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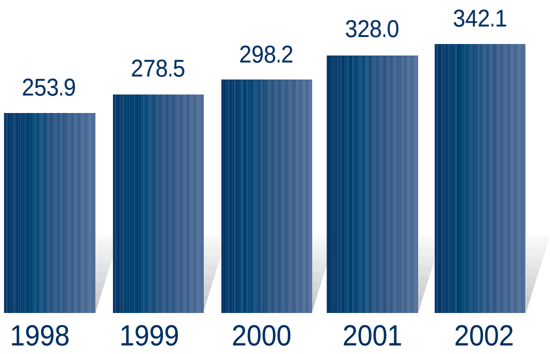
ANNUAL REPORT 2002

Marshalls

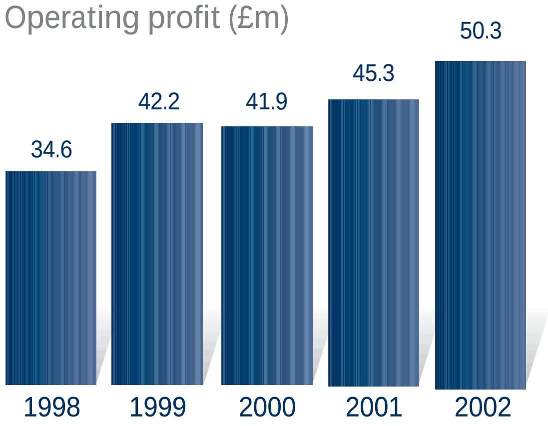
Timberstone, Driftwood

Financial Highlights

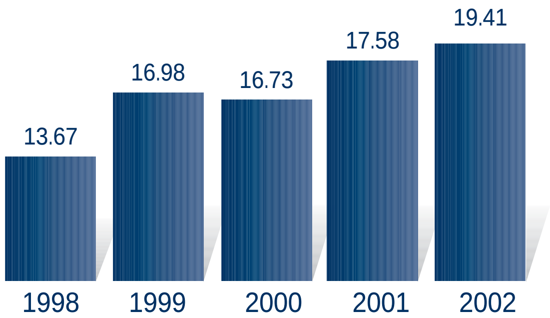
Turnover (£m)



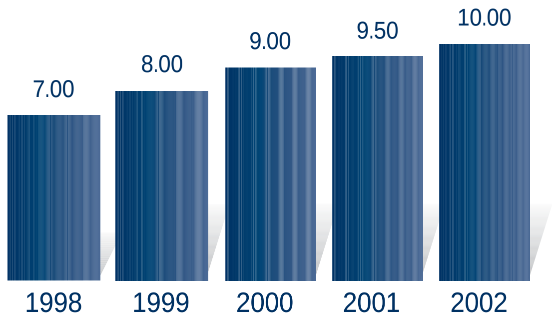
Operating profit (£m)



Adjusted basic earnings per share (pence)



Dividend per ordinary share (pence)



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.

Port Marine, Portishead. Tegula Block Paving

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.

Glaxo Smith Kline, interiors. Natural Stone flooring

CONTENTS

Falkirk Wheel. Mistral Paving

Chairman's Statement

In what has been an unusual and challenging year in terms of trading conditions, it is pleasing to have again achieved record sales and profits.

Turnover in the twelve months to 31 December 2002 increased by 4.3 per cent to £342.1 million (2001: £328.0 million). Operating profit in the period increased by 11.0 per cent to £50.3 million (2001: £45.3 million). Taking into account the £2.3 million profit on the disposal of the Flooring business, explained later in my statement, the Group profit before tax at £49.4 million (2001: £42.7 million) was 15.6 per cent above 2001.

All Divisions achieved sales growth. Landscape Products increased by 2.8 per cent, Clay Products by 2.9 per cent and Natural Stone Products, with a full year contribution from Stancliffe Stone, by 27.6 per cent. Emerging Businesses, including the contribution from the Flooring business sold after eleven months, increased sales by 2.7 per cent. The remaining Emerging Businesses, increased sales by 12.7 per cent.

Group Overview

Had it not been for the impact of the Jubilee celebrations and the World Cup in June 2002, to which we referred at the half year, orders in the pipeline suggest that sales would have been considerably higher. Customer demand remains strong and as a consequence of the backlog of domestic work that has built up during the year, the installers of our products began 2003 with healthy order books. The commercial and public sector markets, where our experience was similar to the domestic market, also remain strong.

Landscape Products Division

The Division achieved sales of £254.5 million, 2.8 per cent ahead of last year. Sales in the month of June were more than £6 million lower than the previous year due to the impact of the special events referred to above.

Chineham Court, Basingstoke. Clay Pavers

The market intelligence we gain through regular contact with our network of approved Registered Installers confirms that the domestic demand for our products remains buoyant. Sales to the commercial and public sectors grew by 4 per cent in the full year. This compares with forecast total growth in the construction industry of 7 per cent. These figures suggest that we could see the impact of this higher industry growth during 2003 as our products tend to be installed towards the end of most construction projects.

Clay Products Division

The Division increased sales by 2.9 per cent to £30.3 million in the full year. The second half sales growth was slightly stronger than the first six months. Sales of bricks through the Landscape Products Division Service Centres continue to increase as a percentage of total sales which implies that our performance in the repair and maintenance sector is currently better than new build.

Natural Stone Division

This is the first year we have disclosed separately the results for this part of our business. It includes our own natural stone products, imported stone paving and granite products, and aggregates from our own quarries. Sales of this new Division amounted to £25.0 million, an increase of 27.6 per cent over 2001. This includes a full year contribution from Stancliffe Stone, acquired in June 2001. Organic growth in sales was 14.0 per cent.

Millstone Flags, Olde London. Cottage Garden Bricks, Rose

Emerging Businesses Division

The sales of this Division, which now exclude natural stone and related products, amounted to £32.3 million in the year. Only eleven months sales of Flooring are included because, on 29 November 2002, we sold the business to Hanson Building Products, as we did not see the prospect of Marshalls establishing a major market presence in this sector. The price obtained was £13.1 million. In addition, we have received the surplus funds that have arisen from the collection of debtors and payment of creditors. Sales from the remaining Emerging Businesses, on a like for like basis, increased by 12.7 per cent.

Heritage Octant, Yorkstone

Balance Sheet

The Group balance sheet remains exceptionally strong. The net borrowings at the year end of £17.9 million (2001: £12.9 million) represents gearing of 8.8 per cent (2001: 6.9 per cent). This position has been affected by a combination of our continuing capital investment programme, an acquisition and higher stock levels which have been partially offset by the cash inflow from the disposal of our Flooring business. Cash inflow from operating activities amounted to £54.6 million (2001: £70.7 million).

The main change from 2001 relates to an increase in stock levels of £8.6 million. The higher stock levels are predominantly in the Landscape Products Division and relate to the special events in the summer and the slower recovery in the third quarter. Only in September did sales return to more normal levels and stock levels start to reduce. Initiatives have been established to reduce stock to target levels in 2003.

Investment and Disposals

The Group continued to invest significantly in its capital expenditure programme, spending £36.5 million (2001: £31.3 million). In addition in December 2002 a small sand and gravel business was acquired for £4.8 million.

On 29 November 2002 the Group disposed of its Flooring business which manufactures pre-cast concrete flooring, to Hanson Building Products, part of Hanson PLC for cash proceeds of £13.1 million and commenced the closure of a related business on the same manufacturing site. The gain on disposal and termination of business of £2.3 million is disclosed net of goodwill of £1.5 million previously eliminated against reserves.

Dividend

The Board has decided to recommend a final dividend of 6.70p (2001: 6.35p) per ordinary share making a total of 10.00p (2001: 9.50p) for the year, an increase of 5.3 per cent compared with 2001. The dividend will be paid on 7 July 2003 to Shareholders on the Register on 6 June 2003. The ex-dividend date will be 4 June 2003.

Outlook

We enter the new financial year with installers having good domestic order books. Whilst general economic conditions are expected to be more difficult in 2003, the prospects for the UK construction industry should still remain good in view of public sector spending plans. With this in mind, and the developments we have in place for all our Divisions, we are looking forward to another successful year.

Board

In 2002, Marshalls enjoyed its sixth year of continued sales and profit growth. Marshalls today comprises a group of strong, focussed and complementary businesses and is in extremely good shape, with a very strong balance sheet and leading market positions in a number of growing markets. It is therefore my wish, by the end of 2003, or as soon thereafter as possible, to step down as Chairman of the Group. It remains my objective to tackle one more corporate turnaround or transformation before hanging up my running shoes. I want the time to find that opportunity and then meet the challenge.

The Board have decided that, in accordance with best practice, and the recommendation of the Higgs Report, we should take this opportunity to separate the role of Chairman and Chief Executive.

It is very pleasing to me to report to you that the Board have decided that Graham Holden, currently Chief Executive of the Landscape Products Division, will become Group Chief Executive when I step down as Executive Chairman of the Group. Graham joined Marshalls in 1986 and was appointed to the Board in 1992 as Finance Director. He became Chief Executive of the Landscape Products Division in November 2000 and has significantly improved the performance of that Division since his appointment. We have already commenced the search for a new Managing Director of Marshalls Landscape Products who will be expected to join the Board on appointment.

In addition, we have commenced the search for a new Non-Executive Chairman who, together with Graham and the Board, will ensure that we continue to deliver superior value for our Shareholders.

There will also be the need to appoint two new independent non-executive directors. Michael Stacey, one of our non-executive directors, recently resigned from the Board having completed one three year term. He also resigned from another public company, of which he had been a non-executive director, in order to pursue opportunities in the private equity market. His contribution to our business will be missed.

John Footman was appointed to the Board in 1996 after retiring as a director of Wolseley Plc. He has served two terms as a non-executive director of Marshalls plc. In accordance with best practice, and the recommendations of the Higgs Report, he will not therefore be standing for re-election. His detailed knowledge of the Industry and contribution to the Board will also be missed.

On behalf of the Board I would like to thank all our management and employees throughout the Group for their excellent contribution during the year.

Christopher Burnett
Executive Chairman

Heritage Paving, Calder Brown

Landscape Products Division

Sales in 2002 were £254.5 million (2001: £247.6 million) an increase of 2.8 per cent over last year, despite the significant disruption to trade caused by the special events in the summer. However, we still managed to increase operating profit by 11.9 per cent, to a record £38.5 million (2001: £34.4 million).

The year had three very different trading periods. It started very strongly with sales ahead of expectations, there then followed the special events of the summer, which dramatically reduced activity right across the industry, and finally came a slow recovery through until September when sales returned to more normal levels.

The significant capital investment programme undertaken over the past few years has enabled us to deliver record operating profits. This is not only producing greater manufacturing efficiency, but also, as all Service Centres now have the appropriate plant, we are able to deliver our full range of products to every region of the country at lower cost.

The other aspect of our strategy, investment in marketing both to the domestic and commercial sectors, did not produce all the potential benefits in 2002 because of the unusual trading conditions. Nevertheless, the business will gain this year from new products and the continued development of the Marshalls Register of approved driveway and patio installers, and investment in focused advertising directed at our various target customer groups. All three elements of the marketing strategy will again be taken to new levels during 2003.

