



Olympic Stadium, London

Financial Highlights

	Year ended 31 December 2012	Year ended 31 December 2011
Continuing operations before operational restructuring costs and asset impairments:		
• Revenue	£309.7m	£334.1m
• EBITDA	£30.0m	£35.0m
• Operating profit	£13.9m	£16.7m
• Profit before tax	£10.4m	£13.7m
• Basic EPS	5.87p	6.30p
• Dividends declared and paid	5.25p	5.25p
• Final dividend recommended	3.50p	3.50p
• Net debt	£63.5m	£77.1m
Reported results:		
• (Loss)/profit before tax	£(11.2)m	£13.7m
• Basic EPS	(2.91)p	3.78p

Corporate Objectives

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

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

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

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



*Woodhouse Bespoke Pier Lights,
Canary Wharf, London*

Cautionary Statement

Please read the full cautionary statement which can be found on page 58.



Woodberry Down, London – Homescapes

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Chairman's Statement

Well positioned to deal with current uncertainties and to achieve future growth

In my Statement last year I said that we expected another challenging year in 2012. As it turned out this was something of an understatement. The combination of a weak economy and extended periods of very wet weather resulted in some of the most difficult trading conditions we have experienced. The Construction Products Association estimates indicate a decline of 8.8 per cent in the market for the year and consumer confidence has remained low.

Against this background we have responded quickly and decisively to reduce our cost base through plant closure and headcount reduction, whilst maintaining our national geographic coverage, lowest cost to market and industry leading customer service. We have also taken further actions to reduce our debt. We have lowered our annual cost base by some £7 million and reduced our year end net debt to £63.5 million, £13.6 million lower than the prior year, and close to our target of net debt to EBITDA of 2 times by the end of 2013.

At the same time we have maintained our focus on those parts of the market where we anticipate growth, such as Rail Infrastructure spend and Home Development (new house building), and we have continued to drive innovation. In addition to new products, including Cobbletech, we are excited by opportunities in internal paving and natural stone cladding. We are also seeing good progress in our International business. Overall, I believe your Company is well positioned to deal with the current uncertainties and to achieve good growth when market conditions improve, and accordingly to deliver value for shareholders.

Inevitably, as a result of the depressed market conditions and wet weather, sales have been disappointing. In total, sales of £309.7 million for the year were down some 7 per cent on last year. Sales to the Public Sector and Commercial end market were down 6 per cent. UK Domestic sales, which were particularly hard hit, were down 12 per cent. International sales were up 15 per cent from a low base and sales from the Belgium subsidiary have increased by 35 per cent in local currency.

Our strategies to target those areas of the Public Sector and Commercial end market, where we anticipate growth and provide a fully integrated product offering, continue to be appropriate. We are making further investment in street furniture, security products, water management and sustainable urban drainage to enhance our offering. In the UK Domestic end market our strategy continues to be based on building our Installer Register and distributor merchandising. We are introducing a new range of driveway paving and also a very broad range of interior concrete and natural stone paving. Our International business is focused on providing specialist landscape products into selected end markets.

Operating profit, before operational restructuring costs and asset impairments, was £13.9 million. This is a reduction of £2.8 million compared to the prior year, reflecting the lower level of activity partly offset by the benefits of the restructuring and cost reduction actions taken part way through the year. Whilst there was a small improvement in underlying margins, after stripping out one-off factors, these remain low and margin improvement remains a key focus for the Board.

One-off operational restructuring and asset impairment costs amounted to £21.5 million of which £10.2 million will be a cash cost. The annualised savings resulting from these actions are some £7 million with a benefit realised in 2012 of £2.8 million. In addition, these actions will enable inventory volumes to be reduced by a total of some £10 million from the end of 2011 to the end of 2013.

Looking forward, the economic background remains uncertain and economic forecasts for 2013 are weak. The Construction Products Association is forecasting a further small decline in the market for 2013. Commercial demand, particularly from Rail Infrastructure and Home Development, seems more positive in the medium term. Installer order books are reasonable and we are seeing some growth in our International business. We are also optimistic that Government infrastructure investment will be beneficial for the industry and wider economy though there is some urgency required to get this moving.

We will continue to focus on opportunities to grow revenues, reduce costs and improve margins. We will get the full annual benefit of the cost savings from the actions taken in 2012. Marshalls has a strong market position with unrivalled geographic coverage and a leading brand.

We are confident in our strategy and in the operating and financial positioning of the Group and, accordingly, the Board has decided to maintain the dividend at the same level as last year, which we know is important to shareholders.

Each year we agree a number of priorities for the Board. Last year these included ongoing focus on strategy and value creation, contingency planning and greater contact with investors.

The Board agenda is firmly focused on strategy. A Board programme is agreed setting out specific topics for discussion during the year. These discussions generally involve other members of the senior executive team. During 2012 they included such matters as employee engagement, innovation and new product development as well as contingency planning. The Board, together with the senior executive team, also held a dedicated strategic planning day. These meetings and discussions provided time for detailed consideration of strategic matters, enhanced the Board's understanding of the key issues facing the business and also enabled the Board to assess the strength of the management team below Board level. During the year I met a number of our major shareholders, outside the normal investor relations activities led by the Executive Directors, and have found their insights and views helpful. We continue to focus on Board development and with the help of a third party facilitator arranged a session on the respective roles of the Executive and Non-Executive Directors with the objective of ensuring we achieved the maximum benefit from everyone around the Boardroom table.

Board actions for 2013 include further enhancement of the strategic planning process, succession planning, Board training on risk, and increased shareholder engagement. I plan to report on these initiatives next year.

2012 has been a difficult year, particularly for our employees. I have visited many of our sites and have been very impressed by the hard work and

commitment shown by our people, who have continued to get on with the job, manufacture excellent product and provide outstanding customer service despite the prevailing uncertainties. On behalf of the Board I would like to thank all our employees for the job they do and their ongoing support and commitment to Marshalls.

Notwithstanding the challenges in 2012 I remain optimistic about the future.

Andrew Allner
Chairman
8 March 2013



One New Change Street, London

Business Review

Business Profile

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

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

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

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

Current Strategy

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

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

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

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

Business Review (continued)

Long Term Strategy and Business Objectives

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

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

Long Term Corporate Objectives

Marshalls' long term corporate objectives are to deliver:

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

Strategic KPI performance at 31 December 2012 is summarised on page 19.

Long Term Strategy

The strategy to achieve these objectives is:

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

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

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

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

Business Review

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

The Group has a long term commitment to the Domestic end market and continues to drive more sales through its strong relationships with quality installers. In recent years the Group has extended its approved installer register, and it continues to focus on lead generation, sales and marketing support, consistency in quality and the maintenance of good geographical coverage. The "Better Business Programme" specifically focuses on customer service, design improvement and the consistent demonstration of quality.

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

The Group has two operational sites in Belgium and continues to expand the geographical reach of its specialist product portfolio into mainland Europe. The Group aims to acquire new innovative products and to extend and expand its routes to market.

Strategic Key Performance Indicators ("KPIs")

Performance is monitored using a full suite of KPIs, but the Directors have identified the six measures below as the Group's strategic KPIs. The first three are measured over a three year period.

Target

Revenue growth:	7 per cent per annum
Earnings per share growth:	RPI + 21 per cent over a three year period
Operating cash flow growth:	RPI + 21 per cent over a three year period
Return on capital employed:	15 per cent
Customer service index*:	95 per cent
Health & Safety reduction in working days lost as a result of accidents:	10 per cent per annum

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

Additional long term KPIs have also been developed to cover the key areas of Energy Management and Environmental Sustainability to support the Group's emphasis on these key areas of future development.

These strategic KPIs are supported by a range of other KPIs designed to ensure that the short term priorities of cash management, cost reduction and working capital management are consistently aligned, and that both short and long term KPIs are closely monitored across the Group. There are also a range of non-financial KPIs covering innovation, installer membership, employee engagement, sustainability and Corporate Social Responsibility.



Fairstone Sawn Sandstone, Golden Sand

Business Review (continued)

Review of the Operations

Market Outlook

The Construction Products Association ("CPA") has reported an 8.8 per cent decrease in construction output in 2012 following the 2.5 per cent increase in 2011. The CPA is forecasting a further reduction of 2.2 per cent in 2013 before a recovery to 2.0 per cent growth in 2014. This decrease is partly driven by the Public Sector which accounts for one third of total construction and continues to be adversely affected by continuing Government expenditure control. The CPA forecasts that following a 15 per cent reduction in the last two years, Public Sector construction will fall by a further 7 per cent in 2013.

Economic uncertainty regarding growth is the main influence in Commercial which continues to be adversely affected by poor consumer and business confidence. Overall, construction is only expected to recover from 2014 driven primarily by Private Sector growth although still hindered by continuing uncertainty in the Eurozone. The CPA predicts a more significant rise of 3.7 per cent in 2015 and 4.6 per cent in 2016. The construction sector as a whole is likely to benefit from expenditure in infrastructure, especially within rail, roads and energy, which are anticipated to grow in the medium term. Within the Public Sector and Commercial end market the CPA estimates that Other New Work, a proxy for demand, was down 14.2 per cent in 2012 and predicts a further fall of 3.7 per cent in 2013 before returning to growth of 2.0 per cent in 2014.

In the Domestic end market the CPA estimates that Private Housing Repair, Maintenance and Improvement expenditure, a proxy for Domestic end market demand, fell by 4.0 per cent in 2012. Growth of 1.2 per cent in 2013 is expected with increases of 2.8 per cent and 4.0 per cent forecast in 2014 and 2015 respectively.

Despite this economic backdrop, the strength of the Group's installer base and the economic resilience and age profile of the core customer base remain positive factors that will continue to drive demand.

Trading Summary

Marshall's revenue for the year ended 31 December 2012 was £309.7 million (2011: £334.1 million), a decrease of 7 per cent. The record rainfall during 2012 reduced sales in the year by approximately £13 million. This particularly affected the UK Domestic end market in which poor working conditions, over a prolonged period, contributed to a 12 per cent reduction in sales compared to the prior period. Sales to the UK Domestic end market now represent approximately 32 per cent of Group sales. Sales in the Public Sector and Commercial end market, which represent approximately 64 per cent of Group sales, were down 6 per cent. Continued progress has been made in developing the International business which is approaching 5 per cent of Group sales.

The economic environment became increasingly uncertain over the last year and, as a consequence, the Group fundamentally reviewed its operations against the negative economic outlook. The Group instigated a programme of cost reduction and cash realisation measures and a wide range of actions to reduce production output, release cash and reduce cost have been undertaken, whilst maintaining operating flexibility. These actions have set underlying capacity and the Group's cost structure at a sustainable level for the lower volume forecast whilst retaining the capability to respond quickly when demand improves.

The net charge for one-off operational restructuring costs and asset impairments was £21.5 million (2011: £nil) of which £10.2 million will be incurred in cash. These have been separately identified on the face of the Income Statement in order to provide a better understanding of the Group's results.

Alongside these actions the Group has continued to strengthen its market position and trading margins are improving. The Group has excellent relationships with its customers, which is delivering additional sales, and good progress is being made with the many growth initiatives.

Business Review (continued)

Manufacturing and Distribution

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

During the last year, the Group has further simplified and refocused its operations with emphasis on financial and operating flexibility. The strategy has combined established and new initiatives to deliver growth and, despite economic and market uncertainty, the new initiatives have been delivering market outperformance. A specific initiative, has successfully rebalanced production nationally to meet stronger demand in the South East, compared to the North, in order to minimise distribution distance and reduce costs.

Marshalls has a unique national network of distribution sites with a wide geographical spread. Of the Group's customers, 97 per cent are within a two hour drive time of one of our regional centres and this continues to be a key competitive

advantage, especially when fuel costs are high. The Group utilises well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently and have the operational and financial flexibility to respond to any further changes in market conditions. The same capital equipment produces products for both the Public Sector and Commercial and Domestic end markets and this flexibility remains a key operational objective. The Group continues to improve the flexibility of its manufacturing through multi-skilling of the workforce and more flexible shift patterns. These factors optimise manufacturing efficiency and enable Marshalls to maintain the lowest cost to market.

The Group's plants are modern and well invested and this continues to enable capital expenditure to be maintained at historically low levels for the medium term without any noticeable impact on the effectiveness of the business. Capital investment in property, plant and equipment in 2012 totalled £8.3 million (2011: £11.8 million). This compares with depreciation of £14.8 million (2011: £17.3 million). The Group will continue to invest selectively in innovation to deliver new



Natural Stone, The Savoy, London

Business Review (continued)

products and improvement projects that reinforce its market leading position. These strengths support the Group's medium term growth ambitions and, in addition to the existing routes to market, a number of other markets have been identified that are opening up new opportunities for both existing and new products.

The International offer combines natural sandstone, granite and limestone from India, China and Vietnam with specialist manufactured products from the UK. Key synergies include marketing and sales collateral, sales processes and systems, a broader range of products and manufacturing and technical expertise.

The Group continues to focus on customer service with industry leading standards of product quality, availability and "on time" delivery. The customer service index KPI, measures product availability, accuracy and timeliness of deliveries and administrative accuracy. The Group's industry leading standards remained high in 2012 and the combined customer service measure continued to be in excess of 97 per cent. Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of its products and service.

The operational restructuring initiatives included works closures and other capacity reductions which mainly impacted those businesses that had been particularly affected by the deterioration in market conditions and for which the short term outlook remains most challenging. The operational restructuring measures have given rise to a one-off charge of £21.5 million including asset impairments of £11.3 million. These include the write down of plant and machinery and other assets together with the impairment of certain intangible assets. The asset impairments relate to the Group's natural stone walling business, the Scottish reconstituted walling business and the Landscape Products' wet cast operations. An additional manufacturing site has also been mothballed. These actions reflect the need to reduce capacity to meet current levels of demand, but also provide operational flexibility to enable the Group to benefit from any future increase in

market activity. Other operational restructuring costs of £10.2 million will be incurred in cash and reflect the implementation of a wide range of measures aimed at reducing costs, reducing inventories and releasing cash. The main element of other operational restructuring costs are redundancy payments associated with reducing capacity and central overheads which in the year ended 31 December 2012 amounted to £6.2 million.

Restructuring costs and asset impairments

	Cash £'m	Non-cash £'m	Total £'m
Restructuring costs	10.2	-	10.2
Asset impairments			
Intangible	-	2.8	2.8
Tangible	-	8.5	8.5
	<hr/>	<hr/>	<hr/>
2012	10.2	11.3	21.5
	<hr/>	<hr/>	<hr/>
Business area			£'m
Landscape Products			9.0
Natural Stone Walling			8.0
Scottish Operations			4.5
			<hr/>
2012			21.5
			<hr/>

The profit improvement from the restructuring actions in the year ended 31 December 2012 has been approximately £2.8 million and inventory has reduced by £4.9 million, which is ahead of the Group's planned timescale with a further reduction of £5 million expected by the end of 2013. Headcount has reduced by 15 per cent during 2012 and the fixed cost base has been reduced by £7 million on an annualised basis.

Sustainability and the Environment

Marshalls' has won numerous national and international awards for its ground breaking work on ethical sourcing and carbon labelling. Marshalls was the first business in its sector to become a member of the Ethical Trading Initiative and is also the UK's first heavyside materials manufacturer to be accepted into the prestigious United Nations Global Compact. The Global Compact is a strategic policy initiative for the businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights,

Business Review (continued)

labour, environment and anti-corruption. It also provides a practical framework for the development, implementation and disclosure of sustainability policies and practices. Further details are found in the Corporate Responsibility Report on pages 30 to 39.

Looking forward, these initiatives will be a “must have” and consequently the Group continues to ensure that sustainability is embedded in everything it does.

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

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

More details can be found in the Corporate Responsibility and Environmental Reports on pages 30 to 39 and 40 to 47 respectively and on the Group’s website www.marshalls.co.uk/sustainability.

Domestic

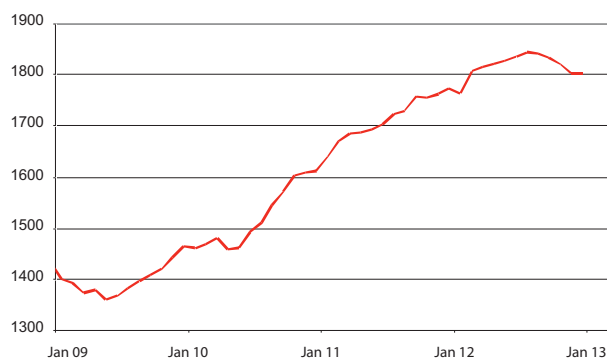
Marshalls is the market leader in the domestic driveway and patio markets and continues to lead the development of the consumer landscape products market. The Group’s Domestic strategy is to drive more sales through quality installers. The objective is to improve the product mix, continually develop the Marshalls brand and deliver a market leading level of service. The target customer groups for installed patios and driveways occupy 8.9 million homes, a far bigger potential market than new build. These customers are generally older, have equity in their property, earn more and often have savings. An ageing population with a retired lifestyle should drive sales growth and the move towards building more new houses rather than

flats is also a welcome trend. Quality installers remain busy, and confirm that there is a trend towards older customers, and a higher proportion of cash transactions with long term home owners rather than new home purchasers. The installed housing base is 25 million, far higher than the new build market of between 100,000 and 200,000 houses per year.

In the Domestic end market Marshalls’ strategy is to drive more sales through quality installers. The Marshalls Register of approved domestic installers is unique and, having grown to a total of 1,800 teams, the focus is now to ensure a consistently high standard of quality and good geographical coverage. The Group remains committed to increasing the marketing support of the installer base and the Marshalls Register through increased training, marketing materials and sales support. The Group has also continued to focus on innovation in order to develop areas with particular sales opportunity and to strengthen further the Marshalls’ brand. Marshalls also provides direct delivery to installers of value added products not easily sourced through stockists.

Installer order books at the end of February 2013 were 7.8 weeks (February 2012: 6.3 weeks), compared with 8.7 weeks at the end of October 2012. Consumer confidence remains reasonably stable albeit at a low level. Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of service.

Marshalls Register Installer Teams



Business Review (continued)

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

A broad range of initiatives continue to be developed in order to strengthen competitive advantage and the Group invests selectively in innovation to drive growth in the medium term. The Group has sector leading product availability and customer service and these attributes are both at the heart of the Marshalls’ “Superbrand” concept. For 2013 Marshalls has again been awarded the accolade of a business Superbrand. Marshalls’ Olympic involvement has also further advanced the Group’s reputation for innovation and service delivery. The Group continues to generate value by “Creating Better Landscapes.” The Group’s combined measure for product availability and customer service is consistently above 97 per cent.

Public Sector and Commercial

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

In the Public Sector and Commercial end market Marshalls’ strategy is to build on its position as a market leading landscape products specialist. The Group has experienced technical and sales teams who continue to focus on markets where future demand is greatest across a full range of integrated products and sustainable solutions to customers, architects and contractors. In particular, the Group has targeted those parts of the market where it anticipates growth such as



Integrated Product Offer, Natural History Museum

Business Review (continued)



Stanton Moor Sandstone Cladding, Derby

Rail Infrastructure and Home Improvement. The rail sector includes Crossrail, which is the largest construction project in Europe. The Group has recently received technical approval for a wider portfolio of products for both this project and the sector generally. In the home sector, Marshalls has secured framework agreements with eleven of the top 25 house builders.

The Group is making further investment in water management and sustainable urban drainage products, street furniture and traffic management to enhance its offer. Sales resource has also been allocated to the natural stone internal paving market, stone cladding for the Commercial market and the International Public Sector and Commercial end market. The Group's sales teams provide a full range of integrated projects and sustainable solutions to support the specialist product directories and marketing collateral. The process of identifying projects and following them through to completion is analytical and data driven and utilises specialist software unique to Marshalls. The combination of marketing, systems, processes and highly experienced sales teams continues to provide the Group with a sustainable competitive advantage.

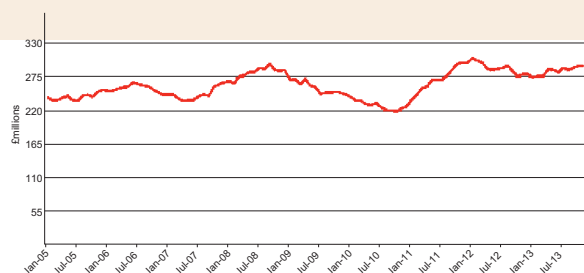
Marshalls continues to be the only landscape products company able to provide a fully integrated product offer to the Public Sector and Commercial end market. This integrated offer was created in response to the specific demand of suppliers, distributors, and architects but its value is now also appreciated in a wider environmental context and increasingly by local authorities and other Public Sector bodies. In each of the last two years approximately 50 per cent of all sales enquiries have covered more than one product category with around 20 per cent covering three or more.

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

Business Review (continued)

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

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



Historically, the Barbour ABI chart has provided a reliable picture of future demand. It consolidates planning information for all the sub sectors requiring hard landscaping. On average, there is a 12 month lag between contracts being awarded and the landscape products being required, so provides 12 month advance information on likely future demand.

Corporate Development

There continues to be a potential for growth in the Group's existing markets. The Group has significant consented stone reserves, particularly of dimensional stone and aggregates and continues to seek opportunities to expand reserves and geographical coverage. In dimensional stone Marshalls is the market leader and the Group has now paved every street on the London Monopoly Board. The Group has a comprehensive portfolio of natural stone types along with state of the art manufacturing equipment and excellent specification and technical sales resources. The table below shows

the Group's total mineral reserves comprising block stone for paving, walling stone and crushed aggregates.

Mineral Reserves

	Reserves		Reserves	
	tonnes (m)	years	tonnes (m)	years
	2012	2012	2011	2011
Block stone	7.8	52	8.5	57
Aggregates	38.6	22	45.1	24

Notes:

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

International Development

Marshalls' International strategy has two elements. Firstly, in Western Europe, the Group's strategy is to be a niche, premium product supplier to the Domestic end market. In March 2011, the Group acquired two operational sites and manufacturing assets in Belgium, via a newly-formed subsidiary. This enables the manufacture of landscape products locally and provides a physical stock location in mainland Europe from which to supply the wider Group's specialist product portfolio. The aim is to provide products that are not readily available in mainland Europe and sales from the Belgium base have increased by 35 per cent, in local currency, in 2012. There are over 40 million people living within a two hour drive from the two sites, an area that covers Belgium, Holland, Northern France and parts of Germany.

Secondly, the Group is investing in a specification sales team to address the Public Sector and Commercial end market where the lead times are longer. The focus is on unique products that offer the market something new and different. This includes security products, ethically sourced natural stone directly from India, China and Vietnam and other specialist manufactured products.

Technology developed by the Belgium subsidiary has led to the launch in the UK of "Cobbletech," the Group's new cobble effect driveway product.

Business Review (continued)



Stancliffe Iron Stone

It was launched as a Marshalls' Installer exclusive product and represents the first really innovative new driveway product for over a decade.

International sales in the year ended 31 December 2012 were £13.5 million (2011: £11.7 million) and the Group has a target of reaching £35 million by 2015.

Organisation and Key Contractual Relationships

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

The Principal Risks section on pages 24 to 27 outlines the risk management aspects of the Group's contractual arrangements. Marshalls has a

wide range of suppliers and customers, and whilst the loss of, or disruption to, certain of these arrangements could temporarily affect the Group's operations, there are no significant contractual arrangements that are considered essential to the Group's business in the long term. The Group remains keen to develop partnerships with both suppliers and customers in order to maintain high standards of quality, value, ethics and service throughout its operations.

Corporate Responsibility

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

Further details relating to social and community issues, including employees, health and safety, the policies of the Group and the effectiveness of these policies, are set out in the Corporate Responsibility Report on pages 30 to 39.

Research and Development

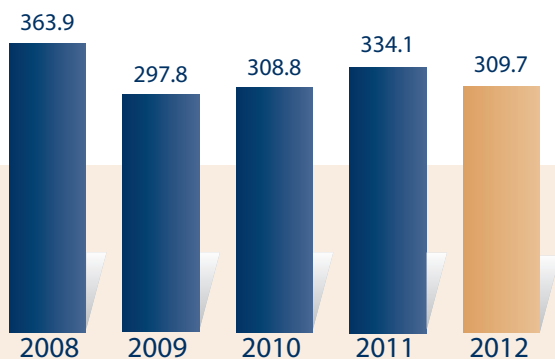
Marshalls has a world class Manufacturing, Innovation and Development team, staffed by high calibre engineers and technicians, which delivers competitive advantage through machinery design and installation. Excellent levels of product availability and on-time delivery performance have enabled distribution 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. As disclosed in Note 3 on page 107, research and development expenditure in the year ended 31 December 2012 amounted to £2,425,000 (2011: £3,166,000).

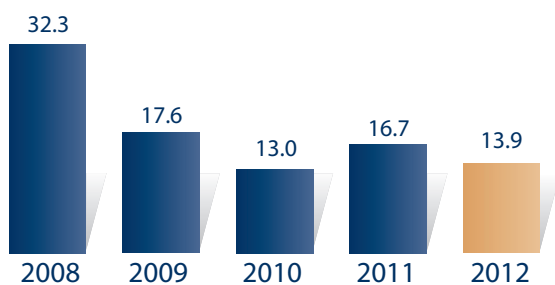
Business Review (continued)

Financial History

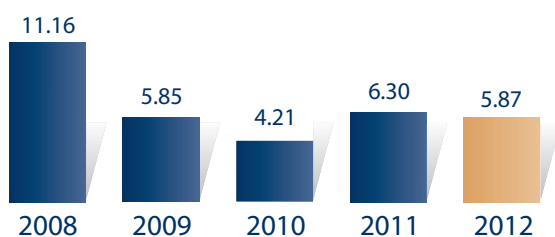
Revenue (£'m)



Operating profit (£'m) - before operational restructuring and work closure costs and asset impairments



Basic earnings per share (pence) - before operational restructuring and works closure costs, asset impairments and redemption of debenture



Operating profit and basic earnings per share are disclosed before operational restructuring and works closure costs, goodwill and asset impairments and the redemption of the debenture.

As at 31 December 2012 the Company's share price was 97.5 pence per share. When dividends are included this gives a negative total shareholder return ("TSR") of 40 per cent over a five year performance period. A performance

graph has been disclosed on page 74 showing the Group's TSR compared with the FTSE 250 Index and the FTSE Small Cap Index.

Financial Review of 2012

Continuing revenue for the year ended 31 December 2012 was £309.7 million (2011: £334.1 million) which represented a decrease of 7.3 per cent.

Revenue	Change	
	£'m	%
2011	334.1	
Impact of weather	(13.0)	(3.9)
Sub-total	321.1	
UK	(13.1)	(3.9)
International	1.7	0.5
2012	309.7	(7.3)

In the Public Sector and Commercial end market revenue fell by 6 per cent. Sales volumes were down 10 per cent, of which 3 per cent was due to the impact of the bad weather, and sales prices were up by 4 per cent. In the Domestic end market revenue fell by 12 per cent. Sales volumes were down 16 per cent, of which the weather accounted for 6 per cent, and sales prices were up 4 per cent.

Sales to International markets increased by 15 per cent to £13.5 million and were 4.3 per cent of Group revenue. The Group's target for 2013 is 5 per cent of Group revenues.

	2012	2011	change
Continuing operations	£'m	£'m	%
EBITDA*	30.0	35.0	(14.3)
Depreciation / amortisation	(16.1)	(18.3)	
Operating profit*	13.9	16.7	(16.8)

*Excluding operational restructuring costs and asset impairments

Operating profit, before operational restructuring costs and asset impairments, was £13.9 million (2011: £16.7 million). The impact of the unprecedented weather conditions was to reduce

Business Review (continued)

operating profit in the year ended 31 December 2012 by approximately £3.3 million which was partially offset by a net gain on asset and property disposals of £1.9 million (2011: £1.4 million). After operational restructuring costs and asset impairments, the reported operating loss was £7.6 million (2011: £16.7 million profit). EBITDA, before operational restructuring costs and asset impairments, was £30.0 million (2011: £35.0 million).

Margin reconciliation

	Movement in		
	Revenue	Operating Profit	Margin Impact
	£'m	£'m	%
2011	334.1	16.7	5.0
Property disposals and other one-off items	–	(0.2)	(0.1)
Weather impact	(13.0)	(3.3)	(0.8)
	321.1	13.2	4.1
Price increases to recover costs	13.6	3.5	0.9
Volume	(26.7)	(5.3)	(1.3)
Organic expansion of International	1.7	(0.3)	(0.1)
Profit improvement from restructuring	–	2.8	0.9
2012	309.7	13.9	4.5

Operating profit was £13.9 million with a resulting operating margin of 4.5 per cent (2011: 5.0 per cent). However, once the impact of one-off property disposals and the effect of the bad weather in 2012 are taken into account the "like for like" margin for 2011 was 4.1 per cent. The impact of the unprecedented weather in 2012 reduced operating profit by approximately £3.3 million and margin by 0.8 per cent. This was partially offset in the year by a net gain on asset and property disposals of £1.9 million (2011: £1.4 million). In the year ended 31 December 2012 realised sales price increases were in aggregate around 4 per cent and generated additional revenue of £13.6 million. Once inflationary cost increases are taken into account this generated an additional £3.5 million of operating profit. The CPA has estimated a reduction in market

construction volumes in 2012 of 8.8 per cent. Reduced sales gave rise to a fall in operating profit of £5.3 million which represents a margin decrease of 1.3 per cent.

The improvement in operating profit resulting from the operational restructuring initiatives in the second half of the year has been approximately £2.8 million, a margin improvement of 0.9 per cent. When markets improve, there continues to be a real opportunity to benefit both from improved operational gearing in both sales and production levels and from the lower cost base.

Sales growth in International end markets contributed additional revenue of £1.7 million. The contribution from this revenue growth has been offset by revenue investment in the Group's International business.

Basic EPS, before operational restructuring costs and asset impairments, was 5.87 pence (2011: 6.30 pence). EPS on a reported basis was a 2.91 pence loss (2011: 6.30 pence profit).

Analysis of sales by end market sector

	2012	2011 change	
	£'m	£'m	%
UK Domestic	96.6	109.2	(11.5)
Public Sector and Commercial	199.6	213.2	(6.4)
International	13.5	11.7	15.4
	309.7	334.1	(7.3)
Overall Percentage	%	%	
Domestic	31.3	32.7	
Public Sector and Commercial	64.4	63.8	
International	4.3	3.5	

The Public Sector and Commercial end market now comprises approximately 64 per cent of the Group revenue. Like for like revenue showed a decrease of 6 per cent in the year. Sales to the Domestic end market fell by 12 per cent.

