



# ANNUAL REPORT 2011



LG Arena, Birmingham, La Linia, Light Granite

## Financial Highlights

### Reported results:

• Revenue	£334.1m	up 8%
• EBITDA	£35.0m	up 10%
• Operating profit	£16.7m	up 29%
• Profit before tax	£13.7m	up 32%
• Basic EPS (continuing operations)	6.30p	up 50%
• Basic EPS (total operations)	3.78p	up 1%
• Dividends declared and paid	5.25p	
• Final dividend recommended	3.50p	
• Net debt	£77.1m	



*Tegula Palissades, Grey*

## Corporate Objectives

Marshalls' vision is to be the supplier of choice to the landscape architect and contractor for architectural landscaping and to the consumer for garden and driveway improvement projects.

Customers are at the centre of our business. Marshalls supplies its customers with innovatively designed ranges of the highest quality landscape and walling products and provides outstanding levels of customer service in our chosen markets.

Marshalls is committed to maintaining and developing its market leading position. At the same time the Group is committed to conducting business in a manner which achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility.

Marshalls undertakes to deliver superior rates of return to its shareholders and provide opportunities and reward for its employees.

## Cautionary Statement

Please read the full cautionary statement which can be found on page 55.





*Drivesett Tegula Deco, Traditional*

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# Chairman's Statement

## Flexibility and sales market outperformance in uncertain times

In my statement last year I highlighted the continuing market uncertainty around the shape of economic recovery. It is no surprise to record that 2011 has been another challenging year with depressed levels of construction activity, some reduction in public spending and low consumer confidence.

Against this background and the current expectation that any general economic recovery will be slow, your Board has continued its strategy of ensuring that Marshalls retains maximum flexibility whilst at the same time seeking opportunities to grow revenues ahead of market and improve margins and cash performance in order to grow shareholder value.

Your Company retains flexibility through a well invested operating base, available additional capacity of at least 25 per cent, tight control of costs and cash, and good financial headroom. This is important to enable Marshalls to react swiftly to changes in demand or conditions in this period of uncertainty.

This year I am particularly encouraged by our sales performance. In total, sales for the year of £334 million are 8.2 per cent higher than in 2010. This reflects the success to date of key elements of our strategy including:

1. Focusing our Public Sector and Commercial end market activities on those areas where we expect future spending to be relatively high, such as education, rail, home and retail;
2. Providing a fully integrated product offer to the Public Sector and Commercial end market uniquely providing a "one-stop shop" for all products that landscape architects need to produce imaginative, practical and cost effective designs;
3. Continuing to build our Installer Register to increase consumer awareness of our products and reinforce the product quality and excellent customer service Marshalls provides;
4. Increasing investment in merchandising displays to provide a showcase for our

- premium and added value products to the Domestic end market; and
5. Cautious and low risk International expansion.

We have benefitted from sales to the Olympics site, which are now coming to an end. Sales have been around £10 million which is at the top end of our target range. We are proud to have been involved with this important project, which will be a showcase for Britain.

During the year we made a small, low risk opportunistic investment to acquire a business in Belgium. This will provide a foothold in Europe enabling us to market manufactured concrete products and natural stone from India and China more widely. International sales were 3 per cent of Group sales in 2011, up from 1 per cent in 2010. Our target is to grow International sales to 10 per cent of Group sales by 2015.

The operating margin, before the net gain on asset and property disposals, for 2011 was 4.6 per cent compared with 4.1 per cent in 2010, levels somewhat lower than we aspire to. The Board clearly recognises the need to improve margins and this will be a key area for the Board's focus during 2012.

Looking forward we expect another challenging year. Our lead indicators for the Public Sector and Commercial end market show some weakness in the second half and overall a small reduction in activity for the year. In the Domestic end market there are some signs of consumer confidence stabilising albeit at a relatively low level.

We will continue to focus on opportunities to grow revenues, reduce costs and deliver efficiency improvements whilst retaining operational and financial flexibility. Whilst the economic outlook is challenging we are confident in our strategy and the progress we are making and accordingly the Board has decided to maintain the dividend at the same level as last year.

At the beginning of each year a number of Board priorities are agreed. Last year these included continued focus on strategy, greater exposure to executive management below Board level and increased contact with investors.

The Board agenda is firmly focused on strategy and detailed reviews of key aspects such as International expansion have been undertaken during the year. In addition, the Board has met and received presentations from all members of the senior executive team as well as holding a number of individual meetings. This has been very beneficial both in terms of input and knowledge on particular business issues but also enabling the Board to form a view on the strength of the organisation. Also as part of our Board development we looked particularly at how the Board worked together in order to ensure we were achieving the maximum benefit from the skills, knowledge and experience around the table.

The Board actions we have highlighted for 2012 include ongoing focus of the Board on strategy and value creation. In addition, we have identified a number of specific areas for the Board to consider including, for example, contingency planning. Also I and my fellow Non-Executive Directors would welcome greater contact with investors. I plan to report on these initiatives next year.

During the year I have visited many of our locations and have seen first hand the excellent work our employees do and their tremendous commitment to the Business. The Group has strong values and carries out business in a responsible way and I believe treats people with respect. There are quite a number of employees who have worked over 25 years with Marshalls, a fact we are proud of, and these now include our Chief Executive, Graham Holden, who completed 25 years at the end of 2011. It would be wrong not to record this and our gratitude to Graham for his leadership and commitment in establishing Marshalls as the Company it is today.

I would like to thank all our employees for the job they do, their support and ongoing commitment to Marshalls.

**Andrew Allner**  
**Chairman**  
**9 March 2012**



*Sunderland Marina, Keyblok Buff*



# Business Review

## Business Profile

Marshalls is a market focused UK Group combining inspirational design and innovative products and services to aid the transformation of Britain's patios, driveways and urban and commercial landscapes. Marshalls is committed to quality in everything it does, including the achievement of high environmental and ethical standards and continual improvement in health and safety performance.

The Group manufactures and supplies landscape, driveway and garden products from a range of materials including concrete, natural stone, iron, steel, wood, glass and polyurethane, to the Domestic and Public Sector and Commercial end markets. In Domestic end markets, home improvement and home building projects are the largest users of the Group's products. In Public Sector and Commercial end markets, customers use Marshalls' products to transform landscapes including retail and industrial developments and new build as well as repair and maintenance projects.

Marshalls' customers are the large builders' merchant groups, independent builders' merchants, garden centres, contractors, Local Authorities and domestic consumers.

The Group operates its own quarries and manufacturing sites throughout the UK, including a national network of manufacturing and distribution sites. Products are distributed from this network of sites either to customers' depots or, at their request, direct to site. As a result of International investment there are now two additional operating sites in Belgium and the Group is well placed to extend its customer base into wider European markets. Ethically sourced natural stone products are imported from India, China and Vietnam to supply both UK and European markets.

## Current Strategy

During the last few years the Group's main focus has been to respond to the impact of the recession and Marshalls continues to balance short term performance with medium term investment.

Against the backdrop of an uncertain economic environment the Group has focused on short term actions to create greater levels of certainty by reducing cost and conserving cash by tight control of working capital and capital expenditure. These actions have been balanced with the need to protect, and continue to build on, Marshalls' market leading capability for the medium term. The Group has concentrated its sales effort on market sectors where activity is more robust, and has continued to invest in innovation to reduce its operating costs and extend its competitive advantage through new product development and service solutions. These initiatives have been providing the foundations for a return to sustainable growth and both sales and production are now on an upward trend. The Group's strategic focus has now turned to recovery and preparation for growth.

There continues to be a potential for growth in the Group's existing markets and also additional opportunities in new market areas. Three areas have been identified to generate sustainable outperformance. These are:

1. Targeted marketing and product innovation in the Public Sector and Commercial end market to provide a broader range of product solutions;
2. Enhanced merchandising initiatives and increasingly developed links with installers to drive market share and improved product mix in the Domestic end market; and
3. International expansion, selling a range of innovative premium landscape products into new markets.

## Business Review (continued)

### Long Term Strategy and Business Objectives

The Group's objective is to emerge from the current economic downturn in a stronger position and consequently, the longer term strategic objectives which are set out below, remain the Group's cornerstone objectives.

The Group aims to deliver superior returns for shareholders, in a sustainable way, from the timely and efficient supply of high quality, value for money landscaping and walling products. The continued objective is to exceed the expectations of its customers in all end markets through quality materials produced, administered, delivered and sold by highly motivated and engaged employees.

### Long Term Corporate Objectives

Marshalls' long term corporate objectives are to deliver:

1. Sustainable revenue growth of 7 per cent or more based on a compound annual growth rate ("CAGR") over a three year period;
2. Annual earnings per share growth of RPI plus 9 per cent, with a target of RPI plus 21 per cent over a three year period;
3. Annual operating cash flow growth of RPI plus 9 per cent, with a target of RPI plus 21 per cent over a three year period;
4. A dividend policy where dividends will move in line with medium term earnings growth; and
5. Return on capital employed of 15 per cent per annum.

### Long Term Strategy

The strategy to achieve these objectives is:

- 1 To deliver sustainable shareholder value by improving the profitability of the Group's operations and optimising the operating performance of the business.

This objective is supported by selective investment in market and brand development, developing long term customer relationships, continually innovating and introducing new products and services to meet the needs of consumers and installers that have been identified through extensive market research and investing in manufacturing technology to improve the quality of products. The Group continues to develop, innovate and improve its unique sourcing, manufacturing and distribution network, reducing costs wherever possible. The business ensures it has high quality, timely management information and analysis, and uses this to focus on areas for improvement.

2. To maintain a strong market position and sustainable profitability with the national builders' merchants and the Public Sector and Commercial end market and to improve market share in other target markets.

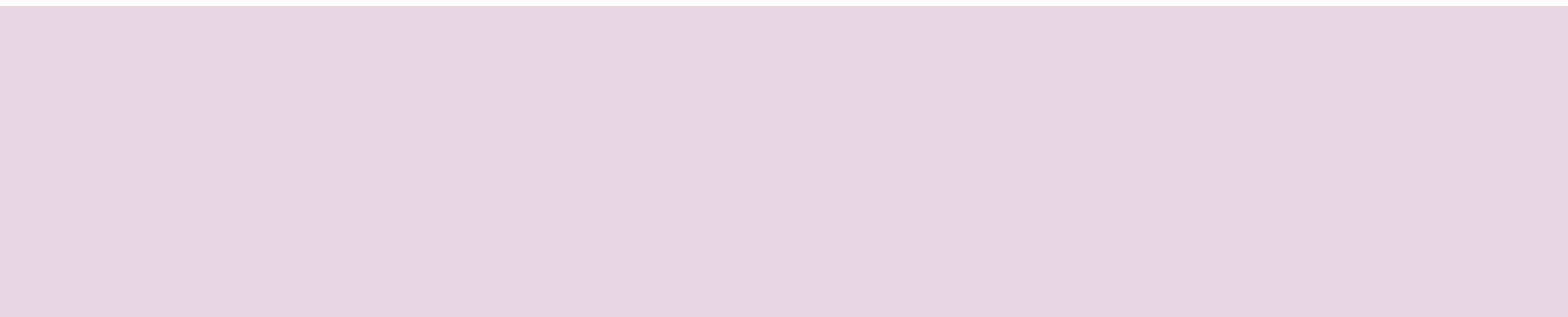
The Public Sector and Commercial end market requires a range of integrated products that deliver technical performance and visual appeal. The Group strives to be responsive to the requirements of all clients, architects and contractors and to be the "best in class" for technical and design support, product innovation, product quality and customer service. The Group is continually looking to deliver innovation, improve and extend its products and services in areas such as water management, street furniture, education, rail and sustainability, where it perceives there is opportunity for growth.

3. To develop relationships with installers to deliver more effective penetration of the key domestic routes to market and to improve product mix.

The Group has a long term commitment to the Domestic end market and continues to drive more sales through its strong relationships with quality installers. The Group has extended its approved installer register, and continues to focus on lead generation and sales and marketing support. The "Better Business Programme" specifically focuses



## Business Review (continued)



## Business Review (continued)

Despite this economic backdrop, the strength of the Group's installer base and the economic resilience and age profile of the core customer base remain positive factors that will continue to drive demand. Order books at the end of February were slightly lower at 6.3 weeks, benefitting from the better weather conditions (2011: 7.2 weeks).

### Trading Summary

Continuing revenue for the year ended 31 December 2011 was £334.1 million (2010: £308.8 million) which represented a year-on-year increase of 8.2 per cent from one less trading day. Sales to the Public Sector and Commercial end market, which represent approximately 64 per cent of Marshalls' sales, were up 9 per cent for the full year. Sales to the Domestic end market were up 7 per cent compared to the prior year. Sales to International markets increased by £8.9 million and at £11.7 million grew to 3 per cent of Group revenue. The Group's target is that International sales will reach 5 per cent by the end of 2012.

The Group announced in June 2011 the closure of its non-core garage and greenhouse manufacturing operations. Agreement was also reached to sell, separately, the Compton garage brand and the Alton and Robinson greenhouse brands. The operations have been treated as discontinued in the year ended 31 December 2011.

### Manufacturing and Distribution

The Group has well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently. The Group continues to have the operational and financial flexibility to respond to any further changes in market conditions.

During the last four years, the Group has simplified and refocused its operations with emphasis on financial and operating flexibility. The strategy has combined established and new initiatives to deliver growth and, despite economic and market uncertainty, these initiatives have been delivering consistent market

outperformance with sales and production continuing their upward trend. A specific initiative to provide additional operating flexibility includes a programme to re-balance production nationally to meet stronger demand in the South East, compared to the North, in order to minimise distribution distance and reduce costs.

Marshalls' operating strategy continues to combine regional manufacturing with a unique national network of distribution sites with a wide geographical spread. The Group continues to utilise well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently and has the operational and financial flexibility to respond to any further changes in market conditions as they occur. The same capital equipment produces products for both the Public Sector and Commercial and Domestic end markets and this flexibility remains a key operational objective. The national manufacturing works produce newly introduced and specialist products that may have not reached the commercial volumes to justify regional manufacture. These factors optimise manufacturing efficiency and ensure that Marshalls continues to have the lowest cost to market. The Group's "lowest cost to market" operating model is expected to deliver further operating cost savings over the next two years.

The Group's plants are modern and well invested and this continues to enable capital expenditure to be maintained at historically low levels for the medium term without any noticeable impact on the effectiveness of the business. Capital investment in 2011 totalled £13.6 million (2010: £11.9 million), although this includes £1.3 million in relation to a strategic land purchase adjacent to our existing Newport site and £1.0 million in relation to the Group's newly acquired operational sites in Belgium. This compares to depreciation of £17.3 million (2010: £17.8 million). The Group will continue to invest selectively in innovation to deliver new products and improvement projects that reinforce its market leading position.

## Business Review (continued)

These strengths support the Group's medium term growth ambitions and, in addition to the existing routes to market, a number of other markets have been identified that will open up new routes to market for both existing and new products.

In relation to International end markets the Group's operating sites in Belgium lie at the heart of an area of high population density with approximately 40 million people living within a two hour drive time. The International offer combines natural sandstone, granite and limestone from India, China and Vietnam with specialist manufactured products from the UK. Key synergies include marketing and sales collateral, sales processes and systems, a broader range of products and manufacturing and technical expertise.

The Group continues to focus on customer service with industry leading standards of product quality, availability and "on time" delivery. The customer service index KPI measures product availability, accuracy and timeliness of deliveries as well as administrative accuracy. The Group's industry leading standards remained high in 2011 giving a combined customer service measure of 97 per cent (2010: 97 per cent). Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of its products and service.

Cash management continues to be a high priority and the Group remains committed to realising value from surplus properties. The Group has realised cash of £5.4 million from the sale of a surplus property and in the year ended 31 December 2011 the Income Statement net gain on asset and property disposals was £1.4 million (2010: £0.4 million). Since the year end, the Group has sold an additional area of surplus land for net cash proceeds of £2 million and holds remaining assets for sale with an expected realisable value of around £5 million over the next few years. The timing of sales remains dependent on suitable planning permissions being obtained and the position has also been made considerably more difficult by the depressed state of the property market.



*Jubilee Library, Brighton, Light and Grey Granite Concrete Block Paving*

### Sustainability and the Environment

Marshalls has won numerous national and international awards for its ground breaking work on ethical sourcing and carbon labelling. Marshalls was the first business in its sector to become a member of the Ethical Trading Initiative and is also the UK's first heavyside materials manufacturer to be accepted into the prestigious UN Global Compact. Looking forward, these initiatives will be a "must have" and consequently the Group continues to ensure that sustainability is embedded in everything it does.

The Group has pioneered the ethical sourcing of natural stone paving from India and China. With a local partner the Group has established schools, health facilities and health insurance programmes in India. Marshalls "Fairstone" products combine the attributes of fair trade and ethical sourcing.

As part of its ongoing commitment to the ETI Base Code, the Group has been driving forward ethical best practice within its Indian and Chinese natural stone suppliers. Marshalls' ethical sourcing programme incorporates regular independent supply chain audits.

More details can be found in the Corporate Responsibility and Environmental Reports



## Business Review (continued)

below and on the Group's website [www.marshalls.co.uk/sustainability](http://www.marshalls.co.uk/sustainability).

### Domestic

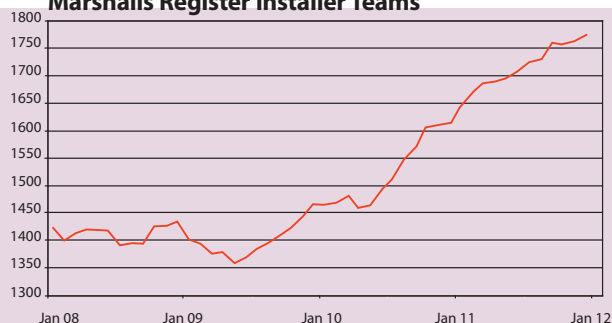
Marshalls is the market leader in the domestic driveway and patio markets and continues to lead the development of the consumer landscape products market. The Group's Domestic strategy is to drive more sales through quality installers. The objective is to improve the product mix, continually develop the Marshalls brand and deliver a market leading level of service. In the UK the target customer groups for installed patios and driveways occupy 8.9 million homes, a far bigger potential market than new build. These customers are generally older, have equity in their property, earn more and often have savings. An ageing population with a retired lifestyle should continue to drive sales growth. The recent move towards building more new houses rather than flats is also a welcome trend. Quality installers remain busier, and confirm that there is a trend towards older customers, and a higher proportion of cash transactions with long term home owners rather than new home purchasers. The installed housing base is 25 million, far higher than the new build market of between 100,000 and 200,000 houses per year.

In the Domestic end market Marshalls has focused on brand development, increasing customer awareness and developing stronger links with installers. During 2011 the Group has increased its marketing support of the installer base through increased training, marketing materials and sales support. Marshalls has now built a substantial and growing network of around 1,800 approved domestic installation teams throughout the country which is unique. The number of installation teams on the Marshalls Register grew by a further 10 per cent during 2011 and is still on an upward trend with an overall 20 per cent growth since the beginning of the initiative in 2010.

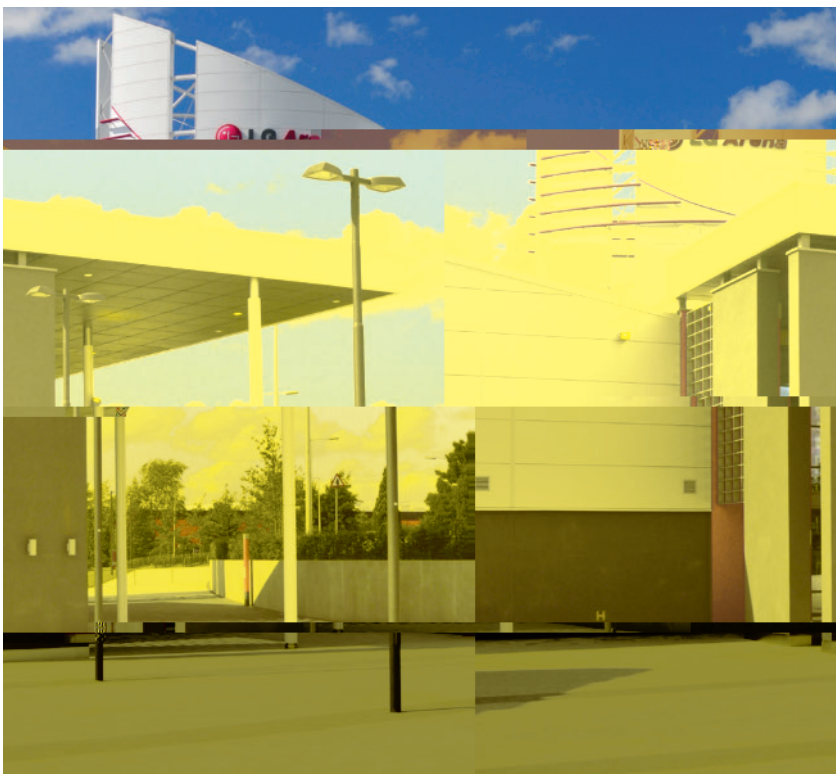
Against the uncertain economic backdrop installer order books remained fairly consistent in 2011 at around 7 weeks. Installer order books at the end of February 2012 were slightly lower at 6.3 weeks

benefitting from the better weather for installation (2011: 7.2 weeks). Although Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of service, the Group remains cautious about the outlook given the uncertainty in consumer confidence.

**Marshalls Register Installer Teams**



Medium term, the Group expects the more difficult market conditions to provide greater opportunity to strengthen its relationships with installers. An ageing population is combining with a lifestyle trend towards more outdoor living and the "outdoor room". Through marketing and product development the Group continues to promote solutions which facilitate these trends.



*LG Arena, Birmingham, La Linia, Light Granite*

## Business Review (continued)

Marshalls is marketing and sales led with an increasingly well known brand. Marshalls has again been awarded the accolade of a business Superbrand in 2012. The Group has a broad range of initiatives designed to build on its competitive advantages and the Group continues to invest selectively in innovation to drive growth in the medium term. The Group has sector leading product availability and customer service and these attributes are both at the heart of the Marshalls' "Superbrand" concept together with the Group's continuing drive to generate value by "Creating Better Landscapes." The Group's combined measure for product availability and customer service is consistently above 97 per cent.

### Public Sector and Commercial

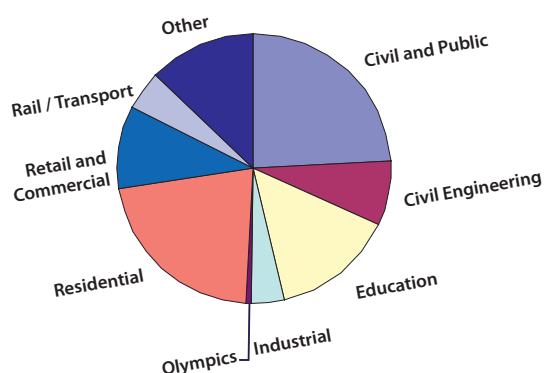
Marshalls continues to be a market leader for the supply of a wide range of natural stone, concrete and fabricated products to the Public Sector and Commercial end market. This market includes PFI expenditure on schools and hospitals. Such products include paving, kerbs, edging, surface drainage and street furniture. The aim is to deliver products that are visually attractive and also practical to use and install. Marshalls' portfolio of products can be combined to create an attractive landscaped area, with its technical expertise providing added value as part of the pre and post sales service.

Within the Public Sector and Commercial end market precision marketing continues to be used in order to develop innovative products and services to meet customer requirements and increase sales. In particular, the Group has been targeting growth areas such as rail, education, home and retail with experienced technical and sales teams providing a full range of integrated projects and sustainable solutions to support the specialist product directories and marketing collateral. The pie chart below illustrates the relative proportion of our sales in each targeted area (or "scape"). The second chart shows the change in enquiry level by scape.

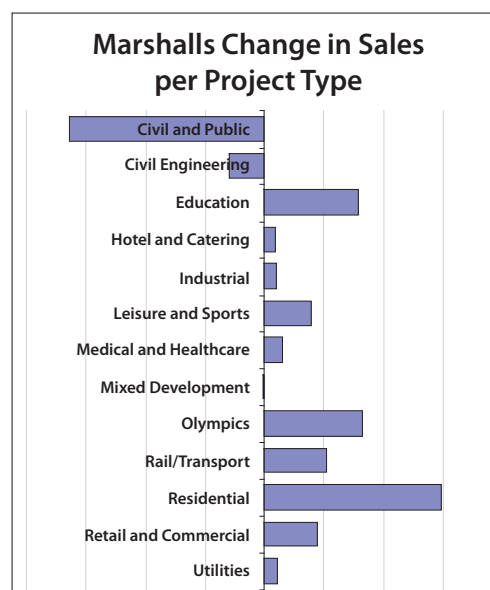
The process of identifying projects and following them through to completion is analytical and data driven and utilises specialist software unique to Marshalls. The combination of marketing, systems, processes and highly experienced sales teams continues to provide the Group with a sustainable competitive advantage.

Marshalls continues to be the only landscape products company able to provide a fully integrated product offer to the Public Sector and Commercial end market. This integrated offer was created in response to the specific demand of suppliers, distributors, and architects but its value

**Current activity by Scape**



**Growth by Scape**



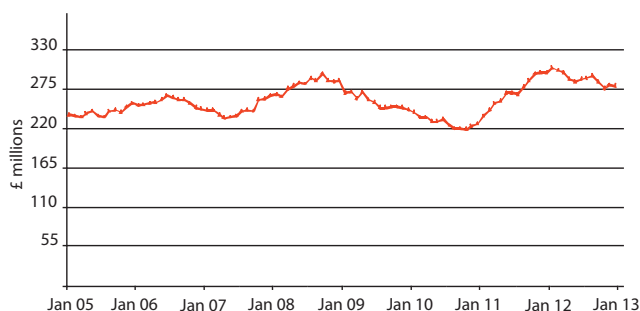
## Business Review (continued)

is now also appreciated in a wider environmental context and increasingly by local authorities and other Public Sector bodies. Around 50 per cent of all sales enquiries in 2011 covered more than one product category with 20 per cent covering three or more. Delivery of product to the Olympic sites is now drawing to a close and overall sales have been around £10 million, which is at the upper end of management's original expectations. The installation of Marshalls' products at the Northern Spectator Transport Mall, which is the size of fourteen football pitches, has recently been completed leaving the Athletes' Village as the final area of landscaping.

The Group has experienced technical and sales teams focused on the key growth areas and by working with clients, architects and contractors they are able to provide a unique overview of the project and offer a complete solution comprising a full suite of products.

Many projects have a lead time of two to three years. The Group has deliberately retained its experienced technical and sales teams whilst some competitors have cut back. Relationships with clients, architects and contractors and the development of systems to identify projects are a key priority. The visibility of projects through externally measured sources such as Barbour ABI gives a measure of control over securing future volume. This approach continues to deliver good growth in bespoke street furniture, natural stone paving and sustainable urban drainage products.

**Contract Awarded 12 Month Rolling Average of Hard Landscape Value Adjusted (Barbour ABI Lead Indicator with 12 Month Lag)**



*Exhibition Road, London, Geo Seats and Bespoke Lighting*



## Business Review (continued)

In March 2011 the Group acquired a business comprising two operational sites and manufacturing assets in Belgium, via a newly-formed subsidiary, to enable the manufacture of landscape products locally and to provide a physical stock location in mainland Europe from which to supply the wider Group's specialist product portfolio. This investment provides the logistics potential to link our range of ethically sourced natural stone products, from India, China and Vietnam, with UK manufactured products and wider European markets. Marshalls NV is also able to manufacture a unique patented driveway product which is currently only available in Belgium and Holland. The business will provide a core logistics operation for the Group's expansion in Europe with over 40 million people living within a two hour drive from the two sites, an area that covers Belgium, Holland, Northern France and parts of Germany.

Geographically, the Group is committed to increasing its resources in Western Europe, the Middle East and Asia with particular emphasis on natural stone paving, street furniture and water management. Most recently, the Group has established a Chinese subsidiary to maximise the efficiency and quality and ethical control of the Group's Chinese and Vietnamese supply chain.

The aim internationally is to be a niche, premium product supplier of specialist paving and associated products from India, China, Vietnam and the UK into Western Europe and other export areas. The focus will be on products which are not generally available in those export markets.

### Organisation and Key Contractual Relationships

The Group operates a number of centrally managed production units throughout the United Kingdom, supported by a single integrated logistics and distribution operation. The Group's operating assets produce and deliver a range of products that are sold into each market area. The structure gives flexibility in the development of individual products under the Marshalls' brand whilst providing strategic focus through the integrated national and centrally administered functions.

