PRINTED BY TAYLOR BLOXHAM LIMITED

ANNUAL REPORT 2007

ANNUAL REPORT 2007

The Marshalls Sustainability Garden, RHS Chelsea Flower Show 2007

Marshalls plc, proud sponsor of the
RHS Chelsea Flower Show 2007-2009

Highlights

Reported Results

- Revenue up 6.6 per cent including acquisitions
- EBITDA up 4.3 per cent to £70.5 million
- Operating profit up 2.2 per cent at £48.8 million
- Profit before tax of £42.1 million, up 1.0 per cent
- EPS up 4.6 per cent to 21.28 pence per share
- Full year dividend of 13.40 pence per share, up 5.5 per cent

Underlying Results

- Operating profit up 9.2 per cent at £51.1 million
- Profit before tax of £44.4 million, up 9.0 per cent
- EPS up 12.8 per cent to 22.43 pence per share

O_2 Dome, London

Corporate Objectives

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

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

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

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

Cautionary Statement

Please read the full cautionary statement which can be found on page 103.

Timberstone, Driftwood

CONTENTS

Highlights	1
Corporate Objectives	2
Chairman's Statement	4-5
Operating and Financial Review	6-23
Corporate Social Responsibility	24-27
Environmental Report	28-33
Shareholder Information	34
Directors' Biographical Notes and Advisers	35
Directors' Report	36-39
Corporate Governance	40-45
Directors' Remuneration Report	46-56
Audit Committee Report	57
Independent Auditors' Report	58-59
Consolidated Income Statement	60
Consolidated Balance Sheet	61
Consolidated Cash Flow Statement	62
Consolidated Statement of Recognised Income and Expenses	62
Notes to the Consolidated Financial Statements	63-95
Company Balance Sheet	96
Company Reconciliation of Movements in Shareholders' Funds	97
Notes to the Company Financial Statements	97-102
Financial History – Consolidated Group	103
Display Centres	104

Chairman's Statement

Delivering Growth: Investing for the Future

I am pleased to report a year of further progress, with sales of £402.9 million being 6.6 per cent ahead of 2006 and profit before tax of £42.1 million increasing by 1.0 per cent.

These results were achieved after investing some £4.3 million of revenue costs in developing future business streams, primarily our Landscape Installations Display Centres and Natural Stone initiatives. Taking these and other one-off items into account the underlying growth in operating profit was 9.2 per cent during the year. A more detailed explanation is given in the Operating and Financial Review on pages 6 to 23.

The results were also achieved despite a challenging operating environment, with the extreme wet weather in the mid year being recovered in a strong autumn and winter trading period.

These results, and the commensurately strong balance sheet, allow us to declare a final dividend of 9.30 pence per share which, together with the interim dividend paid, make a total dividend for the year of 13.85 pence (2006: 13.15 pence) per share.

Natural Stone Granite Street Furniture, Glasgow

Our strong operating cash flow also enabled us to maintain both a high level of capital expenditure within our core businesses and also to expand our investments in new businesses, primarily Natural Stone and Premier Mortars.

These investment activities underline our confidence in the long term future of the Group and our determination to maintain and develop the quality of our underlying assets.

Marshalls is also committed to being a proactive and responsible organisation within the business and social communities in which it operates.

In the business context we have achieved a high level of recognition for aspects of sustainable business performance by making the Business in the Community's top 100 'Companies that Count' with our Maltby site being the first active manufacturing site to be awarded The Wildlife Trust's Biodiversity Benchmark.

In the community context we have continued to invest in local communities' initiatives close to our operations and were delighted to be awarded the 'Best Promotional Partnership' at the National Payroll Giving Awards in October 2007.

All of these achievements are made possible only by the efforts of all those engaged with us; suppliers, advisors and customers. In particular, I would again pay tribute to all those who work within Marshalls and whose energy and commitment are such hallmarks of the Company.

We enter 2008 with a strong sense of purpose but also with some sensitivity regarding the overall state of the economy. We intend to continue our development plans and will maintain a strong emphasis on cash management and prudence in our balance sheet.

Mike Davies
Chairman
7 March 2008

MTR Lightstacks, Wembley Stadium

Operating and Financial Review

Business profile

Marshalls is a market focussed UK Group combining inspirational design and innovative products and services to aid the transformation of Britain's patios, driveways and urban and commercial landscapes.

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

Marshalls' customers are the large builders' merchant groups, independent builders' merchants, garden centres, contractors and Local Authorities and Domestic consumers. Products are distributed from a national network of manufacturing and Service Centres either to customers' depots or, at their request, direct to site. The Landscape Installations business makes a range of services available to the consumer through its growing national network of Display Centres.

Long Term Strategy and Business Objectives

Corporate Objectives

Marshalls' corporate objectives are:

1. Revenue growth of 7 per cent based on a compound annual growth rate ("CAGR") over a three year period;

2. Annual earnings per share growth of at least 3 per cent above the retail price index, and a target of 6 per cent, on a CAGR basis, over a three year period;

3. Dividend policy where dividends will move in line with medium term earnings growth; and

4. Return on capital employed of 20 per cent per annum.

Strategy

The strategy to achieve these objectives is:

1. To deliver sustainable shareholder value by continuing to develop, innovate and improve in our unique sourcing, manufacturing and distribution network.

This is achieved by continually investing in market and brand development, developing long term customer relationships, continually innovating and introducing new products, investing in technology to improve product quality and manufacturing efficiency and reducing costs wherever possible. The business has high quality, timely management information and analysis and uses this to focus on areas for improvement.

2. To develop the Landscape Installations service offer, create pull through demand and build brand awareness by investing in sales and marketing direct to the consumer.

This allows consumers to view a full range of products in an aspirational and sympathetic setting, request a design and identify a quality installer for their project. Having already established a unique regional distribution and manufacturing network and having built an installer register, this creates "pull through demand" by investing in marketing directly to the consumer.

3. To develop further an integrated product offer for the Public Sector and Commercial market by continually improving the range of products we offer.

The Public Sector and Commercial market requires a range of integrated products that deliver technical performance and the required appearance.

4. To invest in selective acquisitions and organic expansion in existing and related product categories to expand our core business.

Natural Stone Paving, The Wild Pheasant, Llangollen, Wales

Strategic Key Performance Indicators ("KPIs")

Performance is monitored using a full suite of KPIs. The Directors have identified the six measures below as the Group's strategic KPIs. The first two are measured on a CAGR basis over a three year period. In addition to the strategic KPIs there are KPIs for each area of the business. A number of these are included later in the individual sections of this review.

Target	
Revenue growth:	7 per cent per annum
Earnings per share growth:	RPI + 6 per cent per annum
Return on capital employed:	20 per cent
Cash flow:*	Detailed forecast
Customer service index:**	95 per cent
Health & Safety reduction in reportable incidents:	10 per cent per annum

*Cash performance targets have been established for the purpose of Directors' Performance Share Awards, details of which are set out on page 46.

** The index combines measures of product availability, on time delivery performance and administrative and delivery accuracy.

The results achieved on each of these measures are set out in the appropriate sections below.

Review of the Operations

Markets

Overall market conditions continued to be mixed in 2007. The Construction Products Association ("CPA") estimates that construction output has grown by 2.6 per cent during 2007, an improvement on the prior year which experienced a 1.2 per cent increase. The Public Sector and Commercial market was good with the CPA estimating that Other New Work, a proxy for Public Sector and Commercial demand, was up by 5.8 per cent in 2007. This contrasts with the Domestic market where the CPA estimates that Private Housing Repair, Maintenance and Improvement expenditure, a proxy for Domestic demand, was flat in 2007.

Trading Summary

The 2007 financial year began and ended strongly. The summer was hampered by the exceptionally wet weather but there was strong underlying demand in the Public Sector and Commercial market. Approximately 55 per cent of the business comes from the Public Sector and Commercial market and 45 per cent from the consumer driven Domestic market. This provides a balance to demand as the performance of the two markets can be counter cyclical.

Marshalls' revenue at £402.9 million (2006: £378.1 million) increased by 6.6 per cent compared with the prior year. Like for like revenue, excluding acquisitions, was 3.9 per cent ahead at £392.8 million (2006: £378.1 million).

In the Domestic market like for like revenue was slightly ahead of 2006, having been adversely affected by the unusually wet weather in June and July 2007. These severe weather conditions delayed installers and the additional need for flood rectification work in some parts of the country has also diverted tradesmen into lucrative

emergency insurance work. Sales prices and mix were around 4 per cent ahead of the prior year whilst volumes were down by around 3.5 per cent.

The Public Sector and Commercial market continued to perform well with like for like revenue up 7 per cent. Sales prices and mix were 4 per cent ahead with volumes up 3 per cent.

The results for the year ended 31 December 2007 represent a robust trading performance.

Manufacturing and Distribution

At the heart of Marshalls is a single manufacturing and distribution operation that supports the two main markets and this provides a fundamental competitive advantage, delivering industry leading product availability and delivery performance. It ensures that Marshalls has the lowest cost to market. The Marshalls operating strategy is to combine regional manufacturing and distribution sites, known as Service Centres, with national manufacturing works. The same capital equipment produces products for both the Domestic market and the Public Sector and Commercial market. The national manufacturing sites produce the newly introduced and specialist products that have not reached the commercial volumes that justify regional manufacture. Marshalls' geographical spread is unique in the industry and provides a competitive advantage.

Customer service is a high priority area. The KPI covers product availability, accuracy and timeliness of deliveries as well as administrative accuracy. The Group's industry leading standards remained high in 2007 and the combined customer service measure was 97 per cent (2006: 97 per cent).

The Group continues to invest to improve its productivity, to make the workplace safer and to reduce the environmental impact of its operations. Capital investment in 2007 totalled £31.7 million (2006: £24.6 million). This compares to a depreciation charge of £21.1 million (2006: £19.5 million). The significant level of capital expenditure in the last few years has generated improvements in productivity and has allowed the Group to reduce the numbers employed in its core business by 5 per cent. The wet weather in the summer also allowed the Group to bring forward further projects to improve productivity. Marshalls now has 60 robots installed across the Group and these continue to improve manufacturing efficiency.

The Group has a number of surplus properties which are in the process of being sold. The timing of sales continues to be dependent on suitable planning permissions being obtained and since the year end there have been two disposals that have realised proceeds of approximately £10 million. The Group's property portfolio is under constant review in order to identify opportunities to maximise its potential.

Sustainability

The Group continues to focus on sustainability and this remains an integral part of the Marshalls' culture. This includes the elimination of waste and the better use of resources and, consequently, is very much aligned with the Group's commercial objectives. Marshalls' sustainability plan sets out to deliver benefit to the environment, recognise social progress and generate economic growth. There is a Group wide strategy of implementing and operating to independently audited and accredited systems for product quality, environmental management and health and safety. Emphasis on sustainability has also enabled the Group to add value to existing products. For instance, sales of sustainable urban drainage products are increasing in response to demand from planners. This is a paving solution that allows water to percolate into the ground to sustain the water table rather than letting it run off into rivers.

In June 2007 Marshalls won the Premier Award for Process Improvement from Business Commitment to the Environment. As a mark of the Group's work in the area of biodiversity, the Maltby site is the first active manufacturing site in the UK to be accredited with the Wildlife Trust's Biodiversity Benchmark for Land Management.

The Group continues to source significant quantities of natural stone from India and China. Marshalls was the first company from the UK Building Materials Sector to be a member of the Ethical Trading Initiative ("ETI"), an alliance of companies, trade unions and non-profit

organisations that aims to promote respect for the rights of workers worldwide. As a member of ETI, Marshalls has a programme in place to assess working conditions in suppliers' workplaces. These suppliers are regularly and independently audited on the ETI nine point base code, which covers working conditions in the supply chain, to ensure compliance with that code. The Group's Indian stone supplier has successfully demonstrated compliance with the ETI base code.

Domestic

Marshalls is a market leader in the domestic driveway and patio markets and has led the development of the consumer landscape products market over an extended period. It is estimated that the product supply market is approximately £940 million, however, for a typical landscaping project at least 80 per cent of the cost is the installation labour. The total annual market for gardens and driveways, including installation, is approximately £3.8 billion per annum.

The Group's Domestic strategy continues to be to unlock the potential of this market. Landscape Installations is part of the Group's "core" business and significant investment is being made annually to create "pull through" demand, improve the product mix and continually develop the Marshalls brand. The objective is to deliver a level of service that is "second to none." Market research suggests that our target consumers are relatively recession proof and that they recognise that a new driveway or garden will add value to their property. Only 20 per cent of sales are "DIY" with 80 per cent being "Do it for me" projects where a professional carries out the installation. This latter market is more resilient as many of these consumers are in the higher wealth and income groups.

The Group's Display Centres give the consumer the opportunity to see how the product looks in a garden setting so that the market potential for more value added products can be unlocked. The Group has a range of tailor made service offers from a fully designed and installed proposition to assistance with product choice and ordering. By Easter 2008 there will be 8 operational Display Centres and this will include sites in garden centres or out of town retail centres where there is established footfall. The locations are illustrated on the map on page 104. It is anticipated that there will be 2 further Display Centres established by the middle of 2008.

The Centres are welcomed by both installers and merchant stockists in the regions where they are based as they generate additional footfall. Sales growth is also greater in the area surrounding the centre and product mix is also improving. The total one-off investment in the continuation of the Landscape Installations strategy and the introduction of additional Display Centres during the year amounted to £3.6 million (2006: £2.0 million) and this has been disclosed separately in Note 3 of the Financial Statements on page 71.

Marshalls Display Centres

Brand awareness amongst installers and merchants is almost 100 per cent. For intending purchasers it is 40 per cent and for the general public it is 10 per cent. In order to improve brand recognition further, in 2007 Marshalls sponsored the Royal Horticultural Society ("RHS") Chelsea Flower Show and this sponsorship will continue for a further two years. Marshalls also sponsored a large garden, "The Marshalls Sustainability Garden", which was awarded a silver medal at the 2007 Show. The presence at Chelsea, the RHS Hampton Court and the RHS Tatton Park Flower Shows has significantly increased awareness of the Marshalls brand and the Group's inspirational design services, innovative products and expert installation. At the 2007 RHS Chelsea Flower Show the Group successfully launched its national garden design and installation service. This sponsorship deal is a very important part of our strategy to improve further our brand recognition.

The Marshalls Register of approved installers, which are recommended to the consumer, comprises over 1,500 installation teams around the country whose work is constantly vetted. Installer order books remain at the normal level for this time of year at 8.4 weeks (February 2007: 9.1 weeks, February 2006: 8.4 weeks, February 2005: 8.3 weeks).

Public Sector and Commercial

Marshalls is also a market leader for the supply of a wide range of natural stone, concrete and fabricated products to the Public Sector and Commercial market including paving, kerbs, edging, surface drainage and street furniture. This market includes PFI expenditure on schools and hospitals and now represents 55 per cent of the Group's revenue. The aim is to deliver products that are attractive to look at and are also practical in use and to install. Marshalls have a portfolio of products that can be combined to create an attractive landscaped area and our technical expertise is an important part of our pre and post sales service.

An important part of Marshalls' strategy is the development of an integrated product offering for the Public Sector and Commercial market. In response to market demand, and working closely with architects, designers and contractors, the Group continues to offer fully integrated solutions that combine natural stone and concrete paving, linear drainage, bollards, seating and attractively designed lighting. Marshalls is continuously pushing the boundaries by providing inspirational design, innovative products and, increasingly, facilitating expert installation. Currently two thirds of Public Sector and Commercial sales come from concrete products with natural stone products comprising one quarter and street furniture products the remainder.

We have significantly increased our investment in the Public Sector and Commercial market through both acquisitions and by strategic organic growth investment. Our investment is primarily capital in nature and these business initiatives are expected to generate excellent medium term returns and cash flow. The investment is into strong markets and is asset backed by minerals or tangible processing plant. Once established, these investments will be cash generating for many years. Further details of specific investment initiatives are provided in the following paragraphs. We continue to invest in new technology, such as robot handling and machine lay of concrete block paving to build competitive advantage and make our workplace safer and more environmentally friendly.

The Group added to its street furniture product portfolio with the acquisition of Ollerton, a supplier of high quality and widely specified seating systems. Street furniture includes bollards, seating, shelters, railings, specialist lighting and signage. A programme is well underway to introduce modern business systems and integrate all our street furniture businesses, to deliver synergies and provide a solid platform for future organic growth. Additional revenue investment has been made in Woodhouse Landscape Projects, which is a business start up using the Woodhouse brand which is well respected by architects and designers. The business provides design services for prestigious landscape projects and was formally launched at the Citiscape exhibition in February 2007.

The Group continues to seek opportunities to expand reserves and geographical coverage in natural stone and during 2007 two businesses were acquired. Marshalls' natural stone business includes paving, walling, aggregates, ready to use mortar and architectural masonry. Since the year end the Group has secured access to significant further reserves of limestone for walling and cladding. Additional investment in plant is planned for 2008 to extend the existing range of walling products. The Group has also been developing a sand and gravel reserve on the outskirts of Manchester and a natural stone reserve beside the M62 in West Yorkshire. The combined capital expenditure relating to these two projects will be around £6 million. During the year the Group further increased its total mineral reserves comprising block stone for paving and walling and crushed aggregates and this is set out in the table below.

Mineral Reserves

	Reserves tonnes (m) 2007	Reserves years 2007
Block stone	**8.5**	**72**
Aggregates	**48.1**	**22**

Notes:
1. Reserves means fully consented and available for extraction
2. Years means number of years available at current extraction rates

During 2007 the Group has also significantly expanded the geographical coverage of its Premier Mortars business which provides ready to use mortar for the building trade. This additional investment has been approximately £4 million during 2007 and has provided Marshalls with a total of 10 operational sites.

Organisation

The Group's organisational structure incorporates specialist businesses such as those manufacturing Street Furniture products. The structure also enables the operationally independent businesses, such as Stonemarket and Paver Systems, to focus on the development of their own unique brand and position in the market place.

People

Marshalls has an experienced, flexible and well motivated workforce and is committed to developing its full potential. There is a wide range of in house and external training programmes with an emphasis towards "on the job" training. The Group is also working closely with Ashridge, an international leader in tailored executive education, to develop the knowledge, skills and practices of its management team in order to enhance leadership potential and to facilitate succession planning.

A detailed report on our employees and health and safety initiatives is included within the Corporate and Social Responsibility Statement on pages 24 to 27. It is pleasing to report a further reduction of 17 percent in incidents reportable to the Health & Safety Executive in 2007, following a reduction of 13 per cent in the previous year.

M3 Curved Seat and Furniture

Corporate Social Responsibility

Marshalls places special emphasis on Corporate Social Responsibility and considers that this is very much aligned with the sustainable and economic growth objectives which are for the benefit of all stakeholders. The Group continues to work closely and in conjunction with the communities in which it operates to deliver constructive projects in a number of areas such as schools, sports associations and government backed incentives.

The Group has also been working with Lifeline Additions, which is part of the national "Lifeline Project" charity, to help people who are keen to gain skills and experience in construction. In 2007 Marshalls made its first appearance in the Business in the Community's ("BITC") top 100 "Companies that Count." This was accompanied by a prestigious "Big Tick" award in the Eco-efficiency category of the BITC Awards for Excellence 2007.

On 4 February 2007, Marshalls pledged to fund the work of Hadoti Hast Shlip Sansthan ("HHSS"), a voluntary organisation helping to transform the lives of migrant workers in the quarries of Rajasthan. This investment has made a significant impact with a health camp offering check-ups, free medicines and vaccinations plus the identification of diseases prevalent in the area.

Research and Development

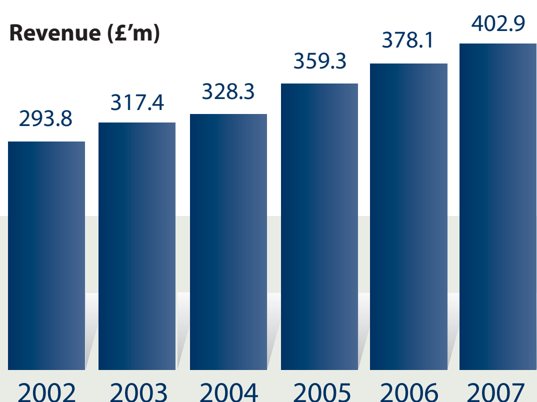
Marshalls has a world class Manufacturing Innovation and Development team, staffed by high calibre engineers and technicians, which delivers competitive advantage through machinery design and installation.

Product availability and on time delivery is extremely high and this has enabled distribution costs to be controlled despite pressures from legislation, congestion and rising fuel prices. The Group is continually striving to improve the flexibility and effectiveness of product manufacture and is at the forefront of technical research and development.

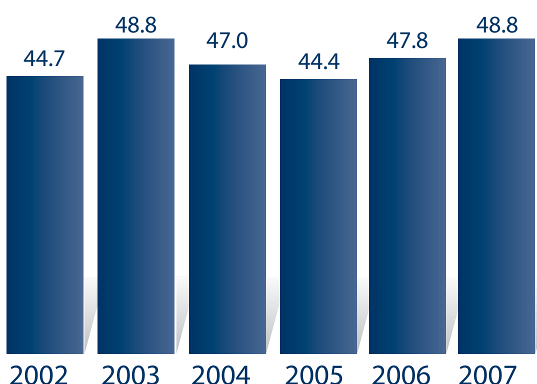
Innovation in all areas of the business over an extended period has been a key element of the Group's success and significant resources will continue to be invested in Research and Development in the future.

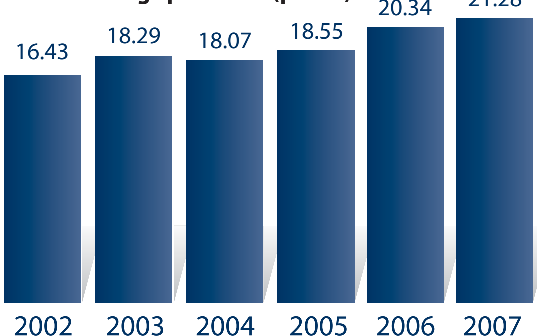
Trustone Torvale Paving

Financial History

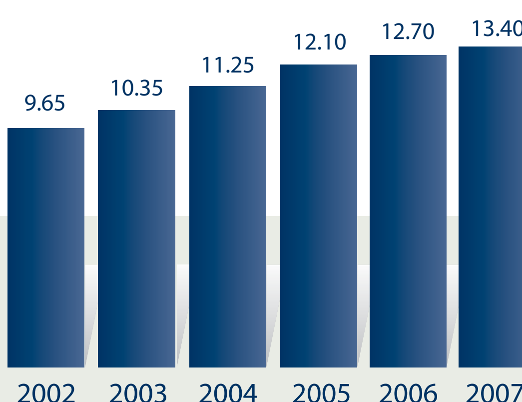


The CAGR for the five year period to the end of 2007 for revenue growth from continuing operations was 6.5 per cent.





The CAGR for the five year period to the end of 2007 for earnings per share growth was 5.3 per cent.



