Marshall

Annual Report & Accounts 2017

Marshall of Cambridge (Holdings) Ltd

Marshall of Cambridge (Holdings) Ltd
The Airport Cambridge
CB5 8RY England
+44 (0)1223 373737

marshallgroup.co.uk

2017 Headlines

- Revenue up 15.2%
- Statutory profit before tax of £30.2m (2016 – loss £9.8m)
- Underlying profit before tax of £34.7m (2016 – profit £34.8m)
- Closing net funds of £5.9m (2016 – net debt £122.2m)
- Dividends to Ordinary and NVPO shareholders maintained at 4.0p and 6.0p per share respectively
- First flight tests completed on our most complex engineering project, but as noted in the interim report, additional provision has been made of £30.9m required to reflect revised estimated costs to completion
- Signing of joint venture agreement with Hill Residential for phase one of the Wing development
- Record revenue and profit from Marshall Motor Holdings plc following acquisition of Ridgeway in May 2016
- Marshall Motor Holdings plc's disposal of its Leasing segment to Bank of Ireland for a consideration of £42.5m, realising a profit on disposal of £38.4m
- Closure of loss-making Business Aviation and Civil MRO business units
- Sale and leaseback of Quorum for £22.7m
- International and UK MoD C130 contract awards in Military Aerospace

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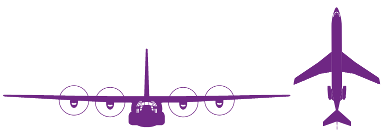
Organisational Structure

Marshall

Marshall Aerospace and Defence Group

Military Aerospace
Aeropeople
Land Systems
Advanced Structures
Major Projects



The business is a service provider to a range of customers in military and commercial markets in the air, land and sea domains. There are five primary business streams, supported by central functional support departments and Cambridge Airport.

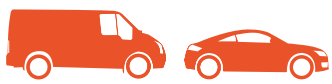
Marshall Group Properties

Wing and North Works
Land North of Cherry Hinton
Airfield and Airside Properties

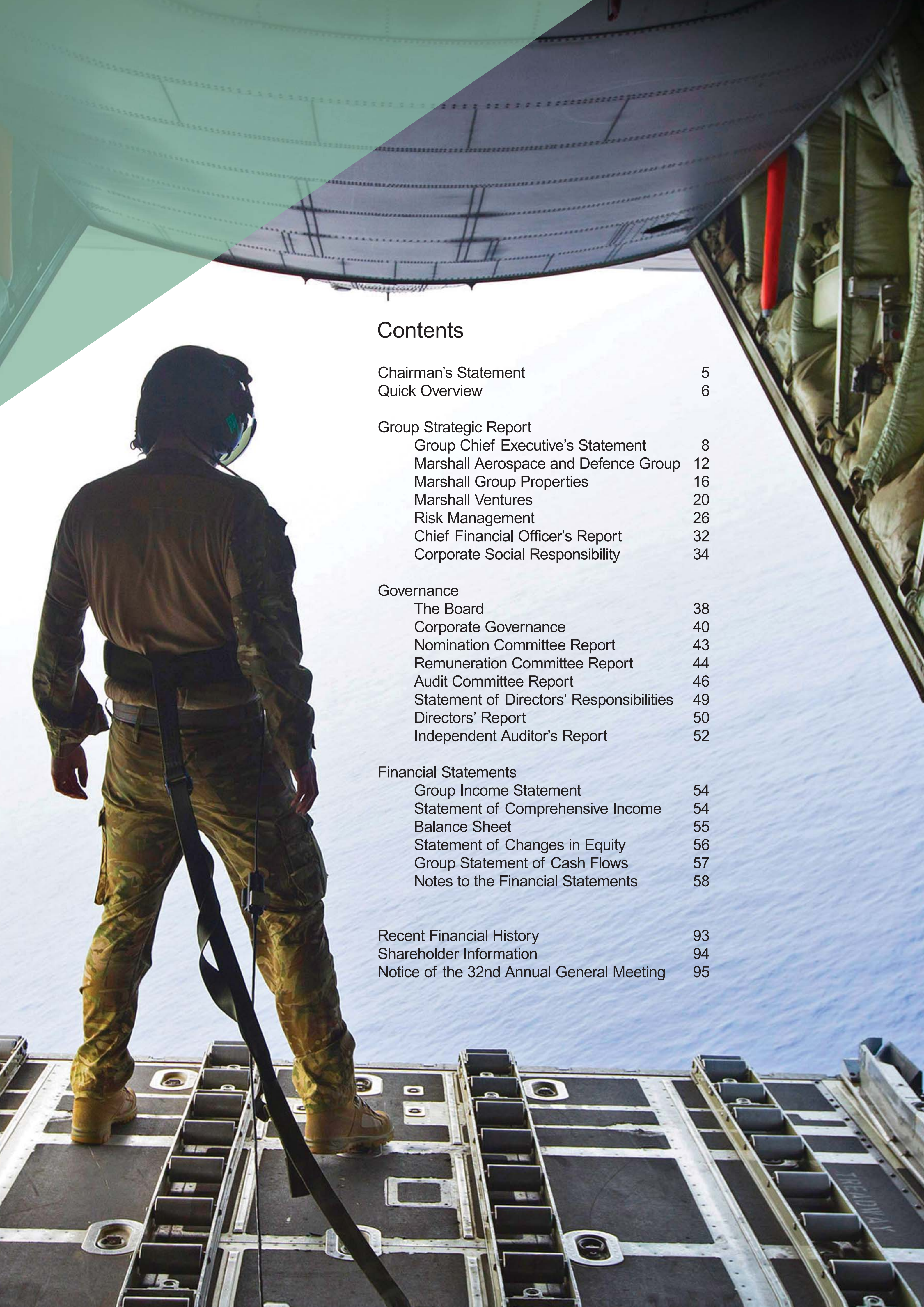
The property business holds and rents out both investment properties and properties used in the business of other Group companies, sited in Cambridge. The property business is also progressing two major development projects: Wing and Land North of Cherry Hinton, as well as farming its land.

Marshall Ventures

Marshall Motor Holdings plc
Marshall Fleet Solutions
Martlet and MarQuity



As an operating entity within the company, Marshall Ventures (MV) aims to be profit and cash generative, through the active management of its assets and investments.



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Chairman's Statement

Alex Dorrian CBE
Chairman

A year of substantial change which will improve our competitiveness and ability to respond to market changes and uncertainty in the years to come.

2017 was my first full year as Chairman and was a period of substantial change for the business. The Group delivered record revenues and profits, supported by a stellar set of results from Marshall Motor Holdings plc (MMH).

As I reported at the half year, we had to increase significantly our provision against our most complex engineering project. However, I am pleased that since then the programme has performed in line with the revised plan. Hard as this project has been, it has enabled us to build deep expertise in an area served by only a handful of companies in the world, which should stand Marshall Aerospace and Defence Group in very good stead in the future.

We have also undertaken a major review of the business, closing loss making operations and reducing costs in other areas. The full benefits of these changes will not come through until 2019, and there are more efficiencies to deliver during the year we are currently in. All this change has been tough for our managers and employees, but I believe it will improve our competitiveness and ability to respond to market changes in the years to come.

Meanwhile, Marshall Group Properties, with planning permission received for the new Engine Ground Running Enclosure (GRE) towards the end of the year, is preparing for an exciting 2018. A loan facility with the Homes and Communities Agency was agreed in December 2017 to provide funding for the acceleration of the GRE project and to start the infrastructure works for the first phase of Wing. Development on the ground is expected to commence in the spring and summer of 2018, respectively.

On 24th November, 2017 MMH completed the strategic disposal of its wholly-owned leasing segment, Marshall Leasing Limited, to a subsidiary of Bank of Ireland (UK) plc for a gross cash consideration of £42.5m, delivering an exceptional profit of £38.4m and reducing net debt by over £100m. The disposal enables MMH to focus on its core retailing operations and growing its UK footprint with existing brand partners. MMH is, however, cognisant of the impact that change and uncertainty is having on its markets and remains cautious.

I am pleased to report that, subject to shareholder approval, the Company will be paying a final dividend of 3.0p per Ordinary and NVPO share. This will take the total for the year to 4.0p per Ordinary share and 6.0p per NVPO share, maintaining normal dividend payments at 2015 and 2016 levels. These payments will be made on 6th July, 2018 to all shareholders on the register as at 8th June, 2018.

The Board remains committed to increasing shareholder value, through operational improvements, portfolio management and selective acquisitions which are in line with the Group's strategic growth aspirations.

Peter Harvey and Christopher Sawyer will be standing down from the Board at the Annual General Meeting. I would like to thank them both for the expertise and guidance they have given to the Board during their nine and ten years of service respectively.

I would like to finish by also thanking everyone at Marshall, as well as our customers and partners, for their invaluable and ongoing support as we strive to exceed our customers' expectations.

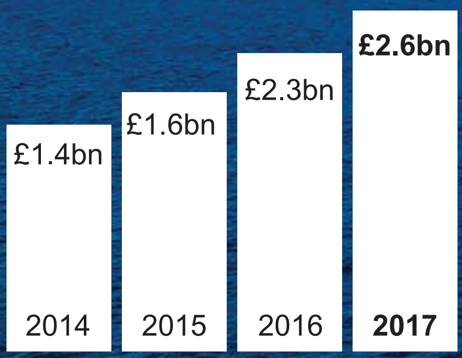
Alex Dorrian CBE

Quick Overview

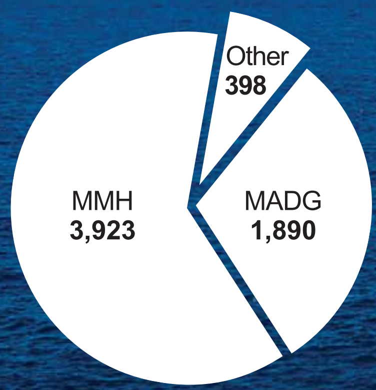
Marshall Aerospace and Defence Group (MADG) is internationally renowned for its ability to design, manufacture, test and certify fit-for-purpose engineering solutions for the civil and military aerospace and defence markets. It works closely with its customers, suppliers and other stakeholders to ensure delivery is to quality, to cost and on schedule. It is one of the largest independent aerospace and defence companies delivering innovation and excellence in engineering and support solutions, in the air, on land and at sea.

Marshall Motor Holdings plc's (MMH) strategic vision is to become the UK's premier automotive Group. Its five strategic pillars that underpin the vision are: class leading returns; putting customers first; delivering retailing excellence for the benefit of its customers; being people-centric by focusing on employee engagement; and pursuing strategic growth both organically and through targeted acquisitions in line with the Group's strategy.

Marshall Group Properties (MGP) owns and is responsible for approximately 900 acres of land, which includes the Cambridge Airport site, as well as land holdings adjacent to the airport. It manages the Group’s commercial and industrial buildings, and adopts sustainable farming practices on its arable land holdings. MGP is working to bring forward around 2,500 new homes, two primary schools, a secondary school, local centres and other infrastructure to transform the east side of Cambridge.

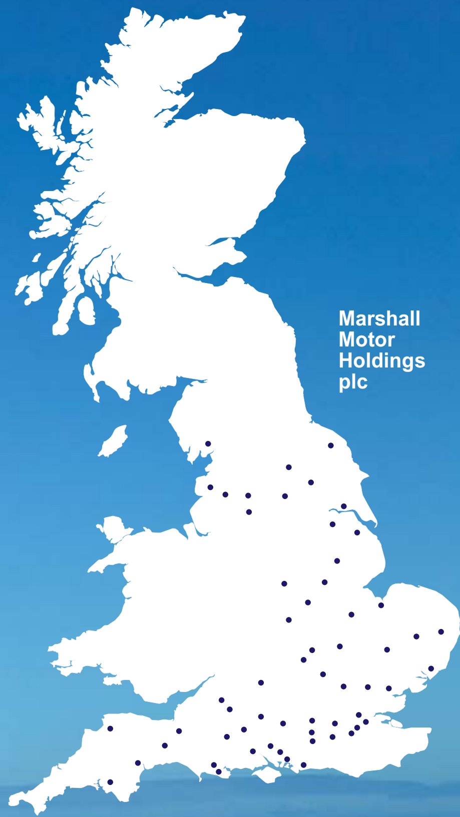


Revenue



Employees

"Marshall is proud to be a private, family owned group, which is fully committed to maintaining its values and its relationships with its employees, customers, suppliers, shareholders, and local communities."



6,211
Employees

1.5m ft^2
Hangar Space

101
Franchise Dealerships

97,545
Vehicles Sold

£2.6bn
Revenue

Land
900 acres

Group Strategic Report

Group Chief Executive's Statement

Robert Marshall
Group Chief Executive

Whilst it is pleasing to see the overall headline numbers in this report returning to customary levels, we are acutely aware that, alongside the steady performance of our core businesses, a number of exceptional items have dominated 2017. In the year ahead we need to embed the improvements made and continue to strengthen underlying performance.

A highlight of the year was the sale of Marshall Leasing by Marshall Motor Holdings plc (MMH), which had a significant and positive effect on our net debt as a result of disposal proceeds of £42.5m, whilst also realising an exceptional profit of £38.4m. The sale removed £68.2m of lease finance from our balance sheet, as well as the associated risk of deterioration of the residual values of its assets as a result of the heightened awareness of the environmental effects of diesel emissions. The overall effect at Group level, is a change in reported net debt from £122.2m at the end of 2016 to a net cash position of £5.9m at the end of 2017.

Another success has been a management simplification and restructure in Marshall Aerospace and Defence Group (MADG) and in Marshall Fleet Solutions (MFS). In the case of MADG, we have removed a management layer and simplified reporting lines, which has had a positive impact on our cost base, allowing us to be more competitive in our market and to operate more effectively. In MFS, we have bolstered the IT system to automate more back office processes along with a significant reduction in cost base. This is the start of a longer term aim to automate processes and organise ourselves efficiently so as to be more effective in our markets and improve our margin over time.

Last year I outlined three major failures that led to us reporting an overall loss and we have made substantial progress in resolving each one:

- We experienced a loss in our Advanced Composites division at Kirkbymoorside as a result of poor sales capture and production execution. With new management and a focus on profitability and business development, this business has been substantially turned around in the year with a sales book-to-bill ratio in excess of 2:1 and increased profit margins from all major projects.

- We disposed or closed all of the businesses making up the loss making Business Aviation division. In the year, we have closed the Broughton facility, sold the Birmingham FBO, and agreed the closure and sale of assets of the HondaJet franchise. This complex task has been completed in a very professional and sympathetic manner.

- We had reported a large loss on our most complex engineering project which was based on a best estimate at the time for completion of the work. The project was significantly more complex than any previous avionics and equipment integration work previously undertaken by Marshall. In the year, we overhauled our processes and upskilled the management team responsible for delivery. The updated Integrated Master Schedule (IMS) revealed that we had, in fact, underestimated the cost to complete by some £31m. Since this realisation, the revised IMS has held up well and we have kept up with predicted progress. Importantly, the first aircraft has successfully completed the first phase of its experimental flight test programme and, meanwhile, the second fully equipped aircraft is nearing completion. A peer review by a group of highly experienced assessors has been complimentary about the new processes and the management, design and production teams.

Marshall Aerospace and Defence Group
In January 2017, we welcomed Alastair McPhee to the Group as the new Chief Executive Officer of MADG. Over the course of the year, he has implemented a number of changes in the executive management team and agreed the strategic direction of the business.

Alastair has provided a clear emphasis on: margin; an appropriate, competitive cost base; simplicity; execution and the importance of strong relationships with customers and partners.

Relationships continue to strengthen with:

- the RAF, demonstrated by the award of the Centre Wing modification programme for the UK fleet of C130 aircraft;

- Lockheed Martin, as we continue to grow successful partnerships with other military operators around the world. New orders have been received from France, as well as from existing customers such as Sweden;

- Boeing, as we celebrated the delivery of the 500th P8 fuel tank, the award of further related programmes and receiving their Silver Award for Excellence;

- Bombardier, who are at the heart of our most complex engineering project and with whom we anticipate growing opportunities in the future.

MADG is simplifying its operating structure so that each business unit is fully integrated with each other. This ensures that the customer network is maintained for the benefit of all parts of the business, along with a consistent approach to product development and support services.

The year concludes with some notable success in business development and a healthier order book for future production delivery.

Marshall Group Properties
A number of notable milestones have been passed as we seek to maximise and enhance the value of our property assets:

- The joint venture arrangement with Hill Residential was completed in the summer, with the freehold land transferring to the joint venture entity in March 2018, for initial infrastructure work to commence in July 2018.

- Planning permission was received for the Wing-enabling Engine Ground Running Enclosure (GRE). The development cost will be borne, initially, by the joint venture entity, funded by a new facility with the Homes and Communities Agency, which exists to assist the acceleration of major housing developments in the UK.

- The programme to relocate businesses on the North Works continued with the engineering team relocating from the Aircraft Design Office (ADO) to the Quorum. The ADO has now been demolished to make way for a new dealership, to be operated by MMH.

- With the Cambridge commercial property market in buoyant condition, the decision was taken to realise the value in the Quorum office building and reduce the net debt position of the Group. In a sale and leaseback transaction, sales proceeds in excess of £22m were achieved.

- Further progress was made, with our partner, to develop the Land North of Cherry Hinton. A planning application will be submitted in the first half of 2018.

Marshall Ventures

- MMH has had an excellent year, achieving record revenues and operating profits. The disposal of Marshall Leasing has de-geared the balance sheet giving the business a complete focus on its retailing activities and with capacity to grow with its existing brand partners.

- MFS had a challenging trading year, but was cash generative over the period. The major restructure is now in place, leaving the business with a lower cost platform and new IT solutions to provide a foundation for the future. Business development has been strong with a good order bank in place for the first quarter of 2018.

- Our Martlet and MarQuity investment portfolio has grown to 35 companies, following the addition of four new companies during the year. The portfolio was cash generative over the period, realising £3.2m from the disposal of two investments and enjoyed double-digit growth in the underlying fair value of the portfolio.

Summary
Following the loss reported in 2016, a profitable result in 2017 represents a return to the performance anticipated in the strategic plan, from which we can continue to build on the underlying profitability and strength of the Group across all sectors.

2018 will see the breaking of turf on the Wing project, representing a major milestone in a process that started ten years ago, as well as the commencement of the GRE development.

At Group level, I am delighted that we have achieved a much-improved level of integrated financial and human resources management, as well as strategy development processes, ensuring that consistent best practice is applied across all operating companies and divisions of the Group.

The new executive remains committed to delivering against our ambitious plans, with continued emphasis on exceeding our customers' expectations and the continuous development of our people.

Robert Marshall

We readily recognise the power of our people to drive the Marshall Group forward. Everybody in the Group contributes, in various ways, to the products and services we supply. We value each individual's contribution, encouraging everyone to reach their full potential.

Marshall of Cambridge - Growth Strategy

• Build the value of each of the three legs to over £200m by 2021, thereby balancing the Risk and Assets of the Group
• Build the skill base and management strength to take the Company beyond this ambition

Marshall Aerospace and Defence Group

Realise domestic growth opportunities arising from 2015 Strategic Defence and Security Review

Expand international reach in alliance with our strategic partners

Simplify and balance the portfolio of activities through a combination of disposals and success-based expansion

Increase margin to benchmark levels via cost efficiency, people development and organisational design

Grow underlying asset value

Marshall Group Properties

Increase value of portfolio whilst simultaneously developing and disposing of outlying and unused land

Develop land projects in partnership with experienced and trusted development partners

Achieve satisfactory returns while ensuring that the quality of design and build adds value to the portfolio as a whole

Maximise value of unsold land and our overall property legacy

Manage property portfolio, including assets occupied by Group companies, to ensure that all of our workspaces and environments are fit for our state of the art engineering and retail activities

Marshall Ventures

Continue to support Marshall Motor Holdings plc so that it can fulfil its strategic aim to be the UK's premier automotive retail and leasing group

Build on Martlet seed equity portfolio of predominantly Cambridge originated high technology companies

Develop our MarQuity venture capital company into a highly profitable self-sustaining investment company feeding from the Martlet portfolio

Help Marshall Fleet Solutions with its aim to achieve benchmark returns on capital through the provision of premium sales, service and parts support for the UK distribution industry

Change the Gear, Hold the Values

Our evolving strategy derives from and is closely linked to the "Change the Gear, Hold the Values" strategy which we have followed over the last five years. The strategy comprises three key elements:

One Company

1

- The strategy and actions of each business will be additive to each of the others
- The strategy and values of each business will be consistent with those of the Company
- Where either of the above cannot be demonstrated by a business, that business will be subject to rectification or disposal

Consistency in Performance

- Consistent improvement in year on year **performance** of the Group is a primary driver
- We will match our **risk** profile against the need for consistent improvement
- We will always be focused on cash management and will ensure we have sufficient reserves in place in the event of unforeseen risk materialisation

Pride in our Values and making them work

- We will remain steadfast to our Values in all circumstances, whatever the short term cost
- We will routinely provide our **customers** with on-time, on-cost solutions with quality that exceeds their expectations, through developing a unique understanding of their needs
- We will invest in our **people** to ensure that Marshall has a reputation, and is living up to that reputation, as a Great Place to Work

THE QUEEN'S AWARDS
FOR ENTERPRISE:
INTERNATIONAL TRADE
2016

Group Strategic Report

Marshall Aerospace and Defence Group (MADG)

Financial Performance

During the year, we have made significant progress in restructuring our activities to focus on core strategic objectives, successfully completing the exit from our Business Aviation and Civil maintenance, repair and overhaul (MRO) activities, whose combined operating losses were £10.3m in 2017, have therefore been reported separately as discontinued operations. We have also continued to make good technical progress on the key complex engineering modification programme reported on in the prior year. This has given us increased confidence in the expected cost outturn on that programme, but as previously reported, has necessitated a revision in the forecast loss reported in the prior year, increasing it by £30.9m. Overall operating performance was therefore heavily influenced by these items and resulted in an operating loss of £33.3m for the year (2016 - operating loss of £27.7m).

Underlying operating profits, before separately disclosed items and discontinued businesses, of £12.8m were up 33% compared with the prior year £9.6m, representing a 4.6% return on sales (2016 - 3.4%). This was driven by continued strong performance from our core strategic businesses which underpin our growth strategy going forward.

Our Military Aerospace division continued to expand its customer base through securing new C130 support contracts with the Bahrain Defence Force and the French Air Force, taking the total number of C130 customers supported worldwide to 16, representing 60% growth since 2015.

Elsewhere, our Land Systems business delivered a creditable performance despite significant delays in uptake by a key customer in Canada during a period of disruption in their prime programme which resulted in a 93% reduction in our Canadian workload during the year. The deferred activity is now scheduled to be completed during 2018 and 2019. Within Advanced Structures, our Aerostructures business continued to provide outstanding support to Boeing in respect of the P8 programme, achieving Boeing Silver status for the second consecutive year, and secured further orders on the programme extending order cover out to mid-2021. We also saw significant performance improvements in our Advanced Composites business which delivered an excellent improvement in operating profits during the year.

During the year, we secured orders worth £321m (2016 - £257m), representing a book to bill ratio of 1.27 (2016 - 1.12) excluding the Hercules Integrated Operational Support (HIOS) contract with the UK MoD. In particular, we saw very strong growth in the order book of our Advanced Composites business, which recorded a book to bill ratio of 2.1 for the year as they secured key orders on programmes with Rolls Royce, BAE Systems and MBDA.

The key strategic decisions taken during the year leave us well placed to exploit the opportunities available.

Business Environment

Defence budgets within the UK and Europe remain under significant pressure, despite continuing heightened levels of threat to national security. The ongoing National Security Capabilities Review within the UK will have a key bearing on how the UK government seeks to prioritise investment in its capabilities to deal with the existing and emerging threats going forward. Like most defence businesses, we remain exposed to any decision by the UK government to apply generic short term defence spending reductions across departments or the potential decision to withdraw from service existing key operational platforms such as the C130 in order to fund other problems within defence budgets. As such, it was particularly important that during the year we were awarded the contract for the Centre Wing Replacement programme for the 14 C130J RAF aircraft. This decision demonstrates UK MoD's commitment to extend the Out of Service date for the aircraft to 2035, as set out within the 2015 Strategic Defence and Security Review.

In order to mitigate our exposure to our traditional military markets, we continue to expand our customer base internationally to markets where defence spending remains relatively strong. During the course of the year we have added further key customers in the Middle East and Asia, and we continue to see a clear market opportunity to offer innovative and customer value focused solutions which assist customers in addressing their key priorities and challenges.

We expect to see continued growth within the commercial aerospace market driven by growth in passenger travel and an accelerated equipment replacement cycle. However, pricing pressures within the civil MRO sector remain significant and with limited opportunities to differentiate against a broader customer value agenda. As a consequence, we have refocused our strategy away from base maintenance MRO activities and onto line maintenance and "outsourced project" opportunities through our Aeropeople subsidiary. We believe these provide greater opportunities for growth as the customers' value agenda expands to incorporate the full breadth of our capabilities and ability to manage complex or challenging problems on their behalf.


2017
RoSPA
Gold Medal
Award
15
consecutive
RoSPA
Gold awards

Group Strategic Report

Marshall Aerospace and Defence Group (MADG)

Strategy

During the course of 2017 we have continued to make good progress in simplifying our business and ensuring our resources are focused on those key markets and sectors where we see long term sustainable value. We completed the difficult but necessary divestiture and closure of our Business Aviation and Civil MRO base maintenance activities and are now focussed on our five remaining Business Units (BUs). We now have BUs that are truly complementary and build on our core skills of managed services, physical integration capabilities and low volume / complex engineered products. We will operate with a shared customer network and each BU aims to exploit our links with key OEMs and Tier 1 Primes. In a similar way, each BU typically supports other BUs. Good examples are: Advanced Structures providing bespoke product for Land Systems, Military Aerospace and Major Projects; Aeropeople providing skilled resources to Military Aerospace and in-country maintenance offerings for Major Projects; and Land Systems providing deployable infrastructure for Major Projects.

We were successful in winning the C130H engineering sustainment contract for the French Air Force, awarded for a period of up to eight years, further building on our established industry leading reputation for these services and providing the opportunity to expand further our support to the largest C130 fleet operator in Europe.

Our growth strategy for MADG is illustrated below. In short, we aim to balance our reliance on Military Aerospace with growth in our other BUs. We will maintain our dominance in large Military Aircraft through growing our market share by adding new customers and diversifying on to new platforms. We are already on this path with16 Air Forces around the world as customers in 2018, our newest customers being France and Bahrain. A key area of growth will come from Land Systems and we are awaiting the outcome of several large programme bids that would transform this BU. In Land Systems, we aim to migrate from being a physical integrator to a sub-system integrator thereby adding more value to our product offerings.

Aeropeople will be the focus of our future civil offerings looking to grow through high value line maintenance and special project opportunities as well as retaining our niche capability in providing certified engineering resources to the aerospace industry.