The Principal Risks section on pages 22 to 25 outlines the risk management aspects of the Group's contractual arrangements. Marshalls has a wide range of suppliers and customers, and whilst the loss of, or disruption to, certain of these arrangements could temporarily affect the Group's operations, there are no significant contractual arrangements that are considered essential to the Group's business in the long term. The Group remains keen to develop partnerships with both suppliers and customers in order to maintain high standards of quality, value, ethics and service throughout its operations.

### Corporate Responsibility

Marshalls places special emphasis on Corporate Responsibility and considers that this is very much aligned with the sustainable and economic growth objectives which are for the benefit of all stakeholders.

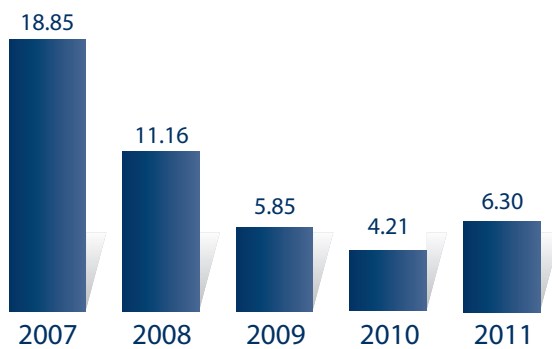
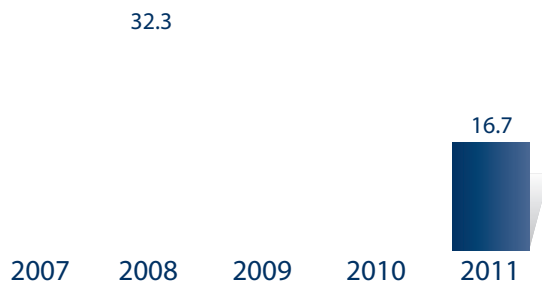
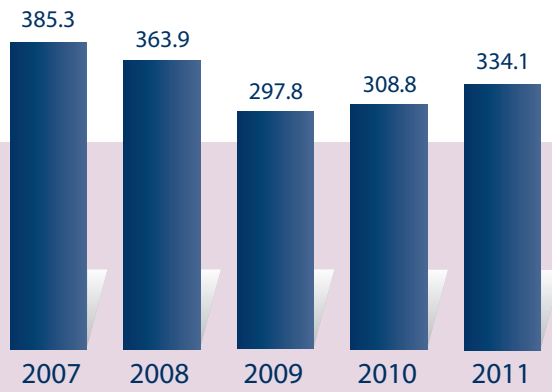
Further details relating to social and community issues, including employees, health and safety, the policies of the Group and the effectiveness of these policies, are set out in the Corporate Responsibility Report on pages 28 to 35.



*Liverpool Lime Street Station, Natural Stone, Scout Moor*

## Financial History

### Revenue (£'m) (Continuing operations)







## Business Review (continued)

<b>Underlying operating profit</b>	<b>2011</b>	<b>2010 change</b>	
	<b>£'m</b>	<b>£'m</b>	<b>%</b>
Underlying operating profit	<b>15.3</b>	12.6	22.1
Net gain on asset and property disposals	<b>1.4</b>	0.4	
Operating profit: reported	<b>16.7</b>	13.0	28.6

Basic earnings per share, for the continuing operations, were up 49.6 per cent at 6.30 pence (2010: 4.21 pence) per share. Excluding the net gain on asset and property disposals basic earnings per share was up 37.1 per cent at 5.40 pence (2010: 3.94 pence) per share.

When markets improve, there continues to be a real opportunity to benefit both from improved operational gearing in both sales and production levels and from the lower cost base.

### Analysis of revenue by end market sector

	<b>2011</b>	<b>2010 change</b>	
	<b>£'m</b>	<b>£'m</b>	<b>%</b>
Domestic	<b>120.9</b>	113.4	6.6
Public Sector and Commercial	<b>213.2</b>	195.4	9.1
Total	<b>334.1</b>	308.8	8.2
Overall percentage	<b>%</b>	<b>%</b>	
Domestic	<b>36.2</b>	36.7	
Public Sector and Commercial	<b>63.8</b>	63.3	

The Public Sector and Commercial end market now comprises approximately 64 per cent of the Group revenue. Like for like revenue showed an increase of 9.1 per cent in the year. Sales to the Domestic end market rose by 6.6 per cent.

### Financial KPIs

The key financial KPIs were set out on page 8. Performance against these targets continues to be affected by the severe economic recession that has impacted the UK economy and therefore the Group's markets. Measured at 31 December 2011, performance was as follows:

- Revenue growth

Against a target of 7 per cent per annum growth, over a three year period, the Group's

revenue has fallen by 2.8 per cent (2008-2011) on a CAGR basis.

- Earnings per share growth

Against a target of RPI + 21 per cent over a three year period the Group's earnings per share has fallen by 17.4 per cent (2008-2011).

- Operating cash flow growth

Against a target of RPI + 21 per cent over a three year period the Group's operating cash flow has fallen by 32.3 per cent (2008-2011).

- Return on capital employed ("ROCE") is defined as EBITA / Shareholders' Funds plus Net Debt

ROCE for 2011 was 6.3 per cent which is compared with the long term target of 15.0 per cent.

To support these, the Group operates a range of short term KPIs.



Tottenham Hale Tube Station



## Business Review (continued)

### Balance Sheet

<b>Consolidated Balance Sheet</b>	<b>2011</b>	<b>2010</b>
	<b>£'m</b>	<b>£'m</b>
Fixed assets	<b>236.2</b>	236.9
Current assets	<b>128.6</b>	113.6
Current liabilities	<b>(88.5)</b>	(94.6)
Non-current liabilities	<b>(83.2)</b>	(53.6)
Sub-total	<b>193.1</b>	202.3
Employee benefits (before deferred tax)	<b>13.0</b>	(4.1)
Net assets	<b>206.1</b>	198.2
Net debt	<b>(77.1)</b>	(66.8)
Period end gearing	<b>37.4%</b>	33.7%

Net assets at 31 December 2011 were £206.1 million (2010: £198.2 million).

The Group continues to keep a tight control of receivables. The balance sheet at 31 December 2011 shows an increase in trade and other receivables to £40.3 million (2010: £27.9 million). The normal weather conditions in November and December 2011, compared with 2010, added £6 million with underlying sales growth and the VAT rate change to 20 per cent adding a further £3 million. The return of normal credit insurance availability for a number of customers added a further £3 million and the impact of Marshalls NV accounts for the remainder of the increase. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred.

The Group's UK stock reduction programme (including the impact of the discontinued operation) has led to a volume reduction of around £7 million which, after the impact of upward cost inflation of £4 million, has released cash of approximately £3 million. The Group balance sheet shows a net increase of £0.7 million at 31 December 2011 compared with the prior year and this also reflects the increase in inventory to support the Group's investment in Marshalls NV and the growth of the Group's international operations.

The Group's investment in Marshalls NV has been £8 million, with £3.9 million comprising capital

assets and a further £4.1 million in working capital. Marshalls acquired 66.7 per cent of the ordinary share capital of Marshalls NV and the balance sheet records the 33.3 per cent minority interest at 31 December 2011 of £3.4 million. The additional revenue in the period was £8.9 million.

Risk management has been a key focus for the Group's Pension Scheme over recent years and the actions the Group has taken have reduced actuarial volatility and risk. In accordance with the Scheme specific funding and recovery plan the Group made cash contributions of £6.6 million into the Scheme in the year ended 31 December 2011. The change from RPI to CPI for inflation purposes means actuarial deficits have reduced and lower levels of cash contribution are expected in the medium term as a consequence. The actions the Group has taken to manage the actuarial position have also helped manage the accounting risk. In the year ended 31 December 2011 the AA corporate bond rate reduced from 5.5 per cent to 4.8 per cent and liabilities increased by around £25 million as a result. The Group's Liability Driven Investments ("LDIs"), however, provide a hedge against Scheme liabilities and have risen in value to offset this.



*Drivesett Tegula, Pennant Grey*

## Business Review (continued)

The fair value of the Scheme assets at 31 December 2011 increased to £250.6 million (2010: £208.3 million) and the present value of funded obligations increased to £237.6 million (2010: £212.4 million) and this has given rise to an accounting surplus of £13.0 million (2010: £4.1 million deficit) at the balance sheet date. These changes have resulted in an actuarial gain, net of deferred taxation, of £7.5 million (2010: £20.2 million) and this has been recorded in the Consolidated Statement of Comprehensive Income. The values have been determined by the Scheme Actuary using prudent assumptions in line with current market levels for accounting purposes.

### Analysis of Net Debt

Analysis of net debt	2011	2010
	£m	£m
Cash and cash equivalents	6.0	4.1
Bank loans < 12 months	(25.0)	(40.9)
Bank loans > 12 months	(57.9)	(30.0)
Finance leases	(0.2)	–
	(77.1)	(66.8)

Net debt increased from £66.8 million to £77.1 million during the year with gearing at 31 December 2011 being 37.4 per cent (2010: 33.7 per cent). The main reason for the increase has been the investment the Group has made in Marshalls NV and its other international growth initiatives. Excluding this investment, net debt would have been £69.1 million, being close to the previous year.

### Borrowing facilities

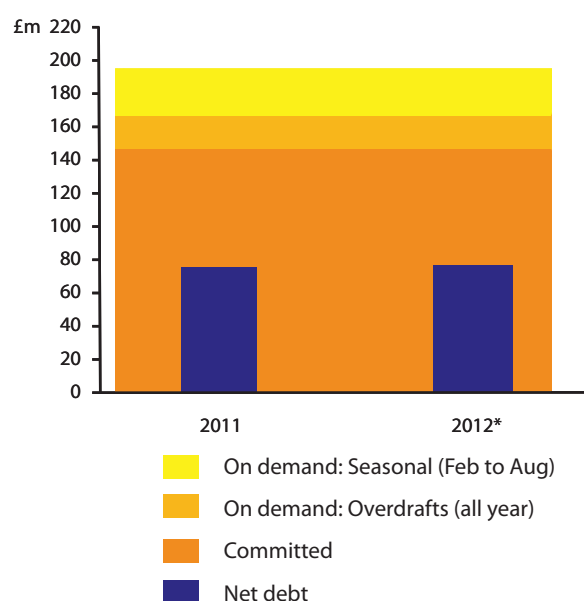
The Group continues to focus on working capital and capital expenditure management. Cash management continues to be a high priority and the Group remains committed to realising value from surplus properties. The Group has realised cash of £5.4 million from the sale of a surplus property in the year ended 31 December 2011 delivering a net profit on asset and property disposals of £1.4 million (2010: £0.4 million).

The Group renewed certain bank facilities in August 2011 and has also recently taken the opportunity in March 2012 to re-finance further

committed facilities totalling £75 million that were due to mature in December 2012 and January 2013. The strategy continues to be to retain significant committed facilities with a positive spread of medium term maturities. Following the signing of these new facility agreements, the Group has no need for further committed facility renewals for two and a half years. The total bank borrowing facilities at 31 December 2011 amounted to £170.0 million (2010: £168.4 million) of which £87.1 million (2010: £97.5 million) remained unutilised. In addition, the Group has a seasonal working capital facility of £20.0 million which is available between 1 February and 31 August each year. The Group has significant headroom in its facilities with utilisation at 31 December 2011 representing just over 45 per cent of the available facilities.

Interest cover and net debt to EBITDA covenants in the facilities were met at the year end. The bank facilities are unsecured save for inter-company guarantees between the Group and its subsidiary undertakings in favour of the facility banks.

The Group has a robust balance sheet with a good range of medium term bank facilities available to fund investment initiatives to generate growth as market conditions improve.



\*2012 based on consensus information



## Business Review (continued)

### Cash generation

<b>Consolidated Cash Flow</b>	<b>2011</b>	<b>2010</b>
	<b>£'m</b>	<b>£'m</b>
Net cash from operating activities (before pension contributions and works closure)	<b>19.6</b>	28.8
Works closure costs	<b>(1.2)</b>	(1.4)
Pension contributions	<b>(6.6)</b>	(6.6)
Net cash from operating activities	<b>11.8</b>	20.8
Working capital investment in International	<b>4.1</b>	–
<b>Free cash flow</b>	<b>15.9</b>	20.8
Net cash from investing activities	<b>(15.8)</b>	(8.1)
Net cash from financing activities	<b>(10.3)</b>	(10.3)
Net (decrease) / increase in cash and cash equivalents	<b>(10.2)</b>	2.4
Movement in debt and lease financing	<b>(0.1)</b>	–
Movement in net debt in the period	<b>(10.3)</b>	2.4
Net debt at beginning of period	<b>(66.8)</b>	(69.2)
Net debt at end of period	<b>(77.1)</b>	(66.8)

The Group continues to be cash generative. In the year ended 31 December 2011 the free cash flow was £15.9 million (2010: £20.8 million), which reflects the fact that £4.1 million has been invested to fund the growth of working capital in the Group's International operations. This has been included within the net cash outflow from investing activities in the above analysis. Reported net cash flow from operating activities was £11.8 million (2010: £20.8 million) after deducting £1.2 million (2010: £1.4 million) of one-off cash expenditure in relation to works closures and pension contributions of £6.6 million (2010: £6.6 million).

Excluding the additional inventory added to support the growth of the Group's International business, but including the stock reduction associated with the discontinued business, the reduced inventory volumes have released cash of approximately £3 million. Including these items, there has been a net cash outflow of £8.3 million from monetary working capital. The main reason for this is that at 31 December 2010 trade receivables were around £6 million lower than might have been expected due to the severe weather conditions in November and December 2010. In addition, the increase in the VAT rate and, in general, a return to normal customer credit

terms at 31 December 2011 contributed to the net cash outflow across the year.

<b>Analysis of cash utilisation</b>	<b>2011</b>	<b>2010</b>
	<b>£'m</b>	<b>£'m</b>
Free cash flow	<b>15.9</b>	20.8
Capital expenditure	<b>(13.6)</b>	(11.9)
Proceeds from sale of surplus assets	<b>5.4</b>	3.9
Investment/acquisitions*	<b>(8.2)</b>	(0.1)
Disposal proceeds	<b>0.6</b>	0.0
Finance leases	<b>(0.1)</b>	0.0
Cash returned to shareholders	<b>(10.3)</b>	(10.3)
Movement in net debt	<b>(10.3)</b>	2.4

\*Including working capital relating to International expansion of £4.1 million

Total expenditure on capital expenditure and acquisitions in the year was £13.6 million (2010: £11.9 million). The increase in the year was largely due to a strategic land purchase of £1.3 million and also includes capital expenditure relating to International expansion of £1.0 million. The majority of the expenditure was invested in the replacement of existing assets, in business improvements and new process technology. Proceeds from the sale of surplus assets contributed £5.4 million and £0.6 million was received as initial consideration for the sale of the discontinued garage and greenhouse businesses.



*Avant-Garde Imperial*

## Business Review (continued)

In 2011 the Group completed the five year implementation of a Group wide IT system and this has provided greater business flexibility and systems efficiency. It has enabled the Group to integrate new businesses in the UK, Belgium and China in an efficient and cost effective manner.

Dividend payments to shareholders in the year were £10.3 million (2010: £10.3 million).

The utilisation of cash over the last three years is illustrated below:

### Analysis of cash utilisation, 2009-2011

	£'m	
Operational cash generation	80.5	
Capital expenditure	(23.1)	
Acquisitions / disposals	(8.5)	
Pension contributions	(15.3)	
Other financing items	(0.1)	
Sub-total	33.5	
Cash returned to shareholders	(26.0)	
Rights Issue	34.0	
Redemption of debenture	(7.3)	
Movement in net debt	34.2	
	2008	2011
	£'m	£'m
Net debt	(111.3)	(77.1)
Capital employed	193.2	206.1
Gearing	57.6%	37.4%

This table provides a medium term three year analysis of the cash generation capacity of the Group and how cash generated has been utilised. Cash generated from operating activities was £80.5 million. The Group has re-invested £23.1 million (net of disposal proceeds) back into the business in the last three years, which represents a significant reduction from earlier levels. This reduction has been possible as a consequence of the major capital investment programme in the first half of the last decade, which has given the Group efficient, industry leading manufacturing and distribution facilities, and has enabled it to reduce capital expenditure during the downturn to preserve cash.

The Group has also invested £8.5 million in business acquisitions in the last three years and

paid £15.3 million in Pension Scheme contributions. Cash generation before dividends, the impact of the Rights Issue and the redemption of the debenture stock has been £33.5 million over the last three years. Net debt has fallen by £34.2 million, in the same period, with gearing falling to 37.4 per cent.

As explained earlier, the Group's cash generation performance against detailed cash flow targets is a strategic KPI. In 2011, the short term targets that were set by the Board to support this were achieved. The Board's current short term objective is to conserve cash wherever possible and to maintain gearing at around the current level.

## Principal Risks and Risk Management

The Group's Risk Committee determines the Group's approach to risk, its policies and the procedures that are put in place to mitigate exposure to risk. There is a formal ongoing process to identify, assess and analyse risks and those of a more material nature are included in the Group Risk Register. The Group Risk Register is reviewed and updated at least every six months and the overall process has been the subject of a detailed re-appraisal during 2011. A number of modifications have been made to facilitate reporting and to ensure the consistent identification and classification of risks across the wider Group. Risks are recorded with a full analysis and risk owners are nominated who have authority and responsibility for assessing and managing the risk. All risks are analysed for impact and probability to determine exposure and impact to the business and the determination of a "gross risk score" enables risk exposure to be prioritised. External risks include the weather, political and economic conditions, the effect of legislation or other regulatory actions, the actions of competitors, foreign exchange, raw material prices and pension funding. Internal risks include investment in new products, new business strategies and acquisitions.

The Group seeks to mitigate exposure to all forms of strategic, financial and operational risk both

## Business Review (continued)

external and internal. The effectiveness of key mitigating controls is continually monitored and such controls are subjected to internal audit and periodic testing in order to provide independent verification where this is deemed appropriate. The effectiveness and impact of key controls are evaluated and this is used to determine a “net risk score” for each risk. The process is used to develop action plans that are used to manage, or respond to, the risks and these are monitored and reviewed on a regular basis by the Group’s Risk Committee.

The principal risks and uncertainties facing the Group are described below.

### Strategic Risks

#### Economic Conditions

The Group is susceptible to any economic downturn and is dependent on the level of activity in its markets. In the Domestic end market activity levels are driven by many factors including general economic conditions, interest rates, inflation, unemployment, demographic trends, general uncertainty in the financial markets and the availability of credit. These factors also affect activity levels in the Public Sector and Commercial end market where activity levels are also affected by the extent and speed of delivery of planned Government investment. The

Group’s aim is to ensure an excellent understanding of market conditions by constant communication with customers, installers and domestic consumers, together with significant investment in market research and active membership of the CPA. Close monitoring of trends and lead indicators enables the Group to identify and implement necessary action plans to address issues that are affecting trading. The balance of revenue between the consumer driven Domestic end market and the Public Sector and Commercial end market also helps mitigate the potential impact of these risks.

The additional investment the Group has made to expand its International operations has increased the Group’s exposure to European markets. Despite the increasingly uncertain economic backdrop the low cost nature of the investment has helped mitigate the overall risk.

#### Competitor Activity

A failure to compete with competitors on price, product range, quality and service could have an adverse effect on the Group’s financial results. The increase in demand for imported natural stone products may also attract new low cost competitors into the market but the development of the Group’s Chinese supply chain for stone products has helped complement the more traditional source of supply from India. This initiative has provided the Group with a broader range of supply options and a wider selection of product solutions across extended International end markets. All these areas are monitored on a constant basis and the Customer Service Index remains one of the Board’s key strategic KPIs. The Group continues to invest in strategies that enhance the Marshalls brand.

#### Increases in the price of oil, utilities and other raw materials

Any significant increases in the price of oil, utilities and other raw materials could adversely affect the Group’s performance. Diversity of operations reduces the risk on any single item on supplies and purchasing policies seek to take into account



*Drivesett Tegula, Piora, Harvest*

## Business Review (continued)

and mitigate such risks, where possible. Where appropriate, the Group uses hedging instruments to mitigate the risk of significant forward price rises and fuel hedging procedures have been introduced in 2011.

### Financial Risks

#### Access to Funding

The Group requires continued access to debt funding in order to meet its trading obligations and to support the growth of the business. Uncertainty in financial markets means that there is a potential risk that the Group may be unable to obtain additional funds when needed or may be able to do so on unfavourable terms. A breach of bank covenants could result in elements of the Group's borrowings becoming immediately repayable. The Group renewed its bank facilities in August 2011 and introduced Barclays Bank plc as an additional banking partner. The introduction of a fourth bank creates additional financial flexibility. Committed bank facilities of £75.0 million were also refinanced in March 2012 and the Group has significant committed facilities in place with a good spread of medium term maturities. The Group manages its medium term bank debt to ensure continuity of funding and the policy continues to be to arrange funding ahead of requirements and to maintain sufficient un-drawn committed bank facilities. To mitigate these risks the Group constantly reviews its strategic forward plans to reflect changing market conditions with the aim of maintaining significant headroom against its facilities. Medium term financial forecasts and shorter term budgets are regularly reviewed to assess financing requirements to ensure sufficient headroom against facilities.

#### Financial Instruments

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these are summarised in Note 18 on pages 106 to 110 of the Financial Statements. These policies have remained unchanged since 2010. 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 Group enters into forward foreign currency contract derivative transactions of relatively small value. The purpose of such transactions is to manage the currency risks arising from the Group's operations. 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.

#### Pensions

The defined benefit section of the Pension Scheme was closed to future service accrual on 1 July 2006 and the introduction of a new defined contribution section to the Pension Scheme has allowed the Group to manage risk better and reduce volatility in the future. Nevertheless the Group continues to be subject to various financial risks in relation to the Pension Scheme, principally the volatility of the discount (AA corporate bond) rate relative to gilt yields, any downturn in the performance of equities and increases in the longevity of members. The sensitivity to the AA Corporate Bond rate is broadly that, all other things being equal, a 0.1 per cent movement in the discount rate is equivalent to a movement of approximately £4.2 million in the Scheme liabilities.

Under the Liability Driven Investment ("LDI") strategy adopted by the Scheme this sensitivity would be offset very substantially by a movement in Scheme assets where the change in AA corporate bond yield is simply a movement in line with fixed interest securities in general. The sensitivity to inflation is broadly that, all other things being equal, a 0.1 per cent movement is equivalent to a movement in the Scheme liabilities of broadly £1.5 million, although this would also be offset almost entirely by a movement in Scheme assets. As far as mortality is concerned an increase of one year in life expectancy would, all other things being equal, give rise to an increase in Scheme liabilities of approximately £7.5 million. Risk management remains a core theme of the







## Directors' Biographical Notes (continued)

### Mark Edwards (57) (1,2,3) Non-Executive Director

**Term of Office:** Appointed to the Board in May 2010, and elected in May 2011. Chairman of the Audit Committee.

**Independent:** Yes

**Skills and experience:** Mark Edwards is a Chartered Accountant with a strong financial background and wide UK and international experience, especially in the manufacturing sector. He is Chief Executive Officer of Aim Aviation Limited, and was formerly Chief Executive of the Baxi Group. He has also served as Vice President of the Construction Products Association.

### Tim Pile (59) (1,2,3) Non-Executive Director

**Term of Office:** Appointed to the Board in October 2010 and elected in May 2011.

**Independent:** Yes

**Skills and experience:** Tim Pile is the Chief Executive of Cogent Elliot, the independent marketing agency, and was formerly Chief Executive Officer of Sainsbury's Bank. He has held a number of senior roles in the financial services and marketing communications industries and has wide business experience, particularly in marketing.

#### Board Committee Membership

- 1 - Member of the Audit Committee
- 2 - Member of the Nomination Committee
- 3 - Member of the Remuneration Committee

**Cathy Baxandall**  
Group Company Secretary

## Advisers

#### Stockbrokers

Citigroup Global Markets Limited  
Numis Securities Limited

#### Auditors

KPMG Audit Plc

#### Legal Advisers

Herbert Smith LLP  
Eversheds LLP  
Pinsent Masons LLP

#### Financial Advisers

N M Rothschild & Sons Limited

#### Bankers

Royal Bank of Scotland plc  
Lloyds TSB Bank plc  
HSBC Bank plc  
Barclays Bank plc

#### Registrars

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ

Shareholders' enquiries should be addressed to the Registrars at the above address  
(Tel: 0870 707 1134)

#### Registered Office

Birkby Grange  
Birkby Hall Road  
Huddersfield HD2 2XB

**Telephone:** 01484 438900

**Facsimile:** 01484 438945

#### Internet address:

<http://www.marshalls.co.uk>

Registered in England and Wales: No. 5100353

# Corporate Responsibility

***"In 2011 Marshalls continued its Corporate Responsibility journey to align our business values, purpose and strategy with the social, economic and environmental needs of our stakeholders, embedding responsible and ethical business policies and practices in everything we do."***

Marshalls is widely regarded as a leader in its field regarding Corporate Responsibility ("CR") and sustainability commitment and activity. The Group continues to find increasingly innovative and meaningful ways to communicate, consult and engage with customers, employees, suppliers, partners and wider stakeholders on sustainable issues.

The Group's drive to maintain high standards and operate in a sustainable manner is headed up by Board Director David Sarti who is responsible for managing the key elements of the Corporate Responsibility policy. He is supported directly by the Group Marketing Director, the Corporate Responsibility Manager and the Group Head of Sustainability. As CR and sustainability become increasingly embedded throughout operations more employees are becoming directly involved with the Group's commitments in this area.

Marshalls continues to be a constituent member of the FTSE4Good UK Index, a member of Business in the Community ("BITC") and a signatory of the United Nations Global Compact ("UNGC").

BITC membership demonstrates and supports the Group's commitment to responsible business practice and helps the Group to develop continually its integrated approach to implementing CR strategy. Graham Holden, Marshalls' Chief Executive, is the Regional Advisory Board Chairman for Yorkshire and Humber. His leadership and commitment to responsible business were acknowledged when he was appointed during 2011 for the second year running as the Prince's Ambassador in Yorkshire and Humber.

The UNGC is a key driver of CR and sustainability and is becoming the international standard against which global corporate citizenship and social engagement can be measured.



The UNGC provides a framework for businesses that are committed to aligning their operations and strategies with the ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption. Since our participation in early 2009 Marshalls has positively benefited from UNGC engagement. The Group publishes an annual Communication on Progress Report ("COP") which details its adherence to UNGC principles and its impact in terms of CR and sustainability. COPs can be found at [www.marshalls.co.uk/sustainability](http://www.marshalls.co.uk/sustainability).

The Group also publishes a separate annual Corporate Responsibility Report which details the Group's approach to CR and sustainability and which can be accessed at [www.marshalls.co.uk/sustainability](http://www.marshalls.co.uk/sustainability). The Group is reviewing its approach to CR reporting to bring it into line with the standards laid down by the Global Reporting Initiative a globally recognised standard for meaningful reporting on sustainability and CR.

## External recognition

In 2011, Marshalls was awarded the honour of a Big Tick as well as being Highly Commended in the BITC Awards for Excellence. Marshalls also received the regional BITC Coffey International Award for companies that contribute to the achievement of the United Nations Millennium Development Goals.

Marshalls was also recognised with re-accreditation as a Big Tick Winner for 'Skills in the Workplace', and 'Sustainable Marketing'.



## Corporate Responsibility (continued)

At the 2011 Ethical Corporation Responsible Business Awards, Marshalls won the "Best Collaboration" Award for its work on responsible sourcing in India.

The Mineral Products Association awarded Marshalls a "Special Award" for company commitment to biodiversity and nature conservation in October 2011.

At the Stone Federation Natural Stone Sustainability Awards, Marshalls received an award for "Sustainability Awareness" for a biodiversity project at the Standcliffe Stone site in Matlock in Derbyshire.

At the National Payroll Giving Excellence Awards 2011, Marshalls were Highly Commended its employees having donated £26,133 (2010: £28,422) to charities throughout the UK through payroll giving.

In early 2011 Marshalls Credit Account Management team gained the Quality in Credit Management ("QiCM") accreditation. The QiCM programme is an accreditation of a credit management team through an assessment and measurement process.

Marshalls once again achieved Business to Business Superbrand status for 2012. The announcement follows a robust research process administered independently by The Centre for Brand Analysis which analysed the views of a council of experts and 2,000 UK business professionals.



## The Market Place

The Group recognises the importance of building and maintaining positive relationships with its customers, suppliers and contractors and is committed to a process of continuous improvement in meeting customers' requirements.

