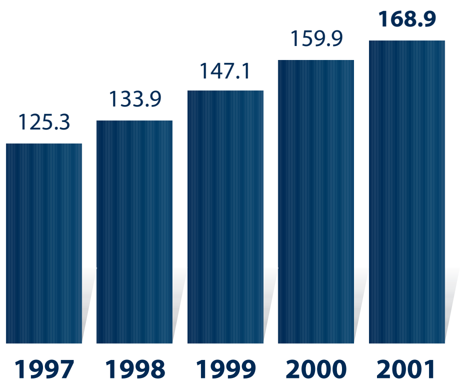
INTERIM REPORT 2001

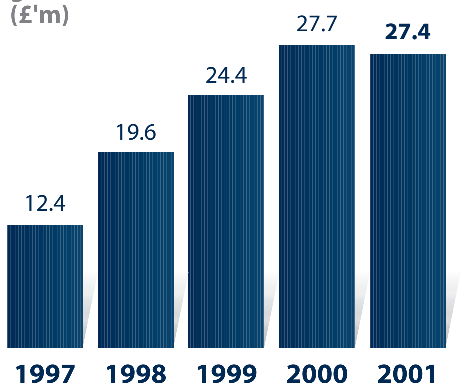
Marshalls

FINANCIAL HIGHLIGHTS

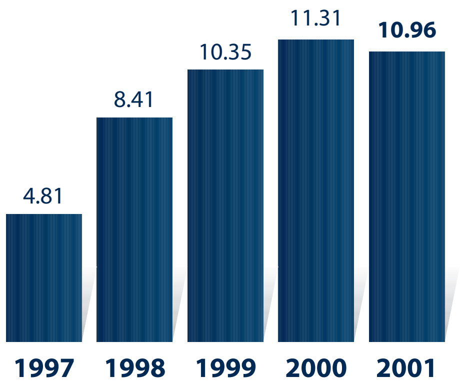
Turnover (£'m)



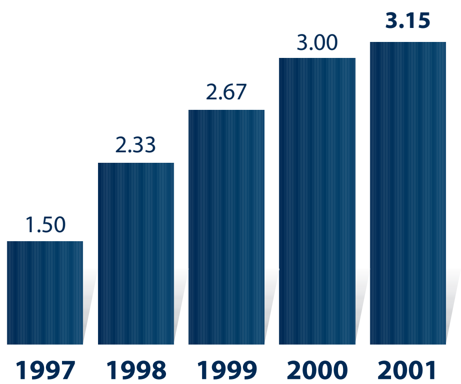
Operating profit before reorganisation and other exceptional costs and goodwill amortisation (£'m)



Adjusted basic earnings per share (pence)



Dividends per ordinary share (pence)



CHAIRMAN'S STATEMENT

Following a weak first quarter, activity picked up significantly in the second three months, particularly in the Landscape Products Division where second quarter sales increased by 11.4 per cent compared with 2000. As a result, Group turnover in the six months to 30 June 2001 at £168.9 million (2000: £159.9 million) was 5.6 per cent ahead of the same period last year.

However, due to the poor start to the year, Group operating profit for the half year, before reorganisation and other exceptional costs and goodwill amortisation, at £27.4 million (2000: £27.7 million) was 1.2 per cent below the same period last year. Profit before tax was 6.8 per cent lower than last year after taking into account reorganisation and other exceptional costs of £1.3 million (2000: £0.6 million), slightly increased goodwill amortisation, and reduced profit on property disposals of £0.3 million (2000: £0.8 million). Adjusted basic earnings per share are 10.96p (2000: 11.31p).

Compared with the weaker second six months last year, trading activity this year has so far been strong, and therefore, as previously indicated, the anticipated improvement in operating profit in 2001 is expected to be biased towards the second half.

Following acquisitions and increased capital expenditure in the period, net borrowings at the end of June 2001 amounted to £20.8 million (2000: £7.7million), a gearing ratio of 10.3 per cent (2000: 4.1 per cent).

