term Incentive Plan

A long term incentive plan ("the Plan") was introduced in 1998 for the Executive Directors (except the Chairman). It is 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 is based on share, rather than cash, benefits. No awards under the Plan are pensionable.

Each year, subject to the approval of the Remuneration Committee, a conditional award is made and performance measures are set and a three year qualification period then commences. For the 1999 and 2000 awards, the three year performance target set was Marshalls' total shareholder return (share value growth assuming re-investment of gross dividends) over the period measured against a comparator group of companies from the original Building Materials Sector with market capitalisations of £50 million and above. For the 2001, 2002 and 2003 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, 50.0 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 1999, 2000, 2001, 2002 and 2003 awards, it was 50.0 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 1999, 2000, 2001, 2002 and 2003 awards is 280p, 380p, 380p, 435p and 420p respectively, the Executive Directors receive twice the allotted shares.

For the 2001 plan, the Company's total shareholder return was ranked at the 4th quartile in the comparator group. This will mean that no awards will vest for that year.

Pensions

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

The Chairman, Mr C.T. Burnett, has become a member of the Group's Defined Contribution Pension Scheme for the purposes of receiving a pension contribution by way of a bonus sacrifice of the bonus disclosed in the table on page 32.

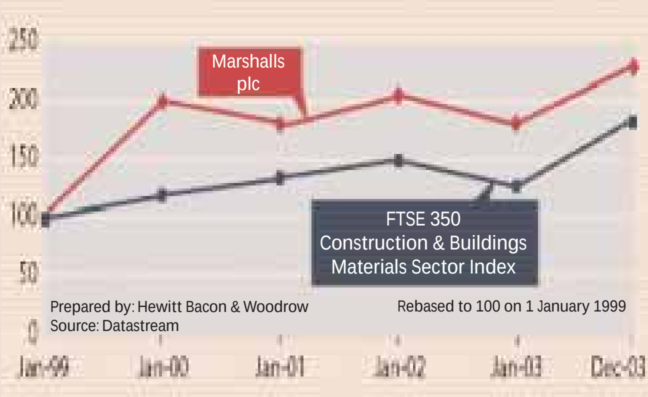
The Finance Director, Mr I.D. Burrell, is a member of the Group's Defined Contribution Pension Scheme. The Company makes a contribution of 11 per cent of Mr Burrell's base salary and he is required to make a minimum contribution of 3 per cent of his base salary on an amount up to the level of the earnings cap. The Defined Contribution Scheme provides a lump sum death in service benefit.

Share Options

Options have been granted in previous years under the 1993 Executive Share Option Scheme to Messrs. Burrell, Holden and Marshall. Details of those outstanding are included in the Directors' Interests: Share Options table opposite. These options are only exercisable provided that, in the period from the date of grant to exercise of the option, the Company's share price has outperformed the FTSE All Share Index and earnings per share have increased by more than the Retail Price Index. No options have been granted in the period and the Scheme was terminated in July 2003.

Mr D.G. Holden and Mr J.D. Marshall also have share options under the Marshalls 2000 Savings Related Share Option Scheme. Details of their options are set out in the Directors' Interests: Share Options table opposite.

Five year Total Shareholder Return



This graph shows the Group's total shareholder return (TSR) performance compared to the FTSE 350 Construction and Buildings Materials Sector index for the period from 1 January 1999 to 31 December 2003. 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. The Group has a TSR for the five year period of 131% compared to a TSR provided by the sector index of 91%.

In the opinion of the Directors, the FTSE 350 Construction and Buildings Materials Sector index is the most appropriate index against which the TSR of the Group should be measured.

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 at 1 January 2003 (or in the case of Messrs A.J. Allner and R.T. Scholes at the date of their appointment) and 31 December 2003 are set out below:

	1 January 2003		31 December 2003	
	Shares	**Options**	**Shares**	**Options**
A.J. Allner (appointed 23.07.2003)	-	-	-	-
C.T. Burnett	166,704	-	166,704	-
I.D. Burrell	4,000	55,000	4,000	55,000
D.G. Holden	85,688	248,336	123,538	248,336
J.D. Marshall	553,443	7,336	553,443	7,336
R.T. Scholes (appointed 23.07.2003)	-	-	-	-

Additionally, Mr D.G. Holden and Mr J.D. Marshall have at 31 December 2003 the following ordinary shares respectively available to be called resulting from the vesting of their conditional awards under the Marshalls LTIP:-

	Cycle commencing	**1 January 2003**	**31 December 2003**	**Available to be called**
D.G. Holden	1998	37,800	-	26 June 2003
	1999	74,674	74,674	8 March 2004
	2000	-	21,535	3 April 2005
J.D. Marshall	1998	39,518	39,518	26 June 2003
	1999	76,622	76,622	8 March 2004
	2000	-	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 5 March 2004.

During the latter half of 2003, the Board carried out a wide ranging strategic review of options to maximise shareholder value, including consideration of a strategic acquisition, a disposal, alternative commercial and business strategies and a balance sheet restructuring to return value to shareholders. As part of this process, the Remuneration Committee put in place certain incentivisation arrangements with each of Mr C.T. Burnett and Mr I.D. Burrell (being related party transactions for the purposes of The Listing Rules of The UK Listing Authority). Such arrangements would, in certain circumstances, in the event that the Company was acquired, have entitled Mr C.T. Burnett (assuming an acquisition at or above a certain price significantly above the then current share price) to a cash payment capped at £1.5 million and have entitled Mr I.D. Burrell to a cash payment of £150,000. Mr C.T. Burnett, who was then Executive Chairman, did not participate in any of the Company's share option schemes or other long term incentive plans. The Board subsequently concluded that a return of value was the best option for shareholders and the arrangements with Mr C.T. Burnett and Mr I.D. Burrell were therefore terminated without compensation.

Subject to the above, no Director of the Company has or had a disclosable interest in any contract of significance during or at the end of the year.

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.