Business Review (continued)

Financial KPIs

The key financial KPIs were set out on page 8. Performance against these targets continues to be affected by the severe economic recession that has impacted the UK economy and therefore the Group's markets. Measured at 31 December 2012, performance was as follows:

- Revenue growth

Against a target of 7 per cent per annum growth, over a three year period, the Group's revenue has increased by 1.3 per cent (2009-2012) on a CAGR basis.

- Earnings per share growth

Against a target of RPI + 21 per cent over a three year period the Group's earnings per share (before operational restructuring and works closure costs and asset impairments) has increased by 0.3 per cent (2009-2012).

- Operating cash flow growth

Against a target of RPI + 21 per cent over a three year period the Group's operating cash flow has fallen by 28.9 per cent (2009-2012).

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

ROCE for 2012 was 6.1 per cent which is compared with the long term target of 15.0 per cent.

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

Net Financial Expenses

Net financial expenses were £3.5 million (2011: £3.0 million) and interest was covered 3.9 times (2011: 5.6 times) before operational restructuring costs and asset impairments. Higher external charges, totalling £4.2 million, have been partially offset by an IAS 19 notional interest credit of £0.7 million (2011: £0.5 million) in relation to the

Group's Pension Scheme. The IAS 19 notional interest comprises interest on obligations under the defined benefit section of the Marshalls plc Pension Scheme net of the expected return on Scheme assets.

Taxation

The effective tax rate, before operational restructuring costs and asset impairments, was a credit of 10.7 per cent (2011: 11.1 per cent charge) and benefited from a credit to deferred tax due to the reduction in the rate of corporation tax, a credit arising on the finalisation of prior year tax computations, and the utilisation of brought forward capital losses being applied against the capital gain on the disposal of property assets. There was a tax credit of £4.4 million in relation to operational restructuring costs and asset impairments.

Deferred tax of £2.1 million in relation to the actuarial loss arising on the defined benefit Pension Scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.



Classical Flagstones, Rochester

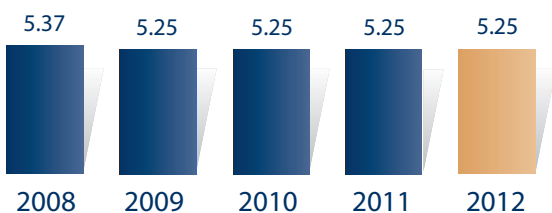
Business Review (continued)

Dividends

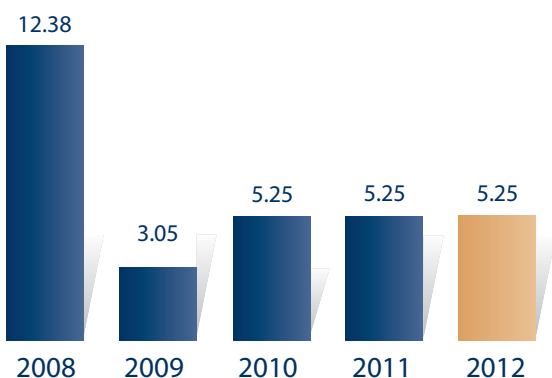
An interim dividend of 1.75 pence (2011: 1.75 pence) per share was paid on 7 December 2012. A final dividend of 3.50 pence (2011: 3.50 pence) per share is now being recommended for payment on 5 July 2013 to shareholders on the register at the close of business on 7 June 2013. The ex-dividend date will be 5 June 2013. This gives a total dividend of 5.25 pence (2011: 5.25 pence) per share for the year.

The Group has a policy of 2 times dividend cover over the business cycle. Future dividend payments will take into account the Group's underlying earnings, cash flows and capital investment plans, and the need to maintain an appropriate level of dividend cover.

Dividend per ordinary share (pence)* Traditional basis



Dividend per ordinary share (pence)* IFRS basis



* Dividends per share have been adjusted by the "bonus factor" in the Rights Issue.

Balance Sheet

Consolidated Balance Sheet	2012	2011
	£'m	£'m
Fixed assets	217.7	236.3
Current assets	105.6	122.6
Current liabilities	(64.3)	(63.4)
Non-current liabilities	(20.1)	(25.3)
Sub-total	238.9	270.2
Employee benefits (before deferred tax)	8.2	13.0
Net debt	(63.5)	(77.1)
Net assets	183.6	206.1
Period end gearing	34.6%	37.4%

Net assets at 31 December 2012 were £183.6 million (2011: £206.1 million).

The Group continues to keep a tight control of receivables and debtor days remain industry leading. The balance sheet at 31 December 2012 shows trade and other receivables have fallen to £30.2 million (2011: £40.3 million) due partly to lower market activity levels but also through continued close control of credit management procedures. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred.

The Group's UK inventory reduction programme has led to a reduction of £4.9 million and the Group is targeting a further reduction of £5 million in 2013.



Inglestone Natural Stone

Business Review (continued)

Risk management has been a key focus for the Group's Pension Scheme over recent years and the actions the Group has taken have reduced actuarial volatility and risk. In accordance with the Scheme-specific funding and recovery plan, the Group made cash contributions of £3.6 million into the Scheme in the year ended 31 December 2012. In 2013 and beyond the expected annual contribution will be £5.6 million. The fair value of the Scheme assets at 31 December 2012 increased to £254.8 million (2011: £250.6 million) and the present value of funded obligations increased to £246.6 million (2011: £237.6 million) and this has given rise to an accounting surplus of £8.2 million (2011: £13.0 million surplus) at the balance sheet date. These changes have resulted in an actuarial loss, net of deferred taxation, of £7.0 million (2011: £7.5 million actuarial gain) and this has been recorded in the Consolidated Statement of Comprehensive Income. In the year ended 31 December 2012 the AA corporate bond rate reduced from 4.8 per cent to 4.7 per cent and the values have been determined by the Scheme Actuary using assumptions in line with current market levels.

Analysis of Net Debt

Analysis of net debt	2012	2011
	£'m	£'m
Cash and cash equivalents	11.1	6.0
Bank loans < 12 months	(0.1)	(25.0)
Bank loans > 12 months	(74.3)	(57.9)
Finance leases	(0.2)	(0.2)
	(63.5)	(77.1)

At 31 December 2012 net debt was £63.5 million (2011: £77.1 million) resulting in gearing of 34.6 per cent (2011: 37.4 per cent). This reduction is partly due to reductions in inventory and the effective management of working capital. In addition, the Group has successfully completed targeted property sales in the year realising £8.6 million. This included the sale of an office building for £6.1 million which the Group agreed to lease back under an operating lease over 25 years. The Group has set a target of achieving a net debt to EBITDA ratio of 2 times by the end of 2013 and continues to focus on inventory reduction, capital expenditure

management and tight credit control. The one-off operational restructuring costs have given rise to a cash outflow of £7.4 million and the operational impact has reduced cash outflows by £5.4 million. These changes have led to a benefit in the Income Statement of £2.8 million.

Working capital has successfully released cash in the year of £12.1 million. Inventory has been reduced by £4.9 million and receivables have also been reduced, partly due to a lower level of activity and partly through continued close control of credit management procedures. Cash management continues to be a high priority and the Group remains committed to realising value from surplus properties.

Borrowing facilities

The Group continues its policy of having significant committed bank facilities in place with a positive spread of medium term maturities. In March 2012 bank debt facilities, which were to mature in December 2012 and January 2013 totalling £75 million in aggregate, were re-financed with extended maturity dates to 2015 and 2016. In addition, in August 2012, the Group renewed its short term working capital facilities with RBS.



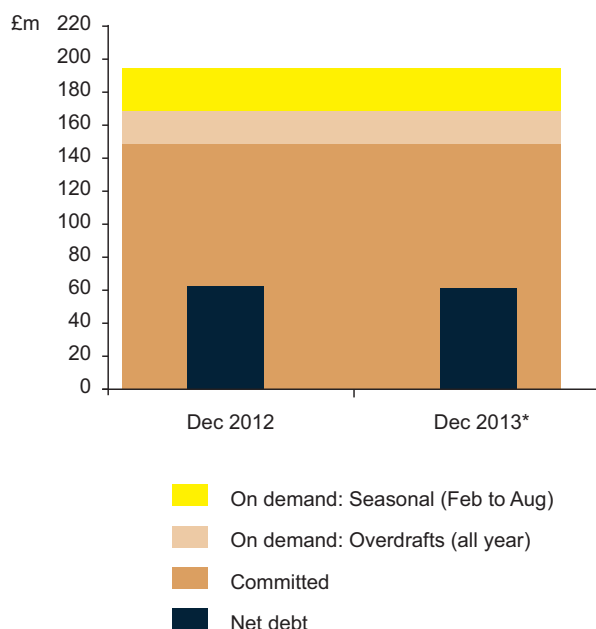
Classical Flagstone, Rosetta Grey Mosaic

Business Review (continued)

The strategy is to retain significant committed facilities and the Group has no need for further committed facility renewals for two years. The total bank borrowing facilities at 31 December 2012 amounted to £170.0 million (2011: £170.0 million) of which £95.7 million (2011: £87.1 million) remained unutilised. In addition, the Group has a seasonal working capital facility of £20.0 million which is available between 1 February and 31 August each year. The Group has significant headroom in its facilities with year end debt at 31 December 2012 representing approximately 37 per cent of the available facilities.

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

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



*2013 based on consensus information

Cash generation

Group Cash Flow	2012 £m	2011 £m
Net cash from operating activities (before pension contributions and operational restructuring)	35.7	19.6
Operational restructuring	(7.4)	(1.2)
Pension contributions	(3.6)	(6.6)
Net cash from operating activities	24.7	11.8
Working capital investment in International	-	4.1
Free cash flow	24.7	15.9
Net cash from investing activities	(0.7)	(15.8)
Net cash from financing activities	(10.3)	(10.3)
Net increase / (decrease) in cash and cash equivalents	13.7	(10.2)
Movement in debt and lease financing	(0.1)	(0.1)
Movement in net debt in the period	13.6	(10.3)
Net debt at beginning of period	(77.1)	(66.8)
Net debt at end of period	(63.5)	(77.1)

The Group continues to be cash generative. In the year ended 31 December 2012 the free cash flow was £24.7 million (2011: £15.9 million). The comparative figure reflects the fact that £4.1 million was invested in 2011 to fund the growth of working capital in the Group's International operations. This has been included within the net cash outflow from investing activities in the above analysis. Reported net cash flow from operating activities was £24.7 million (2011: £11.8 million) after deducting £7.4 million (2011: £1.2 million) of one-off cash expenditure in relation to operational restructuring and works closure costs paid and pension contributions of £3.6 million (2011: £6.6 million).

Reduced inventory volumes have released cash of approximately £4.9 million. There has been a net cash inflow of £7.2 million from monetary working capital.

Business Review (continued)

Analysis of cash utilisation	2012	2011
	£'m	£'m
Free cash flow	24.7	15.9
Capital expenditure	(9.5)	(13.6)
Proceeds from sale of property assets	8.6	5.4
Investment/acquisitions*	-	(8.2)
Disposal proceeds	0.2	0.6
Finance leases	(0.1)	(0.1)
Cash returned to shareholders	(10.3)	(10.3)
Movement in net debt	13.6	(10.3)

*Including working capital relating to International expansion in 2011 of £4.1 million.

Total expenditure on capital expenditure (including intangible assets) in the year was £9.5 million (2011: £13.6 million). The majority of this expenditure was invested in the replacement of existing assets, in business improvements and new process technology. Proceeds from the sale of targeted property assets contributed £8.6 million.

Dividend payments in the year were £10.3 million (2011: £10.3 million).

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

Analysis of cash utilisation, 2010-2012

	2009	2012
	£'m	£'m
Operational cash generation	78.2	
Capital expenditure	(17.2)	
Acquisitions / disposals	(7.6)	
Pension contributions	(16.8)	
Other financing items	(0.1)	
Sub-total	36.5	
Cash returned to shareholders	(30.9)	
Movement in net debt	5.6	
Net debt	(69.1)	(63.5)
Capital employed	181.1	183.6
Gearing	38.2%	34.6%

This chart provides a medium term three year analysis of the cash generation capacity of the Group and how cash generated has been utilised. Cash generated from operating activities was £78.2 million. The Group has re-invested £17.2 million back into the business in the last three years, which

represents a significant reduction from earlier levels. This reduction has been possible as a consequence of the major capital investment programme in the first half of the last decade, which has given the Group efficient, industry leading manufacturing and distribution facilities, and has enabled it to reduce capital expenditure during the downturn to preserve cash.

The Group has also invested £7.6 million in business acquisitions in the last three years and paid £16.8 million in Pension Scheme contributions. Cash generation before dividends has been £36.5 million over the last three years. Net debt has fallen by £5.6 million, in the same period, with gearing falling to 34.6 per cent.

As explained earlier, the Group's cash generation performance against detailed cash flow targets is a strategic KPI. In 2012, the short term targets that were set by the Board to support this were achieved. The Board's current short term objective is to conserve cash wherever possible and to maintain gearing at around the current level.



Fairstone Driveway Setts, Autumn Bronze

Business Review (continued)

Principal Risks and Risk Management

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

The Group seeks to mitigate exposure to all forms of strategic, financial and operational risk both external and internal. The effectiveness of key mitigating controls is continually monitored and

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

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

Strategic Risks Economic Conditions

The Group is susceptible to any economic downturn and is dependent on the level of activity in its markets. In the Domestic end market activity levels are driven by many factors including general economic conditions, interest rates, inflation, unemployment, demographic trends, general uncertainty in the financial markets and the availability of credit. These factors also affect activity levels in the Public Sector and Commercial end market where activity levels are also affected by the extent and speed of delivery of planned Government investment. The Group's aim is to ensure an excellent understanding of market conditions by constant communication with customers, installers and domestic consumers, together with significant investment in market research and active membership of the CPA. Close monitoring of trends and lead indicators enables the Group to identify and implement necessary action plans to address issues that are affecting trading. The balance of revenue between the consumer driven Domestic end market and the Public Sector and Commercial end market also helps mitigate the potential impact of these risks.

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



Marshall's Mistral Priora, Silver Grey

Business Review (continued)

Competitor Activity

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

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

Any significant increases in the price of oil, utilities and other raw materials could adversely affect the Group's performance. Diversity of operations reduces the risk on any single item on supplies and purchasing policies seek to take into account and mitigate such risks, where possible. Where appropriate, the Group uses hedging instruments to mitigate the risk of significant forward increases in fuel price.



Escofet Bench, Olympic Athletes Village

Financial Risks

Access to Funding

The Group requires continued access to debt funding in order to meet its trading obligations and to support the growth of the business. In March 2012 bank debt facilities, which were to mature in December 2012 and January 2013 totalling £75 million in aggregate, were re-financed with extended maturity dates to 2015 and 2016. In addition, in August 2012, the Group renewed its short term working capital facilities with RBS. Uncertainty in financial markets means that there is a potential risk that the Group may be unable to obtain additional funds when needed or may be able to do so on unfavourable terms although the facility renewals agreed in 2012 have served to mitigate this risk. A breach of bank covenants could result in elements of the Group's borrowings becoming immediately repayable.

The Group has significant committed facilities in place with a good spread of medium term maturities. The Group manages its medium term bank debt to ensure continuity of funding and the policy continues to be to arrange funding ahead of requirements and to maintain sufficient un-drawn committed bank facilities. To mitigate these risks the Group constantly reviews its strategic forward plans to reflect changing market conditions with the aim of maintaining significant headroom against its facilities. Medium term financial forecasts and shorter term budgets are regularly reviewed to assess financing requirements to ensure sufficient headroom against facilities.

Financial Instruments

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk, pricing risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these are summarised in Note 19 on pages 120 to 125 of the Financial Statements. These policies have remained unchanged since 2011. It is the Group's policy, and has been throughout the period under review, that no speculative trading in financial instruments shall be undertaken.

Business Review (continued)

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

Pensions

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

sensitivity would be offset very substantially by a movement in Scheme assets where the change in AA corporate bond yield is simply a movement in line with fixed interest securities in general.

The sensitivity to inflation is broadly that, all other things being equal, a 0.1 per cent movement is equivalent to a movement in the Scheme liabilities of broadly £1.5 million, although this would also be offset almost entirely by a movement in Scheme assets. As far as mortality is concerned an increase of one year in life expectancy would, all other things being equal, give rise to an increase in Scheme liabilities of approximately £8.0 million. Risk management remains a core theme of the Group's Pension Scheme strategy and the previous transfer of a proportion of Scheme assets from equities to liability driven investments is a further example of an action that has reduced volatility and risk.

Operational Risk

Business Integration

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. The integration of acquisitions also involves a number of further risks including the diversion of management's attention and the retention of key personnel within the acquired business. In this regard each acquisition is supported by a detailed integration plan covering all key areas of activity and dedicated project teams containing employees from the wider Group with the appropriate skills required. To support and enable future growth the Group has upgraded its IT systems to ensure a common platform across all business units. All IT systems development projects are actively and carefully planned with defined governance and control procedures in place. They are also supported by independent risk and project management audits to ensure that procedures and policies are in line with leading best practice. An important element is to ensure that the risks of disruption to the business are controlled and minimised.



Classical Flagstones, Aurora

Business Review (continued)

The integration of the Group's recently acquired Belgium operations is nearing completion and consequently the risks associated with this investment have reduced during 2012.

Employees

Current economic uncertainty may have increased the possible risk of staff turnover and may potentially de-motivate remaining staff. One of the Group's key strengths is the quality and experience of its employees and significant resource continues to be directed towards training, personal development and succession planning.

Key Relationships

The Group has strong relationships with its business partners while seeking to ensure that it is not dependent on any single category of customer, contractor or supplier. Business dealings are governed by a combination of longer term and single transaction written contractual terms.

Group Outlook

Marshalls acted swiftly and decisively to reduce both production output and the cost base whilst retaining substantial operating and financial flexibility. Net debt has been reduced to £63.5 million and the Group is already close to achieving its target of 2 times net debt to EBITDA by the end of 2013.

The general economic background remains unpredictable and economic forecasts for 2013 are flat. Commercial demand, particularly from Rail Infrastructure and Home Development is improving, the Installer market is showing good order books and the Group's International business is delivering strong year on year sales growth. Marshalls has a leading position in its markets with unrivalled geographic coverage. The Group remains focused on product innovation and service delivery initiatives to deliver sales growth and improve trading margins. There is no change in our expectations for the current year and the Group continues to remain well placed to achieve growth when market conditions improve.



Stanton Moor Sandstone Cladding, York

Directors' Biographical Notes

Andrew Allner (59) (2,3) Non-Executive Chairman

Term of Office: Appointed to the Board in July 2003 and appointed as Chairman of the Board on 12 May 2010. Last re-elected in May 2012. Also chairs the Nomination Committee.

Independent: Yes

Skills and experience: Andrew Allner is a Non-Executive Director, Senior Independent Director and Chairman of the Audit Committee at AZ Electronic Materials SA and also serves as a Non-Executive Director and Chairman of the Audit Committee at CSR plc and Northgate plc. He is Non-Executive Chairman of Fox Marble Holdings plc. He is also a Senior Independent Director and Chairman of the Audit Committee of The Go-Ahead Group plc and will assume the role of Chairman with effect from 25 April 2013. He was previously Group Finance Director of RHM plc, taking a lead role in its flotation in July 2005 on the London Stock Exchange. Prior to joining RHM plc, Andrew Allner was Chief Executive Officer of Enodis plc, and he has also served in senior executive positions with Dalgety plc, Amersham International plc and Guinness plc. He is a former partner of Price Waterhouse and is a Fellow of the Institute of Chartered Accountants in England and Wales. He is a graduate of Oxford University.

Graham Holden (53) Chief Executive

Term of Office: Appointed to the Board in 1992. Last re-elected in May 2012.

Independent: No

Skills and experience: Graham Holden joined the Group in 1986. He is a Chartered Accountant and graduate of the Harvard Advanced Management Programme. He was previously Group Finance Director, and has held other senior executive positions within the Group. He was appointed to his current position on 1 January 2004. He is also a Non-Executive Director of KCOM Group Plc, appointed in 2007, and chairs its Remuneration Committee. He is Chairman of the Yorkshire and Humber Regional Advisory Board of Business in the Community, and served as the Prince's Ambassador to the region until 21 June 2012. He also serves on the Board of the Mineral Products Association and is a Visiting Fellow in the School of Management at Cranfield University.

Ian Burrell (55) Finance Director

Term of Office: Appointed to the Board in June 2001. Last re-elected in May 2012.

Independent: No

Skills and experience: Ian Burrell joined the Group in 2001. He is a Chartered Accountant and has held a number of senior financial positions in industry, including that of Group Finance Director at Cornwell Parker plc. He is also Chairman of the Trustee Company of the Group's Pension Scheme, and is a Non-Executive Director and Chairman of the Audit Committee of Leeds Trinity University.

David Sarti (47) Chief Operating Officer

Term of Office: Appointed to the Board in November 2004. Last re-elected in May 2012.

Independent: No

Skills and experience: Joined the Group in March 2001 as Group Operations Director having previously been a business strategy consultant with Accenture. He is a Chartered Director. He is also a Non-Executive Director of a private group of companies in the distribution and retail sector, and serves on the Board of the British Pre-Cast Concrete Federation Limited.

Alan Coppin (62) (1,2,3) Non-Executive Director

Term of Office: Appointed to the Board in May 2010, and last re-elected in May 2012. He is the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee.

Independent: Yes

Skills and experience: Alan Coppin has extensive cross-sector governance and management experience. He is a Non-Executive Director of the Royal Air Force and of Berkeley Group Holdings plc, where he chairs the Remuneration Committee. He is also a Patron of the Windsor Leadership Trust. His previous roles include chairmanship of the Prince's Foundation for the Built Environment and Non-Executive directorships at Capital and Regional plc and Carillion plc.

Directors' Biographical Notes (continued)

Mark Edwards (58) (1,2,3) **Non-Executive Director**

Term of Office: Appointed to the Board in May 2010, and last re-elected in May 2012. Chairman of the Audit Committee.

Independent: Yes

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

Tim Pile (60) (1,2,3) **Non-Executive Director**

Term of Office: Appointed to the Board in October 2010 and last re-elected in May 2012.

Independent: Yes

Skills and experience: Tim Pile is the Executive Chairman of Cogent Elliott, the leading independent marketing agency, and was formerly Chief Executive Officer of Sainsbury's Bank. He has held a number of senior roles in the financial services and marketing industries and has wide business experience. Tim is a Non-Executive Director of The Royal Orthopaedic Hospital and is the President elect of the Greater Birmingham Chambers of Commerce. He is also a Governor of Bromsgrove School. Previous Non-Executive Director roles include Cancer Research UK.

Board Committee Membership

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

Cathy Baxandall
Group Company Secretary

Advisers

Stockbrokers

Citigroup Global Markets Limited
Numis Securities Limited

Auditors

KPMG Audit Plc

Legal Advisers

Herbert Smith LLP
Eversheds LLP
Pinsent Masons LLP

Financial Advisers

N M Rothschild & Sons Limited

Bankers

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

Registrars

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

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

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Registered in England and Wales: No. 5100353

Corporate Responsibility

“Against a challenging economic backdrop, 2012 saw Marshalls take further steps along its continuing Corporate Responsibility journey and further embed responsible business practices with the Group. We aim to align our business values, purpose and strategy with the social, economic and environmental needs of our stakeholders, embedding responsible and ethical business policies and practices in everything we do.”

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

The Group's drive to maintain high standards and operate in a sustainable manner is headed up by Board Director David Sarti who is responsible for managing the key elements of the Group's Corporate Responsibility Policy and who regularly reports to the Board on its application and development. He is supported directly by the Group Marketing Director and the Group Head of Sustainability. As CR and Sustainability become increasingly embedded throughout operations more employees are becoming directly involved with the Group's commitment to the sustainability agenda.

Marshalls' approach is driven by transparency and membership of a carefully selected number of key initiatives that provide both an effective framework for implementation and a learning environment as the Group seeks to understand these complex issues.

The Group continues to be a constituent member of the FTSE4Good UK Index. The Group is a member of Business in the Community ("BITC"), a signatory of the United Nations Global Compact ("UNGC") and a member of the Ethical Trade Initiative ("ETI"). In addition we work with internationally recognised expert bodies such as the Carbon Trust, the Wildlife Trust and the Woodland Trust.

The United Nations Global Compact



The UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

The UNGC now has over 10,000 corporate participants and other stakeholders from over 130 countries and it is the largest voluntary corporate responsibility initiative in the world.*

* United Nations Global Compact website, "About us", 11 February 2012
www.unglobalcompact.org/AboutTheGC/index.html

The UNGC is a practical framework for the development, implementation, and disclosure of sustainability policies and practices, offering participants a wide spectrum of workstreams, management tools and resources that are all designed to help advance sustainable business models and markets.

Overall, the UNGC pursues two complementary objectives:

1. Mainstream the 10 principles in business activities around the world.

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: Businesses should make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Corporate Responsibility (continued)

- Principle 4: The elimination of all forms of forced and compulsory labour;
- Principle 5: The effective abolition of child labour; and
- Principle 6: The elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility; and
- Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
2. Catalyse actions in support of broader UN goals, including the Millennium Development Goals ("MDGs").

The UNGC asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

The UNGC has shaped an initiative that provides collaborative solutions to the most fundamental challenges facing both business and society. The initiative seeks to combine the best properties of the United Nations ("UN"), such as moral authority and convening power, with the Private Sector's solution-finding strengths, and the expertise and capacities of a range of key stakeholders.

Marshalls sees the following benefits from engagement:

- Adopting an established and globally recognised policy framework for the development, implementation, and disclosure of environmental, social, and governance policies and practices;

- Sharing best and emerging practices to advance practical solutions and strategies to common challenges;
- Advancing sustainability solutions in partnership with a range of stakeholders, including UN agencies, governments, civil society, labour, and other non-business interests;
- Linking business units and subsidiaries across the value chain with the UNGC's Local Networks around the world;
- Accessing the UN's extensive knowledge of and experience with sustainability and development issues; and
- Utilising UNGC management tools and resources, and the opportunity to engage in specialised workstreams in the environmental, social and governance realms.

The UNGC incorporates a transparency and accountability policy known as the Communication on Progress ("COP"). The annual posting of a COP is an important demonstration of a participant's commitment to the UNGC and its principles. Participating companies are required to follow this policy, as a commitment to transparency and disclosure is critical to the success of the initiative.

Marshalls' annual COP can be found on the UNGC website: www.unglobalcompact.org/participant/6385-Marshalls-plc.

At the end of 2012 Marshalls Group Marketing Director, Chris Harrop, became the Chairman of the UNGC UK Network, further demonstrating Marshalls' commitment to the UNGC and its CR journey.

Business in the Community

Marshalls' continued membership of BITC both demonstrates and enables the Group's commitment to responsible business practice and engagement with employees, customers and the communities in which it operates.

Corporate Responsibility (continued)

The BITC CR Index is a robust tool to help companies systematically measure, manage and integrate responsible business practice, under which companies are assessed using the following framework:

- **Corporate Strategy** looks at the main CR risks and opportunities to the business and how these are being identified and then addressed through strategy, policies and responsibilities held at a senior level in the Company;
- **Integration** is about how companies organise, manage and embed CR into their operations through KPIs, performance management, effective stakeholder engagement and reporting;
- **Management** builds on the Integration section looking at how companies are managing their risks and opportunities in the areas of Community, Environment, Marketplace and Workplace; and
- **Performance and Impact** asks companies to report performance in a range of social and environmental impacts areas. Participants complete three environmental and three social areas based on the relevance to their business.

Marshalls has attained 'Gold' status in the 2012 results ranked against this assessment.

Details can be found via the BITC website: www.bitc.org.uk/our-services/benchmarking-recognition/cr-index.

Superbrand

Building upon its rating for 2012, Marshalls once again achieved Business to Business Superbrand status for 2013. This accolade follows a robust research process administered independently by The Centre for Brand Analysis which analyses the views of a council of experts and 2,000 UK business professionals.



The Marshalls Brand Manifesto

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

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

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

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

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

Marshalls, Creating Better Landscapes

Corporate Responsibility (continued)

The Market Place

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

Building upon the previous Certificate of Approval, Responsible Sourcing of Building Products in compliance with the requirements identified in BES 6001 – Framework Standard for the Responsible Sourcing of Construction Products - Marshalls maintained its 'Very Good' performance rating in 2012.

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

The Group Purchasing Policy sets out the standards and ethics for dealings with suppliers.

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

Ethical Responsibilities

The Group remains wholly committed to ethical business practice. It is an active signatory to the UNGC and member of the ETI with Marshalls' Group Marketing Director, Chris Harrop, holding the post of ETI board member.

Within the ETI framework Marshalls continues to implement the ETI Base Code throughout its supply chains with particular focus on natural stone paving from India, China and Vietnam. Marshalls' Head of Sustainability, David Morrell, chairs the ETI stone group.



Stonemarket, Opera Black

Corporate Responsibility (continued)

The ETI Base Code can be found on the ETI website; www.ethicaltrade.org.

Marshalls continues to provide annual progress reports to the ETI, building upon a range of capacity building and supplier compliance auditing.

The Group made further progress in its programme of Human Rights Impact Assessments ("HRIA") in India, China, Vietnam and the UK, building upon its 'Human Rights Policy'.

In line with the Group's Anti-Bribery Code, specific training was introduced during 2012 for employees, particularly in sensitive positions, to reinforce the principle of zero tolerance of corruption in business, and there are monthly reporting mechanisms to ensure that the policies and procedures in relation to the prevention of bribery and corruption are being adhered to. This is a key element of Group's systems and procedures to ensure that the Group remains fully compliant with the legal and regulatory requirements.

The Group's ethical standards are fast becoming synonymous with its brands. The Group's ability to compete in both the Domestic and Public Sector and Commercial end markets are strengthened by its ethical stance.

The Environment

Marshalls is committed to assessing and managing the environmental impacts of all its operations. Further details are set out in the Environmental Report on pages 40 to 47.

The Community

By aligning the Group's community activities with appropriate BITC programmes the Group continues to be actively involved in programmes which promote good community relations, such as encouraging and empowering employees to engage in volunteering and community projects as a way of positively interacting with the communities in which it operates. This work spans all Marshalls Group sites and operations in the UK.



Escofet Benches, Olympic Athletes Village

Corporate Responsibility (continued)

During the year the Group made charitable donations of £44,362 (2011: £58,034). Marshalls' Charity of the Year for 2012 was 'Together for Short Lives', the leading UK charity for all children with life-threatening and life-limiting conditions and all those who support, love and care for them. Further details can be found at www.togetherforshortlives.org.uk.