The above graph shows that dividends have, on a CAGR basis, grown by 6.8 per cent over the last five years. Dividends disclosed on an IFRS basis do not include the final 2007 declared dividend of 9.30 pence per share. This final dividend represents a 5.1 per cent increase over the comparative final dividend.

As at 31 December 2007 the Company's share price was 241.0 pence per share. When dividends are included this gives a total shareholder return ("TSR") of 46.6 per cent over a performance period from 1 January 2003 to 6 March 2008. A performance graph has been disclosed on page 54 where the Group's TSR is compared with the FTSE 250 Index.

Financial Review of 2007

	2007 £'m	2006 £'m	Growth %
Revenue	**402.9**	378.1	6.6
Operating profit	**48.8**	47.8	2.2
Financing charges (net)	**(6.7)**	(6.1)	
Profit before tax	**42.1**	41.7	1.0
Tax	**(11.8)**	(12.6)	
Profit after tax	**30.3**	29.1	4.0
Basic earnings per share (pence)	**21.28**	20.34	4.6

Revenue for the year ended 31 December 2007 increased by 6.6 per cent to £402.9 million (2006: £378.1 million). Of this, 3.9 per cent was organic growth and 2.7 per cent related to acquisitions. The growth strategy continues to include development through bolt-on acquisitions in addition to organic developments.

Underlying profit

	2007 £'m	2006 £'m	Growth %
Operating profit: underlying	**51.1**	46.8	9.2
Strategic business initiatives:			
Landscape Installations	**(3.6)**	(2.0)	
Commercial Expansion	**(0.7)**	-	
Works closure costs	**(0.2)**	(1.1)	
Pension curtailment gains (net of expenses)	**-**	4.4	
Net profit/(loss) on property disposals	**2.2**	(0.3)	
Operating profit: reported	**48.8**	47.8	2.2

Reported operating profit rose by 2.2 per cent to £48.8 million (2006: £47.8 million). Reported EBITDA was £70.5 million (2006: £67.6 million), an improvement of 4.3 per cent.

The net effect of investment in strategic business initiatives and other one-off items in the year was a net charge against operating profit of £2.3 million (2006: £1.0 million net credit), giving an underlying operating profit of £51.1 million (2006: £46.8 million) an increase of 9.2 per cent.

Within this net charge the Group has expensed £4.3 million (2006: £2.0 million) in relation to strategic business initiatives during the year. Of this, £3.6 million (2006: £2.0 million) relates to a continuation of the Landscape Installations strategy and the introduction of additional Display Centres remains a key contributor to future growth.

Within this is £1.8 million relating to further marketing costs, including the RHS Chelsea Flower Show, to support the development of the Display Centres and the Marshalls brand.

Strategic business initiatives in the Public Sector and Commercial market have given rise to revenue expenditure of £0.7 million during the year. These include the launch of Woodhouse Landscape Projects which provides design services for prestigious landscape projects and a significant expansion of the geographical coverage of the Premier Mortars business which provides ready to use mortar for the building trade.

Works closure costs in the year were £0.2 million (2006: £1.1 million) for the relocation of the recently acquired Ollerton business to another of the Group's Street Furniture operations. In addition, during the year there has been a net profit of £2.2 million on property transactions (2006: £0.3 million loss).

Natural Stone Strategic Business Initiatives

After the net effect of the strategic business initiatives and other one-off items, detailed above, profit before tax increased by 1.0 per cent to £42.1 million (2006: £41.7 million). Basic earnings per share increased by 4.6 per cent to 21.28 pence (2006: 20.34 pence) per share. Underlying earnings per share, before strategic business initiatives expensed, was 22.43 pence (2006: 19.89 pence) per share, an increase of 12.8 per cent.

In addition to causing a short term reduction in earnings per share the strategic business initiatives have also impacted capital employed and given rise to a temporary decrease in Return on Capital Employed ("ROCE") to 16.6 per cent. ROCE on the traditional, underlying core business at 20.3 per cent exceeds the corporate target of 20.0 per cent.

Underlying margin reconciliation

	Revenue £'m	Movement in Operating profit £'m	Impact %
2006: underlying	378.1	46.8	12.4
Acquisitions	10.1	0.7	(0.1)
Cost increases recovered through sales prices	14.0	-	(0.4)
Organic	0.7	3.6	0.8
2007: underlying	**402.9**	**51.1**	**12.7**

The reported operating profit margin was 12.1 per cent (2006: 12.6 per cent). The underlying operating profit margin in 2007 was 12.7 per cent, an increase of 0.3 per cent in the margin compared with 2006. Acquisitions contributed additional sales of £10.1 million and operating profits of £0.7 million.

As in 2006, cost increases of approximately £14.0 million were largely recovered through sales price increases. This had little effect on the absolute operating profit, although it did give rise to a small dilution in the operating margin of 0.4 per cent. Cost increases incurred in the year included cement, aggregates, energy, transport and payroll costs. The underlying organic business performance increased by £3.6 million leading to a margin improvement of 0.8 per cent. This increase arose from further productivity improvements including the payback from previous capital expenditure on robotics to eliminate manual handling, and continued focus on the elimination of non value adding activities. Sales volumes overall were similar to 2006.

During the year the Group acquired one Street Furniture and two Natural Stone businesses and the combined expenditure on these and other strategic growth capital expenditure projects amounted to £26.9 million. This continued investment in growth capital and acquisitions, together with £17.6 million in relation to replacement and improvement capital expenditure, increased depreciation and amortisation by £1.8 million.

Conservation Setts, RHS Wisley

Random Coursed Pattern Zephyr

Operating Performance

Analysis of revenue growth by market

Market:	**2007 £'m**	2006 £'m	Change %
Domestic	**183.2**	182.3	0.5
Public Sector and Commercial	**219.7**	195.8	12.2
Total (including acquisitions)	**402.9**	378.1	6.6
Overall percentage:			
Domestic	**45.5%**	48.2%	
Public Sector and Commercial	**54.5%**	51.8%	

Like for like sales in the Domestic market were slightly ahead of last year with sales prices and mix up 4 per cent and volumes down 3.5 per cent.

The Public Sector and Commercial market now comprises approximately 55 per cent of the Group revenue. Like for like revenue showed an increase of 7 per cent in the year with natural stone products showing another year of double digit growth. Sales prices and mix were 4 per cent ahead with volumes up 3 per cent.

The acquisitions made in the last few years have been progressively integrated into the expanded market offer and this will continue in 2008.

Financial KPIs

The key financial KPIs were set out on page 7. These financial KPIs were established in January 2006. The current performance against these targets, since that date, can be set out as follows:

- Revenue growth

  Against a target of 7 per cent per annum the Group has achieved a CAGR of 5.9 per cent since 1 January 2006.

- Earnings per share growth

  Against a target of RPI + 6 per cent per annum on a CAGR basis (which for the period since 1 January 2006 equates to 10.2 per cent) the Group has achieved a CAGR of 7.1 per cent.

- ROCE is defined as EBITA / Shareholders' funds plus Net Debt. ROCE for 2007 was 16.6 per cent which is compared with the long term target of 20.0 per cent. As explained earlier the initial impact of the Group's investment in projects that are designed to generate future growth is causing a short term reduction in ROCE. The ROCE on the traditional core business is 20.3 per cent which exceeds the KPI target.

An additional financial KPI relates to cash flow targets and the Group's cash generation performance is described on page 19.

Segmental Reporting

During the year the Directors undertook a review of the Group's continuing operations and its associated business risks and for the year ended 31 December 2007 consider that the continuing operations should be reported as a single business segment. The Directors consider that the continuing operations represent one product offering with similar risks and rewards and should be managed and reported as a single business segment in line with the Group's internal reporting framework.

Net Financial Expenses

Net financial expenses were £6.7 million (2006: £6.1 million) which is made up of external interest on borrowings (including debenture interest) and IAS 19 notional interest. The IAS 19 notional interest comprises interest on obligations under the defined benefit Pension Scheme net of the expected return on Scheme assets. The reduction in the IAS 19 notional interest charge reflects the reduction in the recognised liability for defined benefit obligations and increased returns arising from Company cash contributions. Interest cover remained healthy at 7.3 times (2006: 7.8 times).

Taxation

The tax charge for 2007 was £11.8 million (2006: £12.6 million) which represented an effective rate of 28.2 per cent (2006: 30.3 per cent). The reduction in the UK corporation tax rate to 28 per cent from April 2008 has given rise to a reduced deferred tax charge in the year which effectively accounts for the reduction in the effective tax rate. A deferred taxation asset of £5.0 million (2006: £12.6 million) has been established in relation to the net liability for defined benefit obligations of £17.8 million (2006: £41.9 million). Deferred tax of £5.2 million in relation to the actuarial gain arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Recognised Income and Expenses.

Dividends

The Group's dividend policy continues to be that dividends should move in line with medium term earnings growth.

An interim dividend of 4.55 pence (2006: 4.30 pence) per share was paid on 5 December 2007. A final dividend of 9.30 pence (2006: 8.85 pence) per share is now being recommended for payment on 4 July 2008 to shareholders on the register at the close of business on 6 June 2008. The ex-dividend date will be 4 June 2008. This gives a total of 13.85 pence (2006: 13.15 pence) per share for the year which represents an increase of 5.3 per cent over 2006.

On an IFRS basis, which does not account for the final dividend until it is approved at the forthcoming Annual General Meeting, the dividend for the year ended 31 December 2007 is 13.40 pence (2006: 12.70 pence) per share which represents an increase of 5.5 per cent. On an IFRS basis dividends are covered 1.6 times (2006: 1.6 times).

Balance Sheet

Net assets at 31 December 2007 were £200.6 million (2006: £184.5 million) which represented 140.0 pence (2006: 129.0 pence) per share.

The evaluation of Marshalls' portfolio of commercial properties and mineral assets was completed by CB Richard Ellis and Wardell Armstrong LLP during the year. The property portfolio was valued, as at 31 December 2006, on an existing use basis for the commercial and mineral portfolio and on a market value basis for surplus assets. These bases are in accordance with the valuation methods recommended by the Royal Institute of Chartered Surveyors. The valuation of the property portfolio as at 31 December 2006 was approximately £40 million above the net book value of the equivalent assets.

Trade receivables have increased to £35.7 million (2006: £28.6 million) at the year end due to the impact of an increase in revenue in November and December 2007. As previously explained, this followed a period of reduced sales in the summer months due to the impact of severe weather conditions which caused inventory to remain higher at the year end by approximately £2.7 million. Acquisitions have also added £0.9 million to inventory levels with the impact of inflation being around £3.4 million. The impact of the weather in this period has also contributed to an increase in

inventory to £82.9 million (2006: £68.3 million). This will be managed down over the next two years, although approximately £7.7 million of the increase was due to commercially beneficial forward purchasing of imported natural stone to mitigate cost increases in transportation.

The liability for defined benefit pension obligations decreased from £41.9 million at 31 December 2006 to £17.8 million at 31 December 2007. This reduction was partly due to the impact of further contributions by the Group to the Pension Scheme and an increase in the AA corporate bond rate from 5.1 per cent to 5.8 per cent. The change in discount rate, together with a strengthening of the mortality rate and other changes to the assumptions, has resulted in an actuarial gain of £12.6 million (net of deferred taxation) (2006: £7.3 million) and this has been recorded in the Consolidated Statement of Recognised Income and Expenses. The liability of £17.8 million is made up of £194.8 million in respect of the present value of funded obligations net of £177.0 million for the fair value of plan assets. The deficit has been determined by the Scheme Actuary using prudent assumptions in line with current market levels.

In the second half of the year the Group made payments totalling £6.9 million to acquire 2,425,000 Treasury Shares. The shares may also be used to satisfy awards under the Group's Long Term Incentive Plan. This acquisition of Treasury Shares increased the Group's gearing ratio by approximately 5 per cent.

Analysis of Net Debt

Analysis of net debt	**2007**	2006
	£'m	£'m
Bank	**76.5**	32.3
11.375% Debenture Stock	**20.0**	20.0
B shares	**-**	2.1
Finance lease liabilities	**0.4**	0.2
Net debt	**96.9**	54.6
Net assets	**200.6**	184.5
Gearing	**48.3%**	29.6%

The above table shows an analysis of net debt at 31 December 2007. Net debt has increased from £54.6 million to £96.9 million during the year due, in part, to the temporary increase in working capital explained earlier but, mainly to the purchase of Treasury Shares and the continued investment by the Group in strategic business initiatives, both capital and revenue, to drive future growth. Gearing at the year end increased from 29.6 per cent to 48.3 per cent with interest covered strongly at 7.3 times (2006: 7.8 times).

Additional bank facilities were agreed with the Group's principal bankers in September 2007 and total bank borrowing facilities at 31 December 2007 amounted to £136.7 million (2006: £100.0 million) of which £60.2 million (2006: £67.7 million) remained unutilised. The Group's peak seasonal working capital requirements run from 1 February until 31 July and an additional working capital facility of £20.0 million is available between these dates. Of the total bank facilities of £136.7 million, £41.7 million are in respect of committed three and five year loan facilities, £50 million are uncommitted facilities with an option to convert into committed three and five year facilities and the remaining £45 million is uncommitted and repayable on demand. The bank facilities are unsecured other than for inter company cross guarantees between the Group's subsidiary undertakings.

The 11.375 per cent £20.0 million debenture stock is secured by a first floating charge on the assets of Marshalls Group plc and certain subsidiary undertakings and is repayable at par on 30 June 2014, or at the Company's option before then, at a price related to the gross redemption yield of a specific category of Government Treasury Stock.

On 30 June 2007 the Group redeemed all the remaining B shares that were issued as part of the return of £75 million to shareholders in 2004. The net cash outflow was £2.4 million.

Charcoal Keyblok, John Pounds Medical Centre, Portsmouth

Cash generation

The Group continues to be cash generative. In the year ended 31 December 2007 the cash inflow from operations was £43.7 million (2006: £54.0 million). This cash generation has been utilised as follows:

Analysis of cash utilisation	**2007**	2006
	£'m	£'m
Cash generated from the operations	**43.7**	54.0
Interest and taxation	**(16.0)**	(15.2)
Operational cash generation	**27.7**	38.8
Organic investment (capital expenditure)	**(14.7)**	(20.0)
Strategic growth initiatives (capital expenditure)	**(14.1)**	(4.0)
Acquisitions	**(12.8)**	(4.1)
Other financial items	**(6.9)**	0.4
Cash returned to shareholders	**(21.5)**	(19.0)
Movement in net debt	**(42.3)**	(7.9)
Cash returned to shareholders as a percentage of operational cash generation	**77.6%**	49.0%

Operational cash generation for the year ended 31 December 2007, after cash contributions to the Pension Scheme, was £27.7 million (2006: £38.8 million). Interest and corporation tax payments in the year were £16.0 million (2006: £15.2 million) and there was a net outflow from working capital of £18.5 million (2006: £1.0 million outflow). This is due to the increases in trade receivables and inventory, in particular the beneficial forward purchases of imported natural stone, at the year end referred to earlier.

Total gross expenditure on capital expenditure and acquisitions in the year was £44.5 million (2006: £28.6 million), with acquisitions comprising £12.8 million and strategic capital growth initiatives £14.1 million, which is a significant increase compared with the prior year. This includes capital to open up a new sand and gravel quarry near Manchester and the building of an aggregates washing plant and walling plant in West Yorkshire. The remaining £17.6 million of organic capital investment represents the replacement of existing assets and investment in business improvements and developments including robotics and new process technology.

Since the year end the Group has realised gross proceeds of approximately £10 million (before costs) from the sale of surplus properties. The proceeds are in excess of book value of the related assets which have been reclassified as "assets held for sale" in the Consolidated Balance Sheet as at 31 December 2007.

The Group's medium term plan is to allocate £40 million to the combined value of organic growth capital investment and bolt-on acquisitions. It is expected that around half of this will be funded by cash generated through operations and half will be funded by debt or cash from surplus properties. The Group will retain considerable flexibility to make larger acquisitions should opportunities arise.

Ordinary dividend payments in the year were £19.1 million (2006: £18.2 million) and £2.4 million has been paid to redeem the final balance of B shares. The utilisation of cash over the last three years is illustrated by the following summary.

Analysis of cash utilisation, 2005-2007

	£'m
Operational cash generation	124.0
Capital expenditure	(73.5)
Acquisitions	(25.6)
Sale of Clay business	65.0
Cash returned to shareholders	(54.8)
Pension contributions	(17.0)
Other financial items	(6.8)
Movement in net debt	11.3

	2004 £'m	**2007 £'m**
Net debt	(108.2)	**(96.9)**
Capital employed	131.5	**200.6**
Gearing	82.3%	**48.3%**

The above chart provides a medium term three year analysis of the cash generation capacity of the Group and how cash generated has been invested to grow the business and also to show the cash returned to shareholders. Cash generated from operating activities was £124.0 million. The Group has invested £73.5 million back into the business to provide efficient, industry leading manufacturing and distribution facilities, to generate productivity improvements and to set up a national network of Display Centres and also to invest in future growth opportunities. The medium term plan is to allocate £20 million for replacement and improvement capital investment each year of which half will relate to the replacement of existing assets and half will be in relation to business improvement projects.

The Group has also invested £25.6 million in acquisitions as part of the strategy of capitalising on Marshalls' brand and unique access to national distribution channels. The medium term plan is to seek suitable acquisition candidates and to allocate approximately £20 million per year for bolt-on acquisitions or growth orientated capital projects. This will continue to leave the Group with sufficient flexibility to make larger acquisitions if such opportunities should arise. This greater emphasis on investing in strategic growth opportunities will deliver further shareholder value in the future. The Group's strategic plans, balance sheet, capital and funding arrangements are carefully structured to enable this to be achieved.

As explained earlier, the Group's cash generation performance against detailed cash flow targets is one of the main KPIs and in 2007 the targets that were set by the Board were achieved. The Board's objective in the medium term is to achieve and maintain an efficient balance sheet.

Financing and Risk Management

The Group's Risk Committee determines the policies and procedures that are put in place to mitigate exposure to risk. A formal rolling process exists to identify, assess and analyse risks and those of a more material nature are included in the Group Risk Register. The Group seeks to mitigate exposure to all forms of strategic and financial risk both external and internal. External risks include political and economic conditions, the effect of legislation or other regulatory actions, the actions of competitors, foreign exchange, raw material prices and pension funding. Internal risks include investment in new products, new business strategies and acquisitions.

Clarence Dock, Leeds

Strategic Risks

Like most businesses in the UK the Group is susceptible to any economic downturn which could affect customer spending. Protracted weakness in the UK economy, together with general uncertainty in the financial markets, could depress consumer spending and private sector construction activity. In addition, slow delivery of planned Government investment could depress construction activity in the Public Sector and Commercial market. Long periods of adverse weather conditions could also have a short term impact on construction activity. Our aim is to ensure an excellent understanding of market conditions by constant communication with customers, installers and domestic consumers, together with significant investment in market research and active membership of the CPA. As explained previously, the balance of revenue between the consumer driven Domestic market and the Public Sector and Commercial market also helps mitigate the potential impact of these risks.

A failure to compete with competitors on price, product range, quality and service could have an adverse effect on the Group's financial results. All these areas are monitored on a constant basis and the Customer Service Index remains one of the Board's key strategic KPIs. The Group continues to invest in strategies that enhance the Marshalls brand.

Any significant increases in raw material and utility prices could adversely affect the Group's performance. Diversity of operations reduces the risk on any single item of supply and our purchasing policies seek to take into account and mitigate such risks, where possible.

The defined benefit section of the Pension Scheme was closed to future service accrual on 1 July 2006 and the introduction of a new defined contribution section to the Pension Scheme has allowed the Group to manage risk better and reduce volatility in the future. Nevertheless the Group continues to be subject to various financial risks in relation to the Pension Scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members.

Marshalls continues to make strategic business acquisitions that might have an impact on the performance and risk profile of the Group. These risks are mitigated by extensive due diligence and where practicable, by representations and indemnities from the vendors.

Financial Risks

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 17 on pages 80 to 83 of the Financial Statements. These policies have remained unchanged since 2006. It is the Group's policy, and has been throughout the period under review, that no speculative trading in financial instruments shall be undertaken.

The Group manages its medium term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient un-drawn committed bank facilities.

The Group enters into forward foreign currency contract derivative transactions of relatively small value. The purpose of such transactions is to manage the currency risks arising from the Group's operations. The Group manages its insurance risk by continuous review and by maintaining a balance between capped self insurance and third party cover against major catastrophes.

Group Outlook

The outlook for the Public Sector and Commercial market, which now represents approximately 55 per cent of the Group's revenue, is positive. We have good visibility of demand and lead indicators continue to be positive. The CPA forecasts that the Public Sector and Commercial Other New Work market will grow by 4.6 per cent in 2008 and a further 4.2 per cent in 2009. The effective implementation of the investment plans outlined in the Government's 2007 Comprehensive Spending Review will be central to this sustained growth over the next three years and from 2009 onwards it is anticipated that building for the 2012 Olympics will also gather momentum.

The Domestic market is more difficult to predict against the current backdrop of lower consumer confidence, tougher loan conditions and a general housing market that has begun to slow. The CPA is forecasting a flat market in Private Housing Repair, Maintenance and Improvement Expenditure for 2008. Our Domestic installers' average order books from the latest survey at the end of February 2008 are 8.4 weeks, a normal level for this time of year. With our ongoing investment in Display Centres we remain well positioned.

We are continuing with our development plans and will maintain a strong emphasis on cash management. The strength of our brand, our efficient manufacturing and sourcing, and our comprehensive distribution network give us confidence for the future.

Redbrick Mill Display Centre, Batley

Corporate Social Responsibility

Marshalls believes in conducting its business in a manner which achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility. Marshalls regard Corporate Social Responsibility ("CSR") as a journey, in the course of which it aims to align increasingly its business values, purpose and strategy with the social and economic needs of its stakeholders, whilst embedding responsible and ethical business polices and practices in everything it does.

The Board takes regular account of social, environmental and ethical matters in the business of the Group and believes in being responsible in the way that it conducts its operations. David Sarti is responsible for managing the key elements of the CSR policy together with a full time CSR manager.

Marshalls is pleased to be a constituent member of the FTSE4Good UK Index. The Group publishes an annual Corporate Social Responsibility Report which is posted to shareholders in September. Copies of the 2007 Report are available on the Company's web site at www.marshalls.co.uk.

Marshalls Playpave

The Market Place

The Group recognises the importance of building and maintaining positive relationships with its customers, suppliers and contractors.

There is a commitment to a process of continual improvement in meeting customers' requirements and expectations. This is highlighted in the established customer service improvement programme. This programme has, since its inception in 2003, resulted in significant and sustained improvement in customer order delivery, on time, in full and with increasingly error free product and administration.

The Group Purchasing Policy sets out the standards and ethics by which business is conducted. It ensures that there is no bias or conflict of interest and all suppliers will be treated fairly and without prejudice. The Group negotiates terms and conditions, including payment terms, with all its principal suppliers. Save in the case of a dispute, payments are made in accordance with such negotiated arrangements.