Directors' Remuneration Report (continued)

Audited Information
Directors' Remuneration

	Salary/ Fees £'000	Performance Related and other Bonuses £'000	Benefits £'000	Total remuneration (excluding pensions) 2003 £'000	2002 £'000
Chairman					
C.T. Burnett	400	344	28	772	598
Executive Directors					
I.D. Burrell	160	74	18	252	213
D.G. Holden	205	102	13	320	314
R.B. Illingworth (resigned 18.02.02)	-	-	-	-	173
J.D. Marshall	125	-	18	143	138
Non-Executive Directors					
A.J. Allner (appointed 23.07.03)	56	-	-	56	-
R.A. Barfield (resigned 13.06.03)	11	-	-	11	25
J.W. Footman (retired 28.05.03)	10	-	-	10	25
R.T. Scholes (appointed 23.07.03)	56	-	-	56	-
M.A. Stacey (resigned 06.01.03)	-	-	-	-	25
	1,023	520	77	1,620	1,511

Notes to Directors' Remuneration

(a) The salaries, fees, performance related and other bonuses and benefits all relate to the year ended 31 December 2003.

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

(c) The Company made a pension contribution of £17,600 (2002: £15,400) being 11 per cent of basic salary in respect of Mr I.D. Burrell who is a member of the Defined Contribution Pension Scheme.

(d) Included within the 2002 total remuneration in respect of Mr R.B. Illingworth is an amount of £143,000 relating to a termination payment.

(e) For the period from 13 June 2003 until 23 July 2003 the Group did not have any Non-Executive Directors. Following the appointment of Mr A.J. Allner and Mr R.T. Scholes on 23 July 2003 it was necessary that they spend considerable additional time making themselves familiar with the business, management and issues facing the Board. Accordingly, a higher level of fee has been paid. The normalised fee is £25,000 per annum as the Non-Executive fee and a further £10,000 per annum in respect of being Chairman of a Board Committee.

Pension Benefits (Defined Benefit Scheme)

	Age at 31 December 2003	Years of Service	Accrued entitlement 31 December 2003 (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	44	17	70	4	25
J.D. Marshall	58	40	102	-	(13)

Notes to Pension Entitlements

(a) The accrued entitlement shown is that which would be paid annually on retirement based on service to 31 December 2003.

(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.

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

	Transfer value as at 31 December 2003	Transfer value as at 31 December 2002 (as restated)	Increase in transfer value less member contribution over the year
	£'000	£'000	£'000
D.G. Holden	**648**	**535**	**101**
J.D. Marshall	**2,056**	**1,850**	**199**

The transfer values of the accrued entitlement represent 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 transfer values as at 31 December 2002 have been restated in accordance with new actuarial guidance. On the previous basis, the transfer values as at 31 December 2002 were £373,000 in respect of Mr D.G. Holden and £1,660,000 in respect of Mr J.D. Marshall.

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 contributions to the Scheme.

Directors' Interests: Share Options

	At 1 January 2003	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 2003	Exercise Period
I.D. Burrell									
Executive option	55,000	-	-	-	219.5p	-	-	55,000	16/10/2004 to 15/10/2011
D.G. Holden									
Executive option	161,000	-	-	-	216.5p	-	-	161,000	17/04/2004 to 16/04/2011
Executive option	80,000	-	-	-	219.5p	-	-	80,000	16/10/2004 to 15/10/2011
SAYE	7,336	-	-	-	230.0p	-	-	7,336	01/12/2005 to 31/05/2006
J.D. Marshall									
SAYE	7,336	-	-	-	230.0p	-	-	7,336	01/12/2005 to 31/05/2006

(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 2003 was 251p and the range in the year then ended was 192p to 293p.
(c) The options were granted at nil cost to the Directors. The performance criteria for the above executive options is consistent with the remuneration policy outlined on page 30.
(d) The total profit on exercise of options during the year was £Nil (2002: £42,900).

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 2003 Number	Shares awarded Number	Award lapsed Number	Shares vested Number	At 31 December 2003 Number	Value vested £'000	Vesting date	
I.D. Burrell	16.04.2002	23,972	-	-	-	23,972	-	-	
	16.04.2003	-	35,164	-	-	35,164	-	-	
D.G. Holden	03.04.2000	25,638	-	4,103	21,535	-	48	03.04.2003	
	17.04.2001	34,642	-	-	-	34,642	-	17.04.2004	see note d
	16.04.2002	34,246	-	-	-	34,246	-	-	
	16.04.2003	-	45,054	-	-	45,054	-	-	
J.D. Marshall	03.04.2000	25,638	-	4,103	21,535	-	48	03.04.2003	

(a) The market price on 3 April 2003 was 221p.

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

(c) The number of shares disclosed under the Long Term Incentive Plan awards for 2001, 2002 and 2003 is the maximum number of shares which would be delivered at the end of the period under the initial award. As stated above, an additional award of the same number of shares would vest if the Marshalls share price reached a pre-determined level.

(d) On 17 April 2001, 34,642 shares were awarded to Mr D.G. Holden under the Long Term Incentive Plan for 2001. For the 2001 Plan, the Company's total shareholder return was ranked at the 21st percentile in the comparator group which means that no awards for that year will vest on the due date of 17 April 2004.

(e) The total value of shares vested under the Long Term Incentive Plan as disclosed above is £96,000 (2002: £626,000).

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

Andrew Allner
Chairman of the Remuneration Committee
5 March 2004

Independent Auditors' Report to the Members of Marshalls plc

We have audited the Financial Statements on pages 36 to 62. 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 25, 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 statement on page 26 reflects the Company's compliance with the seven provisions of the Combined 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 2003 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

5 March 2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	**349,481**	342,056
Operating costs	3	**(296,353)**	(291,727)
Operating profit	2	**53,128**	50,329
Gain on disposal and termination of business	2	**-**	2,255
Profit on ordinary activities before interest		**53,128**	52,584
Interest (net)	5	**(2,725)**	(3,193)
Profit on ordinary activities before taxation	2	**50,403**	49,391
Taxation on profit on ordinary activities	6	**(15,902)**	(15,750)
Profit for the financial year		**34,501**	33,641
Preference dividends: Non equity shares	8	**(54)**	(137)
Profit attributable to ordinary shareholders		**34,447**	33,504
Ordinary dividends: Equity shares	9	**(18,401)**	(16,737)
Retained profit for the financial year	22	**16,046**	16,767
Earnings per share :			
Basic	10	**20.61p**	20.05p
Diluted	10	**20.58p**	20.02p
Adjusted Basic	10	**21.46p**	19.41p
Dividend per share:			
Pence per share	9	**11.00p**	10.00p

The notes on pages 40 to 62 form part of these financial statements.