Employees

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

Marshalls recognises and appreciates diversity within its workforce and the wider community and is committed to promoting and maintaining a working environment based on mutual respect, where individual talent is recognised and valued and to providing training designed to raise levels of awareness and sensitivity to matters of equality and dignity at work. Marshalls' aim is to implement fair and merit-based employment policies and to adhere to relevant legislation as the minimum acceptable standard. This includes compliance with the provisions of the Equality Act 2010, which harmonises and strengthens previous discrimination-based legislation to provide a simpler and more consistent framework for the effective prevention of discrimination against individuals with protected characteristics. In particular, the Group welcomes and gives full and fair consideration to applications from individuals with recognised disabilities and will ensure they are provided with equal opportunity for employment and career development.

Wherever reasonably practicable, training is offered, and adjustments are made, to ensure that disabled employees or those who become disabled, are not disadvantaged in the workplace.

Marshalls continues to expand its framework of engagement initiatives, introduced to enhance the Group's ability to respond to the needs and aspirations of its employees and to improve overall business performance. The importance of the engagement agenda has been reinforced with the appointment in 2012 of a dedicated resource within the HR team, focusing specifically on co-ordinating and framing our engagement activities, through interaction with local management teams and employee focus groups.

The financial results of the Group and reports on the Company's performance and overall direction are communicated to employees through an internal intranet, via site notice boards and through bi-annual face to face briefings between senior management and various employee groups. There is also an employee share purchase plan that facilitates the purchase by employees of Company shares, through monthly contributions from salary.

The Marshalls' 'Options' platform serves to underpin employee engagement activities, through the offer of a wide range of employee-focused benefits; amongst others, a Childcare Voucher Scheme and a Cycle to Work Scheme for employees. Both have been welcomed enthusiastically by participating employees as well as providing access to a range of discounted 'lifestyle' benefits. These are reviewed on a regular basis against current developments in employee benefit structures and underline the importance of employee well-being as an organisational agenda item.

Notable progress has been made during 2012 in establishing a consistent, credible Development Review process, which provides an opportunity for all employees within the Group for a one-to-one discussion with their manager, covering work objectives, performance, personal development

Corporate Responsibility (continued)

and career aspirations. This was successfully supported during the year by a facilitated programme of training and awareness-building, designed to focus on the importance and quality of these conversations and open dialogues between employees.

During the last quarter of 2012, the Group again participated in the Best Companies Workplace Engagement Survey, with a notable increase in the overall level of participation amongst employees. This further commitment to the engagement agenda continues to help us benchmark the Group's activities against other similar sized companies focused on organisational excellence and to access and adopt examples of best practice wherever appropriate. The feedback from the Best Companies Survey is key to increasing our understanding of the impact of our employee engagement activities and determining how they can be progressed and embedded further across the Group. Significant effort is being made to ensure that results are fed back to all areas of the business and that local business units are encouraged and supported in putting together tailored and relevant action plans.

The emphasis on greater engagement with employees is further supported by the continued involvement of employee 'Ambassadors' from across the business, each providing a touch point for the communication and interchange of views and ideas on a wide range of business issues. The Group has also continued its work on identifying and articulating its organisational competencies, which continue to provide a valuable source of sustainable competitive advantage in a very demanding trading environment.

During the first quarter of 2012, significant progress was made in harmonising historically different terms and conditions of employment and working practices across a number of sites, resulting directly from a highly consultative and collaborative interaction with recognised trades unions and our broader employee base. This close co-operation and dialogue with employees and their representatives was a constant and

important feature during the significant reduction in employment costs during the remainder of 2012. Collective pay negotiations for 2013, and potentially beyond, are currently progressing with recognised trades unions under the Group's Joint National Forum negotiating framework.

Broader training and personal development has continued across the Group, with initiatives in place designed to identify and nurture potential, reinforce the application of consistently good management practices and provide opportunities for succession wherever possible. This will be further enhanced during 2013 with the addition of on-line toolkits and self-help programmes, designed to highlight and encourage managerial best practice and personal self-insight. The Group's 'Dignity at Work' programme, designed to raise awareness of the dangers of bullying and harassment in the workplace is proactively communicated and universally well-received across Group sites. This joint collaboration between the Company, recognised trades unions and ACAS will continue into 2013. There is a continuous programme across Group sites to support the development of Marshalls' employees through NVQ accreditation and there has been a notable silver Investors In People accreditation during 2012 at one of the Group's major manufacturing sites.



Natural Slate Paving, Midnight Blue

Corporate Responsibility (continued)

Following the further integration of the Group's European and Chinese business interests, the Belgian-based manufacturing operations are benefitting from the earlier recruitment of dedicated country-specific sales resource, to facilitate further sales growth in Europe.

Health and Safety

The improvement of both the Health and Safety Management System and annual Health and Safety Performance remain key priorities for the business. The Safety, Health and Incident Prevention ("SHIP") teams, consisting of employee representatives and managers, are the cornerstone of the safety management system at site level, and have continued to operate throughout the year. Over recent years, the Group's operating sites have progressively implemented Integrated Management Registration systems accredited by the British Standards Institution ("BSI") incorporating accreditation to OHSAS ("Occupational Health and Safety Accreditation Standard") 18001:2007. At the end of 2012 the Group held a total of 53 BS OHSAS (18001:2007) registrations, an increase of

13 over the prior year; this equates to a production tonnage manufactured under a registered safety management system of 97 per cent. Only 3 operational sites are awaiting registration, of which 2 are scheduled for registration in 2013, whilst the 3rd is dependent upon changes to existing planning consent.

Training throughout the year continued to focus on the development of managers and supervisors to manage proactively health and safety in the workplace. A further 26 managers attended the four day IOSH Managing Safely course, whilst 20 supervisors attended the three day IOSH Safe to Supervise course. In addition a further 153 managers and supervisors attended appropriate refresher training courses. There has also been significant progress made in aligning with the Mineral Products Association's ("MPA") Policy of having a demonstrable competency programme in place for the quarrying sector. All employees appointed in a supervisory capacity in our quarry operations have achieved at least a Level 3 SHE NVQ, whilst 92 per cent of those appointed in a capacity of direct responsibility



Stonemarket Vintage Stone

Corporate Responsibility (continued)

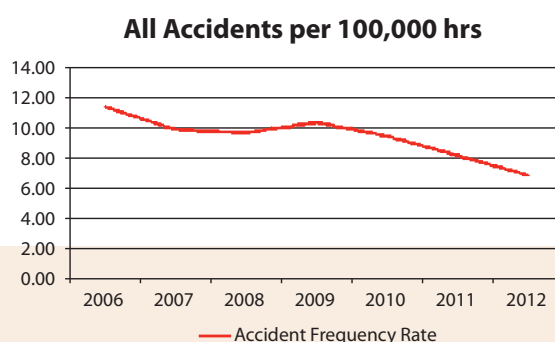
have achieved at least a level 4 SHE NVQ and 85 per cent of quarry operatives have achieved a Level 2 qualification in their respective roles. The Group is now engaged in identifying a suitable accredited training qualification for employees within our pre-cast concrete operations.

The Group's principles regarding the health and safety of employees, and their application throughout the business, are set out in the Group's written Health and Safety Policy, which is reviewed at least annually by the Board. David Sarti is the Director with primary board-level responsibility for health and safety performance. The Group's health and safety performance is monitored by the Board on a monthly basis using a number of KPIs. These measure the number and type of workplace accidents.

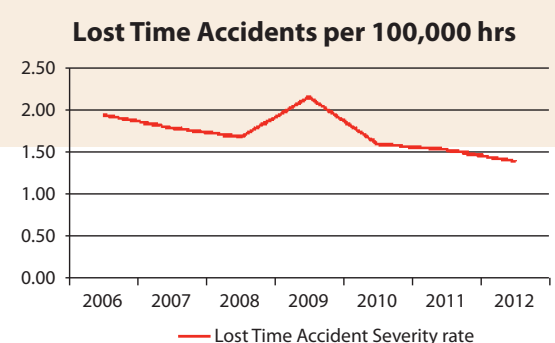
Accident frequency and severity rates (per 100,000 hrs worked)					
	2008	2009	2010	2011	2012
All accidents	9.74	10.43	9.49	8.32	6.95
All lost time accidents	1.69	2.16	1.60	1.55	1.40
All RIDDOR's	0.98	1.11	0.94	0.81	0.61
All days lost	27.14	25.18	14.76	20.44	15.42
Average UK headcount	2,774	2,464	2,391	2,456	2,252

Whilst the primary target for 2012 was a 10 per cent reduction in days lost resulting from workplace accidents, the actual reduction achieved was 24.6 per cent. The all accident frequency rate recorded in 2012 was 16.4 per cent lower than in 2011, and the number of lost time accidents ("LTAs") recorded was 9.7 per cent lower during the same period (Table above and Graphs 1 and 2 respectively).

Graph 1

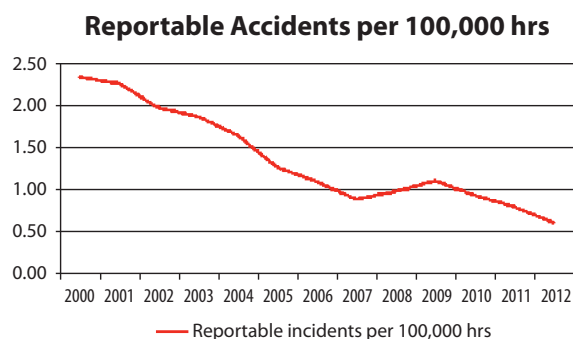


Graph 2



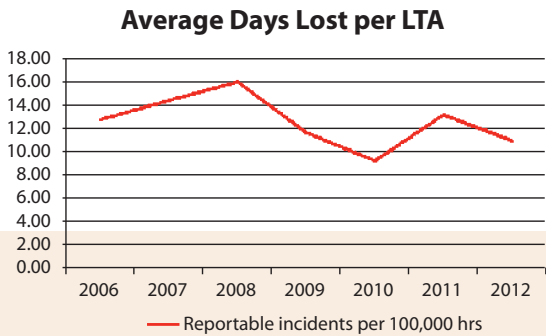
The rate of accidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") also fell in 2012 by 24.7 per cent (Graph 3). Whilst the changes made to the reporting criteria within RIDDOR will have assisted in this reduction, it should be noted that there has been an overall reduction in the severity of LTAs as depicted in the declining severity rate (Graph 4).

Graph 3



Corporate Responsibility (continued)

Graph 4



The Group's health and safety performance for 2012 has been encouraging with positive improvements in all of the major KPIs. However, increasing the rate of improvement in LTA's remains a priority. In 2013 the Group will embark on a behavioural safety programme which will help better define and improve the safety culture of the business. The initial step will be to introduce the widely adopted concept of 'visible felt leadership' during 2013.

The Group continues to strive to improve the quality and safety of the working environment for employees. Marshalls remains committed to meeting the highest safety standards for all its employees, to reinforce and develop its safety processes, and to develop a competent workforce with a view to achieving long term improvement gains. Once again, the primary target for 2013 will be a 10 per cent reduction in days lost resulting from workplace accidents.



Fairstone Sawn Sandstone, Multi

Environmental Report

“Marshalls clearly understands the value to be derived from managing the business with due regard for the environment. Notwithstanding the need to comply with relevant legislation, there are benefits to be gained from reducing the use of scarce and costly resources; maintaining good relations with the communities within which we operate and, increasingly, meeting our customers’ needs for environmentally sensitive solutions.”

Overall we consider that we have made good progress in reducing the intensity of the Group’s environmental impact across a broad front. Virtually all measures show year-on-year improvements and indicate progress both in the short term and towards the very long term objectives set in accordance with UK Government and European targets.

A full review of the suite of environmental measures and targets has been conducted in 2012, with the next review now scheduled for 2015. The long term nature of environmental management leads to targets which roll progressively over a number of years and short term changes of direction would be inappropriate in any case.

It was intended to review and incorporate measures for Marshalls NV in 2012. Reprioritisation of resource during the year in response to general market conditions and other challenges resulted in this aspect of the plan being deferred. Data for Marshalls NV, which we would not expect to be material in the context of the Group as a whole, will be incorporated as soon as suitable resource can be allocated to the task.

There is a change to the basis of the emissions declaration in this year’s report. We have adopted CO_{2e} as the unit of measure, in readiness for that becoming mandatory for FTSE listed companies. The change from CO₂ to CO_{2e} is just a conversion as other greenhouse gas (“GHG”) emissions from Marshalls’ activities are insignificant and non-material.

Board Responsibility

The Group’s Chief Operating Officer, David Sarti, is the Director responsible for the environmental performance of the Group. The Group’s Environmental Policy is approved by the Board and is reviewed at least annually. The full text of

the Policy can be found on the Group’s website www.marshalls.co.uk/sustainability.

Environmental Policy - Key Features

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

- The Group has a commitment to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations.
- All operations should meet or exceed the requirements of legislation and applicable best practice. Where no legislation exists, best practice will remain an integral part of Marshalls’ business strategy.
- The Group is committed to considering the environmental impacts associated with its products throughout their life cycle.
- Policy is supported by monitoring and measuring environmental performance using appropriate external guidelines wherever practicable. Operating sites have assessed the environmental aspects of their activities, and objectives and targets aimed at improving the overall environmental impact of those activities have been set. These are reviewed on at least an annual basis.
- Marshalls will continue to raise environmental awareness within the Group through the development and training of its employees and will communicate openly and consult with customers, suppliers and other stakeholders on relevant environmental matters.
- Marshalls strives to protect and enhance biodiversity and natural habitats within its landholdings where possible. The Group also recognises the need for sympathetic restoration and after-use of quarry and other operational sites.

Environmental Report (continued)

- Marshalls considers the character of the local environment and the concerns of the local community and other stakeholders in relation to its activities.

Environmental Management

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

Marshalls exceeded its target, as during the year 46 (2011: 32) sites were operated to the PAS 99 specification, representing 97 per cent of the Group’s manufacturing output. The Group’s new target is to maintain the 90 per cent measure until 2020.

By the end of 2012 the Group had 54 operational* sites (2011: 54). Of these sites:

- 51 (2011: 46) had BS EN ISO 9001:2008 Quality Management Systems in place representing 98 per cent of the Group’s manufacturing output;
- 48 (2011: 39) had BS EN ISO 14001:2004 for Environmental Management Systems in place representing 97 per cent of the Group’s manufacturing output; and
- 50 (2011: 40) had BS OHSAS 18001:2007 for Health and Safety Management Systems in place representing 98 per cent of the Group’s manufacturing output.

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

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

Environmental Impact

The business redefined its Key Performance Indicators in 2012 to increase the accuracy and measurability of its environmental initiatives while improving performance. These are referred to in the relevant section of this Report.

Explanatory notes have been included with the charts.

Marshalls is a signatory to the Sustainable Concrete Forum which published a new road map, with time-bound targets to 2020, in February 2012. The Group reviewed its own targets in line with its commitment as a signatory.

Carbon

Target – to reduce our absolute CO_{2e} consumption in line with UK Government targets (34 per cent by 2020 and 80 per cent by 2050 from a 1990 baseline).

Marshalls’ Energy and Climate Change Policy approved by the Board during the year confirms the Group’s commitment to reducing the Energy and Carbon impact of its business activities. The current reduction is in line with the 2020 and 2050 targets.

The Group complied with its legal obligation in the Government’s Carbon Reduction Commitment Energy Efficiency Scheme (“CRC”) by submitting both its Footprint and Annual Reports together with surrendered Carbon allowances for the period April 2011 to March 2012 within the time limits imposed by the legislation. The Group currently has the Carbon Trust Standard, which certifies its continued carbon reduction and forward commitment to reduce emissions. It is likely that the Group will recertify in 2013, subject to changes in the CRC and mandatory GHG reporting.



The business energy and carbon KPIs are aligned to CRC through the measurement of energy at both absolute and relative intensity levels and the

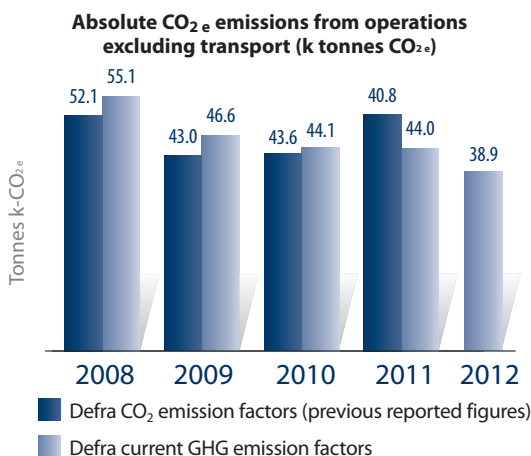
Environmental Report (continued)

business remains committed to reducing energy use on both these measures. The Group has previously reported CO₂ emissions from its energy use which represents the vast majority of its GHG emissions. From this year the Group will report total direct GHG emissions using the GHG Protocol and the latest available emission factors from Defra as this is considered best practice and inline with the proposed mandatory carbon reporting which is anticipated will be a requirement from October 2013.

The Group continues to recognise that renewable energy will be required to achieve the absolute reduction target. Options to develop the use of wind, photovoltaic, anaerobic digestion and biomass continue to be developed. Such options will be progressed if found to be economically viable.

During 2012 the business commenced a trial to report automatically on the dispensing of liquid fuels, the findings of which are to be assessed in the first half of 2013.

The chart below illustrates the Group's absolute CO₂ emissions in tonnes, excluding transport activities, between 2008 and 2012.



This chart illustrates previously reported figures and the total direct GHG emissions as a comparison. The Group will continue to use the latest published figures from Defra as they become available.

The Group's GHG emissions for 2012 have dropped by over 5,000 tonnes from its reported emissions in 2011, representing an 11.8 per cent fall. The net reduction in absolute emissions is the result of energy savings which are within the control of the business and other factors, such as product mix and weather, which are not.

All the Group's operational sites and main buildings have an energy plan with monthly reporting which highlights each site's progress towards its GHG emission reduction. This has resulted in the reduction of 639 tonnes of GHG emissions during the year. In addition, the completion of a project to improve the efficiency of the business's internal and external lighting is estimated to save 1,050 tonnes of GHG emissions per annum. During this project further potential savings have been identified. Other projects include the introduction of reporting and awareness schemes to improve management of key production utilities such as compressed air.

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

The Group acknowledges that the heating degree days in 2012 increased over 2011 and therefore the energy required by the business for comfort and process heat increased during the year. A number of best practice projects are being considered in 2013 to improve the energy efficiency of its heating systems.

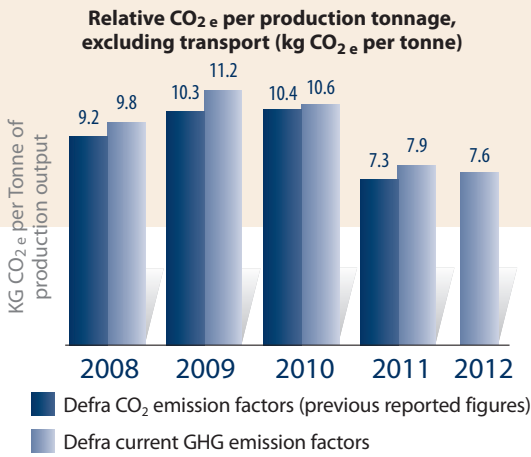
The business is continually improving the reliability of its energy data to enable better forecasting and management of its energy and carbon footprint. The business has a forecast of its GHG emissions until 2020 and a measure of the required investment to achieve its targets.

The Group has changed its reporting of relative carbon intensity of production by using total direct GHG emissions rather than CO₂. This relative intensity measure, excluding transport, has decreased from 7.85 kg CO_{2e} per tonne of production to 7.63 kg CO_{2e} per tonne of

Environmental Report (continued)

production. The reduction is a combination of product mix, energy efficiency measures and the decision to manage its reduction of base load energy usage.

The chart below illustrates the Group's CO_{2e} (measured as direct GHG from 2012) intensity emissions as a proportion of production output, excluding transport activities, between 2008 and 2012.



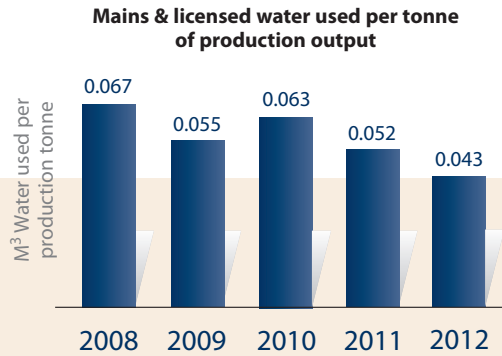
While the Group must report its carbon footprint as part of CRC legislation, which excludes transport, it will continue to report voluntarily to the "Carbon Disclosure Project", which includes a wider carbon management performance over time and also provides an insight for shareholders regarding the Group's energy, carbon and climate change impact management programme. The Group reported 65,109 tonnes of CO₂ for the year 2011 (2010: 66,037 tonnes). This data includes scope 1 and 2 emissions as defined in the Greenhouse Gas Protocol ("GHG Protocol"). The proportion of the GHG emissions from transport dropped to 32 per cent.

Water

Target – reduce use of water from mains and licensed boreholes to 0.05m³ per tonne of production by 2015.

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

The chart below illustrates the Group's water performance between 2008 and 2012.



The reduction in water intensity has been helped by Marshalls' previous and continued investment in water management projects, particularly water harvesting which has continued to be developed during 2012. The UK rainfall in 2012 was the second wettest year on record at 1,330.7mm (Y2000: 1,337.3mm) and 115 per cent of the 1981-2010 average. Greater volumes of rainfall have a positive impact on the Group's reported figures as the business prioritises the use of harvested rainwater or quarry water before mains or borehole water. During the year a rainwater harvesting system was introduced at the business's Sittingbourne site. Management, staff awareness and product mix have also contributed to the reduction in water intensity.



Woodhouse Bespoke Lights, Canary Wharf, London

Environmental Report (continued)

Transport

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

Fuel usage has a significant business impact. Marshalls undertakes one-on-one “green” driver training for its fleet drivers, which has the added advantage of gaining a broader understanding of the problems being faced by the drivers, allowing management to address the issues. The fuel efficiency of the Marshalls Large Goods Vehicle fleet (“LGV”) improved by 0.1 mile per gallon during 2012.

The Group is a member of the voluntary freight transport led Logistic Carbon Reduction Scheme (“LCRS”) which has a collective commitment to reduce the carbon dioxide emissions by eight per cent by 2015 (compared to 2010 levels). The business drafted an internal Transport Policy Statement during the year to provide focus on the key metrics to improve vehicle efficiency. The business also continues to investigate LGV speed restriction and alternative fuel trials.

The Group uses rail for stock movement to reduce carbon emissions and will continue to look at different modes of transport whenever practicable.

The Group’s company car fleet has an average emission of 130 carbon dioxide grams per kilometre reduced from 140 in the last 18 months. An in-house automated report using a combination of total mileage travelled and the achieved efficiency (miles per gallon) is being developed with a view to providing each driver with a ‘green’ driving score during 2013.

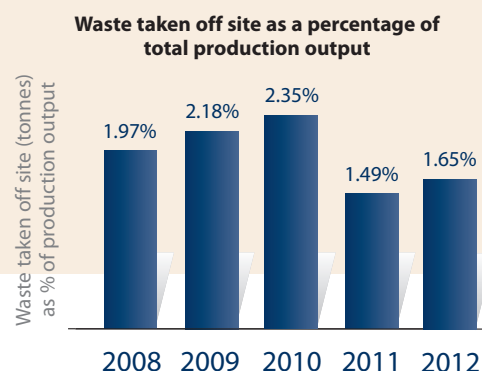
Waste Reduction

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

The Group has continued to measure the amount of waste, including material for recycling, leaving

sites as a percentage of total production output. The business aims to eliminate waste and where it is generated it investigates the opportunity for reuse or recycling within the business. The Group is currently ahead of its target.

The chart below illustrates the Group’s off-site waste performance between 2008 and 2012.



This chart does not differentiate between waste leaving site for reuse / recycling and waste leaving site for landfill. The absolute waste total for the year has decreased by 11,465 tonnes (2011: 46,312 tonnes) to 123,482 tonnes. The introduction of waste recovery as a trial and other efforts around recycling has meant that the Group has increased its recycling/recovery rate to 92.3 per cent (2011: 91.8 per cent) and reduced its waste sent to landfill to 7.7 per cent (2011: 8.2 per cent).

The Group continues to improve the accuracy of its data. Product mix is a factor in measuring waste generation across the Group, with certain product lines being associated with higher levels of waste generation than others.

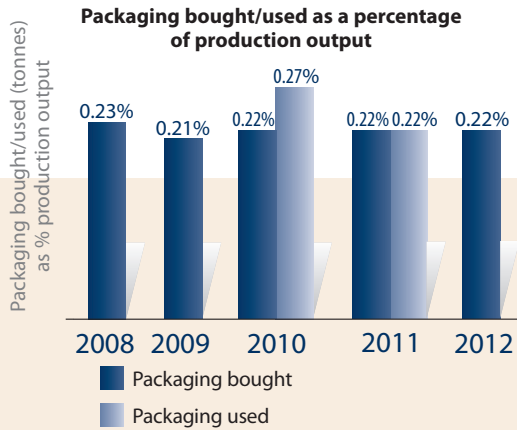
Packaging

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

The Group reports packaging used which aligns with the duty to report under the Producer Responsibility Obligations (Packaging Waste) Regulations.

Environmental Report (continued)

The chart below illustrates the Group's packaging performance between 2008 and 2012.



The Group used 10,461 tonnes of packaging in the reporting year which was a reduction on previous years and nearly one per cent more than the reduction in production output. The intensity of packaging used to production output remains at 0.22 per cent which is ahead of our target.

This measure is affected by product mix, so a reduction can be achieved by selling a higher volume of those products that have less packaging. The Group uses packaging only to the extent appropriate, for example, to ensure safe handling, storage and transport of its products and to minimise damage to the product and hence waste. In addition, packaging may be used to provide health and safety information to prospective users of the products and instructions on installation. Packaging principally comprises timber pallets and polythene.

The Group continues to concentrate on the reduction of timber and plastic which represent 86 per cent and 12 per cent respectively of the reported packaging tonnage.

The Group's Timber and Paper policy continues to support its commitment to obtain pallets from FSC accredited suppliers where available. During the year the Group has extended a trial of pallet repatriation which has the potential to reduce its timber impact. A limited trial on 3 pallet designs at two sites reduced the number of new pallets by approximately 2.5 per cent.

Work continues on the reduction of polythene film thickness to deliver material savings, with an estimated full year saving of 29 per cent at the initial trial site. If successful, the benefit will be rolled out to other Group operating sites.

Suppliers and Contractors

The Group has an effective Procurement Policy in place. The policy provides a framework which all employees engaged in procurement activities are expected to operate. It contains a clear statement with regard to Marshalls' commitment to responsible sourcing. The Group will continue to



Argent Walling and Water Feature

Environmental Report (continued)

work with our key suppliers to ensure they have appropriate management systems to minimise risk and environmental impacts in place. Where significant risk is identified with a supplier, a rigorous audit will be carried out.

Marshalls' Anti-Bribery Code reinforces policies and procedures already in place and is communicated to external suppliers and contractors as well as within the organisation.

Environmental Impact of Products

The Group maintains its policy of producing products intended for a long life with low maintenance. Marshalls is a world leader in terms of the number of its products (over 2,000) having a measured carbon footprint (using the Publicly Available Specification 2050:2008, "Specification for the assessment of the life cycle greenhouse gas emissions of goods and services"), all of which have been verified by the Carbon Trust. It is expected that the data obtained through this process will enable the business to focus on energy savings throughout its supply chain. The

results are available online for our customers to use in their selection of most suitable product for their project.

During 2012 the Group completed its annual audit for its Responsible Sourcing Certification to the Building Research Establishment Standard BES6001 for its concrete paving and walling products. The products have been rated as "Very Good."

The Group's products are considered to have low environmental risk and in the majority of cases are readily re-usable and recyclable at the end of their life.

Sustainability

The Group has a sustainable business plan and has set KPIs for the key areas of this plan. It addresses economic, social and environmental aspects of Marshalls' operations underpinned by development of management systems recognised by an independent third party (BSI).



Biodiverse Permeable Paving

Environmental Report (continued)



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

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

Land Management

During 2012 all development projects were either located on brownfield land, within Marshalls' sites, or acquired on-going operations.

Environmental Awareness and Training

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

The Contractor Handbook includes more detailed environmental information and has been delivered to those working on behalf of the

Group. Operational employees received Toolbox Talk training on a range of environmental topics including waste, environmental permits and biodiversity.

Biodiversity

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

The Groups' biodiversity strategy was written in consultation with external stakeholders and it documents a systematic approach to our legal, protection and enhancement commitment to the biodiversity on our sites. This strategy includes a priority approach to defining appropriate sites together with evaluation of the biodiversity ecosystem services delivered. During the year, in view of the operational changes within the business, this target was adjusted to focus on maintaining legal compliance.

Marshalls continues to maintain its accreditation to the Wildlife Trusts' Biodiversity Benchmark at three sites.

Legal Compliance

There were no environmental prosecutions at any of Marshalls' operating sites during 2012.

Verification

This section of the Annual Report has been audited by a qualified verifier on behalf of BSI. On the basis of the work undertaken, the Environmental Report is considered to be a fair reflection of the environmental performance of the organisation during 2012 and contains no misleading information.



Directors' Report - Other Regulatory Information

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

Principal Activities and Business Review

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

Business Performance during 2012: A detailed review of the principal activities of the Group is contained in the Chairman's Statement on pages 4 and 5 and the Business Review on pages 6 to 27.

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

Principal Risks and Uncertainties: An indication of the main risks and uncertainties faced by the Group and its objectives and policies for the management of financial and general risk, including its use of, and policies in respect of, financial instruments and its exposure to price, credit, liquidity and cash flow risk, are set out in the Business Review on pages 6 to 27. The process for identifying significant risks and uncertainties and managing risk is in accordance with the Revised Guidance for Directors on the Combined Code issued by the Financial Reporting Council in October 2005.

Charitable and Political Donations: The Corporate Responsibility Report on pages 30 to 39

gives details of the Group's policy and information on charitable donations. The Group has made no donations during the year to any political party or political organisation or to any independent election candidate, whether in the European Union or elsewhere (2011: nil).

Environment and Community: Information about environmental matters and the impact of the Group's business on the environment is given in the Environmental Report on pages 40 to 47. The Group's approach to social and community matters is described in the Corporate Responsibility Report on pages 30 to 39.

Employees: The Company's policies in relation to disabled employees and employee involvement are explained in the Corporate Responsibility Report on pages 30 to 39.

Corporate Governance: Details of the Group's policies in relation to Corporate Governance and how they are applied are set out on pages 51 to 58.

Key Relationships: The Business Review on pages 6 to 27 includes information about persons with whom the Group has contractual or other arrangements that are essential to the Group's business.

Group Results and Group Events since 31 December 2012: The Consolidated Income Statement for the year ended 31 December 2012 is shown on page 90. Details of any important Group events and developments since the financial year end 31 December 2012 are included in the Business Review on pages 6 to 27.