The Group values and derives considerable competitive advantage from active co-operation with its established suppliers in terms of innovation and product development.

Social and Ethical Responsibilities

The Group takes its Social and Ethical responsibilities very seriously. It was the first member of the Ethical Trading Initiative ("ETI") in its Sector.

As a member of the ETI it is committed to adopting the ETI Base Code on a progressive basis throughout its supply chains with specific focus on China and India. The Code is based on International Labour Organization conventions and as such is widely acknowledged as a model code of labour practice. It contains provisions based on the following principles: no-one should be forced to work; workers should be able to join and form trade unions; working conditions should be safe and healthy; child labour should not be used; working hours should not be excessive; wages should be enough to live on and provide some discretionary income; workers should

be treated equally regardless of their sex, ethnic group, religion or political opinions; where possible, workers should be provided with regular employment; and workers should not be physically abused or disciplined; physical, sexual or other harassment and verbal abuse are prohibited.

As well as adopting the ETI Base Code, the Group has also committed to monitoring and independent verification of its supply chains, awareness-raising and training, driving year-on-year improvements, assessing the impact of its core business activities on labour standards, reporting annually to the ETI on progress and participating in ETI projects.

In August 2007 an independent audit of the Group's sole supplier of Indian natural sandstone showed compliance to the ETI Base Code.

The Environment

Marshalls is committed to assessing and managing the environmental impacts of all its operations. The Environmental Report is on pages 28 to 33.

The Community

The Group is actively involved in programmes to promote good community relations and encourages each business to form and support mutually supportive relationships with their immediate communities which will add value to the local community.

During the year, the Group made charitable donations of £33,511 (2006: £25,657). It is the Group's policy not to make political donations and no political donations were made in the year (2006: £Nil).

Alongside cash donations, the Group supports local community engagement by allowing employees to participate in local projects which add value to the local environment. The Group continues its policy to donate products to community groups and local charities to help transform the local environment for the people living in close proximity to its sites. Details of some of the community projects are included in the full Corporate Social Responsibility Report.

Marshalls continues to be an active member of Business in the Community and has recently joined a Cares' programme to progress further its connections with local communities, schools and other like minded responsible businesses. During 2007 Marshalls contributed to many locally organised initiatives including educational school visits, college tours, work experience schemes and many other local initiatives close to our operations.

Employees

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

Marshalls believes that people are the key to the success of the business and recognises the importance of diversity in terms of the community, its employees and its customers. The Board is committed to promoting and maintaining a working environment where people are treated with respect and where individual talent is recognised and valued.

Sports kit sponsored by Stancliffe Stone

The Company is committed to providing training designed to raise levels of awareness and sensitivity to matters of equality and dignity at work. To these ends, two significant initiatives were launched in 2007 and will continue throughout 2008. Firstly, a number of formal communication sessions have been run, with assistance from specialists in diversity training, to encourage awareness of the importance of a diverse workforce in the broadest sense, where tolerance and respect for individual differences is the norm. Secondly, a major leadership development programme commenced in 2007, in conjunction with Ashridge, one of the world's top business schools. This will run throughout 2008 and almost 50 of the Company's senior managers will participate in an innovative and stretching programme, based on a mixture of lectures, live case studies and real world business projects, designed to expand their appreciation and knowledge of business strategy, team working and self-awareness.

Marshalls aim is to achieve the adoption of fair and merit-based employment policies and adherence to relevant legislation as the minimum acceptable standard. Individuals with recognised disabilities are provided with equality of opportunity during their employment and wherever reasonably practicable, appropriate adjustments are made to ensure that they do not suffer disadvantage in the workplace.

Managers are charged with ensuring that employees for whom they have responsibility are properly inducted at business level and provided with the necessary support both to fulfil their roles effectively and to help them develop to their full potential. In this way, employees are encouraged to engage fully with the businesses in which they work and to identify closely with the Group's strategic aims and objectives.

Investment in personal development continues across the Company with initiatives in place designed to identify and nurture potential, ensure consistent management practices are applied and provide opportunities for succession into more senior roles. These comprise participation in regular internal coaching and mentoring programmes, undertaking internal development projects and assignments and active links with leading business schools, together with on-line access to the most up to date management thinking on leading business and development issues. The Company continues to encourage and support the development of its employees through programmes of NVQ accreditation and attainment of Investor in People status across many sites; to date in excess of 700 employees have attained NVQ accreditation with significant numbers actively working towards them.

An increasing emphasis is being placed on internal communication to employees through the use of e-mail, intranet, newsletters, briefings and both formal and informal presentations.

Further development of information and consultation processes has continued during 2007, maintaining the improvement in communications through the increased involvement of, and engagement with, recognised trades unions and their elected employee representatives.

Employees are actively encouraged to donate funds to charity through payroll which accounted for approximately £23,400 in 2007 (2006: £23,000). In 2007, at the National Payroll Giving Awards, Marshalls was the UK winner of the Best Promotional Partnership with a Charity Award.

Health and Safety

Health and Safety remains one of Marshalls' highest priorities and is considered fundamental to the success of the business. The Group is committed to a policy of continuous improvement of both its health and safety management system and its annual health and safety performance. To complement the extensive management health and safety training programme, 2007 saw the introduction of one day safety refresher courses to ensure that the management population keep abreast of current legislation. Following the successful introduction in 2006 of a LGV Driver Training Programme, last year saw the implementation of a similar programme for company car drivers. Enhanced accident investigation training for first-line managers is planned for 2008 as are training courses on the new corporate manslaughter legislation.

The Safety, Health and Incident Prevention Teams, which consist of employee representatives and managers, continue to be the cornerstone of the safety management system at site level and make a significant contribution to the improving annual safety performance. Manual handling continues to be the major health and safety risk and the Group's policy of eliminating manual handling activities wherever practicable remains unchanged.

Marshalls continues the implementation of BSI accredited Integrated Management Registration throughout the Group. These systems incorporate accreditation to OHSAS (Occupational Health and Safety Accreditation Standard) 18001 and at the end of 2007 a total of 24 sites had secured the OHSAS 18001 accreditation, which represents 78 per cent of all operational employees. The rolling accreditation programme is currently scheduled for completion in 2010, with newly acquired businesses being brought into the programme as soon as appropriate.

In 2005 the Group introduced its Behavioural Safety Programme which aims to identify and resolve potentially unsafe acts in a positive non-judgemental manner. The programme has been progressively rolled out across the Group and this will continue during 2008.

The Group's accident performance is monitored by the Board on a monthly basis. The overall rate of workplace accidents within the Group continues to fall. The number of injury accidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") was 17.8 per 1,000 employees in 2007, compared with 21.4 per 1,000 employees in 2006 a reduction of 17 per cent. The annual target for reduction of this figure remains unchanged for 2008 at 10 per cent. The number of accidents classed as 'Major injury' increased from 8 in 2006 to 12 in 2007.

Accidents and incidents (rate per 1,000 employees)	**2007**	2006
Major injury	**4.2**	2.9
Injury resulting in over 3 absence days from work	**13.5**	18.5
All RIDDORS	**17.8**	21.4
Average UK headcount	**2,804**	2,746

Natural Stone Donation

Environmental Report

Board Responsibility

David Sarti is the Director responsible for the Environmental Performance of the Group.

Environmental Policy

The Group's Environmental Policy, which was reviewed in January 2008, states:

"Marshalls is committed to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations. The Group's aim is that no lasting environmental damage occurs as a result of its activities, and policies are being implemented to ensure that all its operations meet or exceed the requirements of legislation and applicable best practice.

Marshalls regards compliance with relevant environmental laws, and the adoption of responsible standards where no legislation exists, as an integral part of its business strategy and is committed to considering the environmental impacts associated with its products throughout their life cycle. Particular focus is applied to the management of greenhouse gas emissions through implementation of a Climate Change Policy, and, in addition to this, the Carbon Footprint of product families is also seen as an important aspect of the Group's management in this area.

Marshalls has committed to monitor its environmental performance in line with the CPA guidelines. Environmental aspects are identified at each site and corresponding objectives and targets set to reduce the significance of impacts in those areas. These will be reviewed on at least an annual basis to ensure continual improvement.

Marshalls will continue to raise environmental awareness within the Group through the development and training of its employees and will communicate openly and consult with customers, suppliers and other stakeholders on relevant environmental matters.

Marshalls strives to conserve natural habitats and create additional areas of biodiversity value wherever possible. The Group is progressing with the benchmarking of biodiversity at suitable operational sites. The Group also recognises the need for sympathetic restoration and after use of quarry and other operational sites and considers the character of the local environment and the concerns of the local community and other stakeholders when planning such matters".

Environmental Management

During the year, Marshalls continued to roll out Management Systems. Following the publication of Publicly Available Specification 99:2006, "Specification of Common Management Systems Requirements as a Framework for Integration" ("PAS 99"), all new sites are being registered in accordance with its requirements and therefore have an Integrated Management Registration ("IMR"). The IMR allows better integration of ISO 9000: 2000 for Quality Management, OHSAS 18001:1999 for Health and Safety Management and ISO 14001: 2004 for Environmental Management. Sites that had already obtained Integrated Management Systems ("IMS") are transferring to IMR in accordance with a programme agreed with BSI, the Group's registration body.

At the end of 2007 the Group had 55 operational sites compared with 44 in 2006, the additional sites resulting from acquisition and organic growth. Of these sites:

- 32 (2006: 26) had ISO 9000:2000 Quality Management Systems in place representing 74 per cent of the Group's manufacturing output (2006: 84 per cent);
- 24 (2006: 23) had OHSAS 18001:1999 for Health and Safety Management Systems in place representing 72 per cent of the Group's manufacturing output (2006: 82 per cent); and
- 22 (2006: 19) had ISO 14001:2004 for Environmental Management Systems in place representing 68 per cent of the Group's manufacturing output (2006: 78 per cent).

IMS/IMR therefore covers 68 per cent of the Group's manufacturing output (2006: 78 per cent).

In addition, the Group Laboratory and Marketing Support Department have IMS registration which includes Environmental Management to ISO 14001:2004.

While additional sites have obtained registration to IMS and other Management Systems during 2007 the overall percentages of production tonnage registered have dropped solely as a result of the high volume output from the Group's additional sites in 2007.

A plan is in place to continue the roll out programme. The target is still to obtain registration of all sites owned at the beginning of 2007 by the end of 2008. Sites acquired and sites developed through organic expansion during 2007 are planned to be registered by the end of 2009. None of the sites acquired during 2007 had any robust management systems in place.

The target is to have over 85 per cent of the Group's manufacturing output registered to IMR by the end of 2008 based on sites owned and in operation at the end of 2007.

Environmental Impact

The Group continues to review any significant environmental impacts of its operations and utilises CPA KPIs to measure the impacts year on year. The CPA's KPIs are measured on a constant "per tonne of production output" measure. Each KPI has been presented graphically showing five years of comparative data. The KPIs are as follows:

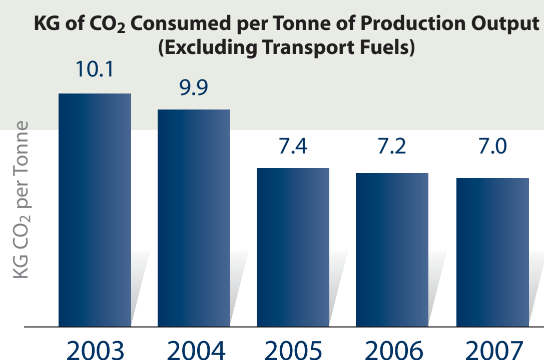
Maltby Conservation Area

Energy

The KPI for energy consumption is the "amount of energy consumed (KG CO_2) at manufacturing sites per tonne of production output excluding transport fuels".

The bar chart below illustrates the Group's performance for 2003-2007.

KG of CO_2 Consumed per Tonne of Production Output (Excluding Transport Fuels)



The Group uses the formulae provided by the Carbon Trust to calculate the CO_2e emissions arising from the fuels that it uses apart from electricity. The CO_2e data arising from consumption of electricity is provided direct by the Group's supplier. This reflects the increased proportion of less polluting generation included in the Group's supply agreement for electricity.

The Group committed to reduce its absolute emissions by 2000 tonnes CO_2e during 2007. Programmes were put in place to deliver this target on a like for like basis. Due to acquisitions and organic growth the Group's production rose by 12.9 per cent during 2007 whilst during the same period the Group's CO_2e emissions increased by only 2.4 per cent. Unlike the CPA KPI the savings detailed include transport operations.

The Group has entered into an agreement with the Carbon Trust to develop an energy saving programme during 2008. This builds on the Group's experience of setting individual targets for each of its main precast concrete manufacturing sites during 2007 which led to increased energy

efficiency and corresponding savings in CO_2e emissions. Similar targets are being used in 2008 and are being rolled out in the Natural Stone operations to ensure Group-wide best practice is adopted in all operations.

During 2007 the Group submitted data to the "Carbon Disclosure Project". The Group agreed to the data submitted being placed in the public domain. In 2007 the Group's CO_2 emissions totalled 60,639 tonnes.

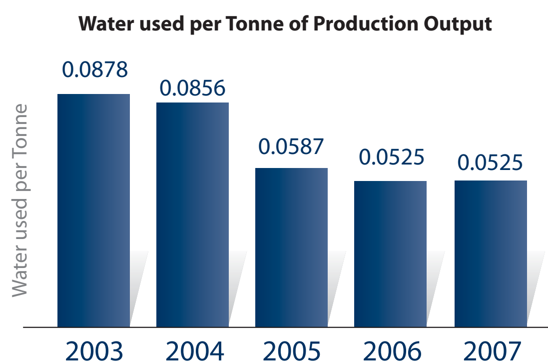
The KPI includes all Group operations including head office, other administrative and support functions. The Group has set a target of saving at least 2,000 tonnes of CO_2e during 2008 based on sites owned and in operation at the end of December 2007.

Water Use

The KPI for water use is the "volume of water used in cubic metres on site (including office and domestic use) from controlled waters (i.e. mains and extracted water) per tonne of production output".

The bar chart below illustrates the Group's performance for 2003-2007.

Water used per Tonne of Production Output



The lack of reduction in water consumption per tonne of production output is due to additional water consumption in the Natural Stone aggregates operation which we have been expanding.

The Group now has two precast concrete factories, where, given average climatic conditions the manufacturing operations are self-sufficient in water by a combination of recycling water and harvesting and storage of rainwater. In 2007 the Group won the Premier Award in the "Business Commitment to the Environment" Awards for its work on these two sites.

Development of a production water balance is ongoing at two further sites. The development of water balances at production sites limits water discharges to domestic sewage discharge other than in exceptional circumstances. Work on achieving a similar water balance is now progressing in the Natural Stone production units with cooling water from stone sawing operations being recycled after cleaning. The Group monitors discharge water from all its precast concrete sites on a monthly basis.

Investment in processes associated with the production of distressed products has reduced the demand for water and subsequent recycling at the pilot site. The investment, which gives clear environmental advantages in water usage, is being rolled out to other sites producing similar products.

The Group's target for water management in 2008 is to reduce consumption from mains and extracted water to below 0.05 cubic metres per tonne of production output based on consumption at the end of December 2007.

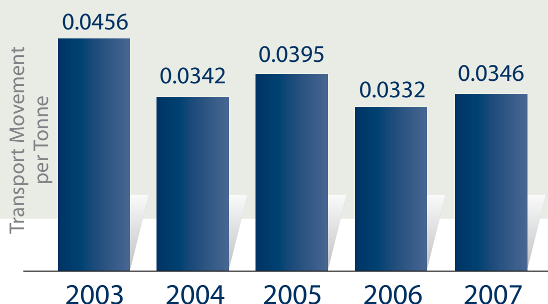
Ramsbottom Rain Water Harvesting

Transport

The KPI for transport is the "number of transport movements (leaving site) made by the company or its contractors via road, rail, water or other method per tonne of production output".

The bar chart below illustrates the Group's performance for 2003–2007.

Transport Movements Per Tonne of Production Output



The slight increase in 2007 has been largely due to the expansion of the Premier Mortars business which has required the use of vehicles carrying a smaller payload to meet customer requirements. This limits the progress on improving the KPI due to greater vehicle movements per tonne of production output.

The Group has been running Euro 3 diesel engine HGVs and has commenced a replacement programme based on Euro 5 diesel engines to reduce emissions further and improve fuel efficiency.

Five per cent bio diesel is now added to the Group's diesel supplies. The Group continues to monitor carefully developments with such fuels and their environmental impact. Likewise the development in dual fuel and hybrid vehicles are also monitored in conjunction with our vehicle suppliers.

Trials with rail transport for long distance deliveries have proved successful. As a result, if appropriate and depending on customer requirements, a small number of deliveries are being transferred from road to rail.

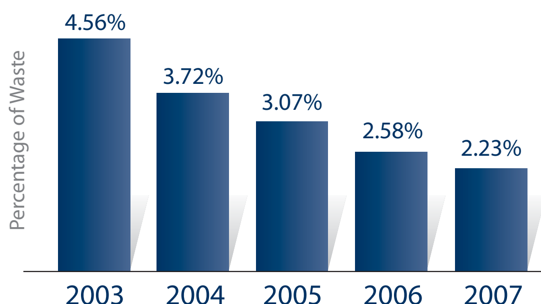
The Service Centre concept with its associated high proportion of locally manufactured products continues to provide environmental dividends by reducing the miles goods have to travel thereby improving transport efficiency while reducing the environmental impact.

Waste Reduction

The KPI for solid waste reduction is the "amount of waste including material for recycling leaving site (tonnes) as a percentage of total production output".

The bar chart below illustrates the Group's performance for 2003-2007.

Percentage of Waste Including Material for Recycling Leaving Site as a Percentage of Total Production Output



The KPI does not differentiate between waste leaving site for recycling and waste leaving site for landfill. In 2007, 82 per cent of the Group's waste was reused or recycled (2006: 76 per cent) with only 18 per cent going to landfill (2006: 24 per cent). During 2008 particular emphasis is being placed on material efficiency to minimise waste of raw materials in the production process.

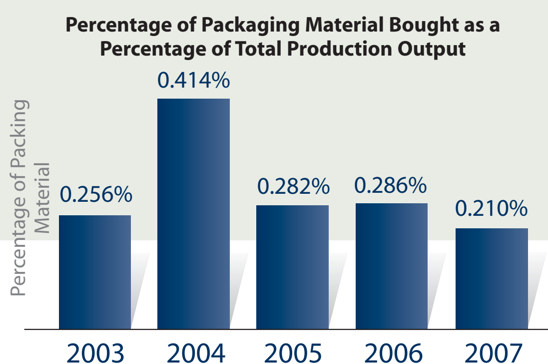
The Group continues wherever possible to use waste materials from other industries as feed materials to its production processes. China clay waste, steel slag waste, slate waste, crushed glass and slag cements are typical of the products being utilised.

The Group's target for waste reduction is to reduce the percentage of waste going to landfill to below 15 per cent total waste produced based on production capacity at the end of December 2007.

Packaging

The KPI for packaging is the "amount of packaging material bought in (tonnes) to be used for the containment, protection, handling, delivery and presentation of goods as a percentage of production output".

The bar chart below illustrates the Group's performance for 2003-2007.



Reed Beds, Eaglescliffe

The Group uses packaging to ensure safe handling, storage and transport of its products. The packaging is also designed to minimise damage to the product and hence waste during the above operations. In addition, the packaging is used to give both health and safety advice to prospective users of the products and instructions on the products installation.

Investment in processes associated with the distressing of certain products is being rolled out across the Group and will result in a reduction in the demand for pallets for the products with resulting environmental benefits. A pallet rationalisation programme has also yielded environmental benefits.

Supplies of timber pallets to the Group are carefully monitored. 75 per cent of the timber used comes from FSC approved sources with the remaining 25 per cent coming from Latvia where there is a Government-run scheme to ensure sustainable practices are followed.

During 2007 the Environment Agency audited the Group under the "Producer Responsibility Obligations (Packaging Waste) Regulations 2007". The Group received a clean audit.

The Group's target for packaging reduction in 2008 is to reduce further the use of timber pallets by 5 per cent and to reduce the tonnage of polythene packaging by 5 per cent based on 2007 consumption.

Suppliers and Contractors

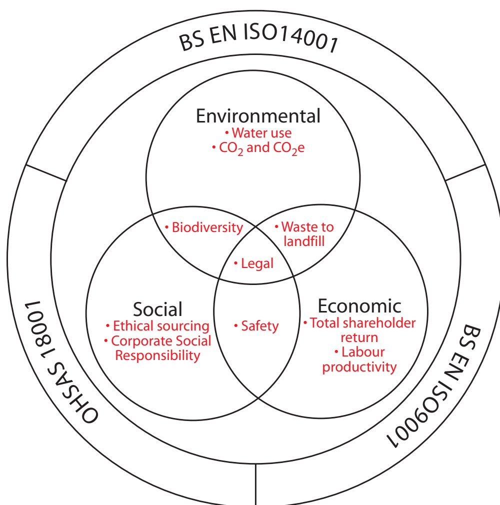
Suppliers and contractors are monitored closely and in particular their environmental impact. The Group continues to aim for all its key suppliers to have Environmental Management Systems in place. This has extended overseas where one important supplier has recently obtained registration to IMS. In other cases the Group works with suppliers to develop environmental best practice and to benefit actively from suppliers environmental activities.

Environmental Impact of Products

The Group maintains its policy of producing products intended for a long life with low maintenance. The product range produces a very low risk of pollution and, in the majority of cases, can be easily recycled at the end of the construction's useful life, either as a primary product in the case of most small element paving or, after crushing, as a secondary aggregate or other form of recycled material. The Group is actively working with the Building Research Establishment to establish the environmental profile of its products and with the Carbon Trust regarding the carbon footprint and carbon labelling of its products. The Group has provided its customers with a Carbon Calculator for its products via its website for both its domestic and commercial range of products. The site also gives details of how customers can offset the carbon calculated.

Sustainability

During 2007 the Group published its second Sustainability Report which is available on the Group's website at www.marshalls.co.uk. The Report gives further details of the Group's Sustainability Plan which sets out to deliver benefits to the environment and all its stakeholders. The plan addresses economic, social and environmental aspects of Marshalls' operations underpinned by development of management systems registered by the independent third party BSI.



Marshalls is an active member of the British Precast Concrete Federation Sustainability Committee. Marshalls is a signatory of the Precast Sector Sustainability Charter.

Land Management

During 2007 all of the Group's major construction projects were contained within existing sites or were on brown field sites with the exception of a new aggregates reserve near Manchester.

Environmental Awareness and Training

The Group continues to be active in developing environmental awareness among its employees by a variety of means. Subsidised bicycles and development of travel plans for employees to reduce the impact of travel to work are but two examples. "Business in the Community" awarded Marshalls a "Big Tick" for excellence in eco–efficiency in its 2007 Awards. "Management Today" placed Marshalls third for environmental activities in its Annual Survey in 2007.