In Major Products, we aim to grow a sustainable special missions business on the back of our Global 6000 aircraft project that we are currently completing. This work represents the most complex engineering we perform and will allow us to grow our overall capability in engineering going forward. Finally, we will continue to grow our very successful Fuel Systems and Advanced Composite businesses with a view to creating a new BU in 2019 that will focus on these opportunities.

Operationally, we have completed a restructuring of the executive team, bringing a fresh focus and drive in pursuit of our strategic goals. We have also completed a broader restructuring of our management team and support functions during the year, which has reduced the number of layers of management within the business and improved our cost competitiveness. This will remain a key area for us during 2018 as we continue to focus on reshaping the business to deliver market leading customer value in our chosen business sectors.

Despite the significant operational challenges addressed during the year, we have continued to invest in developing our people and business systems where they are clearly aligned with our strategic business priorities. To that effect, in April 2018, our new Product Lifecycle Management system is planned to go live across the business, providing significantly enhanced capability, visibility and efficiency in how we manage and utilise customer product information.

Our growth strategy

- **Maintain our dominance in large military aircraft by growing C130 market share and diversifying into new platforms**
- **Grow our Land Systems business significantly and transition from "Physical Integrator" to "Sub System Integrator"**
- **Exploit Aeropeople/AeroAcademy, growing through line maintenance and project opportunities**
- **Exploit our capability on the Global 6000 platform to create a sustainable Special Missions business**
- **Continue to grow our fuel systems and advanced composite capabilities whilst exploring the potential to create an advanced structures business in 2019**
- **Seek new business opportunities, develop IP and explore acquisitions**

£30m

Profit by 2020

£321m

Orders secured in 2017

Group Strategic Report

Marshall Group Properties (MGP)

Strategy

The core property strategy is to create long-term value for the shareholders within the overall Group strategic framework through:

- Protecting and leveraging our land and property assets to maximise total return
- Managing and investing in the existing property portfolio
- Ensuring the successful development of Wing and Land North of Cherry Hinton
- Strategically acquiring and consolidating land and property which would complement the existing portfolio
- Supporting our fellow subsidiaries in the achievement of their strategies
- Acting as a fair and equitable property company for both internal and external tenants

Business model

The property business holds and rents out both investment properties and properties used in, or important to, the business of other group companies, sited within Cambridge as well as carrying out farming and related agricultural activities on its land. It has an increasingly proactive property development role, particularly within the Cambridge residential market, which has a high demand for new private and affordable housing.

Position

The property business is progressing two major development projects in Cambridge:

- The Wing development – a proposed development of up to 1,300 homes, replacement car showrooms, a commercial hub, primary school and open space for the community to enjoy. A key driver for this project has been to create an impetus for investment in modern facilities for the Group businesses currently located on North Works.

- Land North of Cherry Hinton – in partnership with the adjoining landowner, work is underway to prepare a planning application for the development of around 1,200 homes, a primary school, secondary school, local centre and spine road. The scheme will deliver around 700 homes on Marshall owned land.

In support of the development projects, an estate masterplan has been prepared to provide clarity on the on-site requirements for MADG in the medium term, and in particular the strategy for relocating businesses from the North Works to facilitate Wing.


2,500
new homes
Marshall

Group Strategic Report

Marshall Group Properties (MGP)

Wing

Following the grant of planning permission in November 2016, we have been working to find a joint venture partner to deliver the Wing development. After a successful developer competition, leading housebuilder Hill Residential ("Hill") has been selected as a joint venture partner for a first phase of around 500 homes and the delivery of site wide infrastructure required to serve the development and future phases: including utilities, drainage, highways, strategic open spaces and the primary school. A new Limited Liability Partnership has been established (Hill Marshall LLP) with equal representation from Marshall and Hill. However, the Landowners' Agreement allows Marshall to retain influence over the design quality and, through that, we can ensure that our stated commitments to delivering design quality are honoured. We are confident that Hill will be a strong long term partner for Marshall and together the collaboration will be the catalyst for the rejuvenation of the eastern side of Cambridge.

A key enabling project of Wing is the relocation of the aircraft ground running activity from the current site adjoining Newmarket Road to a new purpose built Engine Ground Running Enclosure (GRE), close to Hangar 17 apron/Delta Taxiway. Planning permission was granted in November 2017. Construction is due to commence on this state of the art facility in the first half of 2018, with a build programme of approximately twelve months.

In order to accelerate the delivery of the scheme, Hill Marshall LLP has successfully secured a loan from the Government's Homes and Communities Agency (HCA) Home Building Fund. This is a circa £5 billion fund established by the UK Government with the objective of accelerating housing delivery in the UK. A loan of around £22m has been secured, to fund the construction of the GRE and to allow early delivery of the Wing infrastructure, which will take place in parallel with construction of the GRE.

The effect of this will be to accelerate housing delivery of the scheme as the LLP would not have commenced delivery of the infrastructure nor would conventional development finance have funded it until the GRE had been successfully commissioned.

During the early part of 2018, land will be transferred into joint venture entities, which will then be used as security for the HCA loan facility. The loan agreement was executed in December 2017, allowing the simultaneous award of the GRE construction contracts to VolkerFitzpatrick (civil engineering package) and Blast Deflectors Inc (for the above ground acoustic enclosure).

Detailed planning applications are to be submitted for Wing during the early part of 2018, and we anticipate work on Wing Phase 1 infrastructure to commence during the summer of 2018, with first house sales projected towards the end of 2019.

These achievements represent significant steps forward and will see Marshall Group Properties move into the delivery stage of these exciting development projects during 2018. These will be complemented by the Ice Rink at Greenhouse Farm, which is now under construction and forecast to open in autumn 2018.

This will be a short walk from the heart of the Wing development.

Land North of Cherry Hinton

We continue to progress the outline planning application for around 1,200 homes, with associated primary and secondary schools, and other community facilities, to the North of Cherry Hinton. The scheme is now well advanced and has been through substantial public and stakeholder consultation. We anticipate the submission of the outline application by spring 2018. The development will deliver around 700 homes on Marshall owned land, and will retain flexibility for a future phase should we wish to bring it forward.

Quorum

The sale and leaseback of the Quorum to an institutional investor was concluded in November 2017, achieving a sale price of £22.7m. MGP now has a long lease for the building, set at market rents (and extendable) which allows MADG and MMH to continue to operate from the building. The Quorum now accommodates MADG Engineering activities which have been successfully relocated from the Aircraft Design Office to facilitate the Wing development.


900
acres of land

Group Strategic Report

Marshall Ventures (MV)

The second year of reporting for the MV division (previously known as Marshall Group Finance) has seen further transformational change in Marshall Motor Holdings plc (MMH), and continued fair value growth in the investment portfolio. The results, however, were held back by poor volumes and exceptional costs in Marshall Fleet Solutions (MFS), our transport refrigeration business.

MV's objective is to deliver an attractive return from the diverse range of assets under its management, which totalled £92m at the end of 2017 (2016 - £78m). A significant proportion of total assets under management relate to MMH, whose results and performance are considered on the following pages.

Investment Portfolio

The Group's corporate venture capital operation achieved results ahead of expectations during the year and saw the MarQuity portfolio of investments become the driving force of the investment strategy.

The **Martlet** fund invests in early stage companies, usually with a technology bias, under a clear investment strategy. The book value of the fund at the end of the year was £2.0m (2016 - £1.3m). The fair value, based on latest investment rounds, is estimated to be £3.7m (2016 - £2.5m).

Sixteen investments were made during 2017 with a total value of £0.5m, adding four new companies to the Martlet portfolio. Provisions of £0.2m (2016 - £0.4m) were taken where later investment rounds are completed at a lower price, or the prospect of realisation is unlikely.

The **MarQuity** fund sources its opportunities from the Martlet fund. As larger follow-on investments are made, MV expects access to the investee company's board and enhanced information rights. The book value of the fund at the end of the year was £2.8m (2016 - £1.9m). The fair value, based on latest investment rounds, is estimated to be £3.9m (2016 - £2.8m).

There are four companies in the MarQuity portfolio: Vantage Power (manufactures complete hybrid powertrains for bus OEMs); Arachnys (a unique combination of automation and analyst cognitive enhancement to help businesses overcome their due diligence challenges); Undo Software (improved program execution technology) and Plumis (innovative sprinkler alternative that uses a fine mist to suppress fires - pictured). Investments were made into each company in the portfolio during 2017, with an aggregate total of £0.8m.

At the end of 2016, MV also held **listed investments** in two companies quoted on AIM (Abcam plc and Frontier Developments plc). During the year, the value of these investments grew by £0.7m (2016 - £0.3m) to £3.2m. Both investments were realised during 2017, ensuring the portfolio was cash generative for the year.

Marshall Fleet Solutions

MFS experienced another challenging trading year, as the economic uncertainty and fall in the value of Sterling generated by the EU Referendum result, meant that volumes of OEM unit sales were lower than the previous year resulting in a 7.6% fall in revenue to £42.8m (2016 - £46.3m).

MFS has responded well to the change in the economic situation, implementing new, IT based back-office processes, whilst achieving significant reductions in capital employed and cost base.

In November 2017, management announced a major process improvement and restructuring project, with the objective to reduce non-productive costs in the business. An exceptional charge of £1.2m has been recognised to reflect the costs of redundancies and property closures arising from the project.

Similarly, an impairment review of the Tail Lift Service business stream has resulted in an exceptional charge of £0.6m, relating to the write down to fair value of fixed assets and spare parts inventory, alongside provisions for onerous leases.

The statutory loss before tax for the year was £2.8m, whereas the loss adjusted for exceptional, separately disclosed items was £1.0m (2016 - £1.6m).

MV continues to work with the management team at MFS to deliver expected returns from the value of capital employed.

Plumis

Sprinkler systems

Group Strategic Report

Marshall Ventures

People are at the heart of our success

Marshall Motor Holdings plc

This subsidiary was 100% owned until its listing on the AIM market of the London Stock Exchange in April 2015. At 31st December 2017, the Group ownership was around 65%. Marshall Motor Holdings plc (MMH) operates with its own board and publishes its own annual report, which is available from www.mmhplc.com.

MMH's accounts are published under IFRS, but for Group purposes these have been converted into FRS102 and consolidated with the rest of the Group to produce the overall Group results.

Financial Performance

2017 was another successful year for MMH:

- Revenue up 19.5% to £2.3bn (2016 - £1.9bn), also achieving like-for-like* revenue growth of 3.5%.
- Underlying PBT up 10.7% to £37.5m (2016 - 33.8m).
- Significant growth in underlying PBT in the retail segment, up 20.8% to £34.9m (2016 - £28.9m), driven by a combination of contribution from the Ridgeway acquisition and continued organic growth.
  - Like-for-like new unit vehicle sales to retail customers outperformed the UK market.
  - Excellent performance in used unit vehicle sales with like-for-like unit sales outperforming the UK market.
  - Aftersales like-for-like revenue continued to grow, up 2.3%.
- The disposal of Marshall Leasing has enabled MMH to focus exclusively on its UK motor retail operations as well as further strengthening the balance sheet.

Business Environment

MMH's continued outperformance of the UK new car retail market in the year was particularly pleasing. In 2017 UK new car registrations were 2.54m (including dealer self-registrations), 5.7% lower than in 2016. Registrations to retail customers in 2017 were 6.8% lower than in 2016.

Against this market backdrop, MMH has continued to outperform the retail market with like-for-like unit sales to new retail customers in the Year 2.6% lower than in 2016. The SMMT reported a used vehicle market decline of 1.1% in the Year, however, at 8.11m units this was still the second highest market on record. Despite this overall decline MMH recorded a like-for-like growth in used unit sales of 5.2%.

Strategy

MMH's strategic vision is to become the UK's premier automotive Group. The five strategic pillars which underpin that vision are: class leading returns; putting our customers first; delivering retailing excellence for the benefit of our customers; being people-centric by focusing on employee engagement; and pursuing strategic growth both organically and through targeted acquisitions in line with the Group's strategy.

Class leading returns

MMH's strategy of building a balanced brand portfolio, in attractive geographic locations and with an increased premium franchise mix, has assisted the continuation of its strong track record in the face of a more challenging market. Total new vehicle revenue grew by 18.6% (1.0% like-for-like) and total used vehicle revenue grew 21.1% (7.0% like-for-like).

The completion of the integration of Ridgeway has also enabled MMH to access further benefits of scale across a number of areas of the business including improved commercial terms with suppliers and vehicle stock management.

An important element of MMH's success continues to be its strong and growing relationships with its brand partners, many of which are reacting to a more challenging market with a number of positive actions.

Aftersales continues to be a key focus for MMH, as strong performance in recent years continued during the year, with total revenue growth of 20.0% (2.3% like-for-like). MMH continues to focus on maintaining high levels of customer retention and repeat business through the use of service plans as well as investing in technical and product training for technicians.

Customer first

MMH continues to enjoy high levels of customer advocacy. In 2017, 42.0% of customers surveyed who visited its showrooms indicated that they were either previous customers or that MMH was recommended to them.

The launch of the domain marshall.co.uk enabled MMH to market all Group stock, including those of SG Smith and Ridgeway, on one website for the first time, giving customers increased choice with c.6,000 used vehicles available online. In 2017, visits to its website increased materially and in December 2017 marshall.co.uk was the fifth most visited dealer group website in the UK (Source: Hitwise).

** like-for-like businesses are defined as those which traded under the Group's ownership throughout both the entire year under review and the corresponding comparative year*


6,000
used cars on
www.Marshall.co.uk

Group Strategic Report

Marshall Ventures

Retailing excellence

MMH continues to recognise the ever-increasing importance of investment in technology, aimed towards expanding the Group's customer base and improving its own internal operating efficiencies. MMH has continued to invest in these areas during the year.

In addition to its website presence, MMH continues to drive social media as a means of connecting with its customers. During the year, MMH received six awards including Most Influential Franchised Dealer (Car Dealer Awards), Best Digital Initiative (Automotive Management) and Best use of Social Media (Automotive Management).

MMH's tablet-based enquiry management system has now been successfully implemented across all sites and provides both a seamless customer experience as well as assisting compliance in the marketing and sale of regulated ancillary products.

Development of its internal systems also continued, with extensive upgrades to the financial reporting system which is now fully implemented across every site. This has provided a number of enhanced features which have improved the speed and quality of management information.

People-centric

MMH was pleased to have been ranked 22nd of the Top 30 large employers based on The Great Place to Work Institute's 2016 survey.

MMH is also proud that during the year it has, for the eighth consecutive year been recognised by the Great Place to Work Institute as a 'great place to work' based on colleagues surveyed during 2017. This is particularly pleasing as the 2017 survey included over 1,200 colleagues from the former Ridgeway businesses for the first time and as such reinforces the importance of MMH's structured approach to the integration of new businesses as part of its acquisition strategy.

MMH is now in the second year of its initiative to attract new talent to the industry and improve the retention of sales executives. As previously reported, this initiative includes providing a guarantee of earnings during the first year of employment, alongside retention bonuses and ongoing training and support. Whilst it has further work to do in this area, the results of this initiative have exceeded MMH's expectations with a significant reduction in sales executive colleague turnover. MMH is also pleased that it has attracted talent from a wide variety of industry backgrounds, not just the automotive industry, which it expects to add strength and depth to its teams as well as improving overall customer service.

Following the success of this programme, MMH is expanding it to other job roles and these initiatives will assist MMH in identifying the future leaders of the business.

Strategic growth

MMH's strategy is to grow scale with existing brand partners in new geographical territories, as demonstrated by the acquisitions of both SG Smith in 2015 and Ridgeway in 2016. During the year, MMH added three new franchises to its portfolio in two locations, including, in June 2017, the purchase of Leeds Volvo.

Investment in new retail locations

During the year, MMH continued its significant investment in new retail locations with two key site openings:

- In August 2017, MMH completed and opened a new Audi dealership in Marsh Barton, Exeter, one of Europe's largest motor retail parks. This investment has significantly increased both used car and aftersales capacity with 70 used vehicle display spaces and 14 aftersales bays. Total investment (including freehold land) was £7.8m.
- In December 2017, MMH opened a Newbury Jaguar Land Rover dealership in a previously unrepresented territory. Total investment (including long leasehold land) was £10.9m.

Investment in existing businesses

MMH continues to invest in upgrading existing businesses to enhance the customer experience, satisfy brand requirements and increase sales and aftersales capacities. Upgrade and refurbishment investment during the year included:

- Salisbury BMW/MINI: customer experience refurbishment and used vehicle sales extension.
- Bedford Land Rover: commencement of redevelopment.
- Mercedes-Benz Bolton and Portsmouth: customer experience upgrade, sales and aftersales.
- Grantham Nissan: customer experience upgrade.
- Peugeot – all sites: customer experience upgrades.
- Cambridge Volvo: relocation to long leasehold and upgrade to Volvo standards.
- Seat – all sites: customer experience upgrade.
- Newbury SKODA: relocation to an existing freehold site.

Leasing segment

On 21 September 2017, MMH announced the strategic disposal of Marshall Leasing to N.I.I.B Group Limited (trading as Northridge Finance) for gross cash consideration of £42.5m. The disposal completed on 24 November 2017.

The leasing and fleet management market continues to consolidate and MMH considered that scale was becoming increasingly important to underpin the capital intensive nature of the business model. The disposal allows MMH to focus exclusively on its UK motor retail operations, a segment which it believes continues to offer attractive opportunities for future growth.

As part of the transaction, MMH entered into an operating agreement with Northridge Finance for the ongoing supply of new vehicles. MMH is pleased to have this opportunity as it anticipates that under new ownership, Marshall Leasing will continue to grow its leasing fleet, providing an increased opportunity to the Group.

Marshall Leasing, under its new ownership also entered into a five year license agreement with the Group for the use of its brand names and trademarks.


MARSHALL
PEUGEOT
97,545
Vehicles Sold

Group Strategic Report
Risk Management

Managing our risks
Taking risk is an inevitable aspect of the businesses we operate within and therefore risk management is a fundamental part of achieving our strategy. Risk is present in everything we do and it is therefore our policy to identify, assess and manage the key areas of risk on a proactive basis. We seek to embed risk management into the culture of the Group without introducing unnecessary bureaucracy. We involve, empower and give ownership of the identification and management of risk to all of our operating companies.

This report does not reflect the risk management systems of Marshall Motor Holdings plc, as MMH has been run independently since its flotation on the AIM market in April 2015.

All of our principal risks are mapped against the three key elements of the Group strategy:
- One Company
- Consistency in Performance
- Pride in our Values and making them work

Risk appetite
Risk appetite is the level of risk the Group chooses to accept in pursuit of its strategic objectives. The Group's lowest risk appetite relates to safety and compliance objectives, and its reputational exposure, with a higher risk appetite towards its strategic and operations objectives. The Board reviews the Group's risk appetite statement at every meeting and formally re-approves it annually.

Risk framework
The Group has an established framework, structure and process for the management of its key risks, and the responsibility for risk identification, assessment, mitigation and reporting lies with the management of each of its businesses. Each business, and the Group overall, has its own risk register where risks and their relative likelihood and impact scores are reviewed and re-scored every quarter. Regular review, monitoring and reporting by the businesses enables the Board to ensure its risk appetite remains appropriate and that the businesses are consistent with it.

The Group takes a proactive approach to risk management, with the expectation that by identifying risks early, the likelihood and impact of those risks might be reduced or removed before they transpire, and appropriate plans can be put in place to deal with them effectively if they materialise.

Providing a safe working environment for employees, customers, suppliers and visitors is of paramount importance to the Group, as is ensuring the Group operates in a sustainable manner, in minimising its impact on the environment and its neighbours. The operating companies continue to maintain an appropriate governance structure for managing the complex regulatory landscape surrounding health, safety and the environment.

As with any system of internal control, risk management policies and processes are designed to manage, not eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

Accountability

The Board oversees the system of risk management and internal control by means of the Audit Committee in conjunction with the risk management and assurance processes detailed in this section. Any matters of particular concern are escalated for presentation to the Board.

During the year, the Operational Risk Management Committee (ORMC) was established. The ORMC has the responsibility for the oversight of the maintenance of the company's operational risk management plan. This provides the framework for monitoring risk management activities. The plan includes the following elements:

- Identification of possible risks;
- Measurement of risk by analysis in terms of probability and impact in the context of current controls and strategies;
- Evaluation and prioritisation of risks including severe but plausible scenarios;
- Development and implementation of risk control strategies; and
- Monitoring and reviewing the effectiveness of the risk management system.

The ORMC is charged with the responsibility of establishing, maintaining and reviewing procedures at management and operational level to identify, monitor and mitigate operational risk. It is responsible for checking that those procedures are designed to maintain the company's operational viability and to safeguard its assets and interests.

The ORMC meets at least three times a year under the chairmanship of the Chief Executive. Relevant directors from each operating company, with additional invitees at the Group's request, attend to share best practice across the Group, to review and monitor new risks and procedures, and to receive reports from the internal audit team. The ORMC serves both to embed risk management procedures and advise the Audit Committee on current risk exposures and potential changes to future risk strategy.

Reporting

A revised risk reporting format has been prepared by the ORMC and reviewed by the Audit Committee. Following various revisions, it has been approved and implemented during the year under review.

Risk management and assurance activity conforms to the three lines of defence model. The first line of defence is performed by the businesses, through managing activities in accordance with established operating principles; the second line of defence is performed by the risk and compliance oversight functions, including the safety and governance teams; and the third line of defence is performed by the internal audit team, reporting to the Audit Committee.

Risk assurance activity during the year

Risk assurance activity was ongoing during the year under review:

- Establishment of the ORMC;
- Re-evaluation by the ORMC of the Group's top strategic risks;
- "Severe but plausible scenario" modelling applied to each strategic risk;
- Introduction of a rolling deep dive programme whereby the management or mitigation of the Group's principal risks are presented by line management who are responsible for the relevant risk to the Audit Committee;
- Number of Audit Committee meetings increased from 3 to 4 a year, to ensure sufficient time is given to the rolling deep dive programme;
- Most significant risks reviewed by the Board;
- Alignment of Board themes to the top risks, as risks are only taken in pursuit of strategy;

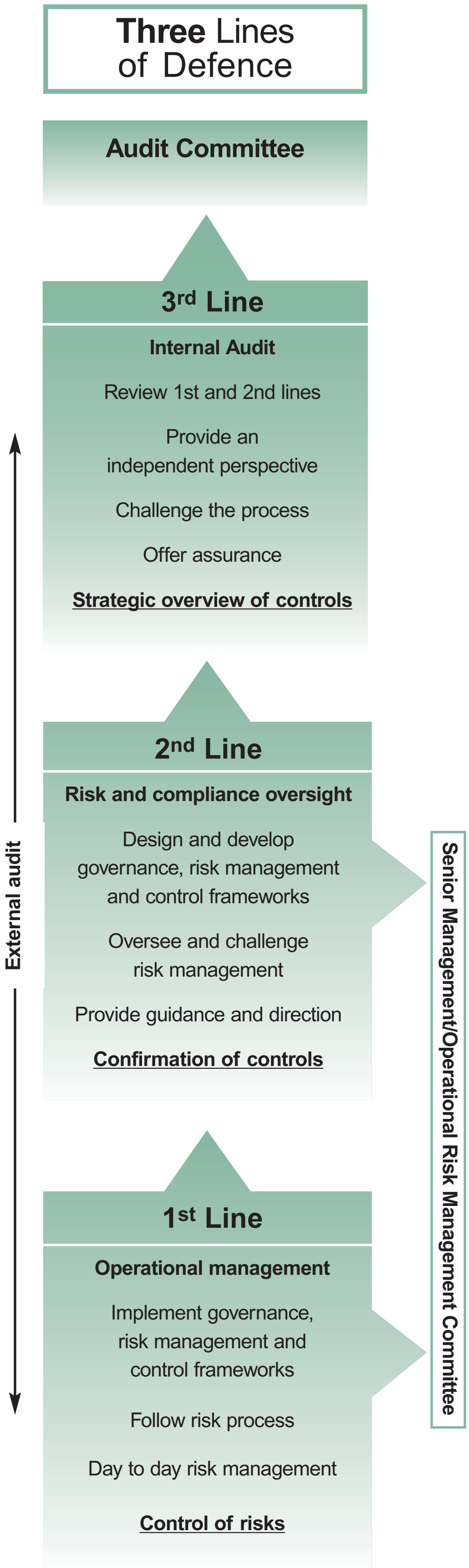
Communication

The Group has published to all employees and on its website, its own risk management framework booklet, which sets out its policy statement, approach and the detailed process, together with a toolkit to support all of its operating companies in their effective management of risk. The aim of this booklet is to make sure we have a consistent approach to managing risks – whatever these might be – across the entire Group, and to show employees how everyone can contribute to the risk management process, identifying risks as early as possible and working out how to deal with them effectively.

Board assessment of principal risks

The Board confirms that it has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Group's risk profile evolves as changes in circumstances elevate risk, mitigating activities reduce net risk over time, or as new risks emerge. As the business has undergone considerable change during the year, affecting our people and operations, this has significantly influenced the principal risks and uncertainties set out on pages 28 to 30. The risks listed do not comprise all those associated with the Group and the order does not denote priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business. These less material risks are kept in view in case their likelihood or impact should show signs of increasing.

Group Strategic Report
Risk Management



	Business Interruption	Cyber attack
Risk description	Delivery of the Group's business plan requires continuity of business operations. In the event of disruption, the Group needs to restore activity safely and as quickly as possible.	Operational disruption, commercial penalties, and/or reputational damage associated with a successful cyber attack on the information and communications technology infrastructure.
Context	The Group's business environment has ageing facilities and infrastructure, including some of the fixed assets such as plant and equipment. The operational environment includes aircraft maintenance activities, processes and manufacturing.	The threat environment is continually evolving. MADG, as a defence company, is at a higher risk of being targeted by a high end sophisticated "sleeper" or "gathering" attack which does not readily present visible symptoms.
Severe but plausible scenarios	Loss of use of business-critical buildings or utilities through storm damage, fire, explosion, vehicle or aircraft impact or on-site contractors; loss of regulatory approvals in relation to suitable facilities; serious incident resulting in closure of airport. Unplanned disruption to delivery of core ICT systems and services necessary to support operation of the business.	Operational disruption caused by ICT infrastructure disruption. Loss of engineering design data compromising national security resulting in inability to tender for secure government programmes. Employee data loss.
Mitigating activities	Infrastructure and facilities risk registers in place; controls and mitigation measures identified on the register complete with owners. Business Continuity Plans in place with links to the Emergency Incident Notification Plan and Cambridge Airport Emergency Plan. Specialist third party appointed to independently review and procedures in place for periodic testing. High risk compliance contracts for asbestos management, water quality and ICT key systems under robust service level agreements with third party specialists.	The nature of cyber threats mean penetration of lower risk general data perimeter on occasion is generally accepted as unavoidable. Risk mitigation efforts focus on rapid threat identification, response and containment, together with layered defence which negates ability to compromise high value data/systems. Recruitment of a specialist Cyber Security Officer to lead activities and implementation of automated analytical network activity monitoring software.
Responsibility	MADG Chief Executive	MADG Chief Executive
Likelihood / Impact	Low/Medium	Medium/Medium
Trend	No change	Increasing

Contract delay

Risk description
Significant delay and cost escalation in our most complex engineering project, resulting in significant losses being recorded and unbudgeted cash requirements.