Dividends

The Board is recommending a final dividend of 3.50 pence (2011: 3.50 pence) per share which, together with the interim dividend of 1.75 pence (2011: 1.75 pence) per share, makes a combined dividend of 5.25 pence (2011: 5.25 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 5 July 2013 to shareholders registered at the close of business on 7 June 2013.

Directors' Report - Other Regulatory Information (continued)

The dividend paid in the year to 31 December 2012 and disclosed in the Consolidated Income Statement is 5.25 pence (2011: 5.25 pence) per share being the previous year's final dividend of 3.50 pence (2011: 3.50 pence) per share and the interim dividend of 1.75 pence (2011: 1.75 pence) per share in respect of the year ended 31 December 2011 and paid on 7 December 2012.

Share Capital and Authority to Purchase Shares

The Company's share capital at 1 January 2012 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2012 and 8 March 2013. Details of the share capital are set out in Note 22 on pages 130 to 131.

The Company held 2,425,000 Treasury Shares on 31 December 2012, and made no sales or purchases of Treasury Shares during the year or in the period up to 8 March 2013. Save for the Treasury Shares and some of the shares held by the Marshalls plc Employee Benefit Trust (the "EBT") as set out below, the Ordinary Shares of the Company carry equal rights to dividends, voting and return of capital on the winding up of the Company, as set out in the Company's Articles of Association. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a shareholder has waived or agreed to waive dividends (other than the EBT).

The EBT holds shares in the Company on trust for employees (Investment Shares) and also purchases shares from time to time to satisfy awards granted to Directors and Senior Executives (Matching Shares and Performance Shares) subject to the achievement of performance targets under the Marshalls plc Long Term Incentive Plan (the "LTIP"). At 31 December 2012 the EBT held 1,446,563 ordinary shares in the Company (2011: 1,584,441 shares) of which 531,209 represented

Investment Shares beneficially owned by LTIP participants, with the balance held in respect of future Matching and Performance Share awards. The decrease in holding since 2011 is accounted for by transfers of Investment Shares to individuals upon the lapse of corresponding Matching Shares under the LTIP. Details of outstanding awards under the LTIP are set out in Note 20 on pages 128 and 129. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

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

At the Annual General Meeting in May 2012 shareholders gave authority to the Directors to purchase up to 29,523,367 shares representing approximately 14.99 per cent of the Company's issued share capital in the Company in the market during the period expiring at the next Annual General Meeting at a price to be determined within certain limits. No ordinary shares in the Company were purchased during the year or between 31 December 2012 and 8 March 2013 under this authority, which will expire at the Annual General Meeting in May 2013. The Directors will seek to renew the authority at that meeting.

Contracts of Significance and Related Parties

There were no contracts of significance between any member of the Group and (a) any undertaking in which a Director has a material interest, or (b) a controlling shareholder (other than between members of the Group). There have been no related party transactions between any member of the Group and a related party since the publication of the last Annual Report.

Directors' Report - Other Regulatory Information (continued)

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 Statement on pages 51 to 58.

The Board of Directors may exercise all the powers of the Company subject to the provisions of relevant laws 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.

Directors

The names and biographical details of each of the Directors who served during the year are set out on pages 28 and 29. The rules on appointment, retirement and removal of directors under the Company's Articles of Association, and the powers of the Board, are set out in the Corporate Governance Statement on pages 51 to 58. All currently serving Directors will offer themselves for election or re-election at the next Annual General Meeting of the Company.

The information required by the Combined Code in relation to Directors' service contracts, compensation, Board performance and attendance is contained in the Corporate Governance Statement on pages 51 to 58.

Directors' Indemnities

The Company has granted indemnities to each of its Directors in respect of their performance of their duties as a Director of any member of the Marshalls group of companies. In addition, the Company has granted indemnities to Graham Holden and David

Sarti in respect of, their participation in, and/or membership of, the governing bodies of certain third party trade representative organisations on behalf of the Company. The indemnities are limited to what is permitted by law and the Company's Articles of Association and copies are available for inspection at the Registered Office of the Company. There were no other such indemnities in force during the year, and no payments were made under the indemnities.

Directors' Interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share based payment awards are contained in the Directors' Remuneration Report on pages 59 to 84.

Value of Land and Buildings

In the opinion of the Directors, the market value of the Group's interests in land and buildings at 31 December 2012 remains in excess of the book value.

Payments to Creditors

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 2012 was 53 days (2011: 55 days).

Substantial Shareholdings

As at 8 March 2013, the Company had been notified, in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following disclosable interests of 3 per cent or more in its voting rights.

	As at 8 March 2013	As at 31 December 2012
	%	%
Majedie Asset Management	9.70	9.79
Aviva Investors	9.13	9.18
JO Hambro	7.10	8.40
Schroder Investment Management	5.36	5.30
M&G Investment Management	4.60	5.00
Standard Life	4.16	4.42
L&G Investment Management	3.70	4.27
AXA Investment Managers	3.45	3.51

Corporate Governance Statement

Chairman's Introduction

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

This statement, which is part of the Directors' Report, has been prepared in accordance with the principles of the UK Corporate Governance Code published in June 2010 (the "Code") which the Board fully supports. In addition, the Board is mindful of the changes to the Code which will apply to reporting periods after October 2012 and is reviewing its procedures and policies in light of the principles set out in this later edition of the Code with a view to reporting compliance in 2013. In this statement, we have sought to explain how the Board has applied the principles of the Code, in particular in relation to the role and effectiveness of the Board in Sections A and B. An explanation of the Company's approach to value creation and strategy is contained in the Business Review on pages 6 to 27.

Andrew Allner
Chairman

Statement of Compliance with the Code

Throughout the year ended 31 December 2012 the Company has complied with the relevant provisions of the Code in all material respects.

The paragraphs below, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 59 to 87, describe how these principles are applied within the Company.

Board Leadership and Effectiveness

Code Provision A.1: The Role of the Board

The Board comprises an independent Non-Executive Chairman, three Executive Directors and three Non-Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. Biographical details of the Directors are on pages 28 and 29.

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

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

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

The Group's reporting structure below Board level is designed so that all decisions are made by the most appropriate people in a timely manner. The Directors and senior management are tasked with the delivery of targets approved by the Board and for the implementation of Group strategy and policy across the Group. Management teams report to members of the

Corporate Governance Statement (continued)

Details of Board and principal Board Committee meetings in 2012, with Directors attending, are shown below. Other meetings were held during the year for specific purposes, including reviewing strategy and Board effectiveness, and in addition to these, all the Non-Executive Directors made visits to operational sites.

	Board (8 meetings)	Audit Committee (4 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (1 meeting)
Andrew Allner	8	4	4	1
Ian Burrell	8	-	-	-
Alan Coppin	8	4	3	1
Mark Edwards	8	4	4	1
Graham Holden	8	-	-	-
Tim Pile	8	4	4	1
David Sarti	8	-	-	-

Senior Executive Committee. This committee currently consists of seven senior managers, including the three Executive Directors. Business issues considered by the Senior Executive Committee are reported by the Executive Directors to the Board. These policies and procedures collectively enable the Board to make informed decisions on a range of key issues including those relating to strategy and risk management.

Eight full Board meetings are scheduled during 2013. There will be additional meetings of the Board in 2013 to review strategy, Board performance and the Company's longer term objectives.

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

Conflicts of Interest

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

The procedures give guidance to Directors as to what situations may be affected and of their obligations to notify the Company, through the

Chairman of the Nomination Committee, of any such situations. The Company maintains a Section 175 Conflicts Register showing those situations which have been authorised and the relevant date of such authorisation.

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

Code provision A.2: Division of responsibilities

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

The positions of Chairman and Chief Executive are held by separate individuals with a clear division of responsibilities. The Chairman leads the Board and sets its agenda, ensuring that all Directors, particularly the Non-Executive Directors, are able to make an effective contribution. He ensures that

Corporate Governance Statement (continued)

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.

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

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

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

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

The Board considers it is of sufficient size and has an appropriate balance of skills and experience to meet the needs of the business. The Board appreciates that Board diversity is likely to enhance its performance and this is a key factor when seeking candidates for future Board appointments. As stated above, the Board

considers each of the Non-Executive Directors to be independent in character and judgement.

The Board has established the Nomination Committee to lead the process for Board appointments and to make recommendations to the Board. The Terms of Reference of the Nomination Committee are available on the Company's website at www.marshalls.co.uk. These Terms of Reference explain the role of the Committee and the authority delegated to it by the Board. The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors. Under the Articles, at least one-third of the Board must retire at each Annual General Meeting and each Director must retire by rotation every three years. The Company has since 2011 adopted the policy that all Directors should stand for re-election at each Annual General Meeting. The Nomination Committee Report on page 85 explains the process for nominations and succession planning in more detail. There were no new Board appointments during the year.

Code Provision B.3: Commitment

The Company does not set an upper limit on the number of other appointments that may be held by Non-Executive Directors, although on appointment Board members, in particular the Chairman and the Non-Executive Directors, disclose their other commitments and must agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current Board commitments of the Chairman are identified in the biographical details on pages 28 and 29. The position is reviewed regularly, and changes are notified to the Company. The process for recording and managing conflicts of interest is explained under "Conflicts of Interest" above.

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

Corporate Governance Statement (continued)

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

The Chairman, supported by the Chief Executive and the Company Secretary, ensures that new Directors receive full, formal, and tailored induction on joining the Board. Directors receive training as part of the annual Board programme of work, and are also expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies. During 2012 the Board received in-depth briefings relating to the business from the Group's sales, marketing, operational management and HR teams, and from the Group's Health and Safety Manager. Other training needs are identified through the Board evaluation process or through individual reviews between the Directors and the Chairman. Non-Executive Directors have also availed themselves of opportunities to meet shareholders during 2012, and would be available to meet major shareholders if a meeting were requested.

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

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

Code Provision B.6: Evaluation

The Company carries out a full evaluation of Board performance and that of its three principal Committees annually. During 2012, this was conducted using a detailed questionnaire and one-to-one confidential discussions between each of the Directors and the Company Secretary. The questionnaire included questions about the effectiveness of the Executive and the Non-Executive Directors, and the performance of the Board, referencing external guidance on Board effectiveness published during 2011 by the FRC and the ABI. The evaluation also asked Directors other than the Chairman to evaluate the performance of the Chairman, and the Senior Independent Director separately reviewed the Chairman's performance with other Non-Executive Directors.

The results of the evaluation were reviewed by the Chairman and the Company Secretary and discussed by the Board. The key themes emerging from this evaluation have been applied in developing specific Board objectives for 2013, including further work on strategic risk and providing opportunities for Non-Executive Directors to participate in events and meetings outside the formal Board timetable. The evaluation also validated the results of the action plan for 2012, which were believed to have improved the effectiveness of the Board. The Board considered whether to use an external assessor for the evaluation in 2012 and concluded that the evaluation process using internal resource, led by the Company Secretary, continues to be a very effective and robust process and has demonstrably helped to improve Board effectiveness since its inception. The Board will keep this under review for future years.

Code Principle B.7: Re-election of Directors

The Company's Articles of Association provide for re-election of Directors at regular intervals. No Director may serve more than three years without retiring and being proposed for re-election. All the current Directors stood for election or re-election at the Annual General Meeting in May 2012, and it is the intention that the full Board will retire and

Corporate Governance Statement (continued)

stand for re-election at the 2013 Annual General Meeting. Biographical details of the Directors can be found on pages 28 and 29. The processes for appointment and evaluation of the Directors are set out in the Nomination Committee Report on page 85. The current terms of appointment of Directors are set out on page 70.

Accountability and Audit

Code Provision C.1: Financial and Business Reporting

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

The respective responsibilities of the Directors' and the Auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 57 to 58 and 88 to 89 respectively.

Code Provision C.2: Risk Management and Internal Control

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for reviewing the effectiveness of the system of ongoing control, and for ensuring that it meets the necessary standards. There is a bi-annual formal review of the Group's risk management system and the system

of internal control. The risk management system and internal control system are also subject to a regular rolling programme of review, the results of which are periodically reported to the Board. The Board has appointed a Risk Committee, comprising the Executive Directors, which reports directly to the Board. Its task is to identify, evaluate and manage any material risks which might threaten the Group's business objectives. In undertaking this work, it receives regular risk reviews and an annual risk assessment report carried out by the relevant senior managers. From this information, the Risk Committee compiles a Register which identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have, giving each risk a relative weighting reflecting its potential impact on the Group. Against each such risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are listed. The Risk Register helps to identify areas for action, and uses programmes including independent audit assessments that are designed to test the effectiveness of the Group's risk control systems. Information in relation to the management of risks and any changes to key risks or weighting is regularly reported to the Board. The Risk Register is reviewed by the Board and the Audit Committee at least every six months and updated to reflect changes in circumstances or priorities. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these. During 2012, work was undertaken to extend the systems controls to the Group's Belgian business and to its purchasing operations in China.

In addition to the major risk review process, the Group has an established internal control framework, the key features of which include clearly defined reporting lines and authorisation procedures and a comprehensive budget and monthly reporting system. The internal control framework governs the internal financial reporting process of the business, with checks and balances built into the system that are designed to reduce the likelihood of material error or fraud. The Report of the Audit Committee,

Corporate Governance Statement (continued)

which is incorporated by reference into this Report, provides further information on the internal control and risk management systems in place in connection with financial reporting.

The Audit Committee has carried out an assessment of the effectiveness of the Group's risk management and internal control system, covering all material controls including its financial, operational and compliance controls and risk management systems for the year to 31 December 2012.

Code Provision C.3: Audit Committee and Auditors

Information relating to the Audit Committee and how the Company has complied with the Code Principles regarding financial reporting and internal controls is set out in the Report of the Audit Committee on pages 86 and 87. The Terms of Reference of the Audit Committee are available on the Company's website at www.marshalls.co.uk.

Directors' Remuneration

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

The Board has delegated to its Remuneration Committee responsibility for ensuring compliance with the Code's requirements on remuneration. The remuneration policies and procedures, and details of Executive Directors' remuneration are set out in the Remuneration Report on pages 59 to 84. 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.

Relations with Shareholders

Code Provision E.1: Dialogue with Shareholders

The Board is accountable to shareholders for the Company's continued success. The Board

accordingly places great emphasis on maintaining good communications with shareholders. The Chief Executive and Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives. The Company periodically arranges site visits for investors. During 2012, 51 such meetings were held, at which at least 78 institutional shareholders were represented. Reports of these meetings and any shareholder communications during the year are provided to the Board. The Board also regularly receives copies of analysts' and brokers' briefings. The Chairman is available to meet major shareholders on request to discuss governance and strategy, and held a number of such meetings during 2012. When appropriate, the Non-Executive Directors attend meetings or site visits with major shareholders. The Board will be seeking further opportunities to increase contact with shareholders during 2013. The Senior Independent Director is also available to meet shareholders separately if requested. There is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors.

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

Code Provision E.2: 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. As in previous years, the Company intends to put all resolutions to an electronic poll at its 2013 Annual General Meeting.

Corporate Governance Statement (continued)

All Directors normally attend the meeting, including the Chairmen of the Audit, Remuneration and Nomination Committees, who are available to answer questions. 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 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. Information on the number of shares represented by proxy, the proxy votes for and against each resolution, and the number of shares in respect of which the vote was withheld for each resolution, together with the voting result, are given at the meeting and made available on the Company's web site at www.marshalls.co.uk.

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 European Union ("EU") and applicable law, and they have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law

(UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. 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 judgements 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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and 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 2006. 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 each of which complies with that law and those regulations.

Corporate Governance Statement (continued)

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.

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 28 and 29 confirm that, to the best of each of their knowledge:

- (a) the Group Financial Statements in this Annual Report, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and loss of the Group taken as a whole; and
- (b) the Parent Company's Financial Statements in this Annual Report, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom GAAP) and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and
- (c) the Business Review contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of Information to Auditors

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

Cautionary Statement and Directors' Liability

This Annual Report 2012 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

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

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 11.00am on Wednesday 15 May 2013 together with explanatory notes on the resolutions to be proposed is contained in a circular to be sent to shareholders with this Annual Report.

By Order of the Board
Cathy Baxandall
Group Company Secretary
8 March 2013

Directors' Remuneration Report

A Statement to Shareholders from the Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to report to shareholders on the aims, objectives and activities of the Remuneration Committee during 2012. A resolution to approve this report will be proposed at the Company's Annual General Meeting on 15 May 2013.

Overview of 2012

During the year we have, as a Committee, reviewed our remuneration policy as a whole, to ensure it meets the need to attract, retain and continue to motivate talented Executive Directors while recognising wider shareholder interests. In our work, we have also sought to reflect developing best practice in the area of remuneration, to recognise the importance of alignment with the objectives of shareholders and to encourage behaviours that will ensure the sustainability and long term health of the business and avoid inappropriate risk-taking. We are conscious of the continuing debate around remuneration and have taken it into account in our deliberations.

2012 has been a challenging year for the business, with an 8.8 per cent decline in construction activity according to the Construction Products Association, high rainfall affecting our markets and low consumer confidence. The present team of Executive Directors, which has served the business since 2001, has responded decisively to the challenge and taken action designed to position the business for sustainable improvement throughout the economic downturn. The outcome of this action is expected to give a strong foundation to help Marshalls maintain and develop its market-leading position so that it is well placed to return to growth in the future and deliver value to shareholders.

Key Committee decisions in the year

The members of the Committee are identified on pages 28 and 29. The Committee met four times during 2012. In addition, to the four formal meetings, there were additional meetings with remuneration consultants during the year. The Committee's programme of work included:

- reviewing the policy for executive remuneration and the structure of executive remuneration packages;
- checking pay and benefit levels of Directors by reference to (a) external independent reports, (b) Marshalls' pay policies for its other employees and (c) the wider economic and social environment;
- reviewing, and updating as appropriate, the Company's annual and long term executive incentive schemes, and setting performance targets for annual performance-related pay under the Performance Incentive Plan (the "PIP") and three year performance targets under the Long Term Incentive Plan (the "LTIP");
- measuring performance against the targets set, making awards under the PIP and the LTIP, and agreeing principles for 2013; and
- reviewing the Board expenses policy.

Directors' Remuneration Report (continued)

Meeting	Agenda items discussed
25.1.12	Review of Executive Directors' pension provision; 2011 PIP outcome and targets for 2012; current status of LTIP awards; review of Board expenses policy and expenses paid.
29.2.12	Conclusion of review and approval of 2011 awards under the PIP and LTIP; PIP and LTIP target setting for 2012 and approval of 2012 PIP and LTIP awards; review of 2011 Remuneration Committee Report.
8.10.12	Review of remuneration framework policy, benchmarking report from external advisers; initial consideration of proposals for 2013 salary and benefits for Executive Directors and senior management; progress report on PIP and LTIP; review of contractual termination obligations of Executive Directors.
12.12.12	Discussion of PIP performance and measurement criteria; report on pay and benefit conditions elsewhere in the business; approval of salary and benefit proposals for 2013; review of Chairman's fee.

The Remuneration Committee has made the following decisions in relation to the Executive Directors' remuneration for 2013 and the outcomes of the variable performance-related elements for 2012:

Element	Change	Rationale for Change (if any)
Salary	No change.	It would be usual to consider an inflation-related increase; however the Executive Directors have voluntarily agreed not to seek any increase in basic salary for 2013 as part of a wider salary and wage freeze.
Benefits	No change.	The current benefits are considered to be appropriate.
Pension	No change.	The level of Company contribution is considered appropriate; two out of the three Directors have elected for Fixed Protection so receive salary supplement instead of contributions to the Pension Scheme.
Marshall's plc Performance Incentive Plan (the "PIP")	No change in operation and types of performance condition.	The Remuneration Committee feels that these types of performance condition remain appropriate for the Company for 2013 (see Policy section of the Report for details).
	No PIP payment for 2012 based on EPS performance test.	Adjusted EPS declined between 2011 and 2012.
	Maximum PIP payment for 2012 based on Cash performance test.	Exceptional performance in relation to achievement of year end net debt reduction in 2012.
	Reduction of maximum award as percentage of salary from 250 per cent to 200 per cent for 2013.	Scaling back of new awards reduces overall cash impact of PIP without prejudicing the beneficial retention effect of previously earned deferred element.
	Overall remuneration of the Chief Executive is to be reduced by 20 per cent from 1 January 2013 by deduction from anticipated PIP payments.	The Committee has agreed to this reduction proposed by Graham Holden as part of the cost reduction initiatives throughout the business.
Marshall's plc LTIP - Performance Share element	No change in operation and types of performance condition.	The Remuneration Committee feels that these types of performance condition remain appropriate for the Company for 2013 (see Policy section of the Report for details).

Directors' Remuneration Report (continued)

Context to the Committee's decisions

Sales fell by around 7 per cent year on year, reflecting weaker economic conditions and the impact of poor weather through the key summer sales period. Management responded promptly and robustly to the business challenges of the current economy, taking decisive action to cut cost and conserve cash. This helped to maintain net profitability and reduce net debt levels significantly in 2012 despite the challenging trading conditions. Earnings per share, before operational restructuring costs and asset impairments, fell to 5.87 pence (2011: 6.30 pence) and although this was within the target range set at the beginning of the year (4.05 pence to 6.88 pence), after adjustment, the Committee determined that no element of bonus was attributable to this measure. Net debt at the end of the year, at £63.5 million, was at the lower (better) end of the target range of £73.1 million (nil) to £63.1 million (maximum) and, after adjustment to reflect the impact of the operational cost reductions, the target was achieved in full. Overall, the variable element of Executive Directors' remuneration earned in 2012 was substantially less than in 2011.

The Remuneration Committee has discretion to make adjustments to ensure that one - off transactions or factors that are not under the control of management have a neutral effect on the measurement of target achievement for incentive schemes.

The PIP was introduced in 2011 after shareholder consultation. It requires a significant element of annual variable pay to be deferred in shares. Further detail is provided in this Report.

The PIP helps to meet the key objective of the Committee of retention of our talented managers at Board and senior level, while allowing a flexible approach in the setting of targets on an annual basis. The PIP has replaced both the previous annual bonus scheme and the Matching Share element of the Group's LTIP. The full benefit of the

PIP can only be achieved if the growth targets are achieved in each year of the full holding period. For 2013, the Committee has reduced the maximum opportunity under the PIP to 200 per cent of salary, from 250 per cent, because the values accrued in individual PIP accounts in Years 1 and 2 are considered to fulfil adequately our retention objective. The PIP targets for 2013 have been set so there will only be a payment if there is an improvement in underlying profit before tax or net debt. The Committee continues to use the Group's LTIP to make Performance Share awards, although no awards of either Performance Shares or Matching Shares made in previous years have vested.

I hope you find this report helpful and informative.

Alan Coppin
Chairman of the Remuneration Committee

Directors' Remuneration Report (continued)

Policy Report

Introduction

This Report covers the reporting period from 1 January 2012 to 31 December 2012 and provides details of the remuneration policy for the Company. This Report has been prepared by the Committee having regard to the proposed regulations put forward by the UK Government Department of Business, Innovation and Skills ("BIS"). The Company has opted to include certain of the BIS requirements in this 2012 Remuneration Report on a transitional basis, while retaining those features that remain compulsory for the 2012 financial year, with a view to adopting fully the new requirements for its 2013 Remuneration Report. An advisory resolution to approve this Report will be proposed at the Company's Annual General Meeting on 15 May 2013.

Remuneration Committee Policy

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

The aim of the policy is to attract, retain and continue to motivate talented Executive Directors while aligning remuneration with shareholder interests. This is achieved by balancing a basic fixed package, which is periodically benchmarked against the median of the comparator group, with the opportunity to achieve upper quartile remuneration from a combination of stretching but achievable short and long term incentives.

The terms of reference for the Committee include the responsibility for setting the policy on incentive reward for senior employees, in particular those who could have a material impact on the risk profile of the Group.

The Committee has, in the design and application of the Company's annual and long term variable performance related incentive schemes, incorporated risk adjustment mechanisms to encourage consistent and sustainable levels of Company performance and to ensure, when selecting performance conditions and the level of challenge within those conditions, that they support the long term future of the Company.

In reviewing its policy and determining remuneration the Committee considers the wider economic conditions and pay and reward packages elsewhere in its sector and within the business.

Directors' Remuneration Report (continued)

Element	Purpose and how it supports the strategy	Operation	Opportunity	Performance measures and period	Changes for 2013 (if any)								
Base salary	<p>Policy: Median</p> <p>It is the intention of the Remuneration Committee to set base salaries at the median compared to comparable companies. Base salary recognises the market value of the Executive's role, skill, responsibilities, performance and experience.</p> <p>The Committee wishes to ensure that fixed costs are minimised and that an above median level of total remuneration is only provided where the performance elements of the package are earned.</p> <p>The performance elements are directly linked to the achievement of the Company's strategy (see below).</p>	<p>An Executive Director's basic salary is considered by the Committee on their appointment and then reviewed periodically or when an individual changes position or responsibility.</p> <p>When making a determination as to the appropriate remuneration, the Committee considers firstly remuneration practices within the Group as a whole and, where considered relevant, conducts objective research on companies within the Company's peers.</p> <p>As is currently the case, the results of the benchmarking will only be one of many factors taken into account by the Remuneration Committee. Other factors include:</p> <ul style="list-style-type: none"> the individual performance and experience of the Executive Director; pay and conditions for employees across the Group; the general performance of the Company; and the economic environment. 	<p>The Remuneration Committee policy in relation to salary is:</p> <ul style="list-style-type: none"> up to median salary on appointment depending on the experience and background of the new Executive Director; on promotion up to the median salary for the new role; otherwise pay increases are set by reference to inflation and other pay rises generally for employees. <p>The salaries for the Executive Directors are:</p> <table border="1"> <thead> <tr> <th>Role</th> <th>Salary 2012</th> </tr> </thead> <tbody> <tr> <td>Chief Executive (Graham Holden)</td> <td style="text-align: right;">412,000</td> </tr> <tr> <td>Finance Director (Ian Burrell)</td> <td style="text-align: right;">236,900</td> </tr> <tr> <td>Chief Operating Officer (David Sarti)</td> <td style="text-align: right;">236,900</td> </tr> </tbody> </table> <p>The Committee is satisfied that the salaries accord with its policy whilst remaining competitive against similar roles within the relevant peer group.</p>	Role	Salary 2012	Chief Executive (Graham Holden)	412,000	Finance Director (Ian Burrell)	236,900	Chief Operating Officer (David Sarti)	236,900	<p>There are no performance conditions attached to the payment of salary although there are a number of performance based factors both at the individual and Company level that influence the level of salaries provided to Executive Directors</p>	<p>No change.</p> <p>No increase in Executive Director salaries for 2013.</p>
Role	Salary 2012												
Chief Executive (Graham Holden)	412,000												
Finance Director (Ian Burrell)	236,900												
Chief Operating Officer (David Sarti)	236,900												

Directors' Remuneration Report (continued)

Element	Purpose and how it supports the strategy	Operation	Opportunity	Performance measures and period	Changes for 2013 (if any)										
Non-Executive Directors' Fees	<p>Policy: - Median The Company sets fee levels necessary to attract and retain experienced and skilled Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company. Fees also reflect the time commitment and responsibilities of the roles.</p> <p>An additional fee is paid for Chairmanship of a Board Committee.</p>	<p>Non-Executive Directors have specific terms of engagement provided in formal letters of appointment and their remuneration is determined by the Board within the limits set by the Articles of Association and based on equivalent roles in the same comparators as are used for the Executive Directors. The fees for Non-Executive Directors are considered periodically. Non-Executive Directors are usually appointed for a three year term, subject to annual re-election by the Shareholders at the Company's Annual General Meeting.</p> <p>Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's incentive plans, and are not eligible to join the Company's pension scheme.</p> <p>Non-Executive Directors also receive a fixed annual payment to cover expenses incurred in the performance of their duties. For 2012 this was £10,000 for the Chairman and £6,000 for the other Non-Executive Directors.</p>	<p>The Company's policy in relation to fees is:</p> <ul style="list-style-type: none"> up to median level fees on appointment depending on the experience and background of the new Non-Executive Director; and any increase will be set by reference to inflation and other pay rises generally. <p>The Non-Executive Director fees are made up of:</p> <ul style="list-style-type: none"> basic fee of £40,170 per annum; and Chairman of Board Committee fee of £6,180 per annum. <p>The Chairman's fee is £128,750 per annum</p> <p>The following table shows the Fees paid to Non-Executive Directors in 2012:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Name</th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Andrew Allner</td> <td style="text-align: right;">128,750</td> </tr> <tr> <td>Alan Coppin</td> <td style="text-align: right;">46,350</td> </tr> <tr> <td>Mark Edwards</td> <td style="text-align: right;">46,350</td> </tr> <tr> <td>Tim Pile</td> <td style="text-align: right;">40,170</td> </tr> </tbody> </table> <p>The Committee is satisfied that the fees accord with its policy.</p>	Name	£	Andrew Allner	128,750	Alan Coppin	46,350	Mark Edwards	46,350	Tim Pile	40,170	None.	No change.
Name	£														
Andrew Allner	128,750														
Alan Coppin	46,350														
Mark Edwards	46,350														
Tim Pile	40,170														
Benefits	<p>Policy: - Market Practice The Company provides a benefits package in line with standard market practice.</p> <p>The Company is required to provide this benefits package in order to be competitive and to ensure it is able to recruit and retain Executive Directors.</p>	Executive Directors are entitled to a fully expensed company car and medical insurance.	<p>The following table shows the annual cost of benefits provided to the Executive Directors in 2012:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Name</th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Graham Holden</td> <td style="text-align: right;">12,237</td> </tr> <tr> <td>Ian Burrell</td> <td style="text-align: right;">12,255</td> </tr> <tr> <td>David Sarti</td> <td style="text-align: right;">16,327</td> </tr> </tbody> </table>	Name	£	Graham Holden	12,237	Ian Burrell	12,255	David Sarti	16,327	None.	No change.		
Name	£														
Graham Holden	12,237														
Ian Burrell	12,255														
David Sarti	16,327														

Directors' Remuneration Report (continued)