During 2011 Marshalls gained the Certificate of Approval, Responsible Sourcing of Building Products having complied with the requirements identified in BES 6001 – Framework Standard for the Responsible Sourcing of Construction Products at the 'Very Good' performance rating.

The Group's established customer service improvement programme again resulted in significant and sustained improvement in customer order delivery, on time, in full and with increasingly error free product and administration. Performance against the Customer Service KPI is reported monthly to management and the Board and is a component of senior management's performance-related incentive scheme.

The Group Purchasing Policy sets out the standards and ethics for dealings with suppliers. It seeks to ensure that there is no bias or conflict of interest and that all suppliers are treated fairly. The policy is regularly reviewed and updated in the light of changes to regulation and best practice. The Group negotiates terms and conditions, including payment terms, with all its principal suppliers. Save in the case of a dispute, payments are made in accordance with such negotiated arrangements. The Group values and derives considerable competitive advantage from active co-operation with its established suppliers in terms of innovation and product development.

In 2011 the Marshalls Brand Manifesto was updated based upon significant customer and consumer research to enable the Brand to more closely match customer needs and expectations. This is set out overleaf.

## Corporate Responsibility (continued)

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### The Marshalls Brand Manifesto

*We are all influenced by our environments and the better our environment the better we can be.*

*Marshalls believe that we all need places that make us feel safer, happier and more sociable. Places to be ourselves, where we can live, play, create and grow. That belief drives us to be the best we can be. To design and produce new products which are better than anything else available. To make them from the best materials we can source and to care about the impact that our Company and its products have on our society.*

*Above all, our belief fuels the passion on which Marshalls is built.*

*To architects, town planners, civil engineers, builders merchants, paving installers and home owners, we pledge a passion to bring to life all that you can imagine. A passion that will enable you to breathe new life into those corners of the landscape where potential lies unfulfilled and unchallenged.*

*Our passion pervades everything we do. We use our expertise to create integrated landscapes which promote wellbeing to the benefit of everyone. So, whether it's through fairly traded stone, providing products which alleviate flood risks, enabling our business partners to share in our success or creating innovative street furniture that protects us from attack we proudly strive to make our world a better place. One stone, patio, pavement, town square or car park at a time.*

*Marshalls, Creating Better Landscapes*

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### Ethical Responsibilities

The Group remains wholly committed to ethical business practice. It takes those ethical responsibilities very seriously and acknowledges that its responsibilities extend to ethical issues in relation to labour, environment, human rights and anti-corruption.

The Group was the first in its Sector to join the Ethical Trading Initiative ("ETI") and to adopt the ETI Base Code on a progressive basis throughout its supply chains, with specific focus on China and India. This code is based on International Labour Organisation conventions and is widely acknowledged as a model code of labour practice. The Code can be found on the ETI website [www.ethicaltrade.org](http://www.ethicaltrade.org).

The Group is committed to monitoring and improving ethical standards in its supply chain and assessing the impact of its core business activities on labour standards. Annual progress reports are provided to the ETI. In addition annual independent audits are carried out. The Group continues to work hard with suppliers both in the

UK and overseas. Full time social auditors work on a daily basis to verify working practices and ensure that the Base Code is applied within the supply chain overseas.

The Group is two years into an initial four year programme of Human Rights Impact Assessments ("HRIA") in India, China, Vietnam and the UK. The first year focused upon assessments in the quarries in Kota, Rajasthan and the second upon the manufacturing process in China. Both HRIAs have been reviewed annually. 2012 will focus upon Vietnam. The HRIA process, inspired by UNGC engagement, has allowed the Group to begin to understand fully, engage and develop its human rights approach. The Group adopted a 'Human Rights Policy' during 2011, developed Human Rights Guidance Documentation and together with the UNGC undertook a supplier education event which focused upon human rights and the influence of business in this area.

The Group adopted an Anti-Bribery Code in October 2011 as part of its response to the UK Bribery Act 2010. The Group's approach, policies

## Corporate Responsibility (continued)

and procedures in relation to the prevention of bribery and corruption have been developed further during the year and there is an ongoing monitoring and training programme associated with these measures. This is underpinned by the development of a Sustainable Procurement Strategy. The Group's systems and procedures will be regularly monitored and audited to ensure that the Group remains fully compliant with the requirements of the Act.

The Group's ethical standards are fast becoming synonymous with its brands. The Group's ability to compete in both the domestic and public area is strengthened by its ethical stance.

### The Environment

Marshalls is committed to assessing and managing the environmental impacts of all its operations. Further details are set out in the Environmental Report on pages 36 to 44.

### The Community

The Group continues to be actively involved in programmes which promote good community relations, for example, by encouraging and

empowering employees to engage in volunteering and community projects as a way of positively interacting with the communities in which they operate. In particular during 2011, manufacturing sites held events involving their local communities as part of the Group's engagement with the local community. During the year the Group made charitable donations of £58,034 (2010: £49,096). Marshalls also had a very successful 2011 with its first Charity of the Year, 'Thrive', whose aim is to enable positive change in the lives of disabled and disadvantaged people through the use of gardening and made a significant contribution to the creation of their new 'Garden Gallery'.

In the Business in the Community Corporate Responsibility Index 2011 Marshalls are extremely proud to have been placed in the Gold Band. The index is the UK's leading voluntary benchmark of CR, a framework to help companies to integrate and improve CR (Community, Environment, Marketplace and Workplace) throughout their operations by providing a systematic approach to managing, measuring and reporting on business impact in society and on the environment.



*Mining Laborer's Children's School in India*



## Corporate Responsibility (continued)

### Employees

The people at Marshalls are key to the success of the organisation. Marshalls' employees are encouraged and expected to adhere to the Group's Statement of Values and Principles. The statement includes guidance on business practice, employee relations and equality of opportunity and is subject to regular review to ensure that it continues to set stretching standards in terms of trust, honesty and integrity, leadership, ownership and excellence. There is also a published process (the Serious Concerns Policy) through which employees can raise, in confidence, serious concerns about possible improprieties.

Marshalls recognises and appreciates diversity within its workforce and the wider community. Marshalls is committed to promoting and maintaining a working environment where people are treated with respect and where individual talent is recognised and valued and to providing training designed to raise levels of awareness and sensitivity to matters of equality and dignity at work. Marshalls' aim is to implement fair and merit-based employment policies and to adhere to relevant legislation as the minimum acceptable standard. This includes compliance with the provisions of the Equality Act 2010 which harmonises and strengthens previous discrimination-based legislation to provide a simpler and more consistent framework for the effective prevention of discrimination against individuals with protected characteristics. In particular, the Group welcomes and gives full and fair consideration to applications from individuals with recognised disabilities and will ensure they are provided with equal opportunity for employment and career development. Wherever reasonably practicable, training is offered and adjustments are made to ensure that disabled employees or those who become disabled, are not disadvantaged in the workplace.

Marshalls operates an increasingly broad framework of engagement initiatives introduced to develop the Group's ability to respond to the

needs and aspirations of its employees. The importance of the engagement agenda has been further underlined with the decision to add new resource to the Human Resources team focusing specifically on co-ordinating and framing our engagement activities.

The financial results of the Group, and reports on the Company's performance, are communicated to employees through an internal intranet, notice boards and regular briefings. There is also an employee share purchase plan that allows



*Geo Cycle Stands*



## Corporate Responsibility (continued)

employees to purchase the Company's shares through monthly contributions from salary.

Marshalls' 'Options' platform, which serves to improve engagement through the offer of a wide range of employee-focused benefits, offers a Childcare Voucher Scheme and a 'Cycle to Work' Scheme to employees, both of which have been welcomed and embraced enthusiastically by participating employees. This has recently been expanded to include discounted gym membership and emphasises the growing importance of employee well-being as an organisational agenda item.

Since its launch in 2010, the Group has continued to develop its internal Pulse! employee survey during 2011, with a view to establishing a base line of employee opinions, ideas and suggestion, which can be measured and developed over time. A specific objective has been established that every employee within the Group will be provided with the opportunity to discuss their work objectives, performance, personal development and career aspirations, supported by an appropriate programme of training and awareness-building.

Significantly, during the last quarter of 2011, the Group participated in the Best Companies Workplace Engagement Survey for the first time and in so doing, attained accreditation as 'One to Watch' in 2012. This participation helps us to benchmark the Group's activities against other companies focused on organisational excellence.

The emphasis on greater engagement with employees is further supported by employee 'Ambassadors' from across the business, each providing a touch point for the communication and interchange of views and ideas on a wide

range of issues. The Group has worked on identifying and articulating its organisational competencies, which provide a valuable source of sustainable competitive advantage and will support development of our people and teams across our UK and non-UK operations.

The Group continues to encourage greater flexibility of working practices amongst employees by inviting applications from individuals who wish to discuss alternative working patterns. Such applications are given proper consideration and implemented wherever practicable.

The negotiation of a two-year pay deal for both 2011 and 2012 has provided the foundation for a period of stable employee relations at Group and individual site level, underpinned by the Group's Joint National Forum negotiating arrangements

## Corporate Responsibility (continued)

### Health and Safety

The improvement of both the Health and Safety Management System and annual Health and Safety Performance remain key priorities that are fundamental to the success of the business. The Group's Chief Operating Officer, David Sarti, is the Director with primary Board-level responsibility for the Health and Safety performance of the Group. The Group has a written Health and Safety policy, which is approved by the Board, and is reviewed at least annually.

The Safety, Health and Incident Prevention ("SHIP") teams, consisting of both employee representatives and managers, are the cornerstone of the safety management systems at site level, and have continued to operate throughout the year. Over recent years, the Group's operating sites have been encouraged to implement Integrated Management Registration systems accredited by the British Standards Institution ("BSI") incorporating accreditation to OHSAS (Occupational Health and Safety Accreditation Standard) 18001:2007. At the end of 2011 the Group held a total of 40 BS OHSAS 18001:2007 registrations, 5 of these being achieved throughout the year. This equates to a production tonnage manufactured under a registered safety management system of 93 per cent.

Training throughout the year focused on developing the competencies of managers and supervisors to proactively manage health and safety in the workplace. A total of 56 managers attended the four day IOSH "Managing Safely" course, whilst 37 supervisors attended the three day IOSH "Safe to Supervise" course. In addition a further 105 managers and supervisors attended refresher training courses. Marshalls has made significant progress towards satisfying the Mineral Products Association's ("MPA") Policy of having a demonstrable competency programme in place for the quarrying sector. All employees appointed in a capacity of direct responsibility have achieved at least a Level 4 NVQ, whilst 70 per cent of those appointed in a supervisory capacity have achieved at least a Level 3 NVQ and 62 per cent of

quarry operatives have achieved a Level 2 NVQ qualification in their respective roles. The Company has also signed up to the Institute of Quarrying's Continuous Professional Development scheme to enable managers and supervisors to follow a recognised competency programme.

The Group's principles regarding the health and safety of employees, and their application throughout the business, are set out in the Health and Safety Policy. The Group's Health and Safety performance is monitored by the Board on a monthly basis using a number of KPIs. These measure the number and type of workplace accidents. The statistics recorded for 2011 take account of the accident figures for Marshalls NV.

The total number of accidents recorded in 2011 were 14 per cent lower than in 2010 and the number of lost time accidents ("LTAs") recorded were 5 per cent lower during the same period. The rate of accidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") fell by 18 per cent in 2011 (Table 1), but it was disappointing that among these the proportion of "major injuries" as measured under RIDDOR increased slightly.



*Two Millstones, Grey Green on Atlantic Pebbles*

## Corporate Responsibility (continued)

**Table 1**

**Accidents and incidents  
(rate per 1,000  
employees)**

	2007	2008	2009	2010	2011
Major injury	4.2	1.1	0.8	2.1	3.7
Injury resulting in over 3 days absence from work	13.5	18.0	20.6	16.3	11.4
All RIDDORS	17.7	19.1	21.4	18.4	15.1
Average UK headcount	2,804	2,774	2,464	2,391	2,456

The Group has previously measured its Health and Safety performance against a reduction in the number of reportable and lost time accidents with a target of 10 per cent reduction year on year. Due to forthcoming changes in legislation relating to the reporting of accidents to the HSE, and in response to the increase in the severity rate of workplace accidents, the focus of attention will change in 2012. The new target for 2012 will be a 10 per cent reduction in days lost resulting from workplace accidents. All measured KPIs will now be referenced against hours worked to produce accident frequency and severity rates which will bring the Group's reporting strategy into line with that of its industry peers. To ensure transparency, the results for 2011 have been recorded in the same format as in previous years (Table 1), whilst

the KPIs for 2012, and the future as applied retrospectively, are shown in Table 2.

**Table 2**

**Accident frequency and  
severity rates  
(per 100,000 hrs  
worked)**

	2007	2008	2009	2010	2011
All accidents	9.94	9.74	10.43	9.49	8.32
All lost time accidents ("LTA")	1.79	1.69	2.16	1.60	1.55
All days lost	25.89	27.14	25.18	14.76	20.44
Average UK headcount	2,804	2,774	2,464	2,391	2,456

Due to fewer hours being worked in 2011 when compared to 2010, the improvements in accident and severity trends based on rates as opposed to actual numbers are slightly lower. During 2011, all accidents were reduced by 12 per cent, with LTAs reducing by 3 per cent, but the number of days lost increased by 38 per cent.

The Group continues to strive to improve the quality and safety of the working environment for employees. Marshalls remains committed to meeting the highest safety standards for all its employees, to reinforce and develop its safety processes and to develop a competent workforce with a view to achieving long term improvement gains.



*Natural Vintage Stone Paving*



# Environmental Report

***“As a business, we aim to set ourselves apart in all that we do, and this includes leading the way on social, environmental and economic management. Sound environmental management and behaviours are increasingly important for customers and end users of our products. By reducing the environmental impact of our activities, managing our operations in a sustainable way, and seeking innovation in our use of energy and materials, we aim to improve overall business efficiency, build on positive customer and supplier relationships and reinforce the core values connected with ‘creating better landscapes’.”***

In compiling this Environmental Report it is evident that some of the current measures are sensitive to changes in external climatic or economic conditions, the Company's general activity level and the product mix demanded by our customers. To minimise the effect of these factors which are to a greater or lesser degree outside the Company's control we plan to review and refine the measures used. Originally planned for 2011, we have postponed the review until Spring 2012, so as to incorporate any measures required to report against targets from the Sustainable Concrete Forum. Part-year data from Marshalls NV's operations in Belgium have been excluded from the 2011 data. 2012 data will include Marshalls NV on a full-year basis.

As well as reporting excellent progress with our ongoing programme of certification to internationally recognised standards we are pleased to report our certification at “Very Good” for Responsible Sourcing against BRE BES6001.

## Board Responsibility

The Group's Chief Operating Officer, David Sarti, is the Director responsible for the Environmental Performance of the Group. The Group's Environmental Policy is approved by the Board and is reviewed at least annually. The full text of the Policy can be found on the Group's website [www.marshalls.co.uk/sustainability](http://www.marshalls.co.uk/sustainability).

## Environmental Policy - Key Features

**Target – To operate within the relevant legal frameworks and comply with appropriate legislation.**

- The Group has a commitment to achieving the highest standards of environmental performance, preventing pollution and

minimising the impact of its operations.

- All operations should meet or exceed the requirements of legislation and applicable best practice. Where no legislation exists, best practice will remain an integral part of Marshalls' business strategy.
- The Group is committed to considering the environmental impacts associated with its products throughout their life cycle.
- Policy is supported by monitoring and measuring environmental performance using appropriate external guidelines wherever practicable. Operating sites have assessed the environmental aspects of their activities, and objectives and targets aimed at improving the overall environmental impact of those activities have been set. These are reviewed on at least an annual basis.
- Marshalls will continue to raise environmental awareness within the Group through the development and training of its employees and will communicate openly and consult with customers, suppliers and other stakeholders on relevant environmental matters.
- Marshalls strives to conserve natural habitats and create additional areas of biodiversity value, participates in benchmarking biodiversity at suitable operational sites and has implemented a Group-level biodiversity action plan. The Group also recognises the need for sympathetic restoration and after-use of quarry and other operational sites.
- Marshalls considers the character of the local environment and the concerns of the local community and other stakeholders in relation to its activities.

# Environmental Report (continued)

## Environmental Management

**Target – 90 per cent of Group production manufactured at sites operating an integrated management system in accordance with Publicly Available Specification 99:2006 ("PAS 99") by 2012.**

Marshall's has met its target, as during the year 32 (2010: 24) sites were operated to the PAS 99 specification, representing 90 per cent of the Group's manufacturing output.

By the end of 2011 the Group had 54 operational\* sites (2010: 52). The net increase of 2 sites includes a new Premier Mortars site and an additional dimensional stone quarry. Of these sites:

- 46 (2010: 42) had ISO 9001:2000 Quality Management Systems in place representing 96 per cent of the Group's manufacturing output;
- 39 (2010: 30) had ISO 14001:2004 for Environmental Management Systems in place representing 92 per cent of the Group's manufacturing output; and
- 40 (2010: 31) had OHSAS 18001:1999 for Health and Safety Management Systems in place representing 93 per cent of the Group's manufacturing output.

In addition to these, the Group also had PAS 99-compliant management systems in place at its Group Laboratory and Marketing Support Department.

\* Operational is defined as a site in the UK with production output.

## Environmental Impact

The business redefined its Key Performance Indicators in 2010, to increase the accuracy and measurability of its environmental initiatives while improving performance. These are referred to in the relevant section of this Report. Explanatory notes have been included with the charts.

Marshall's is a signatory to the Sustainable Concrete Forum which published a new road map, with time-bound targets to 2020, in

February 2012. The Group will review its own targets in line with its commitment as a signatory.

## Carbon

**Target – to reduce our absolute CO<sub>2</sub> consumption in line with government targets (34 per cent by 2020 and 80 per cent by 2050).**

Marshall's Energy and Climate Change Policy approved by the Board during the year confirms the Group's commitment to reducing the CO<sub>2</sub> impact of its business activities.

The Group has complied with its legal obligation in the Government's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") and submitted both its footprint and annual reports for the period April 2010-March 2011 within the time limits imposed by the legislation. As part of its carbon management programme the Group also gained re-certification during the year to the Carbon Trust Standard which certifies its continued carbon reduction and future commitment to reduce emissions. As part of this re-certification process it reported emissions of less than half of one per cent for fugitive and Scope 3 (including business travel such as flights) emissions.

During 2011, the Group also invested in Automated Meter Reading ("AMR") of its gas supplies to provide half hourly data, which aims to improve the data management of this resource.



The business energy KPIs are aligned to CRC through the measurement of energy at both absolute and relative intensity levels and the business remains committed to reducing energy use on both these measures. The Group reports on CO<sub>2</sub> emissions from its energy use which

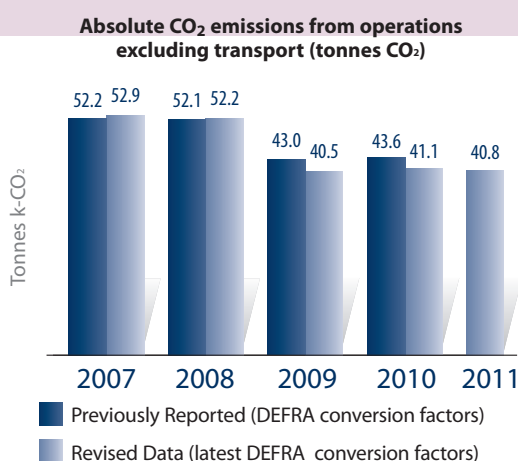


## Environmental Report (continued)

represents the vast majority of its greenhouse gas emissions. The factors used to convert fossil fuel usage to CO<sub>2</sub> emissions in this report are the latest available from DEFRA.

The Group recognises that renewable energy will be required to achieve the absolute reduction target and is currently investigating the use of wind, photovoltaic and biomass options. Such options will be used if found to be economically viable.

The chart below illustrates the Group's absolute CO<sub>2</sub> emissions in tonnes, excluding transport activities, between 2007 and 2011.



The business has revised its previously reported emissions using the latest DEFRA electricity conversion factors in line with DEFRA guidelines. The chart illustrates both previously reported figures and the recalculated emissions as a comparison.

In 2011 the absolute carbon emissions dropped by just over 300 tonnes from 2010, representing a 0.8 per cent fall. This is significant, as the production output of the Group increased by 8.5 per cent.

The net reduction in absolute emissions is the result of energy savings which are within the control of the business and other factors, such as product mix and weather, which are not.

Each major production site has an energy plan

and in 2011 it is estimated that this resulted in a total of 750 tonnes of carbon reduction. Other Group work and staff commitment, including an awareness campaign, is leading to ongoing improvements in energy savings as each site has an energy champion or team that is responsible for the implementation of their local energy plans. The Group invested in a project to improve the efficiency of its lighting across the majority of its sites and it is estimated that this investment will reduce our carbon emissions by 1,050 tonnes per year.

The mix of products manufactured will impact on the Group's absolute carbon footprint. The Group recognises that if production of low carbon products increases its footprint will be reduced.

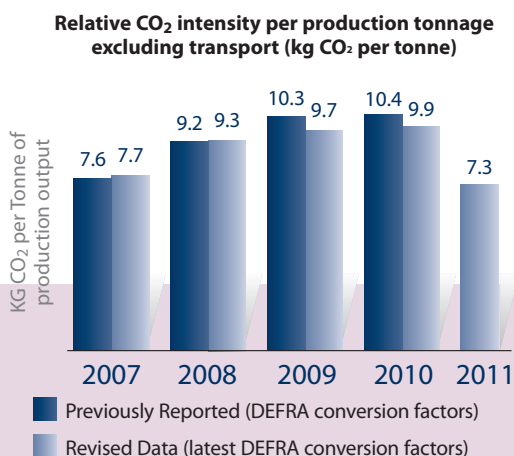
The weather in 2011 was milder than 2010 based on heating degree days in many areas of the country and therefore the energy required for comfort and processing heating was reduced. The energy required for comfort heating may be considered as base energy so with the increase in production output this results in a reduction in energy intensity.

The business is continually improving the reliability of its energy data to enable better forecasting and management of its carbon footprint in the future.

The relative energy intensity of production, excluding transport, has fallen to 7.3 kg CO<sub>2</sub> per tonne produced, using the revised DEFRA conversion factors. Carbon reduction measures, product mix and less heating have all assisted in the improvements in the Group's relative energy intensity. Another important issue is that, as production output increases, site efficiencies improve due to the dilution of non-productive and base load energy.

The chart below illustrates the Group's CO<sub>2</sub> intensity emissions as a proportion of production output, excluding transport activities, between 2007 and 2011.

## Environmental Report (continued)



The production tonnage in this chart refers to the cumulative carbon intensity by process.

While the Group must report its carbon footprint as part of CRC legislation, which excludes transport, it will continue to report voluntarily to the "Carbon Disclosure Project", which includes a wider carbon management performance over time and also provides an insight for shareholders regarding the Group's carbon and climate change impact management programme. The Group reported 66,037 tonnes of CO<sub>2</sub> for the year 2010 (2009: 65,119 tonnes). This data includes scope 1 and 2 emissions as defined in the Greenhouse Gas Protocol ("GHG Protocol"). The proportion of the CO<sub>2</sub> emissions from transport remained constant at 34 per cent.

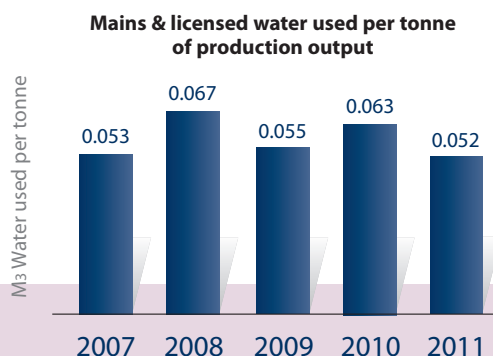
### Water

**Target – reduce use of water from mains and licensed boreholes to 0.05m<sup>3</sup> per tonne of production by 2015.**

The Group understands the future value of water. The business has demonstrated a commitment to water harvesting and recycling on numerous sites and utilises quarry water where appropriate in its operations.

The chart below illustrates the Group's water performance between 2007 and 2011.

The reduction in water intensity has been helped by Marshalls' previous investment in water management projects, particularly water



harvesting, as in 2011 the average annual rainfall was 38.2 per cent higher than the ten year average, as reported by the Department of Energy and Climate Change ("DECC") and 84 per cent higher than in 2010. The higher average rainfall also reduced the amount of water extracted from boreholes in the aggregates business, as quarry water is used in priority to borehole water.

Management, awareness and product mix have also contributed to the reduction in water intensity.

During the year the business partnered with one of its customers to evaluate a methodology to calculate the water footprint of construction products. The results are due to be presented to wider stakeholders (DEFRA, Highways Agency, Environmental Agency, the Waste and Resources Action Programme ("WRAP"), World Wide Fund for Nature ("WWF")) in 2012.



*Biodiversity at work at Maltby*

## Environmental Report (continued)

### Transport

**Target – to meet the challenge of reducing emissions whilst striving to maintain and improve upon customer service.**

Marshalls' LGV transport fleet is changing from articulated to drawbar vehicles in response to customer demand for a more flexible delivery service. The result of this is a reduction in miles per gallon achieved per vehicle. As fuel usage has a significant business impact, Marshalls undertakes one-on-one "green" driver training which has the added advantage of gaining a broader understanding of the problems being faced by the drivers, allowing management to address the issues. The Group continues to review the options available to improve vehicle efficiency; however, an engine remapping trial carried out during 2011 proved inconclusive.

The Group uses rail for stock movement to reduce carbon emissions and will continue to look at different modes of transport whenever practicable. As an example, during 2011 rail was used as the dominant mode of transport (73.5 per cent of the tonnage) between our Sandy and Falkirk operations.

Over the last twelve months a trial on raising awareness of the impacts of the company car fleet has been implemented. This uses a combination of total mileage travelled and the achieved efficiency (miles per gallon), providing each driver with a 'green' driving score. This is presented in a traffic light system – green, amber and red – depending on performance. In 2012 it is hoped to improve and automate this system.

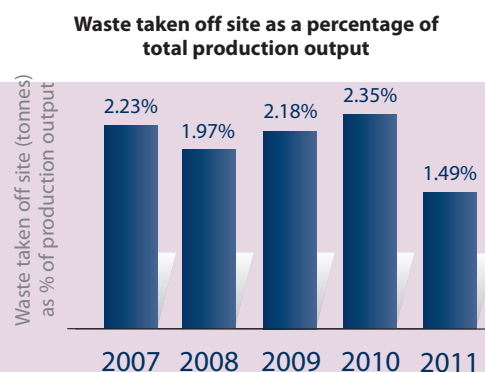
### Waste Reduction

**Target – to reduce by 3 per cent the total waste to landfill per tonne of production output per annum over a three year rolling average.**

The Group has continued to measure the amount of waste, including material for recycling, leaving sites as a percentage of total production output. The business is focused on waste reduction and

where it generates waste it investigates the opportunity for recycling this within the business.

The chart below illustrates the Group's off-site waste performance between 2007 and 2011.



This chart does not differentiate between waste leaving site for reuse/recycling and waste leaving site for landfill. The absolute waste total for the year has reduced by 46,000 tonnes between 2011 and 2010. A large proportion of this reduction is explained by the retention of quarry materials on site for restoration purposes. Product mix has an impact on waste generation across the Group, with certain product lines being associated with higher levels of waste generation than others. The introduction of a waste protocol during the year has allowed greater traceability and accountability in the area of waste management and, with increased focus on communicating best practice, the Group has managed to increase its reuse/recycling rate to 91.8 per cent (2010: 91.3 per cent) and reduce its waste to landfill to 8.2 per cent (2010: 8.7 per cent).

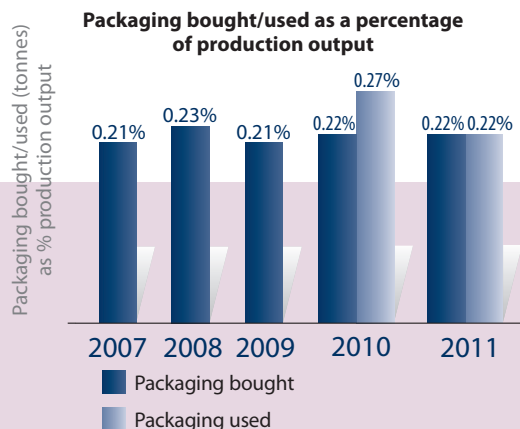
### Packaging

**Target - reduce by 2 per cent per annum, over a 3 year cycle, while ensuring that the pack and product safety is not compromised.**

The Group is now reporting the packaging used rather than packaging bought. This aligns with the duty to report under the Producer Responsibility Obligations (Packaging Waste) Regulations.