Balance Sheets

at 31 December 2003

	Notes	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Fixed assets					
Intangible	11	**23,725**	24,113	**-**	-
Tangible	12	**206,650**	184,699	**10,555**	11,004
Investments	13	**-**	-	**185,896**	178,394
		230,375	208,812	**196,451**	189,398
Current assets					
Stocks	14	**56,744**	62,978	**-**	-
Debtors	15	**33,412**	30,997	**961**	1,598
Cash at bank and in hand		**7,884**	7,307	**7,376**	6,041
		98,040	101,282	**8,337**	7,639
Creditors: Amounts falling due within one year	16	**(68,992)**	(67,493)	**(18,912)**	(23,280)
Net current assets / (liabilities)		**29,048**	33,789	**(10,575)**	(15,641)
Total assets less current liabilities		**259,423**	242,601	**185,876**	173,757
Creditors: Amounts falling due after more than one year	17	**(20,000)**	(20,003)	**(29,326)**	(20,082)
Provisions for liabilities and charges	20	**(21,275)**	(19,852)	**(1,071)**	(1,000)
Net assets		**218,148**	202,746	**155,479**	152,675
Capital and reserves					
Called up share capital	21	**41,837**	42,007	**41,837**	42,007
Share premium account	22	**18,138**	17,726	**18,138**	17,726
Revaluation reserve	22	**5,166**	5,166	**-**	-
Other reserves	22	**14,574**	14,352	**14,727**	14,505
Profit and loss account	22	**138,433**	123,495	**80,777**	78,437
Shareholders' funds		**218,148**	202,746	**155,479**	152,675
Analysis of shareholders' funds					
Equity		**218,148**	201,638	**155,479**	151,567
Non equity		**-**	1,108	**-**	1,108
		218,148	202,746	**155,479**	152,675

Approved at a Directors' meeting on 5 March 2004.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 40 to 62 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Cash inflow from operating activities	23		**81,261**		54,608
Returns on investments and servicing of finance	24(i)		**(2,831)**		(3,407)
Taxation			**(14,018)**		(13,301)
Capital expenditure	24(ii)		**(39,802)**		(33,832)
Acquisitions and disposals	24(iii)		**(2,014)**		9,210
Equity dividends paid			**(17,300)**		(16,128)
Cash inflow/(outflow) before financing			**5,296**		(2,850)
Financing					
Issue of shares		**464**		143	
Repayment of cumulative redeemable preference shares		**(1,108)**		-	
Repayment of 10% cumulative preference shares		**-**		(2,274)	
Costs associated with share cancellation		**-**		(52)	
Decrease in other debt and lease financing		**(4,075)**		(2,315)	
			(4,719)		(4,498)
Increase/(decrease) in cash in the year			**577**		(7,348)

Reconciliation of net cash flow to movement in net debt

	Notes	2003 £'000	2002 £'000
Increase/(decrease) in cash in the year		**577**	(7,348)
Cash outflow from decrease in debt and lease financing		**4,075**	2,315
Movement in net debt in the year	27	**4,652**	(5,033)
Net debt at beginning of year		**(17,895)**	(12,862)
Net debt at end of year	27	**(13,243)**	(17,895)

The notes on pages 40 to 62 form part of these financial statements

Consolidated Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2003

	2003 £'000	2002 £'000
Profit for the financial year	**34,501**	33,641
Dividends (preference and ordinary)	**(18,455)**	(16,874)
Retained profit for the financial year	**16,046**	16,767
New share capital issued	**464**	143
Repayment of cumulative redeemable preference shares	**(1,108)**	-
Repayment and cancellation of 10% cumulative preference shares	**-**	(2,274)
Costs associated with share cancellation	**-**	(52)
Goodwill previously eliminated against reserves	**-**	1,450
Net additions to shareholders' funds	**15,402**	16,034
Shareholders' funds at beginning of year	**202,746**	186,712
Shareholders' funds at end of year	**218,148**	202,746

The notes on pages 40 to 62 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 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 2003 as set out in note 31.

b Basis of consolidation

The Group Financial Statements include the Financial Statements of the Company and its subsidiary undertakings made up to 31 December 2003. All Financial Statements are prepared on a uniform basis throughout the Group.

The acquisition method of accounting has been adopted, unless otherwise stated. Under this method, 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.

c 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, normally 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/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

d 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.

e 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.

1 Accounting policies (continued)

f 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.

g 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.

h 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.

i 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.

j 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	-	5% to 15% per annum
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.

k 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.

1 Accounting policies (continued)

l 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.

m 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 Profit	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Landscape Products	**288,819**	270,384	**44,874**	41,248
Clay Products	**32,130**	30,252	**4,202**	4,372
Natural Stone	**28,532**	24,958	**4,052**	3,282
	349,481	325,594	**53,128**	48,902
Flooring business disposed	**-**	16,462	**-**	1,427
	349,481	342,056	**53,128**	50,329
Gain on disposal and termination of business			**-**	2,255
Interest (net)			**(2,725)**	(3,193)
Profit on ordinary activities before taxation			**50,403**	49,391

The non-Flooring businesses previously included within the Emerging Businesses segment are now shown within the Landscape Products segment. The comparative figures for 2002 have been restated accordingly. For the year ended 31 December 2002, the Landscape Products turnover, operating profit and net assets were previously stated at £254,515,000, £38,530,000 and £171,437,000 respectively.