Element	Purpose and how it supports the strategy	Operation	Opportunity	Performance measures and period	Changes for 2013 (if any)								
Pension	<p>Policy: - Median To enable Executive Directors to make appropriate provision for retirement and to protect their spouse / dependents.</p> <p>This is regarded as an important element of the basic benefits package to attract and retain talent.</p>	<p>Executive Directors are entitled to membership of the defined contribution section of the Marshalls plc Pension Scheme to which the Company contributes at an agreed percentage of basic salary.</p> <p>Executive Directors may take a salary supplement in place of the Company's contribution to the Scheme where circumstances make this necessary.</p> <p>It should be noted that salary supplements are excluded for the purposes of calculating any other element of an Executive Director's remuneration based on a percentage of salary.</p>	<p>The defined benefit section of the Scheme closed to new members in 2000 and to future service accrual in 2006. Graham Holden elected to take his Scheme benefits as pension at age 50 in December 2009. He therefore ceased to be able to take a transfer of accrued pension benefits and no further benefits will accrue.</p> <p>Ian Burrell and Graham Holden have elected for Fixed Protection under the Pensions Act and consequently no further contributions may be made into the Scheme for their benefit. Each of them receives a salary supplement of 30 per cent of basic salary in lieu of pension contributions.</p> <p>David Sarti is entitled to a Company contribution to the Scheme of 30 per cent of basic salary with a minimum employee contribution of 4 per cent.</p> <p>Executive Directors are also eligible for a lump sum payment and dependant's pension benefits on death in service. Life assurance is based on a multiple of salary.</p> <p>The following table sets the annual cost of Company contributions provided to the Executive Directors:</p> <table border="1"> <thead> <tr> <th>Name</th> <th>Company Pension Contribution /Salary Supplement £</th> </tr> </thead> <tbody> <tr> <td>Graham Holden</td> <td>123,600</td> </tr> <tr> <td>Ian Burrell</td> <td>71,000</td> </tr> <tr> <td>David Sarti</td> <td>71,000</td> </tr> </tbody> </table>	Name	Company Pension Contribution /Salary Supplement £	Graham Holden	123,600	Ian Burrell	71,000	David Sarti	71,000	None.	No change.
Name	Company Pension Contribution /Salary Supplement £												
Graham Holden	123,600												
Ian Burrell	71,000												
David Sarti	71,000												

Directors' Remuneration Report (continued)

Element	Purpose and how it supports the strategy	Opportunity	Performance measures and period	Changes for 2013 (if any)						
<p>PIP</p> <p>Note 1 on page 69 sets out the operation of the PIP</p>	<p>Policy: - Upper Quartile</p> <p>Performance Conditions The following are the key performance conditions for the PIP and how they are linked to the successful implementation of the Company's strategy.</p> <p>1. EPS (67 per cent of Maximum Contribution) EPS growth derived from sustainable profit growth is one of the measures demonstrating the successful execution of the Company's strategy objectives:</p> <ul style="list-style-type: none"> • to deliver superior returns for shareholders, in a sustainable way, from the timely and efficient supply of high quality value for money products. The Company aims to maximise profitability through optimising operating performance and investing selectively in market and brand development; • growth in EPS also is one of the measures of success of other elements of the Company strategy including: <ul style="list-style-type: none"> ○ maintaining a strong market position and developing robust and sustainable relationships with customers to improve market share and penetration; ○ the reduction of costs and improvement of margins through operational efficiencies; and ○ evaluation of the benefits of potential synergistic acquisitions or organic growth opportunities in existing and related markets. • EPS growth supports a progressive dividend policy and capital growth thereby maximising total shareholder returns. <p>2. Cash (33 per cent of Maximum Contribution) This measure is limited to the achievement of the following strategic objectives:</p> <ul style="list-style-type: none"> • to grow OCF by more than RPI; • to permit the payment of dividends in line with medium term earnings growth; and • to maintain the sustainability of the core business while continuing to invest in technology to improve capabilities and allowing for opportunity to make synergistic acquisitions. 	<p>The Maximum Company Annual Contribution may not exceed 250 per cent of salary for Executive Directors.</p>	<p>The performance criteria and weighting are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Criteria</th> <th style="text-align: right;">Percentage of maximum contribution based on criteria</th> </tr> </thead> <tbody> <tr> <td style="border-top: 1px solid black;">EPS</td> <td style="text-align: right; border-top: 1px solid black;">67%</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Cash</td> <td style="text-align: right; border-bottom: 1px solid black;">33%</td> </tr> </tbody> </table> <p>Additional performance conditions:</p> <ul style="list-style-type: none"> • customer service (at or above 95 per cent); and • health and safety incidence (reduction of 10 per cent). <p>There is a reduction of contributions earned under the primary criteria by 15 per cent if these two additional conditions are not met.</p>	Criteria	Percentage of maximum contribution based on criteria	EPS	67%	Cash	33%	<p>The Maximum Company Annual Contribution will be 200 per cent of salary for Executive Directors in 2013.</p> <p>The 2013 targets mean there will only be a contribution in 2013 if there is an improvement in underlying profit before tax or net debt.</p>
Criteria	Percentage of maximum contribution based on criteria									
EPS	67%									
Cash	33%									

Directors' Remuneration Report (continued)

Element	Purpose and how it supports the strategy
PIP	<p>3. Additional Performance Conditions</p> <p>The Remuneration Committee considers that an element of the Company Maximum Annual Contribution under the PIP should be dependent on achieving qualitative criteria in the areas of customer service and employee safety in addition to the main financial measures of EPS growth and cash. These are:</p> <ul style="list-style-type: none"> • a minimum customer service level (95 per cent); and • the achievement of a pre-determined target (10 per cent reduction) in relation to employee health and safety improvement during the year. <p>Where EPS and cash targets are met but the non-financial targets are not, the contribution earned can be reduced by a maximum of 15 per cent.</p> <p>Structure of the PIP</p> <p>This note explains the features of the PIP and how they support the successful long term execution of the Company strategy:</p> <ol style="list-style-type: none"> 1. Flexibility – the markets in which the Company operates, including the Public and Commercial end market and the Domestic end market, are strongly correlated to the construction sector which is very sensitive to external economic conditions and to policy decisions by Government. The Company makes periodic adjustments to strategy as market dynamics evolve. Annual targets allow the Committee to reflect the challenges faced by the Company at that point in the cycle. 2. Risk Adjustment and Sustainable Performance – the Remuneration Committee is sensitive to the potential for short term objectives to encourage focus on short term growth at the expense of long term sustainable performance. The PIP has the following features designed to mitigate against this risk: <ul style="list-style-type: none"> • Deferral into shares or share equivalent– 50 per cent of the earned Maximum Annual Contribution is deferred in a pool whose value is held in shares or notional shares. This provides a risk adjustment mechanism, in that the value of at least half of earned bonus is subject to the share price performance of the Company for a further holding period after the period in respect of which it was earned. It is assumed that the share price will reflect to a degree the market's view of the continuing performance of the Company as well as performance in the period for which the bonus was earned. In addition, because the deferred element is locked-in until the end of the holding period, with the ultimate value when it vests being based on the share price at the end of the holding period, this achieves closer alignment between Executives' interests and shareholders interests. The Committee may also at its discretion use shares to replace a cash element that vests; • Risk Adjustment through Forfeiture – in addition to the usual claw back provisions relating to financial fraud and/or the need to re-state accounts, contributions to the bonus pool may be clawed back if minimum threshold performance levels are not met in subsequent years. If there is a material deterioration in performance, there is a claw back of up to 50 per cent of the bonus pool; and • Long term improvement – if performance does not improve against the targets set annually, the value of the bonus pool will not grow. It is only by fully achieving targets in each of the relevant plan years that the maximum value can be earned by a participant. 3. Encouraging Retention – the PIP has strong retention and lock-in features for the Executive Directors and senior management responsible for delivering the Company's strategic objectives: <ul style="list-style-type: none"> • the ability to earn bonus by reference to annual performance targets that reflect current circumstances and priorities reduces the risk of the PIP becoming irrelevant to Executives because the performance conditions are no longer appropriate; • arrangements are simple and clear, with participants able to see rewards accruing over the plan period introducing a long term focus; and • the deferred element of bonus is at risk of forfeiture if a participant leaves the business (there are exceptions for "good leavers"). As the key financial performance criteria will have already been met for this element, this provides a more effective lock-in than the potential opportunity of earning shares based on performance conditions set at the date of grant but which are only measured three years later, which is the case with a standard long term incentive plan.

Directors' Remuneration Report (continued)

Element	Purpose and how it supports the strategy	Operation	Opportunity	Performance measures and period	Changes for 2013 (if any)												
LTIP	<p>Policy: - Median</p> <p>To incentivise Executives to achieve long term performance objectives and to align the interests of Executives with those of shareholders through the holding of share based incentives.</p> <p>The Remuneration Committee believes that the use of EPS and OCF targets for the three year performance period under the LTIP remains relevant, despite the levels being manifestly stretching. Only exceptional performance will result in awards vesting under the LTIP, and the Committee believes this achieves a balance with the more flexible structure of the PIP.</p> <p>In addition, the Remuneration Committee feels that the use of EPS and OCF for the three year performance period under the LTIP encourages Executives to take a sustainable view of performance over the longer term and provides a further safeguard to any short term focus not dealt with under the structure of the PIP.</p>	<p>Performance Share awards are made annually linked to performance conditions measured over a three year period.</p>	<p>The maximum annual Performance Share award for Executive Directors is 100 per cent of salary.</p>	<p>Performance conditions are measured over three financial years.</p> <p>Performance measures and relative weightings are:</p> <ul style="list-style-type: none"> • 50% EPS; and • 50% OCF <p>Vesting of 50 per cent of the award subject to EPS performance conditions:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Performance (EPS Growth)</td> <td style="width: 50%;">% of Award Vesting*</td> </tr> <tr> <td>RPI+9%</td> <td>12.5%</td> </tr> <tr> <td>RPI+21%</td> <td>50%</td> </tr> </table> <p>*Straight line vesting between points.</p> <p>Vesting of 50 per cent of the award subject to OCF Growth:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Performance (OCF Growth)</td> <td style="width: 50%;">% of Award Vesting*</td> </tr> <tr> <td>RPI + 9%</td> <td>12.5%</td> </tr> <tr> <td>RPI + 21%</td> <td>50%</td> </tr> </table> <p>*Straight line vesting between points.</p> <p>Definitions and Calculations EPS is measured using International Financial Reporting Standards based on the audited results of the Company and subject to the discretion of the Remuneration Committee with regard to one-off items. OCF growth is calculated by taking the aggregated OCF for the three financial years preceding the year of grant of the award and comparing it with the aggregate OCF.</p>	Performance (EPS Growth)	% of Award Vesting*	RPI+9%	12.5%	RPI+21%	50%	Performance (OCF Growth)	% of Award Vesting*	RPI + 9%	12.5%	RPI + 21%	50%	<p>No change to performance criteria.</p> <p>Chief Executive's 2013 Performance Share award has been scaled back to maximum 80 per cent of salary.</p>
Performance (EPS Growth)	% of Award Vesting*																
RPI+9%	12.5%																
RPI+21%	50%																
Performance (OCF Growth)	% of Award Vesting*																
RPI + 9%	12.5%																
RPI + 21%	50%																
Marshalls plc Share Purchase Plan ("SPP")	<p>The Company operates an all employee share purchase plan to facilitate the acquisition of shares.</p> <p>The Committee believes that the SPP is an effective way of maximising the number of employee shareholders within the Company providing greater alignment with the interests of external shareholders.</p>	<p>The SPP is a HM Revenue & Customs approved Employee Share Incentive Plan which was approved by shareholders in 2006. All employees with more than 6 months service, including Executive Directors, are eligible to participate in the SPP which entitles them to purchase shares in the Company out of pre-tax salary.</p>	<p>Participants may purchase a maximum of £1,500 per annum in shares from pre-tax salary.</p>	<p>There are no performance conditions attached to the shares purchased. However, the value of the shares will depend on the share price performance of the Company and the tax efficiency is linked to continued employment with the Company for specified holding periods (a minimum of 3 years).</p>	<p>No change.</p>												

Directors' Remuneration Report (continued)

Funding of Share Plans	<p>The Company would normally expect to meet its obligations to satisfy awards under share incentive plans from shares purchased in the market by the Marshalls Employee Benefit Trust ("EBT"), although it also has the right to fulfil awards through the issue of new shares, subject to the limits below. The Company monitors the levels of share grants likely to vest and the impact of these on the ongoing requirement for shares.</p> <p>In accordance with the guidelines set out by the Association of British Insurers the Company can issue a maximum of 10 per cent of its issued share capital in a rolling ten year period to employees under all its share plans and a maximum of 5 per cent within this 10 per cent for discretionary share plans.</p> <p>The following table summarises the current level of theoretical dilution resulting from Company share plans. The Company would not expect to issue more than 7.5 per cent of the issued share capital for Share Awards within any rolling three-year period without prior consultation with shareholders.</p>		
	Type of Plan	Share Awards as a percentage of Issued Share Capital as at 31 December 2012 in a rolling ten year period	Share Awards as a percentage of Issued Share Capital as at 31 December 2012 granted during the year
	All Employee Share Plans (10% Limit)	2.56%	-
	Discretionary Share Plans (5% Limit)	1.95%	0.87%
	<p>As at 31 December 2012 the EBT held 1,446,563 ordinary shares in Marshalls plc which were acquired in the open market. The EBT is funded to purchase shares through cash drawn down under the terms of a Loan Facility Agreement established at the time of the creation of the EBT. During 2012 the EBT did not acquire any shares. The total holding by the EBT is shown in the Directors Report on page 49.</p>		

Notes:

1. Operation of the PIP

The PIP is intended to operate as follows:

- at the beginning of the Plan Period of 3 financial years, Participants have a Plan Account to which contributions may be made;
- no contribution will be made to a Participant's Plan Account unless the performance criteria, set annually in advance by the Remuneration Committee, have been met for the year in question;
- each Participant has a Maximum Annual Contribution as a percentage of salary;
- the Maximum Annual Contribution for Executive Directors in Years 1 and 2 was 250 per cent of salary. This has been scaled back to 200 per cent of salary for Year 3. Because at least 50 per cent of any annual contribution is deferred, this limits the maximum annual payment to a lower percentage of salary over the four year period. Consequently, an Executive Director who participates in the PIP and earns the maximum potential award in each year with a 50 per cent deferral would receive the following as a maximum percentage of salary:

Year 1	Year 2	Year 3	Year 4
125%	187.5%	193.75%	193.75%

- the contribution to the PIP is based on the achievement of annual performance criteria for each year. These are set by the Remuneration Committee in advance at the beginning of the measurement year;
- the Remuneration Committee also sets minimum threshold performance criteria ("Forfeiture Threshold"). Where the Forfeiture Threshold is not achieved, up to 50 per cent of the deferred balance in a Participant's Plan Account is forfeited;
- participants are entitled to receive no more than 50 per cent of the balance of their Plan Account at the end of each Plan Year. The remaining unpaid balance is deferred, either in shares or notional shares, the value of which will vary according to the Company's share price;
- the balance in the Plan Account is also forfeited if the Participant leaves before the final Plan Account payment date or may be applied to meet a claw back if results have to be re-calculated following any misstatement or fraud; and
- the balance of Participants' Accounts will become payable following the fourth anniversary of the start of the Plan Period.

Directors' Remuneration Report (continued)

Service contracts

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

usually for a term of three years. Either the Company or the Non-Executive Director may terminate the appointment before the end of the current term on six months notice. If the unexpired term is less than six months notice does not need to be served.

Non-Executive Directors, including the Chairman, are appointed under letters of appointment,

The following table summarises the current term of the Directors' service agreements and/or appointments.

Term	Ian Burrell	Graham Holden	David Sarti	Andrew Allner	Alan Coppin	Mark Edwards	Tim Pile
Date of Agreement/ Appointment	June 2001	August 1992	November 2004	July 2003 (renewed in May 2010)	May 2010	May 2010	October 2010
Notice Period in Months (Director)	12 (6)	12 (6)	12 (6)	6 (6)	6 (6)	6 (6)	6 (6)

In the event of termination an Executive Director would normally be entitled to a payment not exceeding an aggregated amount equal to one year's remuneration.

Maximum Entitlements during Notice Period

	£	£	£	£	£	£	£
Salary / Fees	236,900	412,000	236,900	64,375	23,175	23,175	20,085
Benefits	12,255	12,237	16,327	5,000	3,250	3,250	3,250
Pension	71,000	123,600	71,000	-	-	-	-
PIP		See Exit Payments		-	-	-	-
Performance Shares		See Exit Payments		-	-	-	-

Note: The compensation commitments on termination may also include loss of the cost of life cover and long term disability insurance for Executive Directors.

Where appropriate, the Company would expect the departing Director to mitigate any loss and the Committee would take this into account in calculating the Company's compensation obligation and approving any termination payment.

Directors' Remuneration Report (continued)

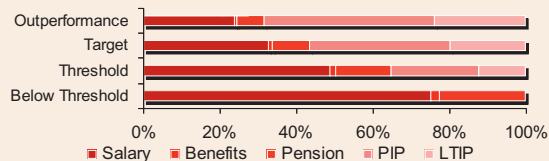
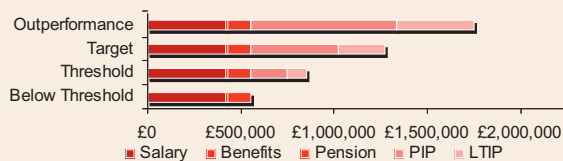
Remuneration Scenarios

The composition and value of the Executive Directors' remuneration packages at below threshold, threshold, target and outperformance scenarios are set out in the charts below.

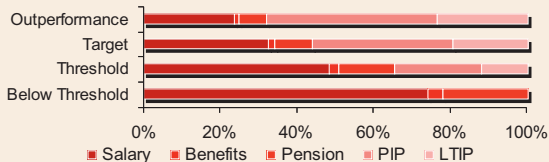
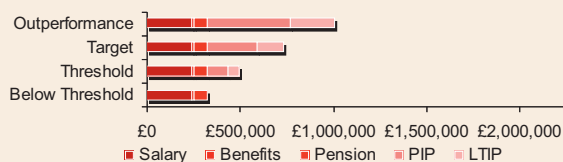
The policy of the Committee is to align Executive Directors' interests with those of shareholders and

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

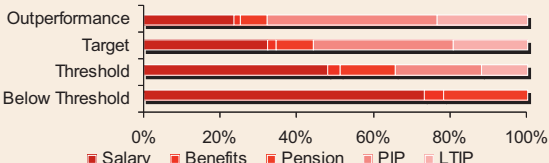
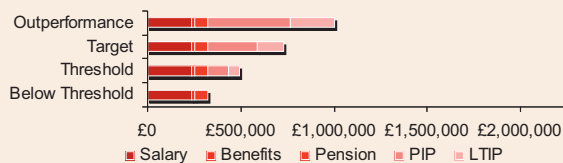
Chief Executive



Finance Director



Chief Operating Officer



The base salary, benefits and pension information used to generate the scenario charts above is taken from the information on Directors' remuneration in this Report. Base salary is representative of 2012, the benefits value reflects a fully expensed company car and medical insurance, and pension includes the level of salary supplement paid instead of contractual employer pension contributions where applicable.

The PIP at outperformance represents the full 250 per cent of salary potential. At target this is 150 per cent of salary, threshold equals 62.5 per cent of salary and below threshold 0 per cent of salary. In each scenario we have assumed that

remuneration is at Year 2 of the PIP and that the minimum forfeiture threshold would be met in future years. Therefore both the cash element and the deferred element going into the plan account is recognised in these scenarios. The reduction in maximum PIP potential for Year 3, to 200 per cent of salary, is not reflected in the above illustrations.

The LTIP at outperformance assumes full vesting of the award, 60 per cent vesting at target, 25 per cent vesting at threshold and 0 per cent at below threshold performance. The maximum LTIP award is 100 per cent of salary for Executive Directors. Non-Executive Directors do not receive performance related pay.

Directors' Remuneration Report (continued)

Exit Payment Policy

Service contracts do not contain liquidated damages clauses. If a contract is to be terminated the Committee will determine such mitigation as it considers fair and reasonable in each case. In determining any compensation it will take into account the best practice provisions of the UK Corporate Governance Code and published guidance from recognised institutional investor bodies and will take legal advice on the Company's

liability to pay compensation and the appropriate amount. The Committee periodically considers what compensation commitments the Executive Directors' contracts would entail in the event of early termination. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. 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.

Remuneration element	Treatment on exit		
Base Salary	Salary will be paid over the notice period. The Company has discretion to make a lump sum payment on termination equal to the volume of the salary payable during the notice period. In all cases the Company will seek to mitigate any payments due.		
Benefits	Benefits will normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period. In all cases the Company will seek to mitigate any payments due.		
Pension / Salary Supplement	Company pension contributions / salary supplement will normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the Company pension contributions / salary supplement during the notice period. In all cases the Company will seek to mitigate any payments due.		
PIP	Normal Cessation No entitlement for year of cessation. Unvested balances in participant's plan accounts are forfeited.	Good Leaver Pro-rated bonus to time and performance for year of cessation. Unvested balances in participant's plan accounts are paid.	Change of Control The extent to which the performance requirements are satisfied will determine the bonus which is earned for the year of the change of control. Unvested balances in participant's plan accounts are paid.
	Cessation of employment where the Executive is not a good leaver.	Cessation of employment for one of the following reasons: - death; - injury or disability; - retirement; - redundancy; and - at the discretion of the Committee (if exercised a full explanation will be provided to shareholders).	Excludes a reorganisation or reconstruction where ownership does not materially change.
LTIP Performance Shares	Normal Cessation Unvested awards lapse.	Good Leaver Subsisting awards are pro-rated to time and performance on the date of cessation.	Change of Control Subsisting awards are pro-rated to time and performance on the date of the event.
	Cessation of employment where the Executive is not a good leaver.	Cessation of employment for one of the following reasons: - death; - injury or disability; - retirement; - redundancy; and - at the discretion of the Committee (if exercised a full explanation will be provided to shareholders).	Excludes a reorganisation or reconstruction where ownership does not materially change.

Directors' Remuneration Report (continued)

Recruitment Policy

The following table sets out the Company's policy on recruitment of new Executive Directors for each element of the remuneration package:

Remuneration element	Policy on Recruitment
Base Salary	The Remuneration Committee will offer salaries up to the median for comparative roles in line with its policy for existing Executive Directors.
Benefits	The Remuneration Committee will offer the Company's standard benefit package.
Pension	Maximum contribution will be set in line with the Company's policy for existing Executive Directors.
PIP	The maximum annual contribution will be set in line with the Company's policy for existing Executive Directors. The maximum for 2013 is set at 200 per cent of basic annual salary.
Performance Shares	The normal maximum annual grant is up to 100 per cent of basic annual salary in line with the Company's policy for existing Executive Directors.
"Buy Outs"	The Remuneration Committee's policy on the "buying out" of subsisting incentives granted by the Executive's previous employer will depend on the circumstances of recruitment and will be negotiated on a case by case basis. There will not be a presumption in favour of buy-out but it will be considered if necessary to attract the right candidate.

Remuneration Policy for other Employees

The remuneration policy described in the table applies to Executive Directors. Other tiers of management and below also qualify for annual and long term bonus arrangements. Senior management participate in the PIP and the LTIP. The criteria for performance related bonus under the PIP and the retention periods are the same as for the Executive Directors, with varying percentages of salary dependent on seniority and the strategic impact of the role. Under the LTIP, the criteria for awards are the same as those applicable to awards made to Executive Directors, and the performance period is the same.

There are other job related incentives that may be awarded at the levels below senior management.

There will be no increase in the basic salaries of senior management for 2013, except in the case of promotions, the assumption of significant additional responsibilities or where necessary to attract a new recruit for a particular position.

The general workforce has been asked to consider a pay offer involving no increase in basic pay for 2013. There were increases in 2012 to take account of inflation.

Consideration of conditions elsewhere in the Group

In applying its policy, the Committee takes into account the wider economic conditions and the pay and reward packages elsewhere in the Sector and the business.

With the exception of a single inflation-related pay increase of 3 per cent awarded in January 2012, Executive Directors' salaries have not increased in the last five years. This has been at their own request, to recognise the need for restraint in the context of pay in the wider workforce and the prevailing economic conditions in the UK that have affected the business. Further, with effect from 1 January 2013, Graham Holden's remuneration will fall by 20 per cent through deduction from anticipated PIP and LTIP earnings.

Directors' Remuneration Report (continued)

By comparison, the pay awards for Marshalls' weekly-paid employees were 2 per cent in 2011, and 3 per cent in 2012 under a two year agreement, while pay awards for monthly paid employees were 1.5 per cent in 2011 subject to a minimum and maximum total value, and 3 per cent in 2012.

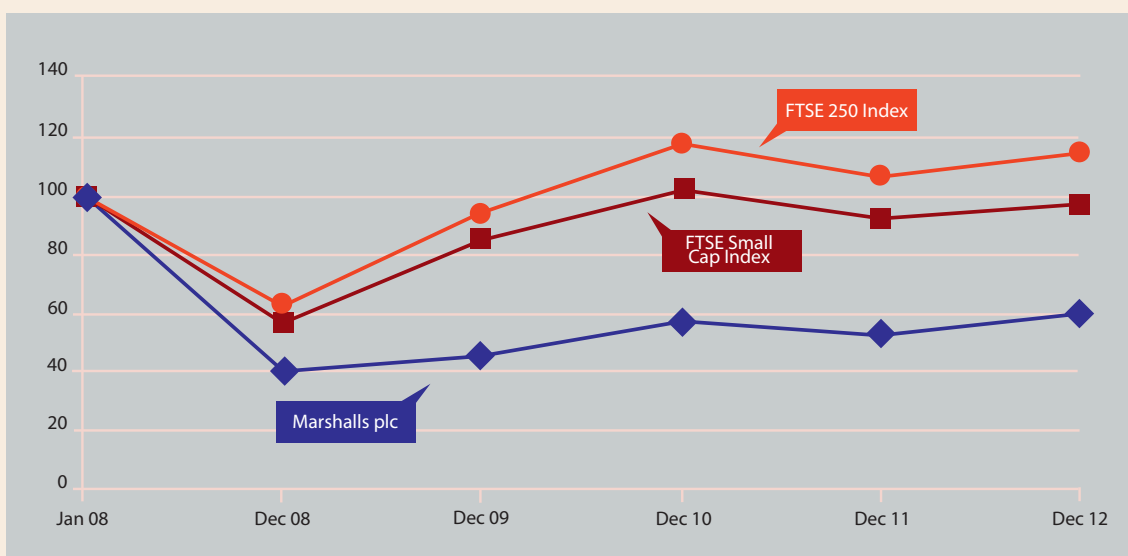
The Committee has not specifically canvassed the views of the Company's employees on its remuneration policy, although the views of employees on matters that include pay and conditions generally are canvassed by means of the Company's periodic "Pulse" surveys, the results of which are regularly and openly communicated to the Board.

Consideration of Shareholder Views

The Committee extensively consulted with shareholders on its executive remuneration policy in 2011 and obtained broad support for its proposals which was demonstrated by the positive vote on the 2011 Remuneration Committee Report.

The contents of this Report set out the operation of this agreed policy for Executive Directors for 2012. The Remuneration Committee believes that the Report and its contents should have shareholder support.

Five Year Total Shareholder Return



This graph shows the Group's total shareholder return ("TSR") performance compared to both the FTSE 250 and FTSE Small Cap indices for the period from 1 January 2008 to 31 December 2012. TSR is defined as share price growth plus reinvested dividends. The FTSE 250 and FTSE Small Cap indices are used for comparison, since these are the equity indices of which Marshalls plc has been a constituent during the period illustrated. Prior to 23 June 2008 Marshalls plc was a constituent of the FTSE 250 Index, and since that date the Company has been a constituent of the FTSE Small Cap Index. This graph shows the value at 31 December 2012 of £100 invested in Marshalls plc on 31 December 2007 compared with the value of £100 invested in the FTSE 250 Index and the FTSE Small Cap Index. The other plotted points are the intervening financial year ends.

Directors' Remuneration Report (continued)

Implementation Report

Introduction

This Report covers the reporting period from 1 January 2012 to 31 December 2012 and provides details of the actual implementation of the Company's Policy during the period. This Report has been prepared by the Committee taking account of the proposed regulations put forward by the UK Government Department of Business, Innovation and Skills ("BIS"). The regulations will apply to all UK companies listed on a major stock

exchange with financial years ending after 30 September 2013, and those elements that have been included voluntarily for this 2012 Report are intended to pave the way towards full compliance in 2013.

Base Salary

There was a 3 per cent inflation-related increase in the base salary of Executive Directors with effect from 1 January 2012. There will be no increase in 2013.

Performance Related Pay

PIP: Annual Performance Awards

The following table summarises the Plan Accounts for the Executive Directors under the PIP:

Plan Accounts	Graham Holden	Ian Burrell	David Sarti
2012 Opening balance (note a)	£556,257	£224,454	£224,454
2012 Contribution (note b)	£339,900	£195,442	£195,442
(% of salary)	82.5%	82.5%	82.5%
Value at Measurement Date (note c)	£971,451	£450,279	£450,279
2012 Cash Element released	£485,726	£225,139	£225,139
Closing balance (deferred into shares)	£485,725	£225,140	£225,140
Number of shares represented by closing balance	498,179	230,912	230,912

(a) Graham Holden elected to defer voluntarily a higher proportion of his 2011 award into shares / notional shares resulting in a higher opening balance in his account for the 2012 Plan Year, and a higher value available for release following the end of that financial year.

(b) See below for the 2012 performance conditions and their level of satisfaction.

(c) This value is calculated by multiplying the number of notional shares deferred in the bonus pool by the closing share price of 97.5 pence on 31 December 2012 (2011: 90.5 pence), and includes the value of dividends paid on the equivalent number of ordinary shares (5.25 pence per share) during 2012.

Directors' Remuneration Report (continued)

2012 PIP Performance Conditions and their level of satisfaction						
Criteria	Percentage of Maximum Contribution based on Criteria	Threshold Target	Maximum Target	2012 Actual	Percentage of Target Achieved	Percentage of Salary Earned
EPS	67%	4.05 pence	6.88 pence	5.87 pence	0%	0%
Cash	33%	£73.1 million	£63.1 million	£63.5 million	100%	82.5%
Non-financial targets	15% deduction if not met				100%	No deduction

EPS

The Group's profit performance was below budget and prior year. Sales fell by 7.3 per cent but market share continued to grow. EBITDA from continuing operations fell by 14.3 per cent and profit before tax on continuing operations was £10.4 million which was at the bottom of the profit target range set at the beginning of the year. EPS on continuing operations, before operational restructuring costs and asset impairments, declined from 6.30 pence in 2011 to 5.87 pence in 2012. Although this remained within the target range of 4.05 pence (nil) to 6.88 pence (maximum) set at the beginning of the year, the Committee determined that, after adjustment, no bonus was earned in respect of the EPS targets set for the 2012 contribution.

Cash

During the year, the Executive Directors implemented a series of restructuring initiatives to cut costs and drive down stock and working capital. The year end net debt of £63.5 million was at the lower (better) end of the target range set at the beginning of the year of between £63.1 million (maximum) and £73.1 million (nil) and was also significantly better than market expectations. The Committee determined that, after adjustment to neutralise the impact of exceptional items, the full 33 per cent of the maximum annual bonus

contribution relating to the cash flow target was earned and should be contributed to individual PIP accounts in respect of 2012 performance.