## Environmental Report (continued)

The chart below illustrates the Group's packaging performance between 2007 and 2011.



The difference in the figure reported for packaging used rather than bought is explained by the inclusion of packaging imported with product from overseas, where the Group does not buy the packaging directly but must still include it in the "used" data for compliance with the Packaging Waste Regulations. This gives the most accurate reflection of the environmental impact. This measure is affected by product mix, so a reduction can be achieved by selling a higher volume of those products that have less packaging. The Group uses packaging only to the extent appropriate, for example, to ensure safe handling, storage and transport of its products and to minimise damage to the product and hence waste. In addition, packaging may be used to provide health and safety information to prospective users of the products and instructions on installation. Packaging principally comprises timber pallets and polythene.

The Group has continued to work with suppliers to control polythene orders centrally. The aim is to avoid ordering excess material if the requirement can be fulfilled with stock already existing in the Group. Work has also been completed to reduce the weight of polythene used on Wet Press products. The introduction of a new polythene film during 2011 means the weight of polythene used per pack on these products has been reduced by 14 per cent. Work in this area will continue in 2012.

The Group's Timber and Paper policy continues to support our commitment to obtain pallets from FSC accredited suppliers where available.

### Suppliers and Contractors

The Group has an effective Procurement Policy in place. The policy provides a framework which all employees engaged in procurement activities are expected to operate. It contains a clear statement with regard to Marshalls' commitment to responsible sourcing. The Group will continue to work with our key suppliers to ensure they have appropriate management systems to minimise risk and environmental impacts in place.



*Biodiverse Paving System, Limestone*

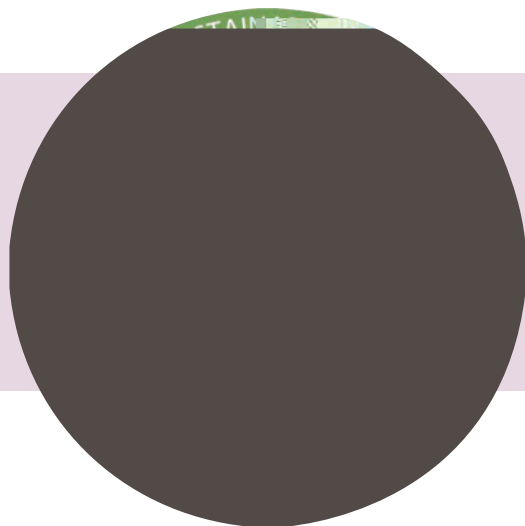
Where significant risk is identified with a supplier, a rigorous audit will be carried out.

During the year, Marshalls hosted a supplier communication event in collaboration with the United Nations Global Compact ("UNGC"). The event brought together a number of key suppliers



## Environmental Report (continued)

It addresses economic, social and environmental aspects of Marshalls' operations underpinned by development of management systems recognised by an independent third party ("BSI").



The Group publishes targets, progress and data on its website at [www.marshalls.co.uk/sustainability](http://www.marshalls.co.uk/sustainability) to communicate its agenda on the triple bottom line of environmental, social and economic issues. The aim is to have a platform which allows interested stakeholders access to the latest information on our activities.

Marshalls is an active member of the British Precast Concrete Federation Sustainability Committee and a signatory of the Precast Sector Sustainability Charter. The business is also a signatory to, and an active member of, the Concrete Sustainable Forum.

### Land Management

During 2011 all development projects were either located on brownfield land, within Marshalls' sites, or acquired on-going operations.

### Environmental Awareness and Training

The Group recognises the need to raise the environmental awareness and competencies of its employees and has targeted energy management with a poster campaign aimed at improving the energy culture across the Group. In addition, CRC

briefings were delivered to all senior management during 2011.

Institute of Environmental Management and Assessment ("IEMA") Foundation Certificate in Environmental Management courses are planned for 2012 in order to ensure those with environmental responsibilities are competent to carry out their roles effectively.

The Contractor Handbook has been updated to include more detailed environmental information and has been delivered to those working on behalf of the Group during 2011. Operational employees received Toolbox Talk training on a range of environmental topics including waste, environmental permits and biodiversity.

### Biodiversity

**Target – to have biodiversity action plans in place at all appropriate sites by the end of 2012.**

Marshalls has adopted a biodiversity strategy, in consultation with external stakeholders, documenting a systematic approach to our legal, protection and enhancement commitment to the biodiversity on our sites. This strategy includes a priority approach to defining appropriate sites together with evaluation of the biodiversity ecosystem services delivered.

Marshalls is on plan to deliver our biodiversity action plan ("BAP") target by the end of 2012. We continue to maintain our accreditation to the Wildlife Trusts' Biodiversity Benchmark at three sites. At the benchmark site in North Wales the business is planning an open day during 2012 to demonstrate its monitoring of European protected species such as great crested newts and dormice and to showcase the bat barn constructed in 2011.

Marshalls was awarded the 'Commitment to Biodiversity and Nature Conservation' and 'Commended for Biodiversity Achievements' at its Stainton site by the Mineral Products Association, and was also awarded 'Sustainability Awareness'

## Environmental Report (continued)

for its biodiversity success at Stoke Hall Quarry in the Peak District National Park by the Stone Federation.

### Legal compliance

There were no environmental prosecutions at any of Marshalls' operating sites during 2011.

### Verification

This section of the Annual Report has been audited by a qualified verifier on behalf of BSI. On the basis of the work undertaken, the Environmental Report is considered to be a fair reflection of the environmental performance of the organisation during 2011 and contains no misleading information.



PAS 99  
IMR 72571

*Heritage Stepping Stones, Calder Brown*

## Directors' Report - Other Regulatory Information

The Directors' Report incorporates the management report for the purpose of the Listing Rules (DTR 4.1.8R). Marshalls plc is registered with company number 5100353.

### Principal Activities and Business Review

The principal activities of the Group are described in the Business Review. The Business Review, Corporate Responsibility and Environmental Reports, Corporate Governance Statement and Directors' Remuneration Report are each a part of the Directors' Report. Those matters required to be included in the Directors' Report, including the information and analysis required by Section 417 of the Companies Act 2006 to be included in a Business Review, appear in those sections of the Report. In particular:

**Business Performance during 2011:** A detailed review of the principal activities of the Group is contained in the Chairman's Statement on pages 4 and 5 and the Business Review on pages 6 to 25.

**Key Financial and other Performance Indicators:** The strategic KPIs used by the business are set out on page 8. Performance against these indicators is commented on in the Chairman's Statement, Business Review, Corporate Responsibility, and Environmental sections of this Report.

**Principal Risks and Uncertainties:** An indication of the main risks and uncertainties faced by the Group and its objectives and policies for the management of financial and general risk, including its use of, and policies in respect of, financial instruments and its exposure to price, credit, liquidity and cash flow risk, are set out in the Business Review on pages 22 to 25. The process for identifying significant risks and uncertainties and managing risk is in accordance with the Revised Guidance for Directors on the Combined Code issued by the Financial Reporting Council in October 2005.

**Charitable and Political Donations:** The Corporate Responsibility Report on page 28 to 35 gives details of the Group's policy and information

on charitable donations. The Group has made no donations during the year to any political party or political organisation or to any independent election candidate, whether in the European Union or elsewhere (2010: nil).

**Environment and Community:** Information about environmental matters and the impact of the Group's business on the environment is given in the Environmental Report on pages 36 to 44. The Group's approach to social and community matters is described in the Corporate Responsibility Report on pages 28 to 35.

**Employees:** The Company's policies in relation to disabled employees and employee involvement are explained in the Corporate Responsibility Report, pages 32 and 33.

**Corporate Governance:** Details of the Group's policies in relation to Corporate Governance and how they are applied are set out on pages 48 to 55.

**Key Relationships:** The Business Review on page 14 includes information about persons with whom the Group has contractual or other arrangements that are essential to the Group's business.

**Group Results and Group Events since 31 December 2011:** The Consolidated Income Statement for the year ended 31 December 2011 is shown on page 78. Details of any important Group events and developments since the financial year end 31 December 2011 are included in the Business Review on pages 6 to 25.

### Dividends

The Board is recommending a final dividend of 3.50 pence (2010: 3.50 pence) per share which, together with the interim dividend of 1.75 pence (2010: 1.75 pence) per share, makes a combined dividend of 5.25 pence (2010: 5.25 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 6 July 2012 to shareholders registered at the close of business on 8 June 2012.

## Directors' Report - Other Regulatory Information (continued)

The dividend paid in the year to 31 December 2011 and disclosed in the Consolidated Income Statement is 5.25 pence (2010: 5.25 pence) per share being the previous year's final dividend of 3.50 pence (2010: 3.50 pence) per share and the interim dividend of 1.75 pence (2010: 1.75 pence) per share in respect of the year ended 31 December 2010 and paid on 2 December 2011.

### Share Capital and Authority to Purchase Shares

The Company's share capital at 1 January 2011 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2011 and 9 March 2012. Details of the share capital are set out in Note 21 on page 116.

The Company held 2,425,000 Treasury Shares on 31 December 2011, and made no sales or purchases of Treasury Shares during the year or in the period up to 9 March 2012. Save for the Treasury Shares and some of the shares held by the Marshalls plc Employee Benefit Trust (the "EBT") as set out below, the Ordinary Shares of the Company carry equal rights to dividends, voting and return of capital on the winding up of the Company, as set out in the Company's Articles of Association. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a shareholder has waived or agreed to waive dividends (other than the EBT).

The EBT holds shares in the Company on trust for employees (Investment Shares) and also purchases shares from time to time to satisfy awards granted to Directors and Senior Executives (Matching Shares and Performance Shares) subject to the achievement of performance targets under the Marshalls plc Long Term Incentive Plan (the "LTIP"). At 31 December 2011 the EBT held 1,584,441 Ordinary Shares in the Company (2010: 1,548,380 shares) of which

669,087 represented Investment Shares beneficially owned by LTIP participants, with the balance held in respect of future Matching and Performance Share Awards. Details of outstanding awards under the LTIP are set out in Note 19 on pages 113 and 114. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

UK based employees of the Group with more than six months service may participate in the Marshalls plc Share Purchase Plan. Employees purchase Ordinary Shares in the Company with pre-tax salary. The shares are purchased in the market and then held in Trust by Yorkshire Building Society. Employees receive dividends on these





# Corporate Governance Statement

## Chairman's introduction

Marshall's is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Board supports the highest standards in corporate governance, which it regards as fundamental to the effective performance of the business. The Board acknowledges that it is accountable to shareholders for corporate governance matters, and seeks to promote consistently high standards of governance throughout the Group which are recognised and understood by all.

This statement, which is part of the Directors' Report, has been prepared in accordance with the principles of the UK Corporate Governance Code published in June 2010 (the "Code"), which the Board fully supports. In this statement, we have sought to explain how the Board has applied the principles of the Code, in particular in relation to the role and effectiveness of the Board in Sections A and B. An explanation of the Company's approach to value creation and strategy is contained in the Business Review on pages 6 to 25.

**Andrew Allner**  
**Chairman**

## Statement of Compliance with the Code

Throughout the year ended 31 December 2011 the Company has complied with the relevant provisions of the Code in all material respects.

The paragraphs below, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 56 to 75, describe how these principles are applied within the Company.

## Board Leadership and Effectiveness Code Provision A.1: The Role of the Board

The Board comprises an independent Non-Executive Chairman, three Executive Directors

and three Non-Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. Biographical details of the Directors are on pages 26 and 27.

There is a written Schedule of Matters Reserved for the Board, which includes approval of the Company's risk management processes, and its policies in relation to health and safety, social and community matters, the environment and ethical trading.

The Board reviews the monthly financial results of the Group at each regular Board meeting, with reference to the detailed annual business plan and budget. The Board also considers forward trends and performance against other key indicators. Executive Directors comment on areas where performance departs from forecasts and on contingency plans. The Board regularly reviews and discusses medium and long-term strategy, and meetings with members of senior management are included within the Board programme to update the Board on business and strategic issues.

The Board has delegated specific responsibilities to the Audit, Remuneration and Nomination Committees. Other Board Committees are established periodically for particular purposes. For example, during the year, Board Committees were established to approve dividend payments and Preliminary and Half-yearly announcements.

The Group's reporting structure below Board level is designed so that all decisions are made by the most appropriate people in a timely manner. The Directors and senior management are tasked with the delivery of targets approved by the Board and for the implementation of Group strategy and policy across the Group. Management teams report to members of the Senior Executive Committee. This committee currently consists of seven senior managers, including the three Executive Directors. Business issues considered by the Senior Executive Committee are reported by the Executive Directors to the Board. These policies and

## Corporate Governance Statement (continued)

Details of Board and principal Board Committee meetings in 2011, with Directors attending, are shown below. Other meetings were held during the year for specific purposes, including reviewing strategy and Board effectiveness, and in addition to these, all the Non-Executive Directors made visits to operational sites.

	Board (8 meetings)	Audit Committee (4 meetings)	Remuneration Committee (5 meetings)	Nomination Committee (1 meeting)
Andrew Allner	8	4	5	1
Ian Burrell	8	-	-	-
Alan Coppin	8	4	5	1
Mark Edwards	7	4	5	1
Graham Holden	8	-	-	-
Tim Pile	7	4	5	-
David Sarti	8	-	-	-

procedures collectively enable the Board to make informed decisions on a range of key issues including those relating to strategy and risk management.

Eight full Board meetings are scheduled during 2012. There will be additional meetings of the Board in 2012 to review strategy, Board performance and the Company's longer term objectives.

The Company maintains Directors' and Officers' Insurance in respect of legal action against the Directors.

### Conflicts of Interest

The Board has powers to authorise and has adopted procedures for the authorisation of existing situations and for considering (and authorising where appropriate) new situations which may give rise to a conflict of interest on the part of any Director.

The procedures give guidance to Directors as to what situations may be affected and of their obligations to notify the Company, through the Chairman of the Nomination Committee, of any such situations. The Company maintains a Section 175 Conflicts Register showing those situations which have been authorised and the relevant date of such authorisation.

The Board has authorised a number of situations advised to it by the Directors, all of which are the holding of directorships or similar offices with companies or organisations not connected with the Company. The Board has not, in relation to any of those situations, identified any actual conflict of interest, and has authorised such situations in accordance with its powers. These authorisations are recorded in the Conflicts Register of the Company maintained by the Secretary. The Board has delegated general authority to the Nomination Committee to carry out a review of such authorisations no less than annually and to make recommendations to the Board on particular situations notified to it in future.

### Code provision A.2: Division of responsibilities

#### Code provisions A.3, A.4: Chairman and Non-Executive Directors

The positions of Chairman and Chief Executive are held by separate individuals with a clear division of responsibilities. The Chairman leads the Board and sets its agenda, ensuring that all Directors, particularly the Non-Executive Directors, are able to make an effective contribution. He ensures that there is a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of the Group Strategy and

## Corporate Governance Statement (continued)

policies approved by the Board. The Board has approved written Terms of Reference for the Chairman and Chief Executive.

Each of the Chairman and the Non-Executive Directors were independent on appointment, and the Board considers each of the Non-Executive Directors to be independent in character and judgement in accordance with the principles set out in Code Provision B.1.1.

The Board has appointed a Senior Independent Non-Executive Director, Alan Coppin. He is available to shareholders if they have concerns which are not resolved through the normal channels of contact or where it would be inappropriate to raise those concerns through such channels. He is also available as a sounding board for the Chairman and an intermediary for other Non-Executive Directors. At least once a year the Chairman holds a meeting with the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors also meet without the Chairman being present, at least annually, to appraise the Chairman's performance.

Directors have the right to ensure that any concerns they raise about the running of the Company or a proposed action is recorded in the Board minutes. Further, on resignation, if a Non-Executive Director did have any such concerns, the Chairman would invite him to provide a written statement for circulation to the Board.

### Code Provisions B.1, B.2: Board Composition, and Appointments to the Board

The Board considers it is of sufficient size and has an appropriate balance of skills and experience to meet the needs of the business: however, the Board is mindful of the recommendations of the Davies Report on Board diversity and has commenced a process to actively seek suitable female candidates for appointment to the Board. As stated above, the Board considers each of the Non-Executive Directors to be independent in character and judgement.

The Board has established the Nomination

Committee to lead the process for Board appointments and to make recommendations to the Board. The Terms of Reference of the Nomination Committee are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk). These Terms of Reference explain the role of the Committee and the authority delegated to it by the Board. The Company's Articles of Association set out clear powers of removal, appointment, election and re-election of Directors. The Nomination Committee Report on page 73 explains the process for nominations and succession planning in more detail. There were no new Board appointments during the year.

### Code Provision B.3: Commitment

The Company does not set an upper limit on the number of other appointments that may be held by Non-Executive Directors, although on appointment Board members, in particular the Chairman and the Non-Executive Directors, disclose their other commitments and must agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current Board commitments of the Chairman are identified in the biographical details on page 26. The position is reviewed regularly, and changes are notified to the Company. The process for recording and managing conflicts of interest is explained under "Conflicts of Interest" above.

None of the full time Executive Directors holds a Non-Executive Directorship in a FTSE 100 company. Appointments to the boards of other non-FTSE 100 companies are held by the Executive Directors subject to the prior approval of the Board.

### Code Provisions B.4, B.5: Board Development, and Information and Support

The Chairman, supported by the Chief Executive and the Company Secretary, ensures that new Directors receive full, formal, and tailored induction on joining the Board. Directors receive training as part of the annual Board programme of

## Corporate Governance Statement (continued)

work, and are also expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies. During 2011, formal training sessions on Directors' duties and the Bribery Act 2010 were provided by the Company. Other training needs are identified through the Board evaluation process or through individual reviews between the Directors and the Chairman. Non-Executive Directors have also availed themselves of opportunities to meet shareholders during 2011, and would be available to meet major shareholders if a meeting were requested.

All Directors are supplied in a timely manner with relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the Group's operational and financial performance, on Health and Safety, and on forward trends. Directors have access to the advice and services of the Company Secretary and are entitled to rely on the impartial and independent nature of that advice and those services. The Company Secretary is responsible for ensuring that Board procedures are complied with and, through the Chairman, advises the Board on Corporate Governance matters. Both the appointment and removal of the Company Secretary are a matter for the Board as a whole.

The Board has an approved procedure for all Directors to take independent professional advice at the Company's expense. Board Committees are provided with sufficient resources to undertake their duties, including the option to appoint external advisers when they deem it appropriate.

### Code Provision B.6: Evaluation

The Company carries out a full evaluation of Board performance and that of its three principal Committees annually. During 2011, this was conducted using a detailed questionnaire and one-to-one confidential discussions between each of the Directors and the Company Secretary. The questionnaire included questions about the effectiveness of the Executive and the Non-Executive Directors, and the performance of the Board, referencing external guidance on Board effectiveness published during 2011 by the FRC

and the ABI and covering Board diversity and gender. The evaluation also asked Directors other than the Chairman to evaluate the performance of the Chairman, and the Senior Independent Director separately reviewed the Chairman's performance with other Non-Executive Directors.

The results of the evaluation were reviewed by the Chairman and the Company Secretary, and discussed by the Board. The key themes emerging from this evaluation have been applied in developing specific Board actions for 2012, including ongoing focus on strategy and value creation, programming in "deep dive" discussion of specific matters such as margin improvement, working capital management and contingency planning, Board development focusing on roles, responsibilities, personal development and effectiveness, and seeking opportunities for Non-Executive Directors to have greater contact with investors and participate in events and meetings outside the formal Board timetable. The evaluation also validated the results of the action plan for 2011, which were believed to have improved the effectiveness of the Board. The Board considered whether to use an external assessor for the evaluation in 2011, and concluded that the evaluation process using internal resource, led by the Company Secretary, continues to be a very effective and robust process and has demonstrably helped to improve Board effectiveness since its inception. The Board will keep this under review for future years.

### Code Principle B.7: Re-election of Directors

The Company's Articles of Association provide for re-election of Directors at regular intervals. No Director may serve more than three years without retiring and being proposed for re-election. All the current Directors stood for election or re-election at the Annual General Meeting in May 2011, and it is the intention that the full Board will retire and stand for re-election at the 2012 Annual General Meeting. Biographical details of the Directors can be found on page 26 and 27. The processes for appointment and evaluation of the Directors are set out in the Nomination Committee Report on page 73. The current terms of appointment of Directors are set out on page 67.



# Corporate Governance Statement (continued)

## Accountability and Audit

### Code Provision C.1: Financial and Business Reporting

In presenting the Annual and Half-yearly Financial Statements the Directors seek to present a balanced and understandable assessment of the Group's position and prospects and to explain the Company's approach to preserving longer term value and its strategic objectives. The Directors have adopted the going concern basis in preparing these Financial Statements in accordance with "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009.

The respective responsibilities of the Directors' and the Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 54 to 55 and pages 76 to 77 respectively.

### Code Provision C.2: Risk Management and Internal Control

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. 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.

The Board is responsible for reviewing the effectiveness of the system of ongoing control, and for ensuring that it meets the necessary standards. There is a bi-annual formal review of the Group's risk management system and the system of internal control. The risk management system and internal control system are also subject to a regular rolling programme of review, the results of which are periodically reported to the Board. The Board has appointed a Risk Committee, comprising the Executive Directors,

which reports directly to the Board. Its task is to identify, evaluate and manage any material risks which might threaten the Group's business objectives. In undertaking this work, it receives regular risk reviews and an annual risk assessment report carried out by the relevant senior managers. From this information, the Risk Committee compiles a Register which identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have, giving each risk a relative weighting reflecting its potential impact on the Group. Against each such risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are listed. The Risk Register helps to identify areas for action, and uses programmes including independent audit assessments that are designed to test the effectiveness of the Group's risk control systems. Information in relation to the management of risks and any changes to key risks or weighting is regularly reported to the Board. The Risk Register is reviewed by the Board and the Audit Committee at least every six months and updated to reflect changes in circumstances or priorities. During 2011, work was undertaken to extend the systems controls to Marshalls NV, the newly-formed Belgian subsidiary, and to the Group's purchasing operations in China.

In addition to the major risk review process, the Group has 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 internal control framework governs the internal financial reporting process of the business, with checks and balances built into the system that are designed to reduce the likelihood of material error or fraud. The Audit Committee Report, which is incorporated by reference into this Report, provides further information on the internal control and risk management systems in place in connection with financial reporting.

The Audit Committee has carried out an assessment of the effectiveness of the Group's risk management and internal control system,

## Corporate Governance Statement (continued)

covering all material controls including its financial, operational and compliance controls and risk management systems for the year to 31 December 2011.

### Code Provision C.3: Audit Committee and Auditors

Information relating to the Audit Committee and how the Company has complied with the Code Principles regarding financial reporting and internal controls is set out in the Report of the Audit Committee on pages 74 and 75. The Terms of Reference of the Audit Committee were reviewed during the year and are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk).

### Directors' Remuneration

#### Code Provisions D.1 and D.2: Level and make-up of Remuneration, and procedure for developing policy and fixing executive remuneration packages

The Board has delegated to its Remuneration Committee responsibility for ensuring compliance with the Code's requirements on remuneration. The remuneration policies and procedures, and details of Executive Directors' remuneration are set out in the Remuneration Report on pages 56 to 72. The Terms of Reference of the Remuneration Committee were reviewed during the year and are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk).

### Relations with Shareholders

#### Code Provision E.1: Dialogue with Shareholders

The Board is accountable to shareholders for the Company's continued success. The Board accordingly places great emphasis on maintaining good communications with shareholders. The Chief Executive and Finance Director meet regularly with major shareholders. The Board also holds annual general meetings to discuss the Company's performance and to elect directors and auditors.



## Corporate Governance Statement (continued)

the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole;

- (b) the Parent Company's Financial Statements in this Annual Report, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom GAAP) and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and
- (c) the Business Review contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

### Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

### Cautionary Statement and Directors' Liability

This Annual Report 2011 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or

omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

This Annual Report contains certain forward looking statements with respect to the Group's financial condition, results, strategy, plans and objectives. These statements are not forecasts or guarantees of future performance and involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed, implied or forecast by these forward looking statements. All forward looking statements in this Annual Report are based on information known to the Group as at the date of this Annual Report and the Group has no obligation publicly to update or revise any forward looking statements, whether as a result of new information or future events. Nothing in this Annual Report should be construed as a profit forecast.

### Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 11.00am on Wednesday 16 May 2012 together with explanatory notes on the resolutions to be proposed is contained in a circular to be sent to shareholders with this Annual Report.

**By Order of the Board**  
**Cathy Baxandall**  
**Group Company Secretary**  
**9 March 2012**

# Directors' Remuneration Report

## Letter from the Chairman of the Remuneration Committee

Dear Shareholder,

I am pleased to report to shareholders on the aims, objectives and activities of the Remuneration Committee during 2011. The members of the Committee, all of whom have served throughout the year, are identified on pages 26 and 27. During the year we have, as a Committee, reviewed our remuneration policy as a whole, to ensure it meets the need to attract, retain and continue to motivate talented Executive Directors while recognising wider shareholder interests. Working with independent remuneration consultants, we have conducted benchmarking reviews against suitable comparator groups during 2011 for Executive Directors and senior managers. In our work, we have also sought to reflect developing best practice in the area of remuneration, to recognise the importance of alignment with the objectives of shareholders and to encourage behaviours that will ensure the sustainability and long term health of the business and avoid inappropriate risk-taking.

The present team of Executive Directors has served the business since 2001. This team has delivered consistent sustainable results throughout the economic downturn while providing a strong foundation to carry Marshalls through what has been the most challenging economic climate it has experienced for many years. Marshalls has focused on maintaining and developing its market-leading position so that it is well placed to return to growth in the future.

During 2011, the CPA estimated total construction output grew by only 1.8 per cent, with those markets in which the Group primarily operates showing little or no growth. Against this background, the performance of the business was very strong. Group sales grew by 8.2 per cent and operating profit from continuing operations grew by 28.6 per cent with margin improvement despite very difficult trading conditions. Earnings per share grew by 49.6 per cent to 6.30 pence,

which was at the top of the target range set at the beginning of the year, and the annual variable element of remuneration earned in respect of the 2011 financial year reflects this strong outperformance.

The performance incentive plan (the "PIP"), introduced in 2011 in line with schemes introduced by a number of other companies and after shareholder consultation, requires a significant element of annual variable pay to be deferred in shares. A key consideration for the Committee has been the retention of our talented managers at Board and senior level. The PIP helps to meet the key retention objective of the Committee, while allowing a flexible approach in the setting of targets on an annual basis. The full benefit of this plan can only be achieved if the growth targets are achieved in each year of the full holding period. The Committee has recognised that under the Group's LTIP, no awards made in previous years have vested, and awards under the PIP have replaced the Matching Share Award element of the LTIP for 2011 and future years. In reviewing its policy and determining remuneration for 2012 the Committee has also taken into account the wider economic conditions, and pay and reward packages elsewhere in the Sector and the business.

I hope you find this report helpful and informative.

**Alan Coppin**  
**Chairman of the Remuneration Committee**

## Introduction

This report has been prepared on behalf of the Board in accordance with Schedule 8 Quoted Companies: Directors' Remuneration Report Regulations 2008 (the "Regulations"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the UK Corporate Governance Code relating to Directors' remuneration. As required by the Regulations, an advisory resolution to approve



## Directors' Remuneration Report (continued)

the report will be proposed at the Company's Annual General Meeting on 16 May 2012.

The Auditors are required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006 (as amended by the Regulations). The report is therefore divided into separate sections for audited and unaudited information.

This report aims to provide an explanation of the Company's Remuneration Policy, how it has been applied in setting Executive Directors' remuneration generally, and the effect of the targets set for 2011 and 2012 on the variable element of the total remuneration packages of Executive Directors.

### Unaudited Information

#### The Remuneration Committee

The Remuneration Committee, whose members are identified on pages 26 to 27 met five times during 2011. All the members are independent and have no personal financial interest (other than as shareholders) in matters to be decided, no potential conflicts of interest arising from cross directorships and no day-to-day involvement in running the business.