Biodiversity

Following the Award by the Wildlife Trust of the Biodiversity Benchmark to Marshalls' Maltby site, Marshalls continues to develop its biodiversity awareness. It has plans to develop further benchmarked sites to demonstrate its concern for the protection and development of biodiversity for the benefit of the Group and all its stakeholders. The Green Organisation in their annual environmental awards awarded Marshalls a Golden Apple for the Group's work on biodiversity. Marshalls were the overall winner in the construction section of the awards.

Shareholder Information

Shareholder analysis at 31 December 2007

Size of Shareholding	*Number of Shareholders*	*%*	*Number of Ordinary Shares*	*%*
1 to 500	2,139	38.11	326,775	0.23
501 to 1,000	763	13.60	585,747	0.41
1,001 to 2,500	1,121	19.98	1,878,697	1.31
2,501 to 5,000	727	12.95	2,547,897	1.78
5,001 to 10,000	352	6.27	2,521,378	1.76
10,001 to 25,000	166	2.96	2,559,950	1.79
25,001 to 100,000	173	3.08	8,608,678	6.02
100,001 to 250,000	69	1.23	10,654,048	7.44
250,001 to 500,000	42	0.75	15,067,214	10.53
500,001 and above	60	1.07	98,355,870	68.73
	5,612	100.0	143,106,254	100.0

Base cost of Marshalls plc shares following the Scheme of Arrangement

For the purposes of UK taxation of chargeable gains, the base cost of Marshalls plc ordinary shares and B shares can be calculated by apportioning the base cost of the shares of the former Marshalls plc shares between the Marshalls plc ordinary shares and the B shares by reference to the market value of the Marshalls plc ordinary shares on the first day of dealings on 8 July 2004 which was 273.125p (the "quarter up value") and the nominal value of the B shares which is 45 pence.

Financial calendar

Preliminary Announcement of results for the year ended 31 December 2007	Announced	7 March 2008
Annual General Meeting		15 May 2008
Final dividend for the year ended 31 December 2007	Payable	4 July 2008
Interim results for the year ending 31 December 2008	Announcement	29 August 2008
Interim dividend for the year ending 31 December 2008	Payable	5 December 2008
Results for the year ending 31 December 2008	Announcement	Early March 2009

Registrars and general

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, telephone: 0870 702 0000, fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

Amalgamation of shareholdings

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

Dividend mandate

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

Website

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

Directors' Biographical Notes and Advisers

Michael Davies (60) †•
Non-Executive Chairman and Chairman of the Nomination Committee

Joined the Board in October 2004. He is a Non-Executive Director of Taylor Wimpey plc and Pendragon plc. He is the Chairman of the Royal Mint and the Chairman of the Strategic Forum for Construction.

Graham Holden (48)
Chief Executive

Joined the Company in 1986 and was appointed to the Board in 1992. He is a Chartered Accountant and was previously Finance Director and Chief Executive of the Landscape Products Division. He was appointed to his current position on 1 January 2004. He is a Non-Executive Director of KCOM Group Plc.

Ian Burrell (50)
Finance Director and Company Secretary

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

David Sarti (42)
Chief Operating Officer

Joined the Group in March 2001 as Group Operations Director having previously been a business strategy consultant with Accenture. He was appointed to the plc Board in November 2004 and is a Chartered Director.

Richard Scholes (62) *†•
Senior Independent Non-Executive Director and Chairman of the Audit Committee

He was appointed to the Board in July 2003. He is a Non-Executive Director of Chaucer Holdings PLC and Keller Group PLC. He is a Chartered Accountant.

Andrew Allner (54) *†•
Independent Non-Executive Director and Chairman of the Remuneration Committee

He was appointed to the Board in July 2003. He is a Non-Executive Director of Northgate plc. He was previously the Group Finance Director of RHM plc and Chief Executive Officer of Enodis Plc. He is a Chartered Accountant and a former partner of Price Waterhouse.

Bill Husselby (68) *†•
Independent Non-Executive Director

He was appointed to the Board in March 2005. He is Chairman of Cogent Elliott Group, the independent advertising agency and is a Board member of the Welsh National Opera.

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

Advisers

Stockbrokers

Citigroup Global Markets Limited
Landsbanki Securities (UK) Limited

Auditors

KPMG Audit Plc

Legal Advisers

Herbert Smith LLP
Eversheds LLP

Financial Advisers

N M Rothschild & Sons Limited

Bankers

Royal Bank of Scotland plc
Lloyds TSB Bank 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 0000)

Registered Office

Birkby Grange
Birkby Hall Road
Huddersfield HD2 2YA
Telephone: 01484 438900
Facsimile: 01484 438945
Internet address: http://www.marshalls.co.uk

Registered in England and Wales: No. 5100353

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 December 2007. The Consolidated Group Financial Statements have been prepared under International Financial Reporting Standards adopted by the EU ("adopted IFRSs"). The Parent Company Financial Statements have been prepared in accordance with UK Accounting Standards.

Principal Activities and Business Review

The principal activities of the Group are the manufacture and supply of landscape, driveway and garden products from a range of materials, including concrete, natural stone, iron, steel, wood, glass and polyurethane. Further details of the principal activities of the Group are set out in Note 33 on page 100.

The Chairman's Statement on page 4 and the Operating and Financial Review on pages 6 to 23 contain a review of these activities, which includes a fair review of the Group's business and a description of the principal risks and uncertainties.

Details of the Group's policy in relation to employees and information on charitable and political donations are disclosed on page 25.

Details of the Group's policies in relation to Corporate Governance are disclosed on pages 40 to 45.

There are no significant agreements (other than those where disclosure would be seriously prejudicial to the Company) to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a take over bid.

Group Results

The Consolidated Income Statement for the year ended 31 December 2007 is shown on page 60.

Dividends

The Board is recommending a final dividend of 9.30 pence (2006: 8.85 pence) per share which, together with the interim dividend of 4.55 pence (2006: 4.30 pence) per share, makes a combined dividend of 13.85 pence (2006: 13.15 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 4 July 2008 to shareholders registered at the close of business on 6 June 2008.

The dividend paid in the year to 31 December 2007 and disclosed in the Consolidated Income Statement is 13.40 pence (2006: 12.70 pence) per share being the previous year's final dividend of 8.85 pence (2006: 8.40 pence) per share and the interim dividend of 4.55 pence (2006: 4.30 pence) per share in respect of the year ended 31 December 2007 and paid on 5 December 2007.

Share Capital

Details of the share capital is set out in Note 20 on pages 89 to 90.

As at 7 March 2008, the Company had 143,106,254 ordinary shares of 25 pence each in issue. Save for the Treasury Shares and some of the shares held by the Marshalls plc Employee Benefit Trust (the "EBT") as set out below, these ordinary shares carry equal rights to dividends, voting and return of capital on the winding up of the Company. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights other than those prescribed by law, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions of the transfer of securities or voting rights.

During the year all of the B shares in issue which had been issued in June 2004 following a Return of Value exercise, were compulsorily redeemed. Details of the redemption are set out in Note 20 on page 90 .

Details of outstanding awards under the Marshalls plc 2005 Long Term Incentive Plan are set out in Note 18 on pages 86 to 87 . The EBT holds shares in the Company on trust for employees (Investment Shares) and also purchases shares to be granted to Directors and Senior Executives (Matching Shares and Performance Shares) subject to the achievement of Performance Targets. At 31 December 2007 the EBT held 543,744 ordinary shares in the Company in respect of Matching and

Performance Share Awards. No dividends are payable on these shares. The Trustees of the EBT exercise any voting rights in accordance with the Directors' recommendations.

Employees of the Group with more than six months service may participate in the Marshalls plc Share Purchase Plan. Employees purchase ordinary shares in the Company with pre-tax salary. The shares are purchased in the market and then held in Trust by Yorkshire Building Society. Employees receive dividends on these shares and may give voting instructions to the Trustee.

Purchase of Shares

At the Annual General Meeting in May 2007 shareholders gave a limited authority to the Directors to purchase ordinary shares in the Company in the market. During the year, the Group purchased 2,425,000 ordinary shares, representing 1.694 per cent of the issued share capital, which are held as Treasury Shares. No dividends are payable on these shares and no voting rights attach to them. The Directors will seek to renew this authority at the 2008 Annual General Meeting.

Directors

Details of each of the Directors who served throughout the year, together with biographical details, are set out on page 35.

Ian Burrell and Bill Husselby will retire by rotation at the Annual General Meeting. Both of these Directors, being eligible, offer themselves for re-election in accordance with the Company's Articles of Association. Details about the Directors' service contracts or letters of appointment are set out in the Directors' Remuneration Report on page 55.

Details of Directors' attendance at Board and Committee meetings and a statement on Board Evaluation is set out in the Corporate Governance Report.

Directors' Interests

Full details of Directors' remuneration, interests in the share capital of the Company and of their share based payment awards are set out on pages 46 to 56 in the Directors' Remuneration Report.

Articles of Association

The Company's Articles of Association give powers to the Board to appoint Directors. Newly appointed Directors are required to retire and submit themselves for re-election by shareholders at the first Annual General Meeting following their appointment. Specific rules regarding the re-election of the Directors are set out in the Corporate Governance Report on pages 40 to 45.

The Board of Directors may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's Memorandum and Articles of Association. These include specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are included in the Articles of Association and such authorities are renewed by shareholders each year at the Annual General Meeting.

The Articles of Association may be amended by Special Resolution of the shareholders.

Charitable and Political Donations

Details of the charitable and political donations made during the year are set out in the Corporate Social Responsibility Statement on pages 24 to 27.

Disposals and Acquisitions

On 12 January 2007 the Group acquired Clearwell Quarries Limited and, on 5 February 2007, Ollerton Limited, a supplier of high quality and widely specified seating systems, was acquired. In June 2007 a further natural stone business was acquired, which expanded the Group's natural and reconstituted stone walling business in the North East and Scotland.

Since the year end, the Group has acquired a 25 per cent stake in a small natural stone quarrying business.

Fixed Assets

The Group continues to invest in the business with net capital investment in the year of £28.7 million (2006: £24.0 million).

In the opinion of the Directors, the current market value of the Group's interests in land and buildings exceeds the book value by approximately £40 million.

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 2007 was 52 days (2006: 51 days).

Substantial Shareholdings

As at 7 March 2008, the Company had been notified of the following disclosable interests of 3 per cent or more in its voting rights.

	%
M&G Investment Management	11.14
Majedie Asset Management	4.86
AXA S.A.	4.58
Credit Suisse Asset Management	4.43
New Star Asset Management	4.36
Legal & General Investment Management Ltd	4.30
Artemis Investment Management	3.55
Liontrust Asset Management	3.38

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such Financial Statements that references in the relevant part of that Act to Financial Statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to Auditors

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

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 12.00 noon on Thursday 15 May 2008, together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Annual Report.

Auditors

A resolution to re-appoint KPMG Audit Plc as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board
Ian Burrell
Company Secretary
7 March 2008

Corporate Governance

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. It is committed to the principles of the Combined Code on Corporate Governance appended to the Listing Rules of the Financial Services Authority (the Code) and for which the Board is accountable to shareholders.

Statement of Compliance with the Code

Throughout the year ended 31 December 2007 the Company has complied with the Code in all material respects.

The paragraphs below, together with the report on Directors' Remuneration set out on pages 46 to 56 and the Report of the Audit Committee set out on page 57 describe how these principles are applied within the Company.

Directors

The Board, balance and independence

During 2007 the Board was scheduled to meet, and did meet, nine times with additional meetings called if required. In 2008 the Board is scheduled to meet six times with three formal site visits also taking place during the year.

There is a Schedule of Matters Reserved to the Board. Medium and long-term strategy is frequently discussed and meetings are held with members of the Executive team, on a regular basis, to update the Board on business and strategic issues. In addition, the Board is responsible for risk management and for the development of Group policies including areas such as health and safety, social, environmental and ethical issues.

The Board has formally delegated specific responsibilities to Board Committees, including the Audit, Remuneration and Nomination Committees. The Board will also appoint Committees to approve specific processes as deemed necessary. For example, during the year, Board Committees were established to approve dividend payments and preliminary and interim announcements.

The Group's structure operates in such a way to ensure that all decisions are made by the most appropriate people in a timely manner that will not unnecessarily delay progress. The Directors and management teams of each Group business are responsible for those business entities. They are tasked with the delivery of targets approved by the Board and for the implementation of Group Strategy and Policy across their businesses.

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

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

The Board comprises a Non-Executive Chairman, three Executive Directors and three independent Non-Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. Taking into account the provisions of the Code, the Board has determined that each of the Non-Executive Directors is independent and free from any relationships which could compromise their independent judgement. The Board considers it is of sufficient size for the discharge of its duties and that the balance of skills and experience is appropriate for the requirements of the business. The biographical details of the Directors are on page 35.

The Board have appointed a Senior Independent Non-Executive Director who is available to shareholders if they have concerns which contact through the normal channels had failed to resolve or for which such contact is inappropriate.

The attendance of the Directors at the Board and principal Board Committee meetings during the year are detailed in the table below:

	Board (9 meetings)	Audit Committee (4 meetings)	Remuneration Committee (5 meetings)	Nomination Committee (2 meetings)
Mike Davies	9	n/a	5	2
Andrew Allner	8	4	5	2
Ian Burrell	9	n/a	n/a	n/a
Graham Holden	9	n/a	n/a	n/a
Bill Husselby	8	3	4	1
David Sarti	9	n/a	n/a	n/a
Richard Scholes	9	4	5	2

At least once a year the Chairman holds a meeting with the Non-Executive Directors without the Executive Directors being present. Led by the Senior Independent Non-Executive Director, the Non-Executives meet without the Chairman being present, at least annually, to appraise the Chairman's performance.

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

The Company maintains an appropriate level of Directors' and Officers' insurance in respect of legal action against the Directors.

Chairman and Chief Executive

The positions of Chairman and Chief Executive are held by separate individuals. The Chairman is primarily responsible for the leadership and effective working of the Board and ensuring that each Director, particularly the Non-Executive Directors, are able to make an effective contribution. He ensures that there is a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of the Group Strategy and policies approved by the Board. The Board has approved written Terms of Reference for the Chairman and Chief Executive.

The Chairman at the time of his appointment did meet, and continues to meet, the independence criteria set out in the Code.

Appointments to the Board

The Board has an established Nomination Committee to lead the process for Board appointments and to make recommendations to the Board. The Committee meets periodically and at least once each year. The members of the Nomination Committee are the Chairman, who chairs the meetings, and the three independent Non-Executive Directors.

The Terms of Reference of the Nomination Committee were reviewed during the year and are available on the Company's website at www.marshalls.co.uk. These Terms of Reference explain the role of the Committee and the authority delegated to it by the Board. These Terms of Reference state that the Chairman would not chair the Nomination Committee when it is dealing with his own re-appointment or the appointment of a successor to the Chairmanship.

On a regular basis the Nomination Committee undertakes an evaluation of the balance of skills, knowledge and experience on the Board. For a particular appointment it will use this evaluation to prepare a description of the role and capabilities required. This Committee would prepare the job specification, including an assessment of the time commitment expected, when it next appoints a Chairman. There have not been any Board appointments during the year.

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board about filling vacancies on the Board, appointing additional persons to the Board and the re-election by shareholders of any Director under the retirement by rotation provisions in the Company's Articles of Association.

During the year the Nomination Committee reviewed the plans in place for the orderly succession of Directors and senior managers.

Other significant commitments of the Chairman and the Non-Executive Directors were disclosed to the Board before appointment and the Board is notified of any subsequent changes. It is the Company's policy that Executive Directors can only hold one Non-Executive Directorship. Graham Holden is a Non-Executive Director of KCOM Group Plc. Neither Ian Burrell or David Sarti hold Non-Executive Directorships.

The letters of appointment of the Non-Executive Directors will continue to be available for inspection at the Company's registered office. These letters of appointment set out the expected time commitment and Non-Executive Directors undertake that they will have sufficient time to meet what is expected of them.

Information and Professional Development

All Directors are supplied in a timely manner, with all relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the Company's operational and financial performance. At every meeting the Board receives a health and safety report.

To ensure that Directors continually update their knowledge and familiarity with the Company, each year a number of the Board meetings take place at operational sites around the Group. These visits enable the Directors to meet local management and to keep them up-to-date with the business. During 2008 each of the Non-Executive Directors will attend three meetings either at sites or with senior executives to help gain a more detailed understanding of the business.

In addition, each of the Directors has on-line access to the Virtual Learning Resource Centre at Ashridge, which provides Learning Guides covering a broad spectrum of management skills and competencies. During the year the Directors received training on the Companies Act 2006.

New appointments to the Board have experience and skills to bring to the Company. Training is offered to all new Directors. The Chairman, together with the Chief Executive and the Company Secretary, ensure that newly appointed Directors receive full, formal and tailored induction on joining the Board. Newly appointed Directors would be available to shareholders if a meeting were requested. There were no new appointments during the year.

All Directors have access to the advice and services of the Company Secretary and are entitled to rely on the impartial and independent nature of that advice and those services. The Company Secretary is responsible for ensuring that Board procedures are complied with and, through the Chairman, advises the Board on Corporate Governance matters. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board has an approved procedure for all Directors to take independent professional advice at the Company's expense. All Board Committees are provided with sufficient resources to undertake their duties.

Performance evaluation

During the year, the Board conducted an evaluation of its own performance and that of its three principal Committees. A brief questionnaire covering the main areas of the evaluation was prepared by the Chairman and the Secretary and formed the basis of one-to-one discussions between each of the Directors and the Secretary. The evaluation questionnaire included questions about the effectiveness of the Executive and the Non-Executive Directors.

Feedback on the points raised was considered by the Board. The principal conclusions were that there should be a re-allocation of Board time to allow the Non-Executive Directors to spend time visiting sites or meeting with senior management to gain a more detailed understanding of the business, that the style of the Board's financial reporting should be amended to focus on key matters and the mechanics of the Audit and Remuneration Committees should be refined. The exercise was viewed positively by the Directors and it will be undertaken again during the course of the current financial year.

Following the evaluation in 2006 the Board set itself objectives for the year. Progress on these objectives was reviewed in 2007, new objectives for 2008 have been agreed and a Board timetable has been set to ensure that they are properly considered during the year.

As set out above there is an established process to evaluate the performance of the Chairman.

Re-election

The Company's Articles of Association require Directors to retire and seek re-election at the first Annual General Meeting of the Company following their appointment. The Articles of Association include a provision for one third of the Directors to retire and seek re-election at each Annual General Meeting, ensuring that no Director serves more than three years without retiring and being proposed for re-appointment.

Non-Executive Directors are appointed for specific terms subject to reappointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. The Nomination Committee has ensured that performance evaluations for each Director who is retiring by rotation and being proposed for re-election have been undertaken. In the circular to shareholders, accompanying the resolution to re-appoint a Non-Executive Director, the Board will explain why it believes that the Non-Executive Director should be re-appointed. The Chairman will confirm to shareholders when proposing reappointment that, following a formal performance evaluation, the individual's performance continues to be effective and that they demonstrate commitment to the role.

Bill Husselby has completed his first three year term and, following a review, was recently re-appointed for a second three year term. Mike Davies has served one three year term and, following a review during the year, was re-appointed for a second term of three years from October 2007. Richard Scholes and Andrew Allner have each completed one three year term and were re-appointed for a second three year term in July 2006. Any Non-Executive Director serving more than six years will be subject to a particularly rigorous review.

Directors' Remuneration

Details of the Directors' remuneration are set out in the Remuneration Report on pages 46 to 56. The report details the Company's compliance with the Code's requirements with regard to remuneration matters. The Terms of Reference of the Remuneration Committee were reviewed during the year and are available on the Company's website at www.marshalls.co.uk.

Accountability and Audit

Financial Reporting

In presenting the Annual and Interim Financial Statements the Directors seek to present a balanced and understandable assessment of the Group's position and prospects. The Directors have adopted the going concern basis in preparing these Financial Statements.

The responsibilities of the Directors and the Auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditors' Report on pages 38 and 58 to 59 respectively.

Internal Control

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Throughout the year under review and up to the date of this report the Board has operated procedures to meet the requirements of the Code as set out in the 'Internal Control Guidance for Directors on the Combined Code' published in September 1999.

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.

The Risk Committee comprises the Executive Directors. The Risk Committee is responsible for identifying, evaluating and managing any material risks which might threaten the Group's business objectives. In undertaking this work, it receives regular risk reviews and an annual risk assessment report carried out by the head of each business unit. From this information, the Risk 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. In addition, the Risk Register identifies the controls that exist to manage and, where possible, minimise or eliminate those risks. The Risk Register is used to direct action programmes to test the effectiveness, including independent audit assessment, of those controls. This process is regularly reviewed by the Audit Committee on behalf of the Board.

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 2007 by considering reports from both the Audit Committee and the Risk Committee.

Audit Committee and Auditors

Information relating to the Audit Committee is set out in the Report of the Audit Committee on page 57. The report details the Company's compliance with the Code's requirements with regard to audit matters. The Terms of Reference of the Audit Committee are available on the Company's website at www.marshalls.co.uk.

Going Concern

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

Relations with Shareholders

Dialogue with Shareholders

The Board is accountable to shareholders for the Company's continued success. The Board accordingly places great emphasis on maintaining good communications with shareholders.

The Chief Executive and Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives. Reports of these meetings and any shareholder communications during the year, are reported to the Board.

The regular announcements of significant events affecting the Group and the frequent updates on current trading emphasises the Board's commitment to keeping the Company's investors informed of developments affecting the Group. The Company does, periodically, arrange site visits for investors.

From time to time, and when appropriate, the Non-Executive Directors will attend meetings with major shareholders. The Board regularly receives copies of analysts' and brokers' briefings.

The Annual and Interim Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year.

Constructive use of the Annual General Meeting

The Notice of Annual General Meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue including a resolution relating to the Report and Accounts.

A presentation is made on the progress and performance of the business prior to the formal business of the meeting.

The Chairmen of the Audit, Remuneration and Nomination Committee normally attend the Annual General Meeting and are available to answer questions. All Directors normally attend the meeting.

The Board welcomes questions from shareholders who have an opportunity to raise issues informally or formally before or at the Annual General Meeting.

For each resolution the proxy appointment forms provide shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote. The Company will ensure that the proxy form and any announcement of the results of a vote will make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

All valid proxy appointments are properly recorded and counted. For each resolution, after the vote has been taken, information on the number of proxy votes for and against the resolution, and the number of shares in respect of which the vote was withheld, are given at the meeting and are made available on the Company's web site at www.marshalls.co.uk. The Company will continue this practice and will, in future, also include information on the number of shares in respect of which proxy appointments have been validly made.

Directors' Remuneration Report

The Report is divided into two sections. The first section is a letter from the Remuneration Committee Chairman setting out what the Committee is aiming to achieve and how it goes about it. The second section details remuneration in 2007, summarises the decisions taken for 2008 and sets out the policies and other statutory disclosures. The headings clearly marked with an asterisk (*) identify the information that has been audited in accordance with Schedule 7A of the Companies Act 1985. The audited information commences on page 49.