Context
Flight readiness and testing, and delivery to customer has been delayed with project costs higher than expected for the stage of completion.

Severe but plausible scenarios
Further programme delay gives rise to risk of liquidated damages, impact on reputation and brand, and reduction in ability to win new complex engineering contracts.

Mitigating activities
Daily programme KPI metrics; ongoing negotiations with customer; project "opportunity" register; weekly "cost performance" KPI measurements; alignment of materials and project work breakdown schedules; revision of integrated master schedule; continuous improvement reviews of estimate to complete; third party peer review.

Responsibility
MADG Chief Executive

Likelihood / Impact
Low/Medium

Trend
No change

Group liquidity constraints

Risk description
Inadequate facility capacity available during our investment phase.

Context
At the end of 2016 the Group entered into a new bank facility agreement in support of the 5-year business plan adopted by the Board. Financial covenants must be complied with and any unplanned events must be monitored and managed within the overall debt capacity.

Severe but plausible scenarios
The total facility cap for loans and ancillary services is £75m. The cumulative impact of unplanned events could consume the headroom in the facility. If the Group's trading performance deteriorates the Group could be in breach of the financial covenants and the facility agreement.

Mitigating activities
Awareness of the facility promoted at directors and leadership conferences; weekly 13-week forward looking cash forecasts of likely cash requirements; quarterly forward looking profit, cash and covenant compliance forecasts; development of safety levers that can be triggered in the event of a forecast difficult position; more acute focus on the cash element in budget and performance reviews.

Responsibility
Group Chief Financial Officer

Likelihood / Impact
Medium/Medium

Trend
No change

Organisational capability

Risk description
To deliver the strategic plan and restore business performance the business requires robust resource planning and plans. Without these, the Group cannot confirm it has the organisational capability to deliver.

Context
Past business performance has created an unpredicted workload and a skills, utilisation and loading mismatch that is being addressed.

Severe but plausible scenarios
Unpredicted workload on major projects/activities creates a continued financial and management burden on fragile businesses. Unpredicted contract losses or cessations create a labour surplus that would need to be addressed quickly by a redundancy plan or closure. Critical skills could be lost.

Mitigating activities
The risk is being managed by limiting permanent recruitment, maintaining flexibility with contractors, and redundancy planning. Integrated business planning and resource planning tools are being implemented.

Responsibility
Group-level HR Director

Likelihood / Impact
Medium/Medium

Trend
No change

Group Strategic Report

Risk Management

Regulatory breach

Risk description
Breach of airworthiness or health, safety and environmental regulations. Failure to adequately interpret, apply and implement regulatory requirements. Failure to follow or adapt internal policies, processes and procedures. Failure to effectively address major audit non-conformances.

Context
Regulatory environment continually evolving. Safety Matters programme launched in 2016 to improve overall safety culture and reinforce individual responsibility for safety of colleagues, customers, products and services. This encompasses 'total safety' and is recognised principally as a behavioural change programme.

Severe but plausible scenarios
Aircraft failure leading to loss of aircraft; health and safety incident leading to fatalities or major injuries; major product quality escape; environmental contamination.

Mitigating activities
Improving safety and regulatory competencies at all levels through delivery of improved programme of safety and regulatory training. Reinforcement of positive safety behaviours and challenge of inappropriate safety behaviours through the application of Just Culture principles. Improvement in effectiveness of Quality Assurance team by replacing / upskilling staff. Improvement in capability across the business on root cause and corrective action identification through delivery of training. Improvement of effectiveness of internal policies, processes and procedures.

Responsibility
MADG Chief Executive

Likelihood / Impact
Low/Medium

Trend
Decreasing

UK defence policy

Risk description
UK Government budget constraints lead to reduced spending in the core markets in which the Group operates, with specific reference to the Strategic Defence Spending Review.

Context
The snap General Election in 2017 and the potential cuts to the MoD budget regarding future costing and affordability could put the agreements and assumptions in the 2015 SDSR into some doubt.

Severe but plausible scenarios
The most significant scenario would be a shortening to the C130 Out of Service date. The financial impact would be very significant and could have a knock-on effect on the Group's ability to compete in the global market.

Mitigating activities
Engagement with stakeholders to ensure that the value of C130 is recognised by MoD and the decision makers. Driving capability improvements onto the platform to help to secure the Group's position which includes centre wing replacement and other special forces modifications.

Responsibility
MADG Chief Executive

Likelihood / Impact
Low/High

Trend
No change

Succession planning

Risk description
To deliver the strategic plan and restore business performance the business requires continuity and succession planning for key executives and specialists with critical skills.

Context
The current business context has some critical programmes and projects that will need to be delivered over the course of the five-year business plan. These programmes are currently quite dependent on a few key individuals.

Severe but plausible scenarios
The Group is unable to retain the key individuals needed to deliver its strategic and business plans. Unforeseen circumstances lead to the loss/absence of a key individual. There is a lack of internal and external potential candidates to replace or succeed key individuals.

Mitigating activities
The risk has been recognised by the businesses and the succession planning tools that are in place will be refreshed later this year based on capability assessment. Current succession plans are being updated and action plans created to close gaps with a priority focus on the leadership team.

Responsibility
Group-level HR Director

Likelihood / Impact
Medium/Medium

Trend
No change

Group Strategic Report

Chief Financial Officer's Report

Sean Cummins
Chief Financial Officer

Revenue for the year was £2.6bn, representing an increase of 15.2% over the previous period (2016 - £2.3bn). The primary reason for the increase was the full year impact of Marshall Motor Holdings plc's (MMH) acquisition of Ridgeway in May 2016.

Trading Performance

85.7% of the Group's revenues arose from motor retailing (2016 – 82.3%), including a full 12 months contribution from Ridgeway in 2017.

On a statutory basis, the Group reported a profit before tax of £30.2m (2016 - loss of £9.8m). The result includes £38.4m profit on disposal of Marshall Leasing Limited and loss provisions of £30.9m taken against our largest and most complex engineering project within MADG, as well as a number of exceptional restructuring and asset impairment expenses. When reviewing the results before a number of exceptional separately disclosed items, as set out in note 3, this highlights a more positive underlying foundation for the future with MMH, Military Aerospace and Aerostructures all performing extremely well during the year.

With a higher level of average net funds borrowing over the year, finance costs rose to £8.9m (2016 - £7.3m).

The Group owns around 65% of MMH plc. Recognition of the minority share is noted as non-controlling interests in the consolidated income statement and the balance sheet.

The Core Group (excluding MMH) recorded significant tax losses during 2017, which have been mitigated by disclaiming capital allowances and utilising loss carry-back provisions where possible. As the Group's holding in MMH is less than 75%, group relief of losses is not available. As a result of this, despite the overall tax neutral position, the Group is expecting to pay tax relating to the 2017 results of £6.2m (2016 - £4.6m), including local corporation tax paid in our overseas operations.

Deferred tax on losses has been recognised where the Directors consider that profits will be made in the foreseeable future, ensuring full recovery. The Group's effective tax rate for 2017 was 0.0% (2016 – (8.6%)).

The earnings per share, on a statutory basis, were 21.1p (2016 - losses per share of 29.4p). Adjusting for separately disclosed items, as set out in note 3, and discontinued operations, underlying earnings per share were 31.4p (2016 – 37.2p).

Dividend

As in previous years, preference dividends amounting to £744,000 were paid to preference shareholders.

The Board is recommending a final dividend of 3.0p per Ordinary and NVPO share for approval at the AGM to be paid on 6th July, 2018. This would take the full year normal dividend to 4.0p and 6.0p respectively, the same level as 2016.

Net Funds / Cashflow

The Group closed the year with total net funds at 31st December of £5.9m (2016 - net debt of £122.2m).

Capital expenditure, excluding leasing vehicles, totalled £31.9m (2016 - £40.3m). The Group continued to invest in its infrastructure for the future, with new facilities constructed for Audi in Exeter and Jaguar Land Rover in Newbury.

Another major factor in the movement in cash in the year was a reduction of £11.0m (2016 - £20.4m) in the balance of customer advance payments, which is a natural timing issue as we execute major projects.

Financing

The Group operates with two major loan facilities. The Core Group has a committed, unsecured £75m three-year revolving credit facility due to expire in April 2020, but with an option, subject to bank approval, to extend by one year. MMH has a £120m three-year committed, unsecured revolving credit facility, which was put in place in May 2016. During the year, MMH exercised an option to extend the facility for a further year to 2020. Both facilities are provided on an equal basis by Barclays Bank plc and HSBC plc.

Intangible Assets
As required by FRS102, the acquisition of Ridgeway in May 2016 has been reviewed with original estimates confirmed such that goodwill of £25.0m and intangible assets relating to franchise agreements of £58.6m has been identified.

These assets will be amortised over 20 years to an estimated residual value. Including previously acquired goodwill, total amortisation during the year was £4.8m (2016 - £5.0m), with the net intangible asset carried on the balance sheet falling to £112.3m (2016 - £117.2m).

Following a review of the carrying values of intangible assets an impairment charge of £0.4m (2016 - £nil) has been recognised in the Income Statement.

Joint Ventures
During 2017, the Group entered two new joint venture partnership arrangements with Hill Residential Limited, relating to the Wing development. The Group holds a 50% interest in both partnerships with both parties having equal representation on the respective Boards. Activity in the partnerships was slight in 2017, whereas 2018 is expected to be much busier as the Wing development commences its detailed planning and infrastructure stages.

Pensions
The deficit on the Group's defined benefit scheme, the 'Plan', under FRS 102 decreased to £12.3m from £17.5m, and after deferred tax there was a net liability of £10.2m (2016 - £14.5m). The expected liabilities decreased because of slightly higher bond yields (which determine the discount rate) and changes in key assumptions, such as salary inflation and mortality rates.

Both the Trustees of the Plan and the Board continue to work together to reduce the inherent risk and ensure the Plan remains viable, effective and cost efficient. A funding valuation used both by the Trustees and the Group, as at 31st December 2016, indicated an actuarial deficit of £8.1m. To address the deficit, the Group has agreed to make annual cash contributions through to 2023. The next funding valuation is due to be carried out as at 31st December 2019.

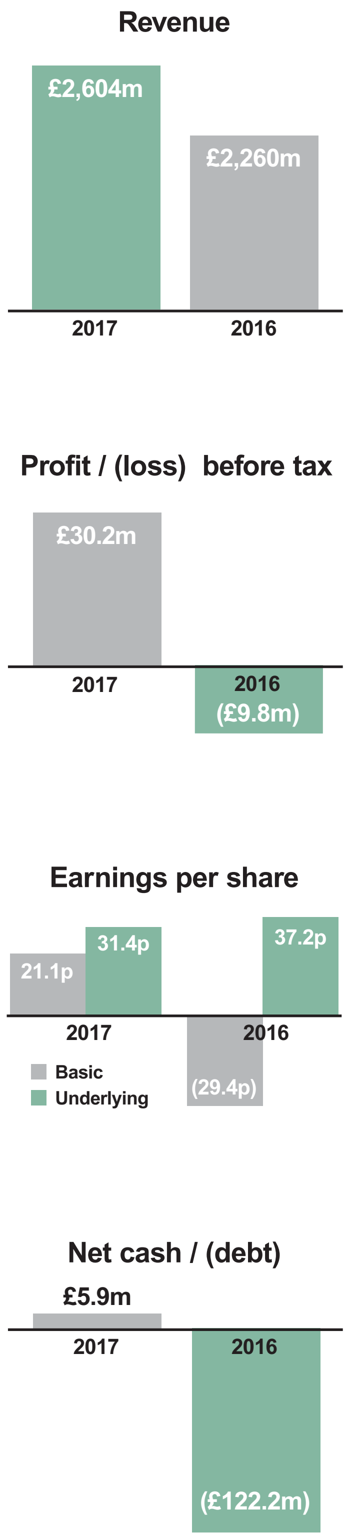
Treasury Operations
Our policy on treasury and financial risk is set by the Board and reviewed on a regular basis.

The majority of the Group's revenue and expenditure from operations is denominated in the same currency giving an effective natural hedge to relevant transactions. The net foreign exchange risk is hedged at the point of order placement, using a combination of currency swaps and overdrafts.

Key Performance Indicators
The individual businesses use a number of Key Performance Indicators (KPIs), both financial and non-financial to gauge performance. The diversity of the nature of the Group's businesses, particularly after the Motor Holdings flotation, means that few are universal or applicable for every company. A number of specific KPIs against which individual or Group performance can be monitored, with order intake and profitability being particularly important, are measured and reported to the Board each month.

Sean Cummins

Key Performance Indicators



SAFETY MATTERS

Group Strategic Report

Corporate Social Responsibility

Health, Safety and the Environment

Marshall Aerospace and Defence Group (MADG)

Following on from its success in 2016, having been awarded its 14th successive RoSPA Gold Award, in 2017 MADG was presented with the RoSPA Order of Distinction. These awards are presented to organisations sustaining the high standards of the gold level over 15 consecutive years.

Company-wide IOSH (Institution of Occupational Safety and Health) courses are on offer to all employees. These include an IOSH Managing Safely, a Managing Safely Refresher and IOSH Working Safely Courses. These courses combine practical application and personal safety, applying it to the work carried out at MADG.

Marshall Land Systems Environmental Management System successfully transitioned to the new ISO14001:2015 standard following identification of their commitment to pollution prevention, legal compliance and continual improvement.

Marshall Group Properties

We have achieved planning permission for the new Engine Ground Running Enclosure (GRE), to be positioned next to Taxiway Delta (linking Hangar 17 to the main runway). It is anticipated that construction will start in the first half of 2018 and that the GRE will be fully operational by the summer of 2019. This new facility will ensure improvements to the health and quality of life of those communities local to the airfield.

In September, a live training exercise took place at Cambridge airfield which simulated an aircraft emergency and involved multiple support agencies, including our own, on-site Fire team. The exercise was a collaborative project, working with the Environment Agency and other emergency services looking at emergency preparedness and airport pollution control.

Marshall Ventures

Marshall Motor Holdings Plc (MMH)

The HSE team has been working hard to make health & safety an integral part of the day-to-day operation across all sites within the business.

One of the most recent initiatives was to install Automated External Defibrillator (AED) machines at every MMH site company-wide, with training given, demonstrating the company's commitment to the well-being of its employees and customers alike. The team is now starting to focus on improving the training and communication it provides, supporting its colleagues in the best way possible.

Marshall Fleet Solutions (MFS)

In 2017 there was a reduction of over 30% in accidents/incidents. RIDDOR accidents totalled three for 2017, down one on 2016. Overall this gave MFS a 5% reduction in its 2017 lost opportunity costs. MFS has implemented an online e-learning training programme for all employees based around H&S and compliance and soft skills.

Group Strategic Report

Corporate Social Responsibility

Our People

Our people remain at the heart of our business; we are committed to their development, with recognition and reward a vital part of this commitment.

In 2017 we welcomed a further 30 apprentices across the business as we entered the 98th consecutive year of our apprenticeship scheme – in 2020 we will celebrate 100 years since the company first introduced its apprentice scheme and since that time we have seen hundreds of apprentices start their career path with us. As part of our pledge to recognise and reward our staff, in recent years we have introduced an activities 'away day' for the top apprentices in both MADG and MMH.

We continue to invest in the development of our future leaders with the LDP3 programme which has been created in conjunction with the Møller Centre in Cambridge. Focusing on a smaller identified group of future leaders, we have seen high levels of commitment to the programme with really encouraging feedback.

Now in its 7th year, the annual Marshall Achievement, Values and Teamwork Awards (MAVTAs) have become an important tool for recognising and rewarding the amazing contributions made by many of our employees to the business. At the 2017 awards we saw some 250 finalists and their guests from across all areas of the business gather in the Great Hall at King's College, Cambridge to see the awards presented.

Cambridge LaunchPad goes from strength-to-strength. Form the Future, the social enterprise now running the project, has introduced ARM, Schlumberger and TTP Group as core partners, with many associate members and supporters including Amazon, Microsoft, Zeiss and AstraZeneca. These organisations will invest in creating amazing experiences for young people to open their eyes to the wonders of engineering, science and technology, hoping to inspire them to engage in a career within those industries. As part of the programme, Marshall welcomed over 250 students for the 2017 Stars Festival. Children from five local primary schools and a group of home-educated children enjoyed a whole host of fun engineering activities.

The Sir Arthur Marshall Future Champions programme provides grant aid to gifted and talented able-bodied and disabled young athletes living in Cambridge who are competing at county or regional level. Twelve such athletes received a grant of between £100-£500 each at this year's ceremony towards the cost of coaching and equipment.

We are extremely proud that our longest-ever serving employee, Len Sapsford, reached his 65th year milestone with us in December. We also celebrated the long service achieved by 39 of our employees who have given us either 30, 40 or 50 years of continuous service. This takes our total awards since the awards were first introduced in 1976 to 1,155, covering a grand total of 30,050 years of continuous service.

A large number of our employees are dedicated to local groups, organisations and charities, volunteering their time to undertake a whole host of activities. From parachuting out of an aircraft to raise money for Cancer, swimming the English Channel to raise money for BEN, to coaching a children's football team, our people make a real difference to the community in which they live.


SIR ARTHUR MARSHALL
FUTURE
CHAMPIONS
LTA BRITISH TENNIS

Governance
The Board

Alex Dorrian **CBE FREng FRAeS FIET** * °
Non-Executive Chairman – Appointed 2016

He was formerly Executive Vice President of Thales Group and Chairman of Thales UK. He was also Chairman of Manoir Aerospace, Non-Executive Director of UKTI and Chairman of the Defence Advisory Group of DSO. He was the founding President of ADS created by merging the DMA and the SBAC. He has an Honorary Doctor of Science Degree from Strathclyde University and is a Fellow of the Royal Academy of Engineering, the Royal Aeronautical Society and the Institution of Engineering and Technology. He was made CBE in 2002 and an Officier de la Legion d'Honneur in 2010. He is a Freeman of the City of London.

Robert Marshall **FRAeS**
Group Chief Executive – Appointed 2000

He joined Marshall Aerospace in 1995 and was appointed a director in 1999 before moving to Marshall SV as Chief Executive in 2000. He was made Chairman of Marshall Land Systems in January 2006 and was appointed Executive Chairman of Marshall Motor Holdings in 2007. He became Group Chief Executive from 1st January 2012 having been Chief Operating Officer since 2010. He is a Fellow of the Royal Aeronautical Society.

Julie Baddeley * °
Non-Executive Director and Senior Independent Director – Appointed 2016

She is Chairman of global recruitment company Harvey Nash plc and non-executive director of Ebiquity plc, an AIM listed marketing analytics business, and Chrysalis VCT plc, which is a self managed fund investing in small UK companies. She has been on the board of several companies including Greggs plc, BOC Group plc, Yorkshire Building Society and lottery operator Camelot. Previously she was an executive director of Woolwich plc and the partner in charge of Accenture's change management practice in Europe. Early in her career she started, built and sold her own consultancy based in Cambridge.

James Buxton **DL FRICS** *
Non-Executive Director – Appointed 2014

He worked with Bidwells LLP for over 30 years, and was Senior Partner from 2000 to 2010. He was appointed Chairman of Pigeon Investment Management in 2011. Prior to this he was Chairman of the CBI in the East of England from 2003 to 2005, and on the Advisory Board of the Department of Land Economy at Cambridge University from 2003 to 2007. He was appointed a Deputy Lieutenant of Cambridgeshire in 2006, and served as High Sheriff of Cambridgeshire for 2013/14.

Sean Cummins **ACA**
Chief Financial Officer – Appointed 2016

He was previously Group Finance Director of WYG plc from 2011 to 2016, Scott Wilson plc from 2007 to 2010 and Yule Catto plc from 1999 until 2007. He is a chartered accountant with more than 25 years' experience in financial management and business leadership across a number of sectors.

Peter Harvey ACIB DipFS † * °
Non-Executive Director – Appointed 2008

He is a former chief executive of Barclays Corporate and Commercial Banking and, latterly, until his retirement in 2008, Vice Chairman of Barclays UK Banking. He is a member of the Chartered Institute of Bankers.

Sarah Moynihan FCA CRAeS
Company Secretary – Appointed 2012

She joined the Group from Ernst & Young in 1997 and became Group Financial Controller in 2000 and Head of Group Insurance in 2002. Sarah was appointed Company Secretary of the Group with effect from the AGM in 2012. She is an independent trustee of the Royal Aeronautical Society and a member of its Finance Committee. She is also a trustee of the Group's pension schemes.

Christopher Sawyer † * °
Non-Executive Director – Appointed 2008

He developed Deltron Electronics plc into a European-leading manufacturer and distributor of niche components, which he sold during 2006. During 2007 he spearheaded the acquisition of Lorien Group plc, a disparate group of companies, following restructuring and disposals, the remaining businesses grew some 300% which he sold during 2014/5 to NYSE/LSE companies. He is a fellow of the RSA and IOD, companion of the Charted Management Institute and Past Master The Worshipful Company of Scientific Instrument Makers. He is a Non-Executive Director at Marshall Motor Holdings plc and a Trustee of the Think Tank, Tomorrow's Company.

Philip Yea FCMA † *
Non-Executive Director – Appointed 2016

He is Chairman of Greene King plc, one of the UK's leading pub and brewing companies, and Chairman of Equiniti Group plc. He is also a non-executive director of Aberdeen Asian Smaller Companies Investment Trust plc and Computacenter plc. He is an independent trustee of the Francis Crick Institute. He has spent over fifteen years in private equity, including at 3i Group plc where he was Chief Executive from 2004 until 2009, and before that at Investcorp. He is a former Finance Director of Diageo plc, the global drinks group. He is a Chartered Management Accountant.

Auditor
Ernst & Young LLP

Bankers
Barclays Bank plc
HSBC Bank plc
Lloyds TSB Bank plc
Santander UK plc

Insurance Brokers
Willis Towers Watson

Pension and Actuarial Advisers
Conduent

Property Advisers
Bidwells
Rapleys
Russells
Savills

Solicitors
Bird & Bird
Dentons
Greenwoods
Mills & Reeve
Travers Smith

Tax Advisers
Deloitte LLP

Registered Office
Airport House
Newmarket Road
Cambridge CB5 8RY

Registered Number
2051460

www.marshallgroup.co.uk

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

Corporate Governance

Governance framework

The Group endeavours to apply the highest standards of corporate governance and, although it is not subject to the UK Corporate Governance Code ("the Code"), has considered its guidance, together with the Corporate Governance Guidance and Principles for Unlisted Companies. The Group has implemented these guidelines where practical and appropriate for a large private group, and has a goal of continuous improvement in governance processes.

Leadership

Board membership

Information about the Board members is given on pages 38 and 39.

The role of the Board

The Board is responsible for creating the framework within which the Group operates and is collectively responsible to the Company's shareholders for the direction and oversight of the Company to ensure its long-term success. It provides leadership for the Group, devises strategy, ensures the necessary resources are available, and sets controls and standards.

Other core activities include obtaining assurance that material risks to the Group are identified, defining the Group's appetite for risk and ensuring that appropriate systems of risk management and internal control exist to mitigate such risks, as well as responsibility for ensuring the effectiveness of, and reporting on, the system of corporate governance. It also monitors performance, and approves budgets and material initiatives and commitments. The Board has a clearly articulated set of matters which are specifically reserved for its determination and has approved terms of reference for all Board committees.

The Board's schedule of matters reserved includes:

- Strategy and management
- Structure and capital
- Financial reporting and controls
- Internal controls and risk management
- Authorisation and approval levels
- Board membership
- Delegation of authority and policy development
- Corporate governance matters
- Major acquisitions, projects and contracts
- Dividend policy

The Board is responsible for setting the levels of delegated authority, whilst retaining overall responsibility for the governance of the Group.

The Chairman

The Chairman, working with the Company Secretary, sets the agenda for Board meetings and encourages an open and constructive debate. In accordance with the Code, the Chairman was independent on appointment.

The Chief Executive

The Chief Executive is responsible for the implementation and delivery of the strategy agreed by the Board.

Senior Independent Director

The Senior Independent Director acts as a sounding board for the Chairman and as an intermediary for other directors. She is responsible for holding annual meetings with Non-executive Directors, without the Chairman present, to appraise the Chairman's performance.

Non-executive Directors

The Non-executive Directors bring independent judgement on key issues affecting the Group and its business operations, including strategy, performance, resources (including key appointments) and standards of conduct. They provide constructive challenge to management and help develop proposals on strategy. Regular meetings are held with the Chairman and Non-executive Directors without the executives present. The Board considers that all the Non-executive Directors were independent of the Group's executive management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement throughout the last financial year. Their independence of character and integrity, together with the experience and skills that they bring to their duties, prevent any individual or small group from dominating the decision-making of the Board as a whole.

Company Secretary

The Company Secretary is responsible to the Board for ensuring Board procedures are complied with, and that directors are supplied with information in a timely manner. She is also the day to day contact for shareholders.

Operation of the Board

The Board has an annual calendar of meetings and operates through a comprehensive set of processes which define the themes to be considered by the Board and its Committees during the annual business cycle. This includes the level of delegated authorities, the Group's business ethics, risk management, and health, safety and environmental processes. The Board devotes much of its time to strategy and business planning issues that have an impact on the Group. The Board also met in 2017 for a full two-day strategy and business planning meeting.

The timetable is set in the prior year so as to ensure that sufficient regular meetings are scheduled and other meetings held, as required, in order for the Board and the committees to discharge their respective duties sufficiently. Board papers are circulated electronically via a secure system to facilitate the effective flow of latest information. In the event that a director is unable to attend a meeting, they still receive and read the documents for consideration at that meeting, and have the opportunity to relay their comments prior to the meeting.

The standing agenda items considered at every meeting include:

- the Group Chief Executive's report on strategic and business developments, together with relevant operational updates from the operating companies and the key actions taken since the previous Board meeting;
- the Group Chief Financial Officer's report which includes commentary and highlights from the latest available management accounts, and where relevant, budgets and forecasts;
- a review from the Company Secretary of health and safety statistics, management and monitoring, together with any key legal or regulatory issues that affect the Group; and
- a review of the risk appetite statement as to whether it continues to be relevant and appropriate

On a cyclical basis, the Board agenda will also include detailed assessments of Board objectives, strategy, business plans, deep dives into operating companies, treasury, risk, governance, corporate responsibility, employee engagement, organisation/succession planning, and, where applicable, reports from the Board committees.