The Board has decided to declare an interim dividend of 3.15p (2000: 3.00p) per ordinary share, an increase of 5.0 per cent. The dividend will be paid on 3 December 2001 to shareholders on the register on 2 November 2001.

Landscape Products Division

The Division achieved sales of £129.9 million (2000: £123.3 million), 5.3 per cent ahead of the first half last year. Operating profit before reorganisation and other exceptional costs and goodwill amortisation at £21.3 million (2000: £21.0 million) was 1.2 per cent ahead of the same period last year. The loss of margin on the increased sales was due almost entirely to the lower sales in the first quarter adversely affecting production and distribution efficiencies. Better weather in April and over the Easter Bank Holiday saw volumes lift substantially and this trend continued for the rest of the first half.

The sales growth achieved in the six months clearly demonstrates that the Marshalls brand of block paving and garden and patio products continues to gain market share. Our marketing programme and register of approved product installers, together with the expansion of our national network of Service Centres that provide excellent product availability and delivery service to our builders merchant customers, are the main factors driving sales growth. Eight of these centres are now fully operational and a further four will be on stream in 2002.

Stonemarket, which continues to build its own separate brand identity for its garden and patio products, was also affected by the very slow start to the year by its garden centre customers, but then accelerated ahead to record sales 10.5 per cent above 2000 in the half year.

Clay Products Division

The Division increased sales by 2.1 per cent to £15.2 million (2000: £14.8 million) in the first six months, against the background of a 6.3 per cent decline in Industry brick volumes in the half year.

Our sales mix in this first half, however, was weighted towards the lower value engineering bricks and this together with general price pressure had an impact on margin. The adverse mix and lower production in the period, combined to neutralise the benefits achieved from the overhead reduction and efficiency improvement programme. Operating profit before reorganisation and other exceptional costs was therefore the same as last year at £2.7 million (2000: £2.7 million).

Emerging Businesses Division

This Division, made up of smaller but important Group businesses, achieved sales of £23.8 million (2000: £21.8 million), an increase of 9.4 per cent. More than half this increase was due to the inclusion of two new business activities in street furniture and natural stone which were not part of the Group last year.

Operating profit before reorganisation and other exceptional costs and goodwill amortisation at £3.4 million (2000: £4.0 million) was, however, 15.0 per cent below last year. Two of the existing businesses, Natural Stone and Drainage Products, were responsible for the reduction. Natural Stone was unable to match the volume of business achieved last year associated with the completion of millennium projects. Drainage Products that rely to a large extent on the Government's road programme were held back by a lack of activity.

Outlook

The Landscape Products Division has seen the sales momentum in the second quarter maintained into the second half of the year. There is no doubt that pent up demand exists, especially in the domestic sector of the market. The developments we have communicated to shareholders, including the roll out of the Service Centre concept, are showing benefits to us and our customers, and this gives us considerable confidence in our ability to improve still further customer service and operating efficiency.

The Clay Products Division, which specialises in the commercial sector of the brick market, will continue to experience price pressure as our competitors that service new house building seek to move surplus brick production through the commercial sector. This is because the level of new house building is still not encouraging. We anticipate that this margin impact will again offset to some extent the benefits from our profit improvement programme.

The Emerging Businesses Division will include a second half contribution from Stancliffe Stone, our recently announced acquisition and, despite the fact that our existing Natural Stone business will be below last year, the total turnover for the Division will be ahead of last year.

In summary, provided that current trading conditions continue, and having regard to the weaker second half last year, we expect to improve operating profit in the full year compared with 2000.