Section 1: Remuneration Committee Aims and Objectives

Dear Shareholder,

Our remuneration policy is designed to ensure that we can attract, retain and continue to motivate talented Executive Directors. The policy seeks to align Executive Directors' remuneration with shareholder interests and achieves this by balancing a median basic package with the opportunity to achieve upper quartile remuneration from a combination of stretching, but achievable, short and long term incentives.

The remuneration package has three key elements:

1. A fixed package which comprises basic salary, a defined contribution pension with Company contributions of 30 per cent of basic salary, life assurance, a fully expensed company car and private medical insurance. Based on independent advice, the Committee considers this package to be around the median level for companies of Marshalls' size and complexity.

2. A performance related bonus to provide a clear link between remuneration and short term business performance. This pays up to 100 per cent of basic salary based on the achievement of underlying profit before tax targets (85 per cent) and cash targets (15 per cent) which are set each year in the light of prevailing market conditions. Of the profit element, 35 per cent is payable for the achievement of target underlying profit before tax. Underlying profit, as opposed to reported profit before tax, is used to avoid bonus performance being impacted by large one-off items and to ensure exceptional investment for long term growth is not deferred due to short term bonus considerations. The Committee has consistently applied its policy for the treatment of positive and negative one-off items and strategic business initiatives, and for any changes to accounting poilicies, for a number of years. The items are generally agreed in advance with the Committee and are subject to review by the Auditors.

   On-target performance therefore results in variable remuneration of 50 per cent of basic salary representing 15 per cent for the achievement of the cash target and 35 per cent for the achievement of the profit target.

3. The Marshalls plc 2005 Long Term Incentive Pan ("LTIP") was introduced in 2005 and is designed to provide an incentive for Executive Directors to achieve medium and long term growth in the business and hence significant increases in shareholder value. The LTIP improves alignment between Executive Directors' and shareholder interests. The Committee can make two Awards each year; Matching Share Awards based on an investment by the Director of part or all of his performance related bonus and a Performance Share Award. Both Awards are subject to the achievement of stretching performance targets. Full details of the LTIP are set out on pages 49 to 54.

   The first Matching Share Awards were granted in 2006 and the first Performance Share Awards were granted in 2007. Consequently, to date no Awards have vested.

Share ownership guidelines

We want our Executive Directors to have a significant level of share ownership to promote alignment with shareholders and accordingly the Committee has set share ownership guidelines. The Chief Executive has a target of twice basic salary and other Executive Directors have a target of one times basic salary. Further details of the guidelines are set out on page 51 and details of progress made during the year to achieve the target are set out on page 52.

Work of the Committee

During the year, the Committee has concentrated on the implementation of the recommendations from last year's full review of remuneration. The remuneration structure above was finally established following the Annual General Meeting in May 2007. Subsequently, New Bridge Street Consultants LLP (New Bridge Street), advisers to the Committee, have confirmed that the current remuneration package is competitive and remains appropriate for the Company.

In 2008 the Committee will continue to monitor the effectiveness of the remuneration package as it becomes established to ensure it encourages and rewards performance and provides clear alignment between the interests of Executive Directors and shareholders. The Committee will also give consideration to environmental, social and governance issues when reviewing the incentive package for the Executive Directors and senior managers. The Committee has made the following decisions in respect of basic salary for 2008, bonus payments for 2007 and targets for 2008 and LTIP awards for 2008.

Basic Salary

The 2008 basic salary increases were determined following a review of individual and corporate performance, being aware of salary increases awarded to employees and noting advice from New Bridge Street on market data. The increase for the Chief Executive, Graham Holden, of 5.3 per cent to £400,000 is in line with the median salary increase for Chief Executives in comparable companies. The 9.5 per cent increases for Ian Burrell and David Sarti to £230,000 reflect additional responsibility and performance, and complete the move of their basic salaries to the median for comparable companies. Details of remuneration for 2007 are set out on page 49.

Annual Performance Bonus targets for 2008 and payments for 2007

The bonus structure for 2008 will be set on the same basis as 2007 as previously described on page 46. A maximum annual performance bonus of 100 per cent of basic salary is achievable.

During 2007 the cash target was achieved in full so 15 per cent is payable. The target level for underlying profit before tax was exceeded with good relative performance being achieved but the actual outcome was less than that required to receive maximum payment. This resulted in 62.2 per cent of the maximum 85 per cent being earned. Accordingly, a total annual performance bonus of 77.2 per cent of salary is payable to the Executive Directors. The annual performance bonus payments are shown in the table on page 49.

Marshalls plc 2005 Long Term Incentive Plan (the LTIP)

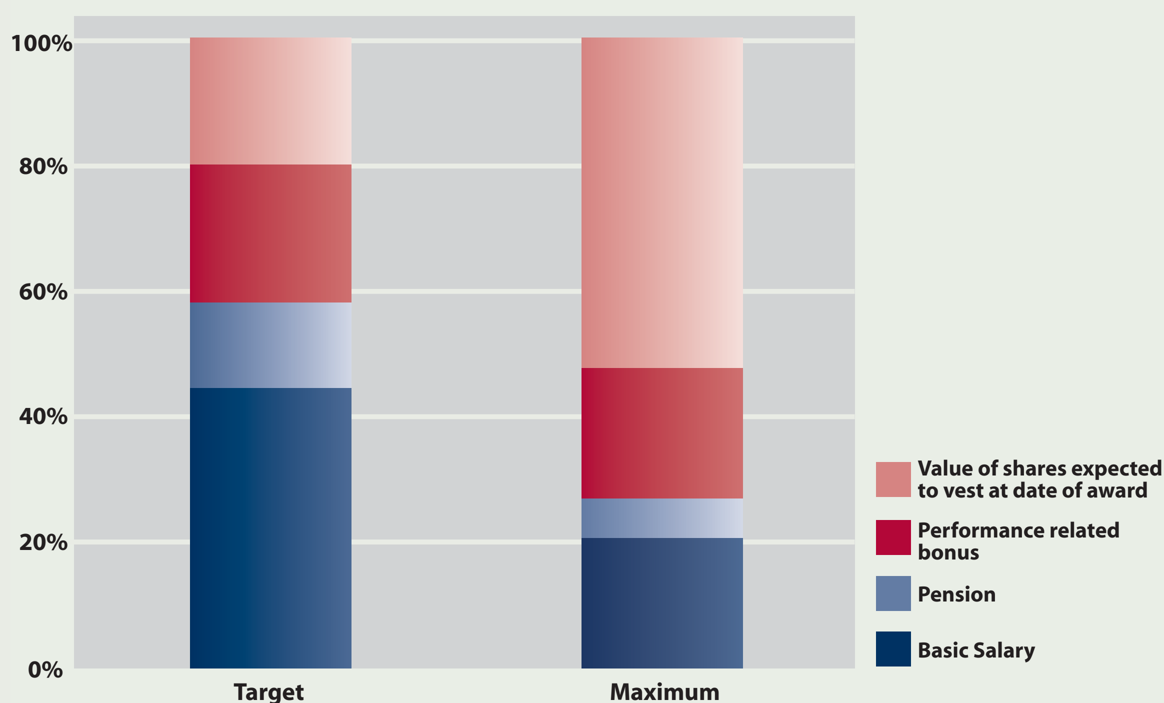
For the third year running I am pleased that each of the Executive Directors has indicated their intention to invest their full annual performance bonus in Marshalls plc shares by acquiring Investment Shares. The Remuneration Committee has approved Matching Share Awards which will be granted in respect of these Investment Shares.

The Committee has also approved Performance Share Awards. The Award to the Chief Executive will be 75 per cent of basic salary and Awards to the Executive Directors will be 50 per cent of basic salary.

Fixed and Variable Remuneration

The chart below shows that a significant proportion of the Executive Directors' pay is performance related. It shows the balance between fixed and performance related pay at target and maximum performance levels. Maximum performance assumes achievement of a maximum bonus, fully invested in the LTIP and full vesting of shares under the LTIP.

Relative proportion of fixed and variable remuneration



At target, over 40 per cent of remuneration is performance related, and this increases to over 70 per cent at maximum with a greater weighting on the long term incentives.

I hope you find this new style report helpful and informative.

Andrew Allner
Chairman of the Remuneration Committee

Section 2: Directors' Remuneration and Statutory Disclosures

Directors' Remuneration*

	Salary/ fees	Annual performance bonus	Benefits	Total remuneration (excluding pensions)		Pension defined contribution payments		Maximum potential LTIP shares awarded
				2007	2006	2007	2006	Number
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	of shares
Chairman								
Mike Davies	145	-	-	145	125	-	-	-
Executive Directors								
Ian Burrell	210	162	16	388	340	63	56	126,112
Graham Holden	380	293	14	687	641	114	54	263,920
David Sarti	210	162	19	391	323	63	53	121,263
Non-Executive Directors								
Andrew Allner	43	-	-	43	42	-	-	-
Bill Husselby	33	-	-	33	32	-	-	-
Richard Scholes	43	-	-	43	42	-	-	-
	1,064	617	49	1,730	1,545	240	163	511,295

Notes to Directors' Remuneration

(a) The salaries, fees, annual performance bonuses and benefits all relate to the year ended 31 December 2007.

(b) The highest paid Director in the year was Graham Holden.

(c) Benefits are the provision of a fully expensed Company car and medical insurance.

(d) Graham Holden was appointed a Non-Executive Director of KCOM Group Plc in November 2007. During the year he received a fee of £4,432 from this company which is not included in the above figures.

(e) The pension contribution for Graham Holden in 2006 was for the six months between July 2006 and December 2006. Prior to July 2006 he was an active member of the Defined Benefit Section of the Scheme.

(f) Details of the maximum potential LTIP shares are set out on page 50.

Non-Executive Directors' Fees

The fees for the Non-Executive Directors were reviewed in July 2006. The basic fixed annual fee is £33,000 with an additional fee of £10,000 for the Chairmanship of a Board Committee. During the year the Chairman received a fixed fee of £145,000.

Neither the Chairman nor the Non-Executive Directors receive any other benefits or participate in the pension or share based incentive schemes.

From 1 January 2008 the fees for the Non-Executive Directors will be increased by 4.2 per cent to reflect an increase in the cost of living.

In addition to the above, the Non-Executive Directors receive an annual fixed gross payment of £5,000 (in respect of the Chairman, £10,000) to cover travelling, accommodation and subsistence expenses.

Marshalls plc 2005 Long Term Incentive Plan (the LTIP)

Shareholders approved the LTIP at the Annual General Meeting in May 2005 which provided Executive Directors and senior executives with an opportunity to invest a proportion of their net annual performance bonus in Investment Shares. Matching Share Awards are then granted based on the grossed up value of these Investment Shares. At the Annual General Meeting in May 2007 shareholders approved an amendment to the LTIP which introduced Performance Share Awards, where Executive Directors and senior executives are eligible to receive conditional awards of up to 100 per cent of basic salary each year. The vesting of the Matching Share Awards and the Performance Share Awards is subject to the achievement of different three year performance targets as set out below.

Having considered feedback from our shareholders, an Executive Director may not receive Matching Share Awards and Performance Share Awards in any financial year over shares having a total market value (at grant) in excess of 250 per cent of his annual basic salary in that financial year.

Details of the LTIP awards made to the Directors are set out on page 52.

Investment Shares and Matching Share Awards

Executive Directors, subject to a minimum threshold and the Share Ownership Guidelines, are required to invest 50 per cent of their annual performance bonus in the LTIP. They may choose to invest the full value of their net annual performance bonus in the LTIP on a voluntary basis. This will further improve the alignment between management and shareholders.

The annual performance bonus investment is used to purchase Investment Shares and Executive Directors receive a Matching Share Award that is limited to two times the number of Investment Shares, grossed up for tax, subject to the achievement of a three year earnings per share (EPS) performance condition. The Matching Share Award is dependent upon an improvement in reported EPS measured using International Financial Reporting Standards and subject to the discretion of the Committee with regard to one-off items.

For the Matching Share Awards granted in March 2006, the EPS performance conditions were:

RPI + 2 per cent per annum	50 per cent match
RPI + 3 per cent per annum	100 per cent match
RPI + 6 per cent per annum	200 per cent match

Straight line matching occurs between these points.

For the Matching Share Awards granted in March 2007, the EPS performance conditions were:

RPI + 9 per cent over 3 years	50 per cent match
RPI + 21 per cent over 3 years	200 per cent match

Straight line matching occurs between these points.

No Awards will vest for performance below RPI + 9 per cent over three years.

The Committee intends to grant Matching Share Awards shortly after the announcement of Preliminary Results on 7 March 2008. These Awards will be based on the performance conditions adopted in March 2007 as set out above.

Performance Share Awards

Executive Directors are eligible to receive Performance Share Awards of up to 100 per cent of basic salary each year. The vesting of an Award is to be equally dependent upon an improvement in reported EPS, measured using International Financial Reporting Standards and subject to the discretion of the Committee with regard to one off items, and operating cash flow ("OCF") growth. Both targets are measured over a three year performance period. OCF will be calculated by taking the aggregated OCF for the three financial years preceding the year of grant of the Award and comparing it with the aggregate OCF for the three financial years of the performance period.

The Committee intends to grant Performance Share Awards, based on these performance targets, shortly after the announcement of Preliminary Results on 7 March 2008. The Award to the Chief Executive will be 75 per cent of basic salary and Awards to the Executive Directors will be 50 per cent of basic salary.

The performance measures are considered the most appropriate measures of long term performance at Marshalls plc and the targets have been calibrated to reflect the current prospects of the business. The performance conditions reflect the Company's focus on earnings growth and cash flow, thereby providing alignment with the Company's internal objectives of earnings growth and efficient management of working capital, particularly stock.

No awards vested during the year. The first Matching Share Awards were made in 2006 and 2007 and the first Performance Share Award was made in 2007 so no awards can vest until 2009 and 2010 respectively.

Potential LTIP Award

The chart below illustrates the potential LTIP reward that would be payable in any one year to the Chief Executive based on the current reward policy set by the Committee.

Performance Share Award conditions

Three year earnings per share growth	Proportion of total award vesting
RPI + 9 per cent	12.5 per cent
RPI + 21 per cent	50 per cent
Straight line vesting occurs between these points.	

Three year operating cash flow growth	Proportion of total award vesting
RPI + 9 per cent	12.5 per cent
RPI + 21 per cent	50 per cent
Straight line vesting occurs between these points.	

No Awards will vest for performance below RPI + 9 per cent over three years.

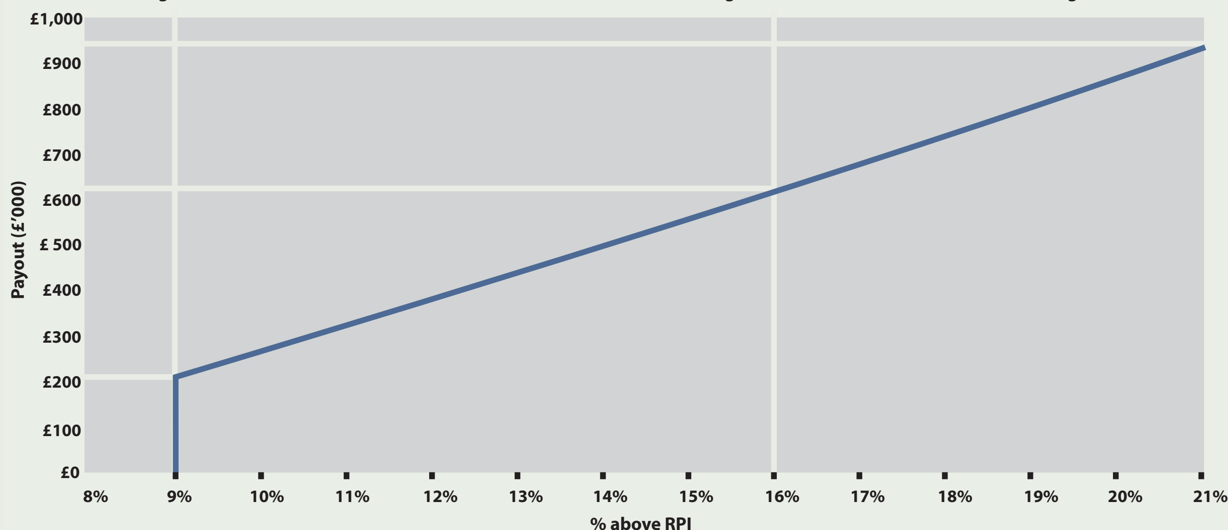
It assumes a 50 per cent of salary annual bonus pay out, assumed to be deferred into the Company's shares (Investment Shares) with a corresponding Matching Share Award and a 75 per cent of salary award of Performance Shares. It is based on the Chief Executive's current salary of £400,000 and assumes the Company share price increases in line with EPS performance i.e. that the Company's share price earnings ratio remains constant. In addition, OCF performance is assumed to be in line with EPS performance and RPI over the 3 year period is forecast to be 12.5 per cent.

Based on these assumptions the maximum LTIP amounts payable to the Chief Executive in three years time would be £0.9 million for EPS growth of RPI +21 per cent over the three year period. The achievement of this level, of growth is considered stretching by the Committee and would be expected to produce a significant increase in value for shareholders.

The market capitalisation of the Company on 6 March 2008 was £372 million and the share price was 264 pence.

Share Ownership Targets

Details of the share ownership guidelines are set out on page 53 below. The number of shares held by each of the Executive Directors has increased substantially during the year as illustrated in the table on page 52. Each of the Executive Directors has indicated that it is their intention to invest their full 2007 annual performance bonus (payable in March 2008) in Marshalls shares. This is expected to result in the share ownership targets being met for all Executive Directors.



Share Ownership Targets

	Number of shares held on 31 December 2006	Number of shares held on 31 December 2007	Percentage increase in number of shares held %	Percentage of target as at 6 March 2008 %	2007 net bonus to be invested in the LTIP £'000
Ian Burrell	42,982	69,872	62.6	80.2	96
Graham Holden	245,565	299,290	21.9	98.7	173
David Sarti	33,686	69,001	104.8	79.2	96

Notes to Share Ownership Targets

(a) The share price on 6 March 2008 was 264 pence.

(b) The gross 2007 annual performance bonus payments are set out on page 49.

Directors' Interests, Share Options and Long Term Incentive Plan Awards *

Directors' Interests

	1 January 2007				31 December 2007			
	Ordinary Shares	Marshalls Share Purchase Plan Shares	LTIP Investment Shares	Total	Ordinary Shares	Marshalls Share Purchase Plan Shares	LTIP Investment Shares	Total
Andrew Allner	8,333	-	-	8,333	20,000	-	-	20,000
Ian Burrell	26,716	35	16,231	42,982	28,216	481	41,175	69,872
Mike Davies	30,000	-	-	30,000	35,000	-	-	35,000
Graham Holden	214,106	35	31,424	245,565	219,106	481	79,703	299,290
Bill Husselby	10,000	-	-	10,000	30,000	-	-	30,000
David Sarti	19,739	35	13,912	33,686	31,094	481	37,426	69,001
Richard Scholes	3,000	-	-	3,000	13,000	-	-	13,000

Notes to Directors' Interests

(a) There were no changes to the above mentioned interests between 1 January 2008 and 7 March 2008 save that each of the Executive Directors acquired 145 shares in the Marshalls plc Share Purchase Plan (the Plan) between January and March 2008. The Plan is an HM Revenue & Customs approved Employee Share Incentive Plan which was approved by shareholders in 2006. All employees with more than 6 months service are eligible to participate in the Plan which entitles them to purchase shares in the Company with pre-tax salary.

(b) The Non-Executive Directors are not eligible to participate in the Marshalls plc Share Purchase Plan or the LTIP.

(c) None of the Directors held any share options during the year.

Marshalls plc Long Term Incentive Plan (the LTIP)

	Matching Share Awards at 1 January 2007 (shares)	Matching Share Awards granted during the year (shares)	Performance Share Awards granted during the year (shares)	Date of grant	Market price of shares on date of grant (pence)	Fair value of shares on date of grant (pence)	Market value on date of grant (£)	Market value on 31 December 2007 (£)	Vesting period starting on date of grant (years)
Ian	55,018			31 March 2006	345	290	189,812	132,593	3
Burrell		84,556		16 March 2007	326	296	275,653	203,780	3
			41,556	17 May 2007	379	335	157,500	100,150	3
Graham	106,521			31 March 2006	345	290	367,497	256,716	3
Holden		163,657		16 March 2007	326	296	533,522	394,413	3
			100,263	17 May 2007	379	335	380,000	241,634	3
David	47,158			31 March 2006	345	290	162,695	113,651	3
Sarti		79,707		16 March 2007	326	296	259,845	192,094	3
			41,556	17 May 2007	379	335	157,500	100,150	3

Notes to the Long Term Incentive Plan

(a) None of the Awards disclosed above lapsed or vested during the year.

(b) The share price on 31 December 2007 was 241 pence.

(c) The Matching Share Awards are subject to an EPS performance target and the Performance Share Awards are subject to EPS and OCF performance targets as set out above.

Statutory Disclosures

Role of the Committee

The Committee is responsible for determining, on behalf of the Board, the framework of remuneration for the Executive Directors and reviewing the on-going appropriateness and relevance of the policy. The Committee approves the general recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and service terms for the Executive Directors. It also approves the rules and associated guidelines for share based award schemes.

General Policy

It continues to be the Committee's policy to set the remuneration package at median for median performance, and upper quartile for exceptional performance. In setting all elements of remuneration the Committee is advised by independent consultants and uses data from external research into the salaries and benefits paid by companies in the FTSE 250, taking full account of the size of the Company.

During the year, the Committee has taken advice from New Bridge Street on remuneration packages and long term incentive arrangements. New Bridge Street was appointed by the Committee and does not have any other connection with the Company.

In reviewing Executive 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.

Performance Related Pay

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

The performance related elements of the remuneration package are the annual performance bonus and the LTIP.

Share Ownership Guidelines

As a matter of policy, the Executive Directors are encouraged to hold shares in Marshalls. The targets, which were set in 2004, are for the Chief Executive to hold shares equal in value to twice his basic salary and for the remaining Executive Directors to hold shares equal in value to their annual basic salary.

The shareholding guidelines were reviewed by the Committee during 2007 as part of its review of the LTIP and the introduction of the Share Performance Plan Awards. Following the review (i) the principle of reinvesting at least half of the annual performance bonus will apply until the guidelines are met; and (ii) at least half of the after tax value of shares must be retained from vested Matching Share Awards and Performance Share Awards until the guidelines are met.

Remuneration of Executive Directors

Basic Salary

The Committee seeks to pay salaries which take account of individual performance and are similar to those paid in comparable companies in the FTSE Construction & Materials Sector and the FTSE 250 more generally. Each year the Executive Directors, along with all employees, receive a cost of living increase. Further increases will be awarded on merit, increased responsibility or to take account of changes in comparable companies. The Committee uses comparisons with caution to avoid increasing remuneration levels without a corresponding improvement in performance. Basic salary is reviewed at 31 December each year or when a change of responsibility occurs.

Annual Performance Bonus

The principle behind the 2007 annual performance bonus was to align clearly shareholder interests with Executive Director remuneration and reward Executives for creating shareholder value.