The Remuneration Committee has formal written terms of reference with the full remit of the Committee role described. A copy of the terms of reference can be downloaded from the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk)

#### Activities during 2011

In addition to the five meetings held during the year, the Chairman of the Remuneration Committee also held separate meetings with remuneration consultants. The Committee's programme of work included:

- reviewing the policy for executive remuneration and the structure of executive remuneration packages;
- benchmarking pay and benefit levels of Directors by reference to (a) external

independent reports, (b) Marshalls' pay policies for its other employees and (c) the wider economic and social environment;

- reviewing the Board expenses policy;
- reviewing and updating as appropriate the Company's annual and long term executive incentive schemes, and setting performance targets for annual performance-related pay under the PIP and three year performance targets under the Long-Term Incentive Plan (the "LTIP"); and
- measuring performance against the targets set, making awards under the PIP and the LTIP, and agreeing principles for 2012.

The Company received independent remuneration advice during the year from PricewaterhouseCoopers LLP ("PwC"). PwC were also appointed separately by the Company to provide tax and pensions advice to the Company and corporate finance advice in respect of the business acquisition in Belgium during the year. In determining the Executive Directors' remuneration for the year, the Remuneration Committee consulted with the Chief Executive and Company Secretary. No Director played a part in any discussion about his own remuneration.

#### Remuneration Committee Policy

In formulating the application of its policy for 2011 and 2012, the Remuneration Committee has recognised the evolving landscape in remuneration developments. The Remuneration Committee believes that many of the principles proposed by the Walker Review, and by institutional shareholders and their representative bodies, are already in operation or embedded within the Company's remuneration framework namely:

- the terms of reference for the Remuneration Committee include the responsibility for setting the policy on incentive reward for senior employees, including those who could have a material impact on the risk profile of the Group;
- the Remuneration Committee has, in the design and application of the Company's

## Directors' Remuneration Report (continued)

annual and long term variable performance-related incentive schemes, incorporated risk adjustment mechanisms to encourage consistent and sustainable levels of Company performance and to ensure, when selecting performance conditions and the level of challenge within those conditions, that they support the long-term future of the Company;

- Annual variable pay is now delivered through the PIP which incorporates financial measures (EPS and cash) and non-financial measures (customer service and health and safety) requiring consistent and sustainable improvement for maximum reward. There has been no softening of targets and there are deferral and claw back mechanisms to achieve retention objectives; and
- The LTIP is designed to add a layer of variable long term incentive that is achievable only when stretching share price growth and operational cash flow targets are met over a three-year period. This plan was approved by shareholders in 2005. The sharp economic downturn in 2008 (the end of the first three year measurement period) and subsequent

challenging conditions have affected awards under this plan none of which have vested to date. The LTIP will expire in 2015 and the Committee expects to consider alternatives for submission to shareholders at the appropriate time.

It continues to be the Committee's policy to target a remuneration package that is at around median for median performance and around upper quartile for exceptional performance. In setting all elements of remuneration the Committee is advised by independent consultants and periodically uses data from external research into the salaries and benefits paid by companies of a comparable size and complexity to the Company.

### Comparator Group

The constituents of the Company's Comparator Group ("CG") used in its 2011 benchmarking review are drawn from the following:

- a selected peer group of companies in the FTSE Construction & Materials Sector; and
- companies of a similar size drawn from across all FTSE Sectors.

## Remuneration Philosophy

The aim of our policy is to attract, retain and continue to motivate talented Executive Directors while aligning remuneration with shareholder interests. We achieve this by balancing a basic fixed package, which we periodically benchmark against the median of the CG, with the opportunity to achieve upper quartile remuneration from a combination of stretching but achievable short and long term incentives. The chart below shows how those elements are combined.

Base salary	Annual PIP potential	Pension	Benefits in kind	Potential total short term remuneration available	Potential annual share awards	Potential total compensation value
Median	Upper Quartile	Median		Median to Upper Quartile	Median	Median to Upper Quartile
This supports the performance-based culture of the Company. Fixed costs are minimised and total short term remuneration will only reach and exceed the median if the performance-based bonus is earned for the relevant financial year.				The policy in respect of long term incentives and potential compensation value is an extension of the policy on total short term remuneration. Executive Directors will only receive a market competitive package if the annual bonus and long term incentives are earned		

# Directors' Remuneration Report (continued)

## Base Salary Policy – Median of CG

When determining the base salary of the Executive Directors the Committee takes into consideration:

- the levels of base salary for similar positions with comparable status, responsibility and skills in organisations of broadly similar size and complexity, in particular median salary levels of those comparable companies within the industry and the CG;
- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities; and
- pay and conditions throughout the Company.

The Committee uses comparisons with caution to avoid increasing remuneration levels without a corresponding improvement in performance. The Company also provides standard benefits in kind for Executive Directors.

For the last three years Executive Directors' salaries have remained frozen at the levels set in 2008, at their own request, to recognise the need for restraint in the context of pay in the wider workforce and the prevailing economic conditions in the UK that have affected the business. The Committee considered that it was not appropriate to freeze Executive Directors' base salary for a fourth successive year. The Committee, in reaching this decision, took into account the pay awards for Marshalls' weekly-paid employees in 2011 and 2012 (2 per cent in 2011 and 3 per cent in 2012 under a two year agreement), pay awards for monthly paid employees elsewhere in the Group (1.5 per cent in 2011 subject to a minimum and maximum total value, and 3 per cent in 2012), average pay increases and inflation factors in the wider business environment and the outcome of an independent benchmarking review commissioned from PwC during 2011 in relation to the salaries of Executive Directors. The Committee has approved a 3 per cent increase in base salary for the Executive Directors and other senior management with effect from 1 January

2012 which the Committee believes recognises the continued need for pay restraint while ensuring Executive Directors' salaries remain competitive and in line with current policy.

## Performance Related Pay Alignment and Risk Profile

The policy of the Committee is to align Executive Directors' interests with those of shareholders and to give the Executive Directors incentives to perform at the highest levels. To achieve this it seeks to ensure that a significant proportion of the remuneration package varies with the financial performance of the Group and that targets are aligned with the Group's stated business objectives.

In applying its policy, the Committee is mindful of the guidelines issued by the Association of British Insurers and other voting institutions and shareholder bodies. It seeks to ensure that the incentive structure for Executive Directors and the wider senior executive management take account of corporate performance on environmental, social and governance issues, and will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure there is no restriction on the Committee which prevents it from taking into account corporate governance on such matters and issues of general operational risk when structuring incentives. Performance related pay targets are reviewed as part of the Board's Risk review processes to ensure they are consistent with the general principles of effective risk management set by the Company and do not encourage short term risk taking at the expense of long term objectives. In assessing the extent to which annual PIP and LTIP performance targets have been achieved the audited results of the Company are used and performance criteria are independently reviewed by the Company's auditors.

# Directors' Remuneration Report (continued)

## Annual Performance Awards

### Policy – Upper Quartile of CG

In 2011 the Committee replaced the previous system of granting annual PRP awards for Executive Directors and senior executives with the new performance incentive plan (the "PIP"). The features that prompted the Remuneration Committee to introduce the PIP were:

- **Flexibility**
  - o to set performance targets annually; and
  - o to ensure that performance targets reflect current strategy.
- **Encourages retention**
  - o arrangements are simple and clear to participants; and
  - o plan provides a retentive effect as participants can see the potential benefits accruing over the Plan Period (introducing a long term focus to an annual incentive).
- **Risk adjustment**
  - o risk is built into the PIP as contributions are clawed back if minimum threshold performance levels are not met in any financial year;
  - o ensures performance is maintained over the Plan Period or the value of the Plan Account will not increase; and
  - o if there is a material deterioration in performance there is a claw back of up to 50 per cent of the balance in the Plan Account.
- **Alignment of interests with shareholders**
  - o shareholders receive a minimum level of performance prior to any incentive payments being made;
  - o participants are encouraged to maximise consistent levels of performance (or lose

## Directors' Remuneration Report (continued)

balance is deferred, either in shares or notional shares, the value of which will vary according to the Company's share price. The balance of Participants' Accounts will become payable following the fourth anniversary of the start of the Plan Period. The balance in the Plan Account is also forfeited if the Participant leaves before the final Plan Account payment date or may be applied to meet a claw back if results have to be re-calculated following any misstatement or fraud.

The targets have been selected after careful consideration by the Committee recognising that a manufacturing business may choose to maximise EPS growth by increasing production, at the expense of cash, or maximise cash flow by reducing its output. The selection of the two measures together gives a dynamic framework designed to balance these objectives so that rewards are aligned with growth that is sustainable, based on consistent performance and avoiding inappropriate risk-taking. The non-financial performance criteria are consistent with the overall key strategic performance measures set by the Board and allow the Committee to take account of social and commercial customer service and employee safety issues. The Committee believes the rationale behind the selection of these performance criteria is well-understood and supported by shareholders, having consulted its major shareholders during 2011 in advance of introducing the PIP.

Under the PIP the maximum percentage award would only be made on exceptional out-performance against the annual targets set by the Remuneration Committee. Achievement of budget on both EPS and cash targets would normally be expected to deliver no more than 50 per cent of maximum with a sliding scale between the minimum and maximum levels at which bonus can be earned. Achievement is measured after adjustment for exceptional items such as corporate acquisitions and disposals not included in the budget but approved by the Board during the year.

PIP awards are not included in determining pensionable salary for Executive Directors and senior executives.

### Outcomes for 2011

The Group's profit performance was very strong in 2011 outperforming significantly against budget and prior year. Despite the continued unpredictable economic climate sales increased by 8.2 per cent and market share grew. EBITDA from continuing operations increased by 9.7 per cent and profit before tax on continuing operations was £13.7 million (net of PIP costs) at the upper end of the target range set at the beginning of the year. Headline EPS on continuing operations increased by 49.6 per cent from 4.21 pence in 2010 to 6.30 pence in 2011 (Target range 4.05 pence (nil) to 6.88 pence (maximum)). Excluding net gains on property and asset disposals, EPS was up 37.1 per cent at 5.40 pence. Growth in headline EPS in line with market expectations at the beginning of the period was targeted to deliver 50 per cent of maximum. As a consequence of this very positive performance, 79.5 per cent of the 67 per cent of the maximum allocated to achievement of the EPS target is payable in respect of 2011.

The cash target was set at the beginning of the year by reference to budgeted 2011 year-end net debt with 50 per cent of maximum payable on achievement of budget. The 2011 budget took account of a number of factors, including an expected increase in debtors due to higher VAT rates, a return to normal debtor days following resumption of commercial credit control limits for certain customers, cash contributions to the Marshalls plc Pension Scheme, anticipated property disposals, and budgeted capital expenditure and taxation payments. The figure was subsequently adjusted for corporate acquisition and disposal activity that was not budgeted but was approved by the Board during the year. Throughout the year, the Executive Directors have continued to drive control of working capital and capital expenditure while pursuing opportunities for strategic growth. The adjusted year-end net debt of £69.9 million was at the better end of the target range of between



## Directors' Remuneration Report (continued)

£77.4 million (nil) to £67.4 million (maximum) and was also better than market expectations when targets were set at the beginning of the year. The Remuneration Committee has determined that 75.1 per cent of the 33 per cent maximum cash-related award available for cash targets should be payable under the 2011 plan.

The Group's performance on the customer satisfaction index achieved an average throughout the year of 97 per cent. The Group also saw a reduction of 16 per cent year on year in health and safety reportable accidents against its target of 10 per cent.

The table below summarises the principal performance targets and their percentage satisfaction under the PIP in 2011.

	<b>% of Maximum Bonus Potential Subject to Target</b>	<b>% Satisfaction of Bonus Target</b>	<b>% of Salary earned</b> (Executive Directors)
EPS	<b>67%</b>	79.5%	133.2%
Cash	<b>33%</b>	75.1%	62.0 %
Non-financial targets	<b>15% deduction if not met</b>	100%	No deduction
Total	<b>100%</b>	78.1 %	195.2%

The following table sets out the Plan Accounts for each of the Executive Directors and shows the value of the entitlement earned in respect of the 2011 financial year and the deferred closing balance under the PIP:

<b>Plan Accounts</b>	<b>Graham Holden</b> (note b)	<b>Ian Burrell</b>	<b>David Sarti</b>
2011 Opening balance	£Nil	£Nil	£Nil
2011 Contribution	£780,712	£448,909	£448,909
(% age of salary)	(195.2%)	(195.2%)	(195.2%)
2011 Cash element	£224,455	£224,455	£224,455
2011 Closing balance (deferred)	£556,257	£224,454	£224,454
Number of shares / notional shares in which closing balance held (note a)	614,648	248,015	248,015

### Notes

(a) Using the closing share price of 90.5 pence on 31 December 2011.

(b) Graham Holden has elected to defer voluntarily a higher proportion of his 2011 award into shares / notional shares.

The value of the deferred closing balance:

- acts as a retention mechanism as it will be forfeited on cessation of employment;
- can be partially clawed back if minimum threshold performance is not delivered in subsequent years ensuring that there is a focus on sustainable long term performance; and
- the value of the deferred balance is linked to the share price of the Company ensuring that there is alignment of interests with shareholders and additional risk adjustment for the PIP with future value linked to share price performance.

## Directors' Remuneration Report (continued)

### PIP Performance Conditions for 2012

The EPS and cash bonus targets for 2012 have been set after careful review of the budget for the year including industry forecasts and consideration of market expectations. The range between minimum and maximum potential payouts for EPS is based on stretching targets that aim to deliver underlying EPS improvement. Similarly, the cash target and range for 2012 is benchmarked against the 2011 year-end net debt with maximum potential payout only where there is significant underlying improvement on cash performance. If the minimum EPS target level is not reached forfeiture will apply to up to 50 per cent of the balance required to be deferred into individual Plan Accounts and there will be no PIP contribution for 2012.

The Committee has considered these conditions very carefully recognising the expectations of shareholders and the wider needs of the business and also taking account of the overall amount that is capable of being paid out in incentives. The Committee regards these conditions as fair, balanced and very stretching in the current economic climate.

### Share Incentives

#### Policy – Median of CG

The LTIP was introduced in 2005 to provide an equity-based long term incentive plan that enabled the interests of Executive Directors and other senior management to be aligned with those of shareholders through the holding of share-based incentives. No awards have vested under the LTIP since its inception. Matching and Performance Awards under the LTIP vest only in conditions where stretching long term growth objectives are met over a three year measurement period. Awards not achieving the targets over the full measurement period will lapse. Matching Awards, which require investment shares to be purchased by participants using a proportion of their annual PRP, were made each year between 2006 and 2011, and Performance Awards have been made in each of the last 4 years. The Committee does not intend to make any further Matching Awards under the LTIP following the introduction of the PIP as the PIP already anticipates the deferral of 50 per cent of the annual PIP award of participants into shares or notional shares. Accordingly, the Committee intends to make awards of Performance Shares only in 2012 and future years.

# Directors' Remuneration Report (continued)

## Key Terms of the LTIP

The following table summarises the key terms of the LTIP:

Marshall's plc 2005 Long Term Incentive Plan			
Global Annual Grant Maximum Limit (% of Salary)		250% (note a)	
Matching Shares (this element will not be operated in 2012 and onwards)			
Maximum Annual Grant Value of Matching Shares	Investment Shares	Performance Requirements for Matching Shares (over three year performance period)	
150% of salary p.a. (note b)	Investment Shares have to be held for three years to qualify for the award of Matching Shares (matching is calculated on the grossed up value of the Investment Shares). Investment Shares held in respect of Matching Shares for one Award may be rolled over to a new Matching Share Award where the original Matching Share Award has lapsed. No Matching Awards have vested in respect of prior years and no Matching Award will vest in 2012.	Performance	% of Award Vesting*
		EPS Growth of RPI+9%	50%
		EPS Growth of RPI+21%	200%
		*Straight line match between points.	
Performance Shares (awards will be made under this element in 2012 and onwards)			
Maximum Annual Grant Value of Performance Shares	Performance Requirements for Performance Shares (over three year performance period)		
100% of salary p.a. (note b)  No Performance Awards have vested in respect of prior years and no Performance Award will vest in 2012	Vesting of 50% of the Award subject to EPS performance conditions:	Vesting of 50% of the Award subject to Operating Cash Flow Growth:	
		Performance	% of Award Vesting*
		EPS Growth of RPI+9%	12.5%
		EPS Growth of RPI+21%	50%
*Straight line vesting between points.		*Straight line vesting between points.	

### Notes

- (a) 250 per cent of salary is the maximum combined Matching and Performance Share Award permitted by the Rules. As no Matching Awards will be made in 2012, and in future years following the adoption of the PIP, the upper limit is 100 per cent of salary for Performance Share Awards only.
- (b) The maximum multiple of salary capable of being awarded in the form of a Matching Award is 200 per cent, however, this would cause the maximum Performance Award to be reduced to 50 per cent. If 100 per cent of salary is awarded in the form of Performance Shares the Matching Award cannot exceed 150 per cent.

# Directors' Remuneration Report (continued)

## Outcomes for 2011

All Matching and Performance Awards made prior to March 2009 have lapsed without vesting. The Matching and Performance Awards made in March 2009 which are measured against performance over the three financial years 2009, 2010 and 2011 will not vest in 2012, as the performance conditions were not met over the measurement period, and will therefore lapse. No participating Executive Director has realised any financial benefit from Matching or Performance Awards under the LTIP since it was introduced.

## LTIP Performance Conditions for 2012

The Committee considers that the performance criteria set for previous awards of Performance Shares (EPS and Operating Cash Flow growth over a three year period) remain relevant to and aligned with business objectives, although it is manifestly clear that they have been and continue to be extremely stretching. The Committee believes it is appropriate to continue to use the LTIP as an element of the aggregate potential incentive package in 2012 when combined with the PIP on the basis that the potential maximum aggregate award as a multiple of base salary will not exceed the potential maximum award for 2011 and previous years. Accordingly, the Committee is intending to grant Performance Share Awards in 2012 representing 100 per cent of salary at the same level as awards made in March 2011 to Executive Directors. There will be no softening of the criteria applicable to these awards which will be set on the same measures as set out in the table above.

## Definitions and Calculations

EPS is measured using International Financial Reporting Standards ("IFRSs") based on the audited results of the Company and subject to the discretion of the Committee with regard to one off items.

Operating Cash Flow ("OCF") growth is calculated by taking the aggregated OCF for the three financial years preceding the year of grant of the award and comparing it with the aggregate OCF

for the three financial years of the performance period.

The measures will be calculated by reference to the audited results of the Company in each case and any adjustments will be made after consultation with the Company's auditors to ensure transparency.

## Summary

The Committee believes that the overall remuneration packages of Executive Directors in 2011 and the proposals for 2012 are consistent with its policy, maintain alignment of the interests of shareholders and the Executive Directors and ensures that a significant element of Executive Directors' remuneration remains variable and dependent on share price performance.

## 2012 Total Potential Compensation Value

The following tables set out:

- the potential on-target value of the compensation package provided to Executive Directors. This assumes 50 per cent of the maximum potential compensation is earned under the PIP with up to half paid in cash and the balance deferred into shares and 25 per cent of the Performance Shares under the LTIP vesting; and
- the potential maximum value of the compensation package provided to the Executive Directors. This assumes 100 per cent of the value of the performance related elements of compensation pays out;

and shows the balance between fixed and variable compensation which is identical for each Executive Director.

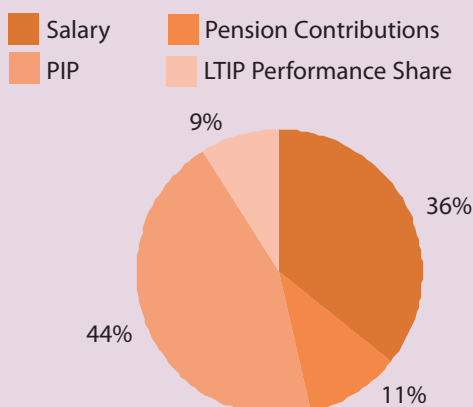
The following should be noted:

- the deferred element in the PIP Account is valued at the face value of the shares or notional shares subject to deferral by reference to the share price at 31 December 2011;

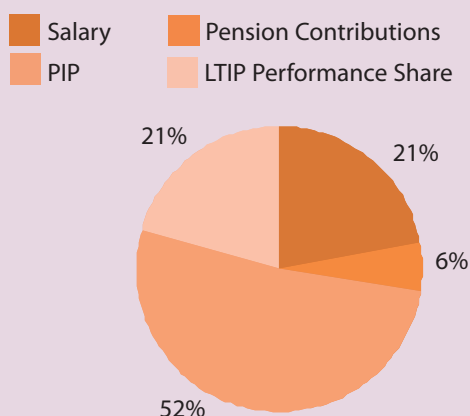
## Directors' Remuneration Report (continued)

- the Performance Shares are valued at fair value in a manner consistent with IFRS; and
- the value is the potential value earned in the year – although in practice, for example, the Performance Shares will not be provided to the Executive Directors until three years after the date of grant and only if the targets are achieved.

### On Target



### Maximum



## Dilution

In accordance with the guidelines set out by the Association of British Insurers ("ABI") the Company can issue a maximum of 10 per cent of its issued share capital in a rolling ten year period to employees under all its share plans and a maximum of 5 per cent within this 10 per cent for discretionary share plans.

The following table summarises the current level of theoretical dilution resulting from Company share plans. The Company would normally satisfy vesting awards from shares purchased in the market by the Marshalls EBT, and would not expect to issue more than 7.5 per cent of the issued share capital for cash within any rolling three-year period without prior consultation with shareholders.

Type of Plan	Share Awards as a percentage of Issued Share Capital as at 31 December 2011 in a rolling Ten Year Period	Share Awards as a percentage of Issued Share Capital as at 31 December 2011 granted during the Year
All Employee Share Plans (10% Limit)	3.07%	–
Discretionary Share Plans (5% Limit)	2.46%	1.13%

## Share Ownership Guidelines

The following table shows the share ownership guidelines for the Executive Directors and the actual shareholdings at the year end as a percentage of salary:

Director	Actual Share Ownership at 31 December 2011	Share Ownership Requirement	Requirement Achieved
Graham Holden	285%	200%	Yes
Ian Burrell	152%	100%	Yes
David Sarti	156%	100%	Yes

The value of the shares held by the Executive Directors is calculated based on the share price at the time of acquisition.

Details of the Executive Directors' interests in shares are set out on page 70.



# Directors' Remuneration Report (continued)

## External Board Appointments

The Committee considers that external directorships provide the Executive Directors with a valuable opportunity to broaden their knowledge and experience and that such appointments are of benefit to the Company. The appointment of any Executive Director as a Non-Executive Director of another company is the subject of the prior approval of the Board. The Committee believes that it is reasonable for the individual Executive Director to retain any fees received from such appointments given the additional personal responsibility that this entails. In accordance with its commitment to corporate and social responsibility the Board also supports Executive Directors who volunteer to serve on the boards or governing bodies of social, trade and charitable bodies.

Graham Holden served as a Non-Executive Director of KCOM Group Plc throughout 2011. During the year he received a fee of £46,000 from this company which he retained.

During the year David Sarti served as a Non-Executive Director of an independent private group of companies in respect of which he is entitled to a fee of £25,000 which he will be allowed to retain.

## Service Contracts

Each of the Executive Directors has a service contract with the Company which is terminable by the Company on not more than twelve months' notice and by the Director on six months' notice.

These contracts do not contain liquidated damages clauses. If a contract is to be terminated the Committee will determine such mitigation as it considers fair and reasonable in each case. In determining any compensation it will take into account the best practice provisions of the Code and published guidance from recognised institutional investor bodies and will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Committee periodically considers what compensation commitments the Executive Directors' contracts would entail in the event of early termination.

There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement.

The Company's practice is to appoint the Non-Executive Directors, including the Chairman, under letters of appointment. Their appointment is usually for a term of three years. Either the Company or the Non-Executive Director may terminate the appointment before the end of the current term on six months' notice. If the unexpired term is less than six months notice does not need to be served.

There is no agreement between the Company and its Directors, or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid.

Details of the appointment dates, notice periods and terms of appointment of Directors are set out below.

	Appointment date	Notice period
Ian Burrell	June 2001	1 year
Graham Holden	August 1992	1 year
David Sarti	November 2004	1 year
	Appointment date	Term of appointment
Andrew Allner	July 2003, last renewed on appointment as Chairman in May 2010	3 years
Alan Coppin	May 2010	3 years
Mark Edwards	May 2010	3 years
Tim Pile	October 2010	3 years

It is expected that all Directors will stand for re-election in May 2012.

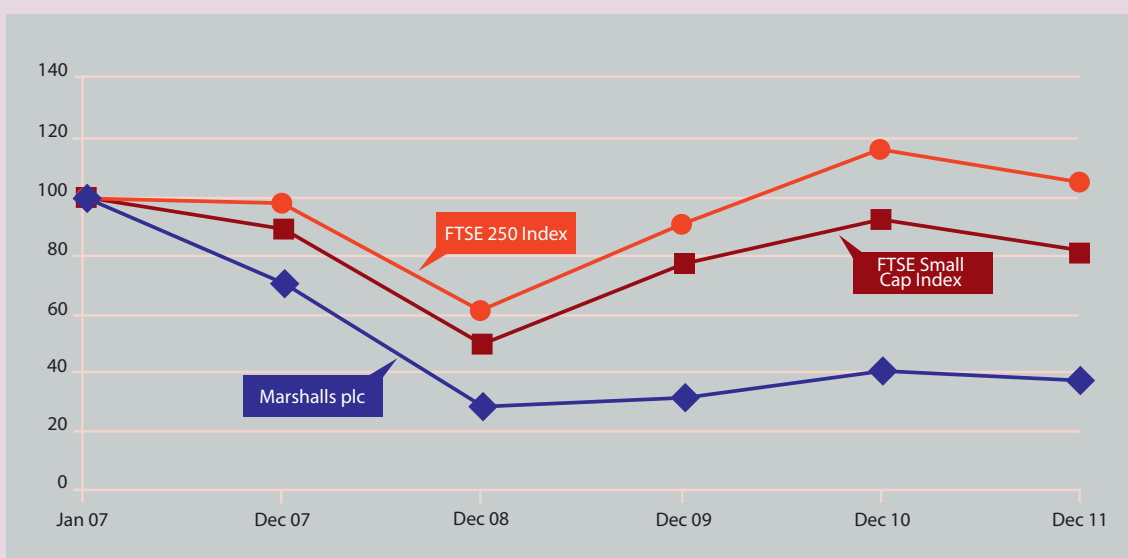
## Directors' Remuneration Report (continued)

### Non-Executive Directors' Fees

The fees for the Non-Executive Directors during 2011 comprised a basic fixed annual fee of £39,000 with an additional fee of £6,000 for the Chairmanship of a Board Committee. During the year the Chairman received a fixed fee of £125,000. The Non-Executive Directors also receive an annual fixed gross payment of £6,500 (£10,000 in the case of the Chairman) to cover travelling, accommodation and subsistence

expenses incurred in the performance of their duties. Neither the Chairman nor the Non-Executive Directors receive any other benefits or participate in the pension or bonus and share based incentive schemes. The fees of Non-Executive Directors were increased by 3 per cent with effect from January 2012 (being at the same rate as salary increases for Executive Directors and other senior managers) having previously been adjusted in May 2010.

### Five Year Total Shareholder Return



This graph shows the Group's total shareholder return ("TSR") performance compared to both the FTSE 250 and FTSE Small Cap indices for the period from 1 January 2007 to 31 December 2011. TSR is defined as share price growth plus reinvested dividends. The FTSE 250 and FTSE Small Cap indices are used for comparison since these are the equity indices of which Marshalls plc has been a constituent during the period illustrated. Prior to 23 June 2008 Marshalls plc was a constituent of the FTSE 250 index, and since that date the Company has been a constituent of the FTSE Small Cap index. This graph shows the value at 31 December 2011 of £100 invested in Marshalls plc on 31 December 2006 compared with the value of £100 invested in the FTSE 250 Index and the FTSE Small Cap Index. The other plotted points are the intervening financial year ends.

