

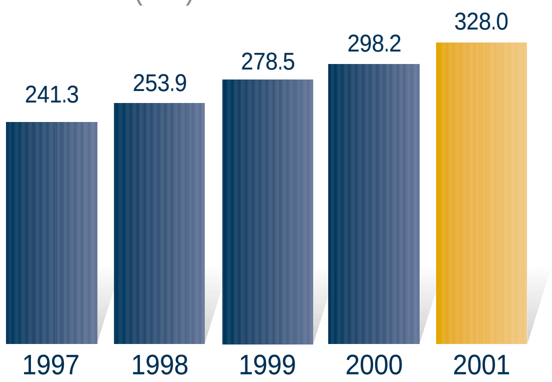
ANNUAL REPORT 2001

Marshalls

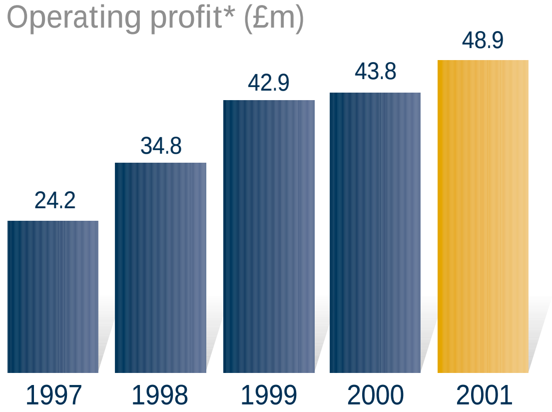
Natural Stone, Greenmoor Tumbled Setts

FINANCIAL HIGHLIGHTS

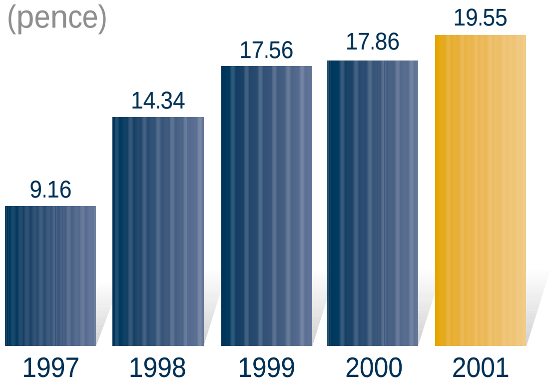
Turnover (£m)



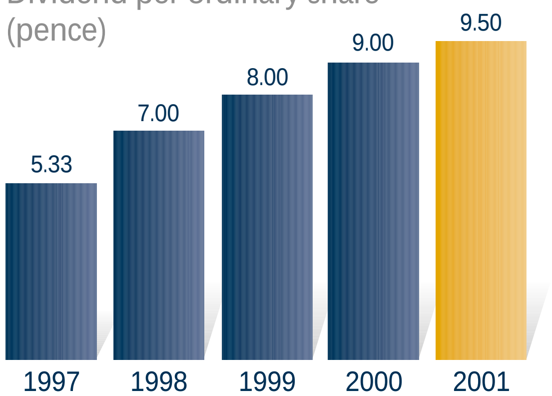
Operating profit* (£m)



Adjusted basic earnings per share (pence)



Dividend per ordinary share (pence)



** before operating exceptional costs and goodwill amortisation*

CORPORATE OBJECTIVES

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

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

Temple Quays, Bristol

PROFILE

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

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

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

GlaxoSmithKline, London

CONTENTS

CHAIRMAN'S STATEMENT

We experienced strong trading conditions throughout the second half and, as a result ended the year with sales of £328.0 million, 10.0 per cent ahead of 2000. All three Divisions, Landscape Products, Clay Products and Emerging Businesses, achieved sales growth substantially ahead of that reported at the half year.

At the time of our Interim results we indicated that the anticipated improvement in operating profit for the year would be concentrated in the second half. While Group operating profit before exceptional costs and goodwill amortisation in the first six months was marginally lower than the comparable period in 2000, the full year figure was well ahead of last year, at £48.9 million, an increase of 11.6 per cent.

In 2000, we reported a large exceptional profit of £2.7 million from the sale of surplus land. In 2001 exceptional profits from property disposals, which do vary from year to year, amounted to only £0.3 million. This, together with exceptional reorganisation costs, goodwill amortisation, and the write-off of pre-paid insurance premiums and irrecoverable insurance claims of nearly £1 million following the collapse of Independent Insurance PLC, (reported to shareholders in our Interim Report), reduced the amount of the increase in the profit on ordinary activities before interest. Nevertheless, the profit of £45.7 million was 2.3 per cent above 2000.

Opposite page: Millennium Bridge, Newcastle Upon Tyne

Landscape Products Division

This Division, which represents 75 per cent of Group turnover, achieved sales of £247.6 million for the year, 9.3 per cent ahead of 2000. The pent up demand that spilled over from the first half, especially in the domestic sector, came through strongly right up to the year end. After reporting interim operating profits similar to the first half of 2000, the improvement in the second half enabled us to meet our target for the full year.

Clay Products Division

The Division also experienced stronger sales growth in the second half and ended the year with sales of £29.4 million, 4.7 per cent ahead of 2000, whereas Industry brick volumes declined again this year by about 2.3 per cent. Despite the pricing pressure caused by this decline, operating profit was ahead of 2000 due to further benefits from our profit improvement programme.

Temple Quays, Bristol

Emerging Businesses Division

The Division had the benefit of a second half contribution from Stancliffe Stone, acquired in June 2001, and therefore ended the year with sales of £51.1 million, an increase of 16.9 per cent over 2000.

We announced in our Interim Report that the operating profit before exceptional costs and goodwill amortisation had fallen by nearly 15.0 per cent compared with last year, due to a decline in our Natural Stone and Drainage businesses. While the situation improved somewhat in the second six months it was not possible to make up the shortfall in first half profits. However, taking into account the contribution from Stancliffe Stone, operating profit at this level ended the year at £7.1 million, 2.7 per cent ahead of last year.

Old Mill Brick and Clay Cobbles

Natural Stone, Haworth Moor Paving

Balance Sheet

The Group balance sheet remains exceptionally strong. Cash inflow from operating activities amounted to £70.7 million, an increase of 46.5 per cent. During the year we acquired Stancliffe Stone for a total consideration of £10.4 million. In addition the Group investment in capital expenditure was £31.3 million. Extra working capital was also needed to fund the growth in the business and our acquisitions. Despite this we ended the year with net borrowings of £12.9 million (2000: £8.8 million) which represents gearing of 6.3 per cent. This was achieved because of our very good financial controls throughout the Group, and the cash generative nature of the business.

Dividend

The Board has decided to recommend a final dividend of 6.35p (2000: 6.00p) per ordinary share making a total of 9.50p (2000: 9.00p) for the year, an increase of 5.6 per cent compared with 2000. The dividend will be paid on 1 July 2002 to shareholders on the register on 31 May 2002. The ex-dividend date will be 29 May 2002.

Clay Cobbles

Outlook

The level of demand for our products remains strong, and in recent months there has been a noticeable increase in the number of commercial and public sector enquiries. We are seeing the first signs of an improvement in construction industry activity arising from Government spending plans. The strong demand in the domestic part of the business has continued into 2002 with trading in the first two months of this financial year significantly ahead of the same period last year.

The Landscape Products Division has had supply agreements with the three major builders merchant groups for the past three years. These agreements were due for renewal and were therefore the subject of renegotiation towards the end of the year. New agreements have been concluded, subject to formal Board ratification on both sides.

We remain confident of the prospects for 2002 and, as a financially prudent business, take comfort in the added security that our low level of gearing provides.

These results are due to the excellent efforts of my fellow Directors, our managers and our employees throughout the Group. Their efforts are much appreciated by the Board on whose behalf I express sincere thanks.

Christopher Burnett
Executive Chairman

Tegula Drivesett and Keykerb

LANDSCAPE PRODUCTS DIVISION

Sales reached £247.6 million (2000: £226.4 million) for the year, an increase of 9.3 per cent. Operating profit before exceptional costs and goodwill amortisation was a record £36.8 million (2000: £32.2 million), an improvement of 14.1 per cent.

A sluggish first half, due entirely to the widespread flooding across the UK, meant that results for the first six months were just ahead of 2000. We told shareholders at the time of the interim announcement that the full year improvement in profits would be biased towards the second half. Sales in the second half were £117.7 million (2000: £103.1 million), an increase of 14.1 per cent, and operating profit before exceptional costs and goodwill amortisation was £15.5 million (2000: £11.2 million), an improvement of 38.4 per cent.

Besides the boost to the second half from pent up consumer demand, three other factors contributed to this very pleasing result: greater investment in marketing; improved service to customers via our Service Centres; and further gains in efficiency resulting from capital investment and better working practices.

We have increased our direct communication with the consumer through more advertising, an enhanced Marshalls web site and a new aspirational product catalogue. The Marshalls Register of approved driveway and patio installers also continued to expand, helped by a scheme introduced to train more installers. The ten year guarantee of product and workmanship we offer consumers is growing in popularity, and we are delighted with the positive feedback they are providing.

Eleven Service Centres are now in operation, capable of supplying builders merchant customers nationally, with a comprehensive range of Marshalls products in mixed loads.

Firenza Lozenge and Tile

Heritage Paving

Another Service Centre will open in the second quarter of 2002, and in 2003 we will begin the development of a major new site in Central Southern England. The importance of the Service Centre concept is demonstrated by the fact that the established Service Centres in total produced growth 3.5 per cent higher than our other sites. The strongest performance came from the three Service Centres that have been open for more than one year.

Capital investment in the Division reached £23.9 million this year. Some of this was for additional capacity to meet the growing demand for our products, but we continue to also invest in projects to improve the efficiency of our existing plant and equipment.

Outlook

There is no doubt that consumer demand for driveway, garden and patio products continues to grow. The 2002 catalogue 'At home with Marshalls' has just been published and its circulation will be backed by radio and press advertising. Our installers tell us that going into the new year they had a backlog of work. The outlook for the domestic side of the business is therefore very encouraging.

The commercial and public sector side of our business has also noticeably increased in the past few months. The significant growth in spending announced by the Government in all parts of the public sector through to 2004 will bring additional opportunities for Marshalls.

Woodstone Parquet Decking

Stonemarket, Trustone Glenmoor Paving and Rose Cottage Garden Bricks

The capital investment we made in 2001 will start to come on stream this year to provide the increased capacity we need to meet these growth prospects. The Division also has ambitious further investment plans in 2002. For all these reasons we expect to make further progress and deliver improved results in 2002.

Graham Holden
Chief Executive
Landscape Products Division

The 4.7 per cent increase in sales to £29.4 million (2000: £28.1 million) and 7.4 per cent increase in operating profit before exceptional costs represents a very creditable performance against the background of declining Industry volumes again this year, rising costs associated with higher gas prices, and the introduction of the Climate Change Levy.

These results are in stark contrast to most of our main competitors who have reported lower profits in 2001 and lower return on sales. That we were able to deliver this improvement in performance is due in the main to the continuing drive to lower the cost base of the business and find more operating efficiencies. A further reduction of 9.6 per cent in the numbers employed in the Division was achieved in 2001.