Board attendance

The table below sets out details of all directors who have served during the year and their membership of Board committees. This includes details of each member's attendance at the Board meetings held in 2017. There are separate attendance statements in respect of the audit, remuneration and nomination committees on pages 43, 44 and 46.

Director	Date appointed	Role	Committee (C = current chair)	Attendance record
Alex Dorrian	2016	Chairman	Nomination (C) Remuneration	9/9
Julie Baddeley	2016	Non-executive Director and Senior Independent Director	Nomination Remuneration (C)	8/9
James Buxton	2014	Non-executive Director	Nomination	9/9
Sean Cummins	2016	Group Chief Financial Officer		9/9
Peter Harvey	2008	Non-executive Director	Audit Nomination Remuneration	9/9
Robert Marshall	2000	Group Chief Executive		9/9
Christopher Sawyer	2008	Non-executive Director	Audit Nomination Remuneration	9/9
Philip Yea	2016	Non-executive Director	Audit (C) Nomination	7/9

Julie Baddeley took over as Chairman of the Remuneration Committee and Philip Yea took over as Chairman of the Audit Committee, both with effect from 1st April 2017.

Board focus and activities during the year

The activities undertaken by the Board are designed to assist them in the objective of supporting and advising executive management on the delivery of the Group's strategy within a framework of effective corporate governance. Summarised below are the key areas of Board focus during the year. Focused discussion of these items assists the Board to make good decisions based on the long term opportunities for the business and its stakeholders.

Group Reorganisation

As signalled in the 2016 Annual Report, the Group undertook a fundamental and far reaching Group reorganisation during 2017. The Group CFO, appointed in 2015, took overall control of, and responsibility for, the financial functions of the operational subsidiaries, as well as assuming financial responsibility for all corporate development activity throughout the Group in line with the One Company strategy. A Group level HR Director was recruited in April 2017, responsible for improving the organisational health of the Group, driving the ever-important talent and people agenda, as well as improving employee engagement and the culture. A CEO of the aerospace and defence business was appointed in January 2017, with responsibility for building MADG in accordance with the Group's strategy, within the constraints of Group Treasury, and in adherence with the Group HR mandate.

Group strategy

The Board has had full oversight of the progress of the Group strategy and transformation programme during the year. At each meeting the Board had the opportunity to question and challenge the work being undertaken. The June Board Strategy meeting was a two-day meeting held at an off-site location where the strategy for the Group as a whole was reviewed by the Board. Reading materials were circulated in advance of the meeting, setting the strategic market context and including updates on strategic initiatives, the strategy for each business, and updates on the Group's financial performance and trajectory, and on the ongoing internal business transformation programme. At the outset, the CEO set out the objectives for the meeting and the Board advised on the details they wished to understand from the discussions. The Group's strategic resource has been strengthened, to help identify and engage with some of the leading new technologies in Cambridge.

Risk appetite

The Board considered its adherence to and appropriateness of the risk appetite statement at each meeting. A central tenet of the statement is that the Board believes that by having a simplified but complementary portfolio, the Group will, on average, yield higher returns and pose a lower risk than any individual business on a standalone basis, and that excessive diversification may distract management. To this end the Board over saw a significant restructure of MADG, including the closure or Marshall Aviation Services at Broughton and Birmingham, the removal of two levels of management from the business, and the cessation of Civil MRO work at Cambridge.

Assessment of principal risks

During the year, the Audit Committee introduced a rolling programme of "deep dives" whereby the management or mitigation of the Group's principal risks are presented by line management who are responsible for the relevant risk. The management of the risks relating to contract delay and Group liquidity constraints were reviewed directly by the Board in view of their materiality. With respect to the risk of contract delay, the Board recommended that an independent peer review of the Group's cost control, engineering, risk management, and project control processes was scoped and awarded. This independent peer review has formally reported back to management and the Board is satisfied with the results.

Board evaluation

The Senior Independent Director carried out an evaluation of the Board in the final quarter of 2017, undertaking one to one interviews with each of the Directors. The feedback was highly consistent, both in scoring and commentary. The areas of focus included: Board processes and behaviours; Board contribution; Board composition; Committee effectiveness and the performance of the Chairman. A number of recommendations were made, which were approved unanimously by the Board and are being implemented during 2018.

Corporate Governance

Effectiveness

The Composition of the Board
In accordance with the Code, at least half the Board (excluding the Chairman) comprises independent Non-executive Directors. The Board considers the overall size and composition to be appropriate, having regard to the experience and skills that individual Board members bring to their duties. They are able to operate at a high level independently of each other but also work together as a team.

The Board considers that the skills and experience of its individual members, particularly in the areas of aerospace and defence, property, general business skills, corporate finance and governance, and risk management, have provided both support and challenge to the Chief Executive Officer, Chief Financial Officer and the executive management team during the year, in terms of both the formulation of the Group strategy and also in respect of items which require Board oversight and approval, such as significant commercial projects and contracts.

At the date of this report, the Board has eight members: the Non-executive Chairman; five other Non-executive Directors; and two Executive Directors, the Chief Executive Officer and the Chief Financial Officer.

Independence
The Board is aware of the other commitments of its directors and is satisfied that these do not conflict with their duties as directors of the Group. The directors are responsible for notifying the Company Secretary if they become aware of actual or potential conflict situations or a change in circumstance relating to an existing authorisation.

Senior Independent Director (SID)
Following her appointment to the Board on 1st December 2016, Julie Baddeley has taken on the position of SID.

Board evaluation
As noted earlier, the Senior Independent Director carried out an evaluation of the Board in the final quarter of 2017, undertaking one to one interviews with each of the Directors.

Induction, development and training
The Board also ensures that new directors receive a bespoke induction programme covering, amongst other things: the business of the Group; their statutory responsibilities as directors; opportunities to visit business operations and meet with management and employees; and an introduction to the Marshall values and code of business ethics.

The Board is kept up-to-date on legal, regulatory and governance matters through regular papers from the Company Secretary and by presentations from internal and external advisors. The Board has established procedures to allow individual directors to seek independent professional advice at the Company's expense for the furtherance of their duties. All directors have access to the services of the Company Secretary who is responsible for ensuring compliance with relevant procedures, rules and regulations.

Re-appointment
With effect from the AGM on 1st June 2016, all directors have been subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter by rotation at an interval of no more than three years.

Accountability

Risk management
The Group recognises that risk management is a vital activity that both underpins and forms part of the vision, values and strategic objectives. Risk is present in everything the Group does and it is therefore the Board's policy to identify, assess and manage the key areas of risk on a proactive basis. The Group seeks to embed risk management into the culture of the Group without introducing unnecessary bureaucracy. The aim for the risk management framework is that it is fit for purpose, reflects the size and nature of the various operations and uses the Group's skills and capabilities to the full.

In order for risk management to be most effective and become an enabling tool, the Board ensures that there is a robust, consistent, communicated and formalised process across the Group. The risk management policy and its supporting documentation form an integrated framework that supports the operating companies in the effective management of risk. In implementing the risk management system, the Group seeks to provide assurance to all stakeholders that the identification and management of risk plays a key role in the delivery of the Group strategy and related objectives.

The Board involves, empowers and gives ownership of the identification and management of risk to all of the operating companies. Risk management activity is regularly supported through discussion and appropriate action by the Group. This includes a thorough review and confirmation of the significant risks, evaluation of their mitigation strategies and establishment of supporting actions to be taken to reduce them to an acceptable level. How risks are identified and managed is set out in more detail on pages 26 to 30.

Internal control
The Board has established what it believes is an appropriate control environment. The internal control system is designed to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the Group's assets. The system is designed to manage rather than eliminate the risk of assets being unprotected and the failure to achieve business objectives. Internal controls only provide reasonable and not absolute assurance against material misstatement or loss. The Board delegates responsibility for reviewing and monitoring the Group's internal controls to the Audit Committee and the key features of the Group's internal control systems are therefore set out in the Audit Committee Report on page 46.

Board review of the effectiveness of risk management and internal control processes
The Board confirms that it has conducted a review of the effectiveness of the Company's risk management and internal control systems in operation during the year. The Board considers that the risk review activities addressed the key aspects of risk management and internal control for the year under review.

Ethics
The Board continues to ensure that the Group's code of business ethics remains up to date with latest best practice and legislation. All new employees receive a copy of the code of ethics, along with the Marshall values booklet, and the risk management framework booklet, and are asked to reinforce these messages via an e-learning system. In accordance with the Group's disclosure obligations under the Modern Slavery Act 2015, the Group has published its Slavery and Human Trafficking Statement on its website.

Anti-bribery and the prevention of corruption
The Group has internal procedures in place that are designed to ensure compliance with the UK Bribery Act 2010, and other international regulations and best practice relating to the prevention of corruption, which are applicable to its business. The Group's anti-bribery and corruption e-learning is also mandatory for relevant new employees, along with regular refresher training for existing staff

Tax strategic intent
The principles which govern the Group's management of its tax affairs are fully aligned with the Group's wider commercial, reputational and business practices and are consistent with the Group's values and commitment to good corporate responsibility.

The principles are also fully aligned with the Confederation of British Industry's seven tax principles, and consist of the following:

- To manage the Group's tax affairs responsibly and transparently;
- Not to use contrived or artificial structures to reduce tax liabilities;
- To take advantage of the reliefs and incentives that exist but show respect for the intention, as well as the letter, of the law at all times in conformity with the Group's values;
- The Group is committed to conducting its affairs in a way that ensure a low risk tax rating, a classification first awarded by HMRC in 2009;
- As part of its aim to conduct business safely, tax is considered in all significant business developments or acquisitions so as to assess fully any potential tax consequences of actions in advance and thereby reduce risk;
- Where required, proportionate external advice is sought from reputable professional firms;
- There is skilled in-house resource so that the Group can adhere to these principles without exception.

Whistleblowing
Commensurate with best practice, and to ensure that the Group works to the highest ethical standards, the Group operates an independent whistleblowing procedure to allow staff to confidentially raise any concerns about business conduct. The Group continues to engage Expolink to operate an independent whistleblowing hotline, affording employees the mechanism by which to report concerns to a party unconnected with the Group. The whistleblowing policy is set out in the Group's code of business ethics which is distributed to all staff and reinforced with a bespoke e-learning system.

Board committees
In accordance with the principles of good governance, a number of Board committees, all of which operate under written terms of reference, have been established by the Board. The reports of the Audit Committee, the Remuneration Committee and the Nomination Committee can be found on pages 43 to 48.

Relations with shareholders

Dialogue with shareholders
The Chairman ensures that all Directors are made aware of major shareholder issues and concerns, by way of reports from the Executive Directors at Board meetings, attendance at key financial calendar events and by making themselves available to meet shareholders as required.

The Company attaches significant importance to maintaining an effective engagement with shareholders to ensure a mutual understanding of objectives and to deal with issues of concern. Responsibility for communications with shareholders rests with the Executive Directors, assisted by the Company Secretary, and regular briefings and meetings are held with various shareholder groups.

Annual General Meeting
The Board recognises that the annual General Meeting provides shareholders with an important opportunity to receive information on the Group's business performance and to meet with the Board. The Chairman, the executive directors and Board committee chairmen were present at the 2017 AGM.

Interim report
In addition to the annual report, the Board also provided shareholders with an interim report, which highlighted progress on a number of key initiatives across the Group.

Terms of Reference
The Board Terms of Reference enshrine the basis on which the Board will keep shareholders informed and, where appropriate, seek ordinary shareholder consent for certain major transactions or changes in ownership of major assets. The shareholders approved these Board Terms of Reference at the 2016 AGM.

Directors' statement in respect of 'fair, balanced and understandable' assessment

All of the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In this context, the co-ordination and review of the Group-wide input into the Annual Report is a vital part of the control process upon which the Directors rely and is an exercise which spans a period wider than the timetable for compiling the Annual Report itself. Critically these processes include the controls the business operates throughout the year to identify key financial and operational issues.

Nomination Committee Report

The Company has established a Nomination Committee which comprises the Chairman, the Chief Executive Officer and all Non-executive Directors, subject to a minimum of three to be quorate.

Committee attendance

Director	Role	Attendance record
Alex Dorrian	Committee Chairman	2/2
Julie Baddeley	Senior Independent Director	2/2
James Buxton	Non-executive Director	2/2
Peter Harvey	Non-executive Director	2/2
Robert Marshall	Chief Executive Officer	2/2
Christopher Sawyer	Non-executive Director	2/2
Philip Yea	Non-executive Director	2/2

Objective
The objective of the Committee is to ensure the Board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities.

Responsibilities
In accordance with its terms of reference, the key responsibilities of the Committee include:
- annual review of the Board's composition and consideration of any proposed changes for proposal to the Board;
- the formation of a strategic succession and replacement plan for the Board; and
- leading the process for identifying and making recommendations to the Board regarding candidates for appointment as directors.

Main activities during the year
The Committee reviewed its governance and terms of reference and updated them to reflect latest UK Corporate Governance Code ("the Code") standards. As a result of the review, it was agreed that the Chief Executive Officer should be a member of the committee.

The Committee also reviewed the tenure on the Board for Non-Executive Directors. It was agreed that the Board should follow the Code, and that subject to a performance review and shareholder approval on re-appointment on rotation, the maximum tenure of a Non-executive Director should be three terms of three years from the Annual General Meeting where their appointment was first confirmed, with annual re-election thereafter, only on an exceptional case by case basis.

As noted on page 42, a Board evaluation was carried out by the Senior Independent Director, during the final quarter of 2017. One of the conclusions reached was that there was a requirement for a Non-executive Director with significant aerospace and defence experience and strategic thinking. A subcommittee of the Committee, comprising the Chairman, the Chief Executive Officer and the Senior Independent Director, scoped the requirement, and identified and met with a number of candidates in late 2017 and early 2018. The Committee expects to recommend a preferred candidate to the Board for approval, and that an appointment is made at the appropriate time.

Corporate Governance

Remuneration Committee Report

Introduction from Julie Baddeley, Committee Chairman

Having taken over the Committee Chairmanship from Peter Harvey on 1st April, I am pleased to present the Remuneration Committee's annual report for 2017 to inform shareholders on how senior executive remuneration is determined, and the work the Committee has been doing during the year.

The Group's remuneration policy remains focused on the attraction, motivation and retention of high calibre executives who have a track record of achievement in high performing businesses, and who demonstrate behaviours in accordance with Marshall values.

Committee attendance

Director	Role	Attendance record
Julie Baddeley	Committee Chairman from 1st April 2017	4/4
Alex Dorrian	Chairman	4/4
Peter Harvey	Non-executive Director, Committee Chairman up to 31st March 2017	4/4
Christopher Sawyer	Non-executive Director	4/4

Responsibilities
In accordance with its terms of reference, the key responsibilities of the committee include:

- determining and agreeing with the Board the framework for the remuneration of the Company's President, Chairman, Group Chief Executive, Executive Directors, Company Secretary and other members of executive management it is designated to consider
- in consultation with the Group Chairman and Group Chief Executive, based on benchmarks and performance, determining the total individual remuneration package of each Executive Director and specified senior executives including bonuses, incentive payments and any other elements of remuneration
- reviewing the ongoing appropriateness, relevance and efficiency of remuneration policy and practice
- reviewing the design of performance-related pay schemes and Long Term Incentive Plans
- reviewing and approving the total annual payments made under such schemes.

Committee focus and activities during the year
The main topics of discussion have included the actions to simplify management structures, the standardisation of executive contracts as well as changing our pension arrangements to reduce risk for the Company. We have reviewed our remuneration policies and practices and begun a process of modernisation to adopt best practice and drive efficiencies through alignment wherever possible. In the coming year we plan to review the redesign our Long Term Incentive Arrangements which have been overly complex, and I will report on the outcome of this next year.

Governance
When Christopher Sawyer and Peter Harvey step down from the board, Phil Yea has agreed to join the committee which therefore will be made up of three independent board members. The Group CEO attends meetings at the request of the committee.

Remuneration Policy for Non-Executive Directors

Objectives	Operational and Performance Conditions	Opportunity
To provide fair remuneration, reflecting the time commitment and responsibilities of the roles.	Chairman and non-executive directors receive a fixed fee and do not participate in any incentive schemes or receive any other benefits. Fee levels are reviewed annually. Additional fees are payable for acting as Senior Independent Director or as chairman of any of the Board's committees (excluding the nomination committee)	Account is taken of: • increases awarded across the Group as a whole • fee levels at organisations of a similar size, complexity and type • changes in complexity, responsibility or time commitment required for the role

Remuneration Policy for Executive Directors

	Objectives	Operational and Performance Conditions	Opportunity
Base Salary	A competitive market salary commensurate with responsibility and experience.	Reviewed at 1st January each year taking into account increases awarded across the Group as a whole, personal contribution and performance, market changes and any change in role or responsibility.	Increases are generally expected to be in line with inflation and comparative increases in the business and competitor companies.
Annual Bonus	To motivate and reward annual performance specifically with respect to the business and overall profitability.	Maximum 100% of salary which is only available for exceptional performance. Paid in cash after the Group annual report and financial statements have been approved.	75% of salary, for stretch financial targets, with on- target achievement realising 50%, and a threshold level to be reached for 25%. Up to 25% of salary based on achievement of specified personal objectives bringing the total opportunity 100%.
Long Term Incentive Plan 'LTIP'	To focus on longer-term performance and growth and align executive director interests with those of shareholders.	Awards are made annually based on three year performance period. Performance is against profitability, cash generation and adherence to Group objectives and values. 50% paid out after three years but remainder withheld for further three years in accordance with recent and best industry practice.	Up to 125% of salary can be achieved but only 50% can be taken in cash in the year after the initial performance period. the remainder is held for a further three years.
Pension	To provide competitive levels of retirement benefit.	Membership of company pension scheme or salary supplement or cash deferral scheme.	Typically a Defined Contribution arrangement with some variation of contributions based on time employed.
Other Benefits	To provide competitive levels of employment benefits.	Benefits include: • car and fuel benefit or equivalent • private medical insurance • income protection insurance • life assurance of four times cover	Cost of providing a car benefit, life assurance, private medical insurance and income protection insurance which are reviewed annually to ensure they are

Corporate Governance

Audit Committee Report

Introduction from Philip Yea, Committee Chairman

I am pleased to present the Audit Committee's annual report on its activities during the year. The Committee has considered the applicable provisions of the various corporate governance codes and principles, together with the latest FRC guidance, and is satisfied that its terms of reference are in line with them.

The Committee has spent considerable time reviewing the Group's risk management infrastructure, reviewing the work of internal audit, and has also reviewed the external audit plans and met with auditors to ensure that the key areas of focus across the Group are suitably addressed.

Committee attendance

Director	Role	Attendance record
Philip Yea	Committee Chairman from 1st April 2017	4/4
Peter Harvey	Non-executive Director	4/4
Christopher Sawyer	Non-executive Director Committee Chairman up to 31st March 2017	4/4

Objective

The objectives of the Audit Committee are to support the Board in its oversight of the Group's financial reporting, audit and internal control functions, and to give the board assurance concerning the operation of the Group's risk management framework.

Governance

The Audit Committee comprises a minimum of two members, both of whom are independent non-executive directors of the company. Two members constitute a quorum. Appointments are for a period of three years, extendable by two further three-year periods, after which they are subject to annual review so long as members continue to be independent. Any term beyond six years is subject to particularly rigorous review. Peter Harvey and Christopher Sawyer will be standing down at the forthcoming AGM, and Alex Dorrian, with his significant aerospace and defence experience, will become a member from the same date.

The Committee meets at least four times during the year. The Group Chief Executive, the Group Chief Financial Officer, the Company Secretary, and the Group Internal Audit Manager also attend each meeting at the invitation of the Committee chairman. The external audit partner is invited to attend meetings involving the planning and reporting on the results of the annual audit. Other relevant people from the business are invited to attend meetings as required for the Committee to discharge its duties. The Committee chairman also meets separately with the external audit partner, Group Chief Financial Officer and Group Internal Audit Manager without others being present. During the year, the Group Chairman has regularly attended the Committee's meetings at the invitation of the Committee chairman.

The Committee has unrestricted access to company documents and information, as well as to employees of the company and the external auditors. The Committee may take independent professional advice on any matters covered by its terms of reference at the company's expense. The Committee chairman reports the outcome of meetings to the board.

Responsibilities

In accordance with its terms of reference, the key responsibilities of the Committee include:

- monitoring the integrity of the financial statements;
- review of the financial statements and their recommendation to the Board for approval;
- review of the Group's internal controls and risk management systems;
- post-acquisition and major capital expenditure reviews;
- review of the external audit plan;
- review of the internal audit plan; and
- review of whistleblowing arrangements

Review of financial statements and audit findings

The Committee reviewed the annual report and accounts to ensure that they are fair, balanced and understandable, and provide the information necessary for shareholders and other stakeholders to assess the company's performance, strategy and business model. To enhance its review, the Committee considers reports from the Group Chief Financial Officer and the external auditor on the outcomes of their review and annual audit.

Significant accounting issues considered by the Committee in relation to the Group's financial statements
In the preparation of these financial statements a number of areas required the exercise of management judgement or a degree of estimation. The key judgement areas considered by the Committee in relation to the 2017 financial statements, and how these were addressed, were:

Issue	Assessment
Long-term contract revenue recognition	The judgements made in relation to the accounting for long-term contracts are key to the revenue and profit recorded in each period. Material contracts and the related management assumptions and assessments used were reviewed by the Committee through regular Board updates on contract performance, and, where required, key individuals from the business attend meetings to provide a deeper understanding. Ernst & Young LLP also reported its audit findings on the key judgements used in material contracts.
Exceptional costs	The Committee considered the amounts included as exceptional income and costs in the year to ensure that the categorisation was appropriate by reference to their nature and relevant guidance. Ernst & Young LLP also commented on this assessment provided a detailed report on its audit findings.
Goodwill impairment	The key goodwill impairment reviews were in relation to prior acquisitions by Marshall Motor Holdings plc. The key assumptions in the value-in-use analysis largely relate to short-term profitability projections, long-term growth and the discount rate. In some cases the realisable value of the business is considered. Where appropriate, provision was made. The committee reviewed these assumptions and estimates, and discussed them with Ernst & Young LLP, which provided a detailed report on its audit findings.
Marshall Motor Holdings plc ("MMH")	MMH is fully consolidated into the Group's financial statements due to the 65% controlling shareholding. The Committee considers the key issues that arise in those financial statements as publicly reported and as reported through Ernst & Young LLP, who are auditors to the whole group. The key matters of judgment were assumptions around impairment reviews of goodwill and franchise intangibles, supplier rebates, accruals and provisions.
Going concern	The Committee reviewed and challenged forecast cash flows until the end of 2019 and related assumptions on base case and stressed case scenarios, taking mitigations into account. Ernst & Young LLP also reported on their assessment of going concern.

Misstatements
Management reported to the Committee that they were not aware of any material misstatements. The auditors reported to the Committee any misstatements that they had found in the course of their work. After due consideration, the Committee concurred with management that no adjustments were required.

External audit
During the year, the Committee received reports from the external auditor on three occasions. It also met with the external auditor without the executive management being present.

The effectiveness of the external auditor is assessed annually by the Audit Committee taking into account feedback from executive management. This assessment considers the quality of the audit and the service from Ernst & Young, and provides feedback to the lead audit partner.

The Committee has recently reviewed its policy on the use of the external auditor for non-audit services. The policy prohibits the external auditor from providing certain services which could give rise to independence threats such as computing tax provisions, payroll services, acting as an advocate, internal audit and system design. Any non-audit services to be provided by the external auditor must be pre-approved by the Audit Committee if over £100,000. All other non-audit services are summarised for the Audit Committee annually and appropriate independence safeguards assessed.

Independence and objectivity are assured through the rotation of the audit partner on a regular basis, the last such rotation having taken place in 2010, with the allowed rotation period being 10 years. The Committee, having also evaluated the performance of the external auditor remains satisfied with the effectiveness of the external auditor and, after review, has recommended to the Board that a resolution for the reappointment of the external auditor should be put to the shareholders at the AGM to be held on 23rd May 2018.

Corporate Governance

Audit Committee Report (continued)

Internal audit
The Board maintains its ongoing commitment to operating an internal audit function to provide the Board with relevant, timely and independent assurance on the Group's activities.

Marshall Motor Holdings plc also has its own internal audit function which reports solely to its Board.

The Group internal audit manager has direct access and is responsible to the Audit Committee. Her work is risk focused, and the areas of audit focus are determined by a combination of risk registers and assessments, discussions held with senior management and requests received from the Audit Committee, the Chairman or other senior executive directors.

The Committee approved the annual internal audit plan to be undertaken during the year and received internal audit progress reports. The progress reports summarised audit findings, management responses and ongoing internal audit activity within the Group. The progress reports were reviewed in detail and contributed to the audit committee's view on the effectiveness of the company's internal control framework.

Risk management and assurance
The Group's risk management process and its principal risks are set out in more detail on pages 26 to 30.

The key features of the Group's internal control and risk management systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures.

The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Audit Committee. This covers all material controls including financial, operational and compliance controls and risk management systems.

As a result of its formal review of the risk management system, the Audit Committee introduced a rolling programme of "deep dives" whereby the management or mitigation of the Group's principal risks are presented by line management who are responsible for the relevant risk.

The eight principal risks identified are:
- Business interruption
- Cyber attack
- Contract delay
- Group liquidity constraints
- Regulatory breach
- Organisational capability
- UK defence policy
- Succession planning

The management of the risks relating to contract delay and Group liquidity constraints were reviewed directly by the Board in view of their materiality. Deep dives were carried out on business interruption, cyber attack and regulatory breach during 2017 with the remainder due for deep dive in 2018.

Internal control
The Board has established what it believes is an appropriate control environment. The key features of the Group's internal control system are:

Issue	Assessment
Financial controls	• Board approved budgets and business plans for all operating companies • Monthly results reporting to the Board for all operating companies, with written commentary including key developments for each business stream • Organisational structure at head office and operating company level which clearly defines responsibilities • Independent internal audit function • Board approval of significant acquisitions and disposals, tenders and large long-term contracts
Operational controls	• All Group operating companies have specific, written policies and procedures which cover all material aspects of their operations. Compliance with these policies is subject to internal and external review.
Compliance	• Policies for health, safety and the environment which are enforced across the whole Group • Group code of business ethics, Marshall values booklet and a separate anti-bribery policy in place. • Detailed matrix across the Group setting out level of authority.

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable to the UK and Republic of Ireland". 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 of the Parent Company and of the profit or loss of the Group for that period. In preparing those 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's and the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Report

Marshall of Cambridge (Holdings) Limited **Registered Number: 2051460**

The directors present their annual report, together with the audited financial statements for the year ended 31st December, 2017.