Tegula Drivesett, Traditional. Old Mill bricks, Sunset. Chancery Flagstones, Grey Green

Chancery Circle, Grey Green. Tegula Drivesett and Tegula Cobbles, Traditional

Divisional Outlook

Our market research continues to confirm strong consumer interest in driveway, garden and patio products to enhance the environment. Consumers also recognise that investment in this area improves the value of their property, and can easily be financed.

In 2003 we plan to use television advertising for the first time through sponsoring lunchtime gardening programmes on UK Style, the satellite channel. To link with this we are also extending our offer to consumers, through members of the Marshalls Register, to include a finance package that will make it easier for them to meet the cost of installation.

Woodstone Posts and Sleepers, Light Buff

Driveline Excel, Burnt Ochre. Drivesett Kerb, Traditional

New products already launched and directed specifically at the commercial and public sector markets, put us in a strong position to win a share of announced Government spending projects. These are continuing to forecast that construction sector growth will be ahead of the wider economy which should compensate for any possible weakness in consumer spending.

While it is not within our power to influence economic conditions we can improve the performance of our own business, and will continue to work to that effect during 2003.

Graham Holden
Chief Executive
Landscape Products Division

Shrewsbury School. Clay products

Clay Products Division

The 2.9 per cent increase in sales to £30.3 million (2001: £29.4 million) should be seen in the context of a half per cent rise in Industry volumes for the year, despite the improved level of activity in the construction sector.

We saw most growth from products sold to builders merchants through the Landscape Products Division's Service Centres. This facility allows merchants to purchase smaller quantities of Clay Products for immediate delivery when ordering other landscape products.

While market conditions are not easy, the restructuring already undertaken by other companies in the Industry, including capacity reduction, has resulted in a better trading environment. This has also been helped by falling Industry stocks.

Operating profit at £4.4 million (2001: £4.5 million) is after charging redundancy costs and writing down certain stocks as part of a stock cleansing programme.

We have told Shareholders previously of our continuing drive to lower the cost base of the business and find more operating efficiencies. There still remains much to be done in this area. We are as determined as ever to deliver this value to Shareholders.

Divisional Outlook

The outlook for the brick market is probably better than it has been for some time. With the private house building market remaining active, and the Government's intention to increase significantly the provision of low cost public housing, there are encouraging signs in terms of future demand. Other public sector projects, particularly new schools and hospitals, together with increased spending by local authorities on repair and maintenance, should also create more demand for bricks.

Natural Stone Division

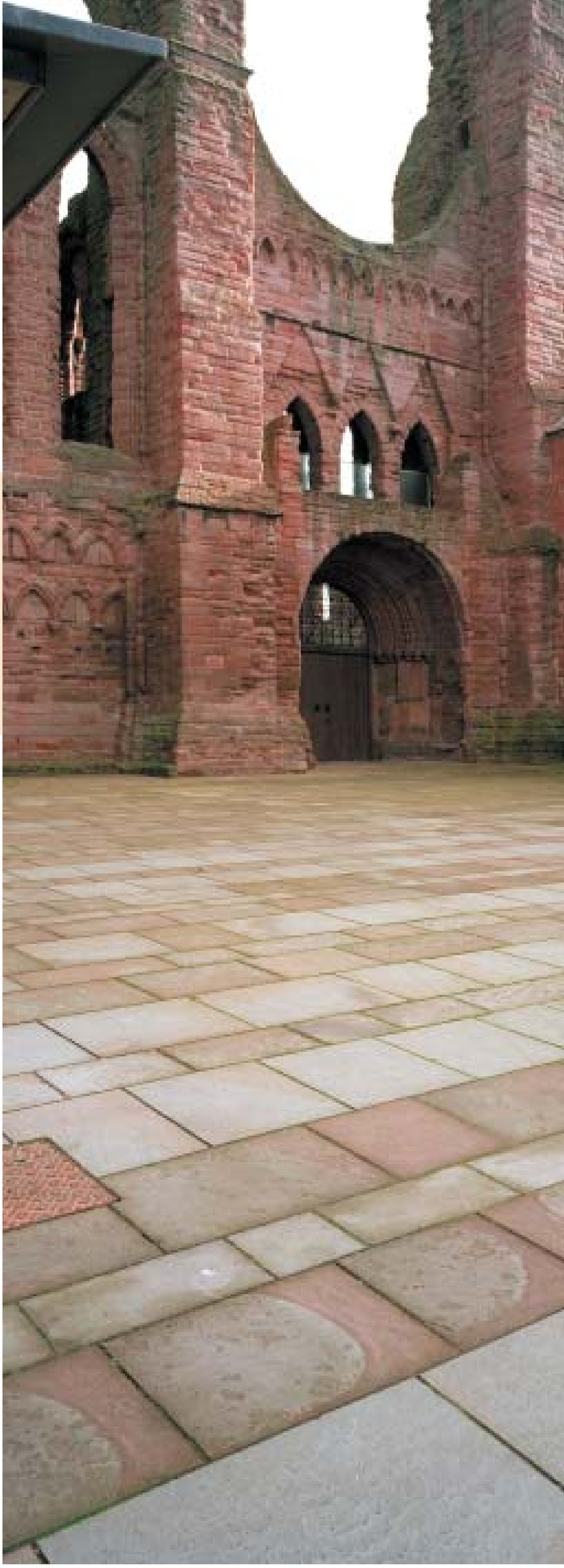
The Natural Stone Division supplies a diverse range of products, principally for commercial and public sector projects. Besides Yorkstone products from our own quarries the range includes aggregates and imported granite and sandstone. This is the first year in which we have disclosed the results of this business which now merits Divisional status. Sales, amounted to £25.0 million (2001: £19.6 million) an increase of over 27.6 per cent, including a full year's contribution from Stancliffe Stone, acquired in June 2001. Organic growth in sales was 14.0 per cent. Operating profit, after reorganisation costs and goodwill amortisation, increased by 31.1 per cent to £3.3 million (2001: £2.5 million). Organic growth in operating profit was 10.6 per cent.

Over the past 2 years, significant investment in new plant and technology has been made to enhance the Division's productivity. The benefits of this policy are showing through in the results. More investment will take place in 2003.

The Division's diverse portfolio of stone products is appreciated by leading Architectural practices working on prestigious schemes, particularly in London and the South East. Recent projects include Somerset House, The Royal Opera House, and currently Trafalgar Square.

Divisional Outlook

The Management structure of the Division has been strengthened to take advantage of the many opportunities that exist in the marketplace. With a healthy order book, the prospects for further growth are encouraging. 2003 will also see a full year contribution from a small but profitable sand and gravel business acquired in December 2002.



Arbroath Abbey. Natural Stone paving

Emerging Businesses Division

Sales in the Division amounted to £32.3 million (2001: £31.5 million) an increase of 2.7 per cent. Following the disposal of the Flooring business in November 2002, the Division now consists of three businesses: Drainage Products, Street Furniture, and Classical Flagstones. The sales of these remaining businesses, on a like for like basis, increased by 12.7 per cent. Operating profits of £4.1 million (2001: £3.9 million) increased by 6.1 per cent.

The reason for the sale of our Flooring business is that we did not see the prospect of Marshalls establishing a major market presence in this sector. It remains the strategy of the Division that we either grow the individual businesses organically, or by acquisition, to create a significant presence in their sector, or we dispose of them. The prospects for the remaining businesses are good as the growth in sales would suggest.

Drainage Products

The business supplies linear drainage for use in road building as well as for commercial and domestic landscaping schemes. Until this year it has been a split site business with some activity on the same site as our Flooring business. Encouraged by the prospect of selling that business, drainage products have now been consolidated on one site. Despite this disruption, the business managed to increase sales by 20.9 per cent in the year.

Street Furniture

The Street Furniture business consists of our own manufactured concrete products and metal telescopic bollards, supplemented by a wide range of factored products. This year saw sales improve by a very encouraging 16.6 per cent. The management of this business has also been strengthened recently. As a result more attention will be given in future to working closely with the rest of the Group on enquiries for projects where our other products are also likely to be specified.

Classical Flagstones

The aspirational ranges of high quality flagstones produced by this business are sold mainly to the domestic market for internal flooring in hallways and kitchens. During the year we encountered difficulties with our production facilities that took some time to resolve. As a consequence we were required to delay fulfilling orders until these problems were corrected. Sales were therefore more than 26 per cent below last year. The business is now back to normal production levels.

Divisional Outlook

The improvements we have made across the Division during 2002 in terms of sales and production, and also in strengthening the management teams, give every reason to believe that the Division will deliver further significant growth in 2003. We are also actively seeking acquisitions to increase the size and market share of each business.

Classical Flagstones, Pennant

Financial Review

2002 was another record year with profits attributable to ordinary shareholders of £33.5 million which represents an increase of 17.4 per cent over the previous year. Dividends to ordinary shareholders increased to 10.00p per share. The key financial highlights are summarised below.

Group Results

Turnover achieved a record £342.1 million (2001: £328.0 million) an increase of 4.3 per cent over the prior year.

Operating profit at £50.3 million (2001: £45.3 million) increased by 11.0 per cent compared to the prior year.

The operating profit of £50.3 million is after charging reorganisation costs of £2.0 million and goodwill amortisation of £1.2 million and therefore operating profit before these items amounted to £53.5 million. In 2001, operating profit was £45.3 million and was after charging exceptional reorganisation costs of £1.6 million, exceptional insurance costs of £1.0 million and goodwill amortisation of £1.0 million and therefore operating profit before these items amounted to £48.9 million. The underlying growth in profits at this level is 9.5 per cent.

The gain on disposal and termination of business relates to the sale of the Group's Flooring business on 29 November 2002 for cash proceeds of £13.1 million and the closure of a related business on the same manufacturing site. The gain on disposal of £2.3 million is disclosed net of goodwill of £1.5 million previously eliminated against reserves.

Net interest costs at £3.2 million (2001: £2.9 million) are covered 16.5 times (2001: 15.5 times).

Profit on ordinary activities before taxation at £49.4 million (2001: £42.7 million) increased by 15.6 per cent.

Street Furniture. Spherical bollards

Taxation

The current taxation charge for 2002 was £14.8 million (2001: £12.5 million) an effective tax rate of 29.9 per cent (2001: 29.3 per cent). The total charge for the year of £15.8 million (2001: £14.0 million) includes a deferred tax charge of £1.0 million (2001: £1.5 million). This follows a change of accounting policy to reflect the adoption of FRS19 "*Deferred Tax*". Full details of the impact of this are set out later in this Financial Review.

Preference Dividends

The preference dividend charge at £0.1 million (2001: £0.2 million) is lower in 2002 due to the cancellation of the 10% cumulative preference shares on 14 June 2002. A repayment of 224p per share was made to shareholders and the excess over the nominal value was paid out of a special reserve created by reducing the Company's share premium account by £1.3 million.

The outstanding 1.1 million 6.5p cumulative redeemable preference shares are no longer convertible and will continue to receive the preferential dividend until 1 October 2003 when they will be redeemed at £1 each.

Ordinary Dividends

An interim dividend of 3.30p (2001: 3.15p) per share was paid on 2 December 2002. A final dividend of 6.70p (2001: 6.35p) per share is now being recommended for payment on 7 July 2003. This gives a total of 10.00p (2001: 9.50p) per share for the year, an increase of 5.3 per cent over 2001. Dividend is covered 2.0 times (2001: 1.8 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 *"Earnings per share"*. The basic earnings per share amounts to 20.05p (2001: 17.11p) an increase of 17.2 per cent.