In last year's Annual Report we told shareholders of our plans to make available to customers a number of brick products via the Landscape Products Division's Service Centres. This would enable builders merchants to purchase smaller quantities of standard bricks for immediate delivery when ordering other landscape products. The customers welcomed this additional service, and the contribution to sales from this new activity, unique to Marshalls, is growing well.

There were a number of Industry developments during the year, and into the early part of 2002, that should bring better trading conditions. These include capacity reduction and the merging of two brick manufacturers of similar size to Marshalls. There has also been an acceptance by customers that the increase in production costs for reasons outside our control requires prices to rise, thereby allowing these costs to be passed through to the market.

Thames Valley Park, Reading

Outlook

The expectation is that the brick market will remain challenging in the coming year. Some of the increase in Government spending, on public housing and other similar projects should benefit the brick sector. It would be wrong to assume though that the decline in Industry volumes that have occurred almost annually since 1973 is going to be easily reversed. Industry brick stocks have, however, fallen and this has to be helpful in trying to ensure that the prices we obtain reflect our true costs.

EMERGING BUSINESSES DIVISION

This Division comprises smaller but important Group businesses.

Sales in the year amounted to £51.1 million (2000: £43.7 million) a rise of 16.9 per cent compared with 2000. However, this increase included a full year contribution from a new business activity in Street Furniture and a contribution from a new Natural Stone business which was not part of the Group last year. On a like for like basis sales increased by 4.0 per cent.

Operating profit before exceptional costs and goodwill amortisation at £7.1 million (2000: £6.9 million) was 2.7 per cent ahead. Again, if the contributions from the two new businesses are excluded operating profit is 9.4 per cent lower.

At the half year we informed shareholders that the reason for the decline in profit from the Division was due to Natural Stone being unable to match the volume of business achieved in millennium year, and Drainage Products being held back by lack of activity in the Government's road programme. While the situation improved somewhat in the second half it was not possible to make up fully the 15.0 per cent shortfall at the half year.

Natural Stone, Covent Garden

Natural Stone

The Natural Stone business includes many types of stone products for the domestic, commercial and public sector markets, including granite and our traditional Yorkstone. In June 2001 we acquired Stancliffe Stone another natural stone, walling and paving business for a total consideration of £10.4 million.

Sales were 22.3 per cent ahead of last year, but excluding the acquisition, down by 3.6 per cent. The decline in the core business is only temporary, and we fully expect to reverse the position in the new financial year. We have also been investing in new plant to improve efficiency, and will obtain the benefit in 2002.

Flooring

The business that manufactures precast flooring systems mostly for new houses also provides all the other precast components a builder might need such as stairs, landings, balconies and other specially designed items. Sales grew by 7.5 per cent in the year despite the total number of new houses built in the UK being very similar to 2000.

Drainage Products

The Drainage Products business supplies linear drainage for use in road building as well as for commercial and domestic landscaping schemes. At the half year sales were behind last year, due to a lack of activity in the road building programme. However, business picked up in the second half and we ended the year with sales 15.0 per cent ahead of 2000.

Street Furniture

The Street Furniture business consists of our own manufactured concrete products supplemented by a wide range of factored products. It had the full year benefit of an acquisition we made in October 2000 that sells mainly telescopic bollards used for security purposes in both the domestic and commercial markets. As a result street furniture sales increased by 57.1 per cent in the year.

Classical Flagstones, Classical York Flagstones

Stancliffe Stone, Bank of England, Manchester

Classical Flagstones

The aspirational ranges of high quality flagstones produced by this business are sold mainly to the domestic market for internal flooring in hallways and kitchens. The business achieved sales growth of 4.8 per cent this year. We are, however, looking for more substantial growth to take advantage of the capacity of the new manufacturing plant we installed in 2000.

Outlook

The objective of this Division is to grow the individual businesses organically and through acquisition to the point where they can become a Division in their own right. Natural Stone has reached that point while others still have some way to go. In order to meet our objectives much work is ongoing to refine the strategies of each business and to improve their efficiency and management. All of this will have the effect of increasing their value to shareholders. The prospects for the Division in 2002 are encouraging in terms of achieving further growth.

FINANCIAL REVIEW

2001 was another record year with profits attributable to ordinary shareholders exceeding £30.0 million for the first time and dividends to ordinary shareholders increased to 9.50p per share. The key financial highlights are summarised below.

Saxon Paving

Group Results

Turnover achieved a record £328.0 million (2000: £298.2 million) an increase of 10.0 per cent above the prior year. Organic growth in turnover added 7.9 per cent and additional turnover from acquisitions added 2.1 per cent.

Operating profit before exceptional reorganisation and insurance costs and goodwill amortisation at £48.9 million (2000: £43.8 million) increased by 11.6 per cent compared to the prior year. Organic growth at this profit level added 9.2 per cent and acquisitions added a further 2.4 per cent.

Operating exceptional reorganisation costs incurred primarily related to redundancy costs at £1.3 million and costs arising on acquisitions at £0.3 million. Operating exceptional insurance costs at £0.9 million relate to pre-paid insurance premiums, unpaid insurance claims receivable and associated costs arising from the collapse of Independent Insurance PLC.

Goodwill amortisation has increased due to new acquisitions in the year and a full year charge incurred on acquisitions made during the prior year.

Operating profit at £45.3 million (2000: £41.9 million) increased by 8.2 per cent.

Gains on disposals of properties were low in 2001 compared with the large non-operating exceptional gain recorded in the previous year. This reflects the irregular nature of such non-operating profits.

Net interest costs at £2.9 million (2000: £2.8 million) are covered 15.5 times (2000: 16.1 times).

Profit on ordinary activities before taxation at £42.7 million (2000: £41.9 million) increased by 2.0 per cent.

Taxation

The taxation charge for 2001 was £12.5 million (2000: £11.7 million) an effective tax rate of 29.3 per cent (2000: 28.0 per cent). Capital allowances in excess of depreciation principally account for the reduction below the standard rate.

Preference Dividends

The preference dividend charge at £0.2 million (2000: £2.4 million) is substantially lower in 2001 due to the conversion on 1 October 2000 of 44.8 million convertible cumulative redeemable preference shares into 32.3 million new ordinary shares. The ordinary dividend value is therefore correspondingly higher.

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

Ordinary Dividends

An interim dividend of 3.15p (2000: 3.00p) per share was paid on 3 December 2001. A final dividend of 6.35p (2000: 6.00p) per share is now being recommended for payment on 1 July 2002. This gives a total of 9.50p (2000: 9.00p) per share for the year, an increase of 5.6 per cent over 2000. Dividend is covered 1.9 times (2000: 2.0 times).

Earnings per Share

The calculations of the basic, diluted and adjusted basic earnings per share are set out in Note 10 to the financial statements in accordance with FRS14. The adjusted basic earnings per share is shown as it is considered to be more representative of operational performance and amounts to 19.55p (2000: 17.86p) an increase of 9.5 per cent.

Balance Sheet

The balance sheet continues to strengthen with net assets increasing to £205.6 million (2000: £190.8 million). Net assets per share at the year end amount to £1.23 per share (2000: £1.14 per share).

A transfer has been made in Marshalls plc from the merger reserve to the profit and loss account to reflect the realisation of the merger reserve associated with previous disposals and to reflect the impairment of the investment in George Armitage & Sons plc acquired by Marshalls plc in 1988.

Cash Flow and Borrowings

Cash inflow from operating activities amounted to £70.7million (£48.3 million) an increase of 46.5 per cent. The Group ended the year with net borrowings of £12.9 million (2000: £8.8 million). Details of the cash movements are included in the cash flow statement on page 36. Gearing at the year end is 6.3 per cent (2000: 4.6 per cent).

Included in the capital structure is a £20.0 million fixed rate debenture raised in 1989 at 11.375 per cent that matures in 2014. This debenture can only be redeemed early by payment of a premium linked to the gross redemption yield on 12 per cent Exchequer Stock 2013/2017. Further details are included in Note 18 on pages 47 and 48.

Capital Expenditure

Significant capital investment of £31.3 million (2000: £22.5 million) has been re-invested into the business. Major projects included further investment in garden and patio products capacity and the initial investment in a new Service Centre for Central Southern England. Capital expenditure is anticipated to be at a similar level in 2002.

Acquisitions

Acquisition investments amounted to £12.2 million (2000: £2.0 million) and primarily related to Stancliffe Stone, a natural stone, walling and paving business, for £10.4 million including costs, and Town & Country, a landscape concrete paving business, for £1.7 million. In accordance with FRS10 *"Goodwill and Intangible Assets"*, goodwill of £7.2 million is included in the balance sheet. This will be written off over 20 years.

Accounting Standards

The financial statements for the year reflect the adoption of two new accounting standards.

Financial Reporting Standard 17 *"Retirement Benefits"*, requires additional disclosures in 2001 particularly in respect of defined benefit pension schemes. The Group has followed the permitted transitional arrangements and these will increase disclosure in 2002 and will require full disclosure and adoption in 2003. The FRS 17 disclosures are set out in Note 29 on pages 56 and 57 of the Financial Statements.

Financial Reporting Standard 18 *"Accounting Policies"*, is mandatory for these financial statements and the Group has complied fully with the requirements. The effect on our financial statements is considered minimal.

Financial Reporting Standard 19 *"Deferred Tax"*, is not mandatory until our financial year 2002. The impact on the Group is currently being evaluated.

Financing and Risk Management

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

The Group enters into derivatives transactions, principally forward foreign currency contracts of relatively small value. The purpose of such transactions is to manage the currency risks arising from the Group's operations.

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these are summarised in Note 19 on pages 48 to 50 of the Financial Statements. These policies have remained unchanged since 2000.

Total Shareholder Return

At 1 January 1999 the ordinary share price was 133.5p per share. By 31 December 2001 this had improved to 239.5p per share. When dividends are included this gives an annualised total shareholder return of 26.0 per cent over a 3 year performance period. The median for building materials companies in the comparator group with a stock market capitalisation of more than £50.0 million was 14.3 per cent.

Ian Burrell
Finance Director

Old Mill Brick and Heritage Old Yorkstone

DIRECTORS BIOGRAPHICAL NOTES

Christopher Burnett (60)

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

John Marshall (57)

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

Graham Holden (42)

Chief Executive of the Landscape Division. Joined the Company in 1986 and was appointed to the Board in 1992. He is a Chartered Accountant and was previously Finance Director and Chief Executive of the Emerging Businesses Division.

Ian Burrell (44)

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

John Footman (64) *†

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

Dick Barfield (55) *†

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

Mike Stacey (63) *†

Non-Executive Director. Appointed on 1 January 2000. Mr Stacey is Non-Executive Chairman of Meggitt Plc having retired as Chief Executive. He is also Non-Executive Chairman of The McKechnie Group and a Director of The Vitec Group Plc.

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

ADVISERS

Stockbrokers

HSBC Investment Bank Plc

Auditors

KPMG Audit Plc

Legal Advisers

Herbert Smith
Eversheds

Financial Advisers

N M Rothschild & Sons Limited

Bankers

Royal Bank of Scotland plc

Registrars

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

Shareholders' enquiries should be addressed to the Registrars at the above address (Tel: 0870 702 0001)

Registered Office

Birkby Grange
Birkby Hall Road
Huddersfield HD2 2YA
Telephone: 01422 306000
Facsimile: 01484 438945
Internet address: www.marshalls.co.uk

Registered in England and Wales: No. 481574

CORPORATE SOCIAL RESPONSIBILITY

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

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

Statement of Values and Principles

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

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

Health and Safety

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

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

The Board monitors the Group's accident statistics on a monthly basis. Progress has been made this year in all operating divisions with reductions achieved in both the number of lost time accidents and HSE Reportables.