Results and dividends
The Group recorded a profit after tax and minority interests for the year of £13,227,000 (2016 – loss of £16,561,000). On 15th December, 2017, the Board paid a priority dividend of 2.0p per share on the non-voting priority ordinary (NVPO) shares, together with an interim dividend of 1.0p per share for both Ordinary and NVPO shareholders. The directors recommend a final dividend of 3.0p per Ordinary and NVPO share making a total for the year of 4.0p per Ordinary share and 6.0p per NVPO share. In accordance with FRS 102, the final dividend of 3.0p is not shown as a liability in the financial statements as it has been proposed after the balance sheet date and will be included in the financial statements for 2018. Preference dividends on the A and B preference shares amounting to £744,000 were paid in the year.

Research and development
The Group continues to be committed to research and development, especially in its aerospace and defence businesses, in order to maintain a competitive position in all its markets (see note 5 to the financial statements).

Post balance sheet events
The financial statements take into consideration events occurring between the year end date and the date of their approval by the Board of Directors, as indicated on the balance sheet.

Directors
Details of the current directors are set out on pages 38 to 39. The following served as directors of the Company during the year ended 31st December, 2017 and up to the date of signing:

Non-Executive Directors
Alex Dorrian (Chairman)
Julie Baddeley
James Buxton
Peter Harvey
Christopher Sawyer
Philip Yea

Executive Directors
Sean Cummins
Robert Marshall

In accordance with the Articles of Association of the Company, James Buxton will retire by rotation, and, being eligible, offers himself for re-appointment as director at the Annual General Meeting ("AGM") to be held on 23rd May, 2018. In addition, Peter Harvey and Christopher Sawyer will also retire by rotation at the AGM in accordance with the Articles, and are not offering themselves for re-appointment as director.

The interests of the directors, who were directors of the Company at the date of the approval of the financial statements, in the shares of the Company at 31st December, 2017 were:

	Ordinary Shares of 12.5p each		NVPO Shares of 12.5p each		8% preference A shares of £1 each		10% preference B shares of £1 each	
	Beneficially	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**
James Buxton	-	7,260,390	-	19,268,010	-	2,402,000	-	1,801,000
Alex Dorrian	-	-	10,000	-	-	-	-	-
Robert Marshall	205,900	29,500	270,763	373,167	-	60,666	-	28,333
Christopher Sawyer	-	-	134,249	-	-	-	-	-

The interests of the directors, who were directors of the Company at the date of the approval of the financial statements, at 1st January, 2017 were:

	Ordinary Shares of 12.5p each		NVPO Shares of 12.5p each		8% preference A shares of £1 each		10% preference B shares of £1 each	
	Beneficially	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**
James Buxton	-	7,260,390	-	20,768,010	-	2,402,000	-	1,801,000
Alex Dorrian	-	-	10,000	-	-	-	-	-
Robert Marshall	205,900	29,500	270,763	373,167	-	60,666	-	28,333
Christopher Sawyer	-	-	115,749	-	-	-	-	-

Robert Marshall has a life interest in one eleventh of the income from 2,199,842 Ordinary shares, 6,259,774 NVPO shares, 771,268 8% A preference shares and 577,951 10% B preference shares out of the total referred to above in the trustee column.

Directors' indemnities
In accordance with the Articles of Association and to the extent permitted by law, directors are granted an indemnity from the Company in respect of liability incurred as a result of their office. In addition, the Group maintained a directors' and officers' liability insurance policy throughout the year. Neither the indemnity nor the insurance provide cover in the event that a Director is proven to have acted dishonestly or fraudulently.

Fixed assets
The Group invested £66.6m (2016 - £75.8m) in new fixed assets and investments and a further £0.1m (2016 - £96.7m) in new businesses. The Group completed the sale and leaseback of the Quorum investment property during the year, realising net sale proceeds of £22.7m and a profit on disposal of £14.1m. The Group's other existing freehold investment properties were revalued by the directors, at 31st December 2017, resulting in a total valuation of £12,159,000 (2016 - £13,989,000). A revaluation surplus of £133,000 (2016 – £2,282,000) has been taken to the income statement and non-distributable reserves. Other tangible fixed assets' details and movements can be found in note 14 to the financial statements.

Social policy
The Group takes its responsibilities to its employees, customers and shareholders seriously, as well as its wider social responsibilities. The Group has a policy of not making donations to political groups, parties or individuals, but has a positive policy of supporting, selectively, charities and organisations which benefit either the communities in which the Group operates or the industries in which the Group works.

Charitable donations
The Group made charitable donations of £32,000 (2016 - £147,000) during the year.

Political contributions
There were no political donations in either year.

Future developments and risk management
The Group Strategic Report gives further details on future developments and the Group's risk management framework, as set out on pages 6 to 37.

Governance
Governance reports are set out on pages 38 to 49.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are described within the Strategic Report on pages 6 to 37. Included within this, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 32 and 33 whilst the principal risks and uncertainties facing the Group are set out in the Strategic Report and specifically on pages 28 to 30. The Group is diversified across a number of customers and suppliers across different industries and the directors believe the Group is well placed to manage its business risks successfully. The Board has reviewed the latest budgets and forecasts for the Group and, as a result, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to the auditor
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor
A resolution to re-appoint Ernst & Young LLP as auditor will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD

Sarah Moynihan
Group Company Secretary
27th March, 2018

Independent Auditor's Report

Independent auditor's report to the members of Marshall of Cambridge (Holdings) Limited

Opinion

We have audited the financial statements of Marshall of Cambridge (Holdings) Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31st December 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the group and parent company Balance Sheet, the group and parent company Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 31st December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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.

Responsibilities of directors
As explained more fully in the statement of directors' responsibilities set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge, UK
27th March, 2018

Consolidated Income Statement

for the year ended 31st December, 2017

	Notes	2017 £000 *Continuing operations*	2017 £000 *Discontinued operations*	2017 £000 *Total*	2016 £000 *Continuing operations*	2016 £000 *Discontinued operations*	2016 £000 *Total*
Revenue	2,4	2,553,986	49,616	**2,603,602**	2,195,463	64,421	**2,259,884**
Cost of sales		(2,202,243)	(43,162)	**(2,245,405)**	(1,888,383)	(49,513)	**(1,937,896)**
Gross profit		351,743	6,454	**358,197**	307,080	14,908	**321,988**
Net operating expenses		(345,680)	(12,860)	**(358,540)**	(303,025)	(23,156)	**(326,181)**
Other income - including gain on disposal of subsidiary		644	38,734	**39,378**	1,227	434	**1,661**
Operating profit / (loss)	5	6,707	32,328	**39,035**	5,282	(7,814)	**(2,532)**
Net finance charges	7	(8,278)	(580)	**(8,858)**	(6,542)	(749)	**(7,291)**
(Loss) / profit on ordinary activities before taxation		(1,571)	31,748	**30,177**	(1,260)	(8,563)	**(9,823)**
Analysed as:							
Underlying profit / (loss) before tax		34,746	(6,603)	**28,143**	34,762	(8,563)	**26,199**
Separately disclosed exceptional items	3,4	(36,317)	38,351	**2,034**	(36,022)	-	**(36,022)**
Tax on (loss) / profit on ordinary activities	9	(1,649)	1,743	**94**	(1,204)	362	**(842)**
(Loss) / profit on ordinary activities after taxation		(3,220)	33,491	**30,271**	(2,464)	(8,201)	**(10,665)**
Attributable to:							
Owners of the parent				**13,227**			**(16,561)**
Non-controlling interests				**17,044**			**5,896**
				30,271			**(10,665)**
Basic and diluted earnings / (loss) per share	10			**21.1p**			**(29.4p)**
Underlying earnings per share - continuing operations	10			**31.4p**			**37.1p**

Consolidated Statement of Comprehensive Income

for the year ended 31st December, 2017

	Notes	2017 £000	2016 £000
Profit / (loss) on ordinary activities after taxation		**30,271**	(10,665)
Exchange differences on re-translation of subsidiary undertakings		**(3)**	1,062
Fair value loss recognised on cash flow hedges		**(34)**	(184)
Taxation on cash flow hedges		**(81)**	36
Remeasurement gain / (loss) recognised on defined benefit pension scheme	32	**5,762**	(5,276)
Tax (charge) / credit relating to defined benefit pension scheme	32	**(980)**	782
Total other comprehensive income / (expense)		**4,664**	(3,580)
Total comprehensive income / (expense)		**34,935**	(14,245)
Total comprehensive income / (expense) for the year attributable to:			
Non-controlling interests	25	**17,044**	5,896
Owners of the parent		**17,891**	(20,141)
		34,935	(14,245)

Balance Sheet

as at 31st December, 2017

		Group		Company	
		2017	2016	**2017**	2016
	Notes	**£000**	£000	**£000**	£000
Fixed assets					
Intangible assets	13	**112,295**	117,192	**-**	-
Tangible assets	14	**218,182**	289,486	**111**	140
Investments	15	**4,810**	5,715	**50,859**	51,754
Total fixed assets		**335,287**	412,393	**50,970**	51,894
Current assets					
Stocks	16	**428,668**	409,711	**-**	-
Debtors	17	**154,733**	181,725	**46,551**	25,035
Cash at bank and in hand		**19,662**	18,506	**20**	10,717
Assets classified as held for sale	18	**750**	-	**-**	-
		603,813	609,942	**46,571**	35,752
Creditors: amounts falling due within one year	19	**(606,420)**	(699,975)	**(31,092)**	(43,919)
Net current (liabilities) / assets		**(2,607)**	(90,033)	**15,479**	(8,167)
Total assets less current liabilities		**332,680**	322,360	**66,449**	43,727
Creditors: amounts falling due after more than one year	20	**(12,513)**	(50,237)	**(1,412)**	(997)
Provision for liabilities	22	**(72,253)**	(49,117)	**-**	(8,800)
Net assets before pension liability		**247,914**	223,006	**65,037**	33,930
Pension liability	32	**(12,333)**	(17,510)	**(12,333)**	(17,510)
Net assets		**235,581**	205,496	**52,704**	16,420
Capital and reserves					
Called up share capital	23	**15,785**	15,785	**15,785**	15,785
Share premium		**611**	611	**611**	611
Capital redemption reserve	24	**130**	130	**130**	130
Cash flow hedge reserve	24	**-**	115	**-**	-
Profit and loss account		**150,859**	138,854	**36,178**	(106)
Shareholders' funds		**167,385**	155,495	**52,704**	16,420
Non-controlling interests	25	**68,196**	50,001	**-**	-
Total capital employed		**235,581**	205,496	**52,704**	16,420

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 27th March, 2018. They were signed on its behalf by:

R D Marshall

Director

S V Cummins

Director

Company Registration No. 2051460

Statement of Changes in Equity

for the period ended 31st December, 2017

Group	**Share capital**	**Share premium**	**Capital redemption reserve**	**Cash flow hedge reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1st January, 2016	15,733	-	130	263	161,926	178,052	44,271	222,323
(Loss) / profit for the financial year	-	-	-	-	(16,561)	(16,561)	5,896	(10,665)
Other comprehensive expense	-	-	-	(148)	(3,432)	(3,580)	-	(3,580)
Total comprehensive (expense) / income for the year	-	-	-	(148)	(19,993)	(20,141)	5,896	(14,245)
Equity dividends paid (see note 11 and 25)	-	-	-	-	(4,010)	(4,010)	(1,135)	(5,145)
Issue of share capital	52	611	-	-	-	663	-	663
Change in interest in subsidiaries' net assets	-	-	-	-	344	344	969	1,313
Share based payment charge	-	-	-	-	587	587	-	587
At 31st December, 2016	15,785	611	130	115	138,854	155,495	50,001	205,496
Profit for the financial year	-	-	-	-	13,227	13,227	17,044	30,271
Other comprehensive (expense) / income	-	-	-	(115)	4,779	4,664	-	4,664
Total comprehensive (expense) / income for the year	-	-	-	(115)	18,006	17,891	17,044	34,935
Equity dividends paid (see note 11 and 25)	-	-	-	-	(4,010)	(4,010)	(1,579)	(5,589)
Change in interest in subsidiaries' net assets	-	-	-	-	(1,991)	(1,991)	2,730	739
At 31st December, 2017	**15,785**	**611**	**130**	**-**	**150,859**	**167,385**	**68,196**	**235,581**

Parent Company	**Share capital**	**Share premium**	**Capital redemption reserve**	**Retained earnings**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
At 1st January, 2016	15,733	-	130	13,681	29,544
Loss for the financial year (see note 8)	-	-	-	(5,870)	(5,870)
Other comprehensive expense	-	-	-	(4,494)	(4,494)
Total comprehensive expense for the year	-	-	-	(10,364)	(10,364)
Issue of share capital	52	611	-	-	663
Share based payment charge	-	-	-	587	587
Equity dividends paid (see note 11)	-	-	-	(4,010)	(4,010)
At 31st December, 2016	15,785	611	130	(106)	16,420
Profit for the financial year (see note 8)	-	-	-	35,511	35,511
Other comprehensive income	-	-	-	4,783	4,783
Total comprehensive income for the year	-	-	-	40,294	40,294
Equity dividends paid (see note 11)	-	-	-	(4,010)	(4,010)
At 31st December, 2017	**15,785**	**611**	**130**	**36,178**	**52,704**

Group Statement of Cash Flows

for the year ended 31st December, 2017

	Notes	**2017**	2016
		£000	£000
Operating activities			
Net cash inflow from operating activities	12a	**61,541**	67,908
Investing activities			
Dividends received from investments		**4**	27
Interest received	7	**165**	234
Payments to acquire intangible fixed assets	13	**(236)**	(506)
Payments to acquire tangible fixed assets	14	**(66,603)**	(73,820)
Payments to acquire fixed asset investments	15	**(1,792)**	(1,468)
Receipts from sales of tangible fixed assets - excluding property		**11,957**	12,310
Receipts from sales of tangible fixed assets - property		**22,202**	-
Receipts from sales of businesses / subsidiaries		**44,382**	2,999
Receipts from sales of fixed assets investments		**3,174**	589
Acquisition of businesses	13	**(77)**	(109,322)
Net cash acquired on acquisitions	13	**-**	12,664
		13,176	(156,293)
Financing activities			
Interest paid	7	**(3,215)**	(3,156)
Stock finance interest paid	7	**(5,385)**	(3,958)
Dividends paid to preference shareholders	11	**(744)**	(744)
Equity dividends paid	11	**(3,266)**	(3,266)
New shares issued		**-**	663
Dividends paid to non-controlling interests	25	**(1,579)**	(1,135)
New loans and overdrafts	21	**47,849**	106,444
Repayment of loans	21	**(106,579)**	(45,343)
		(72,919)	49,505
Increase / (decrease) in cash and cash equivalents		**1,798**	(38,880)
Effect of exchange rates on cash and cash equivalents		**(642)**	3,069
Cash and cash equivalents at 1st January	12c	**18,506**	54,317
Cash and cash equivalents at 31st December	12c	**19,662**	18,506

Notes to the financial statements

1a. Accounting policies

Statement of compliance
Marshall of Cambridge (Holdings) Limited is a private limited liability company incorporated in England and Wales. The registered office is Airport House, The Airport, Cambridge, CB5 8RY.

The Group's and Parent Company's financial statements have been prepared in compliance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as it applies to the financial statements of the Group and Parent Company for the year ended 31st December, 2017.

Basis of preparation and change in accounting policy
The financial statements of Marshall of Cambridge (Holdings) Limited were authorised for issue by the board of directors on 27th March, 2018. The financial statements have been prepared in accordance with applicable accounting standards. They have been prepared in sterling which is the functional currency of the Group and the Parent Company and are rounded to the nearest £'000.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Parent Company and all of its subsidiary undertakings drawn up to 31st December each year. No income statement is presented for Marshall of Cambridge (Holdings) Limited as permitted by Section 408 of the Companies Act 2006.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

In the Parent Company financial statements investments in subsidiaries, are valued at cost less impairment except in the few cases where the following conditions exist:

a) the items traded in the market are homogeneous;
b) willing buyers and sellers can normally be found at any time for the whole investment; and
c) prices are available to the public.

Revenue recognition
Revenue comprises the invoiced value of goods and services supplied by the Group excluding trade discounts and value added tax. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific methods used to recognise the different forms of revenue earned by the Group are set out below:

- Sale of goods: Revenue and profit from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.
- Long-term contracts: Revenue from long-term contracts is recognised by reference to the stage of completion of contract activity at the balance sheet date. This is normally determined by the proportion that contract costs incurred to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. If the nature of a particular contract means that costs incurred do not accurately reflect the progress of contract activity, an alternative approach is used such as the achievement of pre-determined contract milestones. Revenue in respect of variations to contracts, claims and incentive payments are recognised when it is highly likely that it will be agreed by the customer. Profit attributable to long-term contracts is recognised if the final outcome of such contracts can be reliably assessed. On all contracts, full provision is made for any losses in the year in which they are first foreseen.
- Rendering of services: Revenue and profit from the provision of services is recognised as the contract activity progresses to reflect the performance of the underlying contractual obligations.
- Leases: Rental income from operating leases is recognised on a straight line basis over the lease term.

Goodwill
Positive goodwill acquired on each business combination is capitalised, classified as an asset on the Balance Sheet and amortised on a straight line basis over its useful life of between 5 and 20 years. Each acquisition is assessed separately as to its specific useful economic life.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each cash generating unit that is expected to benefit from the synergies of the combination.

If a subsidiary, associate or business is subsequently sold or discontinued, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or discontinuance.

Notes to the financial statements

1a. Accounting policies (continued)

Intangible assets
Other intangible assets, when acquired separately from a business combination, include computer software and licenses. Cost comprises purchase price from third parties and amortisation is calculated on straight line basis over the assets' expected economic lives, which varies depending on the nature of the asset. Licenses are amortised over the length of the license and software is amortised between 3-5 years.

Other intangible assets, acquired as part of a business combination, include franchise agreements, favourable leases and order backlog. These items are capitalised separately from goodwill if the asset is separable and if the fair value can be measured reliably on initial recognition. Such assets are stated at fair value less accumulated amortisation which is calculated on straight line basis. Favourable leases are amortised over 3 years, order backlog is amortised as the orders are fulfilled and franchise agreements are amortised at fair value less residual value, over 20 years. Intangible assets are tested annually for impairment. Amortisation is included within administrative expenses in the Consolidated Income Statement.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Residential properties	50 years
Garage properties	50 years
Hangars	20 years
Runway	20 years
Offices	15 - 40 years
Temporary shelters	5 years
Leasehold land	over lease term
Leasehold buildings	over lease term
Plant and machinery	3 - 8 years
Motor vehicles (except short term hire vehicles and leased vehicles)	3 - 4 years
Aircraft	5 - 20 years

Vehicles acquired, whether by purchase or finance lease, for the purpose of letting under lease contracts, are depreciated evenly over the period of the lease contract to reduce the original cost to the estimated residual value at the end of the lease.

Costs wholly attributable to future property developments are capitalised to the extent they are considered recoverable against future economic benefits.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Impairment of assets
The Group assesses at each reporting date whether an asset may be impaired. If any such indication exists the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates, the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in the Income Statement unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if, and only if, the reasons for the impairment loss have ceased to apply.

Investment properties
Certain of the Group's properties are held for long-term investment. Investment properties are accounted for as follows:

- Investment properties are initially recognised at cost which includes purchase cost and any directly attributable expenditure.
- Investment properties whose fair value can be measured reliably are measured at fair value. The surplus or deficit on revaluation is recognised in the Income Statement. The Group engages independent valuers to assist the directors in determining fair value.

Notes to the financial statements

1a. Accounting policies (continued)

Equity investments

Equity investments are recognised initially at fair value which is normally the transaction price (excluding any transaction costs, where the investment is subsequently measured at fair value through the Income Statement). Subsequently, the investments are measured at fair value through the Income Statement except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available. Marshall Motor Holdings plc is recorded at cost less impairment because all of the following conditions do not exist:

a) the items traded in the market are homogeneous;

b) willing buyers and sellers can normally be found at any time for the whole investment; and

c) prices are available to the public.

If a reliable measure of fair value is no longer available, the equity instrument's fair value on the last date the instrument was reliably measurable is treated as the cost of the instrument.

Stocks, work in progress and long term contracts

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale - purchase cost on a first-in, first-out basis.

Work in progress - cost of direct materials and labour, plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Long term contract work in progress is recognised as cost plus profit recognised on the basis described in the revenue recognition policy, less provisions for foreseeable losses and payments on account received, or receivable.

Stocks held on consignment are accounted for in the Balance Sheet when the terms of a consignment agreement and commercial practice indicate that the principal benefit of owning the stock (the ability to sell it) and principal risks of ownership (stock holding cost, responsibility for safe-keeping and some risk of obsolescence) rest within the Group.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is capitalised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development the asset is tested for impairment annually.

Research and development expenditure credit

Costs incurred which qualify as research and development entitles the Group to a payment from HM Revenue and Customs. This payment, which has the nature of a government grant, is credited to other income so as to match the expenditure to which it relates.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax which would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends are receivable;
- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities, compared with the amounts which are recognised for those assets and liabilities in a business combination, a deferred tax liability/(asset) is recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates which are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

1a. Accounting policies (continued)

Pensions

The Group operates, for the benefit of its employees, three schemes, one of which has elements of both defined benefit and defined contribution, while the other two are entirely defined contribution. All the schemes are funded by the payment of contributions to trustee administered funds which are kept entirely separate from the assets of the Group.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the Income Statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the Income Statement as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the Income Statement in subsequent periods.

The defined net benefit pension asset or liability in the Balance Sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Contributions to defined contribution schemes are recognised in the Income Statement in the period in which they become payable.

Marshall of Cambridge (Holdings) Limited is the sponsoring employer of the defined benefit scheme as it has legal responsibility for the scheme. There is no contractual agreement or stated policy for charging the defined benefit cost of the plan as a whole to individual Group entities and therefore the company has recognised the entire net defined benefit cost and relevant net defined benefit liability of the scheme in its individual financial statements.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the Balance Sheet and are depreciated over the shorter of the lease term and the assets' useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the Balance Sheet. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Income Statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the Income Statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Foreign currencies

Parent Company

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Income Statement.

Group

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The assets and liabilities of overseas subsidiary undertakings are translated into the presentational currency at the rate of exchange ruling at the balance sheet date. Income and expenses for each statement of comprehensive income are translated at exchange rates at the dates of transaction. All resulting exchange differences are recognised in other comprehensive income.

Derivative financial instruments

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through the Income Statement. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

Notes to the financial statements

1a. Accounting policies (continued)

Government grants
Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Provision for liabilities
A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event 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, when appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised in finance costs.

Cash and cash equivalents
Cash and cash equivalents in the Balance Sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

Assets classified as held for sale
Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification is used where a sale is considered highly probable. Assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. Any subsequent increase in the fair value less costs to sell of an asset is recognised where it is not in excess of any cumulative impairment loss which has been previously recognised. Non-current assets are not depreciated while they are classified as held for sale.

Assets classified as held for sale are presented separately from other asset classes in the current assets section of the Balance Sheet.

Share based payments
One of the Group's subsidiaries, Marshall Motor Holdings plc, allows employees to acquire its shares in Marshall Motor Holdings plc through share option schemes. The fair value of share options granted is recognised as an employee expense with a corresponding increase in non-controlling interests to reflect the Parent Company's reduction in its interest in Marshall Motor Holdings plc. Marshall Motor Holdings plc operates a number of equity settled, share based compensation plans. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Income Statement with a corresponding adjustment to non-controlling interests.

Separately disclosed exceptional items
Items which are material and significant are presented as exceptional items within their relevant Income Statement category. The separate reporting of exceptional items helps provide additional useful information regarding the Group's underlying business performance.

Discontinued operations
The Group recognises as discontinued operations components which have been disposed of which represented a separate major line of business of geographical area of operation, which were part of a single coordinated plan to dispose of a separate major line of business of geographical area of operation.

Joint ventures
Entities in which the Group holds an interest and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the equity method.

Borrowings
Borrowings comprise asset backed finance and bank borrowings; they are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Classification of shares as debt or equity
All categories of shares are classified as equity. Incremental costs directly attributable to the issue of new shares would be shown in a share premium account as a deduction from the proceeds.

Post balance sheet events
The financial statements take into consideration events occurring between the year end date and the date of their approval by the board of directors, as indicated on the Balance Sheet. In accordance with FRS 102, equity dividends on ordinary share capital are recognised as a liability in the period in which they are declared.

Notes to the financial statements

1b. Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

Judgements

Equity investments
In the directors' judgement the Marshall Motor Holdings plc investment cannot normally be sold as a whole at any time, and so in line with the accounting policy have recorded the investment as cost less impairment in the Company financial statements.

Fair values on acquisition
In respect of acquisitions, at the point of acquisition the Group is required to assess whether intangible assets need to be separately identified and measured. The measurement and assessment of the useful economic lives of intangible fixed assets requires the use of judgement by management.

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income Statement. The Group engaged independent valuation specialists to assist the directors in determining fair value at 31st December, 2017. The valuer determines fair value by considering comparable local market data such as rental yields, location, condition and nature of the property.

Recoverability of development costs
The directors have made a judgement that the property development costs that the Group is incurring will be recoverable on the basis that they expect planning permission will be obtained.

Estimates

Long term contracts
Revenue on long term contracts is recognised by reference to the stage of completion of contract activity, and, therefore, is sensitive to the ability to reliably assess this stage of completion. This is normally based on the costs incurred to date as a proportion of total anticipated contract costs. However, if this does not accurately reflect the stage of completion then an alternative approach is used instead. In making its estimate of costs to complete the contract, management exercises judgment to forecast likely contract outcome based on its best estimate of likely costs, taking into account development, production, financial and customer risks. These assessments are inherently highly judgmental and whilst they are the best estimate of the contract outcome at a point in time, the final outcome can vary materially as new risks or opportunities develop. In addition, if the final outcome of a contract cannot be reliably assessed, revenue recognition is limited to the level of costs incurred until such time that the contract has progressed sufficiently to make profit recognition appropriate. Where a contract is forecast to be loss making, full provision is made for such losses in the first year in which they are foreseen.

Impairment of intangible assets
The Group reviews the goodwill arising on the acquisition of subsidiaries or businesses with an indefinite life for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination. The group of CGUs to which the goodwill is allocated (being groups of dealerships connected by manufacturer brand) represents the lowest level within the group at which the goodwill is monitored for internal management purposes. The impairment review is performed by projecting the future cash flows, excluding finance costs and tax, based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a recognised rate which takes into account prevailing market interest rates and the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying asset or group of assets and related goodwill, an impairment charge is recorded in the Income Statement.

This calculation requires the exercise of significant judgement by management. If the estimates made prove to be incorrect or changes in the performance of the cash generating unit affect the amount and timing of future cash flows, goodwill may become impaired in future periods.

Impairment of tangible fixed assets
Where there are indicators of impairment of tangible fixed assets or investments, the Group compares the carrying value of the asset with its recoverable amount, represented by the higher of its value in use and net realisable value. Value in use is based on a discounted cash flow model, and is, therefore, sensitive to the discount rate used as well as the expected future cash flows and extrapolated growth rate. Net realisable value is estimated as fair value less costs of disposal, based on available data from sales transactions for similar assets.