The Committee has discretion to adjust for the impact of one-off disposals and unbudgeted changes to corporation tax rates, exceptional items and associated cash costs in assessing whether targets are met. However, to the extent that any such adjustments caused the published EPS to differ from the adjusted EPS, the Committee would require both to be below the forfeiture threshold before any PIP balances would be partially forfeited.

Additional Performance Conditions

The Group exceeded its minimum target of 95 per cent customer service on average throughout the year. The Group also saw a reduction of 24.6 per cent year on year in days lost to accidents against its target of 10 per cent. Therefore no negative adjustment was made to the 2012 contribution earned in the PIP.

Dividends

The Committee determined that it was appropriate to credit dividends paid to ordinary shareholders during 2012 to the deferred bonus pool shares.

Directors' Remuneration Report (continued)

LTIP

The LTIP (the Marshalls plc 2005 Long Term Incentive Plan) was approved by shareholders in 2007. Under the Rules of the LTIP, awards of Matching and Performance Shares may be made, although no awards of Matching Shares have been made since March 2011, as the Remuneration Committee considers that the deferral mechanism of the PIP introduced during 2011 achieves the objectives previously met by Matching Share awards.

Performance Share Awards

During 2012, the Executive Directors were granted Performance Share awards under the LTIP. The performance criteria are EPS and OCF growth over a three year period to 31 December 2014 as summarised in the table below. The Committee considers that these criteria remain relevant to and aligned with business objectives, although it is manifestly clear that they have been and continue to be extremely stretching.

Vesting of 50 per cent of the award subject to EPS growth

Performance conditions	% of Award Vesting*
EPS Growth of RPI +9%	12.5%
EPS Growth of RPI +21%	50%

*Straight line vesting between points.

Vesting of 50 per cent of the award subject to OCF Growth

Performance growth	% of Award Vesting*
OCF Growth of RPI +9%	12.5%
OCF Growth of RPI +21%	50%

*Straight line vesting between points.

Definitions and Calculations

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

OCF growth is calculated by taking the aggregated OCF for the three financial years preceding the year of grant of the award and comparing it with the aggregate OCF for the three financial years of the performance period.

Details of Performance Share awards made in 2012 are as follows:

Executive Director	Performance Share awards under LTIP		
	Number of Performance Shares awarded	Face value of award (note) £	Percentage of Salary
Graham Holden	397,022	400,000	100
Ian Burrell	228,288	230,000	100
David Sarti	228,288	230,000	100

Note: Calculated by reference to the average share price of 100.75 pence over the three dealing days before the date of grant (20 March 2012).

Directors' Remuneration Report (continued)

Matching Share Awards

Under the LTIP, for financial periods before 2011 participants were invited to invest a proportion of their annual bonus in Investment Shares in order to gain a corresponding award of Matching Shares, up to a maximum of 150 per cent of salary (assuming 100 per cent of salary was awarded as Performance Shares at the same time). The performance criteria for vesting of Matching Shares was based on EPS growth only, using the same EPS measures as those which apply to the EPS element of Performance Shares as set out above measured over a holding period of three years. If the criteria were not met at the end of the holding period, the Matching Shares lapsed and the Investment Shares were released to the participant. As at the date of this report the only outstanding Matching Share awards are those that were made in March 2011. These will be measured over the three financial years 2011, 2012 and 2013 and unless the performance criteria are met, are expected to lapse in March 2014.

Lapse of 2010 Awards

The table below sets out the performance conditions attached to the March 2010 Performance Share awards under the LTIP and their relative weightings.

Performance Share Award Conditions

	Proportions of
Three year EPS growth	total award vesting
RPI +9%	12.5%
RPI +21%	50%
Three year	Proportion of
OCF growth	total award vesting
RPI +9%	12.5%
RPI +21%	50%

The performance conditions for Matching Shares awarded in March 2010 were based on EPS growth only, using the same EPS measures as those which apply to the EPS element of Performance Shares as set out above. All Matching and Performance awards made prior to March 2010 have lapsed without vesting. The Matching and Performance awards made in March 2010 which are measured against performance over the three financial years 2010, 2011 and 2012 did not vest in 2012, as the performance conditions were not met over the measurement period, and will therefore lapse. No participating Executive Director or senior manager has realised any financial benefit from Matching or Performance awards under the LTIP since it was introduced.

Exit Payments made in Year

No Executives departed the business during the year and therefore no exit payments were made to Executives during the financial year.

Directors' Remuneration Report (continued)

Total Shareholdings of Directors

In order that their interests are aligned with those of shareholders, Executive Directors are expected to build and maintain a meaningful shareholding in the Company of 200 per cent of base salary (Chief Executive) and 100 per cent of base salary (other Executive Directors). There are no minimum holding requirements for Non-Executive Directors, but they would usually be expected to hold some shares in the Company.

The following table sets out the following information in respect of each of the Directors:

- the Director's shareholding requirement;
- the number of shares the Director holds unconditionally;
- the number of deferred and conditional shares held under the PIP;
- the number of shares represented by Performance awards; and
- the number of shares represented by Matching awards.

	Shareholding requirement		Unconditional Shares		Deferred PIP Shares/Notional Shares (note a)		TOTAL		Unvested and Contingent LTIP Awards Performance Shares (notes b and d) & Matching Shares (note c and d)			Total interests in Shares (including contingent interests)	
	% of salary	Value of Shares required	Number of Shares held	Value of Shares held (see note*)	Number of Shares held	Value of Shares held (see note*)	Number of Shares held	Value of Shares held (see note*)	Number of Performance Shares held	Number of Matching Shares held	Total Value of Unvested and Contingent Shares held	Number of Shares held	Value of Shares held
Executive Director	£	£	£	£	£	£	£	£	£	£	£	£	£
Graham Holden	200	824,000	456,925	1,144,228	498,179	485,725	955,104	1,629,953	1,087,389	689,200	1,732,174	2,731,693	3,362,127
Ian Burrell	100	237,000	159,413	352,432	230,912	225,140	390,325	577,572	625,249	396,289	995,999	1,411,863	1,573,571
David Sarti	100	237,000	175,468	360,636	230,912	225,140	406,380	585,776	625,249	396,289	995,999	1,427,918	1,581,775
Non-Executive Director													
Andrew Allner	-	-	35,000	71,678	-	-	35,000	71,678	-	-	-	35,000	71,678
Alan Coppin	-	-	10,000	11,559	-	-	10,000	11,559	-	-	-	10,000	11,559
Mark Edwards	-	-	49,000	49,494	-	-	49,000	49,494	-	-	-	49,000	49,494
Tim Pile	-	-	34,740	35,171	-	-	34,740	35,171	-	-	-	34,740	35,171

*Value of shares in relation to shares or share interests that are contingent on performance or holding conditions is based on the mid-market price on 31 December 2012 of 97.5 pence per share. Value of shares in relation to shares that are unconditional is based on their acquisition price.

Note a: This interest will not vest until the performance and holding conditions have been met - see Policy section for explanation of the operation of the PIP.

Note b: These shares will not vest until the performance conditions have been met over the three year measurement period. See Policy section for explanation of the operation of the LTIP.

Note c: Investment Shares must be acquired and held in order to receive Matching Shares. If the LTIP performance conditions are not met, the Matching Shares lapse 3 years from the grant date, and the corresponding Investment Shares may then be transferred to the participant. The value in this section assumes that Investment Shares are unconditionally held and that all Matching Shares in the column will vest, (although see also note d).

Note d: This section includes the Performance and Matching Shares awarded in March 2010 which will lapse on the third anniversary of the date of grant, i.e. in March 2013, as shown in the table on page 83.

Directors' Remuneration Report (continued)

The Committee and its Advisers Role of the Remuneration Committee

The Committee's responsibilities include:

- Setting remuneration policy for Executive Directors;
- Determining specific remuneration packages for Executive Directors and for the Chairman;
- Operating the Company's employee share incentive arrangements;
- Providing guidance on remuneration for senior employees who report to the CEO; and
- Considering the broader remuneration policies for Group employees below Board level.

The Committee's agreed terms of reference are available on the Company's website (www.marshalls.co.uk) and on request from the Company Secretary.

The Board determines the remuneration of the Non-Executive Directors. No Director plays a part in any decision about their own remuneration.

Committee Members

The Committee members comprise Alan Coppin (Chairman), Andrew Allner, Mark Edwards and Tim Pile. Alan Coppin, Mark Edwards and Tim Pile are all independent Non-Executive Directors within the definition of the Code, and Andrew Allner satisfied the independence condition on his appointment as Non-Executive Chairman in 2010. None of them have any personal financial interest (other than as shareholders) in matters to be decided, nor do they have any conflicts of interest from cross-directorships or any day-to-day involvement in running the business.

The Company's external remuneration advisers, PricewaterhouseCoopers LLP ("PwC"), attend meetings of the Committee by invitation as do members of the executive management team where this is pertinent to matters under consideration, although they may not

participate in discussions about their own remuneration. The Company Secretary acts as secretary to the Committee.

Further information on meetings and attendance by the Committee members is disclosed in the Corporate Governance Report on pages 51 to 58.

External Advice

The Committee received external advice in 2012 from PwC in relation to executive remuneration. PwC were appointed by the Committee following a competitive tender in 2010 and their fees are agreed by the Remuneration Committee according to the work performed. Terms of engagement are available from the Company Secretary.

The details of advice provided by PwC relating to executive remuneration during 2012 were as follows:

Advice

- levels and performance conditions for the incentive arrangements;
- corporate governance;
- dilution and funding of share plans;
- taxation of incentives granted;
- assistance in the preparation of the Remuneration Committee Report;
- benchmarking of total remuneration in respect of the Company and its comparator group; and
- attendance at the Remuneration Committee meetings to provide advice when required.

In order to carry out the Remuneration Committee's policies PwC worked with the Company in implementing the above.

PwC also provided advice to the Company during the year in relation to tax and pensions matters.

Statement of Shareholder Voting

The table below shows the voting outcome at the May 2012 AGM for the approval of the 2011 Remuneration Report.

	For	For as a % of votes cast	Against	Against as a % of votes cast	Abstain
Votes	138,951,048	98.24%	2,488,811	1.76%	2,758,646

The Committee believes the 98.24 per cent votes in favour of the Remuneration Report shows very strong Shareholder support for the Group's remuneration arrangements.

Directors' Remuneration Report (continued)

Audited part of the Report

Directors' Remuneration

	Salary/ fees 2012 £'000	Bonus 2012 £'000	Release of 50% deferred bonus earned for 2012 £'000	Voluntarily deferred element of bonus 2012 £'000	Benefits 2012 £'000	Total remuneration (excluding pensions)		Pension defined contribution payments (or substituted salary supplement)		Maximum potential LTIP shares awarded
						2012 £'000	2011 £'000	2012 £'000	2011 £'000	Number of shares
Chairman										
Andrew Allner	129	-	-	-	-	129	125	-	-	-
Executive Directors										
Ian Burrell	237	98	127	-	12	474	465	71	69	589,216
Graham Holden	412	170	221	94	12	909	635	124	117	1,024,724
David Sarti	237	98	127	-	16	478	473	71	69	589,216
Non-Executive Directors										
Alan Coppin	46	-	-	-	-	46	45	-	-	-
Mark Edwards	46	-	-	-	-	46	45	-	-	-
Tim Pile	40	-	-	-	-	40	39	-	-	-
TOTAL	1,147	366	475	94	40	2,122	1,827	266	255	2,203,156
Comparative Total 2011	1,114	672	-	-	41	1,827	-	255	-	2,966,067
	<i>Note (c)</i>	<i>Note (d)</i>	<i>Notes (d) and (e)</i>	<i>Note (f)</i>		<i>Note (f)</i>				

Notes to Directors' Remuneration Table

- (a) The table above shows salaries, fees, performance related bonuses and benefits paid by reference to the year ended 31 December 2012.
- (b) The highest paid Director in the year was Graham Holden.
- (c) The salary column shows the base salary earned in the year. There was a 3 per cent increase on 1 January 2012. Amounts paid by way of salary supplement instead of contractual employer pension contribution are shown separately in the pension contribution column rather than as part of base salary.
- (d) The bonus earned under the PIP by reference to performance in 2012 reduced by 56 per cent compared to 2011. The 2012 bonus stated is the payment made in respect of 2012 in accordance with the rules of the PIP. It does not include the value of the deferred balance in respect of 2012 which must be held for a further holding period (see Unaudited Part of the Report). The value of deferred balances carried over from 2011 that have become payable after the 2012 results on expiry of the applicable holding period are shown separately.
- (e) As the PIP was introduced in 2011, there were no amounts carried over from earlier periods to report in 2011. The PIP replaced Matching awards under the LTIP – see details on page 78.
- (f) In addition to the release of 50 per cent of the PIP balance earned by reference to 2011 that was compulsorily deferred, the additional amount voluntarily deferred by Graham Holden in 2011 has been released. The increase in overall remuneration in 2012 for Graham Holden is due principally to the release of these deferred PIP balances earned by reference to the 2011 results.
- (g) During the year, each of Ian Burrell, Graham Holden and David Sarti elected to sacrifice a proportion of future salary, and/or salary supplement and/or deferred performance bonus. Contributions equal to the amounts given up were paid into a pension plan for the benefit of their dependants. The amounts shown in the salary, deferred performance bonus and pension contribution columns reflect the full amount earned.
- (h) Benefits are the provision of a fully expensed company car and medical insurance.
- (i) The Chairman's and Non-Executive Directors' fees shown exclude the annual gross fixed expenses paid towards travel, accommodation and subsistence.

Directors' Remuneration Report (continued)

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

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

	31 December 2012				31 December 2011			
	Ordinary Shares	Marshall's Share Purchase Plan	LTIP Investment Shares	Total	Ordinary Shares	Marshall's Share Purchase Plan	LTIP Investment Shares	Total
Andrew Allner	35,000	-	-	35,000	35,000	-	-	35,000
Ian Burrell	42,762	7,609	109,042	159,413	10,153	5,979	141,651	157,783
Alan Coppin	10,000	-	-	10,000	10,000	-	-	10,000
Mark Edwards	49,000	-	-	49,000	10,000	-	-	10,000
Graham Holden	259,677	7,609	189,639	456,925	199,937	5,979	249,379	455,295
Tim Pile	34,740	-	-	34,740	23,924	-	-	23,924
David Sarti	58,817	7,609	109,042	175,468	30,698	5,979	137,161	173,838

Notes to Directors' Interests in shares

- There were no changes between 1 January 2013 and 8 March 2013 save that each of the Executive Directors acquired 351 shares in the Marshall's plc Share Purchase Plan (the "SPP") between January and March 2013. The SPP 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 SPP which entitles them to purchase shares in the Company with pre-tax salary.
- The Non-Executive Directors are not eligible to participate in the SPP, the PIP or the LTIP.
- None of the Directors held any options during the year other than approved options under the LTIP as listed in the table on page 83, nor did they hold any interests in derivatives or other financial instruments relating to the Company's shares.

Directors' Remuneration Report (continued)

Long Term Incentive Plan

Name	LTIP Share Awards	At 1 January 2012	Granted	Exercised	Lapsed (Note c)	At 31 December 2012	Market Price on Date of Award (p)	Date of Award	Date from which Exercisable
Ian Burrell	Matching Shares	239,045	-	-	239,045	-	89.25	11.03.10	11.03.13
	Performance Shares	193,277	-	-	193,277	-	89.25	11.03.10	11.03.13
	Matching Shares	157,244	-	-	-	157,244	113	17.03.11	17.03.14
	Performance Shares	203,684	-	-	-	203,684	113	17.03.11	17.03.14
	Performance Shares	-	228,288	-	-	228,288	100.75	20.03.12	20.03.15
Graham	Matching Shares	415,731	-	-	415,731	-	89.25	11.03.10	11.03.13
Holden	Performance Shares	336,134	-	-	336,134	-	89.25	11.03.10	11.03.13
	Matching Shares	273,469	-	-	-	273,469	113	17.03.11	17.03.14
	Performance Shares	354,233	-	-	-	354,233	113	17.03.11	17.03.14
	Performance Shares	-	397,022	-	-	397,022	100.75	20.03.12	20.03.15
David Sarti	Matching Shares	239,045	-	-	239,045	-	89.25	11.03.10	11.03.13
	Performance Shares	193,277	-	-	193,277	-	89.25	11.03.10	11.03.13
	Matching Shares	157,244	-	-	-	157,244	113	17.03.11	17.03.14
	Performance Shares	203,684	-	-	-	203,684	113	17.03.11	17.03.14
	Performance Shares	-	228,288	-	-	228,288	100.75	20.03.12	20.03.15

Notes to LTIP table

- (a) The share price on 31 December 2012 was 97.5 pence (2011: 90.5 pence).
- (b) 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 in the Policy section of this Report. Awards not exercised within 10 years of the date of grant will lapse.
- (c) Part of the March 2010 Performance awards were held in the form of HM Revenue & Customs Approved options. If the performance criteria had been met and there had been an increase in share price, the Approved options could have been exercised to deliver part of the total value of the Performance award subject only to Capital Gains Tax and in this case, an equivalent proportion (in value) of the non-approved Performance award shares would lapse. All the March 2010 awards have lapsed by reference to the financial period ending on 31 December 2012.

Directors' Remuneration Report (continued)

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.

David Sarti is an active member of the Defined Contribution Section of the Scheme. Under his service agreement the Company makes contributions to the Scheme of 30 per cent of basic salary, with a minimum employee contribution of 4 per cent of basic salary. To the extent that he was affected by the £50,000 limit on individual annual allowances in relation to pension scheme contributions, he elected to stop receiving employers' pension contribution into the Scheme upon reaching the annual allowance limit and became entitled to receive a salary supplement in lieu of employer contributions for the remainder of the relevant period.

Ian Burrell was until April 2012 an active member of the Defined Contribution Section of the Scheme. Under his service agreement, he is entitled to receive a pension contribution from the Company of 30 per cent of basic salary, with a minimum employee contribution of 5 per cent of basic salary. To the extent that he was affected by the £50,000 limit on individual annual allowances in relation to pension scheme contributions made before April 2012, he elected to stop receiving employers' pension contribution into the Scheme upon reaching the annual allowance limit. Further, with effect from 6 April 2012, Ian Burrell elected under pensions regulations to take Fixed Protection in relation to his Lifetime Allowance, which means that from April 2012 no further contributions can be made into any pension scheme on his behalf. Having stopped receiving contributions into the Scheme, he is entitled to receive a salary supplement in lieu of employer pension contributions.

The Scheme provides for a lump sum payment and dependants' pension benefits on death in service. In the case of Executive Directors who receive a salary supplement in place of the Company's contributions to the Scheme, these other Scheme benefits remain unchanged, based on a multiple of base salary. The Company does not compensate individual directors for the loss of tax allowances on pension contributions.

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

An ordinary resolution to receive and approve this Report will be proposed at the Company's Annual General Meeting to be held on 15 May 2013.

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

Alan Coppin
Chairman of the Remuneration Committee
8 March 2013

Nomination Committee Report

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

During 2012 the Nomination Committee held one formal meeting, at which it reviewed:

- Board succession planning, including consideration of prospective candidates for appointment to the Board;
- outcomes from the performance evaluation of Directors in advance of the proposal to elect or re-elect at the Annual General Meeting; and
- the Board conflicts policy and the conflicts register, and any new notifications.

The Nomination Committee's Terms of Reference were last reviewed and updated by the Board in December 2012, and the performance of the Committee was evaluated as part of the Board evaluation process in 2012. The Terms of Reference of the Committee are available on the Company's website (www.marshalls.co.uk).

Having identified its objective of greater Board diversity, a number of potential candidates were considered in the early months of 2012. However, in view of the cost reduction initiatives and operational changes within the Business, the Committee concluded that it was not the right time to make an additional Board appointment, and the Board made no new appointments in 2012. The Committee expects to return to its stated diversity objective during 2013 and to work with external search consultants in planning for future appointments. Non-Executive Directors are appointed for specific terms, subject to re-appointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. The current terms of appointment of the Directors are shown on page 70. All Directors will stand for re-election at the Company's Annual General Meeting in May 2013.

Each Non-Executive Director has been provided with a detailed description of his role and responsibilities, and received a detailed business induction. The other appointments held by the Non-Executive Directors have been declared to the Company in accordance with the rules on conflicts adopted by the Board, and none is regarded as likely to give rise to any conflict with the Board.

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

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

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

Andrew Allner
Chairman of the Nomination Committee
8 March 2013

Report of the Audit Committee

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

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

Activities during 2012

During 2012 the Audit Committee met four times. Its work included the following:

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

During 2013, the Committee expects to develop its procedures and reporting practices to meet the new requirements of the UK Corporate Governance Code published in September 2012.

External Audit, Auditor independence and objectivity

The Audit Committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor to the Board, as submitted to

shareholders for their approval at the Annual General Meeting. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditor. The Audit Committee has reviewed the independence and objectivity of the auditor during 2012 and considers that the appointed auditors, KPMG Audit Plc, are independent and remain objective. In doing so, it has taken account of the processes in place within KPMG Audit Plc designed to maintain independence. The Company has procedures in place to safeguard independence, including limits on the amount of non-audit work awarded to the auditors. Any work awarded to the external auditors with a value in excess of £25,000, or in aggregate a value exceeding £50,000 in any financial year, other than audit and tax compliance, requires the specific approval of the Audit Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the external auditors. KPMG Audit Plc have provided audit services to the Company since 1987. The audit partner and audit team within KPMG Audit Plc who conduct the Group audit are regularly rotated. The Committee is mindful of the need to consider periodically re-tendering audit services, and reviews this every three years. Details of amounts paid to the external auditors for audit and non-audit services in 2012 are analysed in Note 3 on page 107. The amount paid for non-audit work represented approximately 18.3 per cent of total fees paid to the external auditors in 2012. This was for services associated with the corporate tax compliance procedures and certain additional regulatory procedures associated with Marshalls NV which the Audit Committee considered the external auditors to be in the best position to provide, given their detailed knowledge of the background of the Company's systems. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £155,000 (2011: £254,000).

This Committee reviews the Half-yearly and Annual Financial Statements before submission to

Report of the Audit Committee (continued)

the Board and reviews the effectiveness of the Group's internal control system. The work of the Committee is reported regularly to the Board.

There were no significant issues arising in relation to the Financial Statements during the audit review.

The Audit Committee reviews the planned Internal Audit Programme. The results of all assignments have been reported to the Audit Committee during the year. These assignments form part of a much wider programme of independently audited aspects of the Group's operations. Any areas of weakness that are identified through this process prompt a detailed action plan and a follow up audit check to establish that actions have been completed. No significant failings or weaknesses were identified during the year.

Whistleblowing

The Audit Committee has, during the year, reviewed the arrangements by which employees, and other people working for the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Company does have a Serious Concerns Policy (Whistle-blowing Policy) which is available to all employees. It is displayed on notice boards and on the Company's intranet. The policy sets out the procedure for employees to raise legitimate concerns about any wrong-doing without fear of criticism, discrimination or reprisal. One matter was raised under this policy during 2012 at one of the operating sites but on investigation it was found to be without substance. The Serious Concerns Policy was reviewed during the year and the Audit Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Anti-Bribery Code procedures

The Audit Committee also takes responsibility for reviewing the policies and procedures adopted by

the Company to prevent bribery. The Company adopted an Anti-Bribery Code and published supporting guidance for its employees, agents and contractors on hospitality and gifts in 2011. During 2012 it introduced an internal compliance training programme for employees to reinforce the Anti-Bribery Code and procedures, and the internal audit review programme also included a review of the adequacy of the Company's procedures in relation to the prevention of bribery.

The Audit Committee monitors and reviews the effectiveness of internal control activities. It also reviewed the need for an in-house internal audit function during 2012, and concluded that the current process, under which firms of external accountants that are independent from the Company's auditors and have no other connection with the Group carry out regular internal audit assignments of a financial and systems nature, was the most effective means of managing the internal audit function. The Audit Committee notes that the Company has implemented and continued to operate a self certification internal control process to support the internal audit process throughout the year.

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

Mark Edwards
Chairman of the Audit Committee
8 March 2013

Independent Auditor's Report to the Members of Marshalls plc

We have audited the Financial Statements of Marshalls plc for the year ended 31 December 2012 set out on pages 90 to 142.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 57 to 58, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

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

- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out in Note 1(b) on pages 97 and 98, in relation to going concern;
- the part of the Corporate Governance Statement on pages 51 to 58 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' Remuneration.

**Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
8 March 2013**

Consolidated Income Statement

for the year ended 31 December 2012

		Before operational restructuring costs and asset impairments	Operational restructuring costs and asset impairments	Total	Total
	Notes	2012 £'000	2012 £'000	2012 £'000	2011 £'000
Revenue	2	309,693	-	309,693	334,127
Net operating costs	3	(295,764)	(21,521)	(317,285)	(317,430)
Operating profit / (loss)	2	13,929	(21,521)	(7,592)	16,697
Financial expenses	6	(15,480)	-	(15,480)	(14,960)
Financial income	6	11,902	-	11,902	11,953
Profit / (loss) before tax	2	10,351	(21,521)	(11,170)	13,690
Income tax credit / (expense)	7	1,105	4,367	5,472	(1,522)
Profit / (loss) for the financial period before post tax loss of discontinued operations		11,456	(17,154)	(5,698)	12,168
Post tax loss of discontinued operations	8	-	-	-	(4,912)
Profit / (loss) for the financial period		11,456	(17,154)	(5,698)	7,256
Profit / (loss) for the period Attributable to:					
Equity shareholders of the parent		11,470	(17,154)	(5,684)	7,390
Non-controlling interests		(14)	-	(14)	(134)
		11,456	(17,154)	(5,698)	7,256
Earnings per share (total operations):					
Basic	9	5.87p		(2.91)p	3.78p
Diluted	9	5.75p		(2.91)p	3.71p
Earnings per share (continuing operations):					
Basic	9	5.87p		(2.91)p	6.30p
Diluted	9	5.75p		(2.91)p	6.17p
Dividend:					
Pence per share	10			5.25p	5.25p
Dividends declared	10			10,292	10,292

The Notes on pages 96 to 135 form part of the Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	2012 £'000	2011 £'000
Profit for the financial period before operational restructuring costs and asset impairments	11,456	7,256
Operational restructuring costs and asset impairments	(17,154)	-
(Loss) / profit for the financial period	(5,698)	7,256
Other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	(2,050)	(570)
Fair value of cash flow hedges transferred to the Income Statement	840	402
Deferred tax arising	298	43
Defined benefit plan actuarial (losses) / gains	(9,063)	9,982
Deferred tax arising	2,084	(2,496)
Impact of the change in rate of deferred taxation	360	(145)
Foreign currency translation differences - foreign operations	116	(110)
Foreign currency translation differences - non-controlling interests	(106)	(56)
Other comprehensive (expense) / income for period, net of income tax	(7,521)	7,050
Total comprehensive (expense) / income for the period	(13,219)	14,306
Attributable to:		
Equity shareholders of the parent	(13,099)	14,496
Non-controlling interests	(120)	(190)
	(13,219)	14,306

Consolidated Balance Sheet

at 31 December 2012

	Notes	2012 £'000	2011 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	175,607	191,324
Intangible assets	12	41,413	42,730
Investment in associates	13	650	2,188
Employee benefits	20	8,212	12,966
Deferred taxation assets	21	-	63
		<u>225,882</u>	<u>249,271</u>
Current assets			
Inventories	14	75,416	82,338
Trade and other receivables	15	30,218	40,304
Cash and cash equivalents	16	11,101	5,998
		<u>116,735</u>	<u>128,640</u>
Total assets		<u>342,617</u>	<u>377,911</u>
Liabilities			
Current liabilities			
Trade and other payables	17	61,513	57,539
Corporation tax		2,828	5,923
Interest bearing loans and borrowings	18	99	25,088
		<u>64,440</u>	<u>88,550</u>
Non-current liabilities			
Interest bearing loans and borrowings	18	74,545	58,011
Deferred taxation liabilities	21	20,058	25,286
		<u>94,603</u>	<u>83,297</u>
Total liabilities		<u>159,043</u>	<u>171,847</u>
Net assets		<u>183,574</u>	<u>206,064</u>
Equity			
Capital and reserves attributable to equity shareholders of the parent			
Share capital	22	49,845	49,845
Share premium account		22,695	22,695
Own shares		(9,571)	(9,514)
Capital redemption reserve		75,394	75,394
Consolidation reserve		(213,067)	(213,067)
Hedging reserve		(1,216)	(304)
Retained earnings		255,610	277,621
		<u>179,690</u>	<u>202,670</u>
Equity attributable to equity shareholders of the parent		<u>179,690</u>	<u>202,670</u>
Non-controlling interests	24	3,884	3,394
Total equity		<u>183,574</u>	<u>206,064</u>

Approved at a Directors' meeting on 8 March 2013.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The Notes on pages 96 to 135 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	2012 £'000	2011 £'000
Cash flows from operating activities		
Profit before operational restructuring costs and asset impairments	11,456	7,256
Operational restructuring costs and asset impairments	(17,154)	-
	<hr/>	<hr/>
(Loss) / profit for the financial period	(5,698)	7,256
Income tax (credit) / expense on continuing operations	(1,105)	1,522
Income tax (credit) on operational restructuring costs and asset impairments	(4,367)	-
Loss on disposal and closure of discontinued operations	-	4,949
Income tax credit on discontinued operations	-	(756)
	<hr/>	<hr/>
(Loss) / profit before tax on total operations	(11,170)	12,971
Adjustments for:		
Depreciation	14,783	17,269
Amortisation	1,247	1,231
Operational restructuring costs and asset impairments	21,521	-
Negative goodwill	-	(1,772)
Share of results of associates	(28)	(65)
Gain on sale of associates	-	(23)
Gain on sale of property, plant and equipment	(1,944)	(1,359)
Gain on exchange of property	(594)	-
Equity settled share-based expenses	468	226
Financial income and expenses (net)	3,578	3,007
	<hr/>	<hr/>
Operating cash flow before changes in working capital and pension scheme contributions	27,861	31,485
Decrease / (increase) in trade and other receivables	9,970	(10,440)
Decrease in inventories	4,968	437
(Decrease) / increase in trade and other payables	(2,742)	1,366
Operational restructuring costs and works closure costs paid	(7,431)	(1,197)
Pension scheme contributions	(3,600)	(6,600)
	<hr/>	<hr/>
Cash generated from the operations	29,026	15,051
Financial expenses paid	(4,292)	(3,496)
Income tax (paid) / received	(46)	222
	<hr/>	<hr/>
Net cash flow from operating activities	24,688	11,777
	<hr/>	<hr/>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	8,595	5,361
Financial income received	4	13
Proceeds from disposal of discontinued operations	150	550
Proceeds from disposal of investment in associates	-	63
Acquisition of subsidiaries and investment in associates	-	(4,181)
Acquisition of property, plant and equipment	(8,307)	(11,754)
Acquisition of intangible assets	(1,212)	(1,857)
	<hr/>	<hr/>
Net cash flow from investing activities	(770)	(11,805)
	<hr/>	<hr/>
Cash flows from financing activities		
Payments to acquire own shares	(57)	-
Net decrease in other debt and finance leases	154	165
(Decrease) / increase in borrowings	(8,609)	12,034
Equity dividends paid	(10,292)	(10,292)
	<hr/>	<hr/>
Net cash flow from financing activities	(18,804)	1,907
	<hr/>	<hr/>
Net increase in cash and cash equivalents	5,114	1,879
Cash and cash equivalents at beginning of the period	5,998	4,059
Effect of exchange rate fluctuations	(11)	60
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	11,101	5,998

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Attributable to equity holders of the Company							Total £'000	Non- controlling interests £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000			
Current year										
At 1 January 2012	49,845	22,695	(9,514)	75,394	(213,067)	(304)	277,621	202,670	3,394	206,064
Total comprehensive income/(expense) for the period										
Loss for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	(5,684)	(5,684)	(14)	(5,698)
Other comprehensive income/(expense)										
Foreign currency translation differences	-	-	-	-	-	-	116	116	(106)	10
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(2,050)	-	(2,050)	-	(2,050)
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	840	-	840	-	840
Deferred tax arising	-	-	-	-	-	298	-	298	-	298
Defined benefit plan actuarial losses	-	-	-	-	-	-	(9,063)	(9,063)	-	(9,063)
Deferred tax arising	-	-	-	-	-	-	2,084	2,084	-	2,084
Impact of the change in rate of deferred taxation	-	-	-	-	-	-	360	360	-	360
Total other comprehensive income/(expense)	-	-	-	-	-	(912)	(6,503)	(7,415)	(106)	(7,521)
Total comprehensive income/(expense) for the period	-	-	-	-	-	(912)	(12,187)	(13,099)	(120)	(13,219)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based expenses	-	-	-	-	-	-	468	468	-	468
Dividends to equity shareholders	-	-	-	-	-	-	(10,292)	(10,292)	-	(10,292)
Purchase of own shares	-	-	(57)	-	-	-	-	(57)	-	(57)
Total contributions by and distributions to owners	-	-	(57)	-	-	-	(9,824)	(9,881)	-	(9,881)
Changes in ownership interests in subsidiaries										
Issue of shares	-	-	-	-	-	-	-	-	610	610
Total transactions with owners of the Company	-	-	(57)	-	-	(912)	(22,011)	(22,980)	490	(22,490)
At 31 December 2012	49,845	22,695	(9,571)	75,394	(213,067)	(1,216)	255,610	179,690	3,884	183,574

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2012

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

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshall's plc (the "Company") is a Company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 8 March 2013.