The gain on disposal and termination of business in 2002 relates to the sale of the Group's Flooring business on 29 November 2002 for gross cash proceeds of £13.1 million and the closure of a related business on the same manufacturing site. The gain on disposal of £2,255,000 is disclosed net of goodwill of £1,450,000 previously eliminated against reserves. No tax is payable on the gain due to the utilisation of capital losses.

	2003	2002
	£'000	£'000
Geographical destination of sales:		
United Kingdom	**344,609**	337,101
Rest of the world	**4,872**	4,955
	349,481	342,056

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

2 **Segmental analysis** (continued)

	Net Assets 2003 £'000	Net Assets 2002 £'000
Landscape Products	**200,026**	181,513
Clay Products	**37,089**	40,780
Natural Stone	**32,234**	28,120
	269,349	250,413
Unallocated net liabilities	**(51,201)**	(47,667)
	218,148	202,746

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

3 **Operating costs**

	2003 £'000	2002 £'000
Raw materials and consumables	**103,617**	116,966
Changes in stocks of finished goods	**6,457**	(8,073)
Staff costs (Note 4)	**79,328**	82,845
Depreciation - owned	**17,528**	15,839
- leased	**10**	9
Own work capitalised	**(2,192)**	(2,113)
Other operating income	**(558)**	(337)
Other external charges	**90,733**	85,401
Amortisation of goodwill	**1,430**	1,190
	296,353	291,727

Operating profit is stated after charging/(crediting):

	2003 £'000	2002 £'000
Auditors' remuneration	**101**	115
Other fees paid to the auditors and their associates	**3**	13
Leasing costs	**3,359**	3,254
Hire of plant and machinery	**2,724**	2,898
Development expenditure	**2,192**	2,113
Loss/(profit) on sale of tangible fixed assets	**317**	(66)

In respect of the year under review, KPMG Audit Plc carried out mainly audit work which represented substantially all of the fees paid to them. The audit fee for the Company was £20,000 (2002: £20,000).

4 Employees

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

	2003 Number	2002 Number
Landscape Products	**2,502**	2,628
Clay Products	**354**	359
Natural Stone	**232**	225
	3,088	3,212
Flooring business disposed	**-**	157
	3,088	3,369

Staff costs (including Directors):	**2003 £'000**	2002 £'000
Wages and salaries	**70,113**	74,048
Social security costs	**7,104**	6,811
Other pension costs	**2,111**	1,986
	79,328	82,845

Staff costs disclosed above do not include redundancy costs of £938,000 (2002: £1,502,000) 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 29 to 34.

5 Interest (net)

	2003 £'000	2002 £'000
(a) Interest payable and similar charges:		
Bank loans, overdrafts, loan notes and other interest payable	**511**	959
Debenture interest	**2,275**	2,275
Finance leases	**1**	2
	2,787	3,236
(b) Other interest receivable and similar income	**(62)**	(43)
	2,725	3,193

6 Taxation on profit on ordinary activities

	2003 £'000	2002 £'000
United Kingdom corporation tax at 30.0% (2002: 30.0%)		
Current year	**14,688**	14,772
Prior year	**(209)**	-
	14,479	14,772
Deferred taxation (Note 20)	**1,423**	978
	15,902	15,750

6 **Taxation on profit on ordinary activities** (continued)

The tax assessed for the period is lower (2002: lower) than the standard rate of corporation tax in the UK (30.0%). The differences are explained below:-

	2003	2002
	£'000	£'000
Profit on ordinary activities before taxation	**50,403**	49,391
Profit on ordinary activities multiplied by standard rate in the UK (30.0%) (2002: 30.0%)	**15,121**	14,817
Effects of:-		
Disallowed amortisation of goodwill	**429**	357
Net items not taxable	**561**	576
Prior year items	**(209)**	-
Accelerated capital allowances and other timing differences	**(1,423)**	(978)
Tax charge for the period	**14,479**	14,772
Effective rate of tax	**28.7%**	29.9%

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 £21,903,000 (2002: £21,944,000) which is dealt with in the Financial Statements of the Company.

8 **Preference dividends: non equity shares**

	2003		2002	
	per share	**£'000**	per share	£'000
Cumulative redeemable preference shares of 20p each	**6.50p**	**54**	6.50p	73
10% cumulative preference shares of £1 each		**-**		64
		54		137

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

On 20 June 2002, the Company repaid the 10% cumulative preference shares and they were subsequently cancelled (Note 21).

9 **Ordinary dividends: equity shares**

	2003		2002	
	per share	**£'000**	per share	£'000
Interim: paid 8 December 2003	**3.65p**	**6,101**	3.30p	5,523
Final: proposed	**7.35p**	**12,300**	6.70p	11,214
	11.00p	**18,401**	10.00p	16,737

10 Earnings per share

	2003 £'000	2002 £'000
Profit for the financial year attributable to ordinary shareholders	**34,447**	33,504
Profit for the financial year attributable to ordinary shares and potentially ordinary dilutive shares	**34,447**	33,504
Adjusted basic earnings per share reconciliation:		
Profit for the financial year	**34,447**	33,504
Goodwill amortisation	**1,430**	1,190
Gain on disposal and termination of business	**-**	(2,255)
	35,877	32,439
Weighted average number of shares	**167,159,671**	167,130,230
Weighted average number of shares	**167,159,671**	167,130,230
Potentially dilutive shares	**202,054**	247,797
	167,361,725	167,378,027
Basic earnings per share	**20.61p**	20.05p
Diluted earnings per share	**20.58p**	20.02p
Adjusted basic earnings per share	**21.46p**	19.41p

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of £34,447,000 (2002: £33,504,000) by the weighted average number of shares in issue during the year of 167,159,671 (2002: 167,130,230).

Diluted earnings per share is calculated by dividing profit attributable to ordinary shares and potentially ordinary dilutive shares of £34,447,000 (2002: £33,504,000) by the weighted average number of shares in issue during the year of 167,159,671 (2002: 167,130,230), plus dilutive shares of 202,054 (2002: 247,797) which totals 167,361,725 (2002: 167,378,027).