Balance Sheet

The balance sheet continues to be strengthened with net assets increasing to £202.7 million (2001: £186.7 million). Net assets have been reduced by the prior year adjustment of £18.9 million in relation to deferred taxation. Net assets per share at the year end amount to £1.21 per share (2001: £1.10 per share).

Cash Flow and Borrowings

Cash inflow from operating activities was £54.6 million (£70.7 million). Stock levels increased by £9.7 million to £63.0 million due largely to the unusual trading conditions during the year referred to in the Chairman's Statement on page 5. Measures have been put in place to reduce stock levels in 2003. The Group ended the year with net borrowings of £17.9 million (2001: £12.9 million). Details of the cash movements are included in the cash flow statement on page 38. Gearing at the year end is 8.8 per cent (2001: 6.9 per cent).

The Group has a Multi-Line Facility with The Royal Bank of Scotland plc which is to be renewed in July 2003. 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

At £36.5 million, investment has comfortably exceeded £30 million for the second successive year (2001: £31.3 million). This illustrates our commitment to invest in new and replacement plant and machinery so as to increase automation and improve manufacturing efficiency.

Acquisitions

The Group acquired Lloyds Quarries & Sand & Gravel Co. Limited for a consideration of £4.8 million on 6 December 2002. The company is engaged in the extraction and sale of sand and gravel and is based in North Wales. In accordance with FRS10, "*Goodwill and Intangible Assets*", goodwill of £4.0 million is included in the balance sheet. This will be written off over its useful economic life which the Directors have assessed to be 20 years.

Disposals

On 29 November 2002, the Group sold the trade, fixed assets and stock of its Flooring business to Hanson Building Products for £13.1 million. In addition, we have received the surplus funds that have arisen from the collection of debtors and payment of creditors.

Accounting Standards

The financial statements have been prepared on the basis of the accounting policies set out in the Group's 2001 statutory accounts modified for the adoption of FRS19 "*Deferred Tax*" and consequently the comparatives have been restated. The impact of these changes on the profit for the periods ended 31 December 2002 and 31 December 2001 is to increase the tax charge by £1.0 million and £1.5 million respectively. The impact of these changes on the balance sheet at 31 December 2002 and 31 December 2001 is to reduce shareholders' funds by £19.9 million and £18.9 million respectively.

Whilst the Group continues to account for pension costs in accordance with SSAP 24 "*Accounting for Pension Costs*", it has also followed the transitional arrangements of FRS17 "*Retirement Benefits*" and additional disclosure requirements in respect of retirement benefits have been set out in Note 32 on page 59.

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 minimise 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 page 51 of the Financial Statements. These policies have remained unchanged since 2001.

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.

Total Shareholder Return

At 1 January 1998 the ordinary share price was 128.5p per share. By 31 December 2002 this had improved to 216p per share. When dividends are included this gives a total shareholder return of 109.8 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 (61)

Executive Chairman. Joined the Board in 1993. He is also Chairman of a number of private companies that he owns or in which he has an investment.

John Marshall (58)

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

Graham Holden (43)

Chief Executive of the Landscape Division. 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 Emerging Businesses Division.

Ian Burrell (45)

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.

John Footman (65) *†

Senior Non-Executive Director and Chairman of the Remuneration Committee. Appointed to the Board in 1996 after retiring as a Director of Wolseley Plc.

Dick Barfield (56) *†

Non-Executive Director and Chairman of the Audit Committee. Joined the Board in May 1999. He was, until 1996, Chief Investment Manager at Standard Life, Edinburgh. Mr Barfield is a director of Equitas and Chairman of its investment committee, a Director of New Look plc, Baillie Gifford Japan Trust plc, The Merchants Trust plc, The J.P. Morgan Fleming Overseas Investment Trust plc, and The Edinburgh Investment Trust plc. He is Chairman of Synergy Fund GP Limited.

* 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. 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, employees, customers and suppliers and is committed to good practice.

Statement of Values and Principles

The Group's statement of Values & Principles (which is available on Marshalls web site at www.marshalls.co.uk) sets out the high standards to which all Marshalls' employees are encouraged and expected to adhere.

The statement includes guidance on business practice, entertainment, "whistleblowing" and equal opportunities together with a statement of the Group's Values and Principles.

Health and Safety

The Group is committed to maintaining high standards of health and safety for its employees, customers, contractors and anyone affected by its business activities. This is done through education, training and example. As part of this during 2002, the Group has been running a one day safety awareness course for all its employees which has been designed specifically for Marshalls to comply with its duty to educate all employees. It is backed by the issue of a new Group Employee Health and Safety Handbook.

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 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 47.5 per 1,000 employees in 2001 to 38.8 per 1,000 employees in 2002. Our target is to reduce further RIDDOR injuries by 10 per cent in 2003.

Accidents and Incidents (rate per 1,000 employees)	**2002**	2001
Major injury	**4.5**	5.7
Injury resulting in over 3 days absence from work	**34.3**	41.8
All RIDDORS	**38.8**	47.5
Total headcount	**3,369**	3,281

Perfecta paving & Birco linear drainage. Chineham Court

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 their 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.

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.

Towneley Hall, Burnley. Natural Stone, walling and paving

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 £26,410 (2001 : £15,610). No political donations were made to European Union political parties or organisations during the year.

Environmental Statement

Environmental Policy

Marshalls have a Group Environmental Policy which is reviewed annually and is available on the Marshalls web site. Caring for the environment is an important part of the Marshalls business philosophy. The Group is committed to introducing measures to minimise any possible adverse effects its activities could have on the environment.

In particular, Marshalls aims to improve its environmental performance by implementing a series of objectives to control a number of significant environmental issues. These are to:

- reduce CO_2 emissions through implementation of an Energy Management Programme and by maximising hydraulic system efficiency;
- reduce water consumption from non-recycled sources; and
- reduce virgin raw material use by increased use of recycled material in production.

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

Environmental Management

During the year the Group obtained registration for Environmental Management Systems (EMS) to BS EN ISO14001 at a further three sites. BS EN ISO14001 certification through BSI has now been achieved for 55 per cent of the Landscape Products Division's production capacity.

The Group has also obtained registration for an Integrated Management System (IMS) combining BS EN ISO14001 for Environment, OHSAS18001 for Health and Safety and BS EN ISO9002 2000 at a quarry and manufacturing unit within the Natural Stone Division. Work has already commenced on introducing similar systems at six of the Landscape Products Division's sites. It is intended to roll-out IMS throughout the Group and an ambitious programme for this has been planned to allow all of the Group's thirty three sites to have an IMS by the end of 2005. It is planned for eight sites in the Landscape Products and Natural Stone Divisions to operate IMS by the end of 2003.

The Group has identified the significant environmental impacts of its operations, which are summarised below together with some of the actions taken to minimise them.

Energy

The kilowatt hours required to produce one tonne of finished product across the Group has reduced from 109 kWh per tonne to 103 kWh per tonne, between January 2002 and December 2002. This represents a 5.5 per cent reduction in the use of energy. These figures include energy from all sources including landfill gas energy.

The use of landfill gas in the Clay Products Division has increased during 2002 rising from 8 per cent to 12.5 per cent of the Division's gas requirements.

Energy monitoring equipment continues to be installed across the Group's sites, improving both awareness of energy consumption and providing a close focus on improving energy efficiency. The payback on such equipment is usually under one year and, at one Landscape site energy consumption this year has reduced by 9.2 per cent.

All four manufacturing sites within the Clay Products Division have successfully concluded their first Climate Change Levy Milestone Year. This involved reducing fossil fuel for specific energy consumption by 6.2 per cent when compared with the Climate Change Levy Base Year of 2000. This represents a reduction of more than 3,800 tonnes of CO_2 emissions. Work on further reducing energy consumption in the Clay Products Division continues.

Water Use

Research into the introduction of discharge water generated from the concrete manufacturing process back into the production process has been completed at one of our sites. Initial results are encouraging, suggesting that the contaminated water discharge from the presses can be recycled back into the process without any detriment to either the production process or the performance characteristics of the product. Products produced during the trials are still completing their final weathering testing, but should these prove successful, and early indicators suggest they will, such recycling will be extended throughout the Group significantly reducing demand for mains water.

Significant capital has been spent at two of the Landscape Products Division's largest sites, to develop their drainage systems, allowing both better waste water management and greater use of recycled water in the manufacturing processes. At one site, legal difficulties have delayed implementation.

At other sites in the Landscape Products Division and the Emerging Businesses Division, increased use of water harvesting is being developed, with the long-term aim of achieving a high degree of self-sufficiency in water supply.

Transportation

The Group is actively developing rail and water transportation links for incoming aggregate from its suppliers. During 2002, 2.5 per cent of the Group's aggregates were delivered by rail. Initial trials suggest that up to 10 per cent could be delivered by rail to railheads situated close to manufacturing units. This would lead to a significant saving on road journeys. The issue is currently being reviewed by management.

Delivery of aggregates by water is being investigated at two Landscape Products sites.

Waste Reduction

The Group is working actively to minimise the waste generated from its activities. Waste material generated by the manufacturing process is now being recycled back into the process in the form of crushed aggregate.

In the Landscape Products and Clay Products Divisions, the Group has increased its use of this recycled material by 6 per cent in the last year. There are further initiatives in place which should see a further increase in this percentage during 2003.

Waste material from the Natural Stone Division is crushed and then recycled as a low grade aggregate for sale in the local market place.

In the Landscape Products Division, waste material from other industries is being recycled as an aggregate replacement. Materials utilised include china clay waste, steel slag waste and slate waste. Initial trials have been completed and these indicate that an increase in the proportion of the Group's demand for aggregates could come from recycled waste material by the end of 2003.

Packaging

The Group continues to discharge its responsibility under the Producer Responsibility Obligation (Packaging Waste) Regulations 1997 by payment to Valpak.

The Group has completed its review of packaging requirements and new initiatives to rationalise packaging have been identified without compromising quality.

Waste packaging generated within the manufacturing units continues to be recycled.

Land Management

The Group continues to develop brown field sites. During 2002, development was concentrated on existing sites already utilised for manufacturing purposes by the Group. Two other additional projects required the purchase of brown field sites, one an existing industrial area, the other part of a former power station/gas works site. No development took place on any green field site.

Environmental Impact of Product

The Group continues to develop products which will help in the creation of a more sustainable infrastructure. The Group maintains its stance that its products are intended for a long life with low maintenance, many products having a life well in excess of a hundred years. Over such a life span, the initial environmental impact created during the manufacturing and installation process is minimal. All products produced by the Group can also be easily recycled at the end of their useful life, either in new construction in the case of dry laid product or, when crushed, as a secondary aggregate.

Sustainability

The Group continues to work with Trade Organisations in the development of Sustainability Strategies for the manufacture of building products. During 2002 The Brick Development Association, following its involvement in the Pioneers Group established by DTI and DEFRA, published their Sustainability Strategy, which is supported by the Clay Products Division, who had an active part in the development of the strategy.

Suppliers and Contractors

The Group carries out Supplier Quality Audits, which includes environmental aspects of the suppliers operations. Many medium size suppliers are working towards the introduction of EMS, while most of the Group's larger suppliers have fully operational systems. These systems are reviewed during the audits, which are actively considered when reviewing supplier suitability.