CHRISTOPHER BURNETT
Chairman
6 September 2001

Consolidated profit and loss account

for the half year ended 30 June 2001

	Notes	*Unaudited Half year ended June* **2001** **£'000**	*2000* *£'000*	*Audited Year ended December 2000* *£'000*
Turnover	1	**168,852**	159,919	298,179
Operating costs		**143,221**	133,209	256,271
Operating profit				
Before reorganisation and other exceptional costs and goodwill amortisation		**27,351**	27,694	43,782
Reorganisation and other exceptional costs	3	**(1,304)**	(611)	(1,106)
Goodwill amortisation		**(416)**	(373)	(768)
	1	**25,631**	26,710	41,908
Gain on disposal of property		**321**	824	2,720
Profit on ordinary activities before interest		**25,952**	27,534	44,628
Interest – net		**1,642**	1,447	2,772
Profit on ordinary activities before taxation	1	**24,310**	26,087	41,856
Taxation on profit on ordinary activities		**7,073**	7,500	11,700
Profit for the financial period		**17,237**	18,587	30,156
Preference dividends – non equity shares		**87**	1,544	2,359
Profit attributable to ordinary shareholders		**17,150**	17,043	27,797
Earnings per share:				
Basic	4	**10.29p**	12.80p	19.67p
Diluted	4	**10.27p**	11.11p	19.65p
Adjusted Basic	4	**10.96p**	11.31p	17.86p
Dividends declared:				
Pence per share		**3.15p**	3.00p	9.00p
Cost (£'000)		**5,246**	3,987	13,964

Consolidated balance sheet

as at 30 June 2001

		Unaudited June		Audited December
		2001	2000	2000
	Notes	**£'000**	£'000	£'000
Fixed assets				
Intangible		**20,823**	13,773	15,126
Tangible		**160,818**	141,888	149,785
		181,641	155,661	164,911
Current assets				
Stocks		**51,774**	51,927	57,342
Debtors - due within one year		**66,541**	64,321	31,976
- due after more than one year		**2,171**	–	2,171
Cash at bank and in hand		**6,929**	12,494	12,529
		127,415	128,742	104,018
Creditors: amounts falling due within one year		**78,533**	73,857	56,764
Net current assets		**48,882**	54,885	47,254
Total assets less current liabilities		**230,523**	210,546	212,165
Creditors: amounts falling due after more than one year		**27,751**	22,118	21,344
Net assets	2	**202,772**	188,428	190,821
Capital and reserves				
Called up share capital		**42,919**	43,505	42,911
Share premium		**18,492**	15,057	18,453
Revaluation reserve		**5,166**	5,166	5,166
Other reserves		**10,274**	10,274	10,274
Profit and loss account		**125,921**	114,426	114,017
Shareholders' funds		**202,772**	188,428	190,821
Analysis of shareholders' funds				
Equity		**200,649**	141,467	188,698
Non equity		**2,123**	46,961	2,123
Shareholders' funds		**202,772**	188,428	190,821

Consolidated cash flow statement

for the half year ended 30 June 2001

	Notes	Unaudited Half year ended June 2001 £'000	Unaudited Half year ended June 2000 £'000	Audited Year ended December 2000 £'000
Cash flow from operating activities	5	**19,710**	14,723	48,254
Returns on investments and servicing of finance		**(1,616)**	(4,120)	(5,836)
Taxation		**(4,144)**	(3,265)	(12,773)
Capital expenditure		**(15,755)**	(8,623)	(20,325)
Acquisitions and disposals		**(3,826)**	–	(680)
Equity dividends paid		**–**	–	(11,070)
Cash outflow before use of liquid resources and financing		**(5,631)**	(1,285)	(2,430)
Management of liquid resources		**–**	2,650	2,650
Financing		**31**	(119)	1,061
(Decrease)/increase in cash in the period		**(5,600)**	1,246	1,281

Reconciliation of net cash flow to movement in net debt

	2001	2000	2000
(Decrease)/increase in cash in the period	**(5,600)**	1,246	1,281
Cash outflow from decrease in debt and lease financing	**16**	159	596
Cash inflow from decrease in liquid resources	**–**	(2,650)	(2,650)
Change in net debt resulting from cash flows	**(5,584)**	(1,245)	(773)
New finance leases and loans on acquisition of businesses	**–**	–	(279)
Loans issued on acquisition of businesses	**(6,408)**	–	(1,327)
Translation differences	**–**	(12)	(12)
Movement in net debt in the period	**(11,992)**	(1,257)	(2,391)
Net debt at beginning of period	**(8,842)**	(6,451)	(6,451)
Net debt at end of period	**(20,834)**	(7,708)	(8,842)
Net gearing	**10.3%**	4.1%	4.6%