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 and the gain on disposal and termination of business.

11 Intangible fixed assets

	Goodwill £'000
Group	
Cost	
At 1 January 2003	**27,867**
Additions (Note 25)	**1,042**
At 31 December 2003	**28,909**
Amortisation	
At 1 January 2003	**3,754**
Amounts provided	**1,430**
At 31 December 2003	**5,184**
Net book value	
At 31 December 2003	**23,725**
At 31 December 2002	24,113

12 Tangible fixed assets

	Group			Company		
	Land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000	Land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000
Cost or valuation						
At 1 January 2003	**100,998**	**213,264**	**314,262**	**3,884**	**13,091**	**16,975**
Additions	**10,894**	**29,918**	**40,812**	**15**	**1,366**	**1,381**
On acquisition of subsidiary undertakings (Note 25)	**-**	**4**	**4**	**-**	**-**	**-**
Disposals	**(692)**	**(9,352)**	**(10,044)**	**-**	**(70)**	**(70)**
At 31 December 2003	**111,200**	**233,834**	**345,034**	**3,899**	**14,387**	**18,286**
Accumulated depreciation						
At 1 January 2003	**20,969**	**108,594**	**129,563**	**279**	**5,692**	**5,971**
Amounts provided	**2,542**	**14,996**	**17,538**	**70**	**1,760**	**1,830**
Disposals	**(557)**	**(8,160)**	**(8,717)**	**-**	**(70)**	**(70)**
At 31 December 2003	**22,954**	**115,430**	**138,384**	**349**	**7,382**	**7,731**
Net book value						
At 31 December 2003	**88,246**	**118,404**	**206,650**	**3,550**	**7,005**	**10,555**
At 31 December 2002	80,029	104,670	184,699	3,605	7,399	11,004

12 Tangible fixed assets (continued)

The net book value of tangible fixed assets includes £4,000 (2002: £10,000) in respect of assets held under finance leases of which £Nil (2002: £Nil) relates to the Company.

Group cost or valuation of land and buildings and plant and machinery includes £2,790,000 (2002: £4,874,000) and £13,739,000 (2002: £1,574,000) 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.

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	**62,735**	**10,220**	**100**	**73,055**
Accumulated depreciation	**(21,100)**	**(1,754)**	**(100)**	**(22,954)**
Net book value at 31 December 2003	**77,195**	**11,051**	**-**	**88,246**
Amount not depreciable	**30,064**	**9,507**	**-**	**39,571**
Comparable amounts determined according to the historical cost convention				
Cost	**95,128**	**13,002**	**100**	**108,230**
Accumulated depreciation	**(23,099)**	**(1,951)**	**(100)**	**(25,150)**
Historical net book value at 31 December 2003	**72,029**	**11,051**	**-**	**83,080**

13 Investment in subsidiary undertakings

Company	Shares £'000	Loans £'000	Total £'000
Cost			
At 1 January 2003	**22,249**	**160,311**	**182,560**
Movement in the year	**1,193**	**6,309**	**7,502**
At 31 December 2003	**23,442**	**166,620**	**190,062**
Provisions			
At 1 January 2003	**1,967**	**2,199**	**4,166**
Amounts provided	**-**	**-**	**-**
At 31 December 2003	**1,967**	**2,199**	**4,166**
Net book value			
At 31 December 2003	**21,475**	**164,421**	**185,896**
At 31 December 2002	20,282	158,112	178,394

13 Investment in subsidiary undertakings (continued)

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

14 Stocks

	Group	
	2003	2002
	£'000	£'000
Raw materials and consumables	**10,952**	10,729
Finished goods and goods for resale	**45,792**	52,249
	56,744	62,978

15 Debtors

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Trade debtors	**28,695**	26,766	**-**	-
Other debtors	**568**	1,090	**171**	766
Taxation and social security	**31**	14	**19**	1
Prepayments and accrued income	**4,118**	3,127	**771**	831
	33,412	30,997	**961**	1,598

No debtors were due after more than one year.

16 Creditors: Amounts falling due within one year

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Loans (Note 18)	**1,124**	5,196	**1,124**	5,196
Trade creditors	**29,662**	28,064	**939**	909
Corporation tax	**9,640**	9,095	**2,258**	4,801
Taxation and social security	**5,326**	4,240	**489**	206
Other creditors	**2,988**	2,522	**600**	121
Accruals	**7,952**	7,159	**1,202**	830
Dividends proposed	**12,300**	11,217	**12,300**	11,217
	68,992	67,493	**18,912**	23,280

17 Creditors: Amounts falling due after more than one year

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Loans (Note 18)	**20,000**	20,000	**20,000**	20,000
Other creditors	**-**	3	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**9,326**	82
	20,000	20,003	**29,326**	20,082

Finance lease instalments included in other creditors are repayable:

between two and five years	**-**	-	**-**	-
between one and two years	**-**	3	**-**	-
within one year	**3**	3	**-**	-
	3	6	**-**	-

18 Loans

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
11.375% debenture stock 1992/2014	**20,000**	20,000	**20,000**	20,000
Unsecured loan stock 2001	**1,124**	5,196	**1,124**	5,196
	21,124	25,196	**21,124**	25,196
which are repayable:				
in five years or more	**20,000**	20,000	**20,000**	20,000
within one year	**1,124**	5,196	**1,124**	5,196
	21,124	25,196	**21,124**	25,196

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.

Unsecured loan stock 2001

The Unsecured loan stock 2001 is repayable at par on 31 May 2006, or at either the Company's or the holders' option between 15 December 2001 and 31 May 2006. Interest is payable on 31 May and 30 November at the base rate from time to time of the Royal Bank of Scotland plc.

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
- Cumulative redeemable preference shares at 6.5p per annum as detailed in Note 21 and redeemed in the year
- Cumulative preference shares at 10% also as detailed in Note 21 and redeemed in the prior year

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 and they have remained unchanged since 2002.