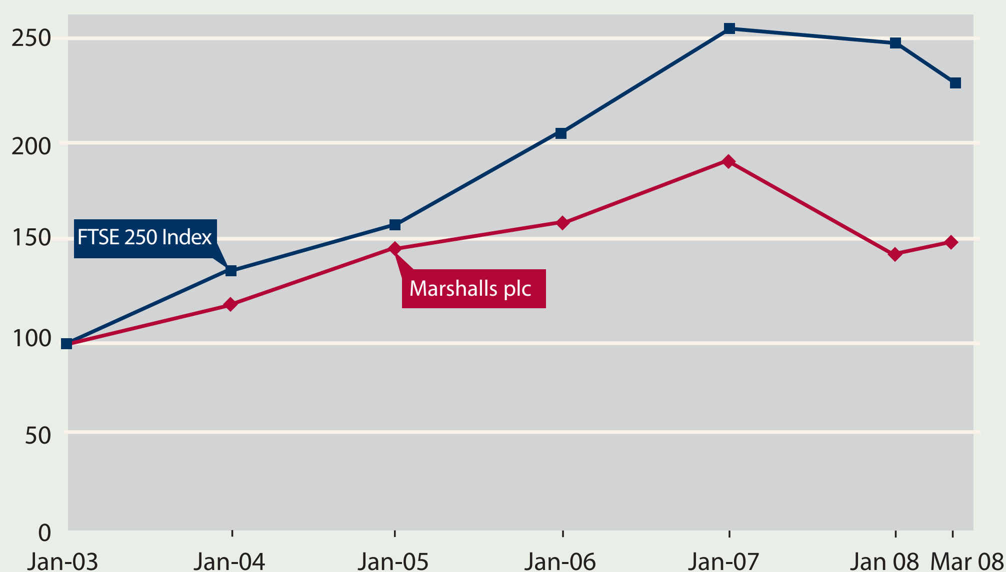
Executive Directors have a maximum bonus opportunity of 100 per cent of salary. This was set having considered awards made in other FTSE 250 companies.

The annual performance bonus for 2007 comprises 15 per cent for the achievement of a cash target and up to a maximum of 85 per cent for meeting a target for underlying profit before tax set by reference to the previous year, budget and market expectations for the year. Underlying profit before tax reflects an adjustment to the reported profits before tax in respect of one-off items such as property profits, the pension curtailment gain and strategic business initiatives.

Marshalls plc 2005 Long Term Incentive Plan (the LTIP)

Full details of the LTIP are set out on pages 49 to 54 above.

Five Year Total Shareholder Return



This graph shows the Group's total shareholder return (TSR) performance compared to the FTSE 250 Index for the period from 1 January 2003 to 6 March 2008. TSR is defined as share price growth plus reinvested dividends. This provides a basis for comparison as a relevant equity index in which Marshalls plc is a constituent member. Marshalls has a TSR for the above period of 46.6 per cent compared to a TSR provided by the FTSE 250 Index of 132.4 per cent. In the opinion of the Directors the FTSE 250 Index is considered the most appropriate index against which the TSR of the Group should be measured because it represents a wider index of alternative investments for shareholders.

External Board Appointments

The Committee considers that external directorships provide the Executive Directors with a valuable opportunity to broaden their knowledge and experience and that such appointments are of benefit to the Company. The Committee believes that it is reasonable for the individual Director to retain any fees received from such appointments given the additional personal responsibility that this entails. An Executive Director may only be appointed as a Non-Executive Director to one other company.

Service Contracts

Each of the Executive Directors has a service contract with the Company which is terminable by the Company on not more than twelve months' notice and by the Director on six months' notice. These contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each circumstance and the compensation that may be paid.

It will take into account the best practice provisions of the Code and it will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Committee does, periodically, consider what compensation commitments the Executive Directors' contracts would entail in the event of early termination.

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

The Company's practice is to appoint the Non-Executive Directors, including the Chairman, under letters of appointment. Their appointment is usually for a term of three years. Either the Company or the Non-Executive Director may terminate the appointment before the end of the current term on 6 months' notice. If the unexpired term is less than 6 months, notice does not need to be served.

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

Andrew Allner and Richard Scholes completed their first three year term during 2006 and, following a review, they have both been re-appointed for a second three year term.

During the year, as part of the Non-Executive Directors' appraisal of the Chairman, it was noted that his term of office would expire in October 2007. Following the appraisal a recommendation was made to the Board by the Nomination Committee that he be appointed for a second three year term. This offer has been made to, and accepted by, the Chairman.

Bill Husselby completed his first three year term in March 2008. Following a review he was re-appointed for a second three year term in February 2008.

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

	Appointment date	Notice period
Ian Burrell	June 2001	1 year
Graham Holden	August 1992	1 year
David Sarti	November 2004	1 year

	Appointment date	Term of appointment
Mike Davies	October 2004, renewed September 2007	3 years
Andrew Allner	July 2003, renewed July 2006	3 years
Bill Husselby	March 2005, renewed February 2008	3 years
Richard Scholes	July 2003, renewed July 2006	3 years

	Age at 31 December 2007	Years of service at 31 December 2007	Accrued entitlement 31 December 2007 £'000	Increase in accrued entitlement earned during the year £'000	Transfer value of pension increase earned in year £'000
Graham Holden	48	21	142	nil	nil

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

	Transfer value as at 31 December 2007 £'000	Transfer value as at 31 December 2006 £'000	Increase in transfer value less member's contribution over the year £'000
Graham Holden	1,763	1,659	104

Notes to Pension Entitlements

(a) The transfer value has been calculated in accordance with Actuarial Guidance Note GN11 less transfer value and Director's contributions.

Pension Benefits *

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

Ian Burrell, Graham Holden and David Sarti are members of the Defined Contribution Section of the Scheme. The Company makes a contribution of 30 per cent of their basic salary and they are required to make a minimum contribution of 6, 4 and 3 per cent respectively of their basic salary. They are eligible for a lump sum payment and dependants' pension benefits on death in service.

Following 'A-Day' and the changes to tax treatment of pension provision for individuals, the Committee in 2006 introduced the option for Executive Directors to take a salary supplement in place of the Company's contribution to the Scheme. The salary supplement would be set at a level which incurs no additional cost for the Company. Other Scheme benefits, such as life assurance, would remain unchanged.

As a former member of the Defined Benefit Section of the Scheme, Graham Holden is entitled to a deferred pension. In addition, the Scheme provides for a pension for dependants and, in the event of death within the first five years following the date of retirement, a lump sum payment equal to the balance of the pension entitlement for that five year period.

On 1 July 2006, the Group replaced the Defined Benefit Section of the Scheme with a Defined Contribution Section for all active members, including Graham Holden. The pension entitlement shown below is that which was preserved in the Scheme when he ceased to be an active member of the Defined Benefit Section on 30 June 2006.

There are no other disclosable transactions by the Group under IAS 24, "Related Party Disclosures". 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.

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

Andrew Allner
Chairman of the Remuneration Committee
7 March 2008

Report of the Audit Committee

The Board has an established Audit Committee. Each of its members is an independent Non-Executive Director. The Board is satisfied that this Committee includes members that have recent and relevant financial experience required by the Code. Richard Scholes, who is the Chairman, and Andrew Allner are both Chartered Accountants. During part of the year Andrew Allner was the Group Finance Director of RHM plc.

The main role and responsibilities of the Audit Committee are set out in written Terms of Reference which were reviewed during the year and are available on the Company's website at www.marshalls.co.uk.

The Audit Committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor to the Board, to put to shareholders for their approval at the Annual General Meeting. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditor. Any work awarded to the external auditors with a value in excess of £25,000, or in aggregate a value exceeding £50,000 in any financial year, other than audit and tax compliance, requires the specific approval of the Audit Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the external auditors. Details of amounts paid to the external auditors for audit and non-audit services in 2007 are analysed in Note 3 on page 72. The aggregate amount paid to other firms of accountants for non-audit services was £205,000 (2006: £181,000).

This Committee reviews the Interim and Annual Financial Statements before submission to the Board and reviews the effectiveness of the Group's internal control system.

The Audit Committee reviews the planned Internal Audit Programme. The results of all assignments have been reported to the Audit Committee during the year. These assignments form part of a much wider programme of independently audited aspects of the Group's operations.

The Audit Committee has, during the year, reviewed the arrangements by which employees, and other people working for the Company, may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The Company does have a Serious Concerns Policy (Whistleblowing Policy) which is available to all employees. It is displayed on notice boards and on the Company's intranet. The policy sets out the procedure for employees to raise legitimate concerns about any wrong-doing without fear of criticism, discrimination or reprisal. This includes the right to speak directly to the Chairman of the Audit Committee. The policy was reviewed during the year and the Audit Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee monitors and reviews the effectiveness of internal control activities and during the year it considered whether there was a need for an in-house internal audit function. It concluded, having reviewed the current process where firms of external accountants (other than the Company's auditors) carry out regular internal audit assignments of a financial and systems nature, that this was the most effective means of managing the internal audit function. In addition, the Audit Committee noted that the Company supported the work of the internal audit function with a self certification internal control process.

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

Richard Scholes
Chairman of the Audit Committee
7 March 2008

Independent Auditors' Report to the Members of Marshalls plc

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Marshalls plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expenses, the Parent Company Reconciliation of Movement in Shareholders' Funds and the related Notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 38.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Operating and Financial Review that is cross referred from the Business Review Section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007;
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 The Embankment
Neville Street
Leeds
7 March 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Notes	**2007 £'000**	2006 £'000
Revenue	2	**402,926**	378,100
Net operating costs	3	**(354,116)**	(330,339)
Operating profit	2	**48,810**	47,761
Financial expenses	5	**(17,596)**	(14,904)
Financial income	5	**10,889**	8,846
Profit before tax	2	**42,103**	41,703
Income tax expense	6	**(11,852)**	(12,623)
Profit for the financial period attributable to equity shareholders of the parent	20	**30,251**	29,080
Earnings per share:			
Basic	8	**21.28p**	20.34p
Diluted	8	**21.19p**	20.32p
Dividend:			
Pence per share	7	**13.40p**	12.70p
Dividends declared	7	**19,098**	18,158

The notes on pages 63 to 95 form part of these Consolidated Financial Statements

Consolidated Balance Sheet

at 31 December 2007

	Notes	2007 £'000	2006 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**209,313**	202,941
Intangible assets	10	**60,147**	52,667
Deferred taxation assets	19	**7,055**	15,018
		276,515	270,626
Current assets			
Inventories	11	**82,920**	68,256
Trade and other receivables	12	**42,866**	34,290
Cash and cash equivalents	13	**19**	22
Assets held for sale	14	**8,199**	-
		134,004	102,568
Total assets		**410,519**	373,194
Liabilities			
Current liabilities			
Bank overdraft	13	**27,840**	999
Trade and other payables	15	**60,236**	57,362
Corporation tax		**8,710**	8,185
Interest bearing loans and borrowings	16	**7,234**	3,565
		104,020	70,111
Non-current liabilities			
Interest bearing loans and borrowings	16	**61,871**	50,064
Employee benefits	18	**17,795**	41,945
Deferred taxation liabilities	19	**26,192**	26,532
		105,858	118,541
Total liabilities		**209,878**	188,652
Net assets		**200,641**	184,542
Equity			
Capital and reserves attributable to equity shareholders of the parent			
Share capital	20	**35,777**	35,777
Share premium account	20	**2,734**	2,732
Own shares	20	**(8,866)**	(453)
Capital redemption reserve	20	**75,394**	73,298
Consolidation reserve	20	**(213,067)**	(213,067)
Hedging reserve	20	**(3)**	(6)
Retained earnings	20	**308,672**	286,261
Equity shareholders' funds		**200,641**	184,542

Approved at a Directors' meeting on 7 March 2008.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 63 to 95 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Net cashflow from operating activities	21(i)	**27,666**	38,846
Net cashflow from investing activities	21(ii)	**(41,577)**	(28,033)
Net cashflow from financing activities	21(iii)	**(12,933)**	(17,000)
Net decrease in cash and cash equivalents		**(26,844)**	(6,187)
Cash and cash equivalents at 1 January		**(977)**	5,210
Cash and cash equivalents at 31 December	13	**(27,821)**	(977)

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2007 £'000	2006 £'000
Net decrease in cash and cash equivalents		**(26,844)**	(6,187)
Cash inflow from increase in debt and lease financing		**(14,890)**	(1,731)
Finance leases acquired on acquisition of subsidiary undertakings		**(586)**	-
Movement in net debt in the period		**(42,320)**	(7,918)
Net debt at 1 January		**(54,606)**	(46,688)
Net debt at 31 December	22	**(96,926)**	(54,606)

Consolidated Statement of Recognised Income and Expenses

	2007 £'000	2006 £'000
Cash flow hedges: Effective portion of changes in fair value (net of deferred taxation)	**3**	(4)
Actuarial gains (net of deferred taxation)	**12,610**	7,342
Net expense recognised directly in equity	**12,613**	7,338
Profit for the financial period attributable to equity shareholders of the parent	**30,251**	29,080
Total recognised income and expenses for the period (attributable to equity shareholders of the parent)	**42,864**	36,418

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 7 March 2008.

The following paragraphs summarise the significant accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's Consolidated Financial Statements. IFRS7 - "Financial Instruments: Disclosures" has been applied from 1 January 2007. This standard has required additional disclosures to be made including minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis.

The following published accounting standard is not yet effective:

- IFRS8 - "Operating Segments" (1 January 2009) - Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources. Management is currently assessing the impact of IFRS8 on the Group's Consolidated Financial Statements.

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Parent Company has elected to prepare its Financial Statements in accordance with UK GAAP; these are presented on pages 96 to 102.

(b) Basis of preparation

The Consolidated Financial Statements have been prepared on the basis of the requirements of adopted IFRSs in issue and adopted by the EU and effective at 31 December 2007.

The Financial Statements are prepared on the historical cost basis. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

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

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

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

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

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 28.

1 Accounting policies (continued)

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(d) Foreign currency transactions

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

(e) Derivative financial instruments

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

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

(f) Hedging

(i) Cash flow hedges

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

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

1 Accounting policies (continued)

(f) Hedging (continued)

(ii) Economic hedges

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

(g) Property, plant and equipment

(i) Owned assets

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

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

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation on leased assets is charged over the shorter of the lease term and their useful economic life. Freehold land is not depreciated. The rates are as follows:

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

The residual values, useful economic lives and depreciation methods are reassessed annually. Assets under construction are not depreciated until they are ready for use.

Site preparation costs associated with the development of new stone reserves are capitalised. Depreciation commences when commercial extraction commences and is based on the rate of extraction.

Provisions for the cost of quarry restoration are recorded once a present legal or constructive obligation exists, it is probable that an outflow of economic benefits will be required to settle the obligation and the financial cost of restoration work can be reliably measured.

1 Accounting policies (continued)

(h) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

(i) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents consideration given by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired.

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

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised but is tested annually for impairment (see accounting policy m).

Negative goodwill arising on an acquisition is recognised directly in the Consolidated Income Statement.

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

(ii) Research and development

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

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

(iii) Other intangible assets

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

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

(iv) Subsequent expenditure

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

1 Accounting policies (continued)

(i) Intangible assets (continued)

(v) Amortisation

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

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

(j) Trade and other receivables

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

(k) Inventories

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

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

(l) Cash and cash equivalents

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

(m) Impairment

(i) Impairment review

The carrying amounts of the Group's assets, other than inventories (see accounting policy k) and deferred tax assets (see accounting policy w), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Income Statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the group of assets identified on acquisition that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of assets or cash-generating units is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1 Accounting policies (continued)

(m) Impairment (continued)

(ii) Reversals of impairments

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Share capital

(i) Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the Consolidated Income Statement as a financial expense.

(ii) Dividends

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

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis.

(p) Pension schemes

(i) Defined benefit schemes

The net obligation in respect of the Group's defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified Actuary using the projected unit credit method.

Actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan are recognised immediately within the Consolidated Statement of Recognised Income and Expenses.

(ii) Defined contribution schemes

Obligations for contributions to defined contribution schemes are recognised as an expense in the Income Statement as incurred.

(q) Share-based payment transactions

The Group enters into equity-settled share-based payment transactions with its employees. In particular, annual awards are made to Directors under a Long Term Incentive Plan.

The Long Term Incentive Plan allows Group employees to acquire shares in Marshalls plc. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

1 Accounting policies (continued)

(q) Share-based payment transactions (continued)

Current tax relief is available based on the intrinsic value of shares issued at exercise date. Consequently, a deferred tax asset is recognised at grant date based on the number of shares expected to be issued proportioned in line with the vesting period.

(r) Own shares held by Employee Benefit Trust

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

(s) Provisions

A provision is recognised in the Consolidated Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, it can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(t) Trade and other payables

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

(u) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement when the significant risks and rewards of ownership of the goods have been transferred to the buyer. No revenue is recognised if there is continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold.

Revenue from services rendered is recognised in the Consolidated Income Statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

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

(v) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Financial expenses

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

1 Accounting policies (continued)

(w) Income tax

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

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

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

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

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

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2 Segmental analysis

	Revenue		Operating profit	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Continuing operations	**402,926**	378,100	**48,810**	47,761
Financial income and expenses (net)			**(6,707)**	(6,058)
Profit on ordinary activities before taxation			**42,103**	41,703

The Directors have undertaken a review of the Group's continuing operations and its associated business risks and consider that the continuing operations should be reported as a single business segment. The Directors consider that the continuing operations represent one product offering with similar risks and rewards and should be managed and reported as a single business segment in line with the Group's internal reporting framework.

	2007	2006
	£'000	£'000
Geographical destination of revenue:		
United Kingdom	**400,253**	374,627
Rest of the world	**2,673**	3,473
	402,926	378,100

All revenue originates in the United Kingdom from continuing operations and there is no material inter-segmental turnover. Included within revenue is £2,953,000 (2006: £1,635,000) relating to the provision of installation services.

3 Net operating costs

	2007	2006
	£'000	£'000
Raw materials and consumables	**135,423**	116,213
Changes in inventories of finished goods and work in progress	**(12,460)**	(250)
Personnel costs (Note 4)	**91,845**	85,618
Depreciation - owned	**20,368**	19,222
- leased	**691**	308
Own work capitalised	**(2,516)**	(2,317)
Manufacturing overheads	**118,189**	112,472
Amortisation of intangible fixed assets (Note 10)	**661**	357
Negative goodwill	**(700)**	-
Restructuring costs	**1,766**	691
Strategic business initiatives: Landscape Installations*	**3,627**	2,006
Strategic business initiatives: Commercial Expansion*	**712**	-
Works closure costs*	**160**	1,135
Operating costs	**357,766**	335,455
Other operating income	**(1,493)**	(1,033)
Curtailment gains (net of expenses)*	**-**	(4,367)
Net (profit)/loss on asset and property disposals*	**(2,157)**	284
Net operating costs	**354,116**	330,339

* These items are not included in the Group's definition of underlying profit which is set out in the Operating and Financial Review on pages 6 to 23.

Notes to the Consolidated Financial Statements (continued)

3 Net operating costs (continued)

	2007	2006
	£'000	£'000
Net operating costs include:		
Auditors' remuneration (in respect of the audit of the Group Financial Statements)		
Marshalls plc	**20**	20
Subsidiaries	**105**	96
Other fees paid to the auditors and their associates (see below)	**34**	35
Leasing costs	**6,060**	6,039
Hire of plant and machinery	**3,860**	2,843
Research and development costs	**4,077**	3,778

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

	2007	2006
	£'000	£'000
Corporation tax compliance procedures	**8**	4
Other tax services	**13**	22
Other	**13**	9
	34	35

4 Personnel costs

	2007	2006
Personnel costs (including Directors):	**£'000**	£'000
Wages and salaries	**81,270**	74,740
Social security costs	**8,208**	7,598
Share-based expenses (Note 18)	**744**	250
Contributions to defined contribution Pension Scheme	**2,722**	1,353
Past service credit for defined benefit Pension Scheme	**(1,099)**	-
Current service cost for defined benefit Pension Scheme	**-**	1,677
	91,845	85,618

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 46 to 56.

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

	2007	2006
	Number	Number
Average number of employees	**2,804**	2,746

5 Financial expenses and income

	2007 £'000	2006 £'000
(a) Financial expenses		
Interest expense on bank loans, overdrafts and loan notes	**4,721**	2,406
Interest on obligations under the defined benefit Pension Scheme	**10,506**	10,107
Debenture interest expense	**2,275**	2,275
B share dividend expense	**42**	92
Finance lease interest expense	**52**	24
	17,596	14,904
(b) Financial income		
Expected return on Scheme assets under the defined benefit Pension Scheme	**10,875**	8,802
Interest receivable and similar income	**14**	44
	10,889	8,846

6 Income tax expense

	2007 £'000	2006 £'000
Current tax expense		
Current year	**11,027**	11,004
Adjustments for prior years	**(1,321)**	(947)
	9,706	10,057
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**1,983**	2,235
Adjustments for prior years	**163**	331
Total tax expense in the Consolidated Income Statement	**11,852**	12,623

Reconciliation of effective tax rate

	2007 %	2007 £'000	2006 %	2006 £'000
Profit before tax	**100.0**	**42,103**	100.0	41,703
Tax using domestic corporation tax rate	**30.0**	**12,631**	30.0	12,511
Disallowed amortisation of intangible assets	**0.4**	**161**	0.3	107
Net items not taxable	**2.8**	**1,179**	1.5	621
Adjustments for prior years	**(2.7)**	**(1,158)**	(1.5)	(616)
Impact of change in tax rate on deferred taxation	**(2.3)**	**(961)**	-	-
	28.2	**11,852**	30.3	12,623

The net amount of deferred taxation debited to the Consolidated Statement of Recognised Income and Expenses in the year was £5,172,000 (2006: £3,146,000) (Note 19).

7 Dividends

Ordinary dividends: equity shares

	2007		2006	
	per share	**£'000**	per share	£'000
2006 Final: paid 6 July 2007	**8.85p**	**12,653**	8.40p	12,010
2007 Interim: paid 5 December 2007	**4.55p**	**6,445**	4.30p	6,148
	13.40p	**19,098**	12.70p	18,158

8 Earnings per share

Basic earnings per share of 21.28 pence (2006: 20.34 pence) per share is calculated by dividing the profit attributable to ordinary shareholders of £30,251,000 (2006: £29,080,000) by the weighted average number of shares in issue during the year of 142,159,560 (2006: 142,949,818).

Profit attributable to ordinary shareholders

	2007	2006
	£'000	£'000
Profit attributable to ordinary shareholders:	**30,251**	29,080

Weighted average number of ordinary shares

	2007	2006
Issued ordinary shares at 1 January	**142,949,818**	143,087,712
Effect of shares issued in the year	**-**	14,536
Effect of shares transferred into employee benefit trust	**(366,765)**	(152,430)
Effect of treasury shares acquired in the year	**(423,493)**	-
Weighted average number of ordinary shares at 31 December	**142,159,560**	142,949,818

Diluted earnings per share of 21.19 pence (2006: 20.32 pence) per share is calculated by dividing the profit attributable to ordinary shares, and potentially dilutive ordinary shares, of £30,251,000 (2006: £29,080,000) by the weighted average number of shares in issue during the year of 142,159,560 (2006: 142,949,818) plus potentially dilutive shares of 572,479 (2006: 152,430) which totals 142,732,039 (2006: 143,102,248).