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

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

The following new accounting standards and amendments to standards are mandatory and have been adopted for the first time in the year ended 31 December 2012:

- *"Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)"* - The amendments require additional disclosures about transfers of financial assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
- *"Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)"*.
- *"Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)"* - The amendments introduce an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 - *"Investment Property"*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with IFRS 3 - *"Business Combinations"* provided the acquirer subsequently measure these assets applying the fair value model.

These standards and amendments have been adopted by the EU.

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

The following standards and amendments to standards are in issue but not yet effective and therefore have not been applied in the Group's Consolidated Financial Statements. They are due for adoption on the date stated.

- IAS 19 (R) - *"Employee Benefits"* - (1 January 2013) - For defined benefit schemes, the amendments require the recognition of all past service costs and the requirement to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit asset or liability. The amended standard is required to be applied retrospectively. Had the standard been applied to the 2012 results there would have been no adjustments required to the Consolidated Income Statement or the Consolidated Statement of Comprehensive Income.
- IAS 1 - *"Presentation of Items of Other Comprehensive Income"* - (1 January 2013) - The amendments require an entity to present the items of Other Comprehensive Income that may be recycled to profit or loss in the future if certain conditions are met, separately from those that would never be recycled to profit or loss. Consequently, as the Group presents items of Other Comprehensive Income before related income tax effects the aggregated income tax amount would need to be allocated between those sections.
- IFRS 7 - *"Disclosures - Offsetting Financial Assets and Financial Liabilities"* - (1 January 2013) - For certain financial assets and financial liabilities a number of additional common disclosures are required.
- IFRS 9 - *"Financial Instruments"* - (1 January 2013) - The first chapters of a new standard on accounting for financial instruments which will replace IAS 39 *"Financial Instruments: Recognition and Measurement"*.

1 Accounting policies (continued)

Significant accounting policies (continued)

- IFRS 10 - "*Consolidated Financial Statements*" and IAS 27 - "*Separate Financial Statements*" - (1 January 2013) - and IFRS 11 - "*Joint Arrangements*" and amendments to IAS 28 - "*Investments in Associates and Joint Ventures*" - (1 January 2013). These are part of a new suite of standards on consolidation and related standards, replacing the existing accounting for subsidiaries and joint ventures (now joint arrangements), and making limited amendments in relation to associates.
- IFRS 12 - "*Disclosure of Interests in Other Entities*" - 1 January 2013 - This contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.
- IFRS 13 - "*Fair Value Measurement*" - (1 January 2013) - This is a new standard to replace existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements.
- IAS 32 - "*Offsetting Financial Assets and Financial Liabilities*" - (1 January 2013) - The amendments clarify the offsetting criteria when an entity currently has a legal right of set off.

These standards are not expected to have a material impact on the Consolidated Financial Statements.

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Parent Company has elected to prepare its Financial Statements in accordance with UK GAAP; these are presented on pages 136 to 142.

(b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 27. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Business Review. In addition, Note 19 includes the Group's policies and procedures for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Details of the Group's funding position are set out in Note 19 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is renewed on an annual basis and the current arrangements were renewed and signed on 15 August 2012. Management believe that there are sufficient unutilised facilities held which mature after twelve months. As noted in the Business Review, the Group's performance is dependent on economic and market conditions, the outlook for which is uncertain and difficult to predict. The Group has taken decisive action to align its operational capacity with expected market conditions and, based on current expectations, the Group's cash forecasts meet half-year and year end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the Group Consolidated Financial Statements.

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

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

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

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

(b) Basis of preparation (continued)

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 29.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustment to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

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

(d) Foreign currency transactions

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

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

1 Accounting policies (continued)

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, fuel pricing 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.

(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 l). 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 l).

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

(g) Property, plant and equipment (continued)

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

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

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

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

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

(h) Intangible assets

(i) Goodwill

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

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

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

1 Accounting policies (continued)

(i) Goodwill (continued)

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

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

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

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

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

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

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

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

(ii) Research and development

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

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

(iii) Other intangible assets

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

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

(iv) Subsequent expenditure

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

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

(h) 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

(i) Trade and other receivables

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

(j) Inventories

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

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

(k) Cash and cash equivalents

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

(l) Impairment

(i) Impairment review

The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy v), 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)

(l) 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.

(m) 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).

(n) 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.

(o) 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.

If the calculation results in a surplus, the resulting asset is measured at the lower of the amount of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan, or reductions in future contributions to the plan. The present value of these economic benefits is discounted by reference to market yields at the balance sheet date on high quality corporate bonds.

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 Comprehensive Income.

(ii) Defined contribution schemes

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

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

(p) 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 awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

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.

(q) 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.

(r) 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.

(s) Trade and other payables

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

(t) Revenue

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

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

(u) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

1 Accounting policies (continued)

(u) Expenses (continued)

(iii) Financial expenses

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

(v) Income tax

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

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

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

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

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

(w) Segment reporting

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

2 Segmental analysis

	Revenue		Operating profit (before operational restructuring costs and asset impairments)		Operating profit / (loss)	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Continuing operations	309,693	334,127	13,929	16,697	(7,592)	16,697
Financial income and expenses (net)			(3,578)	(3,007)	(3,578)	(3,007)
Profit / (loss) before tax			10,351	13,690	(11,170)	13,690

Notes to the Consolidated Financial Statements (continued)

2 Segmental analysis (continued)

Operating segments

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

Detailed consideration has been given to the Group's overall business strategy and this is explained in detail in the Business Review on pages 6 to 27. The fundamental strategic objectives remain as follows:

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

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

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

	2012	2011
	£'000	£'000
Geographical destination of revenue:		
United Kingdom	296,242	322,396
Rest of the world	13,451	11,731
	309,693	334,127

As disclosed in Note 23, in the period ended 31 December 2011 (the period of acquisition), Marshalls NV contributed revenue of £8,877,000. All other revenue originates in the United Kingdom from continuing operations. The Group's International operations do not meet the definition of a reportable operating segment under IFRS 8.

3 Net operating costs

	2012	2011
	£'000	£'000
Raw materials and consumables	102,522	117,865
Changes in inventories of finished goods and work in progress	6,716	542
Personnel costs	83,288	87,979
Depreciation - owned	14,704	17,054
- leased	79	99
Amortisation of intangible assets	1,247	1,179
Own work capitalised	(1,272)	(1,984)
Other operating costs	92,809	98,264
Negative goodwill	-	(1,772)
Acquisition costs	-	482
International "start up" costs	499	848
Operating costs	300,592	320,556
Other operating income	(2,262)	(1,679)
Net gain on asset and property disposals	(1,944)	(1,359)
Gain on property exchange (Note 11)	(594)	-
Share of results of associates	(28)	(65)
Gain on sale of associates	-	(23)
Net operating costs before operational restructuring costs and asset impairments	295,764	317,430
Operational restructuring costs and asset impairments (Note 5)	21,521	-
Net operating costs	317,285	317,430

	2012	2011
	£'000	£'000
Net operating costs include:		
Auditor's remuneration (see below)	169	164
Leasing costs	7,482	7,295
Hire of plant and machinery	5,417	4,673
Research and development costs	2,425	3,166

The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 is mandatory for periods starting after 1 October 2011. The comparatives in respect of the disclosures of Auditor Remuneration have been restated accordingly. In respect of the year under review, KPMG Audit Plc carried out work in relation to:

	2012	2011
	£'000	£'000
Audit of Marshalls plc	20	20
Audit of financial statements of subsidiaries of the Company	133	127
Taxation compliance services	6	6
Other services	10	11
	169	164

Notes to the Consolidated Financial Statements (continued)

3 Net operating costs (continued)

As set out in Note 23 on 4 March 2011 the Group obtained control of a newly formed company in Belgium engaged in the manufacture and supply of landscape products. The Group acquired 66.7 per cent of the ordinary share capital and voting interests in Marshalls NV and the new business was established following the acquisition of certain business assets and the injection of new working capital. The Group incurred acquisition-related costs of £482,000 relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in net operating costs.

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

4 Personnel costs

	2012 £'000	2011 £'000
Personnel costs (including Directors):		
Wages and salaries	70,432	75,312
Social security costs	7,978	7,930
Share based expenses (Note 20)	468	226
Contributions to defined contribution Pension Scheme	4,410	4,511
	<hr/>	<hr/>
Included within net operating costs (Note 3)	83,288	87,979
Personnel costs included in International "start up" costs (Note 3)	263	409
Personnel costs related to net profit on asset and property disposals (Note 3)	1,378	1,368
Personnel costs included in operational restructuring costs (Note 5)	6,321	-
	<hr/>	<hr/>
Total personnel costs	91,250	89,756

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 59 to 84.

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

	2012 Number	2011 Number
Continuing operations	2,252	2,361
	<hr/>	<hr/>

5 Operational restructuring costs and asset impairments

	2012 £'000	2011 £'000
Operational restructuring costs	10,226	-
Asset impairments	11,295	-
	<hr/>	<hr/>
	21,521	-
	<hr/>	<hr/>

The Board has determined that certain charges to the Consolidated Income Statement should be separately identified for better understanding of the Group's results for the year ended 31 December 2012.

5 Operational restructuring costs and asset impairments (continued)

Operational restructuring costs reflect the implementation of a wide range of contingency measures aimed at reducing costs, reducing inventories and conserving cash. These initiatives include works closure costs which reflect the need for capacity reductions and these have impacted those businesses that have been particularly affected by the deterioration in current market conditions and for which the short term outlook remains challenging. Operational restructuring costs include redundancy costs of £6,205,000.

Asset impairments include the write down of plant and machinery and other assets to their recoverable amounts together with the impairment of certain intangible assets and other items of plant that are being temporarily mothballed. The recoverable amounts are based on the fair value of the assets which are £nil.

Asset impairments are analysed as follows:

	2012 £'000	2011 £'000
Property, plant and equipment (Note 11)	6,396	-
Intangible assets (Note 12)	1,282	-
Investment in associates (Note 13)	1,566	-
Inventories (Note 14)	2,051	-
	<u>11,295</u>	<u>-</u>

6 Financial expenses and income

	2012 £'000	2011 £'000
(a) Financial expenses		
Interest expense on bank loans, overdrafts and loan notes	4,279	3,483
Interest on obligations under the defined benefit Pension Scheme	11,189	11,464
Finance lease interest expense	12	13
	<u>15,480</u>	<u>14,960</u>
(b) Financial income		
Expected return on Scheme assets under the defined benefit Pension Scheme	11,898	11,940
Interest receivable and similar income	4	13
	<u>11,902</u>	<u>11,953</u>

Notes to the Consolidated Financial Statements (continued)

7 Income tax expense

	Before operational restructuring costs and asset impairments 2012 £'000	Operational restructuring costs and asset impairments 2012 £'000	Total 2012 £'000	Total 2011 £'000
Current tax expense / (credit)				
Current year	1,695	(2,596)	(901)	2,471
Adjustments for prior years	(2,148)	-	(2,148)	(1,272)
	(453)	(2,596)	(3,049)	1,199
Deferred taxation (credit) / expense				
Origination and reversal of temporary differences:				
Current year	(736)	(1,771)	(2,507)	626
Adjustments for prior years	84	-	84	(303)
Income tax (credit) / expense in the Consolidated Income Statement (continuing operations)	(1,105)	(4,367)	(5,472)	1,522
Tax on discontinued operations (excluding loss on sale)	-	-	-	(194)
Income tax credit on disposal and closure of discontinued operations	-	-	-	(562)
Total tax (credit) / expense	(1,105)	(4,367)	(5,472)	766

	%	Before operational restructuring costs and asset impairments 2012 £'000	%	Total 2012 £'000	%	Total 2011 £'000
Reconciliation of effective tax rate						
Profit / (loss) before tax	100.0	10,351	100.0	(11,170)	100.0	13,690
Tax using domestic corporation tax rate	24.5	2,536	24.5	(2,737)	26.5	3,628
Disallowed amortisation of intangible assets	0.6	63	(0.6)	63	0.7	95
Net income/expenditure not taxable	3.7	378	(11.5)	1,284	7.5	1,033
Adjustments for prior years	(20.0)	(2,064)	18.5	(2,064)	(11.5)	(1,575)
Impact of the change in the rate of corporation tax on deferred taxation	(19.5)	(2,018)	18.1	(2,018)	(12.1)	(1,659)
	(10.7)	(1,105)	49.0	(5,472)	11.1	1,522

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the year was £2,742,000 (2011: £2,598,000 debit).

8 Discontinued operations

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

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

	2012	2011
	£'000	£'000
Revenue	-	7,847
Net operating costs	-	(8,566)
	<hr/>	<hr/>
Loss before tax	-	(719)
Income tax credit	-	194
	<hr/>	<hr/>
Loss after tax	-	(525)
Loss on disposal and closure of discontinued operations	-	(4,949)
Income tax credit on disposal and closure of discontinued operations	-	562
	<hr/>	<hr/>
Net loss attributable to discontinued operations	-	(4,912)
	<hr/>	<hr/>
Basic loss per share (pence)	-	(2.52)p
	<hr/>	<hr/>
Diluted earnings per share (pence)	-	(2.52)p
	<hr/>	<hr/>
Effect of disposal and closure on the financial position of the Group		
	2012	2011
	£'000	£'000
Property, plant and equipment	-	266
Intangible assets	-	1,359
	<hr/>	<hr/>
Assets disposed of	-	1,625
	<hr/>	<hr/>
Consideration received, satisfied in cash	-	550
Consideration receivable	-	450
Professional fees accrued	-	(93)
	<hr/>	<hr/>
Net consideration received	-	907
	<hr/>	<hr/>
Loss on disposal	-	718
	<hr/>	<hr/>
Closure costs	-	4,231
	<hr/>	<hr/>
Loss on disposal and closure of discontinued operations (attributable to equity shareholders of the parent)	-	(4,949)
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements (continued)

8 Discontinued operations (continued)

During the year ended 31 December 2011 Compton contributed an outflow of £209,000 to the Group's net operating cash flows, received £550,000 in respect of investing activities and paid £nil in respect of financing activities. During the year ended 31 December 2012 an additional £150,000 was received in respect of investing activities.

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

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

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

9 Earnings per share

Basic loss per share from total operations of 2.91 pence (2011: 3.78 pence earnings) per share is calculated by dividing the loss attributable to ordinary shareholders from total operations, and after adding back the loss on non-controlling interests, of £5,684,000 (2011: £7,390,000 profit) by the weighted average number of shares in issue during the period of 195,464,528 (2011: 195,374,526).

Basic loss per share from continuing operations of 2.91 pence (2011: 6.30 pence earnings) per share is calculated by dividing the loss from continuing operations and after adding back the loss on non-controlling interests of £5,684,000 (2011: £12,302,000) by the weighted average number of shares in issue during the year of 195,464,528 (2011: 195,374,526).

Basic earnings per share from continuing operations before operational restructuring costs and asset impairments of 5.87 pence (2011: 6.30 pence) per share is calculated by dividing the profit from continuing operations before operational restructuring costs and asset impairments, and after adjusting for non-controlling interests, of £11,470,000 (2011: £12,302,000) by the weighted average number of shares in issue during the period of 195,464,528 (2011: 195,374,526).

(Loss) / profit attributable to ordinary shareholders

	2012	2011
	£'000	£'000
Profit from continuing operations before operational restructuring costs and asset impairments	11,456	12,168
Operational restructuring costs and asset impairments	(17,154)	-
(Loss) / profit from continuing operations	(5,698)	12,168
Loss from discontinued operations	-	(4,912)
(Loss) / profit for the financial period	(5,698)	7,256
Loss attributable to non-controlling interests	14	134
(Loss) / profit attributable to ordinary shareholders	(5,684)	7,390

9 Earnings per share (continued)

Weighted average number of ordinary shares

	2012 Number	2011 Number
Number of issued ordinary shares (at beginning of the period)	199,378,755	199,378,755
Effect of shares transferred into employee benefit trust	(1,489,227)	(1,579,229)
Effect of treasury shares acquired	(2,425,000)	(2,425,000)
Weighted average number of ordinary shares at end of the period	195,464,528	195,374,526

For the year ended 31 December 2012, the potential ordinary shares set out below are considered to be anti-dilutive to the total earnings per share calculation.

Diluted earnings per share from continuing operations before operational restructuring costs and asset impairments of 5.75 pence (2011: 6.17 pence) per share is calculated by dividing the profit from continuing operations before operational restructuring costs and asset impairments, and after adjusting for non-controlling interests, of £11,470,000 (2011: £12,302,000) by the weighted average number of shares in issue during the period of 195,464,528 (2011: 195,374,526) plus potentially dilutive shares of 3,914,227 (2011: 4,004,229) which totals 199,378,755 (2011: 199,378,755).

Weighted average number of ordinary shares (diluted)

	2012 Number	2011 Number
Weighted average number of ordinary shares	195,464,528	195,374,526
Effect of shares transferred into employee benefit trust	1,489,227	1,579,229
Effect of treasury shares acquired	2,425,000	2,425,000
Weighted average number of ordinary shares (diluted)	199,378,755	199,378,755

10 Dividends

After the balance sheet date dividends of 3.50 pence per qualifying ordinary share (2011: 3.50 pence) were proposed by the Directors. The dividends have not been provided for and there were no income tax consequences. The total dividends proposed in respect of the year are as follows:

	Pence per qualifying share	2012 £'000	2011 £'000
2012 final	3.50	6,861	
2012 interim	1.75	3,431	
	5.25	10,292	
2011 final	3.50		6,861
2011 interim	1.75		3,431
	5.25		10,292

Notes to the Consolidated Financial Statements (continued)

10 Dividends (continued)

The following dividends were approved by the shareholders and recognised in the period.

	Pence per qualifying share	2012 £'000	2011 £'000
2012 interim	1.75	3,431	
2011 final	3.50	6,861	
	5.25	10,292	
2011 interim	1.75		3,431
2010 final	3.50		6,861
	5.25		10,292

The 2012 final dividend of 3.50 pence per qualifying ordinary share, total value £6,861,000 will be paid on 5 July 2013 to shareholders registered at the close of business on 7 June 2013.

11 Property, plant and equipment

Cost	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2011	83,985	31,541	296,788	412,314
Acquisitions through business combinations	6,794	-	1,380	8,174
Exchange differences	(106)	-	(17)	(123)
Additions	2,042	560	9,152	11,754
Disposals	(1,694)	-	(4,802)	(6,496)
Reclassification	(160)	160	-	-
At 31 December 2011	90,861	32,261	302,501	425,623
At 1 January 2012	90,861	32,261	302,501	425,623
Exchange differences	(209)	-	(93)	(302)
Additions	4,312	7	6,575	10,894
Disposals	(6,203)	-	(6,068)	(12,271)
At 31 December 2012	88,761	32,268	302,915	423,944

11 Property, plant and equipment (continued)

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Depreciation and impairment losses				
At 1 January 2011	29,596	6,563	185,528	221,687
Depreciation charge for the year	2,341	1,101	13,851	17,293
Exchange differences	(1)	-	(23)	(24)
Disposals	(572)	-	(4,085)	(4,657)
At 31 December 2011	31,364	7,664	195,271	234,299
At 1 January 2012	31,364	7,664	195,271	234,299
Depreciation charge for the year	2,194	583	12,006	14,783
Exchange differences	(1)	-	(34)	(35)
Disposals	(1,945)	-	(5,161)	(7,106)
Impairment losses (Note 5)	1,219	-	5,177	6,396
At 31 December 2012	32,831	8,247	207,259	248,337
Net Book Value				
At 1 January 2011	54,389	24,978	111,260	190,627
At 1 January 2012	59,497	24,597	107,230	191,324
At 31 December 2012	55,930	24,021	95,656	175,607

A property exchange undertaken during the year ended 31 December 2012 has given rise to a gain of £594,000 (Note 3) and has resulted in an increase in additions of £2,587,000.

Mineral reserves and associated land have been separately disclosed under the caption of "quarries".

The carrying amount of tangible fixed assets includes £352,000 (2011: £165,000) in respect of assets held under finance leases. Group cost of land and buildings and plant and machinery includes £937,000 (2011: £353,000) and £1,311,000 (2011: £4,617,000) respectively for assets in the course of construction.

Capital commitments

	2012 £'000	2011 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	224	1,998

Notes to the Consolidated Financial Statements (continued)

11 Property, plant and equipment (continued)

Depreciation charge

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

	2012	2011
	£'000	£'000
Net operating costs (Note 3): continuing operations	14,783	17,153
Discontinued operations	-	116
	14,783	17,269

12 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 2011	43,173	2,210	2,400	2,605	159	6,361	56,908
Additions	518	-	-	-	-	1,857	2,375
Disposals	-	-	(1,200)	(945)	-	-	(2,145)
At 31 December 2011	43,691	2,210	1,200	1,660	159	8,218	57,138
At 1 January 2012	43,691	2,210	1,200	1,660	159	8,218	57,138
Additions	-	-	-	-	-	1,212	1,212
At 31 December 2012	43,691	2,210	1,200	1,660	159	9,430	58,350
Amortisation and impairment losses							
At 1 January 2011	8,912	805	896	1,299	53	1,998	13,963
Amortisation for the year	-	123	90	113	8	897	1,231
Disposals	-	-	(528)	(258)	-	-	(786)
At 31 December 2011	8,912	928	458	1,154	61	2,895	14,408
At 1 January 2012	8,912	928	458	1,154	61	2,895	14,408
Amortisation for the year	-	-	90	116	8	1,033	1,247
Impairment losses (Note 5)	-	1,282	-	-	-	-	1,282
At 31 December 2012	8,912	2,210	548	1,270	69	3,928	16,937
Carrying amounts							
At 1 January 2011	34,261	1,405	1,504	1,306	106	4,363	42,945
At 1 January 2012	34,779	1,282	742	506	98	5,323	42,730
At 31 December 2012	34,779	-	652	390	90	5,502	41,413

12 Intangible assets (continued)

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

The recoverable amounts of the CGUs are determined from value in use calculations and at both 31 December 2012 and 31 December 2011 the full amount of goodwill in the Group balance sheet related to the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial five year forecasts and appropriate long term growth rates of 2 per cent. To prepare value in use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rates used to calculate the value in use range from 6.7 per cent to 7.2 per cent (2011: 8.0 per cent to 8.5 per cent), with the pre-tax discount rate used for the Landscape Products CGU being 7.2 per cent (2011: 8.1 per cent). The Directors have reviewed the recoverable amounts of the CGUs and do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £776,000 (2011: £838,000) of own work capitalised.

Amortisation charge

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

	2012 £'000	2011 £'000
Net operating costs (Note 3): continuing operations	1,247	1,179
Discontinued operations	-	52
	<u>1,247</u>	<u>1,231</u>

13 Investment in associates

	2012 £'000	2011 £'000
Carrying value		
At 1 January	2,188	2,163
Disposals	-	(40)
Impairment losses (Note 5)	(1,566)	-
Share of results of associates	28	65
At 31 December	<u>650</u>	<u>2,188</u>
	2012 £'000	2011 £'000
Investment at cost	2,182	2,182
Cumulative losses on disposals	68	68
Impairment losses (Note 5)	(1,566)	-
Cumulative share of results of associates	(34)	(62)
Carrying value at 31 December	<u>650</u>	<u>2,188</u>

On 21 July 2011 the Group disposed of its 24 per cent stake in Delta Bloc UK Limited for proceeds of £63,000.

The Group's share of results of associates in the year ended 31 December 2012 was £28,000 profit (2011: £65,000 profit) and, on the grounds of materiality, no additional disclosure has been made.

Notes to the Consolidated Financial Statements (continued)

14 Inventories

	2012 £'000	2011 £'000
Raw materials and consumables	13,716	13,922
Finished goods and goods for resale	61,700	68,416
	75,416	82,338

Inventories stated at fair value less cost to sell at 31 December 2012 amounted to £3,785,000 (2011: £3,239,000). The write down of inventories made during the year amounted to £2,697,000 (2011: £938,000) of which £2,051,000 is in respect of operational restructuring costs (Note 5). There were no reversals of inventory write downs made in previous years either in 2012 or 2011.

15 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	19,849	29,448
Other receivables	3,782	4,383
Prepayments and accrued income	6,587	6,473
	30,218	40,304

Ageing of trade receivables

	2012 £'000	2011 £'000
Less than 30 days	15,160	17,813
31 - 60 days	4,158	10,066
61 - 90 days	486	1,497
More than 90 days	45	72
	19,849	29,448

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

16 Cash and cash equivalents

	2012 £'000	2011 £'000
Bank balances	11,079	5,976
Cash in hand	22	22
Cash and cash equivalents in the Consolidated Cash Flow Statement	11,101	5,998

17 Trade and other payables

	2012 £'000	2011 £'000
Current liabilities		
Trade payables	29,964	34,471
Taxation and social security	9,172	7,207
Other payables	6,014	4,778
Accruals	14,739	10,669
Financial liabilities	1,624	414
	<u>61,513</u>	<u>57,539</u>

All trade payables are due in six months or less.

18 Loans

	2012 £'000	2011 £'000
Current liabilities		
Bank loans	-	25,000
Finance lease liabilities	99	88
	<u>99</u>	<u>25,088</u>
Non current liabilities		
Bank loans	74,325	57,934
Finance lease liabilities	220	77
	<u>74,545</u>	<u>58,011</u>

Bank loans

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

Finance lease liabilities

	Minimum lease payments 2012 £'000	Interest 2012 £'000	Principal 2012 £'000	Minimum lease payments 2011 £'000	Interest 2011 £'000	Principal 2011 £'000
Less than one year	110	11	99	97	9	88
One to two years	87	6	81	53	5	48
Two to five years	144	5	139	30	1	29
	<u>341</u>	<u>22</u>	<u>319</u>	<u>180</u>	<u>15</u>	<u>165</u>

Notes to the Consolidated Financial Statements (continued)

19 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group's bank loans are non-equity funding instruments and further details of which are set out in Note 18.

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 2011.

Capital management

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

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

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

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2012 and 31 December 2011.

Financial risks

The Group has exposure to a number of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, guidelines and authorisation procedures which are outlined in the Business Review on pages 6 to 27. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk, foreign currency risk and pricing risk.

(a) Liquidity risk

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

(b) Interest rate risk

The Group's policy is to review regularly the terms of its available short term borrowing facilities and to assess individually and manage each long term borrowing commitment accordingly. The Group borrows principally at floating rates of interest and where appropriate uses interest rate swaps to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

19 Financial instruments (continued)

Financial risks (continued)

(b) Interest rate risk (continued)

Approximately 80 per cent of core debt is covered by interest rate swaps of varying maturities up until 2018, which reflects the maturity date of the related loans and medium term requirements, in accordance with Group policy. The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is £576,000 liability (2011: £402,000 liability) and is adjusted against the hedging reserve on an ongoing basis.

The period that the swaps cover is intended to fix the impact on the Income Statement. During the year £468,000 (2011: £572,000) has been recognised in Other Comprehensive Income for the year with £314,000 (2011: £402,000) being reclassified from equity to the Income Statement. The interest rate swaps have been fully effective in the period.

With the addition of the fuel hedges (Note 19(e)) and forward contracts this gives a total of £2,050,000 (2011: £572,000) recognised in Other Comprehensive Income for the year with £840,000 (2011: £402,000) being reclassified from equity to the Income Statement.

(c) Credit risk

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

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

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

(d) Foreign currency risk

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

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

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £8,000 asset (2011: £12,000 liability) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2012 all outstanding forward exchange contracts have a maturity date within six months.