Motor vehicle inventory valuation
Motor vehicle inventories are stated at the lower of cost and net realisable value (fair value less costs to sell). Fair values are assessed using reputable industry valuation data which is based upon recent industry activity and forecasts. Whilst this data is deemed representative of current value, it is possible that ultimate sales values can vary from those applied.

Assets held for contract hire
Vehicles are depreciated on a straight line basis to residual values which mirror those utilised in the creation of the original client contract. Care is taken to minimise the risk of an exposure to losses at contract end, and the entire portfolio is reassessed utilising an independent valuation tool throughout the life of the underlying contracts.

Notes to the financial statements

1b. Judgements and key sources of estimation uncertainty (continued)

Pensions

The liability recognised in the Balance Sheet in respect of the Group's retirement benefit obligations represents the liability of the Group's defined benefit pension after deduction of the fair value of related assets. The scheme liability is derived by estimating the ultimate cost of benefits payable by the scheme and reflecting the discounted value of the proportion accrued by the year end in the Balance Sheet. In order to arrive at these estimates, a number of key financial and non-financial assumptions are made by management, changes to which could have a material impact upon the net deficit and also the net cost recognised in the Income Statement.

The principal assumptions relate to the rate of inflation, mortality and the discount rate. The assumed rate of inflation is important because this affects the rate at which salaries grow and, therefore, the size of the pension which employees receive upon retirement. Over the longer term, rates of inflation can vary significantly.

The overall benefit payable by the scheme will also depend upon the length of time that members of the scheme live; the longer they remain alive, the higher the cost of the pension benefits to be met by the scheme. Assumptions are made regarding the expected lifetime of the scheme members based upon recent national experience. However, given the advancement in medical science, it is uncertain whether these assumptions will prove to be accurate in practice.

The rate used to discount the resulting cash flows is equivalent to the market yield at the balance sheet date on AA rated corporate bonds with a similar duration to the scheme liabilities. This rate is potentially subject to significant variation. The net cost recognised in the Income Statement is also affected by the return on the scheme's assets.

2. Segmental analysis

Management has determined the operating segments based on the operating reports reviewed by the Chief Executive Officer that are used to assess both performance and strategic decisions. These results have been determined using consistent accounting policies as the overall financial statements.

	Revenue		Operating profit / (loss)	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Business segments:				
Aerospace and Defence	**295,411**	304,017	**(23,024)**	(14,014)
Property	**8,040**	8,004	**17,492**	4,710
Ventures				
- Motor retail	**2,231,979**	1,860,056	**22,317**	22,175
- Fleet solutions	**42,761**	46,291	**(2,768)**	(1,503)
	2,274,740	1,906,347	**19,549**	20,672
Unallocated central costs	**-**	-	**(7,310)**	(6,086)
Consolidation adjustments	**(24,205)**	(22,905)	**-**	-
Continuing operations	**2,553,986**	2,195,463	**6,707**	5,282
Aerospace and Defence	**12,647**	25,072	**(10,309)**	(13,667)
Leasing	**36,969**	39,349	**42,637**	5,853
Discontinued operations	**49,616**	64,421	**32,328**	(7,814)
	2,603,602	2,259,884	**39,035**	**(2,532)**

	Revenue by destination		Revenue by origin	
	2017	2016	**2017**	2016
Geographical segments:	**£000**	£000	**£000**	£000
UK	**2,442,923**	2,080,274	**2,542,765**	2,183,905
Rest of Europe	**32,727**	32,279	**1,215**	2,140
North America	**44,916**	40,542	**9,212**	8,621
Rest of World	**33,420**	42,368	**794**	797
Continuing operations	**2,553,986**	2,195,463	**2,553,986**	2,195,463
UK	**41,708**	47,136	**49,616**	64,421
Rest of Europe	**5,172**	12,224	**-**	-
North America	**167**	609	**-**	-
Rest of World	**2,569**	4,452	**-**	-
Discontinued operations	**49,616**	64,421	**49,616**	64,421
	2,603,602	2,259,884	**2,603,602**	2,259,884

Notes to the financial statements

2. Segmental analysis (continued)

The total amount of income, including revenue, recognised in the year is analysed as follows:	**2017** **£000**	2016 £000
Sale of goods	**2,050,170**	1,719,994
Rendering of services (including long term contracts)	**502,476**	474,185
Rents received	**1,340**	1,284
Revenue - continuing	**2,553,986**	2,195,463
Rendering of services - discontinuing	**49,616**	64,421
Revenue	**2,603,602**	2,259,884
Interest received	**165**	234
Research and development expenditure credit	**274**	905
Dividends received	**4**	27
Other income	**753**	756
Total income	**2,604,798**	2,261,806

Revenue recognised on long term contracts was £250,773,000 (2016 - £257,619,000).

3. Separately disclosed exceptional items

	2017 **£000**	2016 £000
Details of separately disclosed exceptional items:		
Amortisation of intangible fixed assets (see note 13)	**(4,765)**	(4,983)
Impairment of tangible fixed assets	**(1,601)**	(946)
Provision for losses on complex programme *	**(30,943)**	(25,925)
Restructuring costs	**(13,120)**	(4,168)
Profit on disposal of tangible fixed asset - property	**14,112**	-
From continuing operations	**(36,317)**	(36,022)
From discontinued operations (see note 4)	**38,351**	-
Separately disclosed exceptional items	**2,034**	(36,022)

* Included within cost of sales in the Income Statement. All other items are included within net operating expenses.

The Group has incurred a number of exceptional material items, whose significance is sufficient to warrant separate disclosure. The key elements included within separately disclosed items are:

- Charges for amortisation of acquired intangible assets and impairment of tangible fixed assets;
- Provision for losses anticipated on the completion of a major complex project within MADG;
- Other costs relating to organisational restructuring;
- Profit on disposal of property; and
- Profit on disposal of subsidiary.

4. Acquisitions, disposals and discontinued operations

a) Acquisitions

The Consolidated Income Statement for the year includes revenue and a loss before tax of a Volvo dealership, in respect of the acquisitions during the year (note 13). The revenue of the Volvo dealership was immaterial in the context of the Group's revenues as was its loss before tax.

b) Disposals

On 24th November, 2017 the Group disposed of Marshall Leasing Limited and its subsidiary Gates Contract Hire Limited. A profit before tax of £38,351,000 on the sale was recorded, being the difference between the sale proceeds less transaction costs and the carrying value of the net assets sold

The results of the discontinued operations are disclosed in the Consolidated Statement of Income. The carrying value of the assets and net cash generated on disposal are detailed below.

Notes to the financial statements

4. Acquisitions and discontinued operations (continued)

b) Disposals (continued)

	2017 £000
Gross disposal consideration in cash	42,500
Transaction costs	(1,813)
Net disposal consideration in cash	**40,687**
Less carrying value of net assets sold at 24th November 2017:	
Property, plant and equipment	78,960
Deferred tax	1,547
Trade and other receivables	2,509
Bank loan and overdraft	(3,695)
Trade and other payables	(8,120)
Asset backed borrowings	(68,185)
Corporation tax	(680)
	2,336
Gain on sale of subsidiary	**38,351**
Cash inflow on disposal of subsidiary	
Gross disposal consideration in cash	42,500
Transaction costs	(1,813)
Disposal of bank loan and overdraft	3,695
Net cash inflow from sale of discontinued operations	**44,382**

Disposal cash flow information
The cash flow information is for the period ended 24th November, 2017 the date of the disposal of Marshall Leasing Limited.

	2017 £000	2016 £000
Net cash inflow from operating activities	**16,027**	**20,555**
Purchase of property, plant, equipment and software	(34,700)	(35,540)
Proceeds from sale of property, plant and equipment	9,474	10,970
Net cash outflow from investing activities	**(25,226)**	**(24,570)**
Proceeds from borrowings	31,778	50,444
Repayment of borrowings	(28,106)	(37,307)
Dividends paid	(18,712)	-
Net cash (outflow) / inflow from financing activities	**(15,040)**	**13,137**
Net (decrease) / increase in cash generated by the subsidiary	**(24,239)**	**9,122**

c) Discontinued operations
In addition to disclosing the operations of Marshall Leasing Limited as discontinued, following its sale on 24th November, 2017, the Group has also exited from its Business Aviation and Civil MRO base maintenance activities which reported combined operating losses of £10,309,000 in 2017 and from the provision of aircraft servicing, maintenance and modification which was carried out by one of the Group's subsidiaries, Marshall Aviation Services Limited. All activities have been shown as discontinued throughout the accounts.

Notes to the financial statements

5. Operating profit / (loss)

		2017	2016
		£000	£000
Operating profit / (loss) is after charging / (crediting):			
Depreciation	- tangible fixed assets	**34,610**	31,691
Amortisation	- positive goodwill and intangible assets	**4,765**	4,983
Impairment	- tangible fixed assets	**1,601**	946
	- other assets	**506**	-
	- goodwill	**447**	-
Operating lease rentals	- land and buildings	**10,784**	10,730
	- plant and machinery	**367**	472
Net foreign exchange loss / (gains)		**322**	(1,432)
(Profit) / loss on disposal of property		**(14,112)**	542
Loss / (profit) on disposal of tangible fixed assets (excluding property)		**2,070**	(75)
Research and development	- current year expenditure	**1,300**	2,702
Research and development expenditure credit included in operating income		**(274)**	(905)
Gain on revaluation of investment properties		**(133)**	(2,282)
Gain on revaluation of investments		**(719)**	(334)
Amounts provided against investments		**242**	399
Income from investments		**(4)**	(27)
Auditor's remuneration	- audit of the financial statements of the parent company	**60**	58
	- audit of subsidiary undertakings	**553**	597
	- review of subsidiary's interim financial statements	**36**	36
	- non audit services	**26**	-

6. Profit / (loss) on disposal of tangible fixed assets

	2017	2016
	£000	£000
Profit / (loss) on disposal of tangible fixed assets - property	**14,112**	(542)

The tax charge / (credit) relating to profit / (loss) on disposal of tangible fixed assets is £2,190,000 (2016 - £nil).

7. Net finance charges

	2017	2016
	£000	£000
(a) Finance income		
Bank interest receivable	**108**	234
Interest receivable on tax receipts	**57**	-
	165	234

	2017	2016
(b) Finance cost	£000	£000
Bank loans and overdrafts - interest and charges	**2,410**	2,407
Interest payable on asset backed finance	**805**	749
Stock financing charges and other interest	**5,385**	3,958
Interest on defined benefit scheme liabilities	**423**	411
	9,023	7,525
Net finance charges	**8,858**	7,291

Notes to the financial statements

8. Profit attributable to members of the Parent Company

No income statement is presented for the Parent Company as permitted by Section 408 of the Companies Act 2006. The profit for the financial year dealt with in the financial statements of the Parent Company was £35,511,000 (2016 – loss of £5,870,000).

9. Tax on profit / (loss) on ordinary activities

	2017	2016
	£000	£000
(a) Analysis of tax (credit) / charge for the year		
UK corporation tax charge on the profit / (loss) for the year	**5,545**	4,228
UK corporation tax adjustment in respect of prior years	**113**	(306)
Overseas tax on profit for the year	**344**	513
Overseas tax adjustment in respect of prior years	**91**	115
Current tax charge	**6,093**	4,550
Deferred tax credit (see note 22b)	**(6,187)**	(3,708)
Total tax on profit / (loss) on ordinary activities	**(94)**	842

	2017	2016
	£000	£000
(b) Factors affecting the total tax (credit) / charge for the year		
Profit / (loss) on ordinary activities before tax	**30,177**	(9,823)
Profit / (loss) on ordinary activities before tax at 19.25% (2016 - 20.00%)	**5,809**	(1,965)
Effects of:		
Expenses not deductible for tax purposes	**2,376**	1,859
Overseas tax losses not recognised	**29**	36
Overseas tax	**169**	-
Non taxable income	**(7,528)**	-
Difference in rate between corporation tax and deferred tax	**541**	-
Utilisation of brought forward losses on which no deferred tax asset recognised	**462**	-
Adjustments in respect of prior years	**(415)**	(870)
Change in recognition of deferred tax	**(1,537)**	1,782
Total	**(94)**	842

	2017	2016
	£000	£000
(c) Tax included in the statement of other comprehensive income / (expense)		
Current taxation on cash flow hedges	**81**	(36)
Difference in rate between corporation tax and deferred tax on actuarial (gain) / loss	**(130)**	115
Deferred tax charge / (credit) on actuarial (gain) / loss	**1,110**	(897)
Tax charge / (credit) included in the statement of other comprehensive income / (expense)	**1,061**	(818)

d) Factors that may affect future tax charges

Future tax charges, and therefore the Group's effective tax rate, may be affected by factors such as acquisitions, disposals, restructuring and tax regime reforms.

There have been no changes to the standard rate of corporation tax announced during 2017.

The applicable tax rate for the current year is 19.25% (2016 – 20.00%) following the reduction in the main rate of UK corporation tax from 20% to 19% with effect from 1st April, 2017. A reduction to the corporation tax rate to 17% (effective from 1st April, 2020) was enacted on 15th September, 2016.

These changes to the rate of corporation tax will impact the amount of future cash tax payments for which the Group will be responsible. These changes also impacted the valuation of deferred tax assets and liabilities, altering the deferred tax credit and closing deferred tax position for 2016.

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £1,593,000 (2016 - £1,690,000) in respect of losses arising that can be carried forward against future taxable profits in the companies in which the losses arose.

During the year ending 31st December, 2018, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £2,626,000. This is due to reversal of deferred tax and fixed asset timing differences.

Notes to the financial statements

9. Tax on profit / (loss) on ordinary activities (continued)

e) Close company

The Parent Company is a close company within the provisions of the Corporation Tax Act, 2010.

10. Earnings per share

	2017	2016
	£000	£000
Profit / (loss) on ordinary activities after taxation	**30,271**	(10,665)
Non-controlling interests	**(17,044)**	(5,896)
Dividends on preference shares	**(744)**	(744)
Basic earnings / (loss)	**12,483**	(17,305)
Separately disclosed exceptional items continuing operations (note 3)	**36,317**	36,022
- tax impact	**(8,295)**	(4,448)
- non-controlling interest impact	**(3,843)**	(1,965)
(Profit) / loss on discontinued operations	**(31,748)**	8,563
- tax impact	**(1,743)**	(362)
- non-controlling interest impact	**15,387**	1,316
Underlying earnings	**18,558**	21,821
Weighted average number of shares issue during the year (000)	**59,082**	58,871
Basic and diluted earnings / (loss) per share	**21.1p**	(29.4p)
Basic and diluted earnings / (loss) per share - discontinued operations	**30.6p**	(16.2p)
Underlying earnings per share - continuing operations	**31.4p**	37.1p

Basic earnings per share are calculated by dividing the basic earnings for the year by the average number of Ordinary and NVPO shares in issue during the year. Diluted earnings per share are calculated in the same way as currently there is no irrevocable commitment to issue shares in the future. Underlying earnings which exclude separately disclosed exceptional items and discontinued operations, are adopted to assist the understanding of the underlying performance of the Group. Underlying earnings per share are calculated by dividing the underlying earnings for the year by the average number of Ordinary and NVPO shares in issue during the year.

11. Dividends

	2017	2016
Dividends on Ordinary shares:	£000	£000
3.00p per Ordinary share of 12.5p each paid on 30th June, 2017 (24th June, 2016 - 3.0p)	**419**	437
1.00p per Ordinary share of 12.5p each paid on 15th December, 2017 (16th December, 2016 - 1.0p)	**139**	139
	558	576
Dividends on NVPO shares		
3.00p per NVPO share of 12.5p each paid on 30th June, 2017 (24th June, 2016 - 3.0p)	**1,354**	1,336
3.00p per NVPO share of 12.5p each paid on 15th December, 2017 (16th December, 2016 - 3.0p)	**1,354**	1,354
	2,708	2,690
Dividends on preference shares:		
8.00p per A preference share	**384**	384
10.00p per B preference share	**360**	360
	744	744
Aggregate dividends declared and paid during the year	**4,010**	4,010

Notes to the financial statements

12. Notes to the statement of cash flows

	2017	2016
	£000	£000
a) Reconciliation of profit / (loss) to net cash inflow from operating activities		
Group profit / (loss) on ordinary activities before tax	**30,177**	(9,823)
(Profit) / loss on disposal of tangible fixed assets	**(12,042)**	467
Profit on disposal of investments	**-**	(358)
(Profit) / loss on disposal of subsidiaries / businesses	**(38,351)**	90
Gain on investment properties at fair value through profit and loss	**(133)**	(2,282)
Gain on investments at fair value through profit and loss	**(719)**	(334)
Amounts provided against investments	**242**	399
Income from investments	**(4)**	(27)
Net finance charges	**8,858**	7,291
Foreign exchange movement	**502**	(2,225)
Depreciation of tangible fixed assets and impairment charges	**36,211**	32,637
Amortisation of intangible fixed assets and impairment charges	**5,212**	4,983
Research and expenditure credit	**(274)**	(905)
Increase in stocks	**(18,939)**	(22,532)
Decrease in debtors	**22,696**	5,664
Increase in provisions	**23,814**	22,704
Increase in creditors	**6,008**	35,092
Share based payment charge	**739**	1,313
Adjustment for pension funding	**162**	308
UK corporation tax paid	**(2,594)**	(3,858)
Overseas tax paid	**(24)**	(696)
Net cash inflow from operating activities	**61,541**	67,908

b) Reconciliation of net cash flow to movement in net funds / (debt)		**2017**	2016
	Notes	**£000**	£000
Increase / (decrease) in cash		**1,156**	(35,811)
Acquisitions - debt repaid / (acquired)	21	**25,705**	(25,705)
Acquisitions - derivatives repaid / (acquired)	21	**1,258**	(1,258)
Disposal - debt	21	**68,185**	-
Cash inflow from new loans	21	**(47,849)**	(106,444)
Repayment of loans	21	**79,616**	45,343
Increase / (decrease) in net funds		**128,071**	(123,875)
Net (debt) / funds at 1st January		**(122,154)**	1,721
Net funds / (debt) at 31st December		**5,917**	(122,154)

	At 1st January, 2017	**Cash movement**	**Non-cash movement**	**Foreign exchange**	**At 31st December, 2017**
c) Analysis of net (debt) / funds	**£000**	**£000**	**£000**	**£000**	**£000**
Cash at bank and in hand	18,506	1,798	-	(642)	**19,662**
Bank overdrafts	(566)	(6,071)	-	-	**(6,637)**
Short term loans	(98,730)	64,801	33,287	-	**(642)**
Long term loans	(41,364)	-	34,898	-	**(6,466)**
Net (debt) / funds	(122,154)	60,528	68,185	(642)	**5,917**

Notes to the financial statements

13. Intangible fixed assets

	Franchise agreements £000	Goodwill £000	Software £000	Favourable leases £000	Order backlog £000	Total £000
Cost:						
At 1st January, 2016	13,552	41,362	-	-	-	54,914
Additions	-	-	506	-	-	506
Acquisitions	58,563	25,118	-	172	769	84,622
Disposals	-	(1,662)	(49)	-	-	(1,711)
Transfers	-	-	622	-	-	622
At 31st December, 2016	**72,115**	**64,818**	**1,079**	**172**	**769**	**138,953**
Additions	-	-	236	-	-	236
Acquisitions	22	-	-	-	-	22
Disposals	-	-	-	-	(769)	(769)
Transfers	-	-	57	-	-	57
At 31st December, 2017	**72,137**	**64,818**	**1,372**	**172**	**-**	**138,499**
Amortisation:						
At 1st January, 2016	-	17,092	-	-	-	17,092
Provided during the year	44	3,887	250	33	769	4,983
Disposals	-	(440)	(44)	-	-	(484)
Transfers	-	-	170	-	-	170
At 31st December, 2016	**44**	**20,539**	**376**	**33**	**769**	**21,761**
Provided during the year	57	4,404	247	57	-	4,765
Impairment	-	447	-	-	-	447
Disposals	-	-	-	-	(769)	(769)
At 31st December, 2017	**101**	**25,390**	**623**	**90**	**-**	**26,204**
Net book amount:						
At 31st December, 2017	**72,036**	**39,428**	**749**	**82**	**-**	**112,295**
Net book amount:						
At 1st January, 2017	72,071	44,279	703	139	-	117,192

a) Acquisitions and disposals - 2017

Acquisitions

On 2nd June, 2017 Marshall Motor Holdings plc acquired the trade and assets of a Volvo dealership which operates in Leeds. The estimated net assets at the date of the acquisition are set out at their provisional fail value as set out below:

	Net book value at 2nd June, 2017 £000
Intangible assets	22
Property, plant and equipment	32
Inventories	21
Trade receivables and other current assets	28
Trade and other payables	(26)
Net assets acquired	**77**
Total cash consideration	**77**

Notes to the financial statements

13. Intangible fixed assets (continued)

a) Acquisitions and disposals - 2017 (continued)

The results of the Volvo dealership were consolidated into the Group's results from 2nd June, 2017. For the period from acquisition to 31st December, 2017, revenues of the Volvo dealership were immaterial in the context of the Group's revenues, as was its loss before tax.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1st January, 2017), on a pro forma basis, the change in revenue of the combined Group for 2017 would have been immaterial in the context of the Group, as would have been the change in profit before tax. This pro forma information does not purport to represent the results of the combined Group that actually would have occurred had the acquisition taken place on 1st January, 2017 and should not be taken to be representative of future results.

Acquisition costs arising on acquisitions in 2017 were immaterial.

Measurement period adjustments

On 25th May, 2016 the Group acquired the entire share capital of Ridgeway Garages (Newbury) Limited and subsidiaries. On 2nd November, 2016 Marshall Motor Group Limited acquired the trade and assets of Scratch Match Accident Repair Centre from RLMO Limited.

The Group recognised in the 2016 financial statements a provisional fair value of net assets acquired of £84,128,000 and a provisional fair value for goodwill of £24,982,000 in respect of Ridgeway Garages (Newbury) Limited and Scratch Match ARC.

Within the measurement period following acquisition and in accordance with FRS102 section 19, the purchase price allocated has been finalised and the net assets at the date of acquisition are stated at their fair values as set out in section b) below. There has been no significant movement in the value of net assets acquired and goodwill between 31st December, 2016 and 31st December, 2017.The only movements being reclassifications between property, plant and equipment, trade and other receivables and trade and other payables.

Disposals

During the year, the Group closed a Honda dealership, a Vauxhall dealership and a Nissan dealership resulting in the following disposals of goodwill: £22,000 associated with the Honda CGU, £5,000 associated with the Vauxhall CGU and £420,000 associated with the Nissan CGU.

b) Ridgeway Garages (Newbury) Limited and subsidiaries acquisition - 2016

On 25th May, 2016, Marshall Motor Holdings plc acquired the entire share capital of Ridgeway Garages (Newbury) Limited and subsidiaries. On 2nd November, 2016 Marshall Motor Group Limited acquired the trade and assets of Scratch Match Accident Repair Centre from RLMO Limited. The estimated net assets at the date of acquisition are stated at their provisional fair value as set out below.

	Ridgeway Garages (Newbury) Limited			Scratch Match ARC
	Book value at 31st May 2016	**Fair value adjustment**	**Acquisition balance sheet at 31st May 2016**	**Book value and fair value to Group**
	£000	**£000**	**£000**	**£000**
Goodwill	2,600	(2,600)	-	-
Intangible assets	-	59,504	59,504	-
Deferred tax on acquired intangible assets	-	(10,031)	(10,031)	-
Property, plant & equipment	65,414	(436)	64,978	76
Inventories	124,124	(724)	123,400	-
Trade and other receivables	51,627	-	51,627	-
Cash and cash equivalents	12,664	-	12,664	-
Trade and other payables	(175,041)	(3,385)	(178,426)	-
Debt	(25,705)	-	(25,705)	-
Provisions	-	(5,026)	(5,026)	-
Deferred tax	(954)	(6,645)	(7,599)	-
Derivatives	(1,258)	-	(1,258)	-
Net assets acquired	**53,471**	**30,657**	**84,128**	**76**
Goodwill			24,982	136
Total cash consideration			**109,110**	**212**

Notes to the financial statements

13. Intangible fixed assets (continued)

b) Ridgeway Garages (Newbury) Limited and subsidiaries acquisition – 2016 (continued)

£59,504,000 of separately identifiable intangible assets were acquired on 25th May, 2016 as part of the acquisition of which £58,563,000 related to franchise agreements. A valuation of these intangible assets has been performed by Globalview Advisors, an independent external specialist.

As disclosed at the time of acquisition, Ridgeway's consolidated statutory accounts for the year ended 31st December, 2015 included a contingent liability note in respect of various film tax planning initiatives, which Ridgeway estimated could give rise to an additional tax liability of £3,500,000 (before any unknown sums of interest). Settlement of this liability has been agreed subsequent to the year ended 31st December, 2016 and the liability of £4,242,000 was included in provisions. Fair value adjustments also include provisional adjustments for property related matters, inventory valuations and non-recovery of debtors.

The goodwill is being amortised over its estimated useful life of 20 years.

c) Impairment testing

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each cash generating unit (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination. CGUs are assets or groups of assets. Each asset or group of assets to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for management purposes. Goodwill impairment review are undertaken annually, or more frequently, if events or changes in circumstances indicate a potential impairment.

Motor retail CGUs
The recoverable amounts of all CGUs have been determined based on value-in-use calculations. These calculations use projections based on financial budgets approved by the management which are extrapolated using the estimated long term growth rates. The budgets were prepared to 31st December, 2018 and then projected for a further 4 years. A discounted cash flow model was prepared taking into account management's assumptions for growth in EBITDA and the long term growth rate for the industry. These assumptions are based on past experience of growth rates in both existing and new markets. The discount rate used is 10% and the perpetual EBITDA growth rate beyond 5 years is assumed as 2% to arrive at a terminal value.

Management has prepared separate sensitivity analyses on the basis that the discount rate increases to 15% and that EBITDA decreases by 50% and has concluded that there is no impairment.

Goodwill arising on acquisitions is attributable to the anticipated profitability of the distribution of the Group's products through the acquired dealerships.