# Directors' Remuneration Report (continued)

## Audited part of the Report

### Directors' Remuneration

	Salary/ fees £'000	Annual performance bonus £'000	Benefits £'000	2011 £'000	Total remuneration (excluding pensions) 2010 £'000	2011 £'000	Pension defined contribution payments (or substituted salary supplement) 2010 £'000	Maximum potential LTIP shares awarded Number of shares
<b>Chairman</b>								
Andrew Allner	125	-	-	125	92	-	-	-
<b>Executive Directors</b>								
Ian Burrell	230	224	11	465	331	69	69	793,250
Graham Holden	400	224	11	635	563	117	108	1,379,567
David Sarti	230	224	19	473	339	69	69	793,250
<b>Non-Executive Directors</b>								
Alan Coppin	45	-	-	45	28	-	-	-
Mark Edwards	45	-	-	45	28	-	-	-
Tim Pile	39	-	-	39	9	-	-	-
<b>Former Directors</b>	-	-	-	-	102	-	-	-
	<u>1,114</u>	<u>672</u>	<u>41</u>	<u>1,827</u>	<u>1,492</u>	<u>255</u>	<u>246</u>	<u>2,966,067</u>

### Notes to Directors' Remuneration Table

- The salaries, fees, performance related bonuses and benefits all relate to the year ended 31 December 2011.
- The highest paid Director in the year was Graham Holden.
- The fees shown for the Chairman and Non-Executive Directors in 2010 only reflect the proportion of the year that was served as Chairman or Non-Executive Director as the case may be.
- The salary column shows the base salary earned in the year. Amounts paid by way of salary supplement instead of contractual employer pension contribution are shown separately in the pension contribution column rather than as part of base salary. During the year each of Graham Holden, Ian Burrell and David Sarti elected to sacrifice a proportion of future salary and/or salary supplement and contributions equal to the amounts given up were paid into a pension plan for the benefit of their dependants. The amounts shown in the salary and pension contribution columns reflect the full amount earned.
- The annual performance bonus stated is the payment made in respect of 2011 in accordance with the rules of the PIP and does not include the value of the deferred balance (see Unaudited Part of the Report). Before its award Ian Burrell and David Sarti each sacrificed part of the cash element of their bonus entitlement. Pension contributions equal to the amounts given up were made into pension plans for the benefit of their dependants. The amount shown in the bonus column reflects the full 2011 payment.
- Benefits are the provision of a fully expensed company car and medical insurance.
- The Chairman's and Non-Executive Directors' fees shown exclude the annual gross fixed expenses paid towards travel, accommodation and subsistence.

## Directors' Remuneration Report (continued)

### Table of Directors' Interests, Share Options and Long Term Incentive Plan Share Interests

The beneficial interests of the Directors and their immediate families in the shares of the Company are as follows:

	31 December 2011				31 December 2010			
	Ordinary Shares	Marshall's Share Purchase Plan Shares	LTIP Investment Shares	Total	Ordinary Shares	Marshall's Share Purchase Plan Shares	LTIP Investment Shares	Total
Andrew Allner	35,000	-	-	35,000	35,000	-	-	35,000
Ian Burrell	10,153	5,979	141,651	157,783	10,153	4,567	141,651	156,371
Alan Coppin	10,000	-	-	10,000	-	-	-	-
Mark Edwards	10,000	-	-	10,000	10,000	-	-	10,000
Graham Holden	199,937	5,979	249,379	455,295	199,937	4,567	249,379	453,883
Tim Pile	23,924	-	-	23,924	18,424	-	-	18,424
David Sarti	30,698	5,979	137,161	173,838	36,208	4,567	141,651	182,426

#### Notes to Directors' Interests in shares

- There were no changes between 1 January 2012 and 9 March 2012 save that each of the Executive Directors acquired 382 shares in the Marshall's plc Share Purchase Plan (the Plan) between January and March 2012. The Plan is a HM Revenue & Customs approved Employee Share Incentive Plan which was approved by shareholders in 2006. All employees with more than 6 months service are eligible to participate in the Plan which entitles them to purchase shares in the Company with pre-tax salary.
- The Non-Executive Directors are not eligible to participate in the Marshall's plc Share Purchase Plan or the LTIP.
- None of the Directors held any options during the year other than approved options under the Long Term Incentive Plan as listed in the table on the following page, nor did they hold any interests in derivatives or other financial instruments relating to the Company's shares.

## Directors' Remuneration Report (continued)

### Long Term Incentive Plan

Name	LTIP Share Awards	At 1 January 2011	Granted	Exercised	Lapsed (Note c)	At 31 December 2011	Market Price on Date of Award (pence)	Date of Award	Date from which Exercisable
Ian Burrell	Matching Shares	99,407	-	-	99,407	-	81	12.03.09	12.03.12
	Performance Shares	331,362	-	-	331,362	-	78	12.03.09	12.03.12
	Matching Shares	239,045	-	-	-	239,045	89.25	11.03.10	11.03.13
	Performance Shares	193,277	-	-	-	193,277	89.25	11.03.10	11.03.13
	Matching Shares	-	157,244	-	-	157,244	113	17.03.11	17.03.14



## Directors' Remuneration Report (continued)

### Pension Benefits

The Marshalls plc Pension Scheme (the Scheme) has two Sections: the Final Salary Section which was closed to new members in 2000 and closed to future service accrual in 2006 and a Defined Contribution Section.

Ian Burrell and David Sarti are members of the Defined Contribution Section of the Scheme and their service contracts provide for the Company to make contributions to the Scheme of 30 per cent of their basic salary with a minimum employee contribution of 4 and 3 per cent respectively of their basic salary. They are also eligible for a lump sum payment and dependants' pension benefits on death in service.

Executive Directors may take a salary supplement in place of the Company's contributions to the Scheme. Other Scheme benefits, such as life assurance, remain unchanged based on a multiple of base salary. Both Ian Burrell and David Sarti are affected by the £50,000 limit on individual annual allowances in relation to pension scheme contributions. Accordingly, each elected to stop receiving employers' pension contributions into the Scheme upon reaching the annual allowance limit and became entitled to receive salary supplement in lieu of employer contributions after that date. The Company does not compensate individual directors for the loss of tax allowances on pension contributions.

Graham Holden ceased to be an active Scheme member in December 2009 and is entitled to receive a salary supplement in lieu of employer contributions. Graham Holden is also entitled to a pension under the Final Salary Section of the Scheme with effect from his early retirement at age 50 in December 2009. By virtue of having elected to take his Scheme benefits at 50 Graham Holden ceased to be able to take a transfer of accrued benefits and no further benefits will accrue.

An ordinary resolution to receive and approve this Report will be proposed at the Company's Annual General Meeting to be held on 16 May 2012.

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

**Alan Coppin**  
**Chairman of the Remuneration Committee**  
**9 March 2012**

# Nomination Committee Report

The Board has an established Nomination Committee whose members are the Non-Executive Directors. The Chairman of the Board normally chairs this Committee except where it is dealing with his own re-appointment or replacement.

During 2011 the Nomination Committee held one meeting. Its programme of work included:

- A review of Board succession planning;
- Reviewing outcomes from the performance evaluation of Directors in advance of the proposal to elect or re-elect at the Annual General Meeting; and
- A review of the Board conflicts policy and the conflicts register, and consideration of any notifications.

The Nomination Committee's Terms of Reference were last reviewed and updated by the Board in December 2011, and the performance of the Committee was evaluated as part of the Board evaluation process. The Terms of Reference of the Committee are available on the Company's website ([www.marshalls.co.uk](http://www.marshalls.co.uk)).

There were no new appointments to the Board during 2011. Non-Executive Directors are appointed for specific terms, subject to re-appointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. The current terms of appointment of the Directors are shown on page 67. All Directors will stand for re-election at the Company's Annual General Meeting in May 2012. The 2011 Board evaluation included a review of the skills and experience of the Board, and future appointments would be expected to complement and enhance the current skills matrix as well as addressing diversity on the Board. The Board recognises the advantages of a diverse board, including diversity of gender, and the Nomination Committee expects to lead the process to identify a suitable female candidate for appointment to the Board by 2013.

Each Non-Executive Director is provided with a detailed description of his role and responsibilities, and receives a detailed business induction. The other appointments held by the Non-Executive Directors have been declared to the Company in accordance with the rules on conflicts adopted by the Board, and none is regarded as likely to give rise to any conflict with the Board. No material change to the other commitments of any Director was notified to the Company during 2011.

The Nomination Committee evaluates the performance of any Director who is retiring by rotation and seeking re-election. In order for a re-election proposal to proceed, the Committee should be able to conclude that the Director continues to be effective and demonstrates commitment to the role, following which the Nomination Committee makes its recommendation to the Board. In the circular to shareholders accompanying the resolution to re-elect, there is an explanation from the Chairman as to why the Director should be re-elected and confirming that a formal performance evaluation has taken place. The Committee also carries out a performance evaluation in the event of a proposal to re-appoint a Director on expiry of their current appointment.

It is the Company's policy that Executive Directors can only hold one external company Non-Executive Directorship. Graham Holden is a Non-Executive Director of KCOM Group Plc and David Sarti is a Non-Executive Director of an independent private company group. Voluntary service on the Governing Board of a social, trade or charitable organisation is also permitted.

This Nomination Committee Report has been approved by the Board and signed on its behalf by:

**Andrew Allner**  
**Chairman of the Nomination Committee**  
**9 March 2012**

# Report of the Audit Committee

The Board has an established Audit Committee. Each of its members is an independent Non-Executive Director. The Board is satisfied that this Committee includes members that have recent and relevant financial experience required by the Code. The Chairman of the Committee, Mark Edwards, is a Chartered Accountant.

The main role and responsibilities of the Audit Committee are set out in written Terms of Reference which were reviewed during the year and are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk). The Audit Committee is the body appointed by the Board with responsibility for carrying out the functions required by the Listing Rules DTR 7.1.3R.

## Activities during 2011

During 2011 the Audit Committee met four times. Its work included the following:

- Planning and scoping annual and half-yearly audit reviews, receiving audit reports and reviewing financial statements;
- Reviewing internal controls, internal audit process and report findings;
- Risk register review, including financial risk assessments and updates to register;
- Review of auditor independence, appointment of auditors and audit and non-audit fees;
- Policy reviews and reporting, including Serious Concerns Policy, the Anti-Bribery Code and associated procedures; and
- Performance review as part of Board evaluation.

## External Audit, Auditor independence and objectivity

The Audit Committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor to the Board, as submitted to shareholders for their approval at the Annual General Meeting. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditor. The Audit Committee has reviewed the

independence and objectivity of the auditor during 2011 and considers that the appointed auditors, KPMG Audit Plc, are independent and remain objective. In doing so, it has taken account of the processes in place within KPMG Audit Plc designed to maintain independence. The Company also has procedures in place to safeguard independence, including limits on the amount of non-audit work awarded to the auditors. Any work awarded to the external auditors with a value in excess of £25,000, or in aggregate a value exceeding £50,000 in any financial year, other than audit and tax compliance, requires the specific approval of the Audit Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the external auditors. Details of amounts paid to the external auditors for audit and non-audit services in 2011 are analysed in Note 3 on page 94. The amount paid for non-audit work represented approximately 12.3 per cent of total fees paid to the external auditors in 2011. This was for services associated with corporation tax compliance procedures and certain additional regulatory procedures associated with Marshalls NV which the Audit Committee considered the external auditors to be in the best position to provide, given their detailed knowledge of the Company's systems. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £254,000 (2010: £171,000).

This Committee reviews the Half-yearly and Annual Financial Statements before submission to the Board and reviews the effectiveness of the Group's internal control system. The work of the Committee is reported regularly to the Board.

The Audit Committee reviews the planned Internal Audit Programme. The results of all assignments have been reported to the Audit Committee during the year. These assignments form part of a much wider programme of independently audited aspects of the Group's operations. Any areas of weakness that are identified through this process prompt a detailed

## Report of the Audit Committee (continued)

action plan and a follow up audit check to establish that actions have been completed. No significant failings or weaknesses were identified during the year.

### Whistleblowing

The Audit Committee has, during the year, reviewed the arrangements by which employees, and other people working for the Company, may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The Company does have a Serious Concerns Policy (Whistle-blowing Policy) which is available to all employees. It is displayed on notice boards and on the Company's intranet. The policy sets out the procedure for employees to raise legitimate concerns about any wrong-doing without fear of criticism, discrimination or reprisal. No matters were raised under this policy during 2011. The Serious Concerns Policy was reviewed during the year and the Audit Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

### Anti-Bribery Code procedures

The Audit Committee also takes responsibility for reviewing the policies and procedures adopted by the Company to prevent bribery. During 2011, the Company adopted an Anti-Bribery Code and published supporting guidance for its employees, agents and contractors on hospitality and gifts. Compliance training to reinforce the Anti-Bribery Code and procedures has been introduced, and the internal audit review programme is expected to include a review of the adequacy of the Company's procedures.

The Audit Committee monitors and reviews the effectiveness of internal control activities. It also reviewed the need for an in-house internal audit function during 2011, and concluded that the current process, under which firms of external accountants that are independent from the Company's auditors and have no other

connection with the Group carry out regular internal audit assignments of a financial and systems nature, continues to be the most effective means of managing the internal audit function. The Audit Committee notes that the Company has implemented and continued to operate a self certification internal control process to support the internal audit process throughout the year.

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

**Mark Edwards**  
**Chairman of the Audit Committee**  
**9 March 2012**

# Independent Auditor's Report to the Members of Marshalls plc

We have audited the Financial Statements of Marshalls plc for the year ended 31 December 2011 set out on pages 78 to 126.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 54 and 55, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or



## Independent Auditor's Report to the Members of Marshalls plc (continued)

- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out in Note 1(b) on page 85, in relation to going concern;
- the part of the Corporate Governance Statement on pages 48 to 55 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code; and
- certain elements of the report to shareholders by the Board on Directors' Remuneration.

**Chris Hearld (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc,**  
**Statutory Auditor**  
**Chartered Accountants**  
**1 The Embankment**  
**Neville Street**  
**Leeds**  
**LS1 4DW**  
**9 March 2012**

# Consolidated Income Statement

for the year ended 31 December 2011

		<b>Total 2011 £'000</b>	<b>Total 2010* £'000</b>
	Notes		
<b>Revenue</b>	2	<b>334,127</b>	308,843
Net operating costs	3	<b>(317,430)</b>	(295,862)
<b>Operating profit</b>	2	<b>16,697</b>	12,981
Financial expenses	5	<b>(14,960)</b>	(14,479)
Financial income	5	<b>11,953</b>	11,921
<b>Profit before tax</b>	2	<b>13,690</b>	10,423
Income tax expense	6	<b>(1,522)</b>	(2,202)
<b>Profit for the financial period before post tax loss of discontinued operations</b>		<b>12,168</b>	8,221
Post tax loss of discontinued operations	7	<b>(4,912)</b>	(871)
<b>Profit for the financial period</b>		<b>7,256</b>	7,350
<b>Profit for the period attributable to:</b>			
<b>Equity shareholders of the parent</b>		<b>7,390</b>	7,350
<b>Non-controlling interests</b>		<b>(134)</b>	-
		<b>7,256</b>	7,350
<b>Earnings per share (total operations):</b>			
Basic	8	<b>3.78p</b>	3.76p
Diluted	8	<b>3.71p</b>	3.69p
<b>Earnings per share (continuing operations):</b>			
Basic	8	<b>6.30p</b>	4.21p
Diluted	8	<b>6.17p</b>	4.13p
<b>Dividend:</b>			
Pence per share	9	<b>5.25p</b>	5.25p
Dividends declared	9	<b>10,292</b>	10,294

\*The comparatives have been restated in respect of discontinued operations (Note 7).

The Notes on pages 84 to 119 form part of the Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	2011 £'000	2010* £'000
<b>Profit for the financial period</b>	<b>7,256</b>	7,350
<b>Other comprehensive income</b>		
Effective portion of changes in fair value of cash flow hedges	(570)	(505)
Fair value of cash flow hedges transferred to the Income Statement	402	262
Deferred tax arising	43	66
Defined benefit plan actuarial gains	9,982	27,640
Deferred tax arising	(2,496)	(7,463)
Impact of the change in rate of deferred taxation	(145)	(123)
Foreign currency translation differences – foreign operations	(110)	-
Foreign currency translation differences – non-controlling interests	(56)	-
<b>Other comprehensive income for the period, net of income tax</b>	<b>7,050</b>	19,877
<b>Total comprehensive income for the period</b>	<b>14,306</b>	27,227
<b>Attributable to:</b>		
Equity shareholders of the parent	14,496	27,227
Non-controlling interests	(190)	-
	<b>14,306</b>	27,227

\*The comparatives have been restated in respect of discontinued operations (Note 7).

# Consolidated Balance Sheet

at 31 December 2011

	Notes	2011 £'000	2010 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	191,324	190,627
Intangible assets	11	42,730	42,945
Investment in associates	12	2,188	2,163
Employee benefits	19	12,966	-
Deferred taxation assets	20	63	1,171
		<b>249,271</b>	<b>236,906</b>
<b>Current assets</b>			
Inventories	13	82,338	81,626
Trade and other receivables	14	40,304	27,925
Cash and cash equivalents	15	5,998	4,059
		<b>128,640</b>	<b>113,610</b>
<b>Total assets</b>		<b>377,911</b>	<b>350,516</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	57,539	48,552
Corporation tax		5,923	5,164
Interest bearing loans and borrowings	17	25,088	40,900
		<b>88,550</b>	<b>94,616</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	17	58,011	30,000
Employee benefits	19	-	4,092
Deferred taxation liabilities	20	25,286	23,568
		<b>83,297</b>	<b>57,660</b>
<b>Total liabilities</b>		<b>171,847</b>	<b>152,276</b>
<b>Net assets</b>		<b>206,064</b>	<b>198,240</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity shareholders of the parent</b>			
Share capital	21	49,845	49,845
Share premium account		22,695	22,695
Own shares		(9,514)	(9,514)
Capital redemption reserve		75,394	75,394
Consolidation reserve		(213,067)	(213,067)
Hedging reserve		(304)	(179)
Retained earnings		277,621	273,066
<b>Equity attributable to equity shareholders of the parent</b>		<b>202,670</b>	<b>198,240</b>
<b>Non-controlling interests</b>	22	<b>3,394</b>	<b>-</b>
<b>Total equity</b>		<b>206,064</b>	<b>198,240</b>

Approved at a Directors' meeting on 9 March 2012.  
On behalf of the Board:

D.G. Holden  
Chief Executive

I.D. Burrell  
Finance Director

The Notes on pages 84 to 119 form part of these Consolidated Financial Statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
<b>Cash flows from operating activities</b>			
<b>Profit for the financial period</b>		<b>7,256</b>	7,350
Income tax expense on continuing operations		<b>1,522</b>	2,202
Income tax credit on discontinued operations		<b>(756)</b>	(339)
Loss on disposal and closure of discontinued operations		<b>4,949</b>	-
		<hr/>	<hr/>
<b>Profit before tax on total operations</b>		<b>12,971</b>	9,213
Adjustments for:			
Depreciation		<b>17,269</b>	17,771
Amortisation		<b>1,231</b>	1,554
Negative goodwill		<b>(1,772)</b>	-
Share of results of associates		<b>(65)</b>	63
Gain on sale of associates		<b>(23)</b>	-
Gain on sale of property, plant and equipment		<b>(1,667)</b>	(746)
Equity settled share based expenses		<b>226</b>	250
Financial income and expenses (net)		<b>3,007</b>	2,558
		<hr/>	<hr/>
<b>Operating cash flow before changes in working capital and pension scheme contributions</b>		<b>31,177</b>	30,663
(Increase) / decrease in trade and other receivables		<b>(10,440)</b>	3,342
Decrease in inventories		<b>437</b>	561
Increase / (decrease) in trade and other payables		<b>1,674</b>	(3,436)
Works closure costs paid		<b>(1,197)</b>	(1,447)
Pension scheme contributions paid		<b>(6,600)</b>	(6,600)
		<hr/>	<hr/>
<b>Cash generated from the operations</b>		<b>15,072</b>	13,583



# Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Attributable to equity holders of the Company							Total £'000	Non- controlling interests £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000			
<b>Current year</b>										
<b>At 1 January 2011</b>	<b>49,845</b>	<b>22,695</b>	<b>(9,514)</b>	<b>75,394</b>	<b>(213,067)</b>	<b>(179)</b>	<b>273,066</b>	<b>198,240</b>	<b>-</b>	<b>198,240</b>
<b>Total comprehensive income for the period</b>										
Profit for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	7,390	7,390	(134)	7,256
<b>Other comprehensive income</b>										
Foreign currency translation differences	-	-	-	-	-	-	(110)	(110)	(56)	(166)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(570)	-	(570)	-	(570)
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	402	-	402	-	402
Deferred tax arising	-	-	-	-	-	43	-	43	-	43
Defined benefit plan actuarial gains	-	-	-	-	-	-	9,982	9,982	-	9,982
Deferred tax arising	-	-	-	-	-	-	(2,496)	(2,496)	-	(2,496)
Impact of the change in rate of deferred taxation	-	-	-	-	-	-	(145)	(145)	-	(145)
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(125)</b>	<b>7,231</b>	<b>7,106</b>	<b>(56)</b>	<b>7,050</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(125)</b>	<b>14,621</b>	<b>14,496</b>	<b>(190)</b>	<b>14,306</b>
<b>Transactions with owners, recorded directly in equity</b>										
<b>Contributions by and distributions to owners</b>										
Share based expenses	-	-	-	-	-	-	226	226	-	226
Dividends to equity shareholders	-	-	-	-	-	-	(10,292)	(10,292)	-	(10,292)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,066)</b>	<b>(10,066)</b>	<b>-</b>	<b>(10,066)</b>
<b>Changes in ownership interests in subsidiaries</b>										
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	-	3,584	3,584
<b>Total transactions with owners of the Company</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(125)</b>	<b>4,555</b>	<b>4,430</b>	<b>3,394</b>	<b>7,824</b>
<b>At 31 December 2011</b>	<b>49,845</b>	<b>22,695</b>	<b>(9,514)</b>	<b>75,394</b>	<b>(213,067)</b>	<b>(304)</b>	<b>277,621</b>	<b>202,670</b>	<b>3,394</b>	<b>206,064</b>

# Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2011

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolid- ation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
<b>Prior year</b>								
At 1 January 2010	49,845	22,695	(9,472)	75,394	(213,067)	(2)	255,706	181,099
<b>Total comprehensive income for the period</b>								
Profit for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	7,350	7,350
<b>Other comprehensive income</b>								
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(505)	-	(505)
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	262	-	262
Deferred tax arising	-	-	-	-	-	66	-	66
Defined benefit plan actuarial losses	-	-	-	-	-	-	27,640	27,640
Deferred tax arising	-	-	-	-	-	-	(7,463)	(7,463)
Impact of the change in rate of deferred taxation	-	-	-	-	-	-	(123)	(123)
<b>Total other comprehensive income</b>	-	-	-	-	-	(177)	20,054	19,877
<b>Total comprehensive income for the period</b>	-	-	-	-	-	(177)	27,404	27,227
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Share based expenses	-	-	-	-	-	-	250	250
Dividends to equity shareholders	-	-	-	-	-	-	(10,294)	(10,294)
Purchase of own shares	-	-	(42)	-	-	-	-	(42)
<b>Total contributions by and distributions to owners</b>	-	-	(42)	-	-	-	(10,044)	(10,086)
<b>At 31 December 2010</b>	49,845	22,695	(9,514)	75,394	(213,067)	(179)	273,066	198,240

# Notes to the Financial Statements

## 1 Accounting policies

### Significant accounting policies

Marshall's plc (the "Company") is a Company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 9 March 2012.

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

The Consolidated Financial Statements have been prepared in accordance with IFRSs as adopted for use in the EU. The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

In the current year the Group has adopted the following new accounting standards which become effective for the first time in the year ended 31 December 2011:

- IAS 24 – *"Related Party Disclosures (revised 2009)"* – The changes introduced by IAS 24 (2009) relate mainly to the related party disclosure requirements for government-related entities, and the definition of a related party.
- Amendments to IFRIC 14 – *"Prepayments of a Minimum Funding Requirement"* – The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement.

Improvements to IFRS:

- IFRS 7 – *"Financial Instruments: Disclosures – Amendments to disclosures"* – Amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.
- IAS 1 – *"Presentation of Financial Statements – Presentation of statement of changes in equity"* – Amended to clarify that a reconciliation from opening to closing balances is required to be presented in the Statement of Changes in Equity for each component of equity.
- IFRIC 13 – *"Customer Loyalty Programmes – Fair value of award credit"* – Amended to state that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.

These standards and interpretations have been adopted by the EU.

The application of these standards and interpretations has not had a material impact on the Group's reported financial performance or position.

The following standard has been endorsed but, in respect of the year ended 31 December 2011, is not yet effective:

- *"Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)"* – The amendments require additional disclosures about transfers of financial assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

This standard is not expected to have a material impact on the Consolidated Financial Statements.

### (a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Parent Company has elected to prepare its Financial Statements in accordance with UK GAAP; these are presented on pages 120 to 126.

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Business Review. In addition, Note 18 includes the Group's policies and procedures for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Details of the Group's funding position are set out in Note 18 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is renewed on an annual basis and the current arrangements were renewed and signed on 22 August 2011. Management believe that there are sufficient unutilised facilities held which mature after twelve months. As noted in the Business Review, the Group's performance is dependent on economic and market conditions, the outlook for which is uncertain and difficult to predict. The Group has taken decisive action to align its operational capacity with expected market conditions and, based on current expectations, the Group's cash forecasts meet half-year and year end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the Group Consolidated Financial Statements.

The Consolidated Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and liabilities for cash-settled share-based payments.

The accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are also set out on the Company's website ([www.marshalls.co.uk](http://www.marshalls.co.uk)).

The Consolidated Financial Statements are presented in sterling, rounded to the nearest thousand.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 27.

### (c) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

#### (ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (c) Basis of consolidation (continued)

#### (ii) Associates (equity accounted investees) (continued)

income and expenses and equity movements of equity accounted investees, after adjustment to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### (iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

### (d) Foreign currency transactions

Transactions in foreign currencies are translated to sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period in which case the exchange rates at the date of transactions are used.

### (e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value and transaction costs are recognised in the Income Statement when incurred. The gain or loss on re-measurement to fair value is recognised immediately in the Consolidated Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

### (f) Hedging

#### (i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset. For cash flow hedges, other than those covered by the preceding policy statement, the associated cumulative gain or loss is removed from equity and recognised in the Consolidated Income Statement in the same period or periods during which the hedged forecast transaction affects the income or expense. The ineffective part of any gain or loss is recognised immediately in the Consolidated Income Statement.

When a hedging instrument expires or is sold, terminated or exercised or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, it no longer meets the criteria for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated Income Statement and cash flow hedge accounting is discontinued prospectively.



## 1 Accounting policies (continued)

### (f) Hedging (continued)

#### (ii) Economic hedges

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the Consolidated Income Statement.

### (g) Property, plant and equipment

#### (i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy I). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of directly attributable production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 January 2004, the date of transition to adopted IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### (ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy I).

#### (iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Consolidated Income Statement as an expense as incurred.

#### (iv) Depreciation

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation on quarries is based on estimated rates of extraction. This is based on a comparison between the volume of relevant material extracted in any given period and the volume of relevant material available for extraction. Depreciation on leased assets is charged over the shorter of the lease term and their useful economic life. Freehold land is not depreciated. The rates are as follows:

Freehold and long leasehold buildings	-	2.5% to 5% per annum
Short leasehold property	-	over the period of the lease
Fixed plant and equipment	-	3.3% to 25% per annum
Mobile plant and vehicles	-	14% to 30% per annum
Quarries	-	based on rates of extraction

The residual values, useful economic lives and depreciation methods are reassessed annually. In the year ended 31 December 2011 the useful economic lives of certain items of fixed plant have been re-assessed and the depreciation rate applied changed from 5 per cent to 3.3 per cent per annum. Assets under construction are not depreciated until they are ready for use.

Site preparation costs associated with the development of new stone reserves are capitalised. These costs would include:

- costs of clearing the site (including internal and outsourced labour in relation to site workers);
- professional fees (including fees relating to obtaining planning consent);
- purchase, installation and assembly of any necessary extraction equipment; and
- costs of testing whether the extraction process is functioning properly (net of any sales of test product).

Depreciation commences when commercial extraction commences and is based on the rate of extraction.

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (g) Property, plant and equipment (continued)

#### (iv) Depreciation (continued)

In accordance with IAS 37, provision is made for quarry restoration where a legal or constructive obligation exists, it is probable that an outflow of economic benefits will occur and the financial cost of restoration work can be reliably measured. The lives of quarries are almost always long and it is difficult to estimate the length with any precision. The majority of quarry restoration work is undertaken while extracting minerals from new areas (backfilling) and therefore work can be completed without additional cost. As a result of the particular characteristics of the Group's quarries, the IAS 37 criteria have not been met to date based on the assets so far acquired and therefore, no provisions have been recognised.

### (h) Intangible assets

#### (i) Goodwill

All business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the Consolidated Income Statement.

Costs relating to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

In respect of business acquisitions that have occurred since 1 January 2004 but before 1 January 2011, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment of business combinations that occurred prior to 1 January 2011 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2011.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under the Group's previous accounting framework. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy I). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

In respect of acquisitions where there is a contingent consideration element an accrual is created for the estimated amount payable if it is probable that an outflow of economic benefits will be required to settle the obligation and this can be measured reliably.