Employees

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

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

Natural Stone, Bridgewater Hall, Manchester

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

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

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

Community

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

During the year, the Group made charitable donations of £15,610 (2000: £25,500). It is the Group's policy not to make political donations and no political donations were made in the year (2000: £Nil).

ENVIRONMENTAL STATEMENT

Environmental Policy

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

Regulations

The Clay Products Division has introduced exhaust gas purification units on all its kiln exhausts in accordance with The Environmental Protection Act 1990. The discharge from the units is tested on an ongoing basis by Local Authorities.

Clay Products have agreed Climate Change Levy targets with the Department of Environment. Monitoring of the kiln energy requirements is ongoing so that the progress towards the energy reduction, needed to meet the Climate Change Levy, can be tracked.

Environmental Management

The Group has a policy of introducing Environment Management Systems ("EMS") at its plants, to monitor environmental performance, set targets for continuous improvement and manage the potential risks its operations might pose to the environment. Marshalls has a Central Team that works with local site management in the Landscape Products, Clay Products and Emerging Businesses Divisions to support the implementation of the systems. Four of the larger Landscape Division manufacturing units have systems certified to ISO 14001.

To ensure maximum benefit from the EMS, it is the Group's policy to combine them with Quality Systems to ISO 9002 and Health and Safety Systems to OHAS 18001 in an Integrated Management System ("IMS") approach. During 2001 external consultants were appointed to advise the Group on two pilot projects at Natural Stone and Stonemarket. Introduction of the IMS is proceeding according to plan at these sites. In 2002, work will commence on providing IMS on four sites, which already have ISO 9002 and ISO 14001 registration and four sites which at present only have ISO 9002 registration.

A programme for the roll out of IMS has been prepared, covering the thirty five sites operated by the Group, with the aim of completing implementation during 2007. By early 2003, it is planned to have over 30 per cent of the Group's production capacity covered by IMS spread across all Divisions.

The EMS covers 5 main areas:

1. A centrally controlled guidance document, giving details of the Company structure and responsibilities, Environmental Policy and links with other parts of the IMS.

2. A centrally controlled set of management procedures covering areas such as training, internal and external communication, registry requirements and the method by which sites are required to evaluate environmental aspects and impacts. Setting of objectives and targets, and internal audit and management review are also conducted centrally.

3. Operating procedures developed by the individual sites to manage the significant environmental aspects and impacts of their particular operations. Such procedures cover abnormal and emergency situations and other aspects that occur during operations.

4. A manual covering relevant legal and regulatory requirements is prepared centrally and distributed to the sites who are then responsible for assessing compliance with it and other legal requirements, such as planning permissions, discharge consents, abstraction licences and mineral consents.

5. Clearly defined targets for continuous improvements are set with Divisional requirements for Key Performance Indicators for all sites within the Group, and local Key Performance Indicators as agreed with local management. The Key Performance Indicators decided on a Divisional basis are used to measure significant issues such as the percentage of waste product recycled, the amount of CO_2 produced per tonne of product sold, reduction in the use of hydraulic oils, the amount of mains water used, water recycled or discharged from sites and the weight of packaging utilised per tonne of product sold.

Where the Company is registered for ISO 14001, the third party certification is through BSI. BSI carries out audits of the system on a six monthly cycle. Internal audits are also carried out at six monthly intervals.

As part of the roll out programme of the IMS, all sites are encouraged to improve their environmental performance and care has been taken to ensure each geographical region has a lead site, so that other sites in the same region can learn and develop their own systems based upon the lead site's example.

Key Environmental Aspects

A key environmental impact in the concrete producing plants in both the Landscape Products Division and the Emerging Businesses Division is the use of water.

At present, the majority of sites depend upon mains water for their supply. A pilot project is being undertaken with external consultants to examine the feasibility of establishing a water balance, by collecting rain water from the factory stacking area and combining it with recycled water from the manufacturing process, to minimise, except in periods of limited rainfall, the use of mains water supply. At other sites, process water is recycled to supplement mains water intake. At present three methods of recycling are utilised depending upon the chemical composition of the process effluent, with, again, an active programme involving external consultants to ascertain the most cost effective method of recycling to minimise the environmental impact of having to discharge water from site.

A programme has been implemented to, wherever possible, connect sites to mains sewers. Where this is not possible, water is treated by either acid dosing, or CO_2 dosing to bring the pH readings to the requirements of the discharge consents. During 2001 there have been two cases where water discharges have not met with the discharge consents. In both cases corrective action plans have been put in place to address the problem. The Group has a policy of testing water from all discharge outlets on a monthly basis, the testing being carried out by an independent laboratory. The results are monitored to allow comparison between differing units and to develop the most appropriate methods for treating discharges.

Use of Energy

Manufacturing of building materials within the Group is energy intensive, particularly within the Clay Products Division.

Consumption of all types of energy is monitored and energy monitoring equipment, based on individual machine performance, has been installed at all the clay manufacturing units and some of the concrete manufacturing units with roll out planned across the Group.

Within the Clay Products Division two sites are utilising landfill gas to reduce the use of fossil fuels.

In 2001, the Clay Products Division gained an award from the Institute of Energy for its achievements in energy efficiency. Known as the Energy Efficiency Accreditation Award, it provides an independent assessment of both the energy management systems in use as well as results achieved.

Generation of Wastes

Generation of waste within the Group is carefully monitored, with particular emphasis on the recycling of any waste product produced. Three waste streams have been identified:

1. Waste product which can be recycled back into the manufacturing process, utilised within the Group for another purpose, or used externally as a raw material.

2. Special waste including oils, beads from the exhaust gas purification units, batteries and absorbent material contaminated following its use in containing spills.

3. Non special waste including packaging, paper and general factory and office waste.

Wherever possible the differing materials are sorted on site and then removed by third parties for reprocessing or recycling. Local initiatives in these areas are encouraged.

Land Management

The development of a site has an impact on the local environment and the Group ensures it complies with planning permissions and mineral consents for such operations. Where sites are no longer required, they are prepared for development before sale. For example, a Landscape Products Division redundant site at Norton, is now a housing development making full use of a "brown site".

Packaging

The volume of packaging used by the Group and each individual site is recorded. This data is included in returns the Group make to Valpak, under the Packaging Waste Regulations 1997.

As many of the Group's products are sold through Builders Merchants, they need to be packaged in such a manner as to allow ease of break down within the Builders Merchants depot. Experience and consultation has indicated non-returnable wooden pallets provide the best method upon which to base the packaging, although for certain products, polythene packaging without a pallet is sufficient. In order to address the problem of packaging, to find the optimum solution between customer and end user requirements, and environmental impact, a survey of customers has been undertaken by a Packaging Review Team which has nearly completed its study. The team will be making recommendations regarding future packaging requirements within the Group.

Transport

All of the Group's products are despatched from our works by road, with 16 per cent being transported by our own fleet. The remainder is dispatched by contract hauliers or collected by our customers or their contractors from our Service Centres.

The Service Centre concept and our Regional Production Policy minimises transport distances thereby reducing environmental impact. Additional regional production capacity has been introduced during 2001 to again reduce haulage distances.

Stonemarket, Millstone Flags

Training

Environmental training is undertaken across the Group, with particular emphasis on the sites preparing for IMS registration. During 2001, environmental training courses, including one day introductory courses and three day environmental courses were undertaken. Our assessors, BSI, carried out the training, with the courses being tailored to meet Marshalls particular needs.

Environmental Impact of Products

The Group has worked with trade organisations such as The British Precast Concrete Federation, The Precast Flooring Federation, The Brick Development Association and The Natural Stone Federation to review the life cycle impact of its products in conjunction with whole life costing. The Group has worked both through trade organisations and direct with The Centre for Sustainability at The Building Research Establishment and with The Whole Life Costing Forum.

The Group's products are intended for a long life with low maintenance, with some products having a life well in excess of 100 years. Over such a period, their initial environmental impact during the production process is minimal and almost all of the Group's products can be easily recycled at the end of their useful life, either, in new construction or, when crushed, as a secondary aggregate.

To aid in this process, the Group is actively investigating several waste streams to use recycled aggregates in its production process, examples being, steel slag, rubber crumb and ground glass, as an alternative to prime aggregate.

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and Financial Statements for the year ended 31 December 2001.

Principal Activities and Business Review

The principal activities of the Group are the manufacture and supply of specialist landscape, clay and stone products. Further details of the principal activities of the Group are set out in Note 30 on page 58.

The Chairman's Statement on pages 5 to 7 and the Operating and Financial Reviews on pages 8 to 16 contain a review of these activities.

Group Results

The Group profit and loss account for the year ended 31 December 2001 is shown on page 34. An analysis of the operating profit by activity is shown in Note 2 on page 40 of the Financial Statements.

Dividends

The Board is recommending a final dividend of 6.35p per share (2000: 6.00p) which, together with the interim dividend of 3.15p (2000: 3.00p) per share, makes a total for the year ended 31 December 2001 of 9.50p (2000: 9.00p) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 1 July 2002 to shareholders registered at the close of business on 31 May 2002.

Share Capital

Details of the share capital and allotments during the year which arose solely from the exercise of options are set out in Note 21 on pages 50 to 52. Details of outstanding options under Employee Share Schemes are set out in Note 21 on page 52.

Acquisitions

In June 2001, Marshalls plc acquired the issued share capital of Stancliffe Stone Co. Limited, a natural stone, walling and paving business and, in July 2001, Stonemarket Limited acquired the business and assets of Town & Country Paving Limited, a concrete paving manufacturer.

Payment to Suppliers

The Group follows the CBI's prompt payment code and operates and abides by a clearly defined payment policy which has been agreed with all major suppliers. The Group's creditor payment period at 31 December 2001 was 35 days (2000: 38 days).

Fixed Assets

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

Development Expenditure

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

Directors

The names of the Directors as at the date of this report together with biographical details are set out on page 17. They comprised the Board for the whole of the year under review except that Mr J.G. Aspdin resigned as a Director on his retirement from the Company on 16 May 2001 and Mr I.D. Burrell was appointed a Director on 1 June 2001.

Mr R.B. Illingworth resigned as a Director on 18 February 2002.

In accordance with the Articles of Association, Mr D.G. Holden and Mr R.A. Barfield retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr I.D. Burrell, being appointed since the last Annual General Meeting, offers himself for election.

Mr I.D. Burrell and Mr D.G. Holden have service contracts which provide for twelve months' notice of termination by the Company.

Full details of Directors' remuneration, interests in the share capital of the Company and of their share options are set out on pages 28 to 32 in the Remuneration Report.

Substantial Shareholdings

As at 8 March 2001, the Company had been notified of the following substantial interests of 3 per cent or more in its ordinary issued share capital:

	%
CGNU plc	7.18
AXA S.A.	4.16
Standard Life Investments	3.15

Statement of Directors' Responsibilities

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

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

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

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 2.30pm on Wednesday 22 May 2002 together with explanatory notes on the resolutions to be proposed is contained in a circular to be sent to shareholders with this Report.