Priora block paving. Sustainable Urban Drainage System

Wildlife Trust

Marshalls strives to conserve natural habitats and creates 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.

Marshalls encourages its manufacturing sites to join local Wildlife Trusts as part of its conservation policy. As an example, the Tees Valley Wildlife Trust surveyed the Landscape Products Division's Eaglescliffe site to ensure it is fully compliant with wildlife legislation and to suggest ways in which they can make a contribution to local conservation.

Environmental Awareness and Training

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.

A Best Practice web site is being established on the Group's Intranet to ensure employees are kept aware of Environmental Best Practice, with particular emphasis on recycling. Training is also provided locally, to ensure that relevant staff are aware of their responsibilities and have the necessary knowledge and skills to perform their roles. The Group also uses Lead Auditor Courses and Environmental Auditing Courses to ensure relevant staff are trained to audit the environmental aspects of the Group's Management Systems.

Environmental Key Performance Indicators

For 2003, the Group has aligned its Environmental Key Performance Indicators with those being developed by the Construction Products Association.

These indicators cover the following areas:

- energy consumption;
- identifying energy from renewable and alternative sources;
- water usage;
- identifying the percentage of recyclable water;
- transportation movements;
- waste reduction;
- reuse of waste by recycling in house and externally; and
- packaging management and the use of recycled material in packaging.

Directors' Report

The Directors have pleasure in submitting their Report and Financial Statements for the year ended 31 December 2002.

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 33 on page 62.

The Chairman's Statement on pages 5 to 7 and the Operating Reviews on pages 8 to 13 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 2002 is shown on page 36. An 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 6.70p per share (2001: 6.35p) which, together with the interim dividend of 3.30p (2001: 3.15p) per share, makes a total for the year ended 31 December 2002 of 10.00p (2001: 9.50p) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 7 July 2003 to shareholders registered at the close of business on 6 June 2003.

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 page 54. Details of outstanding options under Employee Share Schemes are set out in Note 21 on page 55. As outlined in the Financial Review on page 14, the 10% Cumulative Preference Shares were cancelled and repaid during the year.

Acquisitions

On 6 December 2002, the Group acquired the entire issued share capital of Lloyds Quarries & Sand & Gravel Co. Limited, a company engaged in the extraction and sale of sand and gravel.

Disposals

On 29 November 2002, the Group sold the trade, fixed assets and stock of its Flooring business for a cash consideration of £13.1 million. In addition, the Group has received the surplus funds that have arisen from the collection of debtors and payment of creditors.

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 2002 was 46 days (2001 : 49 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. They comprised the Board for the whole of the year under review except that Mr R.B. Illingworth resigned as a Director on 18 February 2002 and ceased to be an employee on 18 March 2002. Mr M.A. Stacey resigned as a Director on 7 January 2003.

In accordance with the Articles of Association, Mr J.D. Marshall and Mr J.W. Footman retire by rotation at the forthcoming Annual General Meeting. Mr J.W. Footman is not seeking re-election, however, Mr J.D. Marshall, being eligible, offers himself for re-election.

Mr J.D. Marshall has a service contract which provides for twelve months' notice of termination by the Company.

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

Substantial Shareholdings

As at 7 March 2003, the Company had been notified of the following substantial interests of 3 per cent or more in its ordinary issued share capital:

	%
Aviva plc	5.73
AXA S.A.	3.64
Sun Life of Canada	3.08
Threadneedle Asset Management Limited	3.00

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 Wednesday 28 May 2003 together with explanatory notes on the resolutions to be proposed is contained in a circular to be sent to shareholders with this Report.

Auditors

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

By Order of the Board
Richard Monro
Company Secretary
7 March 2003

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.

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 2002. 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. For the year ended 31 December 2002, it comprised four Executive Directors and three Non-Executive Directors. Short biographies of each of the current Directors, which illustrate their range of experience, are set out on page 17. Mr M.A. Stacey, an independent Non-Executive Director, resigned on 7 January 2003. Mr M.A.Stacey was a member of both the Audit Committee and the Remuneration Committee for all of the year ended 31 December 2002. The Non-Executive Directors are considered to be independent within the meaning of Provision A3.2 of the Combined Code and represent a source of strong, independent advice and judgement. Mr J.W. Footman is the Senior Independent Non-Executive Director.

The management structure of the Group is currently an Executive Chairman, Finance Director and a Divisional Chief Executive for the Landscape Products Division which represents 75 per cent of Group turnover. The Board believed that this structure was appropriate for Marshalls at this stage of the Group's development. However, the Board now believes that this structure is no longer suitable and the Chairman's Statement details the changes to be made in 2003. These include the separation of the roles of Chairman and Chief Executive in accordance with best practice and the recommendation of the Higgs Report.

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 ten 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 normally 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, which is 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, is comprised only of independent Non-Executive Directors and is chaired by Mr R.A. Barfield. 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 would be more effective for firms of external accountants (other than the Company's Auditors) to carry out regular internal audit assignments. The results of a number of assignments have been reported to the Audit Committee during the year.

Remuneration Committee

The Remuneration Committee is comprised only of independent Non-Executive Directors, meets at least twice a year and is chaired by Mr J.W. Footman. 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 Excecutive Directors. Given the temporary composition of the Board the Nomination Committee currently comprises all the members of the Board. The appointment of Directors is made by the Board through a formal process after considering the Committee's proposals.

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 contained in the Annual Report which is sent to shareholders at least 20 working 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.

Corporate Governance (continued)

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 for the year ended 31 December 2002 and up to the date of this report.

The 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 business reviews from each business unit, and an annual risk assessment carried out by the head of each business unit. From this information, the Committee has compiled a Register which identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have. From this assessment, action programmes have been agreed to manage those risks to the desired level. The 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 2002 by considering reports from both the Audit Committee and the Risk Committee and are of the opinion that a proper system of internal control is in place within the Group.

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 responsible for determining the salary and benefits received by Executive Directors and for overseeing the remuneration of other Senior Executives.

The Remuneration Committee is composed solely of independent Non-Executive Directors and chaired by Mr J.W.Footman. The Committee is assisted in its duties by the Company Secretary, who does not take part in any discussions on his own remuneration or vote on any resolution.

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 Monks Partnership and New Bridge Street Consultants. The Committee is advised internally by the Executive Chairman on salary and incentive packages other than his own. In reviewing Directors' salaries, consideration is given to the levels of increase granted to other employees within the Group. Basic salaries are reviewed annually or when a change of responsibility occurs.

Service Contracts

The Chairman, at his insistence, does not have a service contract. 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 2002 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 and 2002 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 and 2002 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 and 2002 awards is 280p, 380p, 380p and 420p respectively, the Executive Directors receive twice the allotted shares.

For the 2000 plan, the Company's total shareholder return was ranked at the 67th percentile in the comparator group and the earnings per share performance criteria was also met. This will mean that 84 per cent of the initial conditional award for that year will vest on 3 April 2003 at the end of the three year period.

Pensions

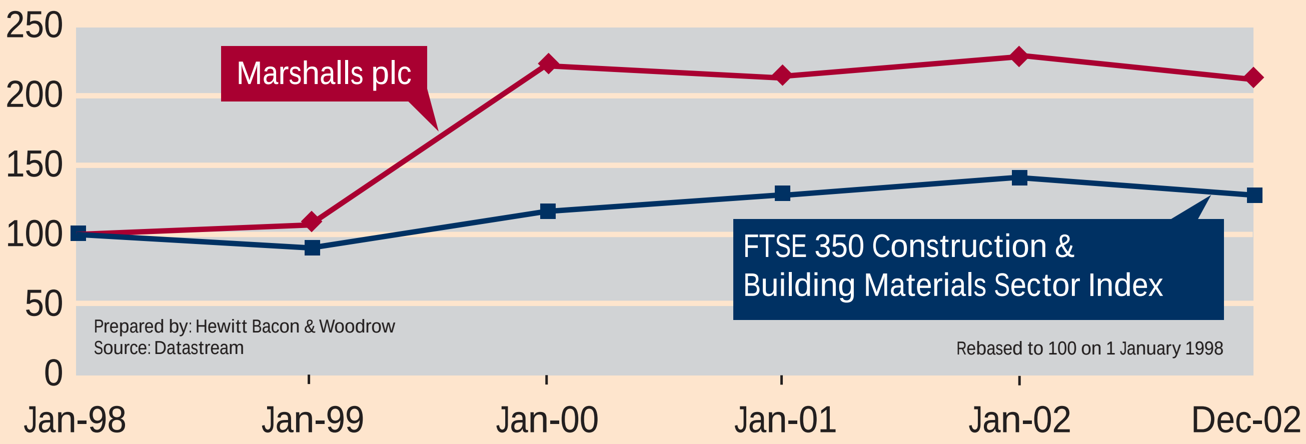
All Executive Directors (except the Chairman and the Finance Director) are members of the Group's Defined Benefit Pension Scheme which provides them with a pension of up to two thirds of pensionable salary upon retirement at age 60, subject to their having completed at least twenty years' service with 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 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 Illingworth details of which are included in the table below. 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. The Company does not intend to renew the Scheme when it terminates in July 2003.

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 1998 to 31 December 2002. TSR is defined as share price growth plus reinvested dividends. This provides a basis for comparison as a relevant equity index in which the Group plc is a constituent member. The Group has a TSR for the five year period of 109.8% compared to a TSR provided by the sector index of 22.1%. 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 end of the year in the ordinary shares of the Company at 1 January 2002 and 31 December 2002 (or in the case of Mr R.B. Illingworth at the date of his resignation) are set out below:

	1 January 2002		31 December 2002	
	Shares	**Options**	**Shares**	**Options**
C.T. Burnett	166,704	-	166,704	-
R.A. Barfield	8,000	-	8,000	-
I.D. Burrell	2,000	55,000	4,000	55,000
J.W. Footman	11,800	–	11,800	–
D.G. Holden	85,688	248,336	85,688	248,336
R.B. Illingworth (resigned 18.02.02)	110,043	67,336	110,043	67,336
J.D. Marshall	557,243	7,336	553,443	7,336
M.A. Stacey (resigned 07.01.03)	4,000	–	4,000	–

Additionally, Mr D.G.Holden and Mr J.D.Marshall have at 31 December 2002 the following ordinary shares respectively available to be called resulting from the vesting of their conditional awards under the Marshalls LTIP:

	Cycle commencing	**Shares vested**	**Available to be called**
D.G. Holden	1998	37,800	26 June 2003
	1999	74,674	8 March 2004
J.D. Marshall	1998	39,518	26 June 2003
	1999	76,622	8 March 2004

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 7 March 2003.

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 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	Performance Related Bonus	Benefits	Termination payment	Total remuneration (excluding pensions)	
					2002	2001
	£'000	£'000	£'000	£'000	£'000	£'000
Executive Chairman						
C.T. Burnett	400	169	29	-	598	328
Executive Directors						
I.D. Burrell	140	59	14	-	213	161
D.G. Holden	200	100	14	-	314	262
R.B. Illingworth (resigned 18.02.02)	28	-	2	143	173	150
J.D. Marshall	122	-	16	-	138	135
Non-Executive Directors						
R.A. Barfield	25	-	-	-	25	25
J.W. Footman	25	-	-	-	25	25
M.A. Stacey (resigned 07.01.03)	25	-	-	-	25	25
Former Directors						
J.G .Aspdin (retired 16.05.01)	-	-	-	-	-	43
	965	328	75	143	1,511	1,154

Notes to Directors' Remuneration

(a) The salaries, fees, performance related bonuses and benefits all relate to the year ended 31 December 2002.