(e) Pricing risk

Where appropriate the Group uses hedging instruments to mitigate the risks of significant forward price rises of fuel in relation to expected consumption. The current hedges held are in place until 31 December 2013. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is £1,056,000 liability (2011: £nil) and is adjusted against the hedging reserve on an ongoing basis. The period that the fuel hedges cover is intended to fix the impact on the Income Statement. During the year £1,582,000 (2011: £nil) has been recognised in Other Comprehensive Income with £526,000 (2011: £nil) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

Notes to the Consolidated Financial Statements (continued)

19 Financial instruments (continued)

(f) Other risks

Further information about the Group's strategic and financial risks is contained in the Business Review on pages 6 to 27.

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.

Effective interest rates and maturity of liabilities

At 31 December 2012 there were £319,000 (2011: £165,000) Group borrowings on a fixed rate. Interest rate swaps have been taken out with the intention to fix the interest on 80 per cent of the Group's core debt. The interest rate profile of the financial liabilities were:

31 December 2012	Fixed or variable rate	Effective interest rate %	Total	6 months or less	6-12 months	1-2 years	2-5 years
			£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents (Note 16)	Variable	2.65	(11,101)	(11,101)	-	-	-
Bank loans	Variable	2.65	74,325	-	-	-	74,325
Finance lease liabilities	Fixed	9.01	319	53	46	81	139
			63,543	(11,048)	46	81	74,464
<hr/>							
31 December 2011	Fixed or variable rate	Effective interest rate %	Total	6 months or less	6-12 months	1-2 years	2-5 years
			£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents (Note 16)	Variable	2.40	(5,998)	(5,998)	-	-	-
Bank loans	Variable	2.40	82,934	-	25,000	25,000	32,934
Finance lease liabilities	Fixed	10.81	165	62	26	48	29
			77,101	(5,936)	25,026	25,048	32,963

19 Financial instruments (continued)

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

31 December 2012	Total	6 months or less	6-12 months	1-2 years	2-5 years
	£'000	£'000	£'000	£'000	£'000
Bank loans	79,897	916	911	1,827	76,243
Trade payables	29,964	29,964	-	-	-
Finance lease liabilities	341	59	51	87	144
Financial liabilities	1,614	753	710	150	1
	111,816	31,692	1,672	2,064	76,388
31 December 2011					
	Total	6 months or less	6-12 months	1-2 years	2-5 years
	£'000	£'000	£'000	£'000	£'000
Bank loans	87,656	978	25,984	25,973	34,721
Trade payables	34,471	34,471	-	-	-
Finance lease liabilities	180	68	29	53	30
Financial liabilities	479	146	147	185	1
	122,786	35,663	26,160	26,211	34,752

The outstanding contractual payments (including interest) in relation to operating leases are disclosed in Note 26.

Borrowing facilities

The total bank borrowing facilities at 31 December 2012 amounted to £170.0 million (2011: £170.0 million) of which £95.7 million (2011: £87.1 million) remained unutilised. There are additional seasonal bank working capital facilities of £20.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2012, in respect of which all conditions precedent had been met, were as follows:

	2012	2011
	£'000	£'000
Committed:		
- Expiring in more than two years but not more than five years	70,675	62,066
Uncommitted:		
- Expiring in one year or less	25,000	25,000
	95,675	87,066

Notes to the Consolidated Financial Statements (continued)

19 Financial instruments (continued)

Borrowing facilities (continued)

In March 2012 existing bank debt facilities which were to mature in December 2012 and January 2013 and totalling £75 million in aggregate were re-financed with extended maturity dates to 2015 and 2016. The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium term debt and as at 8 March 2013 is set out as follows:

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

Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2012 are shown below:

	2012		2011	
	Book amount £'000	Fair Value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	30,218	30,218	40,304	40,304
Cash and cash equivalents	11,101	11,101	5,998	5,998
Bank loans	(74,325)	(74,271)	(82,934)	(83,547)
Finance lease liabilities	(319)	(319)	(165)	(165)
Trade and other payables	(59,889)	(59,889)	(57,125)	(57,125)
Interest rate swaps, forward contracts and fuel hedges	(1,624)	(1,624)	(414)	(414)
Financial (liabilities) / assets - net	(94,838)		(94,336)	
Other assets / (liabilities) - net	278,412		300,400	
	183,574		206,064	

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

Derivative 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.

19 Financial instruments (continued)

Estimation of fair values (continued)

(c) Finance lease liabilities

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

(d) Trade and other receivables / payables

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

(e) Fair value hierarchy

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

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2012				
Derivative financial liabilities	-	1,624	-	1,624
31 December 2011				
Derivative financial liabilities	-	414	-	414

20 Employee benefits

The Group operates the Marshalls plc Pension Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances. The defined benefit section of the Scheme is closed to new members and future service accrual. Pension contributions, for both the employer and the employee, are made into the defined contribution section of the Scheme.

The current best estimate of employer contributions to be paid for the year commencing 1 January 2013 is £5,600,000 (2012: £3,600,000).

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of funded obligations	(246,573)	(237,621)	(212,394)	(221,895)	(167,312)
Fair value of Scheme assets	254,785	250,587	208,302	183,939	183,813
Surplus / (net liability) in the Scheme for defined benefit obligations (see below)	8,212	12,966	(4,092)	(37,956)	16,501
Experience adjustments on Scheme liabilities	(6,802)	(21,680)	14,332	(51,099)	31,184
Experience adjustments on Scheme assets	(2,261)	31,662	13,658	(4,903)	(3,530)

Notes to the Consolidated Financial Statements (continued)

20 Employees benefits (continued)

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

	2012 £'000	2011 £'000
Net surplus / (liability) for defined benefit obligations at 1 January	12,966	(4,092)
Contributions received	3,600	6,600
Income recognised in the Consolidated Income Statement	709	476
Actuarial (deficit) / gain recognised in the Consolidated Statement of Comprehensive Income	(9,063)	9,982
Net surplus in the Scheme for the defined benefit obligations at 31 December	8,212	12,966

IFRIC 14 - "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", stipulates that an employer should only recognise a surplus as an asset to the extent that it is able to recover that surplus either through reduced contributions in the future or through unconditional refunds from the Scheme. The Directors have reviewed the terms of the Scheme Rules which allow the Group an unconditional right to a refund and consequently the full Scheme surplus has been recognised in full.

Income / (expense) recognised in the Consolidated Income Statement

	2012 £'000	2011 £'000
Interest on obligations (financial expenses)	(11,189)	(11,464)
Expected return on Scheme assets (financial income)	11,898	11,940
	709	476

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

	2012 £'000	2011 £'000
Cumulative amount at 1 January	1,554	(8,428)
Recognised in the year	(9,063)	9,982
Cumulative amount at 31 December	(7,509)	1,554

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

	2012	2011
Discount rate (AA corporate bond rate)	4.7%	4.8%
Inflation (RPI)	2.9%	3.0%
Inflation (CPI)	1.9%	2.0%
Future pension increases	1.9%	2.0%
Expected return on Scheme assets	4.7%	4.8%
Future expected lifetime of pensioner at age 65 (years):		
Male:	21.8	21.7
Female:	23.9	23.8

20 Employee benefits (continued)

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

	2012 £'000	2011 £'000
Benefit obligation at 1 January	237,621	212,394
Interest cost	11,189	11,464
Actuarial deficit	6,802	21,680
Benefits paid	(9,039)	(7,917)
Benefit obligation at 31 December	246,573	237,621

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

	2012 £'000	2011 £'000
Fair value of Scheme assets at 1 January	250,587	208,302
Expected return on Scheme assets	11,898	11,940
Actuarial (loss) / gain	(2,261)	31,662
Employer contribution	3,600	6,600
Benefits paid	(9,039)	(7,917)
Fair value of Scheme assets at 31 December	254,785	250,587

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

	2012 £'000	%	2011 £'000	%
Equities	84,338	33	79,800	32
Bonds	1,144	1	3,230	1
Cash	781	-	1,851	1
Insured pensioners	1,398	1	1,460	1
Liability driven investments	167,124	65	164,246	65
	254,785	100	250,587	100

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

Sensitivity analysis

The Group continues to be subject to various financial risks in relation to the Pension Scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The sensitivity to the AA corporate bond rate is broadly that, all other things being equal, a 0.1 per cent movement in the discount rate is equivalent to a movement of approximately £4.2 million in Scheme liabilities. This sensitivity would be offset very substantially by a movement in Scheme assets where the change in AA corporate bond yield is simply a movement in line with fixed interest securities in general. The sensitivity to inflation is broadly that, all other things being equal, a 0.1 per cent movement is equivalent to a movement in the Scheme liabilities of broadly £1.5 million, although this would also be offset almost entirely by a movement in Scheme assets. As far as mortality is concerned an increase of one year in life expectancy would, all other things being equal, give rise to an increase in Scheme liabilities of approximately £8.0 million. Risk management remains a core theme of the Group's Pension Scheme strategy and the transfer of a proportion of Scheme assets from equities to liability driven investments was an example of an action that has reduced volatility and risk.

Notes to the Consolidated Financial Statements (continued)

20 Employee benefits (continued)

Share-based payments

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

Both Matching Shares and Performance Shares are subject to the achievement of a three year performance target. The awards lapse if the performance target is not met over the three year vesting period. Matching Share awards are dependent on an improvement in reported earnings per share, while Performance Share awards are dependent on an improvement in reported earnings per share and operating cash flow, each measured using International Financial Reporting Standards. The Remuneration Committee may exercise its discretion with regard to the effect of one-off items. Full details of the performance criteria are set out in the Directors' Remuneration Report on pages 59 to 84.

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

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	587,957	17 March 2011	3 years
	761,601	17 March 2011	3 years
	853,598	20 March 2012	3 years
Equity settled awards granted to employees of Marshalls Group Limited	166,933	17 March 2011	3 years
	708,462	17 March 2011	3 years
	873,448	20 March 2012	3 years
	<u>3,951,999</u>		

	Weighted average share price at date of grant (pence per share) 2012	Number of options 2012	Weighted average share price at date of grant (pence per share) 2011	Number of options 2011
Outstanding at 1 January	97	4,864,886	84	5,654,680
Granted	101	1,727,046	113	2,269,795
Lapsed	84	(2,639,933)	78	(3,059,589)
Outstanding at 31 December	108	3,951,999	97	4,864,886

There were no share options exercised or that expired during the period. None of the options were exercisable at 31 December 2012.

20 Employee benefits (continued)

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.

	20 March 2012 grant	17 March 2011 grant
Fair value at grant date (pence per share)	84	94
Share price on date of grant (pence per share)	101	113
Expected volatility used in the modelling under the Black-Scholes valuation model	65.0%	65.0%
Dividend yield	6.0%	6.0%
Risk-free interest rate (based on national government bonds)	2.0%	2.0%

The Company's share price at 31 December 2012 was 97.5p.

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

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

	2012 £'000	2011 £'000
Awards granted and total expense recognised as employee costs (Note 4)	468	226

Further details in relation to the Directors are set out in the Directors' Remuneration Report on pages 59 to 84.

Employee Profit Sharing Scheme

At 31 December 2012 the scheme held 42,414 (2011: 42,414) ordinary shares in the Company.

21 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Property, plant and equipment	-	-	(15,631)	(17,967)
Intangible assets	-	-	(390)	(796)
Inventories	-	-	(776)	(1,089)
Employee benefits	-	-	(1,890)	(3,242)
Equity settled share based expenses	-	63	-	-
Other items	-	-	(1,371)	(2,192)
Tax assets / (liabilities)	-	63	(20,058)	(25,286)

The 2012 Budget on 21 March 2012 announced that the UK Corporation Tax rate will reduce to 22 per cent by 2014. Reductions in the rate from 26 per cent to 24 per cent (effective from 1 April 2012) and 23 per cent (effective from 1 April 2013) were substantially enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the Group's future current tax charge accordingly. The deferred taxation liability at 31 December 2012 has been calculated based on the rate of 23 per cent substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 1 per cent rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred taxation liability accordingly.

Notes to the Consolidated Financial Statements (continued)

21 Deferred taxation (continued)

The deferred taxation liability of £1,890,000 (2011: £3,242,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £8,212,000 (2011: £12,966,000) (Note 20) calculated at 23 per cent (2011: 25 per cent).

Deferred tax assets on capital losses have not been recognised due to uncertainty around the future use of the losses.

Movement in temporary differences

Year ended 31 December 2012

	1 January 2012 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	31 December 2012 £'000
Property, plant and equipment	(17,967)	2,336	-	(15,631)
Intangible assets	(796)	406	-	(390)
Inventories	(1,089)	313	-	(776)
Employee benefits	(3,242)	(732)	2,084	(1,890)
Equity settled share-based expenses	63	(63)	-	-
Impact on other comprehensive income of the change in rate of deferred tax	(268)	-	360	92
Other items	(1,924)	163	298	(1,463)
	<u>(25,223)</u>	<u>2,423</u>	<u>2,742</u>	<u>(20,058)</u>

Year ended 31 December 2011

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

22 Capital and reserves

Share capital

	Issued and paid up 2012 £'000	2011 £'000
At 1 January and at 31 December	49,845	49,845
Number of 25 pence ordinary shares	199,378,755	199,378,755

22 Capital and reserves (continued)

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.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging, principally from the Group's interest rate swaps, energy price contracts and forward exchange contracts.

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.

	2012	2011
	£'000	£'000
3.50 pence (2011: 3.50 pence) per ordinary share	6,861	6,861

23 Acquisition of subsidiary with non-controlling interests

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

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

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

Consideration transferred

	2011
	£'000
Cash	5,393

Identified assets acquired and liabilities assumed, recorded at fair value

	2011
	£'000
Property, plant and equipment	7,899
Inventories	1,104
Cash and cash equivalents	2,888
Trade and other payables	(1,142)
Total net identifiable assets	10,749

Notes to the Consolidated Financial Statements (continued)

23 Acquisition of subsidiary with non-controlling interests (continued)

Net cash outflow on acquisition of subsidiaries

	2011 £'000
Consideration paid in cash	5,393
less: cash and cash equivalents acquired	(2,888)
Loan to non-controlling interest	1,401
Net cash outflow	3,906

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

	2011 £'000
Total consideration transferred	5,393
Non-controlling interests, based on their proportionate interest (33.3 per cent) of the fair value of the assets and liabilities of the acquiree	3,584
Fair value of identifiable assets	(10,749)
Negative goodwill (Note 3)	(1,772)

The transaction meets the definition of a bargain purchase and, in accordance with IFRS3, the recognised gain has been reported in the Consolidated Income Statement as negative goodwill. The situation has arisen due to the majority of the assets being acquired through a Belgium Court process as a consequence of the major part of the former trading business falling into severe financial difficulties. As a result it has not been practicable to estimate pre-acquisition financial information.

On 1 July 2011 the Group acquired the entire ordinary share capital of Hornton Grounds Stone Sales Limited, a company engaged in the cutting and processing of stone products. The cash consideration was £275,000 and the fair value of the net liabilities acquired was £243,000. Goodwill arising of £518,000 has been recognised (Note 12). Acquisition costs are included in net operating costs and are disclosed in Note 3. With effect from 1 July 2011 the trade, assets and liabilities of Hornton Grounds Stone Sales Limited were transferred to Marshalls Mono Limited. In the period ended 31 December 2012 the business contributed revenue of £340,000 and an operating loss of £301,000 to the Group's results.

Cash flow from investing activities

	2012 £'000	2011 £'000
Marshalls NV	-	3,906
Hornton Grounds Stone Sales Limited	-	275
Acquisition of subsidiaries and investment in associates	-	4,181

24 Non-controlling interests

	2012	2011
	£'000	£'000
Non-controlling interests		
At 1 January	3,394	-
On acquisition of subsidiary undertaking	-	3,584
Issue of shares	610	-
Share of result for the period	(14)	(134)
Foreign currency transaction differences	(106)	(56)
At 31 December	3,884	3,394

25 Analysis of net debt

	1 January	Cash flow	Other	31
	2012	Cash flow	changes	December
	£'000	£'000	£'000	2012
				£'000
Cash at bank and in hand	5,998	5,114	(11)	11,101
Debt due within one year	(25,000)	25,000	-	-
Debt due after one year	(57,934)	(16,595)	204	(74,325)
Finance leases	(165)	(158)	4	(319)
	<u>(77,101)</u>	<u>13,361</u>	<u>197</u>	<u>(63,543)</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

	2012	2011
	£'000	£'000
Net increase in cash equivalents	5,114	1,879
Cash outflow / (inflow) from (decrease) / increase in debt and lease financing	8,247	(12,199)
Effect of exchange rate fluctuations	197	60
Movement in net debt in the period	13,558	(10,260)
Net debt at 1 January	(77,101)	(66,841)
Net debt at 31 December	(63,543)	(77,101)

Notes to the Consolidated Financial Statements (continued)

26 Operating leases

The Group had non-cancellable minimum lease payments to be paid in respect of operating leases on property, plant, machinery and vehicles as follows:

31 December 2012

	Total £'000	6 months £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Expiring:						
within one year	2,462	1,657	805	-	-	-
between one and five years	11,453	2,356	2,343	3,507	3,247	-
in more than five years	35,287	1,053	1,047	2,100	6,238	24,849
	49,202	5,066	4,195	5,607	9,485	24,849

31 December 2011

	Total £'000	6 months £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Expiring:						
within one year	690	602	88	-	-	-
between one and five years	15,875	3,430	3,411	5,563	3,471	-
in more than five years	16,290	405	403	807	2,423	12,252
	32,855	4,437	3,902	6,370	5,894	12,252

The minimum lease payments under non-cancellable operating leases (above) comprise property £31,417,000 (2011: £17,289,000) and plant, machinery and vehicles £17,785,000 (2011: £15,566,000). During 2012 the Group sold an office building for £6.1 million and agreed to lease this back under an operating lease over 25 years. Rent payments are non contingent and there is no option to purchase the property back at the end of the lease.

Certain leased properties have been sublet by the Group. Sublease payments of £43,020 (2011: £43,358) are expected to be received during the following financial year. An amount of £43,470 (2011: £39,887) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

27 Contingencies

Royal Bank of Scotland plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £300,000 (2011: £300,000) in respect of the Group's employers liability insurance cover with XL Winterthur in relation to the periods ending between 31 October 2001 and 31 October 2003 inclusive. In addition, Royal Bank of Scotland plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £1,610,000 (2011: £1,610,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2004 and 31 October 2013 inclusive.

28 Related parties

Identity of related parties

The Group has a related party relationship with its Directors.

Transactions with key management personnel

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

Directors of the Company and their immediate relatives, control 0.47 per cent (2011: 0.44 per cent) of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to Directors, and contributes to a defined contribution pension scheme on their behalf. Further details in relation to Directors are disclosed in the Directors' Remuneration Report on pages 59 to 84.

29 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 96 to 105.

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

In relation to the Group's intangible fixed assets (Note 12) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates in relation to relevant trading volumes and margins. These estimates have been determined using the best available information derived from a combination of business specific analysis (both current and historic) and the latest available external industry forecasts. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates in order to calculate present values.

Note 19 contains information about the assumptions and their risk factors relating to interest rate and foreign currency exposures. The principal risk relates to interest rates. Sensitivity analysis is disclosed in Note 19 on pages 120 to 125.

Note 20 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, the expected return on net assets, inflation rates and mortality rates and have been determined following advice received from an independent qualified actuary. Sensitivity analysis is disclosed in Note 20 on pages 125 to 129.

Note 21 contains details of the Group's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

Note 23 contains details of the identified assets acquired and liabilities assumed in relation to the acquisition of subsidiary undertakings. These have been recorded at an assessment of fair value using best available information.

Company Balance Sheet

at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments	33	338,728	338,641
Current assets			
Debtors	34	898	13,287
Current liabilities			
Creditors	35	(346)	-
Net current assets		552	13,287
Net assets		339,280	351,928
Capital and reserves			
Called up share capital	37	49,845	49,845
Share premium account	38	22,695	22,695
Own shares	38	(9,571)	(9,514)
Capital redemption reserve	38	75,394	75,394
Equity reserve	38	388	301
Profit and loss account	38	200,529	213,207
Equity shareholders' funds		339,280	351,928

Approved at a Directors' meeting on 8 March 2013.

On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The Notes on pages 138 to 142 form part of these Company Financial Statements.

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2012

	2012 £'000	2011 £'000
Loss for the financial year	(2,767)	(2,340)
Equity dividends	(10,292)	(10,292)
Deficit for the financial year	(13,059)	(12,632)
Purchase of own shares	(57)	-
Share based expenses	718	476
Share based payment adjustment	(250)	(250)
Net reduction in shareholders' funds	(12,648)	(12,406)
Shareholders' funds at beginning of year	351,928	364,334
Shareholders' funds at end of year	339,280	351,928

The Notes on pages 138 to 142 form part of these Company Financial Statements.

Notes to the Company Financial Statements (continued)

30 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. 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 IFRS 7 - "*Financial Instruments: Disclosures*".

(a) Basis of preparation

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

Under section 408 of the Companies Act 2006 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 wholly owned 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 page 90 to 135.

(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. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity.

30 Accounting policies (continued)

(e) Own shares held by employee benefit trust

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

(f) Cash and liquid resources

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

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

(g) Leased assets

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

(h) Current tax

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

(i) Deferred taxation

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

(j) Financial guarantees

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

(k) Dividends

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

31 Operating costs

The audit fee for the Company was £20,000 (2011: £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.

Notes to the Company Financial Statements (continued)

32 Ordinary dividends: equity shares

	2012		2011	
	per share	£'000	per share	£'000
2011 Final: paid 6 July 2012	3.50p	6,861	3.50p	6,861
2012 Interim: paid 7 December 2012	1.75p	3,431	1.75p	3,431
	<u>5.25p</u>	<u>10,292</u>	<u>5.25p</u>	<u>10,292</u>

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

	2012	2011
	£'000	£'000
3.50 pence (2011: 3.50 pence) per ordinary share	<u>6,861</u>	<u>6,861</u>

33 Investments

At 1 January 2012	£'000
	338,641
Additions	216
Share based payment adjustment	(129)
At 31 December 2012	<u>338,728</u>

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investments and are satisfied that no provision is required.

The increase in the year of £216,000 and the adjustment of £129,000 both represent adjustments to the number of shares expected to vest in respect of LTIP awards granted to employees of Marshalls Group Limited.

The principal subsidiary undertakings of Marshalls plc at 31 December 2012 are set out below. With the exception of Marshalls NV and Xiamen Marshalls Import Export Company Limited all the companies operate within the United Kingdom and are registered in England and Wales. Marshalls NV is registered in Belgium. Xiamen Marshalls Import Export Company Limited is registered in China.

Subsidiaries	Principal activities	Class of Share	% Ownership
Marshalls Group Limited	Intermediate holding company	Ordinary	100
Marshalls Mono Limited *	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products	Ordinary	100
Marshalls NV *	Landscape products manufacturer and supplier	Ordinary	66.7
Xiamen Marshalls Import Export Company Limited *	Sourcing and distribution of natural stone products	Ordinary	100

* held by subsidiary undertaking

34 Debtors

	2012 £'000	2011 £'000
Amounts owed by subsidiary undertakings	-	12,115
Corporation tax	898	1,170
Other debtors	-	2
	898	13,287

No debtors were due after more than one year.

35 Creditors

	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings	346	-

36 Deferred taxation

There is no deferred taxation in the Company.

37 Share capital

As at 31 December 2012, the issued and fully paid up share capital was as follows:

	2012 Number	2012 Nominal Value £'000	Issued and paid up 2011 Number	2011 Nominal Value £'000
At 31 December	199,378,755	49,845	199,378,755	49,845

Disclosures regarding share based payments are given in Note 20 on pages 125 to 129.

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 2012	49,845	22,695	(9,514)	75,394	301	213,207
Share-based expenses	-	-	-	-	216	502
Share-based payment adjustment	-	-	-	-	(129)	(121)
Purchase of own shares	-	-	(57)	-	-	-
Loss for the financial year	-	-	-	-	-	(2,767)
Equity dividends	-	-	-	-	-	(10,292)
At 31 December 2012	49,845	22,695	(9,571)	75,394	388	200,529

Notes to the Company Financial Statements (continued)

39 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2012 or 31 December 2011.

40 Bank facilities

The Group's banking arrangements are in respect of Marshalls plc, Marshalls Group Limited and Marshalls Mono Limited with each company being nominated borrowers. The operational banking activities of the Group are undertaken by Marshalls Group Limited and the Group's bank debt is largely included in Marshalls Group Limited's balance sheet.

41 Contingent liabilities

Royal Bank of Scotland plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £300,000 (2011: £300,000) in respect of the Group's employers liability insurance cover with XL Winterthur in relation to the periods ending between 31 October 2001 and 31 October 2003 inclusive. In addition, Royal Bank of Scotland plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £1,610,000 (2011: £1,610,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2004 and 31 October 2013 inclusive.

42 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 20 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 20. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis. Accordingly, as permitted by FRS 17 - "*Retirement benefits*", the Scheme has been accounted for in these Company Financial Statements as if the Scheme was a defined contribution scheme.

The latest funding valuation of the Scheme was carried out as at 6 April 2011 and was updated for FRS 17 purposes to 31 December 2011 by a qualified independent Actuary. Certain employees are members of the Company defined contribution Scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

The Group surplus on an FRS 17 basis at 31 December 2012 was £nil (2011: £nil). FRS 17 stipulates that an employer should only recognise a Pension Scheme surplus as an asset to the extent that it is able to recover that surplus either through reduced contributions in the future or through refunds from the Scheme. Refunds from the Scheme had not been agreed at the measurement date.

Shareholder Information

Shareholder analysis at 31 December 2012

<i>Size of Shareholding</i>	<i>Number of Shareholders</i>	<i>%</i>	<i>Number of Ordinary Shares</i>	<i>%</i>
1 to 500	2,008	39.9	304,287	0.2
501 to 1,000	626	12.4	471,422	0.2
1,001 to 2,500	884	17.6	1,502,542	0.8
2,501 to 5,000	606	12.0	2,181,083	1.1
5,001 to 10,000	380	7.6	2,668,185	1.3
10,001 to 25,000	212	4.2	3,266,752	1.6
25,001 to 100,000	164	3.3	7,864,179	3.9
100,001 to 250,000	61	1.2	9,332,608	4.7
250,001 to 500,000	37	0.7	13,810,950	6.9
500,001 and above	59	1.1	157,976,747	79.3
	<hr/>	<hr/>	<hr/>	<hr/>
	5,037	100.0	199,378,755	100.0
	<hr/>	<hr/>	<hr/>	<hr/>

Financial calendar

Preliminary Announcement of results for the year ended

31 December 2012	Announced	8 March 2013
Annual General Meeting		15 May 2013
Final dividend for the year ended 31 December 2012	Payable	5 July 2013
Half - yearly results for the year ending 31 December 2013	Announcement	30 August 2013
Half - yearly dividend for the year ending 31 December 2013	Payable	6 December 2013
Results for the year ending 31 December 2013	Announcement	Early March 2014

Registrars and general

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, telephone: 0870 702 0000, fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

Amalgamation of shareholdings

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

Dividend mandate

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

Website

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

Financial History - Consolidated Group

	Year to December 2008*	Year to December 2009*	Year to December 2010*	Year to December 2011*	Year to December 2012
	£'000	£'000	£'000	£'000	£'000
Consolidated Income Statement					
Revenue	363,905	297,797	308,843	334,127	309,693
Net operating costs	(331,586)	(280,226)	(295,862)	(317,430)	(295,764)
Operating profit (before operational restructuring and works closure costs, goodwill and asset impairments)**	32,319	17,571	12,981	16,697	13,929
Operational restructuring and works closure costs, goodwill and asset impairments	(26,989)	(7,217)	-	-	(21,521)
Operating profit / (loss)	5,330	10,354	12,981	16,697	(7,592)
Financial income and expenses (net)	(8,154)	(4,303)	(2,558)	(3,007)	(3,578)
Redemption of debenture	-	(7,259)	-	-	-
Profit before tax (before operational restructuring and works closure costs, goodwill and asset impairments and redemption of debenture)**	24,165	13,268	10,423	13,690	10,351
Profit / (loss) before tax	(2,824)	(1,208)	10,423	13,690	(11,170)
Income tax (expense) / credit	(2,171)	1,293	(2,202)	(1,522)	5,472
Profit / (loss) for the financial period before post tax loss of discontinued operations	(4,995)	85	8,221	12,168	(5,698)
Post tax loss of discontinued operations	(1,226)	(837)	(871)	(4,912)	-
Profit for the financial period	(6,221)	(752)	7,350	7,256	(5,698)
Profit for the period attributable to:					
Equity shareholders of the parent	(6,221)	(752)	7,350	7,390	(5,684)
Non-controlling interests	-	-	-	(134)	(14)
	(6,221)	(752)	7,350	7,256	(5,698)
Financial Information					
EBITA	6,050	11,110	14,414	17,876	(6,345)
EBITDA	27,275	29,632	31,937	35,029	8,438
EBITA before operational restructuring and works closure costs, goodwill and asset impairments	33,039**	18,327**	14,414	17,876	15,176**
EBITDA before operational restructuring and works closure costs, goodwill and asset impairments	54,264**	36,849**	31,937	35,029	29,959**
Earnings per share (pence) ***					
Basic: (continuing operations)	(3.20)	0.05	4.21	6.30	(2.91)
Basic: (total operations)	(3.98)	(0.42)	3.76	3.78	(2.91)
Basic: (before operational restructuring and works closure costs, goodwill and asset impairments and redemption of debenture)	11.16**	5.85**	4.21	6.30	5.87**
Dividends per share (pence) - IFRS ***	12.38	3.05	5.25	5.25	5.25
Dividend cover (times) - IFRS (continuing)	0.90**	1.92**	0.80	1.20	1.12**
Dividends per share (pence) - Traditional ***	5.37	5.25	5.25	5.25	5.25
Dividend cover (times) - Traditional (continuing)	2.08**	1.11**	0.80	1.20	1.12**
Year end share price (pence)	90.0	86.0	104.8	90.5	97.5
Tax rate (%)	27.8**	20.8**	21.1	11.1	(10.7)**
* the comparatives have been restated in respect of discontinued operations					
** before operational restructuring and works closure costs, goodwill and asset impairments and redemption of debenture					
*** earnings and dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue					
Consolidated Balance Sheet	2008	2009	2010	2011	2012
	£'000	£'000	£'000	£'000	£'000
Non-current assets	277,615	256,943	236,906	249,271	225,882
Current assets	122,577	122,737	113,610	128,640	116,735
Total assets	400,192	379,680	350,516	377,911	342,617
Current liabilities	(89,064)	(77,132)	(94,616)	(88,550)	(64,440)
Non-current liabilities	(117,891)	(121,449)	(57,660)	(83,297)	(94,603)
Net assets	193,237	181,099	198,240	206,064	183,574
Net borrowings	(111,330)	(69,156)	(66,841)	(77,101)	(63,546)
Gearing ratio	57.6%	38.2%	33.7%	37.4%	34.6%

Marshalls



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