Notes to the financial statements

14. Tangible fixed assets

Group	Land and buildings: Freehold Properties	Land and buildings: Investment Properties	Land and buildings: Short Leasehold	Plant and Machinery	Assets held for contract rental	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation:							
At 1st January, 2017	170,761	13,989	13,569	154,924	101,944	7,022	462,209
Additions	2,755	161	946	10,025	34,700	18,016	66,603
Additions on acquisition	-	-	-	32	-	-	32
Disposals	(8,438)	(2,124)	(393)	(12,524)	(136,644)	-	(160,123)
Revaluation	-	182	-	-	-	-	182
Transfers*	15,302	(49)	2,555	959	-	(19,915)	(1,148)
Exchange adjustment	-	-	-	10	-	-	10
At 31st December, 2017	**180,380**	**12,159**	**16,677**	**153,426**	**-**	**5,123**	**367,765**
Depreciation:							
At 1st January, 2017	33,605	-	3,474	103,386	32,258	-	172,723
Provided during the year	2,789	-	1,928	13,931	15,962	-	34,610
Impairment provision	194	-	389	1,018	-	-	1,601
Eliminated on disposals	(127)	-	(319)	(10,381)	(48,220)	-	(59,047)
Transfers*	(405)	-	138	(25)	-	-	(292)
Exchange adjustment	-	-	-	(12)	-	-	(12)
At 31st December, 2017	**36,056**	**-**	**5,610**	**107,917**	**-**	**-**	**149,583**
Net book value:							
At 31st December, 2017	**144,324**	**12,159**	**11,067**	**45,509**	**-**	**5,123**	**218,182**
Net book value:							
At 1st January, 2017	137,156	13,989	10,095	51,538	69,686	7,022	289,486

Included within freehold land and buildings are costs of £3,765,000 (2016 - £4,301,000) which relate to costs incurred on planning applications submitted and to be submitted. Additionally, £2,804,000 of costs included in freehold land and buildings relate to phases 1 and 2 of the Wing development. These have been categorised as assets held for resale in tangible fixed assets within the respective subsidiary.

Investment properties included in freehold land and buildings are stated at fair value with changes in fair value being recognised in the Income Statement. No depreciation is provided in respect of such properties in accordance with FRS 102 Chapter 16 Investment Property. Residential investment properties have been included at a directors' valuation of £1,675,000 (2016 - £1,875,000), having taken professional advice. Fair value is determined by considering comparable market data such as rental yields, location, condition and nature of the property. Motor retail investment properties no longer occupied by the Group for trading purposes have been included at a directors' valuation of £2,590,000 (2016 – £2,590,000), having taken professional advice. The remaining Group freehold investment properties have been included at a directors' valuation of £9,569,000 (2016 - £9,524,000). These properties were formally valued on an open market basis by Bidwells, Chartered Surveyors on 31st December, 2014. A revaluation surplus of £133,000 (2016 – £2,290,000) has been taken to the Income Statement. The historical cost of the investment properties held at valuation in land and buildings is £9,494,000 (2016 - £10,901,000). There are no restrictions on the Group's ability to dispose of the investment properties or use any funds arising from the disposal. There are no contractual commitments for further development of the investment properties.

***Transfers to software**
On integration of the Ridgeway businesses into the Group, certain items of software were identified in the tangible fixed assets records of the recently acquired businesses. These software assets have been reclassified from property, plant and equipment to intangible assets (see Note 13 'Intangible Fixed Assets') consistent with the Group's accounting policies.

***Transfers to assets held for sale**
In December 2017, the Group ceased commercial activities at one if its freehold properties; as the property was no longer used for the commercial activity of the business and is being marketed for sale, the asset has been written down to its fair value and transferred to assets classified as held for sale (see Note 18 'Assets Classified as Held for Sale').

Notes to the financial statements

14. Tangible fixed assets (continued)

Company	Plant and machinery £000	Motor vehicles £000	Total £000
Cost:			
At 1st January, 2017	425	279	704
Additions	11	-	11
Disposals	(1)	-	(1)
At 31st December, 2017	**435**	**279**	**714**
Depreciation:			
At 1st January, 2017	316	248	564
Provided during the year	32	8	40
Disposals	(1)	-	(1)
At 31st December, 2017	**347**	**256**	**603**
Net book value:			
At 31st December, 2017	**88**	**23**	**111**
Net book value:			
At 1st January, 2017	109	31	140

15. Investments

Group	Listed* £000	Other investments £000	Total £000
Cost or valuation:			
At 1st January, 2017	2,455	4,427	6,882
Additions	-	1,792	1,792
Disposals	(3,174)	-	(3,174)
Mark to market	719	-	719
At 31st December, 2017	**-**	**6,219**	**6,219**
Provision:			
At 1st January, 2017	-	1,167	1,167
Provided during the year	-	242	242
At 31st December, 2017	**-**	**1,409**	**1,409**
Net book value:			
At 31st December, 2017	**-**	**4,810**	**4,810**
Net book value:			
At 1st January, 2017	2,455	3,260	5,715

Notes to the financial statements

15. Investments (continued)

Company	Subsidiary undertakings	EQUITY INVESTMENTS Listed*	Other investments	Total
	£000	£000	£000	£000
Cost or valuation:				
At 1st January, 2017	56,049	2,455	4,417	62,921
Additions	-	-	1,792	1,792
Disposal	-	(3,174)	-	(3,174)
Mark to market	-	719	-	719
At 31st December, 2017	**56,049**	**-**	**6,209**	**62,258**
Provision:				
At 1st January, 2017	10,000	-	1,167	11,167
Provided during the year	-	-	232	232
At 31st December, 2017	**10,000**	**-**	**1,399**	**11,399**
Net book value:				
At 31st December, 2017	**46,049**	**-**	**4,810**	**50,859**
Net book value:				
At 1st January, 2017	46,049	2,455	3,250	51,754

* The original cost of investments listed on the Alternative Investment Market is £nil (2016 - £80,000).

The Company's direct investments in subsidiary undertakings at 31st December, 2017 were as follows:

Subsidiary undertaking	Proportion held	Nominal value (£)	Number of ordinary shares	Principal activity	Cost £000
Marshall of Cambridge Aerospace Limited	100%	1.00	12,000,000	Aerospace engineering	12,000
Marshall Land Systems Limited	100%	1.00	12,000,000	Military and land systems engineering	12,000
MGPH Limited	100%	1.00	500,000	Property holding	1,734
Marshall Motor Holdings plc	65%	0.64	50,390,625	Motor retail	30,268
Marshall Fleet Solutions Limited	100%	1.00	12,000	Holding company	20
The Cambridge Aero Club Limited	100%	1.00	5,000	Flying instruction & aircraft charter	17
Marshall Group Properties Limited	100%	1.00	10,000	Farming and property holding	10
Marshall of Cambridge (Engineering) Limited	100%	1.00	100	Dormant	-
					56,049

Notes to the financial statements

15. Investments (continued)

Other subsidiary undertakings are detailed below:

Name of Undertaking	Immediate Parent	Principal Activity
Aeroacademy Limited	Marshall of Cambridge Aerospace Limited	Dormant
Aeropeople Limited	Marshall of Cambridge Aerospace Limited	Labour supply
Marshall Aircraft Sales Limited	Marshall of Cambridge Aerospace Limited	Aircraft sales
Marshall Aviation Services Limited	Marshall of Cambridge Aerospace Limited	Aerospace engineering
Marshall Middle East Limited	Marshall of Cambridge Aerospace Limited	Aerospace engineering
Slingsby Holdings Limited	Marshall of Cambridge Aerospace Limited	Holding company
Marshall Aerospace Canada, Inc.	Marshall of Cambridge Aerospace Limited	Aerospace engineering
Marshall Aerospace Netherlands B.V.	Marshall of Cambridge Aerospace Limited	Aerospace engineering
Marshall Aerospace Australia Pty Limited	Marshall of Cambridge Aerospace Limited	Aerospace engineering
Marshall Aerospace U.S, Inc.	Marshall of Cambridge Aerospace Limited	Non-trading
Aeropeople GmbH	Aeropeople Limited	Labour supply
Aeropeople Srl	Aeropeople Limited	Dormant
Marshall Specialist Vehicles Limited	Marshall Land Systems Limited	Non-trading
Slingsby Advanced Composites Limited	Slingsby Holdings Limited	Advanced materials engineering
Slingsby Aerospace Limited	Slingsby Holdings Limited	Dormant
Slingsby Aviation Limited	Slingsby Holdings Limited	Dormant
Slingsby Limited	Slingsby Holdings Limited	Dormant
Marshall Tail Lift Limited	Marshall Fleet Solutions Limited	Dormant
Marshall Thermo King Limited	Marshall Fleet Solutions Limited	Transport refrigeration services
Marshall Land Systems Australia Pty Limited	Marshall Fleet Solutions Limited	Dormant
Marshall Norway AS	Marshall Fleet Solutions Limited	Land systems engineering
Marshall of Cambridge (Airport Properties) Limited	Marshall Group Properties Limited	Dormant
CMG 2007 Limited**	Marshall Motor Holdings plc	Holding company
Marshall Commercial Vehicles Limited	Marshall Motor Holdings plc	Dormant
Marshall Motor Group Limited	Marshall Motor Holdings plc	Franchised motor dealership
Marshall North West Limited	Marshall Motor Holdings plc	Franchised motor dealership
Marshall of Cambridge (Garage Properties) Limited	Marshall Motor Holdings plc	Property holding
Marshall of Ipswich Limited*	Marshall Motor Holdings plc	Franchised motor dealership
Marshall of Peterborough Limited*	Marshall Motor Holdings plc	Franchised motor dealership
Marshall of Scunthorpe Limited**	Marshall Motor Holdings plc	Franchised motor dealership
Marshall of Stevenage Limited*	Marshall Motor Holdings plc	Franchised motor dealership
S.G. Smith Holdings Limited	Marshall Motor Holdings plc	Holding company
Silver Street Automotive Limited	Marshall Motor Holdings plc	Franchised motor dealership
Audi South West Limited	Marshall Motor Holdings plc	Dormant
Tim Brinton Cars Limited**	Marshall Motor Holdings plc	Property holding
Exeter Trade Parts Specialists LLP**	Marshall Motor Holdings plc	Motor parts sales
Ridgeway Garages (Newbury) Limited	Marshall Motor Holdings plc	Franchised motor dealership
Hanjo Russell Limited	Audi South West Limited	Dormant
Astle Limited**	CMG 2007 Limited	Franchised motor dealership
Crystal Motor Group Limited**	CMG 2007 Limited	Franchised motor dealership
S.G. Smith Trade Parts Limited**	S.G. Smith Automotive Limited	Motor parts sales
S.G. Smith (Motors) Beckenham Limited	S.G. Smith Automotive Limited	Franchised motor dealership
S.G. Smith (Motors) Crown Point Limited	S.G. Smith Automotive Limited	Franchised motor dealership
S.G. Smith (Motors) Croydon Limited	S.G. Smith Automotive Limited	Dormant
S.G. Smith (Motors) Limited**	S.G. Smith Automotive Limited	Property holding
S.G. Smith (Motors) Sydenham Limited	S.G. Smith Automotive Limited	Franchised motor dealership
S.G. Smith (Motors) Forest Hill Limited	S.G. Smith Automotive Limited	Franchised motor dealership
Prep-Point Limited**	S.G. Smith Automotive Limited	Maintenance and repair of motor vehicles
S.G. Smith Automotive Limited**	S.G. Smith Holdings Limited	Holding company
Pentagon Limited	Ridgeway Garages (Newbury) Limited	Franchised motor dealership
Pentagon South West Limited	Ridgeway Garages (Newbury) Limited	Dormant
Ridgeway TPS Limited	Ridgeway Garages (Newbury) Limited	Motor parts sales
Ridgeway Bavarian Limited	Ridgeway Garages (Newbury) Limited	Franchised motor dealership
Wood in Hampshire Limited	Ridgeway Garages (Newbury) Limited	Dormant
Wood of Salisbury Limited	Ridgeway Garages (Newbury) Limited	Dormant

* 99% owned by Marshall Motor Holdings plc.
** Subsidiaries for which exemption from audit by virtue of s479A of the Companies Act 2006 has been taken for the year ended 31st December, 2017.

Except for the entities detailed below, all subsidiary undertakings, and the LLP noted above are registered in England and Wales. Marshall Aerospace Canada, Inc. is registered in Canada. Marshall Aerospace Netherlands B.V. is registered in the Netherlands. Marshall Aerospace Australia Pty Limited and Marshall Land Systems Australia Pty Limited are registered in Australia. Aeropeople GmbH is registered in Germany. Aeropeople Srl is registered in Italy and is dormant. Marshall Aerospace U.S. Inc. is registered in the state of California, USA and has not yet begun to trade. Marshall Norway AS is registered in Norway. Joint ventures

During 2017, the Group entered into two joint venture agreements with Hill Residential Limited. The Group has a 50% ownership of the joint venture vehicles, Hill Marshall LLP and Hill Marshall (Phase 2) LLP, which were created to enable Phases 1 and 2 of the Wing development. The loan balance with Hill Marshall LLP is disclosed in note 17, this is also the total of transactions in the period to support the development activities of both joint ventures.

Notes to the financial statements

16. Stocks

	Group	
	2017	2016
	£000	£000
Raw materials, components and consumables	**10,320**	9,325
Work in progress	**10,633**	13,577
Finished goods and goods for resale	**407,715**	386,809
	428,668	409,711

Progress payments receivable in excess of the value of work done on individual contracts less provisions for losses are shown separately under creditors: amounts falling due within one year in the Balance Sheet.

As at 31st December, 2017 £380,641,000 (2016 – £364,695,000) of finished goods are held under vehicle funding agreements (see note 19).

Stocks recognised as an expense in the year were £2,109m (2016 – £1,787m). The difference between purchase price and production cost of stocks and their replacement cost is not considered material by the directors.

17. Debtors

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Trade debtors	**95,086**	124,027	**-**	-
Amounts recoverable on long term contracts	**15,740**	1,349	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**43,197**	18,713
Amounts owed by joint ventures	**702**	-	-	-
Derivative financial instruments	**-**	54	**-**	-
Corporation tax recoverable	**-**	4,801	**-**	2,210
Other taxes recoverable	**276**	308	**-**	-
Other debtors	**19,030**	29,525	**50**	50
Prepayments and accrued income	**16,674**	17,418	**293**	397
Deferred tax asset (See note 22b)	**7,225**	4,243	**3,011**	3,665
	154,733	181,725	**46,551**	25,035

Other debtors include finance lease and hire purchase receivables of £nil (2016 - £494,000). Of these £nil (2016 - £283,000) are amounts due in more than one year.

18. Assets classified as held for sale

	Group	
	2017	2016
	£000	£000
Assets classified as held for sale:		
Freehold land and buildings	**750**	-

Notes to the financial statements

18. Assets classified as held for sale (continued)

Following the closure of the one of the Group's dealerships in December 2017, the decision was taken to sell the freehold property owned by the Group and used by the dealership. Based on current market conditions, the sale is expected to be completed within one year from the balance sheet date. As a result, the freehold property has been reclassified as held for sale and transferred from property, plant and equipment into current assets. On reclassification, the freehold property was measured at the lower of its carrying amount and fair value less costs to sell at the date of reclassification (fair value as determined by a desktop valuation from Chartered Surveyors). This remeasurement resulted in an impairment loss of £194,000 being recognised in the Income Statement.

19. Creditors: amounts falling due within one year

		Group		Company
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Loans and overdrafts	**7,279**	99,296	**5,762**	21,000
Payments received on account	**6,862**	10,082	**-**	-
Trade creditors	**103,390**	106,400	**135**	128
Vehicle funding agreements	**380,641**	364,695	**-**	-
Derivative financial instruments	**54**	-	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**16,476**	16,172
Corporation tax payable	**2,338**	4,537	**501**	-
Other taxation and social security costs	**14,203**	10,965	**231**	248
Other creditors	**11,485**	28,296	**-**	-
Accruals and deferred income	**80,168**	75,704	**7,987**	6,371
	606,420	699,975	**31,092**	43,919

The Group finances the purchase of new and used vehicle inventories using vehicle funding agreements provided by various lenders, including the captive finance companies associated with brand partners. These financial agreements generally have a maturity of 90 days or less and the Group is normally required to repay amounts outstanding on the earlier of the sale of the vehicles that have been funded under the facilities or the stated maturity date.

Consistent with industry practice, amounts due to finance companies in respect of vehicle funding are included within trade payables and disclosed under vehicle financing arrangements. Related cash flows are reporting within cash flows from operating activities within the Consolidated Statement of Cash Flows.

Vehicle funding agreements are subject to LIBOR-based (or similar) interest rates. The interest incurred under these arrangements is included within finance costs and classified as stock finance charges. Related cash flows are reported within cash flows from operating activities within the Group statement of cash flows.

20. Creditors: amounts falling due after more than one year

		Group		Company
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Loans and mortgages	**6,466**	41,364	**-**	-
Accruals and deferred income	**6,047**	8,873	**1,412**	997
	12,513	50,237	**1,412**	997

Included within accruals and deferred income are costs of £1,412,000 (2016 - £997,000) relating to long-term employee benefits.

Notes to the financial statements

21. Loans

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Amounts falling due:				
Within one year	**7,279**	99,296	**5,762**	21,000
Between one and five years	**2,565**	36,340	**-**	-
More than five years	**3,901**	5,024	**-**	-
	13,745	140,660	**5,762**	21,000
Less: included in creditors: amounts falling due within one year	**(7,279)**	(99,296)	**(5,762)**	(21,000)
Amounts falling due after more than one year	**6,466**	41,364	**-**	-

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Bank overdrafts	**6,637**	11,391	**5,762**	-
Bank loans	**-**	56,000	**-**	21,000
Mortgages	**7,108**	8,756	**-**	-
Asset backed financing - discontinued	**-**	64,513	**-**	-
	13,745	140,660	**5,762**	21,000

	Group		Company	
	2017	2016	**2017**	2016
Analysis of changes in loan financing during the year:	**£000**	£000	**£000**	£000
At 1st January	**140,660**	52,596	**21,000**	-
Acquisitions - debt (repaid) / acquired	**(25,705)**	25,705	**-**	-
Acquisitions - derivatives (repaid) / acquired	**(1,258)**	1,258	**-**	-
New loans	**47,849**	106,444	**5,762**	21,000
Loans disposed	**(68,185)**	-	**-**	-
Loans repaid	**(79,616)**	(45,343)	**(21,000)**	-
At 31st December	**13,745**	140,660	**5,762**	21,000

Mortgages comprise amounts borrowed from commercial financial institutions and are secured by fixed charges over specified property assets of certain subsidiaries.

Bank loans and overdrafts comprise amounts borrowed from commercial banks. The overdrafts are repayable on demand.

Total loans include bank loans which are unsecured and asset backed financing, which is secured by a fixed charge over specific vehicles held for leasing. Asset backed finance in respect of assets held for contract rental are secured by fixed charges over specific vehicles. The related finance comprises chattel mortgages. All asset based finance ceased during the year following the disposal of Marshall Leasing Limited.

The Group (excluding MMH) has a multi-option facility amounting to £75,000,000 of which £nil (2016 - £21,000,000) was utilised at the year end. Subject to bank approval, the revolving credit facility has an option to be extended by a further £15,000,000. These facilities are available for general corporate purposes including acquisitions or working capital requirements. Interest is chargeable on the amounts drawn under the facilities at between 1.0% and 2.0% above LIBOR. The facilities are unsecured but contain cross guarantees granted by certain members of the Group, excluding MMH. The facility is available until March 2020. Subject to bank approval, the Group is also able to extend the term of the facility by up to 12 months.

Marshall Motor Holdings plc has access to additional banking facilities amounting to £120,000,000 represented by a revolving credit facility of £95,000,000, of which £nil (2016 - £35,000,000) was utilised at the year end and an overdraft facility of £25,000,000, of which £nil (2016 - £10,825,000) was utilised at the year end. These facilities are available for general corporate purposes including acquisitions or working capital requirements. Both facilities are held in cash pooling arrangements and balances have been offset in the consolidated statement of the financial position. The facilities are unsecured but contain cross guarantees granted by certain members of the MMH Group. The facility is available until May 2020. Subject to bank approval, the Group is also able to extend the term of the facility by up to 12 months.

Notes to the financial statements

22. Provision for liabilities

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Closed sites	**527**	195	**-**	-
Dilapidations, onerous leases and contracts	**51,275**	25,181	**-**	8,800
Redundancy	**1,338**	-	**-**	-
Tax	**237**	4,242	**-**	-
Warranty	**900**	845	**-**	-
	54,277	30,463	**-**	8,800
Deferred tax (see note 22b)	**17,976**	18,654	**-**	-
	72,253	49,117	**-**	8,800

(a) Provisions excluding deferred tax

	Closed sites	Dilapidations, onerous leases and contracts	Redundancy	Tax	Warranty	Total
	£000	£000	£000	£000	£000	£000
At 1st January, 2017	195	25,181	-	4,242	845	30,463
Arising during the year	427	45,663	1,546	-	660	48,296
Amounts utilised	(95)	(10,022)	(208)	(4,005)	(327)	(14,657)
Amounts released	-	(9,547)	-	-	(278)	(9,825)
At 31st December, 2017	**527**	**51,275**	**1,338**	**237**	**900**	**54,277**

Closed sites
The Group manages its portfolio carefully and either closes or sells sites which no longer fit with the Group's strategy. When sites are closed, or sold, provisions are made for any residual costs or commitments. The Group expects the provision to be fully utilised by 31st December, 2018.

Dilapidations and onerous leases and contracts
The Group operates from several leasehold premises under full repairing leases. The provision recognises that repairs are required to put the buildings back into the state of repair required under the leases. Where property commitments exist at sites which are closed or closing the Group provides for the unavoidable cost of those leases post closure. £289,000 of this provision is long term and is expected to be utilised or released by 31st December, 2024.

The Group also provides for the unavoidable costs of meeting the obligations under lease where these obligations exceed the economic benefit expected to be received under it. The Group expect the provision to be fully utilised by 31st December, 2018.

The loss provision relates to management's best estimate of the foreseeable loss on major contracts. The provision is expected to be utilised over the next two years.

Redundancy provision
A redundancy provision has been recognised in relation to the remaining costs expected to be incurred in completion of the restructuring exercise that commenced during 2017. The Group expects the provision to be fully utilised by 31st December, 2018.

Tax provision
Provision for tax liabilities, arising in Ridgeway Garages (Newbury) Limited, in respect of various film tax planning initiatives. In February 2017, a settlement with HMRC was agreed with most installments paid during the year – the final instalment was paid after year end in January 2018.

Warranty provision
A provision is recognised for expected warranty claims on products sold. It is expected that the warranty costs will be incurred by 31st December, 2020.

Notes to the financial statements

22. Provision for liabilities (continued)

(b) Deferred tax

The deferred tax liability / (asset) provided in the financial statements compromises as follows:

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Accelerated capital allowances	**(651)**	(1,052)	**(45)**	(38)
Tax losses carried forward	**(4,633)**	(1,185)	**-**	-
Rolled over gains and investment properties	**1,992**	2,969	**-**	-
Deferred tax on defined benefit pension scheme	**(2,097)**	(2,977)	**(2,097)**	(2,977)
Deferred tax on unremitted earnings	**131**	106	**-**	-
Deferred tax arising on business combinations	**17,451**	18,530	**-**	-
Other timing differences	**(1,442)**	(1,980)	**(869)**	(650)
	10,751	14,411	**(3,011)**	(3,665)

	Group		Company	
	2017	2016	**2017**	2016
Shown as:	**£000**	£000	**£000**	£000
Deferred tax asset	**(7,225)**	(4,243)	**(3,011)**	(3,665)
Deferred tax liability	**17,976**	18,654	**-**	-
	10,751	14,411	**(3,011)**	(3,665)

The movement in the deferred tax liability / (asset) during the year comprises as follows:	Group	Company
	£000	**£000**
At 1st January, 2017	14,411	(3,665)
Credit to the profit and loss account for the year	(6,187)	(326)
Disposals during the year	1,547	-
Deferred taxation in Other Comprehensive Income	980	980
At 31st December, 2017	**10,751**	**(3,011)**

The deferred tax credit in the income statement for the year comprises as follows:		Group
	2017	2016
	£000	£000
Origination and reversal of timing differences	**(5,568)**	(1,809)
Tax rate change	-	(1,216)
Adjustments in respect of prior years	**(619)**	(683)
	(6,187)	(3,708)

Notes to the financial statements

22. Provision for liabilities (continued)

The deferred tax asset not recognised comprises as follows:		Group
	2017	2016
	£000	£000
Trading losses	**1,593**	1,690
Excess of depreciation over capital allowances	**115**	-
Other short term timing differences	**71**	1,622
	1,779	3,312

A deferred tax asset has not been recognised for certain trading and capital losses as the directors do not expect that they would be utilised against similar taxable profits in the foreseeable future.

23. Share capital

	Alloted, called up and fully paid			
	2017	2016	**2017**	2016
	No. '000	No. '000	**£000**	£000
Ordinary shares of 12.5p each	**13,940**	13,940	**1,743**	1,743
Non-voting priority dividend ordinary NVPO shares of 12.5p each	**45,142**	45,142	**5,642**	5,642
8% irredeemable A preference shares £1 each	**4,800**	4,800	**4,800**	4,800
10% irredeemable B preference shares of £1 each	**3,600**	3,600	**3,600**	3,600
	67,482	67,482	**15,785**	15,785

	Ordinary shares at 12.5p each		NVPO shares at 12.5p each	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
At 1st January	**1,743**	1,819	**5,642**	5,514
Ordinary shares converted to NVPO shares	**-**	(76)	**-**	76
New issues	**-**	-	**-**	52
At 31st December	**1,743**	1,743	**5,642**	5,642

Rights of non-voting priority dividend ordinary (NVPO) shares
NVPO shares rank pari passu with Ordinary shares except for the following:

(i) holders of NVPO shares are entitled to a priority dividend of 2p in priority to any discretionary dividend payable on the Ordinary shares, together with a dividend per NVPO equal to the amount of any dividend declared on each Ordinary share.

(ii) holders of NVPO shares cannot attend or vote at an AGM.

Rights of preference shares

(i) holders of preference shares are entitled, in priority to any discretionary dividend payable on the Ordinary shares and the NVPO shares, to non-cumulative preference dividends of 8p per share in respect of the A preference shares and 10p per share in respect of the B preference shares.

(ii) on a return of capital on a winding up the preference shares carry the right to repayment of capital at par; this right is in priority to the rights of Ordinary and NVPO shareholders.

(iii) holders of preference shares cannot attend or vote at an AGM.

During 2017, no holders of Ordinary shares converted them into NVPO shares (2016 – 611,320).

24. Reserves

Capital redemption reserve
On 2 October, 1991, pursuant to a special resolution, Marshall of Cambridge (Holdings) Limited purchased 130,000 ordinary shares of £1 each, representing 1.8% of the issued share capital of the Company at that date, for a consideration of £455,000. The purchased shares were then cancelled in accordance with Section 160(4) Companies Act 1985.

Cash flow hedge reserve
This reserve is used to record changes in the fair value of financial instruments designated as cash flow hedges.

Notes to the financial statements

25. Non-controlling interests

	2017	2016
	£000	£000
At 1st January	**50,001**	44,271
Non-controlling interests profit on ordinary activities after taxation	**17,044**	5,896
Equity dividends paid by Marshall Motor Holdings plc to third parties	**(1,579)**	(1,135)
Further change in parent company's interest in the net assets of Marshall Motor Holdings plc following issue of share options	**2,730**	969
At 31st December	**68,196**	50,001

The Group's interest in the net assets of Marshall Motor Holdings plc on 31st December, 2017 was 62.78% (2016 – 64.62%).