Auditors

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

By Order of the Board
Richard Monro
Company Secretary
8 March 2002

CORPORATE GOVERNANCE

Compliance

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

The Board considers that the Company has complied with the 14 Principles of Good Governance and Code of Best Practice (the "Combined Code") which are incorporated into the United Kingdom Listing Authority Listing Rules throughout the year ended 31 December 2001. The paragraphs below, together with the report on Directors' Remuneration set out on pages 28 to 32, describe how these principles are applied within Marshalls.

The Board

The Board is responsible for the overall direction, strategy, performance and management of Marshalls plc. It is comprised of four Executive Directors and three Non-Executive Directors. The Non-Executive Directors are considered to be independent within the meaning of Provision A3.2 of the Combined Code and represent a source of strong, independent advice and judgement. Mr J.W. Footman is the Senior Non-Executive Director. The management structure of the Group is an Executive Chairman, Finance Director and a Divisional Chief Executive for the Landscape Division which represents 75 per cent of Group turnover. In the circumstances, the Board believes this structure is appropriate for Marshalls at this stage of the Group's development.

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

The Directors are subject to election at the Annual General Meeting immediately following their appointment and to re-election every three years.

The Board meets ten times a year on a formal basis and is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. There is an agreed schedule of matters reserved to it for collective decision.

The Group is centralised in its management, decision making and financial control. The Board, at its meetings, reviews the financial results of all Group companies. A detailed annual budget and business plan is prepared for each operation in conjunction with local management, which is then compared in full detail with the monthly management financial statements. Executive Directors are required to comment on all areas where performance departs from current expectations. Any significant variances are discussed at Board level and appropriate action taken.

All Directors have access to the advice and services of the Company Secretary and there is an established procedure for all Directors to take independent legal advice in furtherance of their duties, if necessary, at the Company's expense.

Audit Committee

The Audit Committee meets at least three times a year, is comprised only of independent Non-Executive Directors and is chaired by Mr R.A. Barfield. The Audit Committee reviews the annual Financial Statements and the Interim and Preliminary Announcement prior to submission to the Board, compliance with accounting standards, the scope and extent of the external audit programme, and the appointment and remuneration of the Auditors. It also monitors the operation and effectiveness of the Group's internal controls. The Committee does not become involved in the day to day running of the business, which remains the responsibility of the Executive Directors.

The Company does not have an in-house internal audit function. Instead, it has concluded that it would be more effective for firms of external accountants (other than the Company's auditors) to carry out regular internal audit assignments. The results of this work are reported to the Audit Committee.

Remuneration Committee

The Remuneration Committee, is comprised only of independent Non-Executive Directors, meets at least twice a year and is chaired by Mr J.W. Footman. The Committee also carries out the functions of a Nomination Committee. The appointment of Directors is made by the Board through a formal process after considering the Committee's proposals. The report on Directors' Remuneration is set out on pages 28 to 32.

Relations with Shareholders

Communication with shareholders is given a high priority. Regular dialogue and presentations take place with institutional shareholders through the Company's investor relations programme. The Company values the views of its shareholders and is committed to ongoing communication with them through the Interim and Annual Reports. Shareholders are encouraged to question the Board at the Annual General Meeting on matters relating to the Company's business activities. In addition, corporate and customer information is available on the Company's website at: www.marshalls.co.uk.

Risk Management and Internal Control

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

There is an ongoing process for identifying, evaluating and managing the Group's significant risks through a Risk Committee which reports directly to the Board and which has been in place throughout the year ended 31 December 2001 and up to the date of this report.

The Committee is responsible for identifying, evaluating and managing any material risks which might threaten the Group's business objectives. In undertaking this work, it receives quarterly business reviews from each business unit, and an annual risk assessment carried out by the head of each business unit. From this information, the Committee has compiled a Register which identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have. From this assessment, action programmes have been agreed to manage those risks to the desired level. The process is regularly reviewed by the Board and it accords with the internal control guidance for Directors in the Combined Code.

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

The Board has carried out an annual assessment of the Group's risk management and internal control system for the year to 31 December 2001 by considering reports from both the Audit Committee and the Risk Committee and are of the opinion that a proper system of internal control is in place within the Group.

Going Concern

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

DIRECTORS' REMUNERATION REPORT

The Remuneration Committee is responsible for determining the salary and benefits received by Executive Directors and for overseeing the remuneration of other Senior Executives. The Committee gives full consideration to the requirements set out in Schedule A of the Combined Code.

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

The fees payable to Non-Executive Directors are determined by the Board.

General Policy

The Remuneration Committee seeks to ensure that remuneration packages are competitive enough to attract, retain and motivate Executive Directors and Senior Executives of the right calibre. It is advised by independent consultants and uses data from external research into the salaries and benefits paid by companies of a similar size and business. In reviewing Directors' salaries, consideration is given to the levels of increase granted to other employees within the Group. Basic salaries are reviewed annually or when a change of responsibility occurs.

Annual Performance Bonus

Each Executive Director has the opportunity to receive an annual performance bonus if challenging Group and individual Division targets are met. The Committee resets these targets each financial year, and payments are only made based on performance which results in significant benefits for shareholders. The maximum bonus for 2001 was 50.0 per cent of base salary. Payments were generated as a result of the performance of the Landscape and Clay Divisions. Bonus payments do not form part of salary for pension purposes.

Pensions

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

The Finance Director, Mr I.D. Burrell, is a member of the Group's Defined Contribution Pension Scheme. The Company makes a contribution of 11.0 per cent of Mr I.D. Burrell's base salary and Mr I.D. Burrell is required to make a minimum contribution of 3.0 per cent of his base salary or an amount up to the level of the earnings cap. The Defined Contribution Scheme provides a lump sum death in service benefit.

Service Contracts

The Chairman, at his insistence, does not have a service contract. The other Executive Directors have service contracts which are terminable by the Company on not more than twelve months' notice and by the Director on six months' notice. The Non-Executive Directors do not have service contracts. Their appointments are regulated by letters of appointment and each appointment is subject to review every three years.

Long Term Incentive Plan

A long term incentive plan ("the Plan") was introduced in 1998 for the Executive Directors (except the Chairman). It is designed to encourage improvement in the Group's performance over the longer term. To align the interests of participants with those of the shareholders, the Plan is based on share, rather than cash, benefits. Any awards under the Plan are not pensionable.

Each year, subject to the approval of the Committee, a conditional award is made and performance measures are set and a three year qualification period then commences. For the 1999, 2000 and 2001 awards, the three year performance target set was Marshalls' total shareholder return (share value growth assuming re-investment of gross dividends) over the period measured against a comparator group of companies from the construction and building materials sector with market capitalisations of £50.0 million and above.

An award only vests in full if the Company is ranked in the top quartile of the comparator group. The 50.0 per cent award vests if the Company is ranked at median, and pro-rata between these two points. Marshalls earnings per share must also have increased by RPI plus 6.0 per cent over the three year period.

In order to emphasise the long term nature of the Plan, after vesting, a participant will normally have to wait for a further two years before being able to call for the shares.

The value of each initial conditional award is a percentage of the participant's basic salary. For the 1999, 2000 and 2001 awards, it was 50.0 per cent. If the Company's share price at the end of the three year period reaches a predetermined level set by the Committee, which for the 1999, 2000 and 2001 Awards is 280p, 380p and 380p respectively, the Executive Directors receive twice the allotted shares.

For the 1999 plan, the Company's total shareholder return was ranked in the top quartile and the earnings per share performance criteria was also met. This will mean that the initial conditional award for that year will vest in full on 8 March 2002 at the end of the three year period. In addition, the Company's share price on 8 March 2002, the finish date for the 1999 plan, was 289.0p which was above both the predetermined level of 280.0p set by the Remuneration Committee at the start of the performance period and the price of 133.5p on 1 January 1999 and therefore, in accordance with the rules of the plan, an additional award equal to the initial conditional award has also vested.

Executive Share Option Scheme

Options have been granted during the year under the Executive Share Option Scheme to Mr I.D. Burrell, Mr D.G. Holden and Mr R.B. Illingworth details of which are included in the Directors' Interests Share Option table on page 31. These options are only exercisable provided that, in the period from the date of grant to exercise of the option, the Company's share price has outperformed the FTSE All Share Index and earnings per share have increased by more than the Retail Price Index.

Directors' Remuneration

	Salary/ Fees	Performance Related Bonus	Benefits	Total remuneration (excluding pensions) 2001	2000
	£'000	£'000	£'000	£'000	£'000
Executive Chairman					
C.T. Burnett	225	88	15	328	230
Executive Directors					
J.G. Aspdin (retired 16/05/01)	38	–	5	43	101
I.D. Burrell (appointed 01/06/01)	70	27	64	161	–
D.G. Holden	167	83	12	262	160
R.B. Illingworth (resigned 18/02/02)	127	13	10	150	134
J.D. Marshall	122	–	13	135	140
P.D. Marshall (resigned 06/11/00)	-	-	-	-	*261
Non-Executive Directors					
R.A. Barfield	25	–	–	25	25
J.W. Footman	25	–	–	25	25
M.A. Stacey	25	–	–	25	25
	824	211	119	1,154	1,101

Notes to Directors' Remuneration

* Includes additional compensation of £148,100 paid to Mr P.D. Marshall following the termination of his employment on 6 November 2000.

(a) The salaries, fees, performance related bonuses and benefits all relate to the year ended 31 December 2001.

(b) Benefits are the provision of a fully expensed company car and medical insurance with the exception of Mr I.D. Burrell which include £58,000 in respect of relocation assistance provided on him joining the Company.

(c) The Company made a pension contribution of £7,700 being 11.0 per cent of basic salary in respect of Mr I.D. Burrell who is a member of the Defined Contribution Pension Scheme.

Pension Benefits (Defined Benefit Scheme)

	Age at 31 December 2001	Years of Service	Accrued entitlement at 31 December 2001 (see note a) £'000	Increase in accrued entitlement earned during the year (see note b) £'000	Transfer value of pension increase earned in year (see note c) £'000
J.G. Aspdin (see note e)	60	42	75	2	45
D.G. Holden	42	15	47	2	16
R.B. Illingworth	38	12	39	4	28
J.D. Marshall	56	38	97	1	11

Notes to Pension Entitlements

(a) The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2001.

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

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

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

(e) Mr J.G. Aspdin retired on 16 May 2001. His accumulated total accrued pension is as at that date.

Directors' Interests: Share Options

	At 1 January 2001	Options granted during the year	Options exercised during the year	Exercise price	Market price at date of exercise	Profit on exercise £	At 31 December 2001	Exercise Period
J.D. Marshall								
Executive option	50,000	–	50,000	142.0p	219.0p	38,500	Nil	Until 29/11/2004
SAYE	7,336	–	–	234.0p	–	–	7,336	01/12/2005 to 31/05/2006
D.G. Holden								
Executive option	50,000	–	50,000	142.0p	219.0p	38,500	Nil	Until 29/11/2004
Executive option	Nil	161,000	–	216.5p	–	–	161,000	17/04/2004 to 16/04/2011
Executive option	Nil	80,000	–	219.5p	–	–	80,000	16/10/2004 to 15/10/2011
SAYE	7,336	–	–	234.0p	–	–	7,336	01/12/2005 to 31/05/2006
I.D. Burrell								
Executive option	Nil	55,000	–	219.5p	–	–	55,000	16/10/2004 to 15/10/2011
R.B. Illingworth								
Executive option	25,000	–	25,000	142.0p	219.0p	19,250	Nil	Until 29/11/2004
Executive option	Nil	60,000	_	216.5p	–	–	60,000	17/04/2004 to 16/04/2011
SAYE	7,336	–	–	234.0p	–	–	7,336	01/12/2005 to 31/05/2006

Notes to Directors' Interests: Share Options

(a) None of the Non-Executive Directors held any share options during the year.