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.

Liquidity risk

Cash resources are largely generated through operations. 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 at bank and short term debtors the Group has no other financial assets. All financial assets are held in Sterling. Cash at bank received an average floating rate of interest of 2.6% (2002: 2.4%) for the year.

19 Financial instruments (continued)

At 31 December 2003 95% (2002: 79%) of the Group's borrowings were on a fixed rate. At the year end, the Group had not entered into any interest rate swaps or forward foreign currency contracts. 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	
	2003 £'000	2002 £'000	**2003 %**	2002 %	**2003 Years**	2002 Years
Fixed rate liabilities: Sterling	**20,003**	20,006	**11.4**	11.4	**10.5**	11.5
Floating rate liabilities: Sterling	**1,124**	5,196				
Total financial liabilities	**21,127**	25,202				

Currency exposures

At 31 December 2003 the Group had no material currency exposures and there were no outstanding forward currency contracts.

Maturity of financial liabilities

At 31 December 2003, 95% (2002: 79%) 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 2003 is as follows:

	2003 £'000	2002 £'000
In one year or less, or on demand	**1,127**	5,199
In more than one year but not more than two years	**-**	3
In more than five years	**20,000**	20,000
	21,127	25,202

Borrowing facilities

The Group has various undrawn borrowing facilities available to it. The undrawn facilities available at 31 December 2003, in respect of which all conditions precedent had been met, were as follows:

	2003 £'000	2002 £'000
Committed:		
- Expiring in more than two years but not more than five years	**10,000**	-
- Expiring in one year or less	**-**	15,000
Uncommitted:		
- Expiring in one year or less	**20,000**	15,000
	30,000	30,000

19 **Financial instruments** (continued)

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 2003 are shown below:-

	2003		2002	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Cash at bank	**7,884**	**7,884**	7,307	7,307
Short term financial liabilities	**1,127**	**1,127**	5,202	5,202
Long term borrowings	**20,000**	**26,357**	20,000	26,759
Cumulative redeemable preference shares of 20p each	**-**	**-**	1,108	1,108

Derivative financial instruments have not been held to manage interest rate risk. All fair values have been determined using appropriate market rates at 31 December 2003 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% (2002: 30.0%) is:

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Accelerated capital allowances	**20,762**	19,241	**712**	784
Short term timing differences	**513**	611	**359**	216
	21,275	19,852	**1,071**	1,000

	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
At 1 January 2003	**19,852**	18,843	**1,000**	774
On acquisition of subsidiary undertakings	**-**	31	**-**	-
Charge in the year	**1,423**	978	**71**	226
At 31 December 2003	**21,275**	19,852	**1,071**	1,000

21 Share capital

	2003 Number '000	2002 Number '000	2003 £'000	2002 £'000
Authorised:				
Ordinary shares of 25p each	**209,432**	209,432	**52,358**	52,358
Cumulative redeemable preference shares of 20p each	**63,136**	63,136	**12,627**	12,627
10% cumulative preference shares of £1 each	**-**	1,015	**-**	1,015
			64,985	66,000
Allotted, called up and fully paid:				
Ordinary shares of 25p each	**167,347**	167,146	**41,837**	41,785
Cumulative redeemable preference shares of 20p each	**-**	1,108	**-**	222
			41,837	42,007

During the year 201,215 ordinary shares were issued as follows:

	Number £'000	Nominal value £'000	Share premium £'000
Options exercised at 230.0p per share	**201**	**52**	**412**

Non equity shares

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.

21 **Share capital** (continued)

10% Cumulative Preference Shares

The entire class of 10% cumulative preference shares of £1 each was reduced by virtue of a special resolution dated 22 May 2002, confirmed by an order of the High Court dated 12 June 2002. Accordingly, these shares are no longer part of the authorised or issued share capital of the Company.

Savings-Related Share Option Scheme

Details of the options outstanding at 31 December 2003 are:

Number of options outstanding		Number of ordinary shares		Exercise price	Normally exercisable between
31 December 2003	31 December 2002	**31 December 2003**	31 December 2002		
17	264	**32,000**	279,435	230.0p	1 Dec 2003 – 31 May 2004
606	701	**1,400,985**	1,573,927	230.0p	1 Dec 2005 – 31 May 2006
623	965	**1,432,985**	1,853,362		

In December 2003 192,173 share options were exercised under the Marshalls Savings Related Share Option Scheme. These shares related to the three year section of the SAYE scheme.

Employee Profit Sharing Scheme

At 31 December 2003 the scheme held 50,777 (2002: 51,227) ordinary shares in the Company.

Executive Share Option Schemes

Details of the options outstanding at 31 December 2003 are:

Number of options outstanding		Number of ordinary shares		Exercise price	Normally exercisable between
31 December 2003	31 December 2002	**31 December 2003**	31 December 2002		
1	1	**161,000**	161,000	216.5p	17 Apr 2004 – 16 Apr 2011
2	2	**135,000**	135,000	219.5p	16 Oct 2004 – 15 Oct 2011
3	3	**296,000**	296,000		

22 Reserves

	Share premium account £'000	Revaluation reserve £'000	Other Reserves Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
Group:					
At 1 January 2003	**17,726**	**5,166**	**1,261**	**13,091**	**123,495**
Retained profit for the financial year	**-**	**-**	**-**	**-**	**16,046**
Shares issued in the year	**412**	**-**	**-**	**-**	**-**
Share capital redeemed	**-**	**-**	**222**	**-**	**(1,108)**
At 31 December 2003	**18,138**	**5,166**	**1,483**	**13,091**	**138,433**
Company:					
At 1 January 2003	**17,726**	**-**	**1,261**	**13,244**	**78,437**
Profit for the financial year	**-**	**-**	**-**	**-**	**3,448**
Shares issued in the year	**412**	**-**	**-**	**-**	**-**
Share capital redeemed	**-**	**-**	**222**	**-**	**(1,108)**
At 31 December 2003	**18,138**	**-**	**1,483**	**13,244**	**80,777**

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 (2002: £37,572,000).