Weighted average number of ordinary shares (diluted)

	2007	2006
Weighted average number of ordinary shares at 31 December	**142,159,560**	142,949,818
Effect of shares transferred into employee benefit trust	**523,201**	152,430
Effect of treasury shares	**49,278**	-
Weighted average number of ordinary shares at 31 December	**142,732,039**	143,102,248

9 Property, plant and equipment

Cost	Land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2006	97,958	239,043	337,001
Reclassification	(45)	45	-
Acquisitions through business combinations (Note 23)	184	324	508
Other acquisitions	5,570	18,994	24,564
Disposals	(126)	(3,360)	(3,486)
At 31 December 2006	103,541	255,046	358,587
At 1 January 2007	**103,541**	**255,046**	**358,587**
Transfer to assets held for sale	**(8,508)**	**-**	**(8,508)**
Transfer to intangible assets (Note 10)	**-**	**(431)**	**(431)**
Acquisitions through business combinations (Note 23)	**1,341**	**4,385**	**5,726**
Other acquisitions	**7,553**	**25,052**	**32,605**
Disposals	**(1,945)**	**(2,250)**	**(4,195)**
At 31 December 2007	**101,982**	**281,802**	**383,784**
Depreciation and impairment losses			
At 1 January 2006	21,630	117,341	138,971
Depreciation charge for the year	2,964	16,566	19,530
Disposals	(62)	(2,793)	(2,855)
At 31 December 2006	24,532	131,114	155,646
At 1 January 2007	**24,532**	**131,114**	**155,646**
Depreciation charge for the year	**3,108**	**17,951**	**21,059**
Transfer to assets held for sale	**(309)**	**-**	**(309)**
Transfer to intangible assets (Note 10)	**-**	**(47)**	**(47)**
Disposals	**(291)**	**(1,800)**	**(2,091)**
Reclassification	**(83)**	**83**	**-**
Transfer of impairment provision from other creditors	**-**	**213**	**213**
At 31 December 2007	**26,957**	**147,514**	**174,471**
Net Book Value			
At 1 January 2006	76,328	121,702	198,030
At 1 January 2007	79,009	123,932	202,941
At 31 December 2007	**75,025**	**134,288**	**209,313**

9 Property, plant and equipment (continued)

The carrying amount of tangible fixed assets includes £1,242,000 (2006: £883,000) in respect of assets held under finance leases.

Group cost of land and buildings and plant and machinery includes £321,000 (2006: £211,000) and £6,260,000 (2006: £5,518,000) respectively for assets in the course of construction.

Capital commitments

	2007	2006
	£'000	£'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**3,567**	2,368

10 Intangible assets

	Goodwill	Customer relation-ships	Supplier relation-ships	Patents, trademarks and know-how	Development costs	Software	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2006	40,671	1,960	2,400	1,585	159	-	46,775
Acquisition through business combinations (Note 23)	5,593	250	-	720	-	-	6,563
At 31 December 2006	46,264	2,210	2,400	2,305	159	-	53,338
At 1 January 2007	**46,264**	**2,210**	**2,400**	**2,305**	**159**	**-**	**53,338**
Transfer from property, plant and equipment (Note 9)	**-**	**-**	**-**	**-**	**-**	**431**	**431**
Acquisition through business combinations (Note 23)	**6,355**	**-**	**-**	**300**	**-**	**-**	**6,655**
Additions	**-**	**-**	**-**	**-**	**-**	**1,102**	**1,102**
At 31 December 2007	**52,619**	**2,210**	**2,400**	**2,605**	**159**	**1,533**	**61,526**

10 Intangible assets (continued)

	Goodwill	Customer relation-ships	Supplier relation-ships	Patents, trademarks and know-how	Development costs	Software	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortisation and impairment losses							
At 1 January 2006	-	30	226	45	13	-	314
Amortisation for the year	-	123	134	92	8	-	357
At 31 December 2006	-	153	360	137	21	-	671
At 1 January 2007	**-**	**153**	**360**	**137**	**21**	**-**	**671**
Transfer from property, plant and equipment (Note 9)	**-**	**-**	**-**	**-**	**-**	**47**	**47**
Amortisation for the year	**-**	**148**	**134**	**246**	**8**	**125**	**661**
At 31 December 2007	**-**	**301**	**494**	**383**	**29**	**172**	**1,379**
Carrying amounts							
At 1 January 2006	40,671	1,930	2,174	1,540	146	-	46,461
At 1 January 2007	46,264	2,057	2,040	2,168	138	-	52,667
At 31 December 2007	**52,619**	**1,909**	**1,906**	**2,222**	**130**	**1,361**	**60,147**

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across multiple cash generating units ("CGUs") and the amount allocated to each unit is not significant in comparison with the total carrying amount of goodwill. These CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. These calculations use cash flow projections based on individual financial forecasts using appropriate growth rates approved by management. To prepare value in use calculations, the cash flow forecasts are discounted back to present value using an estimate of the Group's weighted average cost of capital. This rate is considered appropriate given that the risks relating to the assets acquired are deemed to be similar to those of the Group.

Amortisation charge

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

	2007	2006
	£'000	£'000
Net operating costs (Note 3)	**661**	357

11 Inventories

	2007 £'000	2006 £'000
Raw materials and consumables	**12,318**	10,599
Finished goods and goods for resale	**70,602**	57,657
	82,920	68,256

12 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	**35,731**	28,617
Other receivables	**1,931**	1,540
Prepayments and accrued income	**5,204**	4,133
	42,866	34,290

Ageing of trade receivables	2007 £'000	2006 £'000
Less than 30 days	**29,635**	24,010
31 - 120 days	**5,037**	3,620
More than 120 days	**1,059**	987
	35,731	28,617

No receivables were due after more than one year. All amounts disclosed above are considered recoverable.

13 Cash and cash equivalents

	2007 £'000	2006 £'000
Cash in hand	**19**	22
Bank overdraft	**(27,840)**	(999)
Cash and cash equivalents in the Consolidated Cash Flow Statement	**(27,821)**	(977)

14 Assets held for sale

During the year ended 31 December 2007 the Board resolved to dispose of certain properties and negotiations with several interested parties have subsequently taken place. These properties, which are all expected to be sold within twelve months, have been classified as assets held for sale and presented separately in the balance sheet. The proceeds of disposal are expected to exceed the book value of the related assets and accordingly no impairment losses have been recognised on the classification of these properties as held for sale.

15 Trade and other payables

	2007 £'000	2006 £'000
Current liabilities		
Trade payables	**31,403**	28,810
Taxation and social security	**5,596**	6,899
Other payables	**5,210**	5,235
Accruals	**18,027**	16,418
	60,236	57,362

All trade payables are due in six months or less.

16 Loans

	2007 £'000	2006 £'000
Current liabilities		
Bank loans	**7,000**	1,327
B shares	**-**	2,096
Finance lease liabilities	**234**	142
	7,234	3,565
Non-current liabilities		
Bank loans	**41,727**	30,000
11.375% debenture stock 1992/2014	**20,000**	20,000
Finance lease liabilities	**144**	64
	61,871	50,064

Debenture stock

The 11.375 per cent debenture stock 1992/2014 which is secured by a first floating charge on the assets of Marshalls Group plc 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 per cent Exchequer Stock 2013/2017.

Rights attaching to the B shares

(a) Income
Holders of B shares were entitled to a non-cumulative preferential dividend at a rate equal to the lower of:

i) 10 per cent per annum; and

ii) 75 per cent of LIBOR for six months deposits, as determined at 11.00 am on the first business day of each calculation period.

These dividends were paid semi-annually in arrears on 30 June and 31 December.

16 Loans (continued)

(b) Capital

On a return of capital on a winding up (except on a redemption in accordance with the terms of issue) each holder of B shares was entitled to the sum of 45 pence in respect of each B share, together with a sum equal to the relevant proportion of the preferential dividend which would have been payable if the winding up had taken effect on the last day of the then calculation period.

Holders of B shares were able to make elections to have their B shares redeemed at 45 pence per B share semi-annually on 30 June and 31 December.

At any time after the anniversary of the Scheme Effective Date or, if earlier, when the number of B shares remaining in issue became less than 25 per cent of the total number of B shares issued, the Company were able to elect to redeem all of the B shares still in issue at their 45 pence nominal value.

On 30 June 2007 the Company redeemed all outstanding B shares in accordance with these rules.

(c) Attendance and voting at general meetings

The holders of the B shares were not entitled, in their capacity as holders of such shares, to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting.

Bank loans

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

Finance lease liabilities

	Minimum lease 2007 £'000	**Interest 2007 £'000**	**Principal 2007 £'000**	Minimum lease 2006 £'000	Interest 2006 £'000	Principal 2006 £'000
Less than one year	**262**	**28**	**234**	160	18	142
Between one and five years	**168**	**24**	**144**	92	28	64
	430	**52**	**378**	252	46	206

17 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group has, or had, in issue the following non-equity funding instruments:

- Debenture stock at 11.375 per cent as detailed in Note 16
- B shares as detailed in Note 16

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks and they have remained unchanged since 2006.

Capital management

The Group manages its medium term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed facilities.

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

17 Financial instruments (continued)

Interest rate risk

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

Liquidity risk

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

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

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

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

Foreign currency risk

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

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

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £538,000 (2006: £795,000) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2007 all outstanding forward exchange contracts have a maturity date within one month.

Other risks

Further information about the Group's strategic and financial risks is contained in the Operating and Financial Review on pages 6 to 23.

Sensitivity analysis

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

17 Financial instruments (continued)

Effective interest rates and maturity of liabilities

At 31 December 2007 20.6 per cent (2006: 36.6 per cent) of the Group's borrowings were on a fixed rate. The interest rate profile of the financial liabilities was:

31 December 2007	Fixed or variable rate	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents (Note 13)	**Variable**	**6.04**	**27,821**	**27,821**	**-**	**-**	**-**	**-**
Bank loans	**Variable**	**6.04**	**48,727**	**-**	**7,000**	**23,327**	**18,400**	**-**
11.375% debenture stock 1992/2014	**Fixed**	**11.375**	**20,000**	**-**	**-**	**-**	**-**	**20,000**
Finance lease liabilities	**Variable**	**10.6**	**378**	**117**	**117**	**105**	**39**	**-**
			96,926	**27,938**	**7,117**	**23,432**	**18,439**	**20,000**

31 December 2006	Fixed or variable rate	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents (Note 13)	Variable	5.65	977	977	-	-	-	-
Bank loans	Variable	5.58	31,327	-	1,327	-	30,000	-
11.375% debenture stock 1992/2014	Fixed	11.375	20,000	-	-	-	-	20,000
B shares	Variable	3.53	2,096	2,096	-	-	-	-
Finance lease liabilities	Variable	10.0	206	72	70	54	10	-
			54,606	3,145	1,397	54	30,010	20,000

Borrowing facilities

The total bank borrowing facilities at 31 December 2007 amounted to £136.7 million (2006: £100.0 million) of which £60.2 million (2006: £67.7 million) remained unutilised. The undrawn facilities available at 31 December 2007, in respect of which all conditions precedent had been met, were as follows:

	2007	2006
	£'000	£'000
Committed:		
- Expiring in more than two years but not more than five years	**-**	-
- Expiring in one year or less	**-**	-
Uncommitted:		
- Expiring in one year or less (with option to convert to committed)	**43,000**	28,673
- Expiring in one year or less	**17,179**	39,023
	60,179	67,696

17 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 2007 are shown below:

	2007		2006	
	Book amount	**Fair Value**	Book amount	Fair value
	£'000	**£'000**	£'000	£'000
Trade and other receivables	**42,866**	**42,866**	34,290	34,290
Cash and cash equivalents	**19**	**19**	22	22
Bank overdrafts	**(27,840)**	**(27,840)**	(999)	(999)
Bank loans	**(48,727)**	**(48,727)**	(31,327)	(31,327)
11.375 per cent debenture stock 1992/2014	**(20,000)**	**(27,905)**	(20,000)	(28,942)
B shares	**-**	**-**	(2,096)	(2,096)
Finance lease liabilities	**(378)**	**(378)**	(206)	(206)
Trade and other payables	**(60,236)**	**(60,236)**	(57,362)	(57,362)
Corporation tax	**(8,710)**	**(8,710)**	(8,185)	(8,185)
Assets held for sale	**8,199**	**8,199**	-	-
Other assets/(liabilities) – net	**315,448**	**315,448**	270,405	270,405
	200,641	**192,736**	184,542	175,600

Estimation of fair values

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

(a) Derivatives

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

(b) Interest-bearing loans and borrowings

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

(c) B shares

The fair value is based on market prices.

(d) Finance lease liabilities

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

(e) Trade and other receivables/payables

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

18 Employee benefits

The Group operates the Marshalls plc Pension Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances. After extensive consultation with the employees affected and their representatives, the Group introduced a new defined contribution section to the Scheme to replace the existing defined benefit section which closed to future service accrual on 1 July 2006. Following this change the Company has made cash contributions to the Scheme.

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Present value of funded obligations	**(194,782)**	(209,152)	(212,245)	(176,703)	(159,740)
Fair value of Scheme assets	**176,987**	167,207	146,981	125,848	113,965
Recognised liability for defined benefit obligations (see below)	**(17,795)**	(41,945)	(65,264)	(50,855)	(45,775)
Experience adjustments on Scheme liabilities	**17,749**	4,988	(28,123)	(7,137)	(7,851)
Experience adjustments on Scheme assets	**33**	5,501	15,881	6,146	13,282

Movements in the net liability for defined benefit obligations recognised in the balance sheet

	2007 £'000	2006 £'000
Net liability for defined benefit obligations at 1 January	**(41,945)**	(65,264)
Contributions received	**4,900**	10,960
Gain recognised in the Consolidated Income Statement	**1,468**	1,870
Actuarial gains recognised in the Consolidated Statement of Recognised Income and Expenses	**17,782**	10,489
Net liability for the defined benefit obligations at 31 December	**(17,795)**	(41,945)

Gain recognised in the Consolidated Income Statement

	2007 £'000	2006 £'000
Past service credit	**1,099**	-
Current service cost	**-**	(1,677)
Interest on obligations	**(10,506)**	(10,107)
Expected return on Scheme assets	**10,875**	8,802
Curtailment gains: continuing operations	**-**	4,852
	1,468	1,870

18 Employee benefits (continued)

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

	2007 **£'000**	2006 £'000
Net operating costs	**1,099**	3,175
Interest on obligations (financial expenses)	**(10,506)**	(10,107)
	(9,407)	(6,932)
Expected return on Scheme assets (financial income)	**10,875**	8,802
	1,468	1,870

Actuarial gains and losses on the defined benefit scheme are recognised in the period in which they occur in the Consolidated Statement of Recognised Income and Expenses.

Liabilities for defined benefit obligations

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2007	2006
Discount rate (AA corporate bond rate)	**5.8%**	5.1%
Expected return on Scheme assets	**6.3%**	6.4%
Future salary increases	**N/A**	N/A
Future pension increases	**3.0%**	3.1%
Future expected lifetime of pensioner at age 65 (years):		
Male:	**19.3**	18.6
Female:	**21.9**	21.6

Changes in the present value of the defined benefit obligation are as follows:

	2007 **£'000**	2006 £'000
Benefit obligation at 1 January	**209,152**	212,245
Past service credit	**(1,099)**	-
Current service cost	**-**	1,677
Interest on obligations	**10,506**	10,107
Scheme participants' contributions	**-**	935
NI rebates	**-**	312
Curtailment gain	**-**	(4,852)
Actuarial gain	**(17,749)**	(4,988)
Benefits paid	**(6,028)**	(6,284)
Benefit obligation at 31 December	**194,782**	209,152

18 Employee benefits (continued)

Changes in the fair value of Scheme assets are as follows:

	2007	2006
	£'000	£'000
Fair value of Scheme assets at 1 January	**167,207**	146,981
Expected return on Scheme assets	**10,875**	8,802
Actuarial gain	**33**	5,501
Employer contribution	**4,900**	10,960
Scheme participants' contributions	**-**	935
NI rebates	**-**	312
Benefits paid	**(6,028)**	(6,284)
Fair value of Scheme assets at 31 December	**176,987**	167,207

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

	2007		2006	
	£'000	**%**	£'000	%
Equity	**81,255**	**46**	114,306	68
Debt	**88,952**	**50**	43,672	26
Other	**6,780**	**4**	9,229	6
	176,987	**100**	167,207	100

Share-based payments

Share-based payment awards have been made during the year in accordance with the rules of the Marshalls plc 2005 Long Term Incentive Plan ("LTIP"). Under the LTIP rules Executive Directors are required to invest a minimum of 50 per cent of their annual bonus in the LTIP subject to the achievement of share ownership targets. Other eligible employees are entitled to invest a stated percentage of their annual bonus into the LTIP on a voluntary basis. The annual bonus investment is used to purchase Investment Shares and eligible employees receive a Matching Share award, subject to defined limits, and subject to the achievement of a three year earnings per share performance target.

The Matching Share award is dependent on an improvement in reported EPS measured using International Financial Reporting Standards and is subject to the discretion of the Remuneration Committee with regard to one off items. Full details of the performance criteria are set out in the Directors' Remuneration Report on pages 46 to 56.

The terms and conditions of the grants are as follows. All options are settled by physical delivery of shares. The exercise price is nil in relation to any of these grants and there is no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	208,697	31 March 2006	3 years
	327,920	16 March 2007	3 years
	183,375	17 May 2007	3 years
Equity settled awards granted to employees of Marshalls Group plc	50,101	31 March 2006	3 years
	64,502	16 March 2007	3 years
	63,318	17 May 2007	3 years
	897,913		

18 Employee benefits (continued)

There were no share options forfeited, exercised or that expired during the period. None of the options were exercisable at 31 December 2007.

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

	17 May 2007 grant	16 March 2007 grant	31 March 2006 grant
Fair value at measurement date (pence per share)	335	296	290
Share price on date of grant (pence per share)	379	326	345
Expected volatility used in the modelling under the Black-Scholes valuation model	14.0%	14.0%	14.0%
Dividend yield	4.0%	4.0%	4.2%
Risk-free interest rate (based on National Government Bonds)	5.50%	5.25%	4.75%

The Company's share price at 31 December 2007 was 241 pence.

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

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

	2007 £'000	2006 £'000
Equity settled share based expenses	**744**	250

Further details in relation to the Directors are set out in the Directors' Remuneration Report on pages 46 to 56.

Employee profit sharing scheme

At 31 December 2007 the scheme held 42,414 (2006: 42,414) ordinary shares in the Company.

19 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Property, plant and equipment	**-**	-	**(21,407)**	(21,272)
Intangible assets (software)	**-**	-	**(82)**	-
Intangible assets acquired	**-**	-	**(1,727)**	(1,921)
Inventories	**-**	-	**(840)**	(900)
Employee benefits	**4,983**	12,584	**-**	-
Pension contributions	**1,424**	2,047	**-**	-
Equity settled share based expenses	**278**	75	**-**	-
Other items	**370**	312	**(2,136)**	(2,439)
Deferred taxation assets/(liabilities)	**7,055**	15,018	**(26,192)**	(26,532)

19 **Deferred taxation** (continued)

The deferred taxation asset of £4,983,000 (2006: £12,584,000) in relation to employee benefits is in respect of the net liability for the defined benefit obligations of £17,795,000 (2006: £41,945,000) (Note 18) calculated at 28% (2006: 30%).

Included within this movement is a recognition of a deferred taxation asset with a corresponding credit to deferred taxation expense in the Consolidated Income Statement in respect of the pension contributions. Current tax relief is obtained on total pension contributions of this magnitude over a four year period with relief in the current year based on 110 per cent of prior year contributions plus 25 per cent of the remaining total contributions.

Movement in temporary differences

Year ended 31 December 2007	1 January 2007	Recognised in income	Recognised on acquisition of subsidiary undertakings	Recognised in equity	**31 December 2007**
	£'000	£'000	£'000	£'000	**£'000**
Property, plant and equipment	(21,272)	228	(363)	-	**(21,407)**
Intangible assets (software)	-	(82)	-	-	**(82)**
Intangible assets acquired	(1,921)	278	(84)	-	**(1,727)**
Inventories	(900)	60	-	-	**(840)**
Employee benefits	12,584	(2,429)	-	(5,172)	**4,983**
Pension contributions	2,047	(623)	-	-	**1,424**
Equity settled share based expenses	75	203	-	-	**278**
Other items	(2,127)	219	142	-	**(1,766)**
	(11,514)	(2,146)	(305)	(5,172)	**(19,137)**

Year ended 31 December 2006	1 January 2006	Recognised in income	Recognised on acquisition of subsidiary undertakings	Recognised in equity	31 December 2006
	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	(19,683)	(1,589)	-	-	(21,272)
Intangible assets acquired	(1,737)	107	(291)	-	(1,921)
Inventories	(685)	(215)	-	-	(900)
Employee benefits	19,579	(3,848)	-	(3,147)	12,584
Pension contributions	-	2,047	-	-	2,047
Equity settled share based expenses	-	75	-	-	75
Other items	(2,985)	857	-	1	(2,127)
	(5,511)	(2,566)	(291)	(3,146)	(11,514)

20 Capital and reserves

	Ordinary share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000
At 1 January 2006	35,772	2,694	(102)	72,573	(213,067)	(2)	268,472
Purchase of own shares	-	-	(351)	-	-	-	-
Share based expenses	-	-	-	-	-	-	250
Shares issued	5	38	-	-	-	-	-
Redemption of B shares	-	-	-	725	-	-	(725)
Profit for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	29,080
Dividends to shareholders	-	-	-	-	-	-	(18,158)
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	-	10,489
Decrease in fair value of hedging derivatives	-	-	-	-	-	(5)	-
Deferred taxation arising	-	-	-	-	-	1	(3,147)
Total movements in the year	5	38	(351)	725	-	(4)	17,789
At 31 December 2006	35,777	2,732	(453)	73,298	(213,067)	(6)	286,261
At 1 January 2007	**35,777**	**2,732**	**(453)**	**73,298**	**(213,067)**	**(6)**	**286,261**
Purchase of own shares	**-**	**-**	**(8,413)**	**-**	**-**	**-**	**-**
Share based expenses	**-**	**-**	**-**	**-**	**-**	**-**	**744**
Share premium adjustment	**-**	**2**	**-**	**-**	**-**	**-**	**-**
Redemption of B shares	**-**	**-**	**-**	**2,096**	**-**	**-**	**(2,096)**
Profit for the financial period attributable to equity shareholders of the parent	**-**	**-**	**-**	**-**	**-**	**-**	**30,251**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**(19,098)**
Actuarial gain on defined benefit pension scheme	**-**	**-**	**-**	**-**	**-**	**-**	**17,782**
Increase in fair value of hedging derivatives	**-**	**-**	**-**	**-**	**-**	**3**	**-**
Deferred taxation arising	**-**	**-**	**-**	**-**	**-**	**-**	**(5,172)**
Total movements in the year	**-**	**2**	**(8,413)**	**2,096**	**-**	**3**	**22,411**
At 31 December 2007	**35,777**	**2,734**	**(8,866)**	**75,394**	**(213,067)**	**(3)**	**308,672**

20 Capital and reserves (continued)

Share capital

	Authorised		Issued	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
At 1 January	**75,000**	75,000	**35,777**	35,772
Shares issued	**-**	-	**-**	5
At 31 December	**75,000**	75,000	**35,777**	35,777
Number of 25 pence ordinary shares	**300,000,000**	300,000,000	**143,106,254**	143,106,254

Share premium account

During the year ended 31 December 2006, 18,542 ordinary shares were issued under the Savings-Related Share Option Scheme at an exercise price of 230 pence per share. In the year ended 31 December 2006 an amount of £38,000 was credited to the share premium account in relation to the issue of these shares.