Other primary statements

for the half year ended 30 June 2001

	Unaudited Half year ended June 2001	*2000*	*Audited Year ended December 2000*
	£'000	*£'000*	*£'000*
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial period	**17,237**	18,587	30,156
Exchange differences on foreign currency loan	**–**	(12)	(12)
Total recognised gains and losses relating to the period	**17,237**	18,575	30,144

	Unaudited Half year ended June 2001	*2000*	*Audited Year ended December 2000*
	£'000	*£'000*	*£'000*
RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS			
Profit for the financial period	**17,237**	18,587	30,156
Dividends	**(5,333)**	(5,531)	(16,323)
Other recognised gains and losses	**–**	(12)	(12)
New share capital issued	**47**	41	2,853
Write off on issue of shares to QUEST	**–**	–	(1,186)
Share issue costs	**–**	–	(10)
Net additions to shareholders' funds	**11,951**	13,085	15,478
Shareholders' funds at beginning of period	**190,821**	175,343	175,343
Shareholders' funds at end of period	**202,772**	188,428	190,821

Notes to the interim statements

1. Analysis of turnover and operating profit

(a) Turnover

	Unaudited Half year ended June 2001 £'000	*Unaudited Half year ended June 2000 £'000*	*Audited Year ended December 2000 £'000*
Landscape	**129,894**	123,318	226,431
Clay	**15,155**	14,840	28,093
Emerging Businesses	**23,803**	21,761	43,655
	168,852	159,919	298,179

(b) Operating profit

	Operating profit before reorganisation and other exceptional costs and goodwill amortisation			Operating profit		
	Unaudited Half year ended June		*Audited Year ended December*	*Unaudited Half year ended June*		*Audited Year ended December*
	2001	*2000*	*2000*	***2001***	*2000*	*2000*
	£'000	*£'000*	*£'000*	***£'000***	*£'000*	*£'000*
Landscape	**21,263**	21,015	32,219	**20,018**	20,448	31,442
Clay	**2,704**	2,700	4,679	**2,505**	2,370	4,153
Emerging Businesses	**3,384**	3,979	6,884	**3,108**	3,892	6,313
	27,351	27,694	43,782	**25,631**	26,710	41,908
Property				**321**	824	2,720
Interest				**(1,642)**	(1,447)	(2,772)
Profit before tax				**24,310**	26,087	41,856

2. Analysis of net assets

	2001 £'000	*2000 £'000*	*2000 £'000*
Landscape	**145,029**	135,626	130,311
Clay	**45,076**	44,047	45,102
Emerging Businesses	**28,020**	23,013	20,122
	218,125	202,686	195,535
Unallocated net liabilities	**(15,353)**	(14,258)	(4,714)
	202,772	188,428	190,821

Unallocated net liabilities comprise non-operating assets and liabilities of a financing nature, principally net borrowings, corporation tax, dividends payable and capitalised goodwill. There is no material inter-segmental turnover.

3. Reorganisation and other exceptional costs

Reorganisation and other exceptional costs include £1.1million (2000: £0.6million) in respect of reorganisaton costs and £0.2million (2000: Nil) in respect of known irrecoverable non-compulsory insurance prepayments and claims relating to Independent Insurance. Further one-off costs of up to £0.7million (2000: Nil) may potentially arise in the second half in the event that employers liability insurance costs become irrecoverable.