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

(c) The Company made a pension contribution of £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) The Company made a termination payment to Mr R.B. Illingworth following his termination of employment on 18 March 2002. There were no termination payments in 2001.

Pension Benefits (Defined Benefit Scheme)

	Age at 31 December 2002	Years of Service	Accrued entitlement 31 December 2002 (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	43	16	64	17	119
R.B. Illingworth	39	13	41	2	8
J.D. Marshall	57	39	99	2	11

Notes to Pension Entitlements

(a) The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2002.

(b) The increase in accrued pension during the year excludes any increase for deferred revaluation.

(c) The transfer value has been calculated in accordance with Actuarial Guidance Note GN11, excluding inflation and less Directors' contributions.

(d) No accrued lump sum is payable unless part of the accrued pension is commuted.

(e) Mr R.B. Illingworth ceased employment on 18 March 2002. His accumulated total accrued pension is as at that date.

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

	Transfer value as at 31 December 2002	Transfer value as at 31 December 2001	Increase/(decrease) in transfer value less member contribution over the year
	£'000	£'000	£'000
D.G. Holden	373	359	7
R.B. Illingworth	216	262	(64)
J.D. Marshall	1,660	1,669	(19)

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 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 2002	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 2002	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
R.B. Illingworth (resigned 18.02.02) Executive option	60,000	-	60,000	-	216.5p	288.0p	42,900	-	17/04/2004 to 16/04/2011
SAYE	7,336	-	-	7,336	230.0p	-	-	-	01/12/2005 to 31/05/2006
J.D. Marshall SAYE	7,336	-	-	-	230.0p	-	-	7,336	01/12/2005 to 31/05/2006

Notes to Directors' Interests: Share Options

(a) Neither the Chairman nor the Non-Executive Directors held any share options during the year.

(b) The market price of the Company's shares at 31 December 2002 was 216p and the range in the year then ended was 202p to 321p.

(c) The total profit on exercise of options during the year as set out above was £42,900 (2001: £96,250).

(d) 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 29.

Directors' Remuneration Report (continued)

Directors' Interests: Long Term Incentive Plan

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

	Award date	At 1 January 2002 Number	Shares awarded Number	Award lapsed Number	Shares vested Number	At 31 December 2002 Number	Value vested £'000	Vesting date	
I.D. Burrell	16.04.2002	-	23,972	-	-	23,972	-	-	
D.G. Holden	08.03.1999	37,337	-	-	37,337	-	108	08.03.2002	
	08.03.1999	37,337	-	-	37,337	-	108	08.03.2002	see note c
	03.04.2000	25,638	-	-	-	25,638	-	-	
	17.04.2001	34,642	-	-	-	34,642	-	-	
	16.04.2002	-	34,246	-	-	34,246	-	-	
R.B. Illingworth	08.03.1999	32,467	-	-	32,467	-	94	08.03.2002	
(resigned	08.03.1999	32,467	-	-	32,467	-	94	08.03.2002	see note c
18.02.02)	03.04.2000	21,726	-	21,726	-	-			
	17.04.2001	27,713	-	27,713	-	-	-	-	
J.D. Marshall	08.03.1999	38,311	-	-	38,311		111	08.03.2002	
	08.03.1999	38,311	-	-	38,311		111	08.03.2002	see note c
	03.04.2000	25,638	-	-	-	25,638	-	-	

Notes to Directors' Interests: Long Term Incentive Plan

(a) The market price on 8 March 2002 was 289p.

(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 2000 and 2001 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. These conditions were met in respect of the 1999 award and consequently in respect of that year, an additional 108,115 shares were vested of which 37,337 were in respect of Mr D.G. Holden, 32,467 in respect of Mr. R.B. Illingworth and 38,311 in respect of Mr J.D. Marshall.

(d) As noted in the Directors' Report, Mr R.B. Illingworth resigned as a Director on 18 February 2002. He left the Company on 18 March 2002 and, at that date, he had satisfied the conditions for the 1999 LTIP award. The 2000 and 2001 LTIP awards lapsed.

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

Richard Monro
Company Secretary
7 March 2003

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 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 2002 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
Leeds
7 March 2003

Consolidated Profit and Loss Account

for the year ended 31 December 2002

	Notes	**2002**	2001
		£'000	£'000
			(As restated)
Turnover	2	**342,056**	328,036
Operating costs	3	**(291,727)**	(282,703)
Operating profit	2	**50,329**	45,333
Gain on disposals of property	2	**-**	321
Gain on disposal and termination of business	2	**2,255**	-
Profit on ordinary activities before interest		**52,584**	45,654
Interest (net)	5	**(3,193)**	(2,943)
Profit on ordinary activities before taxation	2	**49,391**	42,711
Taxation on profit on ordinary activities	6	**(15,750)**	(14,003)
Profit for the financial year		**33,641**	28,708
Preference dividends: Non equity shares	8	**(137)**	(174)
Profit attributable to ordinary shareholders		**33,504**	28,534
Ordinary dividends: Equity shares	9	**(16,737)**	(15,846)
Retained profit for the financial year	22	**16,767**	12,688
Earnings per share :			
Basic	10	**20.05p**	17.11p
Diluted	10	**20.02p**	17.10p
Adjusted Basic	10	**19.41p**	17.58p
Dividend per share:			
Pence per share	9	**10.00p**	9.50p

The notes on pages 40 to 62 form part of these Financial Statements.
The comparatives have been restated for the effect of FRS19 *"Deferred Tax"*.

Balance Sheets

at 31 December 2002

	Notes	Group 2002 £'000	Group 2001 £'000 (As restated)	Company 2002 £'000	Company 2001 £'000 (As restated)
Fixed assets					
Intangible	11	**24,113**	21,316	**-**	-
Tangible	12	**184,699**	169,902	**11,004**	10,199
Investments	13	**-**	-	**178,394**	174,217
		208,812	191,218	**189,398**	184,416
Current assets					
Stocks	14	**62,978**	54,387	**-**	-
Debtors	15	**30,997**	31,517	**1,598**	2,923
Cash at bank and in hand		**7,307**	14,655	**6,041**	13,715
		101,282	100,559	**7,639**	16,638
Creditors: Amounts falling due within one year	16	**(67,493)**	(66,215)	**(23,280)**	(20,609)
Net current assets / (liabilities)		**33,789**	34,344	**(15,641)**	(3,971)
Total assets less current liabilities		**242,601**	225,562	**173,757**	180,445
Creditors: Amounts falling due after more than one year	17	**(20,003)**	(20,007)	**(20,082)**	(29,883)
Provisions for liabilities and charges	20	**(19,852)**	(18,843)	**(1,000)**	(774)
Net assets		**202,746**	186,712	**152,675**	149,788
Capital and reserves					
Called up share capital	21	**42,007**	43,006	**42,007**	43,006
Share premium account	22	**17,726**	18,910	**17,726**	18,910
Revaluation reserve	22	**5,166**	5,166	**-**	-
Other reserves	22	**14,352**	14,352	**14,505**	14,505
Profit and loss account	22	**123,495**	105,278	**78,437**	73,367
Shareholders' funds		**202,746**	186,712	**152,675**	149,788
Analysis of shareholders' funds					
Equity		**201,638**	184,589	**151,567**	147,665
Non Equity		**1,108**	2,123	**1,108**	2,123
		202,746	186,712	**152,675**	149,788

Approved at a Directors' meeting on 7 March 2003.
On behalf of the Board:

C.T. Burnett
Executive Chairman

I.D. Burrell
Finance Director

The notes on pages 40 to 62 form part of these Financial Statements.
The comparatives have been restated for the effect of FRS19 *"Deferred Tax"*.

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Notes	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Cash inflow from operating activities	24		**54,608**		70,677
Returns on investments and servicing of finance	25(i)		**(3,407)**		(4,118)
Taxation			**(13,301)**		(13,172)
Capital expenditure	25(ii)		**(33,832)**		(30,607)
Acquisitions and disposals	25(iii)		**9,210**		(5,696)
Equity dividends paid			**(16,128)**		(15,239)
Cash (outflow) / inflow before financing			**(2,850)**		1,845
Financing					
Issue of shares		**143**		543	
Repayment of 10% cumulative preference shares		**(2,274)**		-	
Costs associated with share cancellation		**(52)**		-	
Decrease in debt and lease financing		**(2,315)**		(262)	
			(4,498)		281
(Decrease) / increase in cash in the year			**(7,348)**		2,126

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2002 £'000	2001 £'000
(Decrease) / increase in cash in the year		**(7,348)**	2,126
Cash outflow from decrease in debt and lease financing		**2,315**	262
Change in net debt resulting from cash flows		**(5,033)**	2,388
Loans issued on acquisition of businesses		**-**	(6,408)
Movement in net debt in the year	28	**(5,033)**	(4,020)
Net debt at beginning of year		**(12,862)**	(8,842)
Net debt at end of year	28	**(17,895)**	(12,862)

The notes on pages 40 to 62 form part of these Financial Statements

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2002

	2002 £'000	2001 £'000 (As restated)
Profit for the financial year	**33,641**	28,708
Total recognised gains for the year	**33,641**	28,708
Prior year adjustment (Note 23)	**(18,843)**	
Total recognised gains since last annual report	**14,798**	

Consolidated Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2002

	2002 £'000	2001 £'000 (As restated)
Profit for the financial year	**33,641**	28,708
Dividends (preference and ordinary)	**(16,874)**	(16,020)
Retained profit for the financial year	**16,767**	12,688
New share capital issued	**143**	552
Repayment and cancellation of 10% Cumulative Preference Shares	**(2,274)**	-
Costs associated with share cancellation	**(52)**	-
Write off on issue of shares to QUEST	**-**	(9)
Goodwill previously eliminated against reserves on sale and termination of business	**1,450**	-
Net additions to shareholders' funds	**16,034**	13,231
Shareholders' funds at beginning of year (originally £205,555,000 restated for prior year adjustment of £18,843,000)	**186,712**	173,481
Shareholders' funds at end of year	**202,746**	186,712

The notes on pages 40 to 62 form part of these Financial Statements.
The comparatives have been restated for the effect of FRS19 *"Deferred Tax"*.

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, except for the implementation of FRS 19 *"Deferred Tax"*.

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 2002 as set out in Note 32.

The Group has adopted FRS19 *"Deferred Tax"* during the current period and therefore the comparatives have been restated because it has a material impact on the Group's financial position. The changes have been dealt with as a prior year adjustment as set out in Note 23. The impact of these changes on the profit for the period ended 31 December 2002 and 31 December 2001 is to increase the tax charge by £978,000 and £1,503,000 respectively. The impact of these changes on the balance sheet at 31 December 2002 and 31 December 2001 is to reduce shareholders' funds by £19,852,000 and £18,843,000 respectively.

b Basis of consolidation

The Group Financial Statements include the Financial Statements of the Company and its subsidiary undertakings made up to 31 December 2002. 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 SSAP 13 "*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 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 Tax"*, 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	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Landscape Products	**254,515**	247,585	**38,530**	34,441
Clay Products	**30,252**	29,401	**4,372**	4,482
Natural Stone	**24,958**	19,567	**3,282**	2,503
Emerging Businesses	**32,331**	31,483	**4,145**	3,907
	342,056	328,036	**50,329**	45,333
Gain on disposals of property			**-**	321
Gain on disposal and termination of business			**2,255**	-
Interest (net)			**(3,193)**	(2,943)
Profit on ordinary activities before taxation			**49,391**	42,711

The gain on disposal and termination of business 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.