Capital redemption reserve

On 30 June 2007 4,658,304 B shares were redeemed at 45 pence per share and an amount of £2,096,000 was paid to shareholders. These B shares also reflect the amount in issue at 31 December 2006. As a consequence of these redemptions, an amount of £2,096,000 has been transferred to the capital redemption reserve from retained earnings.

Consolidation reserve

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

Dividends

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

	2007	2006
	£'000	£'000
9.30 pence (2006: 8.85 pence) per ordinary share	**13,083**	12,665

21 Notes to the cash flow statement

	2007 £'000	2006 £'000
21(i) Cash flows from operating activities		
Profit before tax	**42,103**	41,703
Adjustments for:		
Depreciation	**21,059**	19,530
Amortisation	**661**	357
Negative goodwill	**(700)**	-
(Gain)/loss on sale of property, plant & equipment	**(2,856)**	66
Equity settled share based expenses	**744**	250
Financial income and expenses (net)	**6,707**	6,058
Operating cashflow before changes in working capital, employee benefits and pension scheme contributions	**67,718**	67,964
(Increase)/decrease in trade and other receivables	**(7,403)**	2,323
Increase in inventories	**(13,815)**	(53)
Increase/(decrease) in trade and other payables	**2,723**	(3,197)
Decrease in employee benefits	**(1,099)**	(2,968)
Pension scheme contributions	**(4,400)**	(10,000)
Cash generated from the operations	**43,724**	54,069
Financial expenses paid	**(6,729)**	(4,265)
Non equity dividends paid	**(42)**	(149)
Income tax paid	**(9,287)**	(10,809)
Net cash flow from operating activities	**27,666**	38,846
21(ii) Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**2,960**	565
Financial income received	**14**	44
Acquisition of subsidiaries	**(12,604)**	(4,157)
Bank (overdraft)/balance acquired with subsidiaries	**(240)**	79
Acquisition of property, plant & equipment	**(30,605)**	(24,564)
Acquisition of intangible assets	**(1,102)**	-
Net cash flow from investing activities	**(41,577)**	(28,033)
21(iii) Cash flows from financing activities		
Proceeds from issue of share capital	**-**	43
Payments to acquire own shares	**(8,413)**	(453)
Net decrease in other debt and finance leases	**(414)**	(302)
Redemption of B shares	**(2,408)**	(848)
Increase in borrowings	**17,400**	2,758
Payment of transaction costs	**-**	(40)
Equity dividends paid	**(19,098)**	(18,158)
Net cash flow from financing activities	**(12,933)**	(17,000)

22 Analysis of net debt

	1 January 2007	Cash flow	Other non cash changes	**31 December 2007**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	22	(3)	-	**19**
Overdrafts	(999)	(26,601)	(240)	**(27,840)**
	(977)	(26,604)	(240)	**(27,821)**
Debt due within one year	(3,423)	(15,304)	-	**(18,727)**
Debt due after one year	(50,000)	-	-	**(50,000)**
Finance leases	(206)	414	(586)	**(378)**
	(54,606)	(41,494)	(826)	**(96,926)**

23 Acquisitions of subsidiaries

Year ended 31 December 2007

On 12 January 2007 the Group acquired the entire issued share capital of Clearwell Quarries Limited, a limestone quarry in the south west of England.

On 5 February 2007 the Group acquired the entire issued share capital of Ollerton Limited, a specialist manufacturer of street furniture and outdoor structures.

On 25 June 2007 the Group acquired quarries and a natural stone walling business in the north of England.

The following disclosures are given in aggregate for all acquisitions in the year:

	Recognised values	Fair value adjustments	Carrying amount
	£'000	£'000	£'000
Property, plant and equipment (Note 9)	4,494	1,232	5,726
Intangible assets (Note 10)	-	300	300
Inventories	828	21	849
Trade and other receivables	1,174	-	1,174
Cash and cash equivalents (net of bank overdrafts)	(240)	-	(240)
Trade and other payables	(1,360)	(353)	(1,713)
Deferred taxation (Note 19)	-	(305)	(305)
Net identified assets and liabilities	4,896	895	5,791
Goodwill on acquisition			6,005
Satisfied by:			
Cash consideration			11,104
Professional fees paid			444
Professional fees accrued			248
			11,796

23 Acquisitions of subsidiaries (continued)

Year ended 31 December 2007 (continued)

Fair value adjustments reflect the recognition of intangible assets ("Trademarks" and "Know-how"), the recognition of liabilities on an accruals basis, deferred taxation liabilities in respect of intangible assets and the application of the Group's accounting policies. The results of these businesses have been included in the Consolidated Group Financial Statements using the acquisition method of accounting, from the date of purchase. The post acquisition results are not considered to be material and no separate disclosure has been provided in these Consolidated Financial Statements. In addition, the revenue and profit that would have been generated had these acquisitions been at the beginning of the period have not been disclosed. These are not considered material.

Goodwill arising on the above acquisitions represents integration synergies which include both the ability to sell new product lines through the existing Marshalls network and the opportunity to market our existing products through additional distribution channels.

Analysis of movements in goodwill:

	£'000
Acquisitions in the year (see above)	6,005
Negative goodwill arising on acquisition in the year (Note 3)	700
Adjustments to carrying amounts in relation to acquisitions made in the prior year	(350)
Additions to goodwill (Note 10)	6,355

The adjustments to the carrying amounts in relation to acquisitions made in the prior year relate to a re-assessment of contingent consideration and additional professional fees.

Analysis of net cash outflow:

	£'000
Acquisitions in the year (see above)	11,548
Adjustments to carrying amounts in relation to acquisitions made in the prior year (including payment of professional fees previously accrued)	1,056
Net cash outflow (Note 21)	12,604

Year ended 31 December 2006

On 4 May 2006 the Group acquired Urban Engineering, a business which specialised in a range of shelters and associated products, particularly to the Education Sector.

On 30 November 2006 the Group acquired Scenic Blue (UK) Limited, a specialist garden design and landscape installation franchising company.

23 Acquisitions of subsidiaries (continued)

The following disclosures are given in aggregate for all acquisitions in the year:	Recognised values £'000	Fair value adjustments £'000	Carrying amount £'000
Property, plant and equipment (Note 9)	556	(48)	508
Intangible assets (Note 10)	-	970	970
Inventories	378	66	444
Trade and other receivables	422	(407)	15
Cash and cash equivalents (net of bank overdrafts)	79	-	79
Trade and other payables	(1,107)	14	(1,093)
Deferred taxation (Note 19)	-	(291)	(291)
Net identifiable assets and liabilities	328	304	632
Goodwill on acquisition			5,204
Satisfied by:			
Cash consideration			3,648
Deferred consideration			1,788
Professional fees paid			134
Professional fees accrued			266
			5,836

Fair value adjustments reflect the recognition of intangible assets ("Customer Relationships" and "Know How"), the recognition of liabilities on an accruals basis, deferred taxation liabilities in respect of intangible assets and the application of the Group's accounting policies. The results of these businesses have been included in the Consolidated Group Financial Statements using the acquisition method of accounting, from the date of purchase. The post acquisition results are not considered to be material and no separate disclosure has been provided in these Consolidated Financial Statements. In addition, the revenue and profit that would have been generated had these acquisitions been at the beginning of the period have not been disclosed. These are not considered material.

Goodwill arising on the above acquisitions represents integration synergies which include both the ability to sell new product lines through the existing Marshalls network and the opportunity to market our existing products through additional distribution channels.

Analysis of movements in goodwill:

	£'000
Acquisitions in the year (see above)	5,204
Adjustments to carrying amounts in relation to acquisitions made in the prior year	389
Additions to goodwill (Note 10)	5,593

The adjustments to the carrying amounts in relation to acquisitions made in the prior year relate mainly to a re-assessment of contingent consideration and additional professional fees.

Analysis of net cash outflow:	£'000
Acquisitions in the year (see above)	3,782
Adjustments to the carrying amounts in relation to acquisitions made in the prior year (including payment of professional fees previously accrued)	375
Net cash outflow (Note 21)	4,157

24 Operating leases

	2007 £'000	2006 £'000
At 31 December 2007 the Group had commitments under non-cancellable operating leases in respect of property, plant and machinery as follows:		
Expiring:		
within one year	**1,978**	499
between two and five years	**12,092**	15,469
More than five years	**21,386**	18,769
	35,456	34,737

Certain leased properties have been sublet by the Group. In each case the sublease expires in 2009. Sublease payments of £47,500 (2006: £75,000) are expected to be received during the following financial year. An amount of £47,500 (2006: £75,000) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

25 Contingencies

Royal Bank of Scotland plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £2,225,000 (2006: £2,475,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending 31 October 2005, 31 October 2006, 31 October 2007 and 31 October 2008.

26 Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its Directors and Executive Officers.

Transactions with key management personnel

Directors of the Company and Executive Officers (together defined as Persons Discharging Managerial Responsibility) and their immediate relatives, control 0.40 per cent (2006: 0.27 per cent) of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers, and contributes to a defined contribution Pension Scheme on their behalf. Further details in relation to Directors are disclosed in the Directors' Remuneration Report on pages 46 to 56. Executive Officers have received Matching Share awards under the LTIP comprising in aggregate 73,115 shares (2006: 20,631 shares).

27 Post Balance Sheet Events

There are no significant adjusting or disclosable post balance sheet events.

28 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 63 to 70. In relation to the Group's intangible assets (Note 10) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates to support their carrying amounts. Note 17 contains information about the assumptions and their risk factors relating to interest rate and foreign currency exposures. Note 18 contains information about the principal actuarial assumptions used in the determination of the net liability for defined benefit pension obligations.

Company Balance Sheet

at 31 December 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Investments	33	**288,531**	288,388
Current assets			
Debtors	34	**79,235**	3,722
Cash at bank and in hand		**338**	635
		79,573	4,357
Creditors: Amounts falling due within one year	35	**-**	(2,494)
Net current assets		**79,573**	1,863
Net assets		**368,104**	290,251
Capital and reserves			
Called up share capital	37	**35,777**	35,777
Share premium account	38	**2,734**	2,732
Own shares	38	**(8,866)**	(453)
Capital redemption reserve	38	**75,394**	73,298
Equity reserve	38	**191**	48
Profit and loss account	38	**262,874**	178,849
Equity shareholders' funds		**368,104**	290,251

Approved at a Directors' meeting on 7 March 2008.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 97 to 102 form part of these Company Financial Statements.

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2007

	2007	2006
	£'000	£'000
Profit for the financial year	**104,618**	101,796
Equity dividends	**(19,098)**	(18,158)
Retained profit for the financial year	**85,520**	83,638
New share capital issued	-	43
Share premium adjustment	**2**	-
Purchase of own shares	**(8,413)**	(351)
Share based expenses	**744**	250
Net additions to shareholders' funds	**77,853**	83,580
Shareholders' funds at beginning of year	**290,251**	206,671
Shareholders' funds at end of year	**368,104**	290,251

The notes on pages 97 to 102 form part of these Company Financial Statements.

Notes to the Company Financial Statements

29 Accounting policies

The following paragraphs summarise the main accounting policies of the Company, which have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements, except in relation to FRS 29 - "Financial Instruments: Disclosures" which has been adopted for the first time. The Company is exempt from the requirement to give its own disclosures as the entity forms part of the Consolidated Financial Statements of Marshalls plc which has included disclosures under IFRS7 - "Financial Instruments: Disclosures".

(a) Basis of preparation

The Company Financial Statements are prepared under the historical cost convention and in accordance with applicable accounting standards. There is no material difference between historical cost profits and those reported in the profit and loss account.

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

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the consolidated cash flows for all Group companies are included within the Consolidated Financial Statements.

As these Parent Company Financial Statements are presented together with the Consolidated Financial Statements, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties). The Consolidated Financial Statements of Marshalls plc within which this Company is included are set out on pages 60 to 95.

(b) 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.

(c) Pension costs

Defined benefit scheme

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay. The defined benefit section of the Scheme was closed to future service accrual in July 2006. The assets of the Scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 - "Retirement benefits", accounts for the Scheme as if it were a defined contribution scheme.

Defined contribution scheme

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

(d) Share-based payment transactions

The Company enters into equity-settled share-based payment transactions with its employees and its subsidiaries' employees. In particular, annual awards are made to Directors under a long term incentive plan.

The long term incentive plan allows Company employees to acquire shares of Marshalls plc. The fair value of options granted to Company employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. Shares granted to subsidiary company employees for their services to that subsidiary are recognised as an increase in the investment with a corresponding entry to equity.

(e) Own shares held by employee benefit trust

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

(f) Cash and liquid resources

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

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

(g) Leased assets

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 present value of the minimum lease payments to be made during the term of the lease. The total amount of the future obligations outstanding is included in creditors.

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

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

(h) Current tax

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

29 Accounting policies (continued)

(i) Deferred taxation

Full provision is made for deferred taxation resulting from timing differences, other than those specifically excluded by FRS19 - "Deferred Taxation", between profits computed for taxation purposes and profits stated in the Financial Statements to the extent that there is an obligation to pay more tax in the future as a result of those timing differences. Deferred taxation assets are recognised to the extent that they are expected to be recoverable. Deferred taxation assets and liabilities are not discounted.

(j) Financial guarantees

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

(k) Dividends

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

30 Operating costs

The audit fee for the Company was £20,000 (2006: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditors for services other than the statutory audit of the Company are not disclosed in the Notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

31 Employees

The average number of persons (including Directors) employed by the Company during the year was 22 (2006: 23). Personnel costs (including Directors) charged in the Company Financial Statements amounted to £3,616,000 (2006: £nil). In the year ended 31 December 2006, such costs were recharged to Marshalls Group plc.

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 46 to 56.

32 Ordinary dividends: equity shares

	2007		2006	
	per share	**£'000**	per share	£'000
2006 Final: paid 6 July 2007	**8.85p**	**12,653**	8.40p	12,010
2007 Interim: paid 5 December 2007	**4.55p**	**6,445**	4.30p	6,148
	13.40p	**19,098**	12.70p	18,158

Notes to the Company Financial Statements (continued)

33 Investments

	£'000
At 1 January 2007	288,388
Additions	143
At 31 December 2007	**288,531**

Investments comprise shares in the subsidiary undertaking, Marshalls Group plc.

The increase in the year of £143,000 represents the fair value of LTIP awards granted to employees of Marshalls Group plc.

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2007 are set out below. All the companies operate within the United Kingdom and are registered in England and Wales.

Subsidiaries	**Principal activities**
Marshalls Group plc	Intermediate holding company.
Marshalls Mono Limited *	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products.
Clearwell Quarries Limited *	Limestone quarry business.

* held by subsidiary undertaking

34 Debtors

	2007	2006
	£'000	£'000
Amounts owed by subsidiary undertakings	**77,940**	2,449
Corporation tax	**1,293**	1,273
Other debtors	**2**	-
	79,235	3,722

No debtors were due after more than one year.

35 Creditors: Amounts falling due within one year

	2007	2006
	£'000	£'000
Other creditors	**-**	398
B shares	**-**	2,096
	-	2,494

36 Deferred taxation

There is no deferred taxation in the Company.

37 Share capital

As at 31 December 2007, the authorised, issued and fully paid up share capital was as follows:

	Authorised			
	2007 Number	**2007 Nominal Value £'000**	2006 Number	2006 Nominal Value £'000
Ordinary Shares	**300,000,000**	**75,000**	300,000,000	75,000

	Issued and paid up			
	2007 Number	**2007 Nominal Value £'000**	2006 Number	2006 Nominal Value £'000
Ordinary Shares	**143,106,254**	**35,777**	143,106,254	35,777

Disclosures regarding share based payments are given in Note 18 on pages 86 to 87.

38 Share capital and reserves

	Ordinary share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 January 2007	35,777	2,732	(453)	73,298	48	178,849
Purchase of own shares	-	-	(8,413)	-	-	-
Share based expenses	-	-	-	-	143	601
Share premium adjustment	-	2	-	-	-	-
Redemption of B shares	-	-	-	2,096	-	(2,096)
Profit for the financial year (net of dividends)	-	-	-	-	-	85,520
At 31 December 2007	**35,777**	**2,734**	**(8,866)**	**75,394**	**191**	**262,874**

39 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2007 or 31 December 2006.

40 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, irrevocable letters of credit totalling £2,225,000 (2006: £2,475,000) in respect of the Group's employers liability insurance cover with Mistui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending 31 October 2005, 31 October 2006, 31 October 2007 and 31 October 2008.

41 Pension scheme

The Company is the sponsoring employer of the Marshalls plc Pension Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances. As set out in Note 18 the Group introduced a new defined contribution section to the Scheme to replace the existing defined benefit section which closed to future service accrual on 1 July 2006.

Full details of the Scheme are provided in Note 18. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis. Accordingly, as permitted by FRS 17 - "Retirement benefits", the Scheme has been accounted for in these Company Financial Statements as if the Scheme was a defined contribution scheme.

The latest funding valuation of the Scheme was carried out as at 6 April 2006 and was updated for FRS 17 purposes to 31 December 2007 by a qualified independent Actuary. Certain employees are members of the company defined contribution scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

The Group deficit on an FRS17 basis at 31 December 2007 was £17,795,000 (2006: £41,196,000).

Financial History – Consolidated Group

Consolidated Income Statement	Year to December 2003 £'000	Year to December 2004 £'000	Year to December 2005 £'000	Year to December 2006 £'000	**Year to December 2007 £'000**
Revenue	317,351	328,343	359,310	378,100	**402,926**
Net operating costs	(268,546)	(281,370)	(314,885)	(330,339)	**(354,116)**
Operating profit	48,805	46,973	44,425	47,761	**48,810**
Financial income and expenses (net)	(4,613)	(6,718)	(6,407)	(6,058)	**(6,707)**
Profit before tax	44,192	40,255	38,018	41,703	**42,103**
Income tax expense	(13,626)	(12,230)	(11,661)	(12,623)	**(11,852)**
Profit after tax but before gain on sale and post tax profit of discontinued operations	30,566	28,025	26,357	29,080	**30,251**
Gain on sale and post tax profit of discontinued operations	2,091	3,278	31,517	-	**-**
Profit for the financial period	32,657	31,303	57,874	29,080	**30,251**
Financial Information					
EBITA	48,805	47,028	44,684	48,118	**49,471**
EBITDA	64,407	64,033	63,400	67,648	**70,530**
Earnings per share (pence)					
Basic: (continuing operations)	18.29	18.07	18.55	20.34	**21.28**
Basic: (total operations)	19.54	20.18	40.73	20.34	**21.28**
Dividends per share (pence)	10.35	11.25	12.10	12.70	**13.40**
Dividend cover (times)	1.77	1.61	1.53	1.60	**1.59**
Year end share price (pence)	251.0	297.0	312.0	355.0	**241.0**
Tax rate (%)	30.8	30.4	30.7	30.3	**28.2**

Consolidated Balance Sheet	2003 £'000	2004 £'000	2005 £'000	2006 £'000	**2007 £'000**
Non-current assets	230,375	232,132	264,181	270,626	**276,515**
Current assets	98,040	131,913	109,567	102,568	**134,004**
Total assets	328,415	364,045	373,748	373,194	**410,519**
Current liabilities	(57,612)	(81,114)	(64,918)	(70,111)	**(104,020)**
Non-current liabilities	(75,082)	(151,438)	(142,490)	(118,541)	**(105,858)**
Net assets	195,721	131,493	166,340	184,542	**200,641**
Net borrowings	(13,243)	(108,239)	(46,688)	(54,606)	**(96,926)**
Gearing ratio	(6.8%)	(82.3%)	(28.1%)	(29.6%)	**(48.3%)**

In respect of the above information and graphs on page 13 which disclose a six year performance record for certain information, the additional disclosures for 2002 and 2003 have been prepared on the basis of the historic UK GAAP figures adjusted for the following:

- exclusion of the activities of the Clay Products business, which was disposed of on 4 January 2005;
- elimination of goodwill amortisation previously charged under UK GAAP;
- inclusion of accounting entries in relation to employee benefits in accordance with previously disclosed information required under UK GAAP by FRS 17; and
- adjustment to the timing of dividend provisions.

In relation to the limited graphical disclosures for 2002 and 2003 these are the only adjustments that have been made to past disclosures made under UK GAAP. In terms of the transitional adjustments required for conversion to IFRS, these are the only material adjustments considered by the Directors to be necessary to produce a six year record that discloses the results of continuing operations on a consistent, like for like, basis.

Cautionary Statement

This Annual Report contains certain forward looking statements with respect to the financial condition, results, operations and business of Marshalls plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. Nothing in this Annual Report should be construed as a profit forecast.

Display Centres

1 Batley Display Centre
Redbrick Mill, 218 Bradford Road,
Batley, West Yorkshire WF17 6JF
Telephone: 0845 30 70 701

2 Bramhall Display Centre
Hall Moss Lane, Bramhall,
Cheshire SK7 1RD
Telephone: 0161 440 2150

3 Failsworth Display Centre
Inisde Housing Units, Wickentree Lane,
Failsworth, Manchester M35 9BA
Telephone: 07917 040 056

4 Roxton Display Centre
Roxton Garden Centre, Bedford Road,
Roxton, Bedford MK44 3DY
Telephone: 01480 404 719

5 Bicester Display Centre
inside Wyevale Garden Centre, Oxford Road,
Bicester, Oxfordshire OX25 2NY
Telephone: 01869 323 677

6 Enfield Display Centre
Theobalds Park Road, Crews Hill,
Enfield EN2 9BD
Telephone: 020 8370 3860

7 Falkirk Display Centre
Transformer House, Tophill Entry,
Falkirk, Stirlingshire FK2 7LW
Telephone: 01324 676 970

8 Opening Soon - Derby Display Centre
Inside Derby Garden Centre, Alfreton Road,
Little Eaton, Derby DE21 5DB.
Telephone: 0845 30 70 701