23 Reconciliation of operating profit to cash inflow from operating activities

	2003	2002
	£'000	£'000
Operating profit	**53,128**	50,329
Amortisation charges	**1,430**	1,190
Depreciation charges	**17,538**	15,848
Loss/(profit) on sale of tangible fixed assets	**317**	(66)
Decrease/(increase) in stocks	**6,711**	(9,721)
Increase in debtors	**(1,382)**	(964)
Increase/(decrease) in creditors	**3,519**	(2,008)
Cash inflow from operating activities	**81,261**	54,608

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

	2003	2002
	£'000	£'000
(i) Returns on investments and servicing of finance		
Interest received	**30**	11
Interest paid	**(2,788)**	(3,279)
Preference dividend paid	**(72)**	(137)
Interest element of finance lease rental payments	**(1)**	(2)
	(2,831)	(3,407)
(ii) Capital expenditure		
Purchase of tangible fixed assets	**(40,812)**	(36,521)
Sale of tangible fixed assets	**1,010**	2,689
	(39,802)	(33,832)
(iii) Acquisitions and disposals		
Purchase of a business (Note 26)	**(2,014)**	(3,890)
Disposal and termination of business (Note 2)	**-**	13,100
	(2,014)	9,210

25 Purchase of subsidiary undertakings

	2003
	£'000
Fixed assets (Note 12)	**4**
Stocks	**477**
Debtors	**1,541**
Bank overdraft	**(821)**
Creditors	**(1,050)**
Net assets acquired	**151**
Goodwill (Note 11)	**1,042**
	1,193
Satisfied by:	
Cash	**1,150**
Costs	**43**
	1,193

On 14 March 2003, the Company acquired Stone Shippers Limited, a business engaged in the importation and distribution of stone products.

No material fair value adjustments were required in respect of the assets acquired. The results of the business have been included in the consolidated Group accounts 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

	2003	2002
	£'000	£'000
Cash consideration (Note 25)	**1,150**	4,750
Expenses of acquisition	**43**	39
Bank overdrafts/(Cash at bank and in hand) acquired	**821**	(899)
	2,014	3,890

27 Analysis of net debt

	2003	**Cash Flow**	2002
	£'000	**£'000**	£'000
Cash in hand and at bank	**7,884**	**577**	7,307
Debt due after one year	**(20,000)**	**-**	(20,000)
Debt due within one year	**(1,124)**	**4,072**	(5,196)
Finance leases	**(3)**	**3**	(6)
Total net debt	**(13,243)**	**4,652**	(17,895)

28 Capital commitments

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Capital expenditure that has been contracted for but for which no provision has been made in the Financial Statements	**3,960**	15,613	**-**	-

29 Leasing commitments

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
At 31 December 2003 there were annual commitments under non-cancellable operating leases in respect of plant, machinery and vehicles as follows:				
Expiring:				
within one year	**352**	361	**32**	8
between two and five years	**5,538**	3,549	**118**	85
	5,890	3,910	**150**	93

30 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls 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. 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 and 31 October 2004 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 2003 was £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 12.7% of total pensionable salaries.

31 Pension scheme (continued)

In recognition of the fact that the cost of pension provision is increasing, the Company intends to increase their contribution rate by 1% from April 2004, and 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 £1,595,000 (2002: £1,718,000).

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 £516,000 (2002: £268,000).

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 2003.

Main assumptions for FRS17 purposes:	**31 December 2003**	31 December 2002	31 December 2001
Discount rate	**5.50%**	5.50%	6.00%
Rate of increase in salaries	**3.50%**	3.50%	4.00%
Rate of increase in pensions payment	**3.10%**	3.10%	3.10%
Inflation rate	**2.80%**	2.25%	2.50%

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

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 2003	**Value at 31 December 2003 £'000**	Long-term rate of return expected at 31 December 2002	Value at 31 December 2002 £'000	Long-term rate of return expected at 31 December 2001	Value at 31 December 2001 £'000
Equities	**6.50%**	**79,908**	6.50%	67,921	6.75%	85,175
Bonds	**4.50%**	**33,108**	4.50%	27,340	4.75%	26,228
Other	**4.50%**	**949**	4.50%	1,077	4.75%	1,951
		113,965		96,338		113,354

The following amounts at 31 December 2003 and 31 December 2002 were measured in accordance with the requirements of FRS17:

	2003 £'000	2002 £'000
Total market value of assets	**113,965**	96,338
Present value of Scheme liabilities	**(159,740)**	(142,270)
Deficit in the Scheme	**(45,775)**	(45,932)
Related deferred tax asset	**13,733**	13,780
Net pension liability	**(32,042)**	(32,152)

31 Pension scheme (continued)

If the above amounts had been recognised in the Financial Statements, the Group's net assets and profit and loss reserve at 31 December 2003 and 31 December 2002 would be as follows:

	2003	2002
	£'000	£'000
Net assets excluding pension liability	**218,148**	202,746
Net pension liability	**(32,042)**	(32,152)
Net assets including pension liability	**186,106**	170,594
Profit and loss reserve excluding pension liability	**138,433**	123,495
Net pension liability	**(32,042)**	(32,152)
Profit and loss reserve including pension liability	**106,391**	91,343

The method of calculating the net pension asset or liability under FRS17 is 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 when this accounting standard is fully adopted.

The Scheme assets, the majority of which are equities, are potentially subject to significant market movements. At 31 December 2003, the FTSE All Share Index was at its highest point in the year. Its lowest point during the year was 27.8% below the 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 5.10% to 5.60% in the year ended 31 December 2003.

The following amounts would have been recognised in the performance statements in the year ended 31 December 2003 under the requirements of FRS17:

	2003	2002
	£'000	£'000
Operating profit:		
Current service cost	**4,664**	3,853
Gain on curtailment relating to disposal and termination of business	**-**	(541)
	4,664	3,312
Other finance income (net):		
Expected return on pension scheme assets	**5,655**	7,049
Interest on pension scheme liabilities	**(7,873)**	(7,763)
Net return	**(2,218)**	(714)
Consolidated statement of total recognised gains and losses ("STRGL")		
Actual return less expected return on pension scheme assets	**13,283**	(22,825)
Experience gains and losses arising on the Scheme liabilities	**(5,837)**	2,666
Changes in assumptions underlying the present value of the Scheme liabilities	**(2,014)**	(8,031)
Actuarial gain recognised in STRGL	**5,432**	(28,190)

31 Pension scheme (continued)

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

	£'000
Deficit in the Scheme at 1 January 2003	**(45,932)**
Movement in year:	
Current service cost	**(4,664)**
Contributions	**1,607**
Other finance income (net)	**(2,218)**
Actuarial gain	**5,432**
Deficit in the Scheme at 31 December 2003	**(45,775)**

Details of experience gains and losses were:	**2003** **£'000**	2002 £'000
Difference between the expected and actual return on the Scheme assets	**13,283**	(22,825)
Percentage of the Scheme assets	**12%**	24%
Experience gains and losses on the Scheme liabilities	**(5,837)**	2,666
Percentage of the present value of the Scheme liabilities	**(4%)**	2%
Total amount recognised in the STRGL	**5,432**	(28,190)
Percentage of the present value of the Scheme liabilities	**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 2003 are set out below. All the companies operate within the United Kingdom and are registered in England and Wales.

Subsidiaries	**Principal activity**
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.
Marshalls Clay Products Limited	Clay products manufacturer.
Stonemarket Limited	Concrete and stone landscape products manufacturer and supplier.
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.
Lloyds Quarries & Sand & Gravel Co. Limited *	Extraction and sale of sand and gravel.
Stone Shippers Limited	Importation and distribution of stone products.

* held by subsidiary undertaking

33 Post Balance Sheet Events

On 30 January 2004 the Group acquired the entire share capital of The Great British Bollard Company Limited for a consideration of £510,000. The company manufactures street furniture products.

Shareholder Information

Shareholder Analysis at 31 December 2003

Size of Shareholding	*Number of Shareholders*	*%*	*Number of Ordinary Shares*	*%*
1 to 500	2,113	39.1	281,760	0.2
501 to 1,000	732	13.6	549,449	0.3
1,001 to 2,500	956	17.7	1,667,684	1.0
2,501 to 5,000	665	12.3	2,439,271	1.5
5,001 to 10,000	371	6.9	2,639,246	1.6
10,001 to 25,000	228	4.2	3,573,529	2.1
25,001 to 100,000	155	2.8	7,711,801	4.6
100,001 to 250,000	73	1.4	12,036,853	7.2
250,001 to 500,000	39	0.7	13,400,793	8.0
500,001 and above	71	1.3	123,046,497	73.5
	5,403	100.0	167,346,883	100.0

Financial Calendar

Preliminary Announcement of results for the year ended 31 December 2003	Announced	5 March 2004
Annual General Meeting, Court Meeting of Shareholders and Extraordinary General Meeting		10 June 2004
Final dividend for the year ended 31 December 2003	Payable	7 July 2004
Interim results for the year ending 31 December 2004	Announcement	3 September 2004
Interim dividend for the year ending 31 December 2004	Payable	8 December 2004
Results for the year ending 31 December 2004	Announcement	Early March 2005

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 1999 £'000	Year to December 2000 £'000	Year to December 2001 £'000	Year to December 2002 £'000	**Year to December 2003 £'000**
Turnover	278,547	298,179	328,036	342,056	**349,481**
Operating profit before operating exceptional costs and goodwill amortisation	42,868	43,782	48,865	51,519	**54,558**
Operating exceptional costs	-	(1,106)	(2,508)	-	**-**
Goodwill amortisation	(629)	(768)	(1,024)	(1,190)	**(1,430)**
Operating profit	42,239	41,908	45,333	50,329	**53,128**
Gain on disposals of property	515	2,720	321	-	**-**
Gain on disposal and termination of business	-	-	-	2,255	**-**
Profit on ordinary activities before interest	42,754	44,628	45,654	52,584	**53,128**
Interest (net)	(2,110)	(2,772)	(2,943)	(3,193)	**(2,725)**
Profit on ordinary activities before taxation	40,644	41,856	42,711	49,391	**50,403**
Taxation on profit on ordinary activities	(12,664)	(12,770)	(14,003)	(15,750)	**(15,902)**
Profit for the financial year	27,980	29,086	28,708	33,641	**34,501**
Preference dividends: Non equity shares	(3,596)	(2,359)	(174)	(137)	**(54)**
Profit attributable to ordinary shareholders	24,384	26,727	28,534	33,504	**34,447**
Ordinary dividends: Equity shares	(10,431)	(13,964)	(15,846)	(16,737)	**(18,401)**
Retained profit for financial year	13,953	12,763	12,688	16,767	**16,046**
Earnings per share:	p	p	p	p	**p**
Basic	19.14	18.91	17.11	20.05	**20.61**
Diluted	17.00	18.89	17.10	20.02	**20.58**
Adjusted basic*	16.98	16.73	17.58	19.41	**21.46**
Dividends per share	8.00	9.00	9.50	10.00	**11.00**

* 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	154,056	164,911	191,218	208,812	**230,375**
Net current assets	41,314	47,254	34,344	33,789	**29,048**
Total assets less current liabilities	195,370	212,165	225,562	242,601	**259,423**
Creditors due after more than one year	(20,027)	(21,344)	(20,007)	(20,003)	**(20,000)**
Provision for liabilities and charges	(16,270)	(17,340)	(18,843)	(19,852)	**(21,275)**
Net assets	159,073	173,481	186,712	202,746	**218,148**
Net funds / (borrowings)	(6,451)	(8,842)	(12,862)	(17,895)	**(13,243)**
Gearing ratio	(4.1)%	(5.1)%	(6.9)%	(8.8)%	**(6.1)%**