

Marshall



Land Air Sea

Marshall of Cambridge (Holdings) Ltd
Annual Report 2012

**Ahead of
our time
for over
100 years**

marshallgroup.co.uk

Progress



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Turnover
+12.3%

Chairman's Statement

2012 marked a strong recovery in the results of our Group.



We have achieved further growth in our Motor Group and Aerospace businesses. From 1st January 2013, Aerospace combined with our Land Systems business to create Marshall Aerospace and Defence Group (Marshall ADG) so that we can continue to offer unified solutions to our customers.

I am pleased to confirm that the Board is recommending an increase in the final dividend to 1.75p payable on both our Ordinary and NVPO shares in June, which will take our totals for the year to 2.25p and 4.25p respectively. This represents an overall increase of 11.4% in total dividends paid to shareholders.

The Group is committed to investing in our people and this has been strengthened through increasing our long established training programmes and embracing new management development programmes. Recognition of our people's achievements was made at our successful Marshall Achievement, Values and Teamwork Awards (MAVTAs) and at our Apprentice and Training Awards events. The latter presentations were combined for the first time, to encompass the whole Group and we were grateful that Sir Ralph Robins was able to make the individual presentations, and to give inspiration and encouragement to all who attended the Ceremony.

Marshall Motor Group has continued its process of rationalisation and growth through the purchase in January 2012 of F. Cross & Son, which brought Volkswagen and Volkswagen Commercial Vehicles into our Group for the first time, as well as another Kia franchise. Jaguar Lincoln was acquired in April 2012. In February this year, we completed the acquisition of Silver Street Automotive, which has added Audi, Skoda and more Volkswagen and Volkswagen Commercial Vehicles outlets to the company's franchises. Marshall ADG acquired Flairjet at the beginning of 2013 to complement its Business Aviation activities.

In response to the growing housing needs of Cambridge, we are working with the local authorities with a view to establishing the potential for a commercial and high quality new housing development, to be called Wing, on 150 acres of our land to the north of Newmarket Road.

We are also continuing to update our Airport Terminal facilities in the anticipation of major growth in Airport passenger traffic in the Cambridge area. The increased level of business should help to defray some of the costs which are associated with the maintenance of a fully equipped and licensed Airport for our aerospace activities.

Marshall ADG has received a Queen's Award for Enterprise in the Innovation category for 2013, recognising Land Systems' work on shelter-based CT Scanners, and its pioneering work designing deployable forensic laboratories to conduct DNA and clean-room forensic analysis. This is a conspicuous honour for our Group and a tribute to the work of our Land Systems team.

We were delighted last year that the Royal Aeronautical Society named their main reception room the Marshall of Cambridge Room, which was officially inaugurated by HRH Prince Philip in October. To celebrate this, we will hold this year's AGM at the Royal Aeronautical Society, to enable shareholders attending the meeting to see the room.

I am grateful to those many people who during the last year have helped to achieve the Group's result and to all our customers for whom we strive continually to provide unsurpassed service and value. I am particularly indebted to the Board for their invaluable support and guidance and would like to thank Peter Callaghan, who has retired, for his contribution during his time with us.

A handwritten signature in black ink, reading "Michael Marshall".

Sir Michael Marshall
Chairman

Change the Gear, Hold the Values

It has been a year of marked progress, building on our recent initiatives and our established values. The Group turnover rose by 12% whilst profit before tax improved by 42%.



Marshall Aerospace and Defence Group

Marshall Aerospace and Defence Group has brought our former Aerospace and Land Systems businesses together with annual revenues of over £300m and 1,900 employees. It has a reputation around the globe for providing engineering solutions for air and land special mission systems, sustainment of the C-130 and other transport aircraft and Business Aviation turnkey solutions.

Marshall Motor Holdings

Marshall Motor Holdings is a well-regarded Top 12 UK motor retail dealer and vehicle leasing group. With reported annual revenues of nearly £800m and 1,800 employees at the year end, Marshall Motor Group (MMG) now represents 25 manufacturer brands through 70 franchised dealerships throughout the UK and has grown to over 2,100 employees.

Marshall Airport Properties

Marshall of Cambridge Airport Properties (MCAP) owns and manages over 900 acres of land and over 1,600,000ft² of industrial, commercial and office space in Cambridge. A team has been established to drive the redevelopment of some 150 acres of land to the north of Newmarket Road as a combined commercial and residential development extension to Cambridge for about 1,200 homes called "Wing".

Cambridge Airport

Cambridge Airport continues to develop its position as a successful hub for Business Aviation and charter traffic. The next part of the business plan is to attract operators to provide services to European destinations. Cambridge Airport employs 70 people and has annual revenues of £4m.

HIGHLIGHTS

I am delighted that we have achieved another year of recovery in our pre-tax profit for 2012 to £12.1m, continuing the upward trend of last year.

The restructuring of Marshall Aerospace and Marshall Land Systems into one business, Marshall Aerospace and Defence Group, further simplified our portfolio. The combined business has greater scale and ability to speak with one voice, especially in the increasing number of overseas markets in which we are actively developing business opportunities. The relentless focus on service and delivery to our customers resulted in record profits in our Aerospace operations. Marshall Fleet Solutions, our transport refrigeration business, was not part of the restructure of Marshall ADG, and remains a stand-alone business within our portfolio. It continues to strive to offer the best quality service to its customers through its 250 employees.

Marshall Motor Group has continued its strategy to grow nationally and balance its portfolio of businesses through strategic acquisitions while at the same time exiting some marginally viable businesses. We have increased the depth of our representation with our key partners with the addition of Volkswagen and Volkswagen Commercial Vehicles as well as further Kia and Jaguar franchises. More recently we have extended the Volkswagen and Volkswagen Commercial Vehicles coverage as well as adding Audi and Skoda through the purchase of Silver Street Automotive in the South West of England.

Our property team has geared up to submit a planning application for the 1,200 home "Wing" development in 2013. If we are successful in gaining planning permission, this will be a major development on our land to the north of Newmarket Road and would allow us to invest in relocating some of our businesses to more modern premises while providing a sustainable profit stream.

Progress has been made in developing Cambridge Airport as a Business Aviation hub. The Olympics did not yield the increase in traffic that we and other regional airports had expected, but we have made, and continue to make, progress in upgrading our passenger terminal facilities.

People are at the core of our Group strategy and we have seen a further improvement in our annual Great Place to Work™ employee survey. Our apprentice programme has received national recognition and we have been delighted with the response to our Group-wide Leadership Development Programme to develop the leadership and management skills of our top 250 managers.

Our commitment to Health & Safety was rewarded and recognised by RoSPA, who awarded us with 2 President's Awards (gold for at least ten consecutive years) for our outstanding and prolonged record in safeguarding the Health and Safety of our employees.

Strengthening the balance sheet remains a priority for us as a private company and we finished the year with record cash balances. Financial functions across our Group of companies have been proven to be strong and robust.

Our Group strategy has been further defined and aligned to our key risks with measurable KPIs. The resulting Group strategy map is set out in further detail on page 27.

Market Analysis



Marshall Aerospace and Defence Group

- The traditionally strong defence, civil and military markets in the UK, Europe and the USA have not been isolated from the adverse worldwide economic conditions which have led to a decline in Government defence spending of up to 10% in certain areas, and prolonged procurement processes.
- Certain countries, however, particularly in the Middle East, Asia and Australasia, are continuing to invest and increase their defence infrastructure which provides a good opportunity for long term growth.
- Following on from the success of the UK Government's Aerospace Growth Partnership, the Defence & Cyber Growth Partnership has been set up to promote a co-ordinated approach to export capability and Marshall will be a key participant.
- The Special Mission market is set to grow at a compound annual growth rate (CAGR) of 4%, which has influenced our decision to seek to win business in this important domain.
- The civil aerospace business is predicted to grow at 4-6% CAGR for the next 15 years and, with Marshall's broad expertise, this could yield a number of opportunities.
- Following the announcement of the phased withdrawal of troops from Afghanistan, the market for ground equipment and vehicles has been challenging. Our Land Systems division has continued to explore opportunities in Australia and the Middle East.



Marshall Motor Holdings

- The automotive market in 2012 has continued to see further consolidation and a fall in the absolute number of franchised dealerships operating in the market place.
- Overall new car registrations rose 5.3%. Within this, the retail sector rose 12.9% but the fleet sector was static.
- The UK market recovery is being impacted by economic conditions in the Eurozone, with favourable exchange rates causing manufacturers to take advantage of the more stable conditions in the UK. As a result, the UK used car market was also flat and after sales volumes are under pressure due to a falling parc size.
- The Motor Group is a broad spectrum retailer, and we have continued to build depth in our representation for major brand partners, whilst streamlining the number of key relationships overall. During the year, we added Volkswagen and Volkswagen Commercial Vehicles to the portfolio for the first time, whilst increasing Jaguar and Kia representation, and, early in 2013, we also added Audi and Skoda as well as further Volkswagen and Volkswagen Commercial Vehicles outlets.
- The focus on delivering excellence in customer service and operating robust processes saw like-for-like sales in both new retail and used retail grow by 10.9%.
- Marshall Leasing's success is built on providing innovative solutions and high levels of service, which resulted in a fleet growth of 10% in 2012 and another set of record results.



Marshall Airport Properties

- The Cambridge sub-region is outperforming the UK economy and is one of the few areas in the UK which is a net contributor to the UK exchequer.
- The business and industrial property markets in Cambridge remain vibrant with 2012 experiencing a sharp upturn in demand for business premises and a shortage of available industrial space.
- The housing market in Cambridge saw prices increase by 9% in 2012, against a decline of 0.1% in East Anglia as a whole.
- We have established an experienced team to manage our property interests in Cambridge and focus on the long term needs of our internal customers while seeking to increase our portfolio of external customers.
- We have launched plans to redevelop our existing business/industrial space on the North Works as well as to develop our adjacent unused land to the north of Newmarket Road. This should provide modern facilities for our businesses, as well as additional residential, business and community space to support the growth in the Cambridge economy.

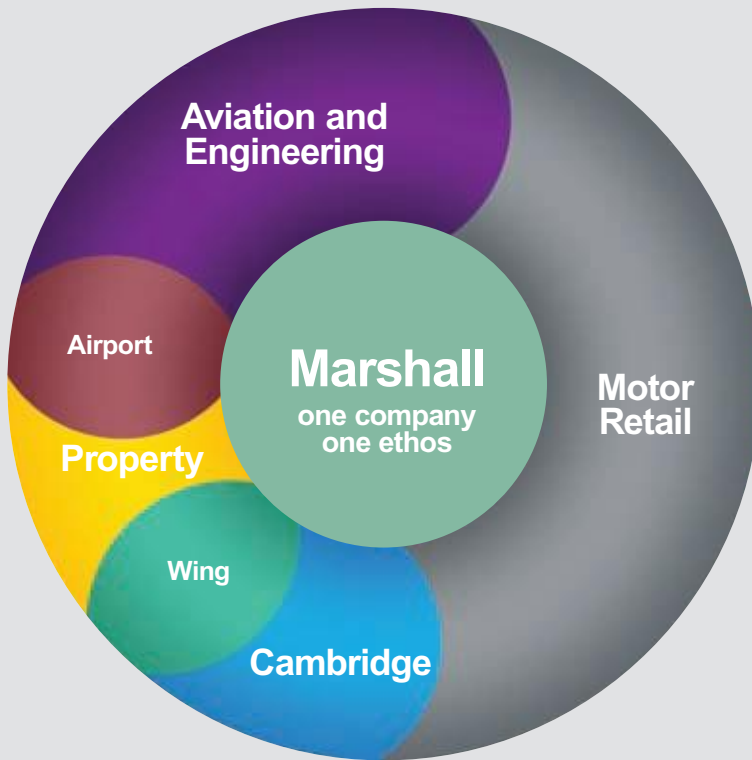


Cambridge Airport

- Cambridge Airport seeks to become an important regional facility for Business Aviation, scheduled and charter services, whilst also continuing to provide essential services to Marshall Aerospace.
- Business Aviation was stable in the UK in 2012, though the expected boost offered by the Olympics did not materialise. Our partnership with Zurich based ExecuJet continues to prosper and we marginally increased market share in a sector which has fallen by 12% since 2009.
- Our aim is to develop scheduled passenger services to key European business destinations.
- Cambridge is one of the fastest growing cities in the UK with a global brand and an increasing high tech industrial base. There could be an opportunity to differentiate Cambridge, as a business airport, from other local airports such as Stansted or Luton.
- In 2012, Cambridge Airport attracted three charter carriers serving Jersey, Verona and Dole in France. Each route was successful and we anticipate an increase in charter passengers from 3,000 to 5,000 in 2013 as Naples and ski destinations are added. This is set to be a growth market for Cambridge Airport.

Our Strategic Imperatives

Marshall is a privately-owned Group with sales of £1.1bn and nearly 4,200 employees. Each of our companies shares a definable brand, ethos and values which have been developed over 100 years.



Our long term strategic outlook:

- As a privately-owned and family-managed Group, Marshall combines the advantages of operational flexibility with the ability to take a long term strategic view.
- Each of the companies within the Group shares a common zeal for delivering outstanding customer service and focus on people, training and management.
- Property will remain a core part of our ongoing revenue and profit stream, particularly with the prospect of the exciting Wing project.
- We will build on our status as an independent aviation and engineering company and seek to develop a world renowned position and capability in each of our chosen markets.
- Our Motor Group provides scale, cash flow, and retail customer focus. We strive to be the UK's premier automotive retailer setting the benchmark in customer satisfaction and service to our brand partners.
- Marshall operates internationally but we are based in Cambridge, one of Europe's most dynamic growth cities. Marshall is an active part of this success story and contributes through involvement with the community, the Cambridge Network of high tech companies, our property development, and the employment and training we provide to many local people.

Our 2012 Imperatives were to:

Simplify and strengthen our portfolio of companies

Build on our strategy 'Change The Gear, Hold the Values' across all parts of our Group

Strengthen the People Agenda across our Group

Strengthen the balance sheet through cash and financial facility management

What we did:

The merger of Marshall Aerospace and Marshall Land Systems has resulted in a stronger single business, Marshall Aerospace and Defence Group (Marshall ADG), whilst also simplifying the overall management task.

While profit grew ahead of expectations, we further strengthened our Values through the centrally led Leadership Development Programme (LDP) and the Group-wide involvement in the Marshall Achievement, Values and Teamwork Awards (MAVTAs) which attracted participation from more than a quarter of our people.

The development and retention of talented people who share the company's passion for customers is core to our success. As well as the LDP, we have made good progress in training and career development across the Group with a marked increase in the proportion of internal promotions at all levels of management.

Profitability and cash flow improved in the year with a closing cash balance of £58.8m. Building on this success, we were able to improve the covenant of the Group and thus increase its reputation and credibility, thereby enhancing its ability to leverage facilities appropriate to its future needs.

Progress Against Strategic Imperatives



| | |
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| Develop new streams of business in anticipation of the TriStar going out of service in 2013/14 and, in so doing, balance our civil / military and domestic / international portfolio. | New orders from existing and new customers have been won and progress is being made in securing more business in markets new to the company. Approvals for new aircraft continue to be added to the company's extensive portfolio, for example, the Global Express. |
| Maintaining momentum on reshaping the business to deliver on time, to cost and 100% quality every time. | Our workforce has been re-energised through a structured programme of training, engagement and briefing at every level. The effects of improved leadership, greater engagement and empowerment are beginning to have positive results throughout the business due to the Group Leadership and Development Programme. |
| Build on our success in the growing Special Mission market in Air and Land. | While Marshall Aerospace won an important contract for integration of special mission equipment on a Global Express platform, Land Systems also won numerous shelter integration contracts in what is a burgeoning market. |
| Increase our Great Place to Work™ (GPTW) score through great employee engagement. | The change programme continues to reach out to every corner of the business to improve efficiency. There was a notable improvement to the GPTW™ results; in line with some of the challenges arising out of the survey, facilities across the site have been upgraded and we also introduced an all employee bonus scheme which paid out in its first year of operation. |



| | |
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| Optimise performance through our four levers of people, customer service, manufacturer relationships and retailing excellence. | The business remains fully committed to the GPTW™ survey and enjoyed staff turnover levels below industry averages. The business is regularly recognised by our brand partners for customer satisfaction and operational performance. |
| Enhance and balance our portfolio of franchised retail outlets to keep pace with a consolidating market, through strategically aligned acquisitions. | Our relationship with the Volkswagen Group has grown significantly, with the acquisition of Volkswagen businesses in Scunthorpe and Grimsby early in 2012 and the acquisition of 3 Audi, 3 Volkswagen, 2 Volkswagen Commercial Vehicles and 1 Skoda site in the South West early in 2013. We also enhanced our representation with Jaguar at Lincoln and Kia in Scunthorpe. We exited a number of non-core franchises and sub-scale businesses. |
| Build on the reputation and success of our Leasing business. | Opening a number of new accounts with major corporate clients, Marshall Leasing achieved a 10% growth in the funded fleet and yet another year of record profitability. |



| | |
|---|--|
| To transition from providing a property service almost exclusively to the Marshall Group to being an independently run business unit. | We have appointed Jonathan Barker as Managing Director to run this company and recruited a very capable Property Director with the relevant experience to oversee the preparation of a planning application for the redevelopment of the Marshall Group's premises north of Newmarket Road in Cambridge and adjacent farmland, totalling some 150 acres. |
| Constitute an in-house infrastructure project management capability to manage the upgrade requirements of our airport infrastructure over the coming years. | A team has been assembled led by our Infrastructure Director, who is a qualified civil engineer with extensive airport experience, to prepare a programme to upgrade the infrastructure of Cambridge Airport. |
| To continue to revise the masterplan for Cambridge Airport and the surrounding land owned by the Group to optimise value over the long term. | We have appointed and assembled an experienced team of consultants and staff to prepare a masterplan for the Wing development. In January 2013 there was a successful three day public consultation exercise on the project, under the direction of the Prince's Foundation, to consult with the local community and promulgate an innovative masterplanning initiative quickly and effectively. |



| | |
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| Establish a scheduled services capability. | The initial refurbishment of the passenger terminal was successfully completed allowing new and extended charter services through the summer of 2012. Work has begun on the next phase of enhancing the terminal and increasing capacity, scheduled to be completed in the spring of 2013. |
| Invest in the development of our people and be seen as a Great Place To Work™. | We are making considerable ongoing investment in training. Positive communication of our key objectives is inspiring our people. Additionally, our staff benefited from the Group's Leadership Development Programme (LDP). |
| Enhance our General and Leisure Aviation offering. | Cambridge Aeroclub has increased membership through focusing on customer service and value, reducing in real terms the cost of using Cambridge Airport as a base whilst still providing great facilities. |
| Benefit from a great Olympic legacy. | During the Olympic period, new customers experienced all of the positive aspects of flying into Cambridge Airport such as: first class executive jet passenger facilities; customer friendly service and unbeatable ease of access, although activity levels were not as high as had been hoped. |

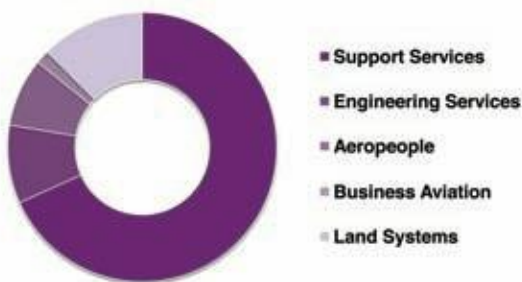
Group Chief Executive's Review Marshall Aerospace and Defence Group

2012 was another year of success and progress for Marshall Aerospace and Defence. Turnover rose to £301m an increase of 4% on 2011, whilst profit before tax increased to £14.6m, an increase of 16% over 2011.