	Net Assets	
	2002	2001
	£'000	£'000
		(As restated)
Landscape Products	**171,437**	142,248
Clay Products	**40,780**	43,910
Natural Stone	**28,120**	25,094
Emerging Businesses	**10,076**	15,083
	250,413	226,335
Unallocated net liabilities	**(47,667)**	(39,623)
	202,746	186,712

2 **Segmental analysis** (continued)

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

	2002	2001
	£'000	£'000
Geographical destination of sales:		
United Kingdom	**337,101**	322,846
Rest of the World	**4,955**	5,190
	342,056	328,036

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

3 **Operating costs**

	2002	2001
	£'000	£'000
Raw materials and consumables	**116,966**	103,544
Changes in stocks of finished goods	**(8,580)**	4,101
Staff costs (Note 4)	**82,845**	76,655
Depreciation - owned	**15,839**	14,605
- leased	**9**	11
Own work capitalised	**(2,113)**	(2,391)
Other operating income	**(337)**	(735)
Other external charges:		
Other external charges before reorganisation and exceptional costs	**83,899**	83,381
Reorganisation costs	**2,009**	-
Exceptional reorganisation costs	**-**	1,564
Exceptional insurance costs	**-**	944
Amortisation of goodwill	**1,190**	1,024
	291,727	282,703

Operating profit is stated after charging/(crediting):

Auditors' remuneration	**115**	75
Other fees paid to the auditors and their associates	**13**	9
Leasing costs	**3,254**	3,084
Hire of plant and machinery	**2,898**	2,822
Development expenditure	**2,113**	2,447
(Profit)/loss on sale of tangible fixed assets other than property sales	**(66)**	301

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 (2001: £19,000).

4 Employees

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

	2002 Number	2001 Number
Landscape	**2,537**	2,509
Clay	**359**	366
Natural Stone	**225**	180
Emerging Businesses	**248**	226
	3,369	3,281

Staff costs (including Directors):

	2002 £'000	2001 £'000
Wages and salaries	**74,048**	68,205
Social security costs	**6,811**	6,455
Other pension costs	**1,986**	1,995
	82,845	76,655

Staff costs disclosed above do not include redundancy costs of £1,502,000 in 2002 included within reorganisation costs and £1,564,000 in 2001 included within exceptional reorganisation costs.

5 Interest (net)

	2002 £'000	2001 £'000
(a) Interest payable and similar charges:		
Bank loans, overdrafts, loan notes and other interest payable	**959**	839
Debenture interest	**2,275**	2,275
Finance leases	**2**	4
	3,236	3,118
(b) Other interest receivable and similar income	**(43)**	(175)
	3,193	2,943

6 Taxation on profit on ordinary activities

	2002 £'000	2001 £'000 (As restated)
United Kingdom corporation tax at 30.0% (2001: 30.0%)	**14,772**	12,500
Deferred taxation (Note 20)	**978**	1,503
	15,750	14,003

6 Taxation on profit on ordinary activities (continued)

The tax assessed for the year is not equal to the standard rate of corporation tax in the UK of 30.0% (2001: 30.0%). The differences are explained below:

	2002 £'000	2001 £'000 (As restated)
Profit on ordinary activities before taxation	**49,391**	42,711
Profit on ordinary activities multiplied by standard rate in the UK (30.0%) (2001: 30.0%)	**14,817**	12,813
Effects of:		
Disallowed amortisation of goodwill	**357**	307
Net items not taxable	**576**	883
Accelerated capital allowances and other timing differences	**(978)**	(1,503)
Current tax charge for the year	**14,772**	12,500
Effective rate of current tax	**29.9%**	29.3%

Based on current capital investment plans, the Company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

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 £21,944,000 (2001: £5,111,000) which is dealt with in the Financial Statements of the Company.

8 Preference dividends: Non equity shares

	2002 per share	2002 £'000	2001 per share	2001 £'000
Cumulative redeemable preference shares of 20p each	**6.50p**	**73**	6.50p	73
10% cumulative preference shares of £1 each		**64**		101
		137		174

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

9 Ordinary dividends: Equity shares

	2002 per share	2002 £'000	2001 per share	2001 £'000
Interim: Paid 2 December 2002	**3.30p**	**5,523**	3.15p	5,246
Final: Proposed	**6.70p**	**11,214**	6.35p	10,600
	10.00p	**16,737**	9.50p	15,846

10 Earnings per share

	2002 £'000	2001 £'000 (As restated)
Profit for the financial year attributable to ordinary shareholders	**33,504**	28,534
Profit for the financial year attributable to ordinary shares and potentially dilutive ordinary shares	**33,504**	28,534
Adjusted basic earnings per share reconciliation:		
Profit for the financial year	**33,504**	28,534
Goodwill amortisation	**1,190**	1,024
Gain on disposals of property	**-**	(321)
Gain on disposal and termination of business	**(2,255)**	-
Taxation	**-**	94
	32,439	29,331
Weighted average number of shares	**167,130,230**	166,804,445
Weighted average number of shares	**167,130,230**	166,804,445
Potentially dilutive shares	**247,797**	45,244
	167,378,027	166,849,689
Basic earnings per share	**20.05p**	17.11p
Diluted earnings per share	**20.02p**	17.10p
Adjusted basic earnings per share	**19.41p**	17.58p

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of £33,504,000 (2001: £28,534,000) by the weighted average number of shares in issue during the year of 167,130,230 (2001: 166,804,445).

Diluted earnings per share is calculated by dividing profit attributable to ordinary shares and potentially ordinary dilutive shares of £33,504,000 (2001: £28,534,000) by the weighted average number of shares in issue during the year of 167,130,230 (2001: 166,804,445), plus potentially dilutive shares of 247,797 (2001: 45,244) which totals 167,378,027 (2001: 166,849,689).

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, gain on disposals of property, the gain on disposal and termination of business and the associated taxation. The comparative adjusted basic earnings per share has been restated to ensure comparability with the current year. In the year ended 31 December 2002, reorganisation costs of £2.0 million have not been disclosed as exceptional and consequently the adjusted basic earnings per share for the year ended 31 December 2001, as disclosed above, makes no adjustment for operating exceptional items.

11 Intangible fixed assets

	Goodwill £'000
Group	
Cost	
At 1 January 2002	**23,880**
Additions (Note 26)	**3,987**
At 31 December 2002	**27,867**
Amortisation	
At 1 January 2002	**2,564**
Amounts provided	**1,190**
At 31 December 2002	**3,754**
Net book value	
At 31 December 2002	**24,113**
At 31 December 2001	21,316

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 2002	**94,013**	**197,950**	**291,963**	**3,793**	**11,406**	**15,199**
Reclassification	**(25)**	**25**	**-**	**-**	**-**	**-**
Additions	**10,835**	**25,686**	**36,521**	**91**	**1,838**	**1,929**
On acquisition of subsidiary undertakings (Note 26)	**329**	**414**	**743**	**-**	**-**	**-**
Disposals	**(4,154)**	**(10,811)**	**(14,965)**	**-**	**(153)**	**(153)**
At 31 December 2002	**100,998**	**213,264**	**314,262**	**3,884**	**13,091**	**16,975**
Accumulated depreciation						
At 1 January 2002	**19,551**	**102,510**	**122,061**	**220**	**4,780**	**5,000**
Amounts provided	**2,381**	**13,467**	**15,848**	**59**	**1,031**	**1,090**
Disposals	**(963)**	**(7,383)**	**(8,346)**	**-**	**(119)**	**(119)**
At 31 December 2002	**20,969**	**108,594**	**129,563**	**279**	**5,692**	**5,971**
Net book value						
At 31 December 2002	**80,029**	**104,670**	**184,699**	**3,605**	**7,399**	**11,004**
At 31 December 2001	74,462	95,440	169,902	3,573	6,626	10,199

12 Tangible fixed assets (continued)

The net book value of tangible fixed assets includes £10,000 (2001: £29,000) in respect of assets held under finance leases of which £Nil (2001: £Nil) relates to the Company.

Group cost or valuation of land and buildings and plant and machinery includes £4,874,000 (2001: £5,266,000) and £1,574,000 (2001: £13,125,000) 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	**52,549**	**10,204**	**100**	**62,853**
Accumulated depreciation	**(19,308)**	**(1,585)**	**(76)**	**(20,969)**
Net book value at 31 December 2002	**68,801**	**11,204**	**24**	**80,029**
Amount not depreciable	**27,359**	**9,145**	**-**	**36,504**
Comparable amounts determined according to the historical cost convention				
Cost	**84,942**	**12,986**	**100**	**98,028**
Accumulated depreciation	**(21,307)**	**(1,782)**	**(76)**	**(23,165)**
Historical net book value at 31 December 2002	**63,635**	**11,204**	**24**	**74,863**

The Company's freehold land and buildings are stated at cost £1,312,000 (2001: £1,221,000) and the amount is not depreciable.

13 Investment in subsidiary undertakings

Company	Shares £'000	Loans £'000	Total £'000
Cost			
At 1 January 2002	**59,680**	**151,972**	**211,652**
Movement in the year	**-**	**8,339**	**8,339**
Reclassification	**4**	**-**	**4**
Eliminated on liquidation of subsidiaries	**(37,435)**	**-**	**(37,435)**
At 31 December 2002	**22,249**	**160,311**	**182,560**
Provisions			
At 1 January 2002	**37,435**	**-**	**37,435**
Amounts provided	**1,967**	**2,199**	**4,166**
Eliminated on liquidation of subsidiaries	**(37,435)**	**-**	**(37,435)**
At 31 December 2002	**1,967**	**2,199**	**4,166**
Net book value			
At 31 December 2002	**20,282**	**158,112**	**178,394**
At 31 December 2001	22,245	151,972	174,217

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 33. In February 2002, a number of non-trading subsidiaries were placed into Members' Voluntary Liquidation and, in each case, a final distribution was paid to Marshalls plc. As a consequence of these transactions, the provisions against the carrying value of these investments have been utilised in the year.

14 Stocks

	Group	
	2002	2001
	£'000	£'000
Raw materials and consumables	**10,729**	11,225
Finished goods and goods for resale	**52,249**	43,162
	62,978	54,387

15 Debtors

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Trade debtors	**26,766**	25,614	**-**	-
Other debtors	**1,090**	3,099	**766**	2,447
Taxation and social security	**14**	233	**1**	-
Prepayments and accrued income	**3,127**	2,571	**831**	476
	30,997	31,517	**1,598**	2,923

No debtors were due after more than one year.

16 Creditors: Amounts falling due within one year

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Loans (Note 18)	**5,196**	7,500	**5,196**	7,500
Trade creditors	**28,064**	29,782	**909**	895
Corporation tax	**9,095**	7,222	**4,801**	38
Taxation and social security	**4,240**	2,427	**206**	205
Other creditors	**2,522**	3,542	**121**	672
Accruals	**7,159**	5,134	**830**	691
Dividends proposed	**11,217**	10,608	**11,217**	10,608
	67,493	66,215	**23,280**	20,609

17 Creditors: Amounts falling due after more than one year

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Loans (Note 18)	**20,000**	20,000	**20,000**	20,000
Other creditors	**3**	7	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**82**	9,883
	20,003	20,007	**20,082**	29,883

Finance lease instalments included in other creditors are repayable:

between two and five years	**-**	3	**-**	-
between one and two years	**3**	4	**-**	-
within one year	**3**	10	**-**	-
	6	17	**-**	-

18 Loans

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
11.375% debenture stock 1992/2014	**20,000**	20,000	**20,000**	20,000
Unsecured loan stock 2005	**-**	1,092	**-**	1,092
Unsecured loan stock 2001	**5,196**	6,408	**5,196**	6,408
	25,196	27,500	**25,196**	27,500

which are repayable:

in five years or more	**20,000**	20,000	**20,000**	20,000
within one year	**5,196**	7,500	**5,196**	7,500
	25,196	27,500	**25,196**	27,500

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 2005

The Unsecured loan stock 2005 was repaid in full during the year.

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 holder's 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 in issue the following non-equity share capital funding instruments:

- Unsecured loan stock 2001 as deailed 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
- Cumulative preference shares at 10% also as detailed in Note 21 and redeemed in the 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 foreign currency risk. Finance leases are controlled, managed and approved centrally to ensure that financed assets will generate the required returns.

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 2001.

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 2.4% (2001: 3.2%) for the year.

19 Financial instruments (continued)

At 31 December 2002 79% (2001: 73%) of the Groups borrowing 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	
	2002	2001	**2002**	2001	**2002**	2001
	£'000	£'000	**%**	%	**Years**	Years
Fixed rate liabilities: Sterling	**20,006**	20,017	**11.4**	11.4	**11.5**	12.5
Floating rate liabilities: Sterling	**5,196**	7,500				
Total financial liabilities	**25,202**	27,517				

Currency exposures

At 31 December 2002 the Group had no material currency exposures and there were no outstanding forward currency contracts.

Maturity of financial liabilities

At 31 December 2002, 79% (2001: 73%) 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 2002 is as follows:

	2002	2001
	£'000	£'000
In one year or less, or on demand	**5,199**	7,510
In more than one year but not more than two years	**3**	4
In more than two years but not more than five years	**-**	3
In more than five years	**20,000**	20,000
	25,202	27,517

Borrowing facilities

The Group has various undrawn committed borrowing facilities available to it. The facilities available at 31 December 2002, in respect of which all conditions precedent had been met, were as follows:

	2002	2001
	£'000	£'000
Expiring in one year or less	**30,000**	25,000

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 2002 are shown below:

	2002		2001	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Cash at bank	**7,307**	**7,307**	14,655	14,655
Short term financial liabilities and current portion of long term borrowings	**5,202**	**5,202**	7,517	7,517
Long term borrowings	**20,000**	**26,759**	20,000	27,134
Cumulative redeemable preference shares of 20p each	**1,108**	**1,108**	1,108	1,108
10% cumulative preference shares of £1 each	**-**	**-**	1,015	1,015

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 2002 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% (2001: 30.0%) is:

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Accelerated capital allowances	**19,241**	18,399	**784**	638
Short term timing differences	**611**	444	**216**	136
	19,852	18,843	**1,000**	774

	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
At 1 January 2002 as previously reported	**-**	-	**-**	-
Prior year adjustment (Note 23)	**18,843**	17,340	**774**	467
At 1 January 2002 – restated	**18,843**	17,340	**774**	467
On acquisition of subsidiary undertakings	**31**	-	**-**	-
Charge in the year	**978**	1,503	**226**	307
At 31 December 2002	**19,852**	18,843	**1,000**	774

21 Share capital

	2002 Number '000	2001 Number '000	2002 £'000	2001 £'000
Authorised:				
Ordinary shares of 25p each	**209,465**	209,465	**52,366**	52,366
Cumulative redeemable preference shares of 20p each	**63,095**	63,095	**12,619**	12,619
10% cumulative preference shares of £1 each	**1,015**	1,015	**1,015**	1,015
			66,000	66,000
Allotted, called up and fully paid:				
Ordinary shares of 25p each	**167,146**	167,081	**41,785**	41,769
Cumulative redeemable preference shares of 20p each	**1,108**	1,108	**222**	222
10% cumulative preference shares of £1 each	**-**	1,015	**-**	1,015
			42,007	43,006

During the year 65,142 ordinary shares were issued as follows:

	Number '000	Nominal value £'000	Share premium £'000
Options exercised at 216.5p per share	**60**	**15**	**115**
Issued at 246.5p per share	**1**	**-**	**3**
Issued at 223.0p per share	**4**	**1**	**9**
	65	**16**	**127**

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.

Following the last opportunity to convert the outstanding shares they have now become cumulative redeemable preference shares which will be redeemed on 1 October 2003 at £1 per share.

21 Share capital (continued)

10% Cumulative Preference Shares

On 22 May 2002, shareholder approval was received for the cancellation of the 10% Cumulative Preference Shares and an amount was repaid to shareholders of 224p per share.

The sum of 224p per share was determined by the Board after taking into account the value of comparable fixed interest instruments. This sum was higher than the amount per share to which holders of 10% Cumulative Preference Shares were strictly entitled on a return of capital under the Company's Articles of Association (which provided broadly, for payment of the greater of the nominal value of £1 and a sum based on the average of middle market quotations for the six months preceding the relevant date). In addition, each 10% Cumulative Preference Shareholder received the fixed dividend accrued and unpaid on those shares to (and including) the date of repayment.

The cost to the Company of the cancellation and repayment, before expenses, was £2,274,000 and was funded from the Company's existing bank facilities.

The excess of the amount repaid to the 10% Cumulative Preference Shareholders over the nominal value of the 10% Cumulative Preference Shares was paid out of a reserve created by reducing the Company's share premium account by £1,259,000. Both the cancellation of the 10% Cumulative Preference Shares and the reduction of share premium account were subject to the approval of the Ordinary Shareholders and the 10% Cumulative Preference Shareholders, the sanction of the 10% Cumulative Preference Shareholders at a Class Meeting and the confirmation of the Court. The Capital Reduction did not become effective until Court Approval was received on 14 June 2002.

Savings-Related Share Option Scheme

Details of the options outstanding at 31 December 2002 are:

Number of options outstanding		Number of ordinary shares		Exercise price	Normally exercisable between
31 December 2002	31 December 2001	**31 December 2002**	31 December 2001		
264	317	**279,435**	330,296	230.0p	1 Dec 2003 - 31 May 2004
701	809	**1,573,927**	1,775,527	230.0p	1 Dec 2005 - 31 May 2006
965	1,126	**1,853,362**	2,105,823		

Employee Profit Sharing Scheme

At 31 December 2002 the scheme held 51,227 (2001: 156,055) ordinary shares in the Company.

Executive Share Option Schemes

Details of the options outstanding at 31 December 2002 are:

Number of options outstanding		Number of ordinary shares		Exercise price	Normally exercisable between
31 December 2002	31 December 2001	**31 December 2002**	31 December 2001		
1	2	**161,000**	221,000	216.5p	17 Apr 2004 – 16 Apr 2011
2	2	**135,000**	135,000	219.5p	16 Oct 2004 – 15 Oct 2011
3	4	**296,000**	356,000		

22 Reserves

	Share premium account £'000	Special reserve £'000	Other Reserves: Revaluation reserve £'000	Other Reserves: Capital redemption reserve £'000	Other Reserves: Merger reserve £'000	Profit and loss account £'000
Group:						
At 1 January 2002: as originally stated	**18,910**	**-**	**5,166**	**1,261**	**13,091**	**124,121**
Prior year adjustment	**-**	**-**	**-**	**-**	**-**	**(18,843)**
At 1 January 2002: as restated	**18,910**	**-**	**5,166**	**1,261**	**13,091**	**105,278**
Retained profit for the financial year	**-**	**-**	**-**	**-**	**-**	**16,767**
Goodwill previously eliminated against reserves on sale and termination of business	**-**	**-**	**-**	**-**	**-**	**1,450**
Shares issued in the year	**127**	**-**	**-**	**-**	**-**	**-**
Special reserve transfer	**(1,259)**	**1,259**	**-**	**-**	**-**	**-**
Write off on cancellation of 10% Cumulative Preference Shares	**-**	**(1,259)**	**-**	**-**	**-**	**-**
Costs associated with share cancellation	**(52)**	**-**	**-**	**-**	**-**	**-**
At 31 December 2002	**17,726**	**-**	**5,166**	**1,261**	**13,091**	**123,495**
Company:						
At 1 January 2002: as originally stated	**18,910**	**-**	**-**	**1,261**	**13,244**	**74,141**
Prior year adjustment	**-**	**-**	**-**	**-**	**-**	**(774)**
At 1 January 2002: as restated	**18,910**	**-**	**-**	**1,261**	**13,244**	**73,367**
Retained profit for the financial year	**-**	**-**	**-**	**-**	**-**	**5,070**
Shares issued in the year	**127**	**-**	**-**	**-**	**-**	**-**
Special reserve transfer	**(1,259)**	**1,259**	**-**	**-**	**-**	**-**
Write off on cancellation of 10% Cumulative Preference Shares	**-**	**(1,259)**	**-**	**-**	**-**	**-**
Costs associated with share cancellation	**(52)**	**-**	**-**	**-**	**-**	**-**
At 31 December 2002	**17,726**	**-**	**-**	**1,261**	**13,244**	**78,437**

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 (2001: £39,022,000).

22 Reserves (continued)

On 14 June 2002 a transfer of £1,259,000 was made in Marshalls plc between the share premium account and a special reserve created to write off the excess over nominal value of the amount repaid to the 10% Cumulative Preference Shareholders (Note 21).

The prior year adjustment is reported in Note 23.

23 Prior year adjustment

The prior year adjustment reflects the adoption of FRS19 *"Deferred Tax"* with effect from 1 January 2002. The previous policy of the Company was to provide for taxation on the timing differences between profits computed for taxation purposes and profits per the Financial Statements only to the extent that such taxation was likely to be payable in the foreseeable future. FRS19 requires that full provision be made for deferred taxation. This change in accounting policy results in a prior year adjustment, reducing shareholders' funds at 1 January 2001 by £17,340,000 and by £18,843,000 at 1 January 2002. In addition, the taxation charges for years ended 31 December 2001 and 31 December 2002 have been increased by £1,503,000 and £978,000 due to the change in accounting policy.

24 Reconciliation of operating profit to cash inflow from operating activities

	2002	2001
	£'000	£'000
Operating profit	**50,329**	45,333
Amortisation charges	**1,190**	1,024
Depreciation charges	**15,848**	14,616
(Profit)/loss on sale of tangible fixed assets	**(66)**	301
(Increase)/decrease in stocks	**(9,721)**	3,663
(Increase)/decrease in debtors	**(964)**	4,276
(Decrease)/increase in creditors	**(2,008)**	1,464
Cash inflow from operating activities	**54,608**	70,677

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

	2002	2001
	£'000	£'000
(i) **Returns on investments and servicing of finance**		
Interest received	**11**	175
Interest paid	**(3,279)**	(4,115)
Preference dividend paid	**(137)**	(174)
Interest element of finance lease rental payments	**(2)**	(4)
	(3,407)	(4,118)
(ii) **Capital expenditure**		
Purchase of tangible fixed assets	**(36,521)**	(31,276)
Sale of tangible fixed assets	**2,689**	669
	(33,832)	(30,607)
(iii) **Acquisitions and disposals**		
Purchase of a business (Note 26)	**(3,890)**	(5,696)
Disposal and termination of business (Note 2)	**13,100**	-
	9,210	(5,696)

26 Purchase of subsidiary undertakings

	2002 £'000	2001 £'000
Fixed assets (Note 12)	**743**	4,001
Stocks	**4**	708
Debtors	**379**	1,751
Cash balance	**899**	57
Creditors	**(1,081)**	(1,570)
Deferred tax (Note 20)	**(31)**	-
Net assets acquired	**913**	4,947
Goodwill (Note 11)	**3,987**	7,214
	4,900	12,161
Satisfied by:		
Cash	**4,750**	5,180
Loan notes	**-**	6,408
Costs	**150**	573
	4,900	12,161

On 6 December 2002, Marshalls Mono Limited acquired the entire issued share capital of Lloyds Quarries & Sand & Gravel Co. Limited, a business engaged in the extraction and sale of sand and gravel.

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 disclosure has been provided on the face of the profit and loss account.

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

	2002 £'000	2001 £'000
Cash consideration (Note 26)	**4,750**	5,180
Expenses of acquisition	**39**	573
Cash at bank and in hand acquired	**(899)**	(57)
	3,890	5,696

28 Analysis of net debt

	2002 £'000	Cash flow £'000	2001 £'000
Cash in hand and at bank	**7,307**	**(7,348)**	14,655
Debt due after one year	**(20,000)**	**-**	(20,000)
Debt due within one year	**(5,196)**	**2,304**	(7,500)
Finance leases	**(6)**	**11**	(17)
Total net debt	**(17,895)**	**(5,033)**	(12,862)

29 Capital commitments

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Capital expenditure that has been contracted for but for which no provision has been made in the Financial Statements	**15,613**	10,359	**-**	-

30 Leasing commitments

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
At 31 December 2002 there were annual commitments under non-cancellable operating leases in respect of plant, machinery and vehicles as follows:				
Expiring:				
within one year	**361**	479	**8**	14
between two and five years	**3,549**	2,929	**85**	73
	3,910	3,408	**93**	87

31 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, irrevocable letters of credit for £1,075,000 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 period ended 31 October 2003 respectively.

32 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 2001 using the discounted income projected unit method. The main actuarial assumptions used for accounting purposes were investment returns exceeding salary growth by 2.5% per annum and pension increases of 3.0% per annum for pre 6 April 1997 benefits and at 4.5% per annum for post 6 April 1997. The valuation showed that the market value of the Scheme's assets at 6 April 2001 was £118.5 million. The actuarial value of the assets was £94.6 million which covered the accrued liabilities by 109% on an ongoing basis. The Actuary recommended that the surplus be eliminated by reducing the company contributions over the balance of the members' working lifetimes. Following this actuarial valuation, employer contributions have been at the rate of 6.75% of pensionable pay. This includes the age-related national insurance rebates payable by the Contributions Agency. During the year, active members on average contributed 5.65% of pensionable salaries. The defined benefit scheme charge for the year was £1,718,000 (2001: £1,793,000).

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 £268,000 (2001: £202,000).

32 Pension scheme (continued)

FRS17

Whilst the Company continues to account for pension costs in accordance with SSAP 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 2002.

Main assumptions for FRS17 purposes:	**31 December 2002**	31 December 2001
Discount rate	**5.50%**	6.00%
Rate of increase in salaries	**3.50%**	4.00%
Rate of increase in pensions payment	**3.10%**	3.10%
Inflation rate	**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 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%**	**67,921**	6.75%	85,175
Bonds	**4.50%**	**27,340**	4.75%	26,228
Other	**4.50%**	**1,077**	4.75%	1,951
		96,338		113,354

The following amounts at 31 December 2002 and 31 December 2001 were measured in accordance with the requirements of FRS17:

	2002 £'000	2001 £'000
Total market value of assets	**96,338**	113,354
Present value of Scheme liabilities	**(142,270)**	(129,073)
Deficit in the Scheme	**(45,932)**	(15,719)
Related deferred tax asset	**13,780**	4,716
Net pension liability	**(32,152)**	(11,003)

32 Pension scheme (continued)

If the above amounts had been recognised in the Financial Statements the Groups net assets and profit and loss reserve at 31 December 2002 and 31 December 2001 would be as follows:

	2002	2001
	£'000	£'000
		(As restated)
Net assets excluding pension liability	**202,746**	186,712
Net pension liability	**(32,152)**	(11,003)
Net assets including pension liability	**170,594**	175,709
Profit and loss reserve excluding pension liability	**123,495**	105,278
Net pension liability	**(32,152)**	(11,003)
Profit and loss reserve including pension liability	**91,343**	94,275

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 Financial Reporting Standard is fully adopted.

The Scheme assets, the majority of which are equities, are potentially subject to significant market movements. During the year ended 31 December 2002, the FTSE All Share Index fluctuated between 30% higher and 12% lower than its value at the balance sheet date.

The Scheme's liabilities are measured by reference to long-term AA corporate bond yields that can again move significantly and according to market conditions. The yield on the AA corporate bond index used was in the range 5.5% to 6.0% in the year 2002.

The following amounts would have been recognised in the performance statements in the year ended 31 December 2002 under the requirements of FRS17:

	£'000
Operating profit:	
Current service cost	**3,853**
Gain on curtailment relating to disposal and termination of business	**(541)**
Total operating charge	**3,312**
Other finance income (net):	
Expected return on pension scheme assets	**7,049**
Interest on pension scheme liabilities	**(7,763)**
Net return	**(714)**
Consolidated statement of total recognised gains and losses ("STRGL"):	
Actual return less expected return on pension scheme assets	**(22,825)**
Experience gains and losses arising on the Scheme liabilities	**2,666**
Changes in assumptions underlying the present value of the Scheme liabilities	**(8,031)**
Actuarial loss recognised in STRGL	**(28,190)**

32 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 2002	**(15,719)**
Movement in year:	
Current service cost	**(3,853)**
Contributions	**2,003**
Other finance income (net)	**(714)**
Actuarial loss	**(28,190)**
Gain on curtailment relating to disposal and termination of business	**541**
Deficit in the Scheme at 31 December 2002	**(45,932)**

Details of experience gains and losses for the year ended 31 December 2002 were:	£'000
Difference between the expected and actual return on the Scheme assets	**(22,825)**
Percentage of the Scheme assets	**24%**
Experience gains and losses on the Scheme liabilities	**2,666**
Percentage of the present value of the Scheme liabilities	**2%**
Total amount recognised in the STRGL	**(28,190)**
Percentage of the present value of the Scheme liabilities	**20%**

33 Subsidiary undertakings

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2002 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 and roadstone.
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.
Rhino Protec Limited	Manufacture, installation and supplier of security barriers.
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.

* held by subsidiary undertaking

Shareholder Information

Shareholder analysis at 31 December 2002

Size of Shareholding	*Number of Shareholders*	*%*	*Number of Ordinary Shares*	*%*
1 to 500	2,124	39.5	270,734	0.2
501 to 1,000	666	12.4	488,313	0.3
1,001 to 2,500	919	17.1	1,611,654	1.0
2,501 to 5,000	676	12.6	2,470,943	1.5
5,001 to 10,000	412	7.7	2,902,440	1.7
10,001 to 25,000	243	4.5	3,750,116	2.2
25,001 to 100,000	152	2.8	7,961,544	4.8
100,001 to 250,000	74	1.4	12,499,603	7.5
250,001 to 500,000	41	0.7	14,892,069	8.9
500,001 and above	72	1.3	120,298,252	71.9
	5,379	100.0	167,145,668	100.0

Financial calendar

Preliminary Announcement of results for the year ended 31 December 2002	Announced	7 March 2003
Annual General Meeting		28 May 2003
Final dividend for the year ended 31 December 2002	Payable	7 July 2003
Interim results for the year ending 31 December 2003	Announcement	September 2003
Interim dividend for the year ending 31 December 2003	Payable	8 December 2003
Results for the year ending 31 December 2003	Announcement	Early March 2004

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 Report and Accounts, 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 1998 £'000 (As restated)	Year to December 1999 £'000 (As restated)	Year to December 2000 £'000 (As restated)	Year to December 2001 £'000 (As restated)	**Year to December 2002 £'000**
Turnover	253,935	278,547	298,179	328,036	**342,056**
Operating profit before operating exceptional costs and goodwill amortisation	34,790	42,868	43,782	48,865	**51,519**
Operating exceptional costs	-	-	(1,106)	(2,508)	**-**
Goodwill amortisation	(143)	(629)	(768)	(1,024)	**(1,190)**
Operating profit	34,647	42,239	41,908	45,333	**50,329**
Gain on disposals of property	43	515	2,720	321	**-**
Gain on disposal and termination of business	-	-	-	-	**2,255**
Profit on ordinary activities before interest	34,690	42,754	44,628	45,654	**52,584**
Interest (net)	(1,145)	(2,110)	(2,772)	(2,943)	**(3,193)**
Profit on ordinary activities before taxation	33,545	40,644	41,856	42,711	**49,391**
Taxation on profit on ordinary activities	(10,897)	(12,664)	(12,770)	(14,003)	**(15,750)**
Profit for the financial year	22,648	27,980	29,086	28,708	**33,641**
Preference dividends: Non equity shares	(4,090)	(3,596)	(2,359)	(174)	**(137)**
Profit attributable to ordinary shareholders	18,558	24,384	26,727	28,534	**33,504**
Ordinary dividends: Equity shares	(8,784)	(10,431)	(13,964)	(15,846)	**(16,737)**
Retained profit for financial year	9,774	13,953	12,763	12,688	**16,767**
Earnings per share:	p	p	p	p	**p**
Basic	14.82	19.14	18.91	17.11	**20.05**
Diluted	13.40	17.00	18.89	17.10	**20.02**
Adjusted basic*	13.67	16.98	16.73	17.58	**19.41**
Dividends per share	7.00	8.00	9.00	9.50	**10.00**

* Adjusted basic earnings per share are adjusted for goodwill amortisation, gain on disposals of property, 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	144,915	154,056	164,911	191,218	**208,812**
Net current assets	35,509	41,314	47,254	34,344	**33,789**
Total assets less current liabilities	180,424	195,370	212,165	225,562	**242,601**
Creditors due after more than one year	(20,294)	(20,027)	(21,344)	(20,007)	**(20,003)**
Provision for liabilities and charges	(15,306)	(16,270)	(17,340)	(18,843)	**(19,852)**
Net assets	144,824	159,073	173,481	186,712	**202,746**
Net funds / (borrowings)	(6,331)	(6,451)	(8,842)	(12,862)	**(17,895)**
Gearing ratio	(4.4)%	(4.1)%	(5.1)%	(6.9)%	**(8.8)%**

The comparatives have been restated for the effect of FRS 19 *"Deferred Tax"*.