Notes to the interim statements (continued)

4. Earnings per share

	Unaudited Half year ended June 2001 £'000	Unaudited Half year ended June 2000 £'000	Audited Year ended December 2000 £'000
Profit for the financial period	**17,150**	17,043	27,797
Profit for the financial period attributable to ordinary shares and potentially ordinary dilutive shares	**17,150**	18,537	27,797
Adjusted basic earnings per share reconciliation:			
Profit for the financial period	**17,150**	17,043	27,797
Reorganisation and other exceptional costs	**1,304**	611	1,106
Goodwill amortisation	**416**	373	768
Gain on disposal of property	**(321)**	(824)	(2,720)
Taxation	**(286)**	61	451
Cumulative redeemable preference dividend	**–**	1,457	2,185
	18,263	18,721	29,587
Weighted average number of shares	**166,706,938**	133,185,177	141,334,404
Weighted average number of shares	**166,706,938**	133,185,177	141,334,404
Dilutive shares	**250,174**	33,723,471	171,396
	166,957,112	166,908,648	141,505,800
Weighted average number of shares	**166,706,938**	133,185,177	141,334,404
Conversion of cumulative redeemable preference shares	**–**	32,283,622	24,345,026
	166,706,938	165,468,799	165,679,430
Basic earnings per share	**10.29p**	12.80p	19.67p
Diluted earnings per share	**10.27p**	11.11p	19.65p
Adjusted basic earnings per share	**10.96p**	11.31p	17.86p

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 reorganisation and other exceptional costs, goodwill amortisation, gain on disposal of property and the associated taxation. It is also adjusted for the conversion of cumulative redeemable preference shares of 20p each on 1 October 2000 and the associated preference dividend as though converted on the first day of the period.

5. Reconciliation of operating profit to cash flow from operating activities

	£'000	£'000	£'000
Operating profit	**25,631**	26,710	41,908
Amortisation charges	**416**	373	768
Depreciation charges	**6,860**	6,393	12,825
Loss/(profit) on sale of tangible fixed assets	**3**	(35)	36
Decrease/(increase) in stocks	**6,134**	(7,631)	(12,896)
(Increase)/decrease in debtors	**(32,796)**	(25,750)	6,899
Increase/(decrease) in creditors	**13,462**	14,663	(1,286)
	19,710	14,723	48,254

6. Other

The above financial information does not constitute statutory accounts. The financial information for the year ended 31 December 2000 has been extracted from the statutory accounts for that period which have been delivered to the Registrar of Companies and contain an unqualified audit report. An interim dividend of 3.15p per ordinary share will be paid on 3 December 2001 to shareholders on the register at the close of business on 2 November 2001.

REVIEW REPORT AND SHAREHOLDER INFORMATION

INDEPENDENT REVIEW REPORT BY KPMG AUDIT PLC TO MARSHALLS PLC

Introduction

We have been instructed by the company to review the financial information set out on pages 3 to 8 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' Responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: *Review of interim financial information* issued by the Auditing Practices Board.

A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2001.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
6 September 2001

Notes

a) The maintenance and integrity of the Marshalls Plc web site is the responsibility of the directors; the work carried out by KPMG Audit Plc does not involve consideration of these matters and, accordingly, they accept no responsibility for any changes that may have occurred to the interim report/statement or their review report since they were initially presented on the web site.

b) Legislation in the United Kingdom governing the preparation and dissemination of interim reports/statements may differ from legislation or other regulatory requirements in other jurisdictions.

FINANCIAL CALENDAR

Interim results for the year ended December 2001	6 September 2001
Interim dividend for the year ended December 2001	3 December 2001
Results for the year ended December 2001	March 2002
Report and accounts for the year ended December 2001	April 2002
Annual General Meeting	May 2002
Final dividend for the year ended December 2001	1 July 2002

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 0001, Fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

A copy of this report is being sent to the holders of listed securities of the Company and further copies are available for members of the public, on application to the Company Secretary, Marshalls Plc, Birkby Grange, Birkby Hall Road, Huddersfield, HD2 2YA, Telephone: 01422 306400, Fax: 01422 306478.

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This report is also available on the Marshalls Website