## 1 Accounting policies (continued)

### (h) Intangible assets (continued)

#### (ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Consolidated Income Statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process meet the recognition criteria for development expenditure as set out in IAS 38 – “*Intangible Assets*”. The expenditure capitalised includes all directly attributable costs, from the date which the intangible asset meets the recognition criteria, necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Other development expenditure is recognised in the Consolidated Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy I).

#### (iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy I).

Expenditure on internally generated goodwill and brands is recognised in the Consolidated Income Statement as an expense as incurred.

#### (iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### (v) Amortisation

Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The rates applied are as follows:

Customer and supplier relationships	-	5 to 20 years
Patents, trademarks and know-how	-	2 to 20 years
Development costs	-	10 to 20 years
Software	-	5 to 10 years

### (i) Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses (see accounting policy I).

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and of selling expenses.

The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity which were incurred in bringing the inventories to their present location and condition.

### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Consolidated Cash Flow Statement.





# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (s) Trade and other payables

Trade and other payables are stated at nominal amount (discounted if material).

### (t) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement upon the despatch of goods, when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue represents the invoiced value of sales to customers less returns, allowances and value added tax.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the possible return of goods or continuing management involvement with the goods.

### (u) Expenses

#### (i) Operating lease payments

Payments made under operating leases are recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Income Statement over the life of the lease.

#### (ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### (iii) Financial expenses

Net financial expenses comprise interest on obligations under the defined benefit pension scheme, the expected return on scheme assets under the defined benefit pension scheme, interest payable on borrowings (including finance leases) calculated using the effective interest rate method, dividends on non-equity shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the Consolidated Income Statement (see accounting policy f).

### (v) Income tax

Income tax on the profit or loss for the year comprises current and deferred taxation. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply when the temporary difference reverses, based on rates that have been enacted or substantively enacted at the balance sheet date.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### (w) Segment reporting

The Group has determined that, in accordance with IFRS 8 "*Operating Segments*" and based on its internal reporting framework and management structure, it has only one reportable segment. Such determination is necessarily judgemental in its nature and has been determined by management in preparing the Consolidated Financial Statements. The level of disclosure of segmental and other information is determined by such assessment. Further details of the considerations made and the resulting disclosures are provided in Note 2 below.



## 2 Segmental analysis

	Revenue		Operating profit	
	2011	2010*	2011	2010*
	£'000	£'000	£'000	£'000
Continuing operations	<b>334,127</b>	308,843	<b>16,697</b>	12,981
Financial income and expenses (net)			<b>(3,007)</b>	(2,558)
<b>Profit before tax</b>			<b>13,690</b>	10,423

\*The comparatives have been restated in respect of discontinued operations (Note 7).

### Operating segments

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") to allocate resources to the segments and to assess their performance. The Directors have concluded that, in terms of the Group's operations, the detailed requirements of IFRS 8 support the reporting of the Group's operations as a single business segment. As far as Marshalls is concerned the CODM is regarded as being the Executive Directors.

Detailed consideration has been given to the Group's overall business strategy and this is explained in detail in the Business Review on pages 6 to 25. The fundamental strategic objectives remain as follows:

- to develop, improve, reduce cost and innovate in our unique manufacturing and distribution network;
- to invest in marketing direct to the consumer to "pull through demand" and build brand awareness;
- to continue to develop the integrated product offer; and
- to invest in acquisitions and organic expansion.

These strategic objectives increasingly require the CODM to view the business on a national and a Group level. The Group's national manufacturing plan is structured around a series of production units throughout the United Kingdom, in conjunction with a single logistics and distribution operation. A National planning process supports sales to both of the Group's key end markets, namely the Domestic and Public Sector and Commercial end markets and the Group's operating assets produce and deliver a range of broadly similar products that are sold into each of these end markets. The focus is on the one integrated production, logistics and distribution network supporting both end markets and operating and financial information is available for the one combined integrated logistics and distribution network. Whilst KPI information is available to the CODM from the different functional areas of the business, "performance assessment" and "resource allocation" continue to be addressed on a Group basis. The Group's structure and strategy mean that business performance is focused on production efficiency, logistics and distribution efficiency, the performance of customers and operational planning. These are completely inter-dependent and are undertaken on a fully integrated basis, not in isolation.

For these reasons, and on the basis of the strategy, structure and nature of its business, and having considered the specific requirements of IFRS 8, the Directors have concluded that the Group has one operating segment. In order to assist the reader of the Annual Report some revenue information has been presented in the Business Review relating to the Group's Domestic and Public Sector and Commercial end markets.

	2011	2010*
	£'000	£'000
Geographical destination of revenue:		
United Kingdom	<b>322,396</b>	306,042
Rest of the world	<b>11,731</b>	2,801
	<b>334,127</b>	308,843

\*The comparatives have been restated in respect of discontinued operations (Note 7).

As disclosed in Note 22, in the period ended 31 December 2011, Marshalls NV contributed revenue of £8,877,000. All other revenue originates in the United Kingdom from continuing operations. The Group's International operations do not meet the definition of an operating segment under IFRS 8.

# Notes to the Consolidated Financial Statements (continued)

## 3 Net operating costs

	2011 £'000	2010* £'000
Raw materials and consumables	117,865	108,021
Changes in inventories of finished goods and work in progress	542	830
Personnel costs (Note 4)	87,979	80,854
Depreciation – owned	17,054	17,422
– leased	99	101
Amortisation of intangible fixed assets (Note 11)	1,179	1,433
Own work capitalised	(1,984)	(2,194)
Other operating costs	98,264	91,500
Negative goodwill (Note 22)	(1,772)	-
Acquisition costs	482	-
International "start up" costs	848	-
	<hr/>	<hr/>
Operating costs	320,556	297,967
Other operating income	(1,679)	(1,747)
Net gain on asset and property disposals	(1,359)	(421)
Share of results of associates	(65)	63
Gain on sale of associates	(23)	-
	<hr/>	<hr/>
<b>Net operating costs</b>	<b>317,430</b>	<b>295,862</b>
	<hr/>	<hr/>
Net operating costs include:		
Auditor's remuneration (in respect of the audit of the Group Financial Statements)		
Marshalls plc	20	20
Subsidiaries	115	113
Other fees paid to the auditors and their associates (see below)	19	19
Leasing costs	7,295	7,056
Hire of plant and machinery	4,673	3,558
Research and development costs	3,166	3,341
	<hr/>	<hr/>

In respect of the year under review, KPMG Audit Plc carried out additional work in relation to:

	2011 £'000	2010 £'000
Corporation tax compliance procedures	6	1
Other tax services	-	3
Other	13	15
	<hr/>	<hr/>
	<b>19</b>	<b>19</b>
	<hr/>	<hr/>

\*The comparatives have been restated in respect of discontinued operations (Note 7).

As set out in Note 22 on 4 March 2011 the Group obtained control of a newly formed company in Belgium engaged in the manufacture and supply of landscape products. The Group acquired 66.7 per cent of the ordinary share capital and voting interests in Marshalls NV and the new business was established following the acquisition of certain business assets and the injection of new working capital. The Group incurred acquisition related costs of £482,000 relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in net operating costs.

### 3 Net operating costs (continued)

The initial acquisition of these assets, principally land, buildings, plant and machinery, has given rise to negative goodwill. The first months of trading necessitated the commissioning of the plant and the manufacture and sourcing of the Company's operational inventory and working capital. A new management team has been established and investment has been made in systems and procedures in the "start up" phase. To assist the user of these Consolidated Financial Statements these "start up" costs have been separately disclosed.

### 4 Personnel costs

	2011 £'000	2010* £'000
Personnel costs (including Directors):		
Wages and salaries	75,312	71,113
Social security costs	7,930	7,219
Share based expenses (Note 19)	226	250
Contributions to defined contribution section of the Pension Scheme	4,511	2,272
	<hr/>	<hr/>
Included within net operating costs (Note 3)	87,979	80,854
Personnel costs included in International "start up" costs (Note 3)	409	-
Personnel costs related to net profit on asset and property disposals (Note 3)	1,368	-
	<hr/>	<hr/>
<b>Total personnel costs</b>	<b>89,756</b>	<b>80,854</b>

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 56 to 72.

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

	2011 Number	2010* Number
Continuing operations	2,361	2,282

\*The comparatives have been restated in respect of discontinued operations (Note 7).

# Notes to the Consolidated Financial Statements (continued)

## 5 Financial expenses and income

	2011 £'000	2010* £'000
<b>(a) Financial expenses</b>		
Interest expense on bank loans, overdrafts and loan notes	3,484	2,180
Interest on obligations under the defined benefit Pension Scheme	11,464	12,293
Finance lease interest expense	12	6
	<u>14,960</u>	<u>14,479</u>
<b>(b) Financial income</b>		
Expected return on Scheme assets under the defined benefit Pension Scheme	11,940	11,917
Interest receivable and similar income	13	4
	<u>11,953</u>	<u>11,921</u>

\*The comparatives have been restated in respect of discontinued operations (Note 7).

## 6 Income tax expense

	2011 £'000	2010* £'000
<b>Current tax expense</b>		
Current year	2,471	2,228
Adjustments for prior years	(1,272)	(506)
	<u>1,199</u>	<u>1,722</u>
<b>Deferred taxation expense</b>		
Origination and reversal of temporary differences:		
Current year	626	1,047
Adjustments for prior years	(303)	(567)
	<u>323</u>	<u>480</u>
<b>Income tax expense in the Consolidated Income Statement: continuing operations</b>	<u>1,522</u>	<u>2,202</u>
Income tax credit on discontinued operations (excluding loss on sale)	(194)	(339)
Income tax credit on disposal and closure of discontinued operations	(562)	-
	<u>766</u>	<u>1,863</u>
<b>Total income tax expense</b>	<u>766</u>	<u>1,863</u>

## 6 Income tax expense (continued)

### Reconciliation of effective tax rate

	2011 %	2011 £'000	2010 %	2010* £'000
Profit before tax	100.0	13,690	100.0	10,423
Tax using domestic corporation tax rate	26.5	3,628	28.0	2,918
Disallowed amortisation / impairment of intangible assets	0.7	95	4.2	435
Net items not taxable	7.5	1,033	7.2	747
Adjustments for prior years	(11.5)	(1,575)	(10.3)	(1,073)
Impact of the change in the rate of corporation tax on deferred taxation	(12.1)	(1,659)	(8.0)	(825)
	11.1	1,522	21.1	2,202

\*The comparatives have been restated in respect of discontinued operations (Note 7).

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the year was £2,598,000 (2010: £7,520,000).

## 7 Discontinued operations

On 14 June 2011 the Group announced the proposed closure of its non-core garage and greenhouse manufacturing operations. Later in June 2011, agreement was reached to sell, separately, the Compton garage brand and the Alton and Robinson greenhouse brands, and the Compton manufacturing site has been closed. The operation has been treated as discontinued.

The results of the discontinued operations which have been included in the Consolidated Income Statement were as follows:

	2011 £'000	2010 £'000
<b>Revenue</b>	<b>7,847</b>	14,261
Net operating costs	(8,566)	(15,471)
Loss before tax	(719)	(1,210)
Income tax credit	194	339
<b>Loss after tax</b>	<b>(525)</b>	(871)
Loss on disposal and closure of discontinued operations	(4,949)	-
Income tax credit on disposal and closure of discontinued operations	562	-
<b>Net loss attributable to discontinued operations</b>	<b>(4,912)</b>	(871)
<b>Basic loss per share (pence)</b>	<b>(2.52)p</b>	(0.45)p
<b>Diluted loss per share (pence)</b>	<b>(2.52)p</b>	(0.45)p

# Notes to the Consolidated Financial Statements (continued)

## 7 Discontinued operations (continued)

<b>Effect of disposal and closure on the financial position of the Group</b>		<b>£'000</b>
Property, plant and equipment		<b>266</b>
Intangible assets		<b>1,359</b>
<b>Assets disposed of</b>		<b>1,625</b>
Consideration received, satisfied in cash		<b>550</b>
Consideration receivable		<b>450</b>
Professional fees accrued		<b>(93)</b>
<b>Net consideration received</b>		<b>907</b>
<b>Loss on disposal</b>		<b>718</b>
<b>Closure costs</b>		<b>4,231</b>
<b>Loss on disposal and closure of discontinued operations (attributable to equity shareholders of the parent)</b>		<b>(4,949)</b>

During the year ended 31 December 2011 Compton contributed an outflow of £209,000 to the Group's net operating cash flows (2010: £895,000), received £550,000 in respect of investing activities (2010: paid £39,000) and paid £nil in respect of financing activities (2010: £nil).

A pre tax loss of £718,000 arose on the disposal of the Compton garage and the Alton and Robinson greenhouse brands, being the proceeds of disposal less the carrying amount of the relevant net assets. In addition the net cost of the closure of the Compton site is £4,231,000. The total net loss on disposal and closure of discontinued operations is £4,949,000.

Basic loss per share from discontinued operations of 2.52 pence (2010: 0.45 pence) per share is calculated by dividing the loss attributable to ordinary shareholders from discontinued operations of £4,912,000 (2010: £871,000) by the weighted average number of shares in issue during the period of 195,374,526 (2010: 195,462,449).

The ordinary shares are considered to be anti-dilutive to the loss per share from the discontinued operations calculation.

## 8 Earnings per share

Basic earnings per share from total operations of 3.78 pence (2010: 3.76 pence) per share is calculated by dividing the profit attributable to ordinary shareholders from total operations, and after adding back the loss on non-controlling interests, of £7,390,000 (2010: £7,350,000) by the weighted average number of shares in issue during the period of 195,374,526 (2010: 195,462,449).

Basic earnings per share from continuing operations of 6.30 pence (2010: 4.21 pence) per share is calculated by dividing the profit from continuing operations, and after adding back the loss on non-controlling interests, of £12,302,000 (2010: £8,221,000) by the weighted average number of shares in issue during the year of 195,374,526 (2010: 195,462,449).



## 8 Earnings per share (continued)

### Profit attributable to ordinary shareholders

	2011 £'000	2010 £'000
Profit from continuing operations	12,168	8,221
Loss from discontinued operations	(4,912)	(871)
Profit for the financial period	7,256	7,350
Loss attributable to non-controlling interests	134	-
Profit attributable to ordinary shareholders	7,390	7,350

### Weighted average number of ordinary shares

	2011 Number	2010 Number
Number of issued ordinary shares (at beginning of the period)	199,378,755	199,378,755
Effect of shares transferred into employee benefit trust	(1,579,229)	(1,491,306)
Effect of treasury shares acquired	(2,425,000)	(2,425,000)
Weighted average number of ordinary shares at end of the period	195,374,526	195,462,449

Diluted earnings per share of 3.71 pence (2010: 3.69 pence) per share is calculated by dividing the profit attributable to ordinary shares and potentially dilutive ordinary shares from total operations, and after adding back the loss on non-controlling interests, of £7,390,000 (2010: £7,350,000) by the weighted average number of shares in issue during the period of 195,374,526 (2010: 195,462,449) plus potentially dilutive shares of 4,004,229 (2010: 3,916,306) which totals 199,378,755 (2010: 199,378,755).

Diluted earnings per share from continuing operations of 6.17 pence (2010: 4.13 pence) per share is calculated by dividing the profit attributable to ordinary shares and potentially dilutive ordinary shares from continuing operations, and after adding back the loss on non-controlling interests, of £12,302,000 (2010: £8,221,000) by the weighted average number of shares in issue during the period of 195,374,526 (2010: 195,462,449) plus potentially dilutive shares of 4,004,229 (2010: 3,916,306) which totals 199,378,755 (2010: 199,378,755).

### Weighted average number of ordinary shares (diluted)

	2011 Number	2010 Number
Weighted average number of ordinary shares	195,374,526	195,462,449
Effect of shares transferred into employee benefit trust	1,579,229	1,491,306
Effect of treasury shares acquired	2,425,000	2,425,000
Weighted average number of ordinary shares (diluted)	199,378,755	199,378,755

# Notes to the Consolidated Financial Statements (continued)

## 9 Dividends

After the balance sheet date dividends of 3.50 pence (2010: 3.50 pence) per qualifying ordinary share were proposed by the





## 11 Intangible assets (continued)

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across Cash Generating Units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations and at both 31 December 2011 and 31 December 2010 the full amount of goodwill in the Group balance sheet related to the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial five year forecasts and appropriate long term growth rates of 2 per cent. To prepare value in use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rates used to calculate the value in use range from 8.0 per cent to 8.5 per cent (2010: 9.4 per cent to 11.1 per cent), with the pre-tax discount rate used for the Landscape Products CGU being 8.1 per cent (2010: 11.1 per cent). The Directors have reviewed the recoverable amounts of the CGUs and do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £838,000 (2010: £956,000) of own work capitalised.

### Amortisation charge

The amortisation charge is recognised in the following line items in the Consolidated Income Statement:

	2011 £'000	2010 £'000
Net operating costs (Note 3): continuing operations	1,179	1,433
Discontinued operations	52	121
	<b>1,231</b>	<b>1,554</b>

## 12 Investment in associates

	2011 £'000	2010 £'000
<b>Carrying value</b>		
At 1 January	2,163	2,118
Additions	-	108
Disposals	(40)	-
Share of results of associates	65	(63)
<b>At 31 December</b>	<b>2,188</b>	<b>2,163</b>
	2011 £'000	2010 £'000
Investment at cost	2,182	2,290
Cumulative losses on disposals	68	-
Share of results of associates	(62)	(127)
<b>Carrying value at 31 December</b>	<b>2,188</b>	<b>2,163</b>

On 21 January 2010 the Group acquired a 24 per cent stake in Delta Bloc UK Limited, a traffic management business. The results, assets and liabilities are included in these Consolidated Financial Statements using the equity method of accounting. On 21 July 2011 the Group disposed of its 24 per cent stake in Delta Bloc UK Limited for proceeds of £63,000.

The Group's share of results of associates in the year ended 31 December 2011 was £65,000 profit (2010: £63,000 loss) and, on the grounds of materiality, no additional disclosure has been made.

# Notes to the Consolidated Financial Statements (continued)

## 13 Inventories

	2011 £'000	2010 £'000
Raw materials and consumables	11,848	9,522
Finished goods and goods for resale	70,490	72,104
	<u>82,338</u>	<u>81,626</u>

Inventories stated at fair value less cost to sell at 31 December 2011 amounted to £3,239,000 (2010: £5,596,000). The write down of inventories made during the year amounted to £938,000 (2010: £910,000). There were no reversals of inventory write downs made in previous years either in 2011 or 2010.

## 14 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	29,448	19,151
Other receivables	4,383	2,987
Prepayments and accrued income	6,473	5,787
	<u>40,304</u>	<u>27,925</u>

### Ageing of trade receivables

	2011 £'000	2010 £'000
Less than 30 days	17,813	10,742
31 - 60 days	10,066	7,675
61 - 90 days	1,497	664
More than 90 days	72	70
	<u>29,448</u>	<u>19,151</u>

No receivables were due after more than one year. All amounts disclosed above are considered recoverable and no material amounts are regarded as overdue.

## 15 Cash and cash equivalents

	2011 £'000	2010 £'000
Bank balances	5,976	4,056
Cash in hand	22	3
	<u>5,998</u>	<u>4,059</u>

Cash and cash equivalents in the Consolidated Cash Flow Statement



## 16 Trade and other payables

	2011 £'000	2010 £'000
<b>Current liabilities</b>		
Trade payables	34,471	31,983
Taxation and social security	7,207	4,968
Other payables	4,778	3,703
Accruals	10,669	7,652
Financial Liabilities	414	246
	<b>57,539</b>	<b>48,552</b>

All trade payables are due in six months or less.

## 17 Loans

	2011 £'000	2010 £'000
<b>Current liabilities</b>		
Bank loans	25,000	40,900
Finance lease liabilities	88	-
	<b>25,088</b>	<b>40,900</b>
<b>Non current liabilities</b>		
Bank loans	57,934	30,000
Finance lease liabilities	77	-
	<b>58,011</b>	<b>30,000</b>

### Bank loans

The bank loans are secured by inter-group guarantees with certain subsidiary undertakings.

### Finance lease liabilities

	Minimum lease payments 2011 £'000	Interest 2011 £'000	Principal 2011 £'000	Minimum lease payments 2010 £'000	Interest 2010 £'000	Principal 2010 £'000
Less than one year	97	9	88	-	-	-
One to two years	53	5	48	-	-	-
Two to five years	30	1	29	-	-	-
	<b>180</b>	<b>15</b>	<b>165</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the Consolidated Financial Statements (continued)

## 18 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's bank loans are non-equity funding instruments and further details of which are set out in Note 17.

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks and they have remained substantially unchanged since 2010, although following the Group's international investment foreign exchange exposures have marginally increased.

### Capital management

The Group defines the capital that it manages as its total equity and net debt balances. The Group manages its capital structure in the light of current economic conditions and its strategic objectives to ensure that it is able to continue as a going concern whilst maximising the return to stakeholders through the optimisation of debt and equity balances.

The Group manages its medium term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed facilities. A key objective is to ensure compliance with the covenants set out in the Group's bank facility agreements.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's Long Term Incentive Plan. Buy and sell decisions are made on a specific transaction basis by the Board.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2011 and 31 December 2010.

### Financial risks

The Group has exposure to a number of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, guidelines and authorisation procedures which are outlined in the Business Review on pages 6 to 25. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

#### (a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. Cash resources are largely and normally generated through operations and short term flexibility is achieved by bank facilities. Bank debt is raised centrally and the Group aims to maintain a balance between flexibility and continuity of funding by having a range of maturities on its borrowings. Details of the Group borrowing facilities are provided below. The capital structure of the Group consists of equity attributable to equity shareholders of the Company and reserves.

#### (b) 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. The Group borrows principally at floating rates of interest and where appropriate uses interest rate swaps to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

75 per cent of core debt is covered by interest rate swaps of varying maturities up until 2015, which reflects the maturity date of the related loans, in accordance with Group policy. The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is £402,000 liability (2010: £232,000 liability) and is adjusted against the hedging reserve on an ongoing basis.

## **18 Financial instruments (continued)**

### **Financial risks (continued)**

#### **(b) Interest rate risk (continued)**

The period that the swaps cover is intended to fix the impact on the Income Statement. During the year £572,000 (2010: £494,000) has been recognised in Other Comprehensive Income for the year with £402,000 (2010: £262,000) being reclassified from equity to the Income Statement. The Interest rate swaps have been fully effective in the period.

#### **(c) Credit risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and, where appropriate, credit insurance cover is obtained. This provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are with counterparties with whom the Group has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

#### **(d) Foreign currency risk**

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily Euros and US Dollars.

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £12,000 (2010: £14,000) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2011 all outstanding forward exchange contracts have a maturity date within six months.

### **Other risks**

Further information about the Group's strategic and financial risks is contained in the Business Review on pages 6 to 25.

### **Sensitivity analysis**

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. For instance, a weakening of pound sterling on the foreign currency market would increase the cost of certain raw materials, whereas a strengthening would have the opposite effect.

# Notes to the Consolidated Financial Statements (continued)

## 18 Financial instruments (continued)

### Effective interest rates and maturity of liabilities

At 31 December 2011 there were £165,000 (2010: nil) Group borrowings on a fixed rate. Interest rate swaps have been taken out with the intention to fix the interest on 75 per cent of the Group's core debt. The interest rate profile of the financial liabilities were:

<b>31 December 2011</b>	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000
Cash and cash equivalents (Note 15)	Variable	2.40	(5,998)	(5,998)	-	-	-
Bank loans	Variable	2.40	82,934	-	25,000	25,000	32,934
Finance lease liabilities	Fixed	10.81	165	62	26	48	29
			<b>77,101</b>	<b>(5,936)</b>	<b>25,026</b>	<b>25,048</b>	<b>32,963</b>
<b>31 December 2010</b>	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000
Cash and cash equivalents (Note 15)	Variable	2.37	(4,059)	(4,059)	-	-	-
Bank loans	Variable	2.37	70,900	-	40,900	25,000	5,000
			<b>66,841</b>	<b>(4,059)</b>	<b>40,900</b>	<b>25,000</b>	<b>5,000</b>

At 31 December the undiscounted outstanding contractual payments (including interest) of financial liabilities was as follows:

<b>31 December 2011</b>	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000
Bank loans	87,656	978	25,984	25,973	34,721
Trade payables	34,471	34,471	-	-	-
Finance lease liabilities	180	68	29	53	30
Financial liabilities	<b>479</b>	<b>146</b>	<b>147</b>	<b>185</b>	<b>1</b>
	<b>122,786</b>	<b>35,663</b>	<b>26,160</b>	<b>26,211</b>	<b>34,752</b>
<b>31 December 2010</b>	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000
Bank loans	72,164	515	41,227	25,412	5,010
Trade payables	31,983	31,983	-	-	-
Financial liabilities	1,091	246	234	381	230
	<b>105,238</b>	<b>32,744</b>	<b>41,461</b>	<b>25,793</b>	<b>5,240</b>

The outstanding contractual payments (including interest) in relation to operating leases are disclosed in Note 24.

## 18 Financial instruments (continued)

### Borrowing facilities

The total bank borrowing facilities at 31 December 2011 amounted to £170.0 million (2010: £168.4 million) of which £87.1 million (2010: £97.5 million) remained unutilised. There are additional seasonal bank working capital facilities of £20.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2011, in respect of which all conditions precedent had been met, were as follows:

	2011 £'000	2010 £'000
Committed:		
- Expiring in one year or less	-	7,500
- Expiring in more than two years but not more than five years	62,066	65,000
Uncommitted:		
- Expiring in one year or less	25,000	25,000
	<b>87,066</b>	<b>97,500</b>

In March 2012 existing bank debt facilities which were to mature in December 2012 and January 2013 and totalling £75 million in aggregate were re-financed with extended maturity dates to 2015 and 2016. The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium term debt and as at 9 March 2012 is set out as follows:

	Facility £'000	Cumulative Facility £'000
Committed facilities:		
Q3 2016	50,000	50,000
Q3 2015	75,000	125,000
Q3 2014	20,000	145,000
On demand facilities:		
Available all year	25,000	170,000
Seasonal (February to August inclusive)	20,000	190,000

### Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2011 are shown below:

	2011		2010	
	Book amount £'000	Fair Value £'000	Book amount £'000	Fair Value £'000
Trade and other receivables	40,304	40,304	27,925	27,925
Cash and cash equivalents	5,998	5,998	4,059	4,059
Bank loans	(82,934)	(78,865)	(70,900)	(66,569)
Finance lease liabilities	(165)	(165)	-	-
Trade and other payables	(57,125)	(57,125)	(48,306)	(48,306)
Interest rate swaps and forward contracts	(414)	(414)	(246)	(246)
Financial assets/(liabilities) - net	(94,336)		(87,468)	
Other assets/(liabilities) - net	300,400		285,708	
	<b>206,064</b>		<b>198,240</b>	

# Notes to the Consolidated Financial Statements (continued)

## 18 Financial instruments (continued)

### Fair values of financial assets and financial liabilities (continued)

#### Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### (a) Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps broker quotes are used.

#### (b) Interest-bearing loans and borrowings

Fair value is calculated based on the expected future principal and interest cash flows discounted at the relevant rate.

#### (c) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

#### (d) Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

#### (e) Fair value hierarchy

The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>31 December 2011</b>				
Derivative financial liabilities	-	<b>414</b>	-	<b>414</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2010</b>				
Derivative financial liabilities	-	246	-	246
	<hr/>	<hr/>	<hr/>	<hr/>



## 19 Employee benefits

The Group operates the Marshalls plc Pension Scheme (the "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. The defined benefit section of the Scheme is closed to new members and future service accrual. Pension contributions, for both the employer and the employee, are made into the defined contribution section of the Scheme.

	<b>2011</b>	2010	2009	2008	2007
	<b>£'000</b>	£'000	£'000	£'000	£'000
Present value of funded obligations	<b>(237,621)</b>	(212,394)	(221,895)	(167,312)	(194,782)
Fair value of Scheme assets	<b>250,587</b>	208,302	183,939	183,813	176,987
<b>Net surplus / (liability) in the Scheme for defined benefit obligations (see below)</b>	<b>12,966</b>	(4,092)	(37,956)	16,501	(17,795)
<b>Experience adjustments on Scheme liabilities</b>	<b>(21,680)</b>	13,982	(51,099)	31,184	17,749
<b>Experience adjustments on Scheme assets</b>	<b>31,662</b>	13,658	(4,903)	(3,530)	33

### Movements in the net surplus / (liability) for defined benefit obligations recognised in the balance sheet

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Net liability for defined benefit obligations at 1 January	<b>(4,092)</b>	(37,956)
Contributions received	<b>6,600</b>	6,600
Income / (expense) recognised in the ConsJ72EMC 4 /CREO21722o223 BMC 11(onsJ72E30 1 Tf -0y0 1 Tf -0y0 1 Tf -0y0 1 Tf -0y0		



## 19 Employee benefits (continued)

The fair value of Scheme assets at the balance sheet date is analysed as follows:

	2011		2010	
	£'000	%	£'000	%
Equities	<b>79,800</b>	<b>32</b>	84,889	40
Bonds	<b>3,230</b>	<b>1</b>	4,233	2
Cash	<b>1,851</b>	<b>1</b>	1,073	1
Insured pensioners	<b>1,460</b>	<b>1</b>	1,394	1
Liability driven investments	<b>164,246</b>	<b>65</b>	116,713	56
	<b>250,587</b>	<b>100</b>	208,302	100

The expected return on assets for the period is calculated as the average of the expected long-term returns on the various asset classes, weighted by the Scheme's holdings of those asset classes.

The Scheme has no investments in the Company or in property occupied by the Company.

### Sensitivity analysis

The Group continues to be subject to various financial risks in relation to the Pension Scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The sensitivity to the AA corporate bond rate is broadly that, all other things being equal, a 0.1 per cent movement in the discount rate is equivalent to a movement of approximately £4.2 million in Scheme liabilities. This sensitivity would be offset very substantially by a movement in Scheme assets where the change in AA corporate bond yield is simply a movement in line with fixed interest securities in general. The sensitivity to inflation is broadly that, all other things and being equal, a 0.1 per cent movement is equivalent to a movement in the Scheme liabilities of broadly £1.5 million, although this would also be offset almost entirely by a movement in Scheme assets. As far as mortality is concerned an increase of one year in life expectancy would, all other things being equal, give rise to an increase in Scheme liabilities of approximately £7.5 million. Risk management remains a core theme of the Group's Pension Scheme strategy and the transfer of a proportion of Scheme assets from equities to liability driven investments was an example of an action that has reduced volatility and risk.

### Share-based payments

Share-based payment awards have been made during the year in accordance with the rules of the Marshalls plc 2005 Long Term Incentive Plan (the "LTIP"). The LTIP rules provide for the award of Matching Shares and Performance Shares subject, in the case of Matching Shares, to participants investing a stated percentage of their annual bonus in the LTIP. The minimum investment by Executive Directors is 50 per cent of annual bonus until they have reached the share ownership targets set by the Board; thereafter they may choose to invest annual bonus on a voluntary basis. The annual bonus investment is used to purchase Investment Shares to qualify for a Matching Share award, subject to defined limits. In addition, Performance Shares may be awarded to participants without requiring a qualifying investment.

Both Matching Shares and Performance Shares are subject to the achievement of a three year performance target. The awards lapse if the performance target is not met over the three year vesting period. Matching Share awards are dependent on an improvement in reported earnings per share, while Performance Share awards are dependent on an improvement in reported earnings per share and operating cash flow, each measured using International Financial Reporting Standards. The Remuneration Committee may exercise its discretion with regard to the effect of one off items. Full details of the performance criteria are set out in the Directors' Remuneration Report on pages 56 to 72.

# Notes to the Consolidated Financial Statements (continued)

## 19 Employee benefits (continued)

The Performance and Matching Shares take the form of options which are settled by physical delivery of shares. The exercise price is nil in relation to any of these grants and there is no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	893,821	11 March 2010	3 years
	722,688	11 March 2010	3 years
	587,957	17 March 2011	3 years
	761,601	17 March 2011	3 years
Equity settled awards granted to employees of Marshalls Group Limited	272,707	11 March 2010	3 years
	705,875	11 March 2010	3 years
	176,352	17 March 2011	3 years
	743,885	17 March 2011	3 years
	<b>4,864,886</b>		

	Weighted average share price at date of grant (pence per share) 2011	Number of options 2011	Weighted average share price at date of grant (pence per share) 2010	Number of options 2010
Outstanding at 1 January	84	5,654,680	122	3,992,839
Granted	113	2,269,795	91	2,697,433
Lapsed	78	(3,059,589)	222	(1,035,592)
Outstanding at 31 December	97	<b>4,864,886</b>	84	5,654,680

There were no share options exercised or that expired during the period. None of the options were exercisable at 31 December 2011.

The fair value of services received in return for Matching Shares granted are measured by reference to the fair value of these awards at the date of grant. The estimate of the fair value of the services received is measured based on a Black-Scholes valuation model.

	17 March 2011 grant	11 March 2010 grant	11 March 2010 grant	12 March 2009 grant
Fair value at grant date (pence per share)	94	75	75	65
Share price on date of grant (pence per share)	113	89.25	89.25	78
Expected volatility used in the modelling under the Black-Scholes valuation model	65.0%	65.0%	65.0%	50.0%
Dividend yield	6.0%	6.0%	6.0%	6.0%
Risk-free interest rate (based on national Government bonds)	2.0%	2.0%	2.0%	1.75%

The Company's share price at 31 December 2011 was 90.5p.

The expected volatility is wholly based on the historic volatility (since the Scheme of Arrangement in July 2004), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the period arising from share-based payments are as follows:

	2011 £'000	2010 £'000
Awards granted and total expense recognised as employee costs (Note 4)	<b>226</b>	250

Further details in relation to the Directors are set out in the Directors' Remuneration Report on pages 56 to 72.

## 19 Employee benefits (continued)

### Employee Profit Sharing Scheme

At 31 December 2011 the scheme held 42,414 (2010: 42,414) ordinary shares in the Company.

## 20 Deferred taxation

### Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Property, plant and equipment	-	-	(17,967)	(18,879)
Intangible assets	-	-	(796)	(1,305)
Inventories	-	-	(1,089)	(1,131)
Employee benefits	-	1,104	(3,242)	-
Equity settled share-based expenses	63	67	-	-
Other items	-	-	(2,192)	(2,253)
<b>Tax assets / (liabilities)</b>	<b>63</b>	<b>1,171</b>	<b>(25,286)</b>	<b>(23,568)</b>

The deferred taxation liability of £3,242,000 (2010: £1,104,000 deferred taxation asset) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £12,966,000 (2010: £4,092,000 net deficit) (Note 19) calculated at 25 per cent (2010: 27 per cent). A decrease in the corporation tax rate to 25 per cent was substantially enacted for the purposes of IAS 12 "Income taxes" on 5 July 2011.

### Movement in temporary differences

#### Year ended 31 December 2011

	1 January 2011 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	31 December 2011 £'000
Property, plant and equipment	(18,879)	912	-	(17,967)
Intangible assets	(1,305)	509	-	(796)
Inventories	(1,131)	42	-	(1,089)
Employee benefits	1,104	(1,850)	(2,496)	(3,242)
Equity settled share-based expenses	67	(4)	-	63
Impact on other comprehensive income of the change in rate of deferred tax	(123)	-	(145)	(268)
Other items	(2,130)	163	43	(1,924)
	<b>(22,397)</b>	<b>(228)</b>	<b>(2,598)</b>	<b>(25,223)</b>

#### Year ended 31 December 2010

	1 January 2010 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	31 December 2010 £'000
Property, plant and equipment	(20,393)	1,514	-	(18,879)
Intangible assets	(1,481)	176	-	(1,305)
Inventories	(941)	(190)	-	(1,131)
Employee benefits	10,627	(2,060)	(7,463)	1,104
Equity settled share-based expenses	69	(2)	-	67
Impact on other comprehensive income of the change in rate of deferred tax	-	-	(123)	(123)
Other items	(2,278)	82	66	(2,130)
	<b>(14,397)</b>	<b>(480)</b>	<b>(7,520)</b>	<b>(22,397)</b>

# Notes to the Consolidated Financial Statements (continued)

## 21 Capital and reserves

	2011 £'000	Issued and paid up 2010 £'000
<b>At 1 January and at 31 December</b>	<b>49,845</b>	49,845
Number of 25 pence ordinary shares	<b>199,378,755</b>	199,378,755

### Consolidation reserve

On 8 July 2004 Marshalls plc was introduced as the new holding company of the Group by way of a Court approved Scheme of Arrangement under Section 425 of the Companies Act 1985. The restructuring was accounted for as a capital reorganisation and accounting principles were applied as if the Company had always been the holding company of the Group. The difference between the aggregate nominal value of the new shares issued by the Company and the called up share capital, capital redemption reserve and share premium account of Marshalls Group plc (the previous holding company) was transferred to a consolidation reserve.

### Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided and there were no income tax consequences.

	2011 £'000	2010 £'000
3.50 pence (2010: 3.50 pence) per ordinary share	<b>6,861</b>	6,861

## 22 Acquisition of subsidiary with non-controlling interests

On 4 March 2011 the Group obtained control of a newly formed company located and registered in Belgium called Marshalls NV which had been established to acquire the trade and certain assets of a number of existing businesses. The Group acquired 66.7 per cent of the ordinary share capital and voting interests of Marshalls NV and the remaining 33.3 per cent non-controlling interest is owned by an unrelated party. Marshalls NV manufactures and supplies landscape, driveway and garden products from a range of materials, but principally concrete and natural stone. Acquisition costs are included in net operating costs and are disclosed in Note 3.

In the period to 31 December 2011 Marshalls NV contributed revenue of £8,877,000 and operating loss of £687,000 to the Group's results after charging start up costs.

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

### Consideration transferred

	£'000
Cash	<b>5,393</b>

### Identified assets acquired and liabilities assumed, recorded at fair value

	£'000
Property, plant and equipment	<b>7,899</b>
Inventories	<b>1,104</b>
Cash and cash equivalents	<b>2,888</b>
Trade and other payables	<b>(1,142)</b>
<b>Total net identifiable assets</b>	<b>10,749</b>



## 22 Acquisition of subsidiary and non-controlling interests (continued)

### Net cash outflow on acquisition of subsidiaries

	£'000
Consideration paid in cash	5,393
less: cash and cash equivalents acquired	(2,888)
Loan to non-controlling interest	1,401
<b>Net cash outflow</b>	<b>3,906</b>

### Negative goodwill has been recognised as a result of the acquisition as follows:

	£'000
Total consideration transferred	5,393
Non-controlling interests, based on their proportionate interest (33.3 per cent) of the fair value of the assets and liabilities of the acquiree	3,584
Fair value of identifiable assets	(10,749)
<b>Negative goodwill (Note 3)</b>	<b>(1,772)</b>

The transaction meets the definition of a bargain purchase and, in accordance with IFRS 3, the recognised gain has been reported in the Consolidated Income Statement as negative goodwill. The situation has arisen due to the majority of the assets being acquired through a Belgium Court process as a consequence of the major part of the former trading business falling into severe financial difficulties. As a result it has not been practicable to estimate pre-acquisition financial information.

	£'000
<b>Non-controlling interests</b>	
On acquisition of subsidiary undertaking	3,584
Share of result for the period	(134)
Foreign currency transaction differences	(56)
<b>At 31 December 2011</b>	<b>3,394</b>

On 1 July 2011 the Group acquired the entire ordinary share capital of Hornton Grounds Stone Sales Limited, a company engaged in the cutting and processing of stone products. The cash consideration was £275,000 and the fair value of the net liabilities acquired was £243,000. Goodwill arising of £518,000 has been recognised (Note 11). Acquisition costs are included in net operating costs and are disclosed in Note 3. With effect from 1 July 2011 the trade, assets and liabilities of Hornton Grounds Stone Sales Limited were transferred to Marshalls Mono Limited. In the period ended to 31 December 2011 the business contributed revenue of £340,000 and an operating loss of £301,000 to the Group's results.

### Cash flow from investing activities

	£'000
Marshalls NV	3,906
Hornton Grounds Stone Sales Limited	275
<b>Acquisition of subsidiaries and investment in associates</b>	<b>4,181</b>

# Notes to the Consolidated Financial Statements (continued)

## 23 Analysis of net debt

	1 January 2011 £'000	Cash flow £'000	Other changes £'000	31 December 2011 £'000
Cash at bank and in hand	4,059	1,879	60	5,998
Debt due within one year	(40,900)	40,900	(25,000)	(25,000)
Debt due after one year	(30,000)	(52,934)	25,000	(57,934)
Finance leases	-	84	(249)	(165)
	<u>(66,841)</u>	<u>(10,071)</u>	<u>(189)</u>	<u>(77,101)</u>

## Reconciliation of Net Cash Flow to Movement in Net Debt

	2011 £'000	2010 £'000
Net increase / (decrease) in cash and cash equivalents	1,879	(5,224)
Cash (inflow) / outflow from increase in debt and lease financing	(12,199)	7,539
Effect of exchange rate fluctuations	60	-
Movement in net debt in the period	(10,260)	2,315
Net debt at 1 January	(66,841)	(69,156)
<b>Net debt at 31 December</b>	<b>(77,101)</b>	<b>(66,841)</b>

## 24 Operating leases

The Group had commitments under non-cancellable operating leases in respect of property, plant and machinery as follows:

### 31 December 2011

	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Expiring:						
within one year	686	322	364	-	-	-
between two and five years	15,759	-	-	5,146	10,613	-
in more than five years	16,290	-	-	-	-	16,290
	<u>32,735</u>	<u>322</u>	<u>364</u>	<u>5,146</u>	<u>10,613</u>	<u>16,290</u>

### 31 December 2010

	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Expiring:						
within one year	1,459	202	1,257	-	-	-
between two and five years	15,312	-	-	1,434	13,878	-
in more than five years	16,330	-	-	-	-	16,330
	<u>33,101</u>	<u>202</u>	<u>1,257</u>	<u>1,434</u>	<u>13,878</u>	<u>16,330</u>

Certain leased properties have been sublet by the Group. Sublease payments of £43,358 (2010: £32,764) are expected to be received during the following financial year. An amount of £39,887 (2010: £48,730) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

## 25 Contingencies

Royal Bank of Scotland plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £1,610,000 (2010: £2,400,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2005 and 31 October 2012 inclusive.

## 26 Related parties

### Identity of related parties

The Group has a related party relationship with its Directors.

### Transactions with key management personnel

Other than the Directors, there are no senior managers in the Group who are relevant for establishing that Marshalls has the appropriate expertise and experience for the management of its business.

Directors of the Company and their immediate relatives, control 0.44 per cent (2010: 0.45 per cent) of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to Directors, and contributes to a defined contribution pension scheme on their behalf. Further details in relation to Directors are disclosed in the Directors' Remuneration Report on pages 56 to 72.

## 27 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 84 to 92.

Note 2 contains information about the assumptions and judgements made relating to the identification of operating segments for the Group as defined in IFRS 8 "*Operating Segments*".

In relation to the Group's intangible fixed assets (Note 11) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates in relation to relevant trading volumes and margins. These estimates have been determined using the best available information derived from a combination of business specific analysis (both current and historic) and the latest available external industry forecasts. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates in order to calculate present values.

Note 18 contains information about the assumptions and their risk factors relating to interest rate and foreign currency exposures. The principal risk relates to interest rates. Sensitivity analysis is disclosed in Note 18 on page 107.

Note 19 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, the expected return on net assets, inflation rates and mortality rates and have been determined following advice received from an independent qualified Actuary. Sensitivity analysis is disclosed in Note 19 on page 113.

Note 20 contains details of the Group's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

Note 22 contains details of the identified assets acquired and liabilities assumed in relation to the acquisition of subsidiary undertakings. These have been recorded at an assessment of fair value using best available information.

# Company Balance Sheet

at 31 December 2011

	Notes	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Investments	31	<b>338,641</b>	338,598
<b>Current assets</b>			
Debtors	32	<b>13,287</b>	25,736
<b>Net current assets</b>		<b>13,287</b>	25,736
<b>Net assets</b>		<b>351,928</b>	364,334
<b>Capital and reserves</b>			
Called up share capital	34	<b>49,845</b>	49,845
Share premium account	35	<b>22,695</b>	22,695
Own shares	35	<b>(9,514)</b>	(9,514)
Capital redemption reserve	35	<b>75,394</b>	75,394
Equity reserve	35	<b>301</b>	258
Profit and loss account	35	<b>213,207</b>	225,656
<b>Equity shareholders' funds</b>		<b>351,928</b>	364,334

Approved at a Directors' meeting on 9 March 2012.

On behalf of the Board:

D.G. Holden  
Chief Executive

I.D. Burrell  
Finance Director

The Notes on pages 122 to 126 form part of these Company Financial Statements.

# Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2011

	2011 £'000	2010 £'000
Loss for the financial year	(2,340)	(1,984)
Equity dividends	(10,292)	(10,294)
Deficit for the financial year	(12,632)	(12,278)
Purchase of own shares	-	(42)
Share-based expenses	476	250
Share-based payment adjustment	(250)	-
<b>Net reduction in shareholders' funds</b>	<b>(12,406)</b>	<b>(12,070)</b>
<b>Shareholders' funds at beginning of year</b>	<b>364,334</b>	<b>376,404</b>
<b>Shareholders' funds at end of year</b>	<b>351,928</b>	<b>364,334</b>

The Notes on pages 122 to 126 form part of these Company Financial Statements.

## **28 Accounting policies**

The following paragraphs

## 28 Accounting policies (continued)

### (e) Own shares held by employee benefit trust

Transactions of the Group-sponsored Employee Benefit Trust are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

### (f) Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts repayable 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.

### (g) Leased assets

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.

### (h) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable, in respect of previous years.

### (i) Deferred taxation

Full provision is made for deferred taxation resulting from timing differences, other than those specifically excluded by FRS 19 - *"Deferred Taxation"*, between profits computed for taxation purposes and profits stated in the Financial Statements to the extent that there is an obligation to pay more tax in the future as a result of those timing differences. Deferred taxation assets are recognised to the extent that they are expected to be recoverable. Deferred taxation assets and liabilities are not discounted.

### (j) Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### (k) Dividends

Dividends on non-equity shares are recognised as a liability and accounted for on an accruals basis. Equity dividends are recognised as a liability in the period in which they are declared (appropriately authorised and no longer at the discretion of the Company).



# Notes to the Company Financial Statements (continued)

## 29 Operating costs

The audit fee for the Company was £20,000 (2010: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditors for services other than the statutory audit of the Company are not disclosed in the Notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

## 30 Ordinary dividends: equity shares

	2011		2010	
	per share	£'000	per share	£'000
2010 Final: paid 8 July 2011	3.50p	6,861	3.50p	6,863
2011 Interim: paid 2 December 2011	1.75p	3,431	1.75p	3,431
	<u>5.25p</u>	<u>10,292</u>	<u>5.25p</u>	<u>10,294</u>

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided and there were no income tax consequences.

	2011 £'000	2010 £'000
3.50 pence (2010: 3.50 pence) per ordinary share	<u>6,861</u>	<u>6,861</u>

## 31 Investments

	£'000
At 1 January 2011	338,598
Additions	172
Share-based payment adjustment	(129)
<b>At 31 December 2011</b>	<b><u>338,641</u></b>

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investment and are satisfied that no provision is required.

The increase in the year of £172,000 and the adjustment of £129,000 both represent adjustments to the number of shares expected to vest in respect of LTIP awards granted to employees of Marshalls Group Limited.

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2011 are set out below. With the exception of Marshalls NV all the companies operate within the United Kingdom and are registered in England and Wales. Marshalls NV is registered in Belgium. Xiamen Marshalls Import Export Company Limited is registered in China.

Subsidiaries	Principal activities	Class of Share
Marshalls Group Limited	Intermediate holding company.	Ordinary
Marshalls Mono Limited *	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products.	Ordinary
Marshalls NV *	Landscape products manufacturer and supplier paving, street furniture and natural stone products.	Ordinary
Xiamen Marshalls Import Export Company Limited *	Sourcing and distribution of nature stone products.	Ordinary

\* held by subsidiary undertaking

### 32 Debtors

	2011 £'000	2010 £'000
Amounts owed by subsidiary undertakings	12,115	24,963
Corporation tax	1,170	771
Other debtors	2	2
	<b>13,287</b>	<b>25,736</b>

No debtors were due after more than one year.

### 33 Deferred taxation

There is no deferred taxation in the Company.

### 34 Share capital

As at 31 December 2011, the issued and fully paid up share capital was as follows:

	2011 Number	2011 Nominal Value £'000	Issued and paid up 2010 Number	2010 Nominal Value £'000
<b>At 31 December</b>	<b>199,378,755</b>	<b>49,845</b>	199,378,755	49,845

Disclosures regarding share-based payments are given in Note 19 on pages 113 to 115.

### 35 Share capital and reserves

	Ordinary share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 January 2011	49,845	22,695	(9,514)	75,394	258	225,656
Share-based expenses	-	-	-	-	172	304
Share-based payment adjustment	-	-	-	-	(129)	(121)
Loss for the financial year (net of dividends)	-	-	-	-	-	(12,632)
<b>At 31 December 2011</b>	<b>49,845</b>	<b>22,695</b>	<b>(9,514)</b>	<b>75,394</b>	<b>301</b>	<b>213,207</b>

# Notes to the Company Financial Statements (continued)

## 36 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2011 or 31 December 2010.

## 37 Bank facilities

The Group's banking arrangements are in respect of Marshalls plc, Marshalls Group Limited and Marshalls Mono Limited with each company being nominated borrowers. The operational banking activities of the Group are undertaken by Marshalls Group Limited and the Group's bank debt is largely included in Marshalls Group Limited's balance sheet.

## 38 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, irrevocable letters of credit totalling £1,610,000 (2010: £2,400,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2005 and 31 October 2012 inclusive.

## 39 Pension scheme

The Company is the sponsoring employer of the Marshalls plc Pension Scheme (the "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. As set out in Note 19 the Group introduced a new defined contribution section to the Scheme to replace the existing defined benefit section which closed to future service accrual on 1 July 2006.

Full details of the Scheme are provided in Note 19. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis. Accordingly, as permitted by FRS 17 - "*Retirement benefits*", the Scheme has been accounted for in these Company Financial Statements as if the Scheme was a defined contribution scheme.

The latest funding valuation of the Scheme was carried out as at 6 April 2011 and was updated for FRS 17 purposes to 31 December 2011 by a qualified independent Actuary. Certain employees are members of the Company defined contribution Scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

The Group surplus / deficit on an FRS 17 basis at 31 December 2011 was £nil (2010: £4,092,000 deficit). FRS 17 stipulates that an employer should only recognise a Pension Scheme surplus as an asset to the extent that it is able to recover that surplus either through reduced contributions in the future or through refunds from the Scheme. Refunds from the Scheme had not been agreed at the measurement date.

# Shareholder Information

## Shareholder analysis at 31 December 2011

<i>Size of Shareholding</i>	<i>Number of Shareholders</i>	<i>%</i>	<i>Number of Ordinary Shares</i>	<i>%</i>
1 to 500	2,027	39.4	309,535	0.2
501 to 1,000	635	12.4	477,426	0.2
1,001 to 2,500	938	18.2	1,586,783	0.8
2,501 to 5,000	634	12.3	2,273,124	1.1
5,001 to 10,000	387	7.5	2,745,569	1.4
10,001 to 25,000	208	4.0	3,210,937	1.6
25,001 to 100,000	155	3.0	7,576,239	3.8
100,001 to 250,000	66	1.3	10,216,520	5.1
250,001 to 500,000	31	0.6	11,755,461	5.9
500,001 and above	67	1.3	159,227,161	79.9
	<hr/> 5,148 <hr/>	<hr/> 100.0 <hr/>	<hr/> 199,378,755 <hr/>	<hr/> 100.0 <hr/>

## Financial calendar

Preliminary Announcement of results for the year ended

31 December 2011 Announced 9 March 2012

Annual General Meeting 16 May 2012

Final dividend for the year ended 31 December 2011 Payable 6 July 2012

Half - yearly results for the year ending 31 December 2012 Announcement 31 August 2012

Half - yearly dividend for the year ending 31 December 2012 Payable 7 December 2012

Results for the year ending 31 December 2012 Announcement Early March 2013

## 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 6ZZ, telephone: 0870 702 0000, fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

## Amalgamation of shareholdings

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

## Dividend mandate

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

## Website

The Group has an internet website which gives information on the Group, its products and provides details of significant Group announcements. The address is [www.marshalls.co.uk](http://www.marshalls.co.uk).

## Financial History – Consolidated Group

	Year to December 2007*	Year to December 2008*	Year to December 2009*	Year to December 2010*	Year to December 2011
	£'000	£'000	£'000	£'000	£'000
<b>Consolidated Income Statement</b>					
Revenue	385,328	363,905	297,797	308,843	<b>334,127</b>
Net operating costs	(336,904)	(331,586)	(280,226)	(295,862)	<b>(317,430)</b>
Operating profit (before works closure costs, goodwill and intangible asset impairments)	48,424	32,319	17,571	12,981	<b>16,697</b>
Works closure costs, goodwill and intangible asset impairments	-	(26,989)	(7,217)	-	-
Operating profit	48,424	5,330	10,354	12,981	<b>16,697</b>
Financial income and expenses (net)	(6,707)	(8,154)	(4,303)	(2,558)	<b>(3,007)</b>
Redemption of debenture	-	-	(7,259)	-	-
Profit before tax (before works closure costs, goodwill and intangible asset impairments and redemption of debenture)	41,717	24,165	13,268	10,423	<b>13,690</b>
Profit/(loss) before tax	41,717	(2,824)	(1,208)	10,423	<b>13,690</b>
Income tax (expense)/credit	(11,736)	(2,171)	1,293	(2,202)	<b>(1,522)</b>
Profit/(loss) for the financial period before post tax loss of discontinued operations	29,981	(4,995)	85	8,221	<b>12,168</b>
Post tax loss of discontinued operations	270	(1,226)	(837)	(871)	<b>(4,912)</b>
Profit for the financial period	30,251	(6,221)	(752)	7,350	<b>7,256</b>
Profit for the period attributable to:					
Equity shareholders of the parent	30,251	(6,221)	(752)	7,350	<b>7,390</b>
Non-controlling interests	-	-	-	-	<b>(134)</b>
	30,251	(6,221)	(752)	7,350	<b>7,256</b>
<b>Financial Information</b>					
EBITA	48,964	6,050	11,110	14,414	<b>17,876</b>
EBITDA	69,758	27,275	29,632	31,937	<b>35,029</b>
EBITA before works closure costs, goodwill and intangible asset impairments	48,964	33,039**	18,327**	14,414	<b>17,876</b>
EBITDA before works closure costs, goodwill and intangible asset impairments	69,758	54,264**	36,849**	31,937	<b>35,029</b>
Earnings per share (pence) ***					
Basic: (continuing operations)	18.85	(3.20)	0.05	4.21	<b>6.30</b>
Basic: (total operations)	19.02	(3.98)	(0.42)	3.76	<b>3.78</b>
Basic: (continuing operations before works closure costs, goodwill and intangible asset impairments and redemption of debenture)	18.85	11.16**	5.85**	4.21	<b>6.30</b>
Dividends per share (pence) - IFRS ***	11.98	12.38	3.05	5.25	<b>5.25</b>
Dividend cover (times) - IFRS (continuing)	1.57	0.90**	1.92**	0.80	<b>1.20</b>
Dividends per share (pence) - Traditional ***	12.38	5.37	5.25	5.25	<b>5.25</b>
Dividend cover (times) - Traditional (continuing)	1.52	2.08**	1.11**	0.80	<b>1.20</b>
Year end share price (pence)	241.0	90.0	86.0	104.8	<b>90.5</b>
Tax rate (%)	28.1	27.8**	20.8**	21.1	<b>11.1</b>

\* the comparatives have been restated in respect of discontinued operations

\*\* before works closure costs, goodwill and intangible asset impairments and redemption of debenture

\*\*\* earnings and dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue

	2007	2008	2009	2010	2011
	£'000	£'000	£'000	£'000	£'000
<b>Consolidated Balance Sheet</b>					
Non-current assets	276,515	277,615	256,943	236,906	<b>249,271</b>
Current assets	134,004	122,577	122,737	113,610	<b>128,640</b>
Total assets	410,519	400,192	379,680	350,516	<b>377,911</b>
Current liabilities	(104,020)	(89,064)	(77,132)	(94,616)	<b>(88,550)</b>
Non-current liabilities	(105,858)	(117,891)	(121,449)	(57,660)	<b>(83,297)</b>
Net assets	200,641	193,237	181,099	198,240	<b>206,064</b>
Net borrowings	(96,926)	(111,330)	(69,156)	(66,841)	<b>(77,101)</b>
Gearing ratio	48.3%	57.6%	38.2%	33.7%	<b>37.4%</b>



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