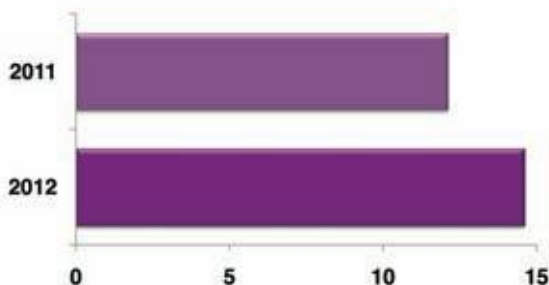
PERFORMANCE HIGHLIGHTS

- Creation of Marshall ADG from Marshall Aerospace and Marshall Land Systems;
- Ongoing demand for C130 support from UK and European operators as a result of the conflicts in Afghanistan and elsewhere in the world;
- Extension of the service life of the RAF C130K and TriStar fleets;
- Excellent improvement in delivering auxiliary fuel tanks to Boeing for the P8;
- Significant business won in new market and product areas;
- Strong performances from Aeropeople and Advanced Composites;
- Launch of JETability to enhance our offering to business aviation customers;
- Completion of mobile CT Scanner, DNA Forensics and Geographical Intelligence systems further demonstrating our enhanced system integration capability;
- Improved employee and customer satisfaction ratings;
- New programme of employee communication and engagement.

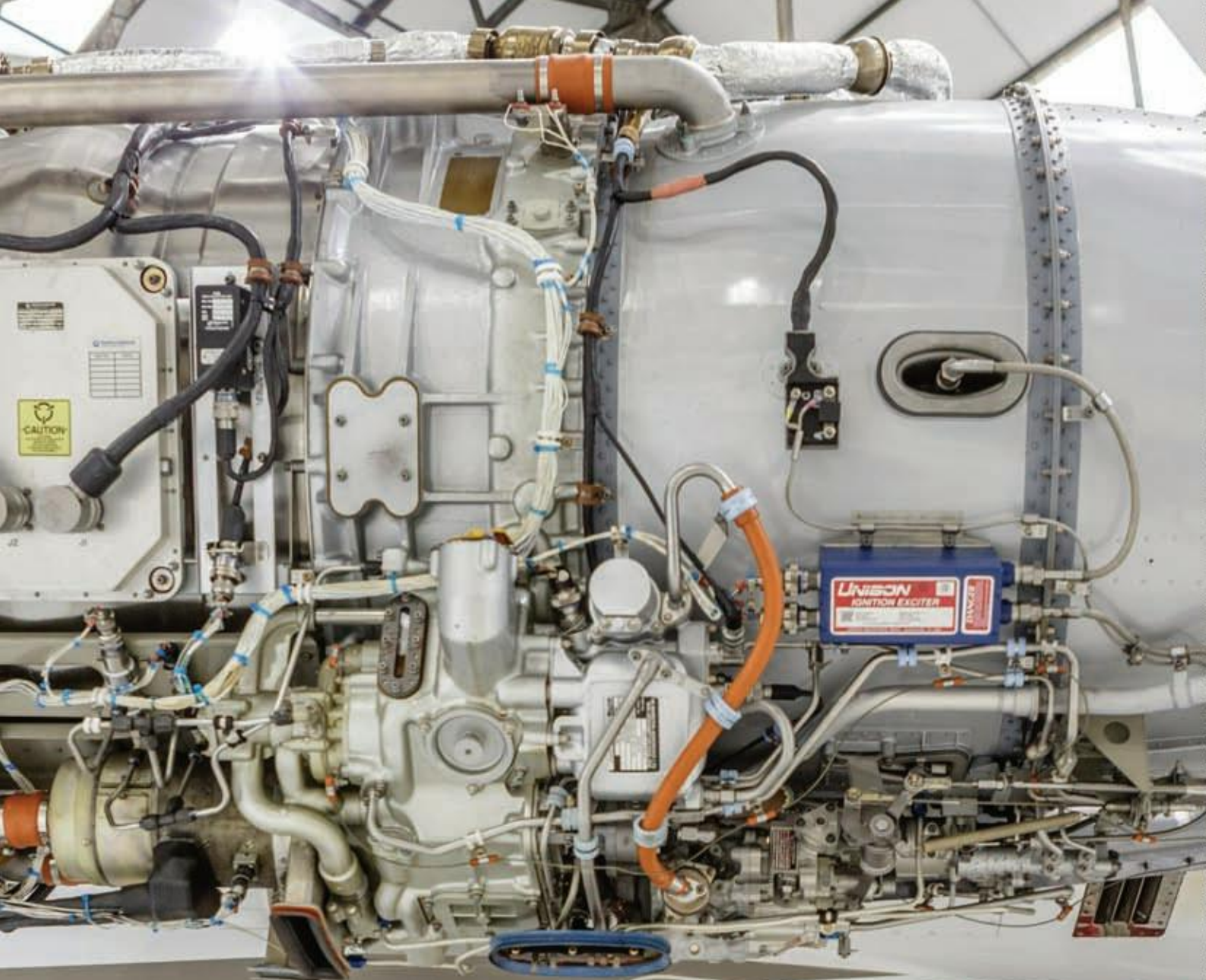
Revenue by Activity



Profit before tax £m



**People
are at the
heart of
our success.**



Group Chief Executive's Review Marshall Aerospace and Defence Group

SUCCESES

We were delighted that 2012 produced the best return for many years for Marshall Aerospace providing a good base for the new Marshall Aerospace and Defence Group. Considerable work has gone into developing our business management skills, ensuring we have the right people in place to perform effectively for our customers. Our 2012 results demonstrate that this is paying off.

We have delivered the final upgraded C130K to the Royal Netherlands Air Force on time, won our first contract to deliver a design study for the French Air Force, continued to improve our vendor rating with Boeing and delivered to this important customer our 100th P8 auxiliary fuel tank. We have also progressed an upgrade for the Austrian Air Force C130K aircraft that is running to schedule. In addition, we established a framework agreement with NSPA, the NATO procurement agency for the mobile CT Scanner system.

BUSINESS DEVELOPMENT

We have continued to focus on our relationships with Original Equipment Manufacturers and in key geographical areas. For example, we have re-engaged our relationship with Bombardier, which has helped in the capture of a significant new contract, and we are now working with Bombardier on some more exciting and promising new projects. We aim to develop relationships further so as to secure additional business in this market sector. Our business in Australia has been challenged by the decision of the Australian Government to withdraw its C130H aircraft from service, but we are working hard to identify and capture replacement business in this market. We are also making good progress in developing new business in the growing markets of the Middle East and India.

AEROPEOPLE

During 2012 Aeropeople continued to recover from the effects of the global economic downturn. Improved profitability has been derived from our traditional markets in aerospace and motorsport with the company benefiting from recent acquisitions. The business has also positioned itself in new higher value-adding areas of the market such as line maintenance and permanent recruitment, and is now starting to deliver an improved return on sales.

ADVANCED COMPOSITES

Slingsby continues to perform well and, during the year, we approved and initiated a 5 year programme of investment in new plant, equipment and skills to grow this business further. The company specialises in providing bespoke composite structures to customers in the Land, Sea and Air markets. The ability to provide complex and specialised structures and solutions gives a market-leading edge. We are focused in the area of advanced composites on providing lightweight high tech solutions to replace expensive and heavy metallic or low tech composite products. A number of exciting new opportunities are now being developed and we are confident that further growth in this area will be achieved in 2013.

BUSINESS AVIATION

We have launched the 'JETability' brand into the business aviation market place. This concept brings together our activities in the operation, buying, selling, maintenance and upgrade of aircraft into one complete business aviation solution for customers. The small acquisition of Flairjet in early 2013 should give added impetus.

LAND SYSTEMS

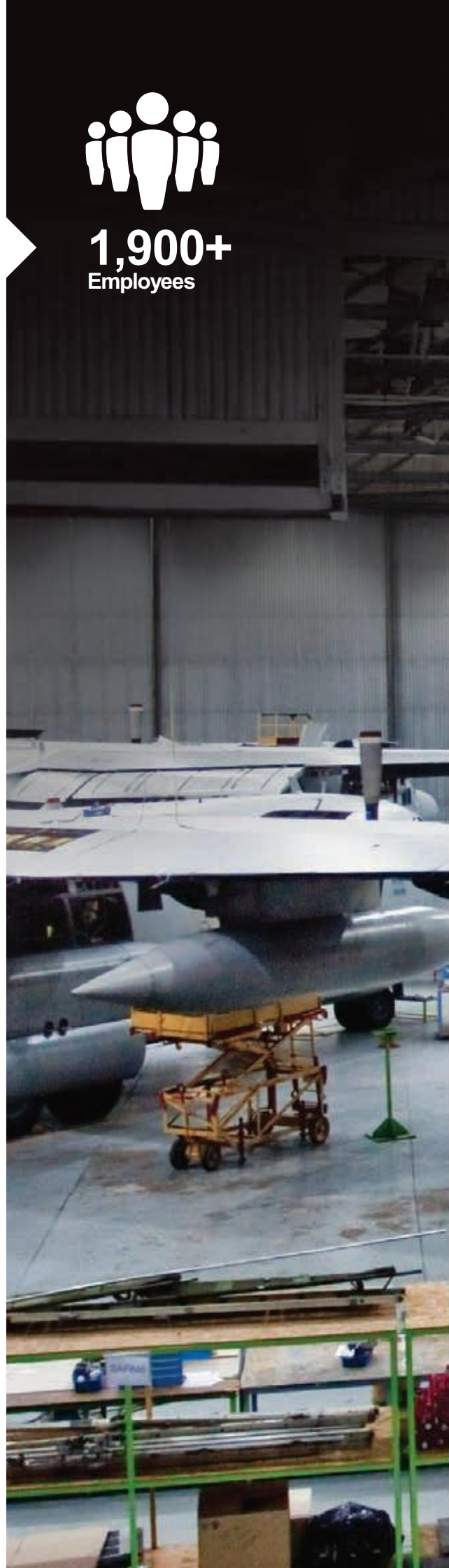
At the end of 2012, Marshall Land Systems became one of five business units of Marshall Aerospace and Defence Group with the focus on shelter systems, deployable systems, vehicle integration and customer support. Throughout 2012 operational performance was strong and eight major projects were delivered on time or early, two of which were world firsts in the medical and forensic marketplaces. Potential orders which we expected to receive in the second half of the year, to replace expiring long term contracts, were delayed, and coupled with £1.7m of restructuring costs, this led to an overall loss for the year.

OUTLOOK

Stronger growth in the commercial and business aviation sectors, the expansion of our activity in export markets, and an increased focus on providing competitive solutions to our customers should counteract the forecast decline in UK Military activity as a result of older aircraft being taken out of service.



1,900+
Employees



Support

Marshall ADG is one of the largest privately owned and independent aerospace and defence companies that delivers innovation and excellence in engineering and support solutions in the air, on land and at sea.



Group Chief Executive's Review
Marshall Motor Holdings

Marshall Motor Holdings delivered a profit before tax of £3.7m, a significant increase in difficult market conditions. Marshall Leasing had another record year and significant progress was made in building depth into the Motor Group portfolio.

PERFORMANCE HIGHLIGHTS

- Record turnover of £794m (2011 - £684m);
- Record number of vehicle sales of 44,210 (2011 - 36,822);
- Profit before tax of £3.7m (2011 - £1.1m);
- The addition of Volkswagen and Volkswagen Commercial Vehicles to our portfolio;
- The addition of another Kia and another Jaguar outlet;
- Audi and Skoda acquired early in 2013 with further Volkswagen and Volkswagen Commercial Vehicles sites;
- Record profits at Marshall Leasing;
- Marshall Leasing grew its funded fleet to over 5,000 units;
- Continued recognition by brand partners for high levels of customer service and performance;
- Improved working capital management and cash generation.

OPERATING ENVIRONMENT

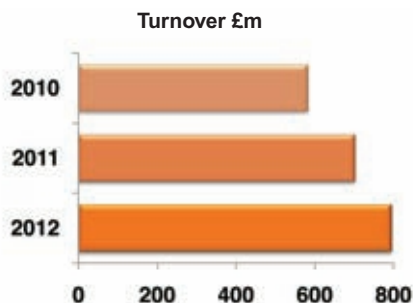
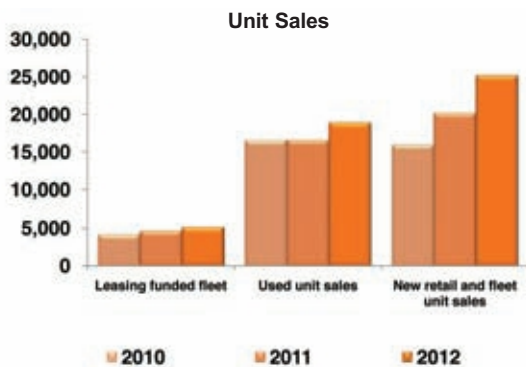
In 2012, the UK new car market was influenced, if not dictated, by the economic conditions prevailing in the main European markets, whereby reduced demand in these markets and a more favourable exchange rate had diverted vehicle supply into the UK. New cars are being sold with attractive finance packages, which helped private retail market registrations to grow by 12.9% in 2012, although the fleet market remained static. In total, the new car market grew by 5.3% to 2.04m units (2011 – 1.94m) but remains 14.9% below 2008 levels.

The increased activity in the new car market had a negative effect on the used car market, which, as a result, remained flat during 2012. This highly competitive market put pressure on transaction prices and the finance offers available on new cars had an impact on the attractiveness of used cars under one year old. This, inevitably, led to reduced margins.

With falling numbers of new car registrations in recent years the service parc size has reduced considerably, making the after sales market increasingly challenging and competitive. This is unlikely to reverse for the foreseeable future thereby putting pressure on running an efficient and competitive aftersales service offering.

Turnover
+16.2%

Profit before tax
↑ £2.6m



Growth



Marshall
Dealerships
(April 2013)

Group Chief Executive's Review Marshall Motor Holdings

SUCSESSES

Motor Holdings more than doubled its operating profit in 2012 over 2011, although the results continue to be depressed by the costs of the actions taken to balance the portfolio, and losses were incurred in exiting from some underperforming or sub-critical businesses.

On a like-for-like basis the Motor Group achieved a 10.9% increase in new car volumes, and 16.4% overall, while used car sales were up 10.9% and 14.1% respectively.

70% of the businesses operated today by the Motor Group were not part of the portfolio at the beginning of 2009 when it embarked on its new strategy. We are now positioned to start to deliver revenue at margins which should justify the investment we have made over the last four years.

The business continues to be highly ranked for customer service with many of its brand partners. For those businesses which have been acquired more recently we remain focused on bringing customer service up to Marshall levels and good progress is being made in this area. Motor Holdings continues to score highly in the GPTW™ survey and will be acting on the valuable feedback received. We are committed to developing and improving our reputation as an employer so as to ensure we become a destination employer within the industry.

BUSINESS DEVELOPMENT

The business is now established as a national motor retailer and is continuing with its strategy of operating in scalable markets with the right brands in the right places.

The Motor Group now operates with 70 franchised operations (61 at 31st December 2012), having completed the following acquisitions since the start of 2012:

January 2012 *F Cross & Son: Volkswagen Grimsby, Volkswagen Scunthorpe, Volkswagen Commercial Vehicles Scunthorpe, Kia Scunthorpe*
April 2012 *Jaguar Lincoln*
February 2013 *Silver Street Automotive: Audi Exeter, Audi Plymouth, Audi Taunton, Volkswagen Taunton, Volkswagen Barnstaple, Volkswagen Bridgwater, Volkswagen Commercial Vehicles Barnstaple, Volkswagen Commercial Vehicles Bridgwater and Skoda Barnstaple*

We continue to focus on strengthening our representation with our core partners. As a result, the number of brands represented by the Group is now 25 following the purchase of the Silver Street businesses in early 2013.

Brands where we currently hold 3 or more franchises are:

| | | | |
|------------|---|------------|---|
| Honda | 7 | Peugeot | 4 |
| Volvo | 6 | Audi | 3 |
| Land Rover | 5 | Ford | 3 |
| Mercedes | 5 | Kia | 3 |
| Vauxhall | 5 | Volkswagen | |
| Volkswagen | 5 | Commercial | |
| Jaguar | 4 | Vehicles | 3 |

The depth of representation with Volvo and Honda makes Motor Holdings one of the larger brand partners with them in the UK.

MARSHALL LEASING

The business achieved record profits for the fourth successive year. With an operational imperative to offer full service with excellent customer service the business opened a number of new accounts with key clients, whilst also continuing to focus on customer retention. The business achieved an organic fleet growth of 10% in the year, ending with a funded fleet of over 5,000 units for the first time. The business operates with careful management of residual values, maintenance and interest rate risks and continues to benefit from the low interest rates prevailing in the market.

OUTLOOK

The Motor Group has grown rapidly during the recession to become a national motor retailer with significant status within the industry and a well respected reputation with brand and supplying partners. With the optimum level of dealerships now close to realisation, the focus for phase two of the strategic plan is to optimise the performance of the portfolio. We anticipate Marshall Leasing can continue its drive towards further improvement in profitability through a growing funded fleet.



People
are at the
heart of
our success.

With considerable strategic achievements having been made in recent years, Motor Holdings is now set to enter the next phase of development by consolidating and leveraging operational performance.



1,800+
Employees

Group Chief Executive's Review

Marshall Airport Properties

The property division, which owns around 900 acres of land on the eastern edge of Cambridge, is planning and consulting on a development to provide an integrated community with commercial and residential aspects.

MASTERPLAN FOR AIRPORT PROPERTIES

The company has undertaken a strategic review of its Cambridge land holdings and, as a result, is working with the local authorities to develop some 150 acres of its farmland and industrial premises north of Newmarket Road in Cambridge. A masterplan is being prepared for this development, which will be known as Wing, and it is expected that a planning application will be available for submission to the planning authorities during 2013.

The Wing project is intended to deliver a new community for the east of Cambridge. It is being designed to be a flagship, innovative scheme that is a credit to Cambridge and upholds the standards and ethos of the Marshall Group, delivering a positive legacy of which the Company, the local communities and other stakeholders can be justly proud.

The design of the project is being evolved through a collaborative process with the aim of delivering a high quality, sustainable, distinctive, attractive and vibrant new mixed-use neighbourhood. In early 2013, a three day 'Enquiry by Design' process, led by the Prince's Foundation, sought to draw together a broad consensus about the vision of the project to begin to map out guiding principles for the masterplan.

The company intends to continue to provide premises for the Marshall operating companies and, as a consequence of the Wing project, it will work with them to find and invest in suitable relocation premises for those businesses which need to move from their existing, somewhat out-of-date premises within the Wing development site.

BUSINESS DEVELOPMENT AND INFRASTRUCTURE

The continuing development of Cambridge Airport has already attracted new activity and business to the site such that the number of external tenants has increased and there is now an opportunity to lease additional premises to new customers.

As noted in last year's report, much of the airport infrastructure is being modernised both to meet new regulations and to address the implications of the approach of the end of its original design life. In particular, there is a need to re-life vital apron infrastructure and the runway, as well as ensuring that our fuel and other facilities comply with future requirements. An experienced infrastructure team has been assembled to manage this upgrading. These projects will take a number of years to complete and are expected to include a strengthening of the runway, major repairs to some aprons, a new taxiway, as well as improvements to the airport terminal.

INVESTMENT PROPERTIES

The Group's principal investment property, the Quorum office complex, continues to be difficult to let to external tenants which has resulted in a reduced Directors' valuation this year. We continue to evaluate whether occupation by external or internal tenants remains the best long term objective.