(b) The market price of the Company's shares at 31 December 2001 was 239.5p and the range in the year then ended was 204.0p to 259.5p.

(c) The total profit on exercise of options during the year as set out above was £96,250 (2000: £33,159).

Directors' Interests: Long Term Incentive Plan

The following outstanding conditional awards of ordinary shares as at 31 December 2001 have been granted under the Long Term Incentive Plan:

	1999	2000	2001
D.G. Holden	37,337	25,638	34,642
R.B. Illingworth	32,467	21,726	27,713
J.D. Marshall	38,311	25,638	–

Notes to Directors' Interests: Long Term Incentive Plan

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

(b) As noted in the Directors' Report, Mr R.B. Illingworth resigned as a Director on 18 February 2002. He will be leaving the Company on 18 March 2002 and, at that date, he will have satisfied the conditions for the 1999 LTIP award, however, the 2000 and 2001 LTIP awards will lapse.

Directors' Interests

The interest of the Directors who held office at the end of the year in the ordinary shares of the Company at 1 January 2001 and 31 December 2001 are set out below.

Beneficial interests of Directors in the Company's ordinary shares:

	1 January 2001		31 December 2001	
	Shares	**Options**	**Shares**	**Options**
C.T. Burnett	166,704	–	166,704	–
R.A. Barfield	4,000	–	8,000	–
I.D. Burrell	†–	†–	2,000	55,000
J.W. Footman	11,800	–	11,800	–
D.G. Holden	68,288	57,336	85,688	248,336
R.B. Illingworth	104,453	32,336	110,043	67,336
J.D. Marshall	545,503	57,336	557,243	7,336
M.A. Stacey	4,000	–	4,000	–

† at date of appointment.

Additionally, Mr J.D. Marshall and Mr D.G. Holden have at 31 December 2001 39,518 and 37,800 ordinary shares respectively available to be called from 26 June 2003 resulting from the vesting of their 1998 conditional awards under the Marshalls LTIP.

The Register of Directors' interests, which is open to inspection at the Company's Registered Office, contains full details of Directors' shareholdings and share options.

All shareholdings were unchanged as at 8 March 2002.

No Director of the Company has or had a disclosable interest in any contract of significance subsisting during or at the end of the year.

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

Richard Monro
Company Secretary
8 March 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARSHALLS PLC

We have audited the Financial Statements on pages 34 to 58.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 25, this includes responsibility for preparing the Financial Statements in accordance with applicable United Kingdom law and Accounting Standards. Our responsibilities, as Independent Auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 The Embankment
Neville Street
Leeds
LS1 4DW
8 March 2002

Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Notes	***2001***	2000
		£'000	£'000
Turnover	2	**328,036**	298,179
Operating costs	3	**(282,703)**	(256,271)
Operating profit			
Before exceptional reorganisation and insurance costs and goodwill amortisation	2	**48,865**	43,782
Exceptional reorganisation costs	2	**(1,564)**	(1,106)
Exceptional insurance costs	2	**(944)**	-
Goodwill amortisation		**(1,024)**	(768)
	2	**45,333**	41,908
Gain on disposals of property	2	**321**	2,720
Profit on ordinary activities before interest		**45,654**	44,628
Interest (net)	5	**(2,943)**	(2,772)
Profit on ordinary activities before taxation	2	**42,711**	41,856
Taxation on profit on ordinary activities	6	**(12,500)**	(11,700)
Profit for the financial year		**30,211**	30,156
Preference dividends: Non equity shares	8	**(174)**	(2,359)
Profit attributable to ordinary shareholders		**30,037**	27,797
Ordinary dividends: Equity shares	9	**(15,846)**	(13,964)
Retained profit for the financial year	22	**14,191**	13,833
Earnings per share:			
Basic	10	**18.01p**	19.67p
Diluted	10	**18.00p**	19.65p
Adjusted basic	10	**19.55p**	17.86p

The Notes on pages 38 to 58 form part of these Financial Statements

Balance Sheets

at 31 December 2001

	Notes	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Fixed assets					
Intangible	11	**21,316**	15,126	**-**	-
Tangible	12	**169,902**	149,785	**10,199**	7,027
Investments	13	**-**	-	**174,217**	85,728
		191,218	164,911	**184,416**	92,755
Current assets					
Stocks	14	**54,387**	57,342	**-**	-
Debtors: Due within one year	15	**31,517**	31,976	**2,923**	143,492
Debtors: Due after more than one year	15	**-**	2,171	**-**	-
Cash at bank and in hand		**14,655**	12,529	**13,715**	12,529
		100,559	104,018	**16,638**	156,021
Creditors: Amounts falling due within one year	16	**(66,215)**	(56,764)	**(20,609)**	(66,521)
Net current assets / (liabilities)		**34,344**	47,254	**(3,971)**	89,500
Total assets less current liabilities		**225,562**	212,165	**180,445**	182,255
Creditors: Amounts falling due after more than one year	17	**(20,007)**	(21,344)	**(29,883)**	(21,327)
Net assets		**205,555**	190,821	**150,562**	160,928
Capital and reserves					
Called up share capital	21	**43,006**	42,911	**43,006**	42,911
Share premium account	22	**18,910**	18,453	**18,910**	18,453
Revaluation reserve	22	**5,166**	5,166	**-**	-
Other reserves	22	**14,352**	10,274	**14,505**	59,270
Profit and loss account	22	**124,121**	114,017	**74,141**	40,294
Shareholders' funds		**205,555**	190,821	**150,562**	160,928
Analysis of shareholders' funds					
Equity		**203,432**	188,698	**148,439**	158,805
Non equity		**2,123**	2,123	**2,123**	2,123
		205,555	190,821	**150,562**	160,928

Approved at a Directors' meeting on 8 March 2002.
On behalf of the Board:

C.T. Burnett
Executive Chairman

I.D. Burrell
Finance Director

The Notes on pages 38 to 58 form part of these Financial Statements

Consolidated Cash Flow Statement

for the year ended 31 December 2001

	Notes	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Cash inflow from operating activities	23		**70,677**		48,254
Returns on investments and servicing of finance	24(i)		**(4,118)**		(5,836)
Taxation			**(13,172)**		(12,773)
Capital expenditure	24(ii)		**(30,607)**		(20,325)
Acquisitions and disposals	24(iii)		**(5,696)**		(680)
Equity dividends paid			**(15,239)**		(11,070)
Cash inflow / (outflow) before use of liquid resources and financing			**1,845**		(2,430)
Management of liquid resources					
Cash placed on short term deposit			**-**		2,650
Financing					
Issue of shares		**543**		1,667	
Share issue costs		**-**		(10)	
Decrease in debt and lease financing		**(262)**		(596)	
			281		1,061
Increase in cash in the year			**2,126**		1,281

Reconciliation of Net Cash Flow to Movement in Net Debt

Increase in cash in the year		**2,126**		1,281	
Cash outflow from decrease in debt and lease financing		**262**		596	
Cash inflow from decrease in liquid resources		-		(2,650)	
Change in net debt resulting from cash flows			**2,388**		(773)
New finance leases and loans on acquisition of businesses			**-**		(279)
Loans issued on acquisition of businesses			**(6,408)**		(1,327)
Translation differences			**-**		(12)
Movement in net debt in the year			**(4,020)**		(2,391)
Net debt at beginning of year			**(8,842)**		(6,451)
Net debt at end of year	26		**(12,862)**		(8,842)

The Notes on pages 38 to 58 form part of these Financial Statements

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2001

	2001	*2000*
	£'000	*£'000*
Profit for the financial year	**30,211**	30,156
Exchange differences on foreign currency loan	**-**	(12)
Total recognised gains and losses relating to the financial year	**30,211**	30,144

Reconciliation of Movements in Consolidated Shareholders' Funds

for the year ended 31 December 2001

	2001	*2000*
	£'000	*£'000*
Profit for the financial year	**30,211**	30,156
Dividends	**(16,020)**	(16,323)
Retained profit for the financial year	**14,191**	13,833
Other recognised gains and losses	**-**	(12)
New share capital issued	**552**	2,853
Write off on issue of shares to QUEST	**(9)**	(1,186)
Share issue costs	**-**	(10)
Net additions to shareholders' funds	**14,734**	15,478
Shareholders' funds at beginning of year	**190,821**	175,343
Shareholders' funds at end of year	**205,555**	190,821

Consolidated Historical Cost Profits and Losses

for the year ended 31 December 2001

There is no material difference between historical cost profits and those reported in the profit and loss account.

The Notes on pages 38 to 58 form part of these Financial Statements

Notes to the Financial Statements

1 Accounting policies

The following paragraphs summarise the main accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's Financial Statements, except as noted below under section **a**.

a Financial statements convention

The Financial Statements are prepared under the historical cost convention, modified by the revaluation of certain properties, and in accordance with applicable accounting standards. The Group has adopted the transitional arrangements of FRS17 *"Retirement Benefits"* and it has adopted FRS18 *"Accounting Policies"* during the current period. In respect of FRS17 the Group is following the transitional arrangements of FRS17 under which additional disclosure on retirement benefits is required in the Financial Statements for the year ended 31 December 2001 as set out in Note 29. Full implementation of the standard is required by year ended 31 December 2003. There has been no material impact on the Group's results, net assets or shareholders funds this year arising from the above new standards.

FRS19 *"Deferred Tax"* will be implemented in 2002 as permitted by that standard.

b Basis of consolidation

The Group Financial Statements include the Financial Statements of the Company and its subsidiary undertakings made up to 31 December 2001. All Financial Statements are prepared on a uniform basis throughout the Group.

The acquisition method of accounting has been adopted, unless otherwise stated. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

c Goodwill

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

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

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

In the Financial Statements of the Company, investments in subsidiary undertakings are stated at cost and are reduced by any impairment in value.

d Investments

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

e Foreign currency

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

f Turnover

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

1 Accounting policies (continued)

g Pension costs

Defined benefit scheme

Contributions to the Group's defined benefit pension scheme are charged to the profit and loss account on a basis which spreads the cost over employees' working lives within the Group.

Defined contribution scheme

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

h Stocks

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

i Tangible fixed assets and depreciation

Tangible fixed assets are stated at either cost or professional valuation less depreciation. Depreciation is provided on all fixed assets, other than freehold and long leasehold land, at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its estimated useful economic life. The rates are as follows:

Freehold and long leasehold buildings	-	2.5% to 5% per annum
Quarries	-	5% to 15% per annum
Short leasehold property	-	over the period of the lease
Fixed plant and equipment	-	5% to 25% per annum
Mobile plant and vehicles	-	14% to 30% per annum

j Cash and liquid resources

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

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

k Leased assets

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

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

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

l Taxation

Provision is made at the appropriate rate when an additional liability is likely to arise, within the foreseeable future, due to differences between the treatment of items for accounting and taxation purposes.

Notes to the Financial Statements (continued)

2 Segmental analysis

	Turnover		Operating profit before exceptional reorganisation and insurance costs and goodwill amortisation		Operating profit	
	2001	*2000*	***2001***	*2000*	***2001***	*2000*
	£'000	*£'000*	***£'000***	*£'000*	***£'000***	*£'000*
Landscape	**247,585**	226,431	**36,768**	32,219	**34,441**	31,442
Clay	**29,401**	28,093	**5,024**	4,679	**4,482**	4,153
Emerging Businesses	**51,050**	43,655	**7,073**	6,884	**6,410**	6,313
	328,036	298,179	**48,865**	43,782	**45,333**	41,908
Gain on disposals of property					**321**	2,720
Interest (net)					**(2,943)**	(2,772)
Profit on ordinary activities before taxation					**42,711**	41,856

Emerging businesses includes turnover of £3.4 million and an operating profit of £0.6 million before amortisation of goodwill of £0.2 million, relating to the business of Stancliffe Stone Co. Limited which was purchased on 15 June 2001. The post acquisition results of Stancliffe Stone Co. Limited are not considered to be material and no disclosure has been provided on the face of the profit and loss account.

Operating exceptional reorganisation costs incurred primarily related to redundancy costs of £1.3 million (2000: £1.1 million) and costs arising on acquisitions of £0.3 million (2000: £Nil). Operating exceptional insurance costs of £0.9 million (2000: £Nil) relate to pre-paid insurance premiums, unpaid insurance claims receivable and associated costs arising from the collapse of Independent Insurance PLC.

	Net Assets	
	2001	*2000*
	£'000	*£'000*
Landscape	**142,248**	138,491
Clay	**43,910**	45,102
Emerging Businesses	**40,177**	27,063
	226,335	210,656
Unallocated net liabilities	**(20,780)**	(19,835)
	205,555	190,821

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

	2001	*2000*
	£'000	*£'000*
Geographical destination of sales:		
United Kingdom	**322,846**	292,892
Rest of the world	**5,190**	5,287
	328,036	298,179

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

3 Operating costs

	2001	2000
	£'000	£'000
Raw materials and consumables	**103,544**	98,900
Changes in stocks of finished goods	**4,101**	(9,999)
Staff costs (Note 4)	**76,655**	75,093
Depreciation - owned	**14,605**	12,810
- leased	**11**	15
Amortisation of goodwill	**1,024**	768
Own work capitalised	**(2,391)**	(2,387)
Other operating income	**(735)**	(1,477)
Other external charges	**83,381**	81,442
Exceptional reorganisation costs	**1,564**	1,106
Exceptional insurance costs	**944**	-
	282,703	256,271

Operating profit is stated after charging:		
Auditors' remuneration	**75**	68
Other fees paid to the auditors and their associates	**9**	17
Leasing costs	**3,084**	2,701
Hire of plant and machinery	**2,822**	3,030
Development expenditure	**2,447**	1,805
Loss on sale of tangible fixed assets other than property sales	**301**	36

In respect of the year under review, KPMG Audit plc carried out mainly audit work which represented substantially all of the fees paid to them.

4 Employees

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

	2001	2000	**2001**	2000
	Number	Number	**£'000**	£'000
Landscape	**2,509**	2,563		
Clay	**366**	405		
Emerging Businesses	**406**	359		
	3,281	3,327		
Staff costs (including Directors):				
Wages and salaries			**68,205**	66,470
Social security costs			**6,455**	6,691
Other pension costs			**1,995**	1,932
			76,655	75,093

Notes to the Financial Statements (continued)

5 Interest (net)

	2001 £'000	2000 £'000
(a) Interest payable and similar charges:		
Bank loans, overdrafts, loan notes and other interest payable	839	517
Debenture interest	2,275	2,275
Finance leases	4	5
	3,118	2,797
(b) Other interest receivable and similar income	(175)	(25)
	2,943	2,772

6 Taxation on profit on ordinary activities

	2001 £'000	2000 £'000
United Kingdom corporation tax at 30.0% (2000: 30.0%) based on the profit for the year	12,500	11,700
The charge for corporation tax has been increased/(reduced) due to:		
Surplus of capital allowances over depreciation	(689)	(829)
Disallowed amortisation of goodwill	307	230

7 Profit of Marshalls plc

As permitted by Section 230 of the Companies Act 1985, Marshalls plc has not presented its own profit and loss account. The consolidated profit for the year includes £5,111,000 (2000: £20,592,000) which is dealt with in the Financial Statements of the Company. The profit is after charging an exceptional provision against the carrying value of subsidiaries (Note 13).

8 Preference dividends: Non equity shares

	per share	2001 £'000	per share	2000 £'000
Cumulative redeemable preference shares of 20p each	6.50p	73	6.50p	2,258
10% cumulative preference shares of £1 each		101		101
		174		2,359

9 Ordinary dividends: Equity shares

	per share	2001 £'000	per share	2000 £'000
Interim: Paid 3 December 2001	3.15p	5,246	3.00p	3,987
Final: Proposed	6.35p	10,600	6.00p	9,983
		15,846		13,970
Dividend adjustment		-		(6)
	9.50p	15,846	9.00p	13,964

10 Earnings per share

	2001 £'000	2000 £'000
Profit for the financial year attributable to ordinary shareholders	**30,037**	27,797
Profit for the financial year attributable to ordinary shares and potential ordinary dilutive shares	**30,037**	27,797
Adjusted basic earnings per share reconciliation:		
Profit for the financial year attributable to ordinary shareholders	**30,037**	27,797
Exceptional reorganisation costs	**1,564**	1,106
Exceptional insurance costs	**944**	-
Goodwill amortisation	**1,024**	768
Gain on disposals of property	**(321)**	(2,720)
Taxation	**(640)**	451
Cumulative redeemable preference dividend	**-**	2,185
	32,608	29,587
Weighted average number of shares	**166,804,445**	141,334,404
Weighted average number of shares	**166,804,445**	141,334,404
Dilutive shares	**45,244**	171,396
	166,849,689	141,505,800
Weighted average number of shares	**166,804,445**	141,334,404
Conversion of cumulative redeemable preference shares	**-**	24,345,026
	166,804,445	165,679,430
Basic earnings per share	**18.01p**	19.67p
Diluted earnings per share	**18.00p**	19.65p
Adjusted basic earnings per share	**19.55p**	17.86p

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of £30,037,000 (2000: £27,797,000) by the weighted average number of shares in issue during the year of 166,804,445 (2000: 141,334,404).

Diluted earnings per share is calculated by dividing profit attributable to ordinary shares and potential ordinary dilutive shares of £30,037,000 (2000: £27,797,000) by the weighted average number of shares in issue during the year of 166,804,445 (2000: 141,334,404), plus dilutive shares of 45,244 (2000: 171,396) which totals 166,849,689 (2000: 141,505,800).

An adjusted basic earnings per share has been prepared in order to show the underlying performance of the business. The adjusted basic earnings per share is adjusted for exceptional reorganisation and insurance costs, goodwill amortisation, gain on disposals of property and the associated taxation. It is also adjusted for the conversion of cumulative redeemable preference shares of 20p each on 1 October 2000 and the associated preference dividend as though converted on the first day of the period.

11 Intangible fixed assets

	Goodwill £'000
Group	
Cost	
At 1 January 2001	16,666
Additions (Note 25)	7,214
At 31 December 2001	23,880
Amortisation	
At 1 January 2001	1,540
Amounts provided	1,024
At 31 December 2001	2,564
Net book value	
At 31 December 2001	21,316
At 31 December 2000	15,126

12 Tangible fixed assets

	Group			Company		
	Land and buildings	Plant machinery and vehicles	Total	Land and buildings	Plant machinery and vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 January 2001	83,243	172,201	255,444	2,281	9,047	11,328
Reclassification	(1,084)	1,084	-	-	-	-
Additions	9,691	21,585	31,276	920	2,395	3,315
Businesses acquired (Note 25)	2,302	4,490	6,792	-	-	-
Disposals	(139)	(1,410)	(1,549)	-	(36)	(36)
Intragroup transfers	-	-	-	592	-	592
At 31 December 2001	94,013	197,950	291,963	3,793	11,406	15,199
Accumulated depreciation						
At 1 January 2001	16,561	89,098	105,659	182	4,119	4,301
Amounts provided	2,401	12,215	14,616	38	683	721
Businesses acquired (Note 25)	589	2,202	2,791	-	-	-
Disposals	-	(1,005)	(1,005)	-	(22)	(22)
At 31 December 2001	19,551	102,510	122,061	220	4,780	5,000
Net book value						
At 31 December 2001	74,462	95,440	169,902	3,573	6,626	10,199
At 31 December 2000	66,682	83,103	149,785	2,099	4,928	7,027

12 Tangible fixed assets (continued)

The net book value of tangible fixed assets includes £29,000 (2000: £64,000) in respect of assets held under finance leases of which £Nil (2000: £Nil) relates to the Company.

Group cost or valuation of land and buildings and plant and machinery includes £5,266,000 (2000: £4,400,000) and £13,125,000 (2000: £11,031,000) respectively for assets in the course of construction.

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

Analysis of Group land and buildings:

	Freehold	*Long leasehold*	*Short leasehold*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Valuation at March 1989	**36,560**	**2,585**	**-**	**39,145**
Cost	**47,084**	**7,684**	**100**	**54,868**
Accumulated depreciation	**(18,056)**	**(1,427)**	**(68)**	**(19,551)**
Net book value at 31 December 2001	**65,588**	**8,842**	**32**	**74,462**
Amount not depreciable	**26,557**	**6,625**	**-**	**33,182**
Comparable amounts determined according to the historical cost convention:				
Cost	**80,477**	**10,466**	**100**	**91,043**
Accumulated depreciation	**(20,059)**	**(1,620)**	**(68)**	**(21,747)**
Historical net book value at 31 December 2001	**60,418**	**8,846**	**32**	**69,296**

The Company's freehold land and buildings are stated at cost. £1,221,000 (2000: £103,000) of the amount is not depreciable.

13 Investment in subsidiary undertakings

	Group own shares £'000	Loans £'000	Shares at cost £'000	Provisions against carrying value of investments £'000	Total £'000
At 1 January 2001	-	-	**85,728**	-	**85,728**
Reclassification of inter-Company loans	-	**151,972**	-	-	**151,972**
Purchase of businesses	-	-	**10,432**	-	**10,432**
Dividends received out of pre-acquisition reserves	-	-	**(35,082)**	-	**(35,082)**
Redemption of shares	-	-	**(1,398)**	-	**(1,398)**
Amounts provided	-	-	-	**(37,435)**	**(37,435)**
Shares acquired by QUEST	**20**	-	-	-	**20**
Shares allotted by QUEST	**(20)**	-	-	-	**(20)**
At 31 December 2001	-	**151,972**	**59,680**	**(37,435)**	**174,217**

Details of the principal subsidiary undertakings, their place of incorporation and particulars of Group shareholdings are set out in Note 30. Inter-Company loans receivable were formalised during the year and have therefore been reclassified within fixed asset investments.

14 Stocks

	Group 2001 £'000	Group 2000 £'000
Raw materials and consumables	**11,225**	10,679
Finished goods and goods for resale	**43,162**	46,663
	54,387	57,342

15 Debtors

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Debtors due within one year:				
Trade debtors	**25,614**	26,657	-	-
Amounts owed by subsidiary undertakings	-	-	-	142,639
Other debtors	**3,099**	1,862	**2,447**	46
Taxation and social security	**233**	119	-	10
Prepayments and accrued income	**2,571**	3,338	**476**	797
	31,517	31,976	**2,923**	143,492
Due after more than one year:				
Other debtors	-	2,171	-	-
	31,517	34,147	**2,923**	143,492

16 Creditors: Amounts falling due within one year

	Group		Company	
	2001	2000	**2001**	2000
	£'000	£'000	**£'000**	£'000
Trade creditors	**29,782**	29,739	**895**	2,343
Amounts owed to subsidiary undertakings	**-**	-	**-**	51,844
Other creditors	**3,542**	1,787	**672**	245
Corporation tax	**7,222**	7,440	**38**	-
Taxation and social security	**2,427**	2,714	**205**	1,363
Accruals	**5,134**	5,083	**691**	725
Dividends	**10,608**	10,001	**10,608**	10,001
Loans (Note 18)	**7,500**	-	**7,500**	-
	66,215	56,764	**20,609**	66,521

17 Creditors: Amounts falling due after more than one year

	Group		Company	
	2001	2000	**2001**	2000
	£'000	£'000	**£'000**	£'000
Loans (Note 18)	**20,000**	21,327	**20,000**	21,327
Other creditors	**7**	17	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**9,883**	-
	20,007	21,344	**29,883**	21,327
Finance lease instalments included in other creditors are repayable:				
between two and five years	**3**	2	**-**	-
between one and two years	**4**	15	**-**	-
within one year	**10**	27	**-**	-
	17	44	**-**	-

18 Loans

	Group		Company	
	2001	2000	**2001**	2000
	£'000	£'000	**£'000**	£'000
11.375% debenture stock 1992/2014	**20,000**	20,000	**20,000**	20,000
Unsecured loan stock 2005	**1,092**	1,327	**1,092**	1,327
Unsecured loan stock 2001	**6,408**	-	**6,408**	-
	27,500	21,327	**27,500**	21,327
which are repayable:				
in five years or more	**20,000**	20,000	**20,000**	20,000
between two and five years	**-**	1,327	**-**	1,327
	20,000	21,327	**20,000**	21,327
within one year	**7,500**	-	**7,500**	-
	27,500	21,327	**27,500**	21,327

18 Loans (continued)

Debenture stock

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

Unsecured loan stock 2005

The Unsecured loan stock 2005 is repayable at par on 7 October 2005, or at either the Company's or the holder's option, between 7 October 2001 and 7 October 2005. Interest is payable annually on 7 October at the base rate from time to time of the Royal Bank of Scotland plc.

Unsecured loan stock 2001

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

19 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using retained profits, borrowings, cash and liquid resources, trade debtors and creditors, accruals and prepayments. These financial instruments all arise in the normal course of the Group's operating activities. In addition, the Group has also issued:

- Debenture stock at 11.375% as detailed in Note 18
- Cumulative redeemable preference shares at 6.50p per annum as detailed in Note 21
- Cumulative preference shares at 10% as detailed in Note 21

As directed by the Board the Group does not engage in trade or speculative activities using derivative financial instruments. Group cash reserves are held centrally to take advantage of the most rewarding short term investment opportunities. Forward foreign currency contracts are used in the management of currency risk. Finance leases are controlled, managed and approved centrally to ensure that financed assets will generate the required returns.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks and they have remained unchanged since 2000.

Interest rate risk

The Group's policy is to regularly review the terms of its available short term borrowing facilities and to individually assess and manage each long term borrowing commitment accordingly.

Liquidity risk

Cash resources are largely generated through operations. Short term flexibility is achieved by overdraft facilities.

Currency risk

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

Financial assets and liabilities

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

19 **Financial instruments** (continued)

Financial assets

Other than cash at bank and short term debtors the Group has no other financial assets. All financial assets are held in Sterling. Cash at bank received an average floating rate of interest of 3.2 per cent for the year.

Financial liabilities

At 31 December 2001 73 per cent of the Group's borrowings were on a fixed rate. At the year end there were no interest rate swaps or forward foreign currency contracts that the Group had entered into. The interest rate profile of the financial liabilities were as follows:

			Weighted average interest rate of fixed borrowings		*Weighted average period for which interest rates are fixed*	
	2001	*2000*	***2001***	*2000*	***2001***	*2000*
	£'000	*£'000*	***%***	*%*	***Years***	*Years*
Fixed rate liabilities: Sterling	**20,017**	20,044	**11.4**	11.4	**12.5**	13.5
Floating rate liabilities: Sterling	**7,500**	1,327				
Total financial liabilities	**27,517**	21,371				

Currency exposures

At 31 December 2001, the Group had no material currency exposures. There were no outstanding forward currency contracts.

Maturity of financial liabilities

At 31 December 2001, 73 per cent of the Group's borrowings were due to mature in more than five years. The maturity profile of the Group's financial liabilities at 31 December 2001 is as follows:

	2001	*2000*
	£'000	*£'000*
In one year or less, or on demand	**7,510**	27
In more than one year but not more than two years	**4**	15
In more than two years but not more than five years	**3**	1,329
In more than five years	**20,000**	20,000
	27,517	21,371

Borrowing facilities

The Group has various undrawn committed borrowing facilities available to it. The facilities available at 31 December 2001, in respect of which all conditions precedent had been met, were as follows:

	2001	*2000*
	£'000	*£'000*
Expiring in one year or less	**25,000**	25,000

19 Financial instruments (continued)

Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2001 are shown below:

	Book Value £'000	*Fair Value £'000*
Primary financial instruments held or issued to finance the Group's operations:		
- Cash at bank	**14,655**	**14,655**
- Short term financial liabilities and current portion of long term borrowings	**7,517**	**7,517**
- Long term borrowings	**20,000**	**27,134**
- Cumulative redeemable preference shares of 20p each	**1,108**	**1,108**
- 10% cumulative preference shares of £1 each	**1,015**	**1,015**

Derivative financial instruments have not been held to manage interest rate risk. All fair values have been determined using appropriate market rates at 31 December 2001 and by discounting relevant cash flows at the prevailing rate.

20 Deferred taxation

The full potential, unprovided, liability for deferred taxation of the Group at 30.0% (2000: 30.0%) is:

	2001 £'000	*2000 £'000*
Accelerated capital allowances	**18,843**	18,868
Capital gains deferred by roll-over relief	**2,026**	2,026
	20,869	20,894

No deferred taxation is provided on the Group's fixed assets as, in the opinion of the Directors, no material liability is likely to crystallise in the foreseeable future.

21 Share capital

	2001 Number '000	*2000 Number '000*	***2001 £'000***	*2000 £'000*
Authorised:				
Ordinary shares of 25p each	**209,465**	209,465	**52,366**	52,366
Cumulative redeemable preference shares of 20p each	**63,095**	63,095	**12,619**	12,619
10% cumulative preference shares of £1 each	**1,015**	1,015	**1,015**	1,015
			66,000	66,000
Allotted, called up and fully paid:				
Ordinary shares of 25p each	**167,081**	166,697	**41,769**	41,674
Cumulative redeemable preference shares of 20p each	**1,108**	1,108	**222**	222
10% cumulative preference shares of £1 each	**1,015**	1,015	**1,015**	1,015
			43,006	42,911

21 Share capital (continued)

During the year 383,597 ordinary shares were issued as follows:

	Number '000	*Nominal value* £'000	*Share premium* £'000
Options exercised at 142.0p per share	**375**	**93**	**439**
Issued to QUEST at 246.5p per share	**7**	**2**	**15**
Issued to QUEST at 223.0p per share	**2**	**-**	**3**
	384	**95**	**457**

Non equity shares:

Cumulative Redeemable Preference Shares

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

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

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

(c) redemption on 1 October 2003 at £1 per share;

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

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

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

10% Cumulative Preference Shares

The 10% cumulative preference shares of £1 each carry, inter alia, rights to:

(a) a fixed cumulative preferential dividend payable at the rate of 10% per annum on the amount paid up in respect of the nominal value;

(b) repayment of capital and accrued dividends in priority to the rights of the cumulative redeemable preference and ordinary shareholders on a return of capital on a winding up; and

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

21 Share capital (continued)

Savings-Related Share Option Scheme

Details of the options outstanding at 31 December 2001 are:

Number of options outstanding		*Number of ordinary shares*		*Exercise price*	*Normally exercisable between*
31 December 2001	*31 December 2000*	***31 December 2001***	*31 December 2000*		
317	406	**330,296**	421,566	230.0p	1 Dec 2003 - 31 May 2004
809	921	**1,775,527**	2,031,828	230.0p	1 Dec 2005 - 31 May 2006
1,126	1,327	**2,105,823**	2,453,394		

Employee Profit Sharing Scheme

At 31 December 2001 the scheme held 156,055 (2000: 140,000) ordinary shares in the Company.

Executive Share Option Schemes

Details of the options outstanding at 31 December 2001 are:

Number of options outstanding		*Number of ordinary shares*		*Exercise price*	*Normally exercisable between*
31 December 2001	*31 December 2000*	***31 December 2001***	*31 December 2000*		
-	13	**-**	375,000	142.0p	30 Nov 1997 - 29 Nov 2004
2	-	**221,000**	-	216.5p	17 Apr 2004 - 16 Apr 2011
2	-	**135,000**	-	219.5p	16 Oct 2004 - 15 Oct 2011
4	13	**356,000**	375,000		

22 Reserves

	Share premium account	Revaluation reserve	Other reserves: Capital redemption reserve	Other reserves: Merger reserve	Profit and loss account
	£'000	£'000	£'000	£'000	£'000
Group					
At 1 January 2001	**18,453**	**5,166**	**1,261**	**9,013**	**114,017**
Retained profit for the financial year	**-**	**-**	**-**	**-**	**14,191**
Shares issued to QUEST	**18**	**-**	**-**	**-**	**-**
Write off on issue of shares to QUEST	**-**	**-**	**-**	**-**	**(9)**
Other shares issued	**439**	**-**	**-**	**-**	**-**
Merger reserve transfer	**-**	**-**	**-**	**4,078**	**(4,078)**
At 31 December 2001	**18,910**	**5,166**	**1,261**	**13,091**	**124,121**
Company					
At 1 January 2001	**18,453**	**-**	**1,261**	**58,009**	**40,294**
Loss for the financial year	**-**	**-**	**-**	**-**	**(10,909)**
Shares issued to QUEST	**18**	**-**	**-**	**-**	**-**
Write off on issue of shares to QUEST	**-**	**-**	**-**	**-**	**(9)**
Other shares issued	**439**	**-**	**-**	**-**	**-**
Merger reserve transfer	**-**	**-**	**-**	**(44,765)**	**44,765**
At 31 December 2001	**18,910**	**-**	**1,261**	**13,244**	**74,141**

The cumulative amount of goodwill, resulting from the acquisition of subsidiary undertakings and net of goodwill relating to subsidiary undertakings disposed of, written off against consolidated reserves prior to 1 January 1998 amounts to £39,022,000 (2000: £39,022,000).

A transfer has been made in Marshalls plc from the merger reserve to the profit and loss account to reflect the realisation of the merger reserve associated with previous disposals and to reflect the impairment of the investment in George Armitage & Sons plc acquired by Marshalls plc in 1988.

23 Reconciliation of operating profit to cash flow from operating activities

	2001	*2000*
	£'000	*£'000*
Operating profit	**45,333**	41,908
Amortisation charges	**1,024**	768
Depreciation charges	**14,616**	12,825
Loss on sale of tangible fixed assets	**301**	36
Decrease/(increase) in stocks	**3,663**	(12,896)
Decrease in debtors	**4,276**	6,899
Increase/(decrease) in creditors	**1,464**	(1,286)
	70,677	48,254

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

		2001	2000
		£'000	£'000
(i)	**Returns on investments and servicing of finance**		
	Interest received	175	25
	Interest paid	(4,115)	(2,767)
	Preference dividend paid	(174)	(3,089)
	Interest element of finance lease rental payments	(4)	(5)
		(4,118)	(5,836)
(ii)	**Capital expenditure**		
	Purchase of tangible fixed assets	(31,276)	(21,729)
	Sale of tangible fixed assets	669	1,404
		(30,607)	(20,325)
(iii)	**Acquisitions and disposals**		
	Purchase of businesses (Note 25)	(12,161)	(1,972)
	Loan stock issued	6,408	1,327
	Net cash balance/(overdraft) acquired	57	(35)
		(5,696)	(680)

25 Purchase of businesses

	2001	2000
	£'000	£'000
Fixed assets (Note 12)	4,001	402
Stocks	708	150
Debtors	1,751	304
Cash balance/(overdraft)	57	(35)
Creditors	(1,570)	(597)
	4,947	224
Goodwill (Note 11)	7,214	1,748
	12,161	1,972
Satisfied by:		
Net cash	5,753	645
Loan notes	6,408	1,327
	12,161	1,972

No material fair value adjustments were required in respect of the assets acquired. The results of the businesses have been included in the consolidated Group accounts using the acquisition method of accounting, from the date of purchase.

26 Analysis of net debt

	2001	Cash flow	Non cash changes	2000
	£'000	£'000	£'000	£'000
Cash in hand and at bank	**14,655**	**2,126**	**-**	12,529
	14,655	**2,126**	**-**	12,529
Debt due after one year	**(20,000)**	**235**	**1,092**	(21,327)
Debt due within one year	**(7,500)**	**-**	**(7,500)**	-
Finance leases	**(17)**	**27**	**-**	(44)
	(27,517)	**262**	**(6,408)**	(21,371)
Total net debt	**(12,862)**	**2,388**	**(6,408)**	(8,842)

27 Capital commitments

		Group		Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Capital expenditure that has been contracted for but for which no provision has been made in the Financial Statements	**10,359**	3,339	**-**	547

28 Leasing commitments

		Group		Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
At 31 December 2001 there were annual commitments under non-cancellable operating leases in respect of plant, machinery and vehicles as follows:				
Expiring:				
within one year	**245**	197	**14**	5
between two and five years	**1,291**	1,725	**73**	60
	1,536	1,922	**87**	65

29 Pension scheme

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

SSAP24

A funded defined benefit scheme covering certain employees is operated by Trustees as a self-administered independent fund using external investment managers. The Scheme is valued by an independent Actuary and an actuarial valuation was carried out as at 6 April 2001 using the discounted income and projected unit method. The main actuarial assumptions used for accounting purposes were investment returns exceeding salary growth by 2.5% per annum and pension increases of 3.0% per annum for pre 6 April 1997 benefits and at 4.5% per annum for post 6 April 1997 benefits. The valuation showed that the market value of the scheme's assets at 6 April 2001 was £118.5m. The actuarial value of the assets was £94.6m which covered the accrued liabilities by 109% on an ongoing basis. The Actuary recommended that the surplus be eliminated by reducing the company contributions over the balance of the members' working lifetimes. During the year, members on average contributed 5.65% of pensionable salaries. The defined benefit scheme charge for the year was £1,793,000 (2000: £1,931,000).

Certain other employees are members of a Group defined contribution scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly. The defined contribution scheme charge for the year was £202,000 (2000: £1,000).

FRS17

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

The most recent actuarial valuation of the defined benefit scheme has been updated by an independent, qualified Actuary to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 December 2001.

Main assumptions for FRS17 purposes:

Discount rate	**6.00%**
Rate of increase in salaries	**4.00%**
Rate of increase in pensions payment	**3.10%**
Inflation rate	**2.50%**

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

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

	Long-term rate of return expected at 31 December 2001	*Value at 31 December 2001 £'000*
Equities	**6.75%**	**85,175**
Bonds	**4.75%**	**26,228**
Other	**4.00%**	**1,951**
		113,354

29 Pension scheme (continued)

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

	£'000
Total market value of assets	**113,354**
Present value of scheme liabilities	**(129,073)**
Deficit in the scheme	**(15,719)**
Related deferred tax asset	**4,716**
Net pension liability	**(11,003)**

FRS17, for accounting purposes at 31 December 2001, indicates a deficit in relation to the Scheme. The latest actuarial valuation based on the discounted income and projected unit method indicates a surplus. The Minimum Funding Requirement (MFR) valuation at 31 December 2001 on the new basis of calculation effective from 7 March 2002, indicates a surplus with a funding level of 111%.

If the net pension liability had been recognised in the Financial Statements, the Group's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	£'000
Net assets excluding pension liability	**205,555**
Net pension liability	**(11,003)**
Net assets including pension liability	**194,552**
Profit and loss reserve excluding pension liability	**124,121**
Net pension liability	**(11,003)**
Profit and loss reserve including pension liability	**113,118**

The method of calculating the net pension asset or liability under FRS17 is likely to lead to volatility in the amounts to be included in the Group's balance sheet and profit and loss account financing charge when this Financial Reporting Standard is fully adopted in the year ended 31 December 2003.

The scheme assets, the majority of which are equities, are potentially subject to significant market movements. During the year ended 31 December 2001, the FTSE All Share Index fluctuated between 21% higher and 16% lower than its value at the balance sheet date.

The scheme's liabilities are measured by reference to long-term AA corporate bond yields that can again move significantly and according to market conditions. The indicative yield on the AA corporate bond index used was in the range 5.6% to 6.2% in the year 2001.

30 Subsidiary undertakings

The principal subsidiary undertakings at 31 December 2001 are set out below, all being wholly owned and are held directly by Marshalls plc. All the companies operate within the United Kingdom and are registered in England and Wales.

Subsidiaries	Principal activity
Marshalls Mono Limited	Concrete products manufacturer and quarry owner producing hydraulically pressed road kerb and paving, reconstructed stone walling, garden paving, block paving, street furniture, crushed aggregates and roadstone.
Marshalls Clay Products Limited	Clay products manufacturer.
Stonemarket Limited	Concrete and stone landscape products manufacturer and supplier.
Marshalls Flooring Limited	Manufacture and installation of pre-stressed flooring beams and flooring systems.
Stancliffe Stone Co. Limited	Quarrying of stone and supply of walling, paving and masonry products.
Rhino Protec Limited	Manufacture, installation and supplier of security barriers.
Classical Flagstones Limited	Concrete products for internal and external applications manufacturer and supplier.

Shareholder Information

Shareholder Analysis at 31 December 2001

Size of shareholding	*Number of shareholders*	*%*	*Number of ordinary shares*	*%*
1 to 500	1,624	34.3	224,736	0.1
501 to 1,000	613	12.9	437,681	0.3
1,001 to 2,500	783	16.5	1,366,246	0.8
2,501 to 5,000	690	14.6	2,521,722	1.5
5,001 to 10,000	434	9.2	3,077,524	1.8
10,001 to 25,000	244	5.2	3,674,472	2.2
25,001 to 100,000	148	3.1	7,597,505	4.6
100,001 to 250,000	72	1.5	11,332,449	6.8
250,001 to 500,000	53	1.1	18,892,192	11.3
500,001 and above	76	1.6	117,955,999	70.6
	4,737	100.0	167,080,526	100.0

Financial Calendar

Preliminary Announcement of results for the year ended 31 December 2001	Announced	8 March 2002
Annual General Meeting		22 May 2002
Final dividend for the year ended 31 December 2001	Payable	1 July 2002
Interim results for the year ending 31 December 2002	Announcement	September 2002
Interim dividend for the year ending 31 December 2002	Payable	2 December 2002
Results for the year ending 31 December 2002	Announcement	early March 2003

Registrars and General

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, telephone: 0870 702 0001, fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

Amalgamation of Shareholdings

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

Dividend Mandate

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

Website

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

Financial History

	Year to December 1997+	Year to December 1998	Year to December 1999	Year to December 2000	***Year to December 2001***
	£'000	*£'000*	*£'000*	*£'000*	***£'000***
Turnover	241,310	253,935	278,547	298,179	**328,036**
Operating profit before operating exceptional costs and goodwill amortisation	24,225	34,790	42,868	43,782	**48,865**
Operating exceptional costs	-	-	-	(1,106)	**(2,508)**
Goodwill amortisation	-	(143)	(629)	(768)	**(1,024)**
Operating profit	24,225	34,647	42,239	41,908	**45,333**
Gain on disposals of property	377	43	515	2,720	**321**
Loss on disposals of businesses	(8,122)	-	-	-	**-**
Profit on ordinary activities before interest	16,480	34,690	42,754	44,628	**45,654**
Interest (net)	(2,009)	(1,145)	(2,110)	(2,772)	**(2,943)**
Profit on ordinary activities before taxation	14,471	33,545	40,644	41,856	**42,711**
Taxation on profit on ordinary activities	(7,073)	(9,798)	(11,700)	(11,700)	**(12,500)**
Profit for the financial year	7,398	23,747	28,944	30,156	**30,211**
Preference dividends: Non equity shares	(4,200)	(4,090)	(3,596)	(2,359)	**(174)**
Profit attributable to ordinary shareholders	3,198	19,657	25,348	27,797	**30,037**
Ordinary dividends: Equity shares	(6,649)	(8,784)	(10,431)	(13,964)	**(15,846)**
Retained (loss)/profit for financial year	(3,451)	10,873	14,917	13,833	**14,191**
Earnings per share:	*p*	*p*	*p*	*p*	***p***
Basic	2.57	15.70	19.90	19.67	**18.01**
Diluted	2.57	14.07	17.60	19.65	**18.00**
Adjusted basic*	9.16	14.34	17.56	17.86	**19.55**
Dividends per share	5.33±	7.00	8.00	9.00	**9.50**

* Adjusted basic earnings per share are adjusted for exceptional operating costs, goodwill amortisation, gain on disposals of property, exceptional loss on sale of businesses, the associated taxation and the conversion of cumulative redeemable preference shares.

+ Goodwill on acquisition was written off against reserves prior to 1 January 1998.

± Annual equivalent for the nine months dividend.

	£'000	*£'000*	*£'000*	*£'000*	***£'000***
Fixed assets	127,554	144,915	154,056	164,911	**191,218**
Net current assets	56,371	35,509	41,314	47,254	**34,344**
Total assets less current liabilities	183,925	180,424	195,370	212,165	**225,562**
Creditors due after more than one year	(30,823)	(20,294)	(20,027)	(21,344)	**(20,007)**
Net assets	153,102	160,130	175,343	190,821	**205,555**
Net funds/(debt)	5,105	(6,331)	(6,451)	(8,842)	**(12,862)**
Gearing ratio	3.3%	(4.0)%	(3.7)%	(4.6)%	**(6.3)%**