26. Contingent liabilities

Guarantees to third parties, granted by subsidiary undertakings, amounted to £830,000 (2016 - £830,000). Performance guarantees granted by subsidiary undertakings amounted to £10,204,000 (2016 - £1,382,000) and €nil (2016 - €5,000,000). The Group (excluding MMH) has access to a £75,000,000 banking facility (see note 21) which is secured by cross guarantees granted by certain members of the Group, excluding MMH. Marshall Motor Holdings plc has access to additional banking facilities which are secured by cross guarantees between certain members of the MMH Group.

27. Capital commitments

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Authorised by the Board and contracted but not provided for	**19,002**	3,170	**175**	350

At 31st December, 2017 the board of Marshall Motor Holdings plc had capital commitments totalling £7,700,000 (2016 - £11,700,000) relating to ongoing construction projects.

28. Other financial commitments

Finance leases - Group as lessor

Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of the discounted future lease payments.

At 31st December, 2017 following the disposal of Marshall Leasing Limited, these receivables amounted to £nil (2016: £494,000). The information for 2016 is shown below:

	Total future payments	**2016 Unearned interest income**	**Present value**
	£000	**£000**	**£000**
Within 1 year	234	3	231
Between 1 and 5 year	308	45	263
	542	**48**	**494**

The Group leased out vehicles under finance leases mainly through one of its subsidiaries, Marshall Leasing Limited. Most of the leases typically ran for a non-cancellable period of two to nine years. Under the contracts, title either passed to the lessee after the lease period, or the arrangements included an option to purchase the leased equipment after that period.

Operating leases - Group as lessor

The Group has entered non-cancellable operating leases, as lessor, on several of its assets held for contract rental included in property, plant and equipment and property included in investment property. The terms of these leases vary.

At 31st December, 2017 following the disposal of Marshall Leasing Limited, the future minimum lease payments receivable for assets held for contract rental under non-cancellable operating leases were £nil. The information for 2016 is shown below.

	2016
	£000
Within 1 year	26,408
Between 1 and 5 years	71,891
	98,299

Notes to the financial statements

28. Other financial commitments (continued)

Future minimum lease payments receivable for property under non-cancellable operating leases are as set out below.

	2017	2016
	£000	£000
Within 1 year	**681**	275
Between 1 and 5 years	**1,881**	813
After 5 years	**3,491**	908
	6,053	1,996

Operating leases - Group as lessee

The Group leases several properties, equipment and vehicles under operating leases. The future aggregate minimum payments under these non-cancellable leases are set out below.

				Group
	Land and buildings		**Other**	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Within 1 year	**12,004**	12,394	**583**	383
Between 1 and 5 years	**36,436**	41,181	**527**	860
After 5 years	**54,850**	63,160	**-**	-
	103,290	116,735	**1,110**	1,243

29. Derivative financial instruments

	Group		**Company**	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Financial assets at fair value through the income statement				
Listed investments	**-**	2,455	-	2,455
Financial assets that are equity investments which are measured at cost less impairment.	**4,810**	3,260	**50,859**	49,299
Financial liabilities measured at fair value through the income statement				
Forward foreign exchange contracts	**(54)**	(35)	**-**	-
Financial liabilities measured at amortised cost				
Bank loans and overdrafts	**(7,279)**	(99,296)	**(5,762)**	(21,000)
Trade creditors	**(103,390)**	(106,400)	**(135)**	(128)
Vehicle funding agreements	**(380,641)**	(364,695)	**-**	-

The Group purchases forward foreign exchange contracts to hedge currency exposure on firm future commitments. The fair values of the assets and liabilities are determined by using quoted prices.

30. Staff costs and directors' emoluments

	2017	2016
	£000	£000
(a) Group staff costs		
Wages and salaries	**216,057**	202,044
Social security costs	**24,093**	20,995
Other pension costs (see note 32)	**7,041**	6,805
Share based payment charge	**1,005**	1,313
	248,196	231,157

Other pension costs include only those items included within operating costs. Items reported elsewhere have been excluded.

Notes to the financial statements

30. Staff costs and directors' emoluments (continued)

The average monthly number of employees of the Group during the year was:

	2017	2016
	No.	No.
Aerospace and defence	**1,890**	2,087
Motor retail and leasing	**3,923**	3,570
Property and head office	**35**	30
Fleet solutions	**363**	372
	6,211	6,059

		2017	2016
		£000	£000
(b) Directors' remuneration			
Emoluments	-continuing	**1,875**	1,500
	-leavers	**-**	630
Long term incentive payments	-continuing	**416**	296
	-leavers	**-**	497
Compensation for loss of office	-continuing	**-**	435
	-leavers	**-**	1,374
Company contributions to defined benefit pension scheme		**-**	-
Company contributions to defined contribution pension scheme		**-**	7
		2,291	4,739

	2017	2016
	No.	No.
Contributing members of defined benefit pension scheme	**-**	1
Contributing members of defined contribution pension scheme	**-**	1

	2017	2016
	£000	£000
Remuneration of highest paid director:		
Emoluments	**769**	173
Long term incentive payments	**316**	347
Compensation for loss of office	**-**	764
	1,085	1,284

The directors of the Parent Company are the Group's key management personnel defined by FRS 102.

(c) Share based payments

Marshall Motor Holdings plc (MMH), one of the Group's subsidiaries operates an equity-settled share option scheme for certain senior managers and executive directors of the Group ("the Performance Share Plan"). As at 31 December 2017, four share grants have been awarded under the scheme being (a) IPO Restricted Awards (vesting in three tranches) (b) IPO Performance Awards (vesting in two tranches) (c) 2016 Performance Awards and (d) 2017 Performance Awards.

Awards are made annually to eligible employees at the discretion of the Remuneration Committee; employees receive shares at the end of the performance period, subject to the achievement of the specified underlying basic earnings per share ("EPS") performance conditions. Performance conditions are designed to incentivise senior managers and executive directors to maximise long-term shareholder returns. Each option grant under the scheme is disclosed separately below.

The total share-based payment charge recognised during the year ended 31 December 2017 was £1,005,000 (2016 - £1,313,000). This is split as £266,000 in accruals and deferred income and £739,000 in retained earnings.

Notes to the financial statements

30. Staff costs and directors' emoluments (continued)

If an option remains unexercised after a period of ten years from the date of grant, the option expires. The weighted average remaining contractual life of options outstanding as at 31 December 2017 is 8.2 years (2016 - 8.6 years).

The fair value of share options is determined by reference to the market value of the Group's shares at the date of grant. No valuation model is required to calculate the fair value of awards on the basis that the employees receiving the awards are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards. The weighted average fair value of options outstanding as at 31 December 2017 is £1.65 (2016 - £1.65). The fair value of options granted during the year was £1.69 (2016 - £2.06). The fair value of equity settled share options granted was based on market value on 29 September 2017 when the share options were granted.

Options are forfeited if the employee leaves MMH before the options vest.

All options issued are nil cost options and all awards have an exercise price of £nil.

The share option scheme is in place to encourage option holders to take appropriate and timely action to maximise the long-term financial performance and success of MMH. As a result, in accordance with the discretion afforded to them under MMH's remuneration policy, the MMH Remuneration Committee regularly reviews any impact of MMH restructurings and reorganisations on incentive outcomes to ensure that performance conditions are not distorted by action taken to optimise business performance for the long-term benefit of the MMH.

The MMH Remuneration Committee exercised this discretion during the year. Incentive outcomes on the IPO Performance Awards and the 2016 Performance Awards were adjusted for the impact of the disposal of Marshall Leasing Limited.

As at 31 December, 2017 outstanding share options were as follows:

Award	Award date	over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
IPO Restricted Share Awards - Tranche 2	02-Apr-15	156,599	Nil	02-Apr-17	02-Apr-25
IPO Restricted Share Awards -Tranche 3	02-Apr-15	156,600	Nil	02-Apr-18	02-Apr-25
IPO Performance Awards - Tranche 1	02-Apr-15	604,028	Nil	02-Apr-18	02-Apr-25
IPO Performance Awards - Tranche 2	02-Apr-15	604,028	Nil	02-Apr-19	02-Apr-25
2016 Performance Awards	13-Jun-16	538,835	Nil	13-Jun-20	13-Jun-26
2017 Performance Awards	29-Sep-17	806,141	Nil	29-Sep-20	29-Sep-27

IPO Restricted Share Awards

The IPO Restricted Share Awards are not subject to any performance conditions, vesting is purely subject to the service condition of continuous employment.

These options vest in three equal tranches and become exercisable on the first, second and third anniversaries of the date on which the MMH shares were admitted to the Alternative Investment Market of the London Stock Exchange (2 April 2015).

IPO Restricted Share Awards	2017 No	2017 WAEP	2016 No	2016 WAEP
Outstanding as at 1st January	313,199	-	469,798	-
Exercised	-	-	(156,599)	-
Outstanding as at 31st December	**313,199**	**-**	**313,199**	**-**
Exercisable as at 31st December	**156,599**	**-**	**-**	-

IPO Performance Awards

The IPO Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in EPS from 2014 to 2017; 25% vest for achieving growth of CPI plus 4% per annum increasing to 100% vesting for achieving growth of CPI plus 10% per annum.

Notes to the financial statements

30. Staff costs and directors' emoluments (continued)

These options vest in two equal tranches and 50% become exercisable on the third anniversary of the date on which MMH's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange and the remaining 50% become exercisable on the fourth anniversary.

IPO Performance Awards	2017 No	2017 WAEP	2016 No	2016 WAEP
Outstanding as at 1st January	1,406,040	-	1,459,730	-
Forfeited during the year	(197,984)	-	(53,690)	-
Outstanding at 31st December	**1,208,056**	**-**	**1,406,040**	**-**
Exercisable at 31st December	**-**	**-**	**-**	**-**

2016 Performance Awards

The 2016 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in EPS from 2015 to 2018; 25% vest for achieving growth of CPI plus 3% per annum increasing to 100% vesting for achieving growth of CPI plus 8% per annum.

These options all become exercisable on the third anniversary of the grant date.

The 2016 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

2016 Performance Awards	2017 No	2017 WAEP	2016 No	2016 WAEP
Outstanding as at 1st January	660,801	-	-	-
Granted during the year	-	-	675,364	-
Forfeited during the year	(121,966)	-	(14,563)	-
Outstanding at 31st December	**538,835**	**-**	**660,801**	**-**
Exercisable at 31st December	**-**	**-**	**-**	**-**

2017 Performance Awards

The 2017 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in underlying, basic EPS from 2018 to 2019; 25% vest for achieving growth of CPI plus 1% per annum and the percentage of options which vests increases on a straight-line basis up to 100% vesting for achieving growth of CPI plus 5% per annum.

These options all become exercisable on the third anniversary of the grant date.

The 2017 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

2017 Performance Awards	2017 No	2017 WAEP	2016 No	2016 WAEP
Granted during the year	806,141	-	-	-
Outstanding at 31st December	**806,141**	**-**	**-**	**-**
Exercisable at 31st December	**-**	**-**	**-**	**-**

Notes to the financial statements

31. Related parties

During the year, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered, and trading balances outstanding at the year end were as follows:

	Sales to related party	Purchases to related party	Amounts due from / (to) related party
Group	**£000**	**£000**	**£000**
Entities over which the group has significant influence			
2017	775	1,981	149
2016	1,056	2,005	95

The above transactions are with Marshall Motor Holdings plc and its subsidiaries.

Parent Company	Sales to related party	Purchases to related party	Amounts due from / (to) related party
	£000	**£000**	**£000**
Entities over which the Parent Company has significant influence			
2017			
Marshall Motor Group Limited	367	62	(28)
Marshall Leasing Limited	604	21	-
2016			
Marshall Motor Group Limited	360	75	27
Marshall Leasing Limited	-	7	-

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at normal market prices. Outstanding balances with these entities are unsecured, interest free and cash settlement is expected within 60 days of invoice. The Group and Parent Company have not benefited from any guarantees for any related party receivables or payables. During the year ended 31st December, 2017, the Group and Parent Company have not made any provision for doubtful debts relating to amounts owed by related parties (2016 - £nil).

32. Pensions and other retirement benefit costs

The Group operates, for the benefit of its employees, three schemes, one of which has elements of both defined benefit and defined contribution, while the other two are entirely defined contribution. All the schemes are funded by the payment of contributions to trustee administered funds which are kept entirely separate from the assets of the Group. The level of pension contribution is determined with the advice of independent qualified actuaries.

The scheme which has elements of both defined benefit and defined contribution is known as the Marshall Group Executive Pension Plan (the “Plan”). The defined contribution type schemes, which cover approximately 95% of scheme members, were established in 1982 and 1988. The total pension cost for the Group for the year in respect of all defined contribution schemes in the UK was £7,824,000 (2016 - £6,072,000). A further £190,000 (2016 - £198,000) was paid into defined contribution schemes overseas. The total defined benefit cost for the Group in respect of the Plan was £719,000 (2016 - £947,000) under FRS 102 Chapter 28 of which £296,000 (2016 - £536,000) has been charged against operating profit and £423,000 (2016 - £411,000) has been charged to other finance expense.

The plan was assessed by a qualified independent actuary from Buck Consultants, as at 31st December, 2016 using the projected unit method and indicated a funding deficit of £8,059,000. To address the past service deficit, the Parent Company and the Trustees agreed that the Parent Company will remove the deficit over a period of seven years, by 31st December, 2023. Annual instalments of £750,000, £1,250,000, £1,500,000 and then four instalments of £1,750,000 will commence in 2017. The first instalment represents an amount owed to a group company and as such does not require an actual contribution to be made. The deficit contributions include allowance for the future service contribution rate to be changed with effect from 1 January, 2018. The valuation of the defined benefit section of the plan under FRS102 Chapter 28 has been based on the actuarial valuation, updated by the actuary from Buck Consultants in order to assess the assets and the liabilities of the scheme as at 31st December, 2017. The assets and liabilities shown exclude those relating to defined contribution pensions.

Notes to the financial statements

32. Pensions and other retirement benefit costs (continued)

The major assumptions used by the actuary were:	**2017 %**	2016 %
Discount rate	**2.50**	2.54
Salary increase rate	**2.87**	3.06
Retail price inflation rate	**3.24**	3.31
Rate of revaluation in deferment	**2.24**	2.31
Pension increase rate:		
- pre 1993 discretionary increases	**2.70**	2.70
- price inflation, capped at 5.0%	**3.24**	3.31
- as above, but for those pensions subject to 3.0% floor	**3.35**	3.36
- as above, but for those pensions subject to 2.7% floor	**3.26**	3.31
- as above, but for those pensions subject to 8.5% cap	**3.24**	3.31
Life expectancy at 65		
- for male aged 65	**23.50**	23.80
- for female aged 65	**25.70**	26.00
- for male aged 45	**25.20**	25.80
- for female aged 45	**27.20**	27.60

The post retirement longevity assumption uses 73% of SIPxA tables, with CMI 2015 projections from 2008 with a long term improvement of 1.50% per annum for males (2016 - 1.25%) and 1.25% for females (2016 - 1.00%), and allow for expected increases in longevity. The disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date.

Amounts recognised in the Balance Sheet are determined as follows:

	2017 £000	2016 £000
Fair value of plan assets at the end of year	**38,764**	36,975
Present value of defined benefit obligations at end of year	**(51,097)**	(54,485)
Deficit in the scheme as at 31 December	**(12,333)**	(17,510)
Related deferred tax asset	**2,097**	2,977
Net defined benefit obligation	**(10,236)**	**(14,533)**
Reconciliation of defined benefit obligations:		
Present value of obligations at start of year	**54,485**	46,062
Current employer service cost	**214**	480
Interest cost	**1,359**	1,632
Contributions by plan participants	**14**	16
Actuarial (gains) / losses	**(2,935)**	7,748
Benefits paid	**(2,040)**	(1,453)
Present value of obligations at end of year	**51,097**	54,485

Notes to the financial statements

32. Pensions and other retirement benefit costs (continued)

	2017 £000	2016 £000
Reconciliation of fair value of assets:		
Fair value plan assets at start of year	**36,975**	34,546
Interest income on plan assets	**935**	1,222
Return on plan assets in excess of interest income	**2,829**	2,472
Contributions by the employer	**133**	228
Contributions by plan participants	**14**	16
Benefits paid	**(2,040)**	(1,453)
Administration expenses	**(82)**	(56)
Fair value of assets at end of year	**38,764**	36,975

	2017 £000	2016 £000
Analysis of amount charged against profit / (loss):		
Current employer service cost	**214**	480
Administration expenses	**82**	56
Net interest on net defined benefit liability	**423**	411
Total expense recognised in the Income Statement	**719**	947

	2017 £000	2016 £000
Analysis of amount credited / (charged) against other comprehensive income / (expense):		
Remeasurement gain / (loss) recognised on defined benefit pension scheme	**5,762**	(5,276)
Deferred tax (charge) / credit relating to defined benefit pension scheme	**(980)**	782
	4,782	(4,494)

	Value £000	2017 % Total	Value £000	2016 % Total
Breakdown of value of plan assets				
UK equities	**5,834**	**15.05%**	5,320	14.39%
Overseas equities	**14,388**	**37.13%**	12,216	33.03%
Property	**7,076**	**18.25%**	6,850	18.53%
Liability driven investment	**3,602**	**9.29%**	4,311	11.66%
Insight Broad Opportunities Fund	**6,421**	**16.56%**	5,860	15.85%
Cash and net current (liabilities) / assets	**(526)**	**(1.36%)**	120	0.32%
Insured pensions	**1,969**	**5.08%**	2,298	6.22%
Total fair value of plan assets	**38,764**	**100.00%**	36,975	100.00%

Notes to the financial statements

32. Pensions and other retirement benefit costs (continued)

The five year history of experience adjustments is as follows:	**2017*** **£000**	2016* £000	2015* £000	2014* £000	2013 £000
Experience adjustments on scheme assets	**2,829**	2,472	646	2,002	986
Experience adjustments on scheme liabilities	**432**	1,356	(1,077)	(320)	(2,257)
Changes in assumption	**2,501**	(9,104)	1,632	(6,402)	465
Total recognised in other comprehensive income / (expense)	**5,762**	(5,276)	1,201	(4,720)	(806)
Fair value of scheme assets	**38,764**	36,975	34,546	34,119	32,006
Present value of scheme liabilities	**(51,097)**	(54,485)	(46,062)	(46,969)	(39,962)
Deficit in the scheme	**(12,333)**	(17,510)	(11,516)	(12,850)	(7,956)

*Values from 2014 onwards have been prepared under FRS 102, whilst amounts for earlier periods remain under previously extant UK GAAP. Through the defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility - the Plan assets holds 80 per cent growth assets and these will not provide a match to the movement in the discount rate. Consequently the difference in the values of the assets and liabilities may be quite volatile.

Inflation risk - the majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation).

Life expectancy - increases in life expectancy will increase plan liabilities, the inflation linkage of the benefits results in a higher sensitivity to increases in life expectancy.

33. Post balance sheet events

On the 21st December, 2017 Hill Marshall LLP secured a loan facility from the Homes and Communities Agency amounting to £22,440,000 which expires on 31st December, 2027. The loan is to be secured by a fixed charge over land to be transferred to Hill Marshall LLP and Hill Marshall (Phase 2) LLP by Marshall Group Properties Limited. The land transfer is a condition precedent to drawing the loan and is expected to take place prior to the end of April 2018.

Recent Financial History

	2013	2014*	2015*	2016*	**2017***
	£000	£000	£000	£000	**£000**
Revenue	1,292,522	1,425,853	1,585,732	2,259,884	**2,603,602**
Operating profit / (loss)	19,618	21,084	25,326	(2,532)	**39,035**
Net finance charges	(1,513)	(1,545)	(3,095)	(7,291)	**(8,858)**
Profit / (loss) on ordinary activities before tax	18,105	19,539	22,231	(9,823)	**30,177**
Shown as:					
Underlying profit on ordinary activities before tax	25,127	25,382	25,949	26,199	**28,143**
Amortisation and impairment charges	(3,898)	(4,684)	(3,310)	(5,929)	**(6,366)**
Provision for losses on complex programme	-	-	-	(25,925)	**(30,943)**
Restructuring costs	(3,124)	-	-	(4,168)	**(13,120)**
Profit on disposal of tangible fixed assets - property	-	-	-	-	**14,112**
Profit on disposal of subsidiary	-	-	-	-	**38,351**
Non-directly attributable IPO costs	-	(1,159)	(408)	-	**-**
Separately disclosed exceptional items	(7,022)	(5,843)	(3,718)	(36,022)	**2,034**
Taxation	(5,195)	(6,120)	(6,863)	(842)	**94**
Profit / (loss) on ordinary activities after tax	12,910	13,419	15,368	(10,665)	**30,271**
Non-controlling interests	3	3	(1,542)	(5,896)	**(17,044)**
Profit / (loss) for the financial year	12,913	13,422	13,826	(16,561)	**13,227**
Dividends paid by the parent company	(3,083)	(3,523)	(6,758)	(4,010)	**(4,010)**
Retained profit / (loss)	9,830	9,863	7,068	(20,571)	**9,217**
Dividends per ordinary share paid and proposed for the year	3.00p	3.75p	4.00p	4.00p	**4.00p**
Dividends per NVPO share paid and proposed for the year	5.00p	5.75p	6.00p	6.00p	**6.00p**
Dividend cover for ordinary and NVPO shares (excluding special dividends)	4.6	4.1	4.1	(5.3)	**3.8**
Special dividends per Ordinary and NVPO share paid during the year	-	-	5.00p	-	**-**
Basic earnings / (loss) per share	20.7p	21.6p	22.3p	(29.4p)	**21.1p**
Underlying earnings per share	31.3p	31.0p	25.1p	37.1p	**31.4p**
Return on capital employed - shareholders' funds	10.9%	11.0%	11.8%	(8.7%)	**8.1%**
Net funds / (debt)	2,542	11,924	1,721	(122,154)	**5,917**
Movement in net funds / (debt)	(14,152)	9,382	(10,203)	(123,875)	**128,071**
Capital expenditure, acquisitions, investment and disposals (net)	49,366	58,395	75,851	168,864	**(1,050)**
Closing no. of staff	4,533	4,607	5,100	6,013	**6,011**
Fixed assets	158,222	188,120	236,907	412,393	**335,287**
Net current assets	56,712	39,877	38,196	(90,033)	**(2,607)**
Creditors over one year, provisions, pension liability less non-controlling interests	(42,637)	(51,386)	(97,051)	(166,865)	**(165,295)**
Shareholders' funds	172,297	176,611	178,052	155,495	**167,385**

* Prepared under FRS102

Shareholder Information

Registered office and trading address
Marshall of Cambridge (Holdings) Limited
Airport House
The Airport
Cambridge
CB5 8RY

Registration details
Registered in England and Wales
Company Number 2051460

Group Company Secretary
Sarah Moynihan
Enquiry email address
shareholderenquiries@marcamb.co.uk

Financial reports
Copies of this annual report will be published on the Group website www.marshallgroup.co.uk. Printed copies can be requested by writing to the Company Secretary at the registered office or direct by email to the enquiry email address.

Share dealing
Non-voting priority ordinary shares (NVPOs) and A and B preference shares can be bought and sold using our exclusive arrangement with James Sharp & Co, an independent stockbroker which can be contacted at the address below:

James Sharp & Co
The Exchange, 5 Bank Street, Bury, Lancashire BL9 0DN
Tel 0161 764 4043   Fax 0161 764 1628
www.jamessharp.co.uk

Shareholder queries
The Company's share register is maintained by Link Registrars (previously known as Capita Registrars), which is primarily responsible for updating the share register and for dividend payments. Link offer a share portal for the convenience of shareholders if they have a query relating to their shareholding and they can register to use the share portal at www.signalshares.com. This is an online service allowing access to and maintenance of personal details as well as being able to view details of shareholding and dividend payments.

Expected future dividend payment dates
A and B preference shares 13th April, 2018
Final Ordinary and NVPO shares 6th July, 2018
A and B preference shares 15th October, 2018
Interim Ordinary and NVPO shares 21st December, 2018
A and B preference shares 15th April, 2019

Dividend history

	Amount per share			
	Ordinary shares	NVPO shares	A preference shares	B preference shares
Payment date:				
15th December, 2017	1.00p	3.00p	-	-
13th October, 2017	-	-	4.00p	5.00p
30th June, 2017	3.00p	3.00p	-	-
13th April, 2017	-	-	4.00p	5.00p
Year ended 31st December, 2017	**4.00p**	**6.00p**	**8.00p**	**10.00p**
Payment date:				
16th December, 2016	1.00p	3.00p	-	-
14th October, 2016	-	-	4.00p	5.00p
24th June, 2016	3.00p	3.00p	-	-
15th April, 2016	-	-	4.00p	5.00p
Year ended 31st December, 2016	4.00p	6.00p	8.00p	10.00p

Notice of the 32nd Annual General Meeting

Notice is hereby given that the 32nd Annual General Meeting of Marshall of Cambridge (Holdings) Limited ("the Company") will be held at 12.15pm on Wednesday 23rd May, 2018 at The Airport, Cambridge, CB5 8RY to consider the following:

Ordinary business

Resolutions 1 to 4 will be proposed as ordinary resolutions. For each of these resolutions to be passed, more than 50% of the votes cast must be in favour of the resolution.

Resolution 1

To receive the Company's annual report and financial statements together with the reports of the directors and the auditor for the financial year ended 31st December, 2017.

Resolution 2

To declare a final dividend of 3.00p per Ordinary share and NVPO share to be paid on Friday 6th July, 2018 to those shareholders on the register of members as at 8th June, 2018. The Company paid an interim dividend on 15th December 2017 of 1.00p per Ordinary share and 3.00p per NVPO share.

Resolution 3

To re-appoint James Buxton who retiring by rotation as director and, being eligible, is offering himself for re-appointment as director.

Resolution 4

To re-appoint Ernst & Young LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next meeting of the Company at which the annual report and financial statements are laid and to authorise the directors to determine their remuneration.

Sarah Moynihan
Group Company Secretary
Dated this 27th March, 2018
by Order of the Board

Note

A member entitled to attend and vote at the meeting may appoint a Proxy to attend to vote instead of him / her, and such Proxy need not also be a member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he/she subsequently decide to do so. In order to be valid, any form of proxy and, if required, any power of attorney or other authority under which it is signed, must reach the Company Secretary at Airport House, The Airport, Cambridge CB5 8RY, not less than 48 hours before the time of the meeting.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Marshall of Cambridge (Holdings) Ltd
The Airport Cambridge
CB5 8RY England
+44 (0)1223 373737

marshallgroup.co.uk