OUTLOOK

The Group is entering a new and exciting phase of planning and development of its property assets in the best interests of the Group. This will no doubt involve vision, investment and purpose in order to maximise the value of this very important part of the Group's business.





Potential

Group Chief Executive's Review Cambridge Airport

2012 was a challenging year for the Airport. A difficult economic climate meant airlines and new customers were reluctant to expand operations.

PERFORMANCE HIGHLIGHTS

- The successful launch of summer services to Jersey, Verona and Dole from Cambridge Airport;
- Attracting a number of new businesses to be based at the Airport;
- An independent customer survey giving us an upper quartile score;
- A first employee survey under GPTW™;
- A successful Business and General Aviation day which attracted over 500 industry visitors and 50 exhibitors.

BUSINESS DEVELOPMENT

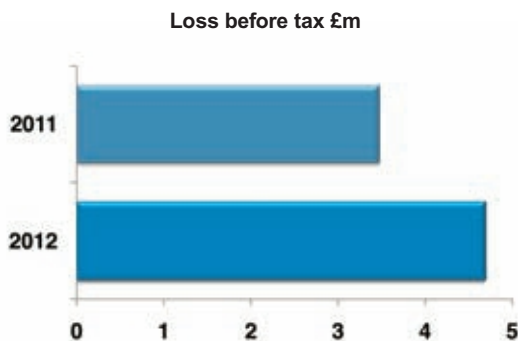
Cambridge Airport is an important asset and facility for the Group, but, as it is loss making, remains a cost that has to be supported. At the beginning of 2013, the decision was taken to merge its operational management with that of the Business Aviation division of Marshall ADG, to achieve commercial and operational efficiencies, as well as save cost.

The aim remains to develop Cambridge Airport as a vibrant and successful regional business and general aviation centre. The imperative is to attract scheduled passenger services to a number of UK and European destinations with leading airlines, providing a trouble-free approach to flying with minimal time between parking and embarkation. Current business initiatives include:

- Providing an improved terminal building and facilities with a capacity for handling over 100 departing passengers at any one time;
- Developing the general and leisure aviation offering through Cambridge Aero Club and improving facilities;
- Offering a flying community to our General Aviation customers providing a range of products and services at a reasonable cost;
- Renewing our focus on operational costs whilst continuing to improve efficiency;
- Securing new commercial agreements with regional airlines;
- Increasing hangar/office capacity for new business aviation customers.

OUTLOOK

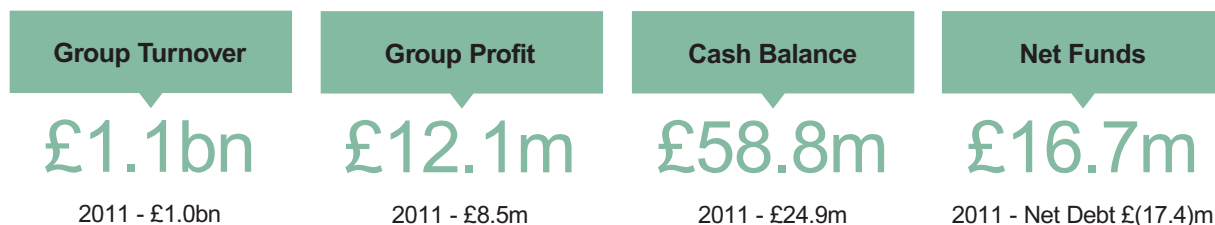
2013 will see the continuation of our strategy of growing Cambridge Airport revenue activities, so as to serve better both the community, and our aerospace and aviation customers.





ING DEPARTURES
64 65 66 67
75 76

The improvement in profit before tax to £12.1m marked a continued recovery in Group fortunes, although not all of our businesses excelled.



RESULTS

Marshall Aerospace had another strong year of performance and, together with Marshall Leasing, provided the foundation for the Group's profit. Marshall Land Systems slipped into loss, although Marshall Motor Group improved its profit over 2011.

Marshall Motor Holdings, with a sales increase of over 16% to just under £800m ensured a further rise in overall Group turnover to £1.1bn. Franchise acquisitions such as F. Cross & Son and Jaguar Lincoln, as well as an improving motor retail market were the drivers for this growth although the engineering companies still mustered a 4% improvement in sales.

Gross profits rose by £21.0m, some 11.5% ahead of 2011 and derived primarily from the Aerospace and Leasing activities. Despite improving sales, margins remained under pressure in Motor Group's retail and service markets and Marshall Land Systems' lower order intake, and thus activity, impacted on its margins. As noted elsewhere, Marshall Aerospace and Marshall Land Systems activities were merged from 1st January 2013 to form Marshall ADG. To reflect this new structure, the segmental analysis on page 40 has been prepared on our new internal reporting basis.

EARNINGS PER SHARE

Basic earnings per share increased 21% to 12.2p as against 10.1p in 2011 whilst the underlying earnings per share rose to 19.9p, an increase of nearly 70%. The underlying earnings figure has been calculated using profits excluding exceptional items, goodwill amortisation and impairment losses on fixed assets and investments, so as to give a better understanding of the recurring level of earnings per share. Note 9 on page 42 provides an analysis of this calculation.

DIVIDENDS

Preference dividends amounting to £744,000 were paid to preference shareholders during the year in two equal amounts in April and October.

A priority dividend of 2p per share on the NVPO shares was paid together with an interim dividend of 0.5p per share paid to both Ordinary and NVPO shareholders on 21st December 2012.

The Board is recommending an improved final dividend of 1.75p per Ordinary and NVPO share for approval by the shareholders at the AGM and it is the intention to pay this on 28th June 2013. Total dividends paid to shareholders in respect of the year will then have amounted to £2.94m (2011 - £2.64m), an overall increase of 11.4%.

As a private company, the Group has limited access to external funds, other than by way of borrowing or loans. Accordingly, it needs to generate and then retain sufficient post-tax profits to fund future investments and growth. It remains the Board's policy to provide some stability in terms of return for shareholders, whilst trying to ensure that dividends are well covered by post tax earnings. Dividends for 2012 are more than 3 times covered.

RESTRUCTURING COSTS

With the support vehicle contract, at the Mildenhall facility, coming to an end in 2013, and with little follow on work secured for 2014, provision has been made for irrecoverable property lease costs, dilapidations, redundancies and the write down of plant and machinery.

BALANCE SHEET RESTATEMENT

In previous years, funding for vehicle stock was set against the vehicle values to produce a net stock figure. We have changed this to show vehicles gross of funding in stocks (Note 15) and the related funding in creditors (Note 17).

GROUP ACCOUNTING POLICIES

The Group's financial statements have been drawn up on a basis consistent with previous years and in accordance with the latest requirements applicable to the Group. The Group is not currently required to comply with International Financial Reporting Standards (IFRS) which are mandatory for all listed companies. In March 2013, the Financial Reporting Council (FRC) issued FRS 102, which is effectively a revised UK GAAP and is more in line with International Standards. This will be mandatory for the Group accounts for 2015 unless full IFRS is adopted, and a decision will be made within the next 12 months as to which option the Group will take.

TAXATION

The Group current tax charge of £3.8m or 31.1% (2011 - 23.5%) is very much in line with 2011 when excluding prior year credits. This rate is above the effective statutory rate of 24.5%, principally because of expenditure disallowable for tax relief. In recent years, the Group has been able to benefit from some prior year tax recovery for research and development expenditure, which has led to the prior year credits and whilst none have yet been agreed for 2012 there is the prospect of further credits in the future, which will be recognised in the financial statements once agreed.

The Government continues to signal further reductions in headline corporation tax rates in future years but lower capital allowance rates and the incidence of other disallowable expenditure probably means that the normal rate paid by the Group may still be above 30%. A full analysis and reconciliation of the tax charges is given in Note 8 on pages 41 to 42.

We continue to recognise deferred tax in the financial statements which can be simply explained as taxation charges, reliefs or benefits which will be included in future years' financial statements. Where recovery is not assured an asset is not recognised.

GOODWILL

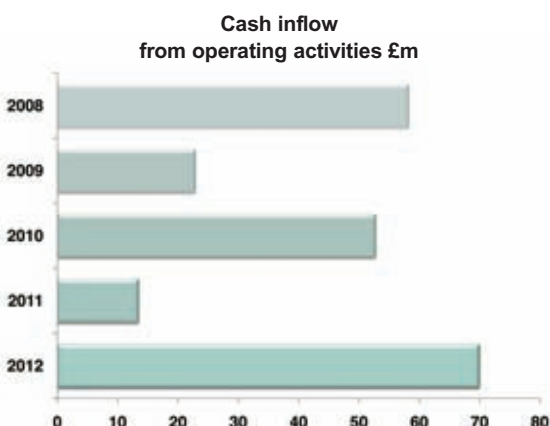
Motor Group acquisitions in 2012 resulted in additional goodwill of £1.4m but, after amortisation in the year of £2.3m and other adjustments, the net goodwill being carried fell to £10.7m from £11.2m in 2011.

The Group's policy is to capitalise and then amortise goodwill over those future years expected to benefit from each acquisition. In 2012, we took the opportunity to revise our amortisation period to a maximum of 10 years (previously 20 years).

CASH FLOW

The Group's strong commitment to managing cash positively resulted in an impressive increase of £33.9m in the closing gross cash position so that the Group ended 2012 with gross cash balances of £58.8m.

Improved profitability, tight control on capital expenditure, attention to working capital and increased customer contract advances and deposits resulted in the Group generating £69.8m from operating activities. As a result, we entered 2013 in a strong position which has continued for the first quarter of the year.



TREASURY MANAGEMENT

The monitoring, controlling and management of the Group's loans, cash, currency and interest risk is managed centrally by the Group Finance function. The function is not operated as a profit centre but exists to mitigate cost and risk for the benefit of the trading subsidiaries in the Group.

The Group's banking relationships are also managed centrally. The Group engages with Barclays, its principal banker, but also with HSBC, Lloyds, Santander and Coutts in the UK. In addition, overseas the Group also uses ANZ and Royal Bank of Canada.

The Group trades not only in Sterling but in a number of other currencies, principally US Dollars, Canadian Dollars, Australian Dollars and the Euro.

Management endeavours to identify, monitor, measure and control likely currency risks or exposures within the Group's trading operations. Where it is possible to protect overall Group trading margins against the adverse impact of currency movements, forward exchange cover is considered.

GROUP BORROWINGS

The Group continued to use its agreed facilities to fund around 75% to 80% of the acquisition cost of the Leasing fleet but despite an increasing Leasing fleet, good working capital management and the impact of timing meant gross borrowings remained flat at £42m. The banking facilities available to the Group for working

capital facilities were renewed and include a flex arrangement for the peak cash demands of the Motor Group in March/April and September/October each year.

The four year revolving credit facility of £10m was renewed and is available to facilitate future acquisitions. Future drawdown will arise as and when required to fund major capital programmes or acquisitions so as to ensure that the Group has a stable availability of cash balances for working capital purposes.

The Group's commitment on operating leases for properties reduced during the year and, at the end of 2012, the annual recurring commitment on property leases had risen slightly from £4.6m to £4.9m.

INVESTMENT

The Group continues to try to ensure its resources are invested wisely. Rigorous reviews of the return and pay back are carried out for all capital projects, other than those deemed essential in order to comply with operating regulations or legislative requirements.

The main investment in the year was a spend of £25.0m gross (£19.0m net) on the Leasing fleet which ended the year with 5,212 vehicles (2011: 4,752 vehicles). A further £8.2m, up from £7.9m in 2011, was spent on property, equipment and technological improvements. Gross investment on acquisitions made in the year was £2.3m.

PENSIONS

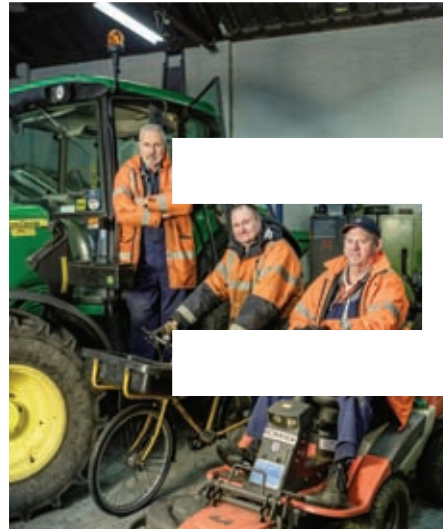
The FRS17 deficit on the Group's defined benefit scheme, the 'Plan', reduced to £8.2m from £8.5m or £6.3m after allowing for related deferred tax. The expected liabilities continue to rise on the back of reducing bond yields (which determine the discount rate), rather than any change to mortality rates, whilst there was some mitigation from asset values and stock market improvements. Further improvements in the stock market would help mitigate this deficit, as would increasing long term bond yields, if and when interest rates start to increase. The bond yields used to value the liabilities are currently at an unusually low level which serves to exacerbate this deficit.

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 5th April 2011, indicated a deficit of only £0.75m and the Group agreed to eliminate this over the period 2012 to 2014 in three equal instalments, two of which have already been satisfied. The next funding valuation is due at 5th April 2014.

KEY PERFORMANCE INDICATORS

The individual companies 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 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. During 2013 further monitoring against the Group strategy map (see page 27) is to be included in our regular reporting.

There are two primary cash measures. The first is for the Group to be cash generative in any three year period after allowing for normal capital expenditure (excluding acquisitions or major developments). The second target is to ensure that cash and available borrowing facilities are at least 5% of turnover. In 2012, the Group comfortably achieved both. All subsidiary companies are monitored on their cash generative performance and use of Group facilities.



are at the heart

OUR GROUP VALUES

As a family business with a proud heritage, our longstanding values are an instinctive part of our day-to-day operations. They govern the way we think and the way we behave. In 2012, we launched our values booklet which succinctly summarises our core values of:

- Upholding the highest standards of integrity and fairness;
- Putting our customers above all else;
- Recognising that people are at the heart of our success; and
- Maintaining competitive edge through innovation and creativity.

All of our employees have been issued with a copy of the values booklet and every new employee, via the induction process, is briefed on our core values.

INTEGRITY & FAIRNESS

We believe that:

"Corporately we are a Group. Culturally we are a family. As a privately-owned company, we owe it to the future generations to grow the business and to do so with integrity."

Acting responsibly is embedded within the culture of the Group and has been codified in our ethics booklet which is regularly updated so as to remain current in the ever changing and complex regulatory environment in which we operate.

OUR CUSTOMERS

Customers are the lifeblood of the Group and we strive to provide exemplary customer service at every opportunity. Over the last couple of years we have gone to considerable time and expense to validate independently what our customers think of their Marshall experience. The results of the 2012 customer satisfaction survey were extremely encouraging with ten of the thirteen business units across Marshall ADG and the Airport recording a higher satisfaction score than the previous year. The Motor Group continues to track the customer experience based on the results of manufacturer CSI schemes and is focused on constantly achieving an upper quartile performance in each of its businesses.

PEOPLE AS A PRIORITY

Recognising that people are at the heart of our success is one of the four core values of the Group. We continue to prioritise our actions in this area to help us to achieve our goal, which is:

"To engage and motivate every Marshall team member to fulfil their personal potential and make their maximum contribution to the success of the business"

In parallel with our overall simplification of the Group's portfolio of businesses, we have made good progress during the year in investing in our people so that we have the best possible resource focused on simplicity and accountability. Equally, recognition and reward are important elements to us.

Employee Recognition

The Marshall Achievement, Values and Teamwork Awards (MAVTAs), which were launched in 2011 are now an integral part of our One Company, One Team ethos. In 2012, we received just over 200 nominations (up from 100 in 2011) for MAVTAs in the eight categories of:

- Customer Service
- Innovation
- Best Environmental Initiative
- Services in the Community
- Leadership
- Business Excellence
- Team
- Business of the Year

We saw a significant increase in the number of individuals and teams being nominated for MAVTAs, such that over 1,000 Marshall employees were nominated either individually or as part of a team. The awards were presented at a special awards dinner in King's College in January 2013.

Long service is recognised formally after five years and then every five years up to thirty years of continuous service. Those who have completed 30, 40, 50 or 60 years are recognised at a special ceremony in the presence of their families and their line managers and directors. In 2012, we presented 13 of these awards, bringing the grand total presented since 1977 up to 976.

We were proud in 2012 to present our fourth 60-year long service award to Len Sapsford, who has worked in three of our businesses in that time and is currently working as a part time warranty administrator in the Motor Group. Up to 60% of our workforce has less than 10 years service with Marshall businesses but 450 of our people have been with us for 20 years or more – a healthy combination of youth and experience.

Employee Engagement

The Group again took part in the national independent employee survey run by the Great Place to Work Institute. The results showed we made positive progress in both of our engineering businesses (now Marshall ADG) although our motor businesses (5th year in the survey) slipped back a little from their very high score in 2011. The overall result was very encouraging in a year when so many other UK companies saw their scores decrease. An encouraging 70% of our employees participated in the survey and each of the operating companies is working on implementing detailed action plans to address key areas highlighted by the survey.



of our success.

Employee Development

The training and development of our employees reached new heights in 2012, involving more than 150 courses and programmes comprising well over 50,000 training days. We continued to invest in our Leadership Development Programme (LDP) with 250 of our senior leaders now having completed the programme and the next stage is currently being designed to engage increasing numbers of our people in the achievement of business success. Building on this, creating our leaders of tomorrow will be a priority for us in the coming year, along with development programmes providing opportunity for every Marshall team member to improve their skills and fulfil their personal potential.

At Marshall we are proud to have been running apprentice programmes continuously for over 90 years. In 2012, we increased the number of apprentices in both Marshall ADG and Marshall Motor Group and at the beginning of 2013 we have a total of 58 apprentices enrolled on the programmes. One of our aerospace apprentices, David Firth, was the regional winner in the EEF Outstanding Achievement by a First Year Apprentice Award.

Marshall Network

The Marshall Network continues to build a pool of younger employees who engage actively with the Group, working both on business-related projects and on social/community events and activities. Network members have devised and led the LEAF (Lowering Energy to Aid the Future) energy reduction trial programme in the Motor Group and they are now working with other members in Marshall ADG to roll out the programme to the whole Group. The Marshall LEAF team were the winners of the Best Environmental Initiative MAVTA, having focused employee awareness on unnecessary energy usage, through a combination of energy wardens and publicity material. The Marshall Network has an active committee who are working with the HR departments in each of the operating companies to involve more new members during 2013.

EXTERNAL ACTIVITIES AND THE WIDER COMMUNITY

In addition to our many internally-focused activities and projects, we continue to support a wide range of external organisations and events, both locally and nationally which are associated with our business sectors or the communities in which our businesses operate. We also encourage employees at all levels in the business to get involved with organisations and initiatives which will, directly or indirectly, help with their own development and broaden the reach of the Group in the process.

Industry Bodies

Marshall employees are actively involved in a number of industry bodies, including: the Engineering Employers' Federation; ADS; Senta; the Institute of the Motor Industry; the National Franchised Dealer Association; the British Vehicle Rental and Leasing Association and the Air League.

Education

A number of employees serve as School Governors in their local communities. We continue to support the promotion of engineering in schools, including through the Arkwright Scholarships. In particular, we seek to encourage young people to take up careers in aviation and aerospace through our long and active involvement with the Air Cadet Organisation, the provision of flying scholarships through the Air League, and the annual Sir Arthur Marshall Lecture at the Royal Aeronautical Society in Cambridge.

Charity

The Group is a member of the Percent Club through our donations and contribution to charity. Additionally, we encourage employees at all levels in the organisation to work with and support charities, including those with direct relevance to our business sectors, such as BEN, the motor industry benevolent charity, and Help for Heroes and a number of senior employees act as trustees for local and national charities. With support from the Group, employees also organise major fundraising efforts annually for a range of charities, including: Macmillan; Breakthrough Breast Cancer and Movember.

The Local Community

We continue to support a wide range of activities and programmes in and around Cambridge, and elsewhere where we have employees based around the world. This includes our ongoing support for major events in Cambridge, such as the main City Fireworks display on 5th November and the Mayor's Day Out coach trip to the seaside for local pensioners. We also maintain close links with the University of Cambridge, including the Sir Arthur Marshall Professor of Sustainable Urbanism.

We are also conscious of the impact our business and activities may have on adjacent communities. The recent announcement of the Wing development is a recent example, and our commitment to the community was highlighted by the three day design workshop which we facilitated in January 2013. By inviting representatives of the various community groups, council representatives, employees and the public along to provide input in to the design process, we have again demonstrated our collaborative approach to working with the wider stakeholders of the Group.

OVERVIEW

The Group continues to endeavour to apply the highest standards of corporate governance and has considered the guidance set out in the UK Corporate Governance Code, which applies only to companies listed on the London Stock Exchange, together with the Corporate Governance Guidance and Principles for Unlisted Companies which was issued by the Institute of Directors in November 2010. The Group has implemented the recommendations set out in these guidelines where it is considered both practical and appropriate for the Group.

BOARD MEMBERSHIP

Information about the Board members is given on pages 30 to 31.

ROLE OF THE BOARD

The Board is responsible for creating the framework within which the Group operates. It challenges and supports the strategic direction of the Group, ensures the necessary resources are available and sets controls and standards. It also monitors performance and approves budgets, material investments and commitments. The Board endeavours to ensure that there is effective corporate governance throughout the Group.

ILLUSTRATIVE MATTERS WHICH REQUIRE BOARD APPROVAL

- Strategy
- Business planning and budgeting
- Financial reporting, accounts and dividends
- Group-wide financial and operating policies
- Effective internal control systems
- Major acquisitions and disposals
- Major new projects and material contracts
- Compliance with laws and regulations, including Anti-Bribery and Health & Safety

The Board delegates responsibility to the executive management for the Group's performance in order to ensure that the business is managed in a fit and proper manner in keeping with its values and principles. The Board has put in place an organisational structure with formally defined lines of responsibility and there are clear limits on the authority devolved to the Group's businesses and individuals to make financial commitments appropriate to the size of the subsidiary or relevant business.

INDEPENDENCE

The non-executive directors bring a wide range of experience to the Board and participate fully in key decisions facing the Group. They are all considered by the Board to be free from any business, or other, relationship which could materially impede their independent judgement.

SENIOR INDEPENDENT DIRECTOR

A.E. Cook fulfils the roles of Deputy Chairman and Senior Independent Director, providing an additional contact point for shareholders if the normal contact channels are considered inappropriate.

INDUCTION AND TRAINING

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. There are also procedures in place for the induction and training of new directors.

BOARD MEETINGS

The Board and its principal committees met regularly during the year. The timetable is set at the beginning of the 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.

For each Board meeting, directors receive detailed briefing papers, including monthly management accounts and reports on the performance of the operating companies, prior to each meeting to enable them to carry out their role. A detailed agenda is prepared for, and formal minutes are taken of, each meeting.

THE BOARD

| | Attendance | | Attendance |
|---------------------------------|------------|----------------|------------|
| Sir Michael Marshall (Chairman) | 10 | R.D. Marshall | 10 |
| A.E. Cook | 9 | W.C.M. Dastur | 10 |
| P.J. Harvey | 10 | S. Fitz-Gerald | 10 |
| Sir Ralph Robins | 9 | D. Gupta | 10 |
| C.J. Sawyer | 10 | J.D. Barker | 10* |
| S.J. Sillars | 9 | P.W. Callaghan | 9 |

10 meetings were held in the year
** attended 2 meetings as Company Secretary*

The Chairman holds meetings with the non-executive directors without the executive directors present when he deems it necessary. The Board also met informally in 2012 to discuss strategic issues and other business developments.

BOARD EFFECTIVENESS REVIEW

In compliance with both the UK Corporate Governance Code and best practice guidance for unlisted companies, the Board has commissioned a Board Effectiveness Review. This is to assess, evaluate and critique the Board and each of its directors so as to improve overall effectiveness and performance.

BOARD COMMITTEES

In accordance with the principles of good corporate governance, the following committees, all of which operate under written terms of reference, have been established by the Board.

NOMINATIONS COMMITTEE

| Committee membership | Attendance |
|---------------------------------|------------|
| Sir Michael Marshall (Chairman) | 2 |
| A.E. Cook | 2 |
| P.J. Harvey | 2 |

2 meetings were held in the year

The committee ensures that appropriate procedures are in place for nomination, selection, training and maintaining the balance between executive and non-executive directors with a blend of skills.

The committee considers the skills required to fill a vacancy in the Board and determines whether any individuals known to the Board would be suitable for the role, or if the committee believes the involvement of other candidates would benefit the process, then an external search consultancy may be engaged.

REMUNERATION COMMITTEE

| Committee membership | Attendance |
|-------------------------|------------|
| S.J. Sillars (Chairman) | 3 |
| Sir Michael Marshall | 3 |
| Sir Ralph Robins | 2 |
| C.J. Sawyer | 3 |

3 meetings were held in the year

The Chairman has a Remuneration Committee to advise him in the process of setting and reviewing executive remuneration. This committee met on three occasions during 2012 and then again in early 2013. Operating subsidiary Chief Executives, the Group Chief Executive and the Group Financial Director have service contracts, which are terminable by no longer than twelve months' notice given by either party thereto.

AUDIT COMMITTEE

| Committee membership | Attendance |
|-------------------------|------------|
| C. J. Sawyer (Chairman) | 4 |
| P. J. Harvey | 4 |
| Sir Ralph Robins | 3 |

4 meetings were held in the year

Whilst there is not an individual member of the Audit Committee with both the recent and relevant financial experience envisaged by the UK Corporate Governance Code, the Board considers that the members have the requisite skills and attributes to enable the Audit Committee to discharge its responsibilities.

The Group Chief Executive, the Group Financial Director, the Company Secretary, the external audit partner and the Group internal audit manager also attend each meeting at the invitation of the committee chairman.

EXAMPLES OF AUDIT COMMITTEE ACTIVITIES

- Financial statement approval
- Group internal audit updates
- Group risk management review
- Post acquisition/major capital expenditure reviews
- Reviews of major contracts
- Review of external audit plan
- Review of internal audit plan

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 Group uses a number of reputable professional service firms or providers including the external auditor. This includes the provision of auditing and accounting services, taxation compliance and advice, corporate finance assistance, strategic advice, due diligence on major contracts and acquisitions as well as support on technical and human resource issues. For each discrete project, consideration is given as to which professional service provider is most suitable. This ensures that the Group continues to receive good quality, independent advice at competitive rates from a wide range of suppliers.

The committee monitored the balance of audit and non-audit services provided by the external auditor so as to form a view on whether independence and objectivity was being maintained. 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 Annual General Meeting to be held on 29th May 2013.

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.

The Group internal audit manager has direct access and responsibility 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 Group's internal control framework.

RISK MANAGEMENT AND INTERNAL CONTROL

The UK Corporate Governance Code is in place to help company boards become more effective and more accountable to their shareholders. Among its recommendations is a requirement for the Board to undertake a formal annual review of a company's risk management system. Under its delegated authority the Audit Committee has responsibility for undertaking this review on behalf of the Board. The Group's risk management process, principal risks and internal control system are set out in more detail on pages 26 to 29.

During the year, the Audit Committee received and reviewed reports from the Company Secretary, as well as the internal and external auditors. In the Board's view, the information it received was sufficient to enable it to review the effectiveness of the risk management and internal control systems.

HEALTH, SAFETY AND THE ENVIRONMENT

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. Whilst the responsibility clearly sits with the operating companies to manage the risks, the Group recognises the importance of these areas and provides support, guidance and oversight, where appropriate.

The promotion of energy efficiency through Marshall LEAF assists with safeguarding the future of Marshall by helping to lower energy consumption and ensuring energy security and the sustainable growth of the organisation.

The Group's continued focus on its health and safety culture has again been recognised by RoSPA with two gold awards for Marshall Aerospace and Marshall Specialist Vehicles translating into the third and second President's Awards respectively for this achievement. Marshall Vehicle Engineering has also achieved its 5th Silver Award, reflecting the progress and continuous improvement in the safety culture at the Mildenhall site.

WHISTLE BLOWING

Commensurate with best practice and to ensure that the Group works to the highest ethical standards, the Group operates an independent whistle-blowing procedure to allow staff to raise confidentially any concerns about business conduct to the Group internal audit manager in the first instance, or the chairman of the Audit Committee. The whistle blowing policy is set out in the Code of Business Ethics distributed to all staff.

DIALOGUE WITH SHAREHOLDERS

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 2012 AGM.

Jackie Ferguson continued to hold the role of Family Shareholder Representative providing an important communication channel between family shareholders and the Board throughout the course of the year. P.J. Harvey acts as the Board liaison for family shareholders.

Risk Management

Managing our risks sensibly and effectively should ensure that we are taking an appropriate mix of risk and exploiting opportunities without exposing the Group's reputation and financial stability.

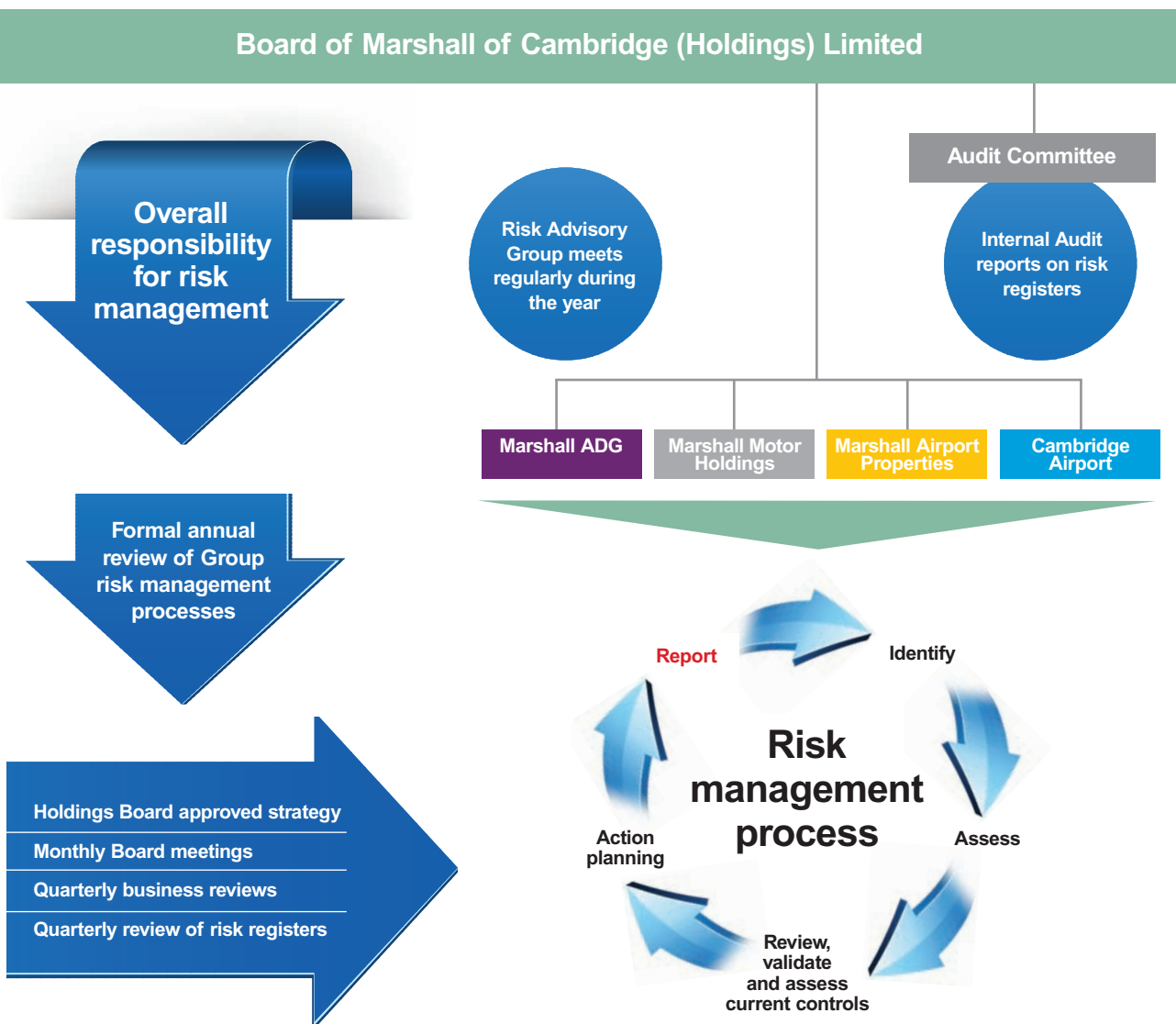
Taking risks is an inevitable aspect of the businesses in which we operate and, therefore, risk management is a fundamental part of achieving our strategy. The Group aims to provide a mix of guidance appropriate to the needs of our diverse operating companies. This ensures that a robust process is in place to manage risks across the Group.

A structured method for risk identification, prioritisation and control has been established in order to:

- ensure Group-wide consistency and alignment
- manage our risks effectively
- communicate the risk management process
- provide guidance to those applying the risk management process
- detail the risk management process to be followed within the operating companies and at Group level
- communicate the requirements for risk management within the Group

During the year, a Risk Advisory Group was established under the chairmanship of the Company Secretary. A director from each operating company attends at least three times a year to share best practice across the Group and to review and monitor new risks and procedures. The Risk Advisory Group serves to both embed risk management procedures and advise the Audit Committee on current risk exposures and potential changes to future risk strategy.

Risk Management Process



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 and 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 can only provide reasonable and not absolute assurance against material misstatement or loss.

Key features of the Group's internal control systems:

- an organisational structure at head office and at subsidiary level which clearly defines responsibilities
- defined procedures for investment and treasury management
- an annual budgeting process, supported by regular forecasts
- monthly detailed management accounts with a report to the Board
- an effective internal audit function
- monthly Board review of KPI reporting
- control of capital expenditure through budgets and authorisation levels
- Board approval of significant acquisitions and disposals, tenders and large long term contracts
- policies for health, safety and the environment which are enforced across the whole Group
- detailed matrix levels of authority

A Strategic Approach To Risk Management

The Group Strategy Map

Change the Gear, Hold the Values

| Our Strategy | Strategic Actions |
|--|---|
| Change the margin | Realise our profit margin potential Realise and unlock the value of our assets |
| Change the way we go to market | Offer attractive products and services at competitive prices Win new business |
| Change our efficiency and productivity | Focus on what matters Maximise synergies with 'one company approach' Make strategic acquisitions and investments |
| Change the culture | Create a focus on decision and risk assessment Reward success and performance manage failure |
| Underpinned by our values | Work as a team with 'one company, one culture' approach <i>Upholding the highest standards of integrity and fairness</i> <i>Putting customers above all else</i> <i>Recognising that people are at the heart of our success</i> <i>Maintaining competitive edge through innovation and creativity</i> |

The value of...



Upholding the highest standards of integrity and fairness.



Putting our customers above all else.



Recognising that people are at the heart of our success.



Maintaining competitive edge through innovation and creativity.

Our principal risks and uncertainties

The Group's principal risks have been identified below in relation to the Group's strategy, together with their potential impact and the actions and controls put in place by the Group to mitigate those risks.

"Change the margin"

| Risk | Impact | Mitigation |
|-------------------------|---|--|
| Exchange rate risk | Significant fluctuations in exchange rates to which the Group is exposed could have a material impact on the financial performance of the Group. | The Group operates a central treasury function, whose policy for mitigating foreign exchange risk is explained in more detail in the Financial Review on pages 20 and 21. |
| Interest rates | Fluctuations in interest rates could have a material impact on the financial performance of the Group. | The Group's policy is to maximise interest receivable commensurate with risk, usually with highly rated UK banks, whilst monitoring and managing the potential interest rate on borrowings, if appropriate by fixing forward. |
| Liquidity and financing | Liquidity and financing risks relate to the ability to pay for goods and services required by the Group to trade on a day-to-day basis. A withdrawal of financing facilities or a failure to renew them as they expire could lead to a significant reduction in the trading ability of the Group. | Cash forecasts identifying the liquidity requirements for the Group are produced regularly. They are reviewed regularly by the Group finance function and the Board to ensure that the Group has sufficient cash resources or facilities for the foreseeable future and particularly the next 12 month period. |

"Change the way we go to market"

| | | |
|-------------------------------------|--|---|
| Competition | The global markets in which the Group operates are intensely competitive. Innovative competition for corporate and retail clients and customers comes both from incumbent organisations and new market entrants, particularly in the aerospace and vehicle engineering businesses. The landscape is expected to remain highly competitive in all areas, which could adversely affect the Group's profitability if the Group fails to continue to retain and attract clients and customers. | The Group's balanced portfolio of businesses, specialist capabilities and outstanding customer service continue to address this risk, to try to ensure the Group is not unduly dependent on any one customer, business or sector. |
| Macro economy and Government Policy | Factors such as unemployment, interest rates, exchange rates, and inflation or deflation could all impact the markets in which the Group operates and reduce demand, whilst positive or negative action taken by the UK Government relating to the taxation of private cars and the availability and cost of credit has and could continue to affect significantly the market for the sale of new and used motor cars. Equally, a continued reduction in defence spending by a Government, a change in procurement policy and the imminent change to EU Bloc Exemption rules in 2013 could have a marked impact on ability of the businesses to perform. | The Group's diverse nature of businesses, markets and products continues to mitigate this risk, so that the impact of a change in one particular area is capable of being offset by improvement in other sectors or markets. |
| Franchises and agreements | The Group operates motor car franchises as well as refrigeration and tail lift franchises and aircraft servicing agreements. Franchises are awarded to Group companies, and the loss of franchises could result in a significant reduction in the profits of the Group due to the inability then to source new product or vehicles to sell, perform warranty repairs or carry out maintenance activity. | The Group is committed to fostering long term relationships with all its business partners. It seeks to participate only in franchises and agreements in which its interests are aligned to those of its partners, and has formal procedures of review to monitor the performance of these relationships. |
| Information risk | The individual businesses are dependent on the secure, efficient and uninterrupted operation of their information technology and computer systems, which are vulnerable to damage or interruption from power loss, telecommunications failures, sabotage, vandalism or infiltration. | The Group has a broad range of measures in place, including appropriate contingency plans and tools, to monitor and mitigate this risk. |
| Manufacturer dependency | There is some dependence on the vehicle manufacturers' financial condition, marketing, vehicle design, production capabilities, reputation, management and industrial relations. Although the Group is not unduly dependent on any single vehicle manufacturer, a continuing drop in demand could lead to a number of manufacturers facing severe financial difficulties. | The Group's diversified portfolio of businesses, and, specifically, the diversified range of marques represented by the Motor Group, continues to mitigate this risk, as demonstrated, in recent years, through the minimal impact of the insolvency of at least three key trading partners. |

“Change our efficiency and productivity”

| Risk | Impact | Mitigation |
|--|--|---|
| Skills availability | The UK aerospace skills base is under pressure with falling numbers available in the engineering resource pool. Increasing global competition requires the Group to recruit both within the UK and elsewhere in the world. Governmental changes to employment regulations, requirements and reporting could hamper the Group's ability always to recruit and retain the very best skilled technicians and employees. | The Group continues to invest strongly in training at all levels, from apprenticeship schemes through to the Leadership Development Programme. The Group's commitment to its people is further outlined on pages 22 and 23. |
| Long term contracts and large projects | Incorrect estimation of the technical content and requirements of these complex projects may lead to a failure to meet contractual commitments and reduce the profitability of such a contract. | To manage contract related risk and uncertainty, Marshall ADG operate a lifecycle management (LCM) process at operational level. A separate bid LCM programme provides approval processes for bids and tenders. Project performance is monitored using standardised KPIs and metrics. |
| Estimates of vehicle residual values | Marshall Leasing enters into contract hire agreements for vehicles whereby it estimates the residual value of the asset at the end of the agreement. When the agreements terminate the vehicles are sold with profits or losses being recognised against the book value at the point of disposal. | The company operates a robust independent analysis tool to monitor this area and does and will continue to manage any exposure should the trend analysis predict significant falls in used car values. |
| Synergy | The diversion of management attention to integrate new businesses and the underperformance of new acquisitions against expectations could adversely affect the Group. | The Group has established policies in place to manage the acquisition process, and considers each integration in its own context. Investments are also monitored for impairment and subject to Audit Committee review as outlined on page 25. |

“Change the culture”

| | | |
|----------------------------|--|--|
| Regulatory compliance risk | The Group is subject to a regulatory compliance risk which can arise from a failure to comply fully with the laws, regulations or codes applicable - for example those set out by the Civil Aviation Authority, the Ministry of Defence, the Health and Safety Executive and Financial Services Authority as well as local authorities. Non-compliance can lead to fines, enforced suspension from trade, public reprimand or, in the extreme, closure of parts of the business. | The Group dedicates resource to regulatory compliance in order to maintain its capability to identify and manage the risk of compliance failure, and this is monitored at all board levels. |
| Laws and regulations | The Group faces both health and safety and engineering and product safety risks due to the scale and nature of its operations. A significant failure could have a detrimental impact on relationships with customers and also the Group's reputation with a concomitant negative influence on future orders and sales. | The Group has detailed and established procedures for ensuring the delivery of products and services to the highest standards and to maintaining high standards of health and safety. The Group takes particular care to ensure compliance with new regulations, legislation and best practice in the industries in which it operates. |
| Leadership development | The Group is dependent on members of its senior management team and skilled personnel and the loss of the service of a number of such individuals could have a material adverse effect on the business. | The Group's approach to training and developing its staff is a key part of addressing this risk, as detailed on pages 22 and 23. |

“Underpinned by our values”

| | | |
|-------------------|--|---|
| Reputational risk | A failure to protect the Group's reputation and brands in any one of its principal businesses could lead to a loss of trust and confidence which could reverberate across the Group and, in turn, result in a decline in the customer base. This could also ultimately affect the ability of the Group to recruit and retain good people as well as having an adverse impact on financial performance. | Though the Group's commitment to reinforcing its values and ethical behaviour, as well as business continuity planning and a keen sense of responsibility to the local community and environment, the Group endeavours to safeguard its reputation. |
|-------------------|--|---|

"I am particularly indebted to the Board for their invaluable support and guidance"

SIR MICHAEL MARSHALL



CHAIRMAN

- 1 SIR MICHAEL MARSHALL CBE DL FRAeS[†] °** Appointed to main Board in 1960
Having joined the Group in 1955, he was appointed a director in 1957. In 1990, he became Chairman and Chief Executive of the whole Group. He is a Deputy Lieutenant of Cambridgeshire, Honorary Air Commodore of No 2623 (East Anglian) Squadron RAuxAF, Past President of The Air League, a Fellow of the Royal Aeronautical Society, a Companion of the Chartered Management Institute, a Vice President of the Institute of the Motor Industry, President of the Addenbrooke's Charitable Trust and a Freeman of the City of London. Aged 81.

NON-EXECUTIVE DIRECTORS

- 2 A.E. COOK CBE^{*}** Appointed 2010
Currently Chairman of WS Atkins plc, he is a chartered engineer with over 30 years' international experience in the automotive, aerospace and defence industries. Formerly chief executive of Cobham PLC, he held senior roles at GEC-Marconi, BAE Systems and Hughes Aircraft. He is also Chairman of Selex ES Finmeccanica UK Ltd, as well as chairing a number of advisory boards for the Government. He is a Fellow of the Royal Academy of Engineering. Aged 63.
- 3 P.J. HARVEY ACIB DipFS^{†*}** Appointed 2008
He is a former chief executive of Barclays Commercial Banking and, latterly, until his retirement in 2008, Vice Chairman of Barclays UK Banking. He is now a non-executive director of Cooperative Banking Group. He is a member of the Chartered Institute of Bankers. Aged 57.

- 4 SIR RALPH ROBINS DL FREng FRAeS[†] °** Appointed 2004
He retired as Chairman of Rolls-Royce plc in January 2003, and is a former Chairman of Cable & Wireless plc and the Defence Industries Council. He is also a former President of the Society of British Aerospace Companies and director of several international companies. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London. Aged 80.
- 5 C. J. SAWYER[†] °** Appointed 2008
He developed Deltron Electronics Plc into a European-leading manufacturer and distributor of niche components, which he sold during 2006. He is now Chairman of businesses engaged in recruitment, engineering consultancy and automotive parts distribution. He is a Fellow of the RSA, Institute of Directors, Companion of the Chartered Management Institute and is a Freeman of the City of London. Chairman of the Audit Committee. Aged 66.
- 6 S.J. SILLARS OBE FIMI[°]** Appointed 2004
Chief Executive, Semta - the Sector Skills Council for Science, Engineering and Manufacturing Technologies. She is also Independent Director on the Motor Cycle Industry Association Board, a Vice President of the Institute of the Motor Industry (the Sector Skills Council and professional body for retail motor industry), and a Vice President of BEN, the benevolent charity for the automotive industry. Sarah is a Court Assistant with the Coachmakers & Coach Harness Makers and a Freeman of the City of London. Aged 54.



EXECUTIVE DIRECTORS

- 7 R.D. MARSHALL FRAeS Appointed 2000**
Group Chief Executive, he joined Marshall Aerospace in 1995 and was appointed a director in 1999 before moving to Marshall SV as Chief Executive in 2000. He has been Chairman of Marshall Land Systems since 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. Aged 50.
- 8 W.C.M. DASTUR FCA Appointed 1996**
Formerly a managing partner with Ernst & Young, he joined the Group and the Board in 1996 as Group Financial Director. He acts as Chairman of the Trustees for the Group's various pension funds. He is also Chairman of Ely Cathedral Finance and Investment Advisory Committee, a trustee for a number of Cambridge based charities, a Fellow of the RSA and a Freeman of the City of London. Aged 60.
- 9 S. FITZ-GERALD FRAeS Appointed 2011**
He was appointed as Chief Executive of Marshall Aerospace in January 2011, having previously been President of Cobham Aviation Services. He has 25 years of experience in the defence industry with Plessey, Marconi and BAE Systems. He is also a Fellow of the Royal Aeronautical Society and the Institute of Directors. Aged 55.

- 10 D. GUPTA FIMI Appointed 2009**
He joined the Group in 2008 as Chief Executive of Marshall Motor Holdings. He was previously Group Managing Director for Ridgeway Group where he continues to be a Non-Executive Director. Formerly Chief Operating Officer of Accident Exchange Group PLC Franchise Director for Inchcape PLC for 7 years where he was responsible for the Volkswagen, Audi and Mercedes Benz brands. Daksh is a Fellow of the Institute of the Motor Industry and a trustee of BEN, the benevolent charity for the automotive industry. Aged 42.
- 11 J.D. BARKER ACIB ACIS Appointed 2012**
Formerly with Lloyds Bank plc before joining the Marshall Group in 1976. He is a member of the Chartered Institute of Bankers and the Institute of Chartered Secretaries and Administrators and was Company Secretary of the Group from 1993 to 2012. He is Managing Director of Marshall of Cambridge (Airport Properties) Limited and MGPH Limited. He is also a Trustee for the Group's various pension schemes. Aged 62.

COMPANY SECRETARY

- 12 S.J. MOYNIHAN FCA**
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 a trustee for two of the Group's pension schemes and a Governor of The Fields Children's Centre as well as trustee of its principal charity. Aged 43.

AUDITOR
Ernst & Young LLP

BANKERS
Barclays Bank PLC
Lloyds TSB Bank plc
HSBC Bank plc
Santander UK plc

INSURANCE BROKERS
Willis

PENSION AND ACTUARIAL ADVISERS
Buck Consultants

PROPERTY ADVISERS
Bidwells
Russells

SOLICITORS
Bird & Bird
Eversheds
Greenwoods
Mills & Reeve

REGISTERED OFFICE
Airport House
Newmarket Road
Cambridge CB5 8RY

REGISTERED NUMBER
2051460

www.marshallgroup.co.uk

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

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, 2012.

RESULTS AND DIVIDENDS

The Group recorded a profit after tax and minority interests for the year of £7,925,000 (2011 - £6,695,000). On 21st December 2012, the Board paid a priority dividend of 2p per share on the non-voting priority ordinary (NVPO) shares, together with an interim dividend of 0.5p per share for both Ordinary and NVPO shareholders. The directors recommend a final dividend of 1.75p per Ordinary and NVPO share making a total for the year of 2.25p per Ordinary share and 4.25p per NVPO share. In accordance with FRS 21, the final dividend of 1.75p 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 2013. Preference dividends on the 'A' and 'B' preference shares amounting to £744,000 were paid in the year.

PRINCIPAL ACTIVITIES

The activities of the Group consist principally of general engineering within the aerospace and defence sectors together with the business of car and commercial vehicle sales, service, hire and associated activities, and the holding and rental of property. The principal activity of the Company is that of an investment holding company.

REVIEW OF THE BUSINESS

The Directors are required to provide a business review and the necessary information is set out on pages 3 to 21, and incorporated into this report by reference.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Group, along with the Group's processes for identifying and managing those risks, are set out on pages 26 to 29 and are incorporated into this report by reference.

RESEARCH AND DEVELOPMENT

The Group continues to be committed to research and development, especially in its engineering businesses, in order to maintain a competitive position in all its markets (see note 4 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. On 19th February, 2013, Marshall of Cambridge Aerospace acquired 100% of the share capital of FlairJet Limited. On 20th February, 2013, Marshall of Cambridge (Motor Holdings) Limited acquired 100% of the share capital of Silver Street Automotive Limited. The amounts paid for both acquisitions are to be determined by the completion accounts which are in the process of being prepared.

DIRECTORS

The directors who served during the year were:-

| | | |
|---|--|------------------|
| Sir Michael Marshall (Chairman) | P. Callaghan (resigned 31st December 2012) | P.J. Harvey |
| A.E. Cook (Deputy Chairman) | W.C.M. Dastur | Sir Ralph Robins |
| R.D. Marshall | S. Fitz-Gerald | C.J. Sawyer |
| J.D. Barker (appointed 27th March 2012) | D. Gupta | S.J. Sillars |

At the forthcoming Annual General Meeting, D. Gupta, C.J. Sawyer and S.J. Sillars retire by rotation, and, being eligible, offer themselves for re-election.

The interests of the directors of Marshall of Cambridge (Holdings) Limited and their families in the shares of the Company at 31st December, 2012 were:

| | Sir Michael Marshall* | | R.D. Marshall** | | W.C.M. Dastur | | J.D. Barker | |
|--------------------------------------|-----------------------|------------|-----------------|------------|---------------|------------|--------------|------------|
| | Beneficially | As trustee | Beneficially | As trustee | Beneficially | As trustee | Beneficially | As trustee |
| Ordinary shares of 12.5p each | 3,042,150 | 7,289,890 | 205,900 | 29,500 | - | 29,500 | - | 29,500 |
| NVPO shares of 12.5p each | 2,349,900 | 20,974,510 | 53,983 | 373,167 | 119,000 | 206,500 | 11,000 | 206,500 |
| 8% preference 'A' shares of £1 each | 240,000 | 2,462,666 | - | 60,666 | - | 60,666 | - | 60,666 |
| 10% preference 'B' shares of £1 each | 180,000 | 1,829,333 | - | 28,333 | 15,000 | 28,333 | - | 28,333 |

The interests of the directors of Marshall of Cambridge (Holdings) Limited and their families in the shares of the Company at 1st January 2012 were:

| | Sir Michael Marshall* | | R.D. Marshall** | | W.C.M. Dastur | |
|--------------------------------------|-----------------------|------------|-----------------|------------|---------------|------------|
| | Beneficially | As trustee | Beneficially | As trustee | Beneficially | As trustee |
| Ordinary shares of 12.5p each | 3,042,150 | 7,289,890 | 205,900 | 29,500 | - | 29,500 |
| NVPO shares of 12.5p each | 2,349,900 | 20,974,510 | 53,983 | 373,167 | 60,000 | 206,500 |
| 8% preference 'A' shares of £1 each | 240,000 | 2,462,666 | - | 60,666 | - | 60,666 |
| 10% preference 'B' shares of £1 each | 180,000 | 1,829,333 | - | 28,333 | 15,000 | 28,333 |

* Sir Michael Marshall has a life interest in one half of the income from 5,060,548 Ordinary shares, 14,508,236 NVPO shares, 1,630,732 8% 'A' preference shares and 1,223,049 10% 'B' preference shares out of the totals referred to above in the trustee column.

** R.D. 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' AND OFFICERS' LIABILITY INSURANCE

The Company has continued to effect directors' and officers' insurance in respect of all the directors of the Company and its subsidiary undertakings.

Directors' Report

FIXED ASSETS

The Group invested £33.5m (2011 - £35.3m) in new fixed assets and investments and a further £3.4m (2011 - £2.6m) in new businesses. The Group's freehold investment properties were revalued by the directors, as at 31st December, 2012 at £7,695,000 (2011 - £8,390,000). A revaluation deficit of £695,000 (2011 - £125,000) has been taken to the revaluation reserve. Other tangible fixed assets' details and movements can be found in note 13 to the financial statements.

CORPORATE RESPONSIBILITY

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 the communities and industries in which the Group operates. Further details on corporate responsibility are set out on pages 22 to 23.

EMPLOYEE INVOLVEMENT

The Group is committed to its programmes covering recruitment and selection, training and development, appraisal and promotion. The Group recognises the diversity of its employees, its customers and the community at large and seeks to use employees' talents and abilities to the full. This approach extends to the fair treatment of employees with disabilities in relation to their recruitment, training and development. Full consideration is given to the retention of staff who become disabled during employment. The Group recognises the importance of good communications and relations with its employees and the requirements of the Information and Consultation of Employees Regulations 2004. It is Group policy to keep employees as fully informed as possible on matters which affect them through communication procedures, which include regular briefings, consultative committees and through its regular Group newsletter, Teamwork. These arrangements are continually being reviewed and updated to ensure the Group meets the latest standards. During the year, a series of meetings was held between management and employee representatives to discuss performance and to enhance the flow of information.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made various charitable contributions during the year totalling £101,000 (2011 - £84,000). There were no political donations in either year.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Chief Executive's Review on pages 3 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 21. In addition, the principal risks and uncertainties facing the Group are set out on pages 26 to 29. 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.

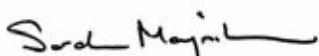
AUDITOR

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

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.

BY ORDER OF THE BOARD



S.J. Moynihan
Secretary
23rd April, 2013

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing 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). 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 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the 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 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.

Group Profit and Loss Account

for the year ended 31st December, 2012

| | Notes | 2012 £000 | 2011 £000 |
|--|-------|----------------|----------------|
| TURNOVER | | | |
| Existing operations | | 1,095,196 | 985,134 |
| Acquisitions | | 31,178 | 17,613 |
| Continuing operations | 2 | 1,126,374 | 1,002,747 |
| Cost of sales | | (921,707) | (819,128) |
| GROSS PROFIT | | 204,667 | 183,619 |
| Administrative expenses | | (190,932) | (174,425) |
| Other operating income | | 498 | 172 |
| OPERATING PROFIT | | | |
| Existing operations | | 14,579 | 9,769 |
| Acquisitions | | (346) | (403) |
| Continuing operations | 2/4 | 14,233 | 9,366 |
| Profit on disposal of tangible fixed assets | 5 | - | 622 |
| Amounts written off investments | 14 | (241) | - |
| Income from investments | | 18 | 36 |
| Interest receivable and similar income | 6 | 235 | 208 |
| Interest payable and similar charges | 6 | (2,318) | (1,884) |
| Other finance income | 33 | 191 | 178 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 12,118 | 8,526 |
| Tax on profit on ordinary activities | 8 | (4,198) | (1,843) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 7,920 | 6,683 |
| Equity minority interests | 25 | 5 | 12 |
| PROFIT FOR THE FINANCIAL YEAR | 23 | 7,925 | 6,695 |
| BASIC AND DILUTED EARNINGS PER SHARE | | | |
| | 9 | 12.2p | 10.1p |
| UNDERLYING EARNINGS PER SHARE | | | |
| | 9 | 19.9p | 11.8p |

Group Statement of Total Recognised Gains and Losses

for the year ended 31st December, 2012

| | Notes | 2012 £000 | 2011 £000 |
|--|-------|--------------|--------------|
| PROFIT FOR THE FINANCIAL YEAR | | 7,925 | 6,695 |
| Unrealised deficit on revaluation of investment properties | 23 | (695) | (125) |
| Actuarial loss recognised on defined benefit pension scheme | 33 | (339) | (6,249) |
| Tax credit on actuarial loss | 8 | 83 | 1,514 |
| Net exchange (loss) / gain on retranslation of overseas subsidiary undertakings | 23 | (166) | 3 |
| TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT AND FINANCIAL STATEMENTS | | 6,808 | 1,838 |

Group Statement of Cash Flows

for the year ended 31st December, 2012



| | Notes | 2012 £000 | 2011 £000 |
|---|-------|-----------------|--------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 11 | 69,761 | 13,443 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Dividends received from investments | | 18 | 36 |
| Interest received | | 235 | 208 |
| Interest paid | | (1,166) | (928) |
| Interest element of finance lease rental payments and stock finance | | (1,152) | (956) |
| | | (2,065) | (1,640) |
| TAXATION | | | |
| UK corporation tax repayment | | 2,077 | - |
| UK corporation tax paid | | (1,196) | (2,973) |
| Overseas tax paid | | (882) | (555) |
| | | (1) | (3,528) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Payments to acquire intangible fixed assets | | - | (103) |
| Payments to acquire tangible fixed assets | | (33,080) | (34,828) |
| Payments to acquire investments | | (461) | (407) |
| Receipts from sales of tangible fixed assets | | 5,958 | 7,120 |
| | | (27,583) | (28,218) |
| ACQUISITIONS AND DISPOSALS | | | |
| Acquisition of businesses | 12 | (2,261) | (1,254) |
| Payment of deferred consideration on prior acquisitions | | (1,153) | (1,316) |
| | | (3,414) | (2,570) |
| EQUITY DIVIDENDS PAID | 10 | (2,642) | (2,494) |
| NET CASH INFLOW / (OUTFLOW) BEFORE FINANCING | 11 | 34,056 | (25,007) |
| FINANCING | | | |
| New loans | 19 | 20,688 | 26,570 |
| Repayment of loans | 19 | (20,834) | (25,331) |
| Repayment of capital element of finance leases | 11 | (19) | (57) |
| | | (165) | 1,182 |
| INCREASE / (DECREASE) IN CASH AT BANK AND IN HAND | 11 | 33,891 | (23,825) |

Group Balance Sheet

at 31st December, 2012

| | Notes | 2012 £000 | Restated 2011 £000 |
|--|-------|------------------|--------------------------|
| FIXED ASSETS | | | |
| Intangible assets | 12 | 10,693 | 11,213 |
| Tangible assets | 13 | 132,259 | 133,264 |
| Investments | 14 | 1,911 | 1,627 |
| TOTAL FIXED ASSETS | | 144,863 | 146,104 |
| CURRENT ASSETS | | | |
| Stocks | 15 | 137,115 | 121,470 |
| Debtors | 16 | 77,936 | 102,097 |
| Cash at bank and in hand | 11 | 58,796 | 24,905 |
| | | 273,847 | 248,472 |
| CREDITORS: amounts falling due within one year | 17 | (219,797) | (199,087) |
| NET CURRENT ASSETS | | 54,050 | 49,385 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 198,913 | 195,489 |
| CREDITORS: amounts falling due after more than one year | 18 | (29,459) | (31,183) |
| PROVISION FOR LIABILITIES | 21 | (3,672) | (2,577) |
| NET ASSETS BEFORE PENSION LIABILITY | | 165,782 | 161,729 |
| PENSION LIABILITY | 33 | (6,278) | (6,386) |
| NET ASSETS | | 159,504 | 155,343 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 22 | 15,733 | 15,733 |
| Revaluation reserve | 23 | 1,238 | 1,933 |
| Capital redemption reserve | 23 | 130 | 130 |
| Profit and loss account | 23 | 142,361 | 137,500 |
| SHAREHOLDERS' FUNDS | 24 | 159,462 | 155,296 |
| Equity minority interests | 25 | 42 | 47 |
| TOTAL CAPITAL EMPLOYED | | 159,504 | 155,343 |

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 23rd April 2013. They were signed on its behalf by:



R. D. Marshall )
 W. C. M. Dastur )
 Directors

Company Balance Sheet

at 31st December, 2012

| | Notes | 2012 £000 | 2011 £000 |
|---|-------|-----------------|--------------|
| FIXED ASSETS | | | |
| Tangible assets | 13 | 246 | 332 |
| Investments | 14 | 17,950 | 17,666 |
| TOTAL FIXED ASSETS | | 18,196 | 17,998 |
| CURRENT ASSETS | | | |
| Debtors | 16 | 40,226 | 35,496 |
| Cash at bank and in hand | | 50,119 | 10,800 |
| | | 90,345 | 46,296 |
| CREDITORS: amounts falling due within one year | 17 | (79,904) | (35,757) |
| NET CURRENT ASSETS | | 10,441 | 10,539 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 28,637 | 28,537 |
| PENSION LIABILITY | 33 | (6,278) | (6,386) |
| NET ASSETS | | 22,359 | 22,151 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 22 | 15,733 | 15,733 |
| Capital redemption reserve | 23 | 130 | 130 |
| Profit and loss account | 23 | 6,496 | 6,288 |
| SHAREHOLDERS' FUNDS | 24 | 22,359 | 22,151 |

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 23rd April 2013. They were signed on its behalf by:

R. D. Marshall )
 W. C. M. Dastur )
 Directors

Notes to the Financial Statements

at 31st December, 2012

1. ACCOUNTING POLICIES

Accounting convention and basis of preparation

The Group financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments and investment properties, and comply with all applicable UK accounting standards. The true and fair override provisions of the Companies Act 2006 have been invoked. See 'Investment Properties' below.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31st December each year. Entities, in which the Group holds an interest on a long-term basis and are jointly controlled by the Group and one or more other third parties under a contractual arrangement, are treated as joint ventures. In the Group financial statements, joint ventures are accounted for using the gross equity method to the extent that they are material to the financial statements. Acquisitions are accounted for under the acquisition method.

Turnover

Turnover comprises the invoiced value of goods and services supplied by the Group excluding trade discounts and value added tax. Turnover relating to long-term contracts represents the value of work performed during the year determined by reference to the stage of completion of the contract. Turnover 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:** Turnover 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:** Turnover 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:** Turnover from the provision of services is recognised as the contract activity progresses to reflect the performance of the underlying contractual obligations.

Goodwill

Goodwill arising on the acquisition of businesses or subsidiary undertakings is capitalised as an intangible asset and amortised on a straight line basis over an appropriate period representing its useful economic life of between 5 and 10 years. Each acquisition is assessed separately as to its specific useful economic life. During the year, one of the subsidiary undertakings changed its estimate for the useful economic life of its goodwill from 20 years to 10 years. The impact of this was an additional £214,000 charge to the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land and investment properties, from the date the asset is brought into use, at rates calculated to write off the cost or valuation, less estimated residual value, based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Freehold buildings:

| | | | |
|------------------------|---------------|--|-----------------|
| Residential properties | 50 years | Leasehold land | over lease term |
| Garage properties | 25 years | Leasehold buildings | over lease term |
| Hangars | 20 years | Plant and machinery | 3 - 8 years |
| Runway | 20 years | Motor vehicles (except short term hire vehicles and leased vehicles) | 3 - 4 years |
| Offices | 15 - 40 years | Assets held for contract rental | over lease term |
| Temporary shelters | 5 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.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists the Group makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or income generating unit's net realisable value and its value in use and is determined for an individual asset, unless the asset does not generate separate income flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. Impairment losses are expensed in the profit and loss account.

Investment properties

Investment properties are revalued annually to open market value. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of freehold investment properties. The directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 Accounting for Investment Properties. The financial effect of the departure from the statutory accounting rules is not material.

Investments

In the financial statements of the Company, investments in subsidiaries are accounted for at the lower of cost and net realisable value. All other fixed asset investments are shown at cost less provision for impairment, unless listed on the London Stock Exchange or the Alternative Investment Market, where they are revalued to market price.

Notes to the Financial Statements

at 31st December, 2012

1. ACCOUNTING POLICIES (continued)

Stocks, work in progress and long term contracts

Stocks and work in progress are valued at the lower of cost and net realisable value. In the case of work in progress, cost includes, where appropriate, labour and attributable production overheads. Long-term contract work in progress is stated at cost, as defined above, less amounts transferred to the profit and loss account, provision for any known or anticipated losses and payments on account received and 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 (stockholding cost, responsibility for safe-keeping and some risk of obsolescence) rest with the Group.

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

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 that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- provision is made for gains on disposal of fixed assets which have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- provision is made for the tax which would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted 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.

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 level of pension contribution is determined with the advice of independent qualified actuaries. For the defined contribution schemes, contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. For the defined benefit scheme, regular valuations are prepared by an independent professionally qualified actuary. These determine the level of contributions required to fund the benefits set out in the rules of the plan and allow for the periodic increase of pensions in payment. The regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within other finance income. This is based on the market value of the assets of the schemes at the start of the financial year. A charge representing the expected increase in the liabilities of the retirement benefit schemes during the year is also included within other finance income. This arises from the liabilities of the schemes being one year closer to payment. The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset, to the extent it is considered fully recoverable, or as a liability in the balance sheet net of deferred tax. Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions and are disclosed as actuarial gains or losses net of tax.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. Rental income from operating leases is recognised on a straight line basis over the lease term.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or the forward contract rate, if appropriate. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the results of overseas operations are represented in the statement of total recognised gains and losses. All other differences are taken to the profit and loss account.

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold derivative financial instruments for speculative purposes. Accordingly any gains or losses arising on these contracts are recognised in the profit and loss account when the transaction itself is recognised in the Group's financial statements.

Government grants

Government grants for revenue items are credited to the profit and loss account as the related expenditure is incurred.

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 21 Events After The Balance Sheet Date, equity dividends on ordinary share capital are recognised as a liability in the period in which they are declared.

Notes to the Financial Statements

at 31st December, 2012

2. SEGMENTAL ANALYSIS

The Group operates in the principal markets of motor retail and leasing, aerospace and defence, fleet solutions, and property rental and investment. An analysis of turnover, operating profit and net assets is given below. Operating profit excludes rent paid to other Group subsidiary undertakings. Business segment net assets include the net book value of property owned by other Group subsidiary undertakings but occupied by that business segment.

| | Turnover | | Operating profit / (loss) | | Net assets* | |
|---------------------------|------------------|------------------|---------------------------|--------------|----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Business segments: | | | | | | |
| Aerospace and defence | 300,704 | 288,185 | 17,747 | 14,745 | 67,071 | 60,896 |
| Motor retail and leasing | 794,437 | 683,545 | 6,717 | 3,037 | 62,445 | 62,425 |
| Property | 1,335 | 1,391 | 985 | 945 | 15,414 | 13,785 |
| Airport | 3,505 | 4,064 | (4,594) | (3,005) | - | - |
| Fleet solutions | 26,393 | 25,571 | (1,695) | (1,271) | (3,323) | (3,636) |
| Unallocated central costs | - | - | (4,927) | (5,085) | (40,008) | (5,718) |
| | 1,126,374 | 1,002,747 | 14,233 | 9,366 | 101,599 | 127,752 |
| Unallocated net assets | - | - | - | - | 57,905 | 27,591 |
| | 1,126,374 | 1,002,747 | 14,233 | 9,366 | 159,504 | 155,343 |

* Although the airport trades as a discrete business within the Group, it is not possible to separate out the net assets, as they are an integral part of the aerospace and defence division.

| | Turnover by destination | | Turnover by origin | | Operating profit | | Net assets | |
|-------------------------------|-------------------------|------------------|--------------------|------------------|------------------|--------------|----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Geographical segments: | | | | | | | | |
| UK | 1,044,028 | 928,399 | 1,105,989 | 979,955 | 10,407 | 6,465 | 93,980 | 121,823 |
| Rest of Europe | 47,061 | 32,620 | 3,181 | 2,934 | 763 | 999 | 74 | 237 |
| North America | 30,312 | 36,464 | 12,854 | 15,726 | 1,780 | 1,462 | 6,461 | 5,269 |
| Rest of World | 4,973 | 5,264 | 4,350 | 4,132 | 1,283 | 440 | 1,084 | 423 |
| | 1,126,374 | 1,002,747 | 1,126,374 | 1,002,747 | 14,233 | 9,366 | 101,599 | 127,752 |
| Unallocated net assets | - | - | - | - | - | - | 57,905 | 27,591 |
| | 1,126,374 | 1,002,747 | 1,126,374 | 1,002,747 | 14,233 | 9,366 | 159,504 | 155,343 |

Segmental net assets comprise the non-interest bearing operating assets less the non-interest bearing operating liabilities. They, therefore, exclude assets in respect of cash and fixed asset investments as well as liabilities in respect of dividends, corporation tax and overdrafts, which together are disclosed as unallocated net assets.

| | 2012 | 2011 |
|---|---------------|---------------|
| | £000 | £000 |
| Unallocated net assets comprise: | | |
| Fixed asset investments | 1,911 | 1,627 |
| Corporation tax | (2,090) | 1,595 |
| Deferred tax | (712) | (536) |
| Cash | 58,796 | 24,905 |
| | 57,905 | 27,591 |

3. CONTINUING AND ACQUIRED OPERATIONS

In relation to the acquisitions during the year, continuing operations in 2012 include cost of sales £27,311,000 and administrative expenses £4,213,000.

Notes to the Financial Statements

at 31st December, 2012

| 4. OPERATING PROFIT | 2012 | 2011 |
|---|-------------|-------------|
| | £000 | £000 |
| Operating profit is after charging / (crediting): | | |
| Research and development - current year expenditure | 524 | 566 |
| Auditor's remuneration - audit of the financial statements of the Company | 43 | 41 |
| - audit of subsidiary undertakings | 411 | 376 |
| - audit of joint venture | 6 | - |
| - tax compliance and planning | 292 | 313 |
| - research and development claim advice | - | 130 |
| - other fees | - | 6 |
| Depreciation - owned assets | 27,253 | 24,581 |
| - leased assets | 14 | 50 |
| Impairment - owned assets | 680 | - |
| Amortisation - goodwill | 2,271 | 1,595 |
| Operating lease rentals - plant and machinery | 507 | 231 |
| - land and buildings | 5,235 | 5,161 |
| Finance lease rental income - motor vehicles | (250) | (275) |
| Operating lease rental income - motor vehicles | (19,709) | (17,638) |
| Net foreign exchange loss / (gain) | 710 | (14) |
| Loss on disposal of tangible fixed assets | 6 | - |
| Restructuring costs | 1,718 | - |

| 5. PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS | 2012 | 2011 |
|--|-------------|-------------|
| | £000 | £000 |
| Profit on disposal of tangible fixed assets, net of taxation of £nil (2011 - £nil) | - | 622 |

| 6. INTEREST | 2012 | 2011 |
|---|-------------|-------------|
| | £000 | £000 |
| (a) Interest receivable and similar income | | |
| Bank interest receivable | 218 | 66 |
| Interest receivable on tax repayments | 17 | 142 |
| | 235 | 208 |

| | 2012 | 2011 |
|---|--------------|--------------|
| | £000 | £000 |
| (b) Interest payable and similar charges | | |
| Bank loans | 1,166 | 928 |
| Finance lease charges | - | 3 |
| Stock finance charges | 1,152 | 953 |
| | 2,318 | 1,884 |

7. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the financial statements of the parent company was £3,106,000 (2011 - £4,807,000). No profit and loss account is presented for the parent company as permitted by section 408 of the Companies Act 2006.

| 8. TAX ON PROFIT ON ORDINARY ACTIVITIES | 2012 | 2011 |
|---|--------------|--------------|
| | £000 | £000 |
| (a) Analysis of tax charge for the year | | |
| UK corporation tax charge on the profit for the year | 3,433 | 2,519 |
| Double taxation relief | - | (85) |
| UK corporation tax adjustment in respect of prior years | (443) | (998) |
| Overseas tax on profit for the year | 779 | 774 |
| Overseas tax adjustment in respect of prior years | - | (205) |
| Current tax charge | 3,769 | 2,005 |
| Deferred tax charge / (credit) (see note 21) | 429 | (162) |
| Total tax charge | 4,198 | 1,843 |

Notes to the Financial Statements

at 31st December, 2012

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

| | 2012 | 2011 |
|---|--------------|----------------|
| | £000 | £000 |
| (b) Factors affecting current tax charge for the year | | |
| Profit on ordinary activities before tax | 12,118 | 8,526 |
| Profit on ordinary activities before tax at 24.5% (2011 - 26.5%) | 2,969 | 2,259 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 1,210 | 893 |
| Depreciation in excess / (deficit) of capital allowances | 409 | (522) |
| Short term timing differences | (369) | 455 |
| Research and development enhanced claim | (66) | - |
| Adjustments in respect of prior years | (443) | (1,203) |
| Tax rate changes | (22) | - |
| Higher tax rates on overseas earnings | 81 | 123 |
| Current tax charge | 3,769 | 2,005 |
| (c) Tax on actuarial loss included in the statement of total recognised gains and losses | | |
| Transfer to current tax for tax on excess pension contributions | - | 160 |
| Deferred tax credit on actuarial loss | - | (1,514) |
| Deferred tax credit | - | (1,354) |
| Current tax credit on actuarial loss | (83) | - |
| Current tax credit for tax on excess pension contributions | - | (160) |
| Tax credit included in the statement of total recognised gains and losses | (83) | (1,514) |

(d) Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on revaluing property to its market value, or on the sale of properties where taxable gains have been rolled over into replacement assets. Such tax would become payable only if the properties concerned were sold without it being possible to claim rollover relief. The unprovided deferred tax liability in respect of these two elements is £4,845,000 (2011 - £5,730,000). At present, it is not envisaged that any tax will become payable in the foreseeable future. In his Budget of 20 March 2013, the Chancellor of the Exchequer announced tax rate changes, which, if enacted in the proposed manner, will have an effect on the Group's future tax position. As at 31 December 2012, the tax rate changes announced in the Budget had not yet been 'substantively enacted' and as such, in accordance with accounting standards, the changes have not been reflected in the Group's financial statements as at 31 December 2012. The Finance Act 2012 reduced the main rate of UK corporation tax to 24% from 1 April 2012 and to 23% from 1 April 2013. Additional changes to the main rate of UK corporation tax announced by the Government will reduce the main rate to 21% from 1 April 2014 and to 20% from 1 April 2015. Deferred tax assets and liabilities at 31 December 2012 have been calculated at 23% and the reduction in the deferred tax asset/liability has been included within the tax charge for the year. Further UK tax changes, are a reduction from 1 April 2013 in the rate of capital allowances applicable to plant and machinery and to integral features from 20% to 18% and 10% to 8% respectively. The rate change and the capital allowance changes will also impact the future cash tax payments to be made by the Group.

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

9. EARNINGS PER SHARE

| | 2012 | 2011 |
|--|---------------|--------------|
| | £000 | £000 |
| Profit after tax | 7,920 | 6,683 |
| Minority interests | 5 | 12 |
| Dividends on preference shares | (744) | (744) |
| Basic earnings | 7,181 | 5,951 |
| Restructuring costs net of tax | 1,297 | - |
| Exceptional items net of tax | - | (622) |
| Goodwill amortisation | 2,271 | 1,595 |
| Impairment of tangible fixed assets | 680 | - |
| Amounts written off investments | 241 | - |
| Underlying earnings | 11,670 | 6,924 |
| Average number of shares in issue during the year ('000) | 58,660 | 58,660 |
| Basic earnings per share | 12.2p | 10.1p |
| Underlying earnings per share | 19.9p | 11.8p |

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 exceptional items, goodwill amortisation and impairment charges) 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.

Notes to the Financial Statements

at 31st December, 2012

| 10. DIVIDENDS | 2012 | 2011 |
|--|--------------|--------------|
| | £000 | £000 |
| Dividends on Ordinary shares: | | |
| 1.25p per Ordinary share of 12.5p each paid on 29th June 2012 (1st July 2011 - 1.0p) | 189 | 152 |
| 0.5p per Ordinary share of 12.5p each paid on 21st December 2012 (22nd December 2011 - 0.5p) | 75 | 75 |
| | 264 | 227 |
| Dividends on NVPO shares: | | |
| 1.25p per NVPO share of 12.5p each paid on 29th June 2012 (1st July 2011 - 1.0p) | 544 | 435 |
| 2.5p per NVPO share of 12.5p each paid on 21st December 2012 (22nd December 2011 - 2.5p) | 1,090 | 1,088 |
| | 1,634 | 1,523 |
| Dividends on preference shares: | | |
| 8.0p per 'A' preference share | 384 | 384 |
| 10.0p per 'B' preference share | 360 | 360 |
| | 744 | 744 |
| Aggregate dividends declared and paid during the year | 2,642 | 2,494 |

11. NOTES TO THE STATEMENT OF CASH FLOWS

| | 2012 | <i>Restated</i> 2011 |
|--|---------------|-------------------------|
| | £000 | £000 |
| (a) Reconciliation of operating profit to net cash inflow from operating activities | | |
| Operating profit | 14,233 | 9,366 |
| Loss on disposal of tangible fixed assets | 6 | - |
| Foreign exchange movement | (178) | (29) |
| Depreciation of tangible fixed assets and impairment charges | 27,947 | 24,631 |
| Amortisation of intangible fixed assets | 2,271 | 1,595 |
| Mark to market of fixed asset investments | (64) | (126) |
| Increase in stocks | (11,820) | (8,916) |
| Decrease / (increase) in debtors | 24,286 | (22,447) |
| Increase / (decrease) in provisions | 919 | (104) |
| Increase in creditors | 12,670 | 10,010 |
| Adjustment for pension funding | (509) | (537) |
| Net cash inflow from operating activities | 69,761 | 13,443 |

| | At 1st January 2012 | Cash movement | Non - cash movement | At 31st December 2012 |
|---|---------------------------|------------------|------------------------|-----------------------------|
| | £000 | £000 | £000 | £000 |
| (b) Analysis of net (debt) / funds | | | | |
| Cash at bank and in hand | 24,905 | 33,891 | - | 58,796 |
| Short term loans | (18,410) | 5,442 | (8,161) | (21,129) |
| Long term loans | (23,838) | (5,296) | 8,161 | (20,973) |
| Finance lease obligations | (19) | 19 | - | - |
| Net (debt) / funds | (17,362) | 34,056 | - | 16,694 |

| | 2012 | 2011 |
|--|-----------------|-----------------|
| | £000 | £000 |
| (c) Reconciliation of net cash flow to movement in net funds / (debt) | | |
| Increase / (decrease) in cash | 33,891 | (23,825) |
| Cash inflow from new loans | (20,688) | (26,570) |
| Repayment of loans | 20,834 | 25,331 |
| Repayment of capital element of finance leases | 19 | 57 |
| Increase / (decrease) in net funds / (debt) | 34,056 | (25,007) |
| Net (debt) / funds at 1st January | (17,362) | 7,645 |
| Net funds / (debt) at 31st December | 16,694 | (17,362) |

Notes to the Financial Statements

at 31st December, 2012

12. INTANGIBLE FIXED ASSETS

Goodwill
£000

| | |
|------------------------------------|---------------|
| Cost: | |
| At 1st January, 2012 | 17,605 |
| Arising on acquisitions | 1,395 |
| Adjustment to cost of acquisitions | 356 |
| Disposals | (203) |
| At 31st December, 2012 | 19,153 |
| Amortisation: | |
| At 1st January, 2012 | 6,392 |
| Provided during the year | 2,271 |
| Eliminated on disposal | (203) |
| At 31st December, 2012 | 8,460 |
| Net book value: | |
| At 31st December, 2012 | 10,693 |
| Net book value: | |
| At 1st January, 2012 | 11,213 |

The adjustment to cost of acquisitions of £356,000 relates to a revision to the contingent consideration payable in respect of the acquisition of Slingsby Holdings Limited and its related subsidiaries in 2009. The fully amortised goodwill relating to the prior acquisition of Jack Roberts (Tail Lifts) Ltd was disposed of during the year, following the dissolution of the company. The acquisitions by Marshall of Cambridge (Motor Holdings) Limited of F. Cross & Son Limited on 23rd January 2012 and the business and assets of Lincoln Jaguar from the Co-operative Society on 24th April 2012 have been included at their provisional fair values at the date of acquisition, which are unchanged from book value at this date. Their combined net assets at the date of acquisition were as follows:

| | |
|---|--------------|
| | £000 |
| Tangible fixed assets | 349 |
| Stock | 3,825 |
| Debtors | 1,458 |
| Creditors: Amounts falling due within one year | (4,015) |
| Creditors: Amounts falling due after more than one year | (751) |
| Net assets | 866 |
| Provisional goodwill arising on acquisition | 1,395 |
| | 2,261 |
| <hr/> | |
| Discharged by: consideration paid | 2,261 |

13. TANGIBLE FIXED ASSETS

| Group | Land and buildings | | | | Aircraft | Motor vehicles | Assets held for contract rental | Total |
|-------------------------------|--------------------|-----------------------|-----------------|---------------------|--------------|----------------|---------------------------------|----------------|
| | Freehold | Investment properties | Short leasehold | Plant and machinery | | | | |
| | £000 | £000 | £000 | £000 | | | | |
| Cost or valuation: | | | | | | | | |
| At 1st January, 2012 | 75,860 | 8,390 | 3,825 | 88,603 | 8,701 | 5,542 | 75,504 | 266,425 |
| Additions | 303 | - | 1,055 | 5,818 | 126 | 916 | 25,022 | 33,240 |
| Additions on acquisition | - | - | - | 349 | - | - | - | 349 |
| Disposals | - | - | (110) | (2,639) | - | (967) | (17,126) | (20,842) |
| Revaluation | - | (695) | - | - | - | - | - | (695) |
| Transfers | (39) | - | - | 39 | - | - | - | - |
| Exchange adjustment | - | - | - | (23) | - | - | - | (23) |
| At 31st December, 2012 | 76,124 | 7,695 | 4,770 | 92,147 | 8,827 | 5,491 | 83,400 | 278,454 |
| Depreciation: | | | | | | | | |
| At 1st January, 2012 | 29,396 | - | 1,458 | 70,163 | 1,948 | 4,223 | 25,973 | 133,161 |
| Provided during the year | 2,329 | - | 226 | 7,931 | 519 | 648 | 15,614 | 27,267 |
| Impairment losses | - | - | 25 | 655 | - | - | - | 680 |
| Eliminated on disposals | - | - | (13) | (2,466) | - | (857) | (11,542) | (14,878) |
| Exchange adjustment | - | - | - | (35) | - | - | - | (35) |
| At 31st December, 2012 | 31,725 | - | 1,696 | 76,248 | 2,467 | 4,014 | 30,045 | 146,195 |
| Net book value: | | | | | | | | |
| At 31st December, 2012 | 44,399 | 7,695 | 3,074 | 15,899 | 6,360 | 1,477 | 53,355 | 132,259 |
| Net book value: | | | | | | | | |
| At 1st January, 2012 | 46,464 | 8,390 | 2,367 | 18,440 | 6,753 | 1,319 | 49,531 | 133,264 |

Notes to the Financial Statements

at 31st December, 2012

13. TANGIBLE FIXED ASSETS (continued)

| Company | Plant, machinery & building refurbishments £000 | Motor vehicles £000 | Total £000 |
|-------------------------------|---|---------------------------|---------------|
| Cost: | | | |
| At 1st January, 2012 | 556 | 297 | 853 |
| Additions | 44 | - | 44 |
| At 31st December, 2012 | 600 | 297 | 897 |
| Depreciation: | | | |
| At 1st January, 2012 | 370 | 151 | 521 |
| Provided during the year | 61 | 69 | 130 |
| At 31st December, 2012 | 431 | 220 | 651 |
| Net book value: | | | |
| At 31st December, 2012 | 169 | 77 | 246 |
| Net book value: | | | |
| At 1st January, 2012 | 186 | 146 | 332 |

Assets acquired under finance leases

Included in plant and machinery are the following amounts relating to assets acquired by the Group under finance leases:

| Group | £000 |
|--|------------|
| Cost: | |
| At 1st January, 2012 and at 31st December, 2012 | 376 |
| Depreciation: | |
| At 1st January, 2012 | 362 |
| Provided during the year | 14 |
| At 31st December, 2012 | 376 |
| Net book value: | |
| At 31st December, 2012 | - |
| Net book value: | |
| At 1st January, 2012 | 14 |

Assets acquired to let under finance leases

The Group has purchased motor vehicles with an original cost of £363,000 (2011 - £460,000) for the purposes of letting under finance leases which are not shown as tangible fixed assets.

Investment properties

Investment properties included in freehold land and buildings are stated at market value. No depreciation is provided in respect of such properties in accordance with SSAP 19 Accounting for Investment Properties. All other properties are included at original cost. The Group's freehold investment properties were informally valued on an open market basis by the Directors as at 31st December, 2012 at £7,695,000 (2011 - £8,390,000). A revaluation deficit of £695,000 (2011 - £125,000) has been taken to the revaluation reserve. The last formal valuation was undertaken at 31st December 2009, by Bidwells, Chartered Surveyors. The historical cost of the investment properties included at valuation in freehold land and buildings is £6,457,000 (2011 - £6,457,000).

Notes to the Financial Statements

at 31st December, 2012

14. INVESTMENTS

| Group | Joint ventures £000 | Listed on Alternative Investment Market* £000 | Other investments £000 | Total £000 |
|-------------------------------|------------------------|--|---------------------------|---------------|
| Cost: | | | | |
| At 1st January, 2012 | 11 | 1,120 | 520 | 1,651 |
| Additions | - | - | 461 | 461 |
| Disposals | (11) | - | - | (11) |
| Mark to market | - | 64 | - | 64 |
| At 31st December, 2012 | - | 1,184 | 981 | 2,165 |
| Provision: | | | | |
| At 1st January, 2012 | 11 | - | 13 | 24 |
| Provided during the year | - | - | 241 | 241 |
| Eliminated on disposal | (11) | - | - | (11) |
| At 31st December, 2012 | - | - | 254 | 254 |
| Net book value: | | | | |
| At 31st December, 2012 | - | 1,184 | 727 | 1,911 |
| Net book value: | | | | |
| At 1st January, 2012 | - | 1,120 | 507 | 1,627 |

| Company | Subsidiary undertakings £000 | Listed on Alternative Investment Market* £000 | Other investments £000 | Total £000 |
|-------------------------------|---------------------------------|--|---------------------------|---------------|
| Cost: | | | | |
| At 1st January, 2012 | 26,050 | 1,120 | 509 | 27,679 |
| Additions | - | - | 461 | 461 |
| Mark to market | - | 64 | - | 64 |
| 31st December, 2012 | 26,050 | 1,184 | 970 | 28,204 |
| Provision: | | | | |
| At 1st January, 2012 | 10,000 | - | 13 | 10,013 |
| Provided during the year | - | - | 241 | 241 |
| At 31st December, 2012 | 10,000 | - | 254 | 10,254 |
| Net book value: | | | | |
| At 31st December, 2012 | 16,050 | 1,184 | 716 | 17,950 |
| Net book value: | | | | |
| At 1st January, 2012 | 16,050 | 1,120 | 496 | 17,666 |

* The original cost of investments listed on the Alternative Investment Market is £185,000 (2011 - £185,000)

Notes to the Financial Statements

at 31st December, 2012

14. INVESTMENTS (continued)

The Company's direct investments in subsidiary undertakings at 31st December, 2012 were as follows:

| Subsidiary undertaking | Proportion held | Ordinary Shares of £1 each | Principal activity | Cost £000 |
|--|-----------------|----------------------------|---------------------------------------|---------------|
| Marshall of Cambridge Aerospace Limited | 100% | 12,000,000 | Aerospace engineering | 12,000 |
| Marshall Specialist Vehicles Limited | 100% | 12,000,000 | Military and land systems engineering | 12,000 |
| MGPH Limited | 100% | 500,000 | Property holding | 1,734 |
| Marshall of Cambridge (Motor Holdings) Limited | 100% | 2,250,000 | Motor retail and leasing | 269 |
| Marshall Land Systems Limited | 100% | 12,000 | Holding company | 20 |
| The Cambridge Aero Club Limited | 100% | 5,000 | Flying instruction & aircraft charter | 17 |
| Marshall of Cambridge (Airport Properties) Limited | 100% | 10,000 | Farming and property holding | 10 |
| Marshall of Cambridge (Engineering) Limited | 100% | 100 | Dormant | - |
| | | | | 26,050 |

The following companies are subsidiary undertakings of Marshall of Cambridge (Motor Holdings) Limited:

| | |
|---|---|
| * Marshall Motor Group Limited | * + Marshall Commercial Vehicles Limited |
| * Marshall of Cambridge (Garage Properties) Limited | ** Marshall of Ipswich Limited |
| * Marshall Leasing Limited | ** Marshall of Peterborough Limited |
| * Marshall North West Limited | ** Marshall of Stevenage Limited |
| * Tim Brinton Cars Limited | *** Gates Contract Hire Limited |
| * Marshall of Scunthorpe Limited (Formerly F Cross & Son Limited) | |
| * <i>Wholly owned by Marshall of Cambridge (Motor Holdings) Limited</i> | *** <i>Wholly owned by Marshall Leasing Limited</i> |
| ** <i>99% owned by Marshall of Cambridge (Motor Holdings) Limited</i> | + <i>Dormant</i> |

All the above subsidiary undertakings of Marshall of Cambridge (Motor Holdings) Limited carry on the business of car and commercial vehicle and equipment sales, distribution, service, leasing, hire and associated activities except Marshall of Cambridge (Garage Properties) Limited (property holding) and Marshall Commercial Vehicles Limited, which is dormant.

On 23rd January, 2012, Marshall of Cambridge (Motor Holdings) Limited acquired 100% of the share capital of F Cross & Son Limited for £1,650,000. On 19th February, 2013, Marshall of Cambridge Aerospace acquired 100% of the share capital of FlairJet Limited. On 20th February, 2013, Marshall of Cambridge (Motor Holdings) Limited acquired 100% of the share capital of Silver Street Automotive Limited. The amounts paid for both acquisitions are to be determined by the completion accounts which are in the process of being prepared.

Marshall Thermo King Limited and Marshall Fleet Solutions Limited are wholly owned subsidiaries of Marshall Land Systems Limited, and specialise in commercial and military vehicle repair and vehicle mounted refrigeration maintenance.

Marshall Vehicle Engineering Limited and Marshall SDG Limited are wholly owned subsidiaries of Marshall Specialist Vehicles Limited. Marshall Vehicle Engineering Limited manufactures, assembles and integrates load beds onto vehicle chassis and Marshall SDG Limited provides engineering design, development and manufacture of unmanned aerial vehicles and other products. LifTow Limited is a wholly owned subsidiary of Marshall Vehicle Engineering Limited and is dormant. Lorica Systems UK Limited is a joint venture between Marshall Land Systems Limited and Plasan Sasa Limited, and undertakes engineering platform integration.

The following companies are subsidiary undertakings of Marshall of Cambridge Aerospace Limited:

| | |
|--|--|
| * Aeropeople Limited | *** Slingsby Aerospace Limited |
| ** Aeropeople GmbH | *** Slingsby Aviation Limited |
| ** + Aeropeople Srl | * Marshall Aerospace Canada, Inc. |
| * + Aeroacademy Limited | * Marshall Aerospace Netherlands B.V. |
| * Slingsby Holdings Limited | * Marshall Aerospace Australia PTY Limited |
| *** Slingsby Limited | * + Marshall Aerospace U.S., Inc. |
| *** Slingsby Advanced Composites Limited | |
| * <i>Wholly owned by Marshall of Cambridge Aerospace Limited</i> | *** <i>Wholly owned by Slingsby Holdings Limited</i> |
| ** <i>Wholly owned by Aeropeople Limited</i> | + <i>Dormant</i> |

Aeropeople Limited supplies labour to the aerospace and associated industries. The Slingsby companies design, manufacture and market composite and metal structures for the defence, aerospace/aviation, marine and rail industries.

All subsidiary undertakings and joint ventures noted above are registered in England and Wales.

Marshall Aerospace Canada, Inc. is registered in Canada and provides design and engineering support and labour supplies to the aerospace industry. Marshall Aerospace Netherlands B.V. is registered in the Netherlands and provides design and engineering support to the aerospace industry. Marshall Aerospace Australia PTY Limited is registered in Australia and provides design and engineering support to the aerospace industry. Aeropeople GmbH is registered in Germany and supplies labour to the aerospace and automotive industries. 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.

Notes to the Financial Statements

at 31st December, 2012

| | 2012 | <i>Restated</i> Group |
|---|----------------|---------------------------------|
| | £000 | 2011 £000 |
| 15. STOCKS | | |
| Raw materials, components and consumables | 7,725 | 10,513 |
| Work in progress | 16,425 | 8,627 |
| Finished goods and goods for resale | 112,965 | 102,330 |
| | 137,115 | 121,470 |

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. At 31st December, 2012, the Group held new vehicles on consignment from manufacturers with a value of £40,248,000 (2011 - £44,916,000) which are included within finished goods and goods for resale. Of these vehicles, stock of £11,076,000 (2011 - £11,370,000) has a right of return to the manufacturer, which is rarely executed, and £29,172,000 (2011 - £33,546,000) has been invoiced. No deposit has been paid for these vehicles, and the terms of consignment vary by manufacturer and are between 90 days and 1 year. The difference between purchase price and production cost of stocks and their replacement cost is not considered material by the Directors.

Finished goods and goods for resale has been restated for 2011 to remove funding balances of £11,870,000 on used vehicles, which are now disclosed as vehicle funding agreements in creditors (see note 17).

| | Group | | Company | |
|--|---------------|---------|----------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 |
| 16. DEBTORS | | | | |
| Trade debtors | 46,357 | 59,615 | 2 | 4 |
| Amounts recoverable on long term contracts | 3,681 | 7,769 | - | - |
| Amounts owed by subsidiary undertakings | - | - | 39,562 | 31,813 |
| Other debtors | 21,238 | 28,217 | - | - |
| Prepayments and accrued income | 5,410 | 3,912 | 234 | 159 |
| Other taxes recoverable | 101 | 135 | - | - |
| Corporation tax receivable | 148 | 1,595 | - | 2,979 |
| Deferred tax asset (see note 21) | - | - | 428 | 541 |
| Finance lease debtors | 1,001 | 854 | - | - |
| | 77,936 | 102,097 | 40,226 | 35,496 |

| | <i>Restated</i> Group | | Company | |
|---|---------------------------------|---------|----------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 |
| 17. CREDITORS: Amounts falling due within one year | | | | |
| Loans (see note 19) | 21,129 | 18,410 | - | - |
| Obligations under finance leases (see note 20) | - | 19 | - | - |
| Payments received on account | 14,486 | 6,025 | - | - |
| Trade creditors | 93,617 | 100,662 | 115 | 156 |
| Vehicle funding agreements (see note 15) | 15,698 | 11,870 | - | - |
| Amounts owed to subsidiary undertakings | - | - | 73,526 | 30,847 |
| Corporation tax payable | 2,238 | - | 170 | - |
| Other taxation and social security costs | 10,856 | 11,653 | 280 | 189 |
| Other creditors | 14,567 | 13,291 | - | - |
| Accruals and deferred income | 47,206 | 37,157 | 5,813 | 4,565 |
| | 219,797 | 199,087 | 79,904 | 35,757 |

Notes to the Financial Statements

at 31st December, 2012

18. CREDITORS: Amounts falling due after more than one year

| | 2012 | Group |
|------------------------------|---------------|---------------|
| | £000 | 2011 |
| | | £000 |
| Loans (see note 19) | 20,973 | 23,838 |
| Accruals and deferred income | 8,486 | 7,345 |
| | 29,459 | 31,183 |

19. LOANS

| | Group | | Company | |
|--|---------------|---------------|----------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 |
| Amounts falling due: | | | | |
| Within one year | 21,129 | 18,410 | - | - |
| Between one and two years | 14,281 | 15,671 | - | - |
| Between two and five years | 6,692 | 8,167 | - | - |
| | 42,102 | 42,248 | - | - |
| Less: included in creditors: amounts falling due within one year | (21,129) | (18,410) | - | - |
| Amounts falling due after more than one year | 20,973 | 23,838 | - | - |
| Analysis of changes in loan financing during the year: | | | | |
| At 1st January | 42,248 | 41,009 | - | 7,000 |
| New loans | 20,688 | 26,570 | - | - |
| Loans repaid | (20,834) | (25,331) | - | (7,000) |
| At 31st December | 42,102 | 42,248 | - | - |

All loans are repayable within 5 years with a variable interest rate and are secured on vehicles leased to third parties.

20. OBLIGATIONS UNDER FINANCE LEASES

| | 2012 | Group |
|--|------|-------|
| | £000 | 2011 |
| | | £000 |
| Amounts falling due: | | |
| Within one year | - | 20 |
| Less: finance charges allocated to future periods | - | (1) |
| Included in creditors: amounts falling due within one year | - | 19 |

The finance leases are secured on the assets to which they relate.

21. PROVISION FOR LIABILITIES

| | 2012 | Group |
|---------------------------------|--------------|--------------|
| | £000 | 2011 |
| | | £000 |
| Warranty | 1,515 | 2,041 |
| Onerous lease and dilapidations | 1,445 | - |
| | 2,960 | 2,041 |
| Deferred tax | 712 | 536 |
| | 3,672 | 2,577 |

Notes to the Financial Statements

at 31st December, 2012

21. PROVISION FOR LIABILITIES (continued)

| | Warranty £000 | Onerous lease and dilapidations £000 | Group Total £000 |
|---|------------------|---|------------------------|
| (a) Warranty and onerous lease and dilapidations | | | |
| At 1st January, 2012 | 2,041 | - | 2,041 |
| Arising during the year | 403 | 1,445 | 1,848 |
| Amounts utilised | (551) | - | (551) |
| Amounts reversed | (378) | - | (378) |
| At 31st December, 2012 | 1,515 | 1,445 | 2,960 |

A provision is recognised for expected warranty claims on products sold. It is expected that the majority of the warranty costs will be incurred in the next five years. A subsidiary undertaking has an obligation to provide a five year warranty from delivery date on certain products that are likely to continue in production until 2013. At the year end, the provision is based on the number of units delivered and an estimate of the potential warranty cost per unit. The onerous lease and dilapidations provision represents the Directors' estimate of the future excess costs associated with properties which are not expected to be fully utilised throughout the lease term and associated end of contract costs. The cash flows are expected to occur over the next 2 years.

(b) Deferred tax

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

| | Group | | Company | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | 2012 £000 | 2011 £000 | 2012 £000 | 2011 £000 |
| Accelerated capital allowances | 1,826 | 2,416 | (27) | (11) |
| Other short term timing differences | (1,114) | (1,880) | (401) | (530) |
| | 712 | 536 | (428) | (541) |

The movement in the deferred tax liability / (asset) during the year is as follows:

| | Group £000 | Company £000 |
|---|---------------|-----------------|
| At 1st January, 2012 | 536 | (541) |
| Charge to the profit and loss account for the year | 429 | 366 |
| Decrease in deferred tax asset on pension liability | (253) | (253) |
| At 31st December, 2012 | 712 | (428) |

The deferred tax charge / (credit) in the profit and loss account for the year is made up as follows:

| | 2012 £000 | 2011 £000 |
|--|--------------|--------------|
| Origination and reversal of timing differences | 85 | (37) |
| Tax rate change | 24 | 22 |
| Adjustments in respect of prior periods | 320 | (147) |
| | 429 | (162) |

The deferred tax liability not provided is made up as follows:

| | 2012 £000 | 2011 £000 |
|---------------------------|--------------|--------------|
| Capital gains rolled over | 4,670 | 5,301 |
| Capital losses | (96) | - |
| Revaluation reserve | 271 | 429 |
| | 4,845 | 5,730 |

Notes to the Financial Statements

at 31st December, 2012

22. SHARE CAPITAL

| | Authorised | | Allotted, called up and fully paid | | | |
|--|---------------|---------------|------------------------------------|---------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | No. '000 | No. '000 | £000 | £000 |
| Ordinary shares of 12.5p each | 1,955 | 1,955 | 15,068 | 15,091 | 1,884 | 1,886 |
| Non-voting priority dividend ordinary shares of 12.5p each | 7,645 | 7,645 | 43,592 | 43,569 | 5,449 | 5,447 |
| 8% 'A' preference shares of £1 each | 4,800 | 4,800 | 4,800 | 4,800 | 4,800 | 4,800 |
| 10% 'B' preference shares of £1 each | 3,600 | 3,600 | 3,600 | 3,600 | 3,600 | 3,600 |
| | 18,000 | 18,000 | 67,060 | 67,060 | 15,733 | 15,733 |

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 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 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 2012, a total of 22,500 Ordinary shares were converted into NVPO shares.

23. CAPITAL AND RESERVES

| Group | Share capital £000 | Revaluation reserve* £000 | Capital redemption reserve £000 | Profit and loss account £000 | Total shareholders' funds £000 |
|--|-----------------------|------------------------------|------------------------------------|---------------------------------|-----------------------------------|
| At 1st January, 2012 | 15,733 | 1,933 | 130 | 137,500 | 155,296 |
| Profit for the year after minority interests | - | - | - | 7,925 | 7,925 |
| Dividends payable | - | - | - | (2,642) | (2,642) |
| Deficit on revaluation of investment properties | - | (695) | - | - | (695) |
| Actuarial loss net of tax | - | - | - | (256) | (256) |
| Net exchange loss on retranslation of overseas subsidiary undertakings | - | - | - | (166) | (166) |
| At 31st December, 2012 | 15,733 | 1,238 | 130 | 142,361 | 159,462 |

*The revaluation reserve relates to investment properties only.

| Company | Share capital £000 | Capital redemption reserve £000 | Profit and loss account £000 | Total shareholders' funds £000 |
|-------------------------------|-----------------------|------------------------------------|---------------------------------|-----------------------------------|
| At 1st January, 2012 | 15,733 | 130 | 6,288 | 22,151 |
| Profit for the year | - | - | 3,106 | 3,106 |
| Dividends payable | - | - | (2,642) | (2,642) |
| Actuarial loss net of tax | - | - | (256) | (256) |
| At 31st December, 2012 | 15,733 | 130 | 6,496 | 22,359 |

24. RECONCILIATION OF SHAREHOLDERS' FUNDS

| | Group | | Company | |
|---|----------------|----------------|---------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 |
| Profit on ordinary activities after taxation | 7,920 | 6,683 | 3,106 | 4,807 |
| Minority interests | 5 | 12 | - | - |
| Dividends | (2,642) | (2,494) | (2,642) | (2,494) |
| | 5,283 | 4,201 | 464 | 2,313 |
| Revaluation of investment properties | (695) | (125) | - | - |
| Actuarial loss net of tax | (256) | (4,735) | (256) | (4,735) |
| Net exchange (loss) / gain on retranslation of overseas subsidiary undertakings | (166) | 3 | - | - |
| Net increase / (decrease) in shareholders' funds | 4,166 | (656) | 208 | (2,422) |
| Shareholders' funds at 1st January | 155,296 | 155,952 | 22,151 | 24,573 |
| Shareholders' funds at 31st December | 159,462 | 155,296 | 22,359 | 22,151 |

Notes to the Financial Statements

at 31st December, 2012

25. MINORITY INTERESTS

£000

| | |
|---|-----|
| At 1st January, 2012 | 47 |
| Minority interests loss on ordinary activities after taxation | (5) |
| At 31st December 2012 | 42 |

26. CONTINGENT LIABILITIES

Guarantees to third parties, granted by subsidiary undertakings, amounted to £800,000 (2011 - £925,000). At 31st December 2012, Marshall of Cambridge (Motor Holdings) Limited guaranteed the amounts owing by a subsidiary undertaking, Marshall Leasing, to Barclays Mercantile to the amount of £31,959,000 (2011 £32,371,000) and to Santander for £10,143,000 (2011 - £9,877,000). Performance guarantees granted by subsidiary undertakings amounted to £6,877,000 (2011 - £nil).

27. CAPITAL COMMITMENTS

Group

2012
£000

2011
£000

| | | |
|---|-------|-------|
| Authorised by the Board and contracted but not provided for | 1,012 | 1,378 |
|---|-------|-------|

These commitments to invest in tangible fixed assets have all been made by subsidiary undertakings.

28. OTHER FINANCIAL COMMITMENTS

The Group leases a number of properties, equipment and vehicles under operating leases.

The minimum annual rentals under these non-cancellable leases are as follows:

Group

| | Land and buildings | | Other | |
|--------------------------------|--------------------|--------------|--------------|--------------|
| | 2012 £000 | 2011 £000 | 2012 £000 | 2011 £000 |
| Operating leases which expire: | | | | |
| - within 1 year | 360 | 287 | 66 | 24 |
| - in 1 to 5 years | 1,468 | 1,566 | 466 | 395 |
| - over 5 years | 3,066 | 2,779 | - | - |
| | 4,894 | 4,632 | 532 | 419 |

29. DERIVATIVES

The Group purchases forward foreign currency contracts to hedge currency exposure.

The fair values of the derivatives held at the balance sheet date, are as follows:

2012
£000

2011
£000

| | | |
|--|-----|----|
| Forward contracts for the purchase of foreign currency | 2 | 32 |
| Forward contracts for the sale of foreign currency | 104 | - |

30. LOANS TO DIRECTORS

During 2011 two directors, D. Gupta and S. Fitz-Gerald, participated in a car purchasing loan scheme instead of being provided with company cars as part of their employment contract. This involved them purchasing cars from the Group and taking all the risks and rewards of ownership. These cars were subsequently sold back and new vehicles purchased. The Group provided them each with the funding as loans, on which interest was payable, at 4% per annum, to facilitate these purchases. At 31st December 2011, all loans had been repaid in full and since then the directors have arranged their own loan finance outside the Group. This has continued to be the case throughout 2012.

The summary details of the loan funding provided is:

| | D. Gupta | | S. Fitz-Gerald | |
|---|--|--|--------------------------------------|--|
| | 1st January 2011 to 30th December 2011 | | 26th July 2011 to 30th December 2011 | |
| Period loan finance made available to directors | | | | |
| Maximum amount outstanding during year | £100,769 | | £47,599 | |
| No. of loans made in year | 6 | | 2 | |
| No. of loans outstanding at one point in year | 2 | | 1 | |

Notes to the Financial Statements

at 31st December, 2012

31. STAFF COSTS AND DIRECTORS' EMOLUMENTS

| | 2012 | 2011 |
|------------------------------------|----------------|----------------|
| | £000 | £000 |
| (a) Group staff costs | | |
| Wages and salaries | 134,750 | 133,963 |
| Social security costs | 14,462 | 13,888 |
| Other pension costs (see note 33b) | 3,610 | 3,850 |
| | 152,822 | 151,701 |

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

| | 2012 | 2011 |
|---|--------------|--------------|
| | No. | No. |
| The average monthly number of employees of the Group during the year was: | | |
| Aerospace and defence | 1,905 | 1,950 |
| Motor retail and leasing | 1,838 | 1,878 |
| Property and head office | 31 | 30 |
| Airport | 68 | 77 |
| Fleet solutions | 244 | 256 |
| | 4,086 | 4,191 |

The total number of employees of the Group at 31st December 2012 was 4,188 (2011 - 4,075)

| | £000 | £000 |
|--|--------------|--------------|
| (b) Directors' remuneration | | |
| Emoluments | 3,818 | 2,893 |
| Compensation for loss of office | 300 | - |
| Long term incentive payments | 406 | 522 |
| Company contributions to defined benefit pension scheme | 29 | 78 |
| Company contributions to defined contribution pension scheme | 105 | 81 |
| | 4,658 | 3,574 |

The number of full time equivalent directors who were remunerated during the year was 7 (2011 - 5.5)

| | No. | No. |
|---|-----|-----|
| Contributing members of defined benefit pension scheme | 1 | 2 |
| Contributing members of defined contribution pension scheme | 3 | 3 |

| | £000 | £000 |
|--|------------|------------|
| Remuneration of highest paid director: | | |
| Emoluments | 673 | 460 |
| Long term incentive payments | 164 | 216 |
| Company contributions to defined benefit pension scheme | 29 | - |
| Company contributions to defined contribution pension scheme | - | 48 |
| | 866 | 724 |

32. RELATED PARTIES

The parent company has claimed the exemptions under FRS 8 and has not disclosed transactions with 100% owned subsidiary undertakings. Transactions with 99% owned subsidiary undertakings are as follows:

| | Amounts owed by / (to) | | Amounts recharged by other | |
|----------------------------------|-------------------------|---------|----------------------------|------|
| | subsidiary undertakings | | subsidiary undertakings | |
| | at the end of the year | | during the year | |
| | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 |
| Marshall of Stevenage Limited | 2,474 | 1,743 | 255 | 348 |
| Marshall of Ipswich Limited | 1,095 | (1,758) | 523 | 522 |
| Marshall of Peterborough Limited | 993 | 1,180 | 356 | 347 |

Notes to the Financial Statements

at 31st December, 2012

33. PENSIONS AND OTHER RETIREMENT BENEFIT COSTS

- (a) 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.
- (b) 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 £2,977,000 (2011 - £3,058,000). A further £227,000 (2011 - £234,000) was paid into defined contribution schemes overseas. The total defined benefit cost for the Group in respect of the Plan was £215,000 (2011 - £380,000) under FRS 17 of which £406,000 (2011 - £558,000) has been charged against operating profit and £191,000 has been credited (2011 - £178,000) to other finance income.
- (c) The Plan was assessed by a qualified independent actuary from Buck Consultants, as at 5th April, 2011 using the projected unit method and indicated a funding deficit of £754,000. To address the past service deficit, the Company and the Trustees have agreed that the Company will pay contributions of £235,000 annually in arrears over a period of three years. The valuation of the defined benefit section of the Plan under FRS 17 has been based on this 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, 2012. The assets and liabilities shown exclude those relating to defined contribution pensions.

| | 2012 | 2011 |
|--|------|------|
| | % | % |
| i) The major financial assumptions used by the actuary were: | | |
| Discount rate | 4.32 | 4.71 |
| Salary increase rate | 2.98 | 3.32 |
| Rate of revaluation in deferment | 1.57 | 1.51 |
| Pension increase rate: | | |
| - price inflation, capped at 5.0% | 2.37 | 2.66 |
| - as above but for those pensions subject to 3.0% floor | 3.32 | 3.45 |
| - as above but for those pensions subject to 2.7% floor | 3.32 | 3.45 |
| Expected return on assets | 6.70 | 6.90 |
| Retail price inflation rate | 2.37 | 2.71 |
| Consumer price inflation rate | 1.57 | 1.51 |
| The post retirement longevity assumption uses 73% of SIPxA tables, with CMI 2010 projections from 2008 with a long term rate of improvement of 1% per annum. This is consistent with the assumption used for 2011. | | |

| | 2012 | 2011 |
|--|--------------|--------------|
| | £000 | £000 |
| ii) Analysis of the amount charged against profits: | | |
| Finance income | | |
| Expected return on pension scheme assets | 1,858 | 1,824 |
| Interest on pension scheme liabilities | (1,667) | (1,646) |
| Net credit to finance income | 191 | 178 |
| Operating profit | | |
| Current service cost | (406) | (558) |
| Total charge | (215) | (380) |

| | Rate of return | 2012 | Rate of return | 2011 |
|--|----------------|----------------|----------------|----------------|
| | % | £000 | % | £000 |
| iii) The amount included in the balance sheet and the expected long-term rate of return were: | | | | |
| Equities | 7.92 | 11,731 | 8.08 | 10,004 |
| Dynamic asset allocation | 7.52 | 5,460 | 8.08 | 5,174 |
| Property | 6.67 | 5,210 | 6.58 | 5,168 |
| Liability driven investments | 4.09 | 4,685 | 4.73 | 4,133 |
| Cash | 0.50 | 184 | 0.50 | 373 |
| Total market value of assets | | 27,270 | | 24,852 |
| Present value of insured annuity policies | | 2,232 | | 2,241 |
| Fair value of assets | 6.70 | 29,502 | 6.90 | 27,093 |
| Present value of scheme liabilities | | (37,656) | | (35,608) |
| Deficit in the scheme as at 31 December | | (8,154) | | (8,515) |
| Related deferred tax asset | | 1,876 | | 2,129 |
| Net pension liability | | (6,278) | | (6,386) |

Note: The difference between assets and liabilities is extremely volatile; it can alter significantly depending on the date at which the measurements are carried out.

Notes to the Financial Statements

at 31st December, 2012

| 33. PENSIONS AND OTHER RETIREMENT BENEFIT COSTS (continued) | 2012 | 2011 |
|--|---------------|---------|
| | £000 | £000 |
| iv) The movement in the fair value of the assets in the scheme is as follows: | | |
| Fair value at 1st January | 27,093 | 27,326 |
| Expected return on assets | 1,858 | 1,824 |
| Actuarial gain / (loss) | 958 | (1,805) |
| Employers' contributions | 915 | 1,095 |
| Contributions by scheme participants | 75 | 33 |
| Benefits paid | (1,397) | (1,380) |
| Fair value at 31st December | 29,502 | 27,093 |

| | | |
|---|---------------|---------|
| v) The movement in the present value of the liabilities in the scheme is as follows: | | |
| Present value at 1st January | 35,608 | 30,307 |
| Current service cost | 406 | 558 |
| Interest cost | 1,667 | 1,646 |
| Actuarial loss | 1,297 | 4,444 |
| Contributions by scheme participants | 75 | 33 |
| Benefits paid | (1,397) | (1,380) |
| Present value at 31st December | 37,656 | 35,608 |

| | | |
|--|--------------|---------|
| vi) Analysis of the amount recognised in the statement of total recognised gains and losses | | |
| Actuarial gain / (loss) on scheme assets | 958 | (1,805) |
| Actuarial loss on scheme liabilities | (1,297) | (4,444) |
| Actuarial loss | (339) | (6,249) |
| Deferred tax credit thereon | 83 | 1,514 |
| Actuarial loss net of tax recognised in the statement of total recognised gains and losses | (256) | (4,735) |

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is a net loss of £15,378,000 (2011 - £15,039,000).

| | | |
|--|----------------|---------|
| vii) The movement in the deficit is as follows: | | |
| Deficit in the scheme at 1st January | (8,515) | (2,981) |
| Current service cost | (406) | (558) |
| Employers' contributions | 915 | 1,095 |
| Finance income | 191 | 178 |
| Actuarial loss | (339) | (6,249) |
| Deficit in the scheme at 31st December | (8,154) | (8,515) |

| | | | | | |
|--|----------------|----------|----------|----------|----------|
| viii) The five year history of experience adjustments is as follows: | | | | | |
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | £000 | £000 | £000 | £000 | £000 |
| Experience adjustments on scheme assets | 958 | (1,805) | 1,778 | 2,025 | (6,222) |
| Experience adjustments on scheme liabilities | 102 | 911 | 598 | 135 | (859) |
| Changes in assumptions | (1,399) | (5,355) | (695) | (3,980) | 1,324 |
| Total amount recognised in the statement of total recognised gains and losses | (339) | (6,249) | 1,681 | (1,820) | (5,757) |
| Fair value of scheme assets | 29,502 | 27,093 | 27,326 | 23,959 | 19,974 |
| Present value of scheme liabilities | (37,656) | (35,608) | (30,307) | (29,188) | (24,150) |
| Deficit in the scheme | (8,154) | (8,515) | (2,981) | (5,229) | (4,176) |

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARSHALL OF CAMBRIDGE (HOLDINGS) LIMITED

We have audited the financial statements of Marshall of Cambridge (Holdings) Limited for the year ended 31st December 2012 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group Statement of Cash Flows, the Group and Parent Company Balance Sheets, and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31st December 2012 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



Bob Forsyth (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge

23rd April, 2013

Recent Financial History

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|----------|----------|----------|-----------|------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Turnover | 724,172 | 765,802 | 883,974 | 1,002,747 | 1,126,374 |
| Operating profit before non-operating exceptional items | 7,069 | 15,029 | 5,204 | 9,366 | 14,233 |
| Exceptional items: profit on disposal of tangible fixed assets | 1,079 | 801 | 1,128 | 622 | - |
| | 8,148 | 15,830 | 6,332 | 9,988 | 14,233 |
| Net interest / investment income and amounts written off investments | (1,116) | (724) | (1,135) | (1,462) | (2,115) |
| Profit before tax | 7,032 | 15,106 | 5,197 | 8,526 | 12,118 |
| Taxation | (1,523) | (3,165) | (1,903) | (1,843) | (4,198) |
| Minority interests | 8 | - | (7) | 12 | 5 |
| Profit for the financial year | 5,517 | 11,941 | 3,287 | 6,695 | 7,925 |
| Dividends charged | (3,237) | (7,417) | (2,494) | (2,494) | (2,642) |
| Retained profit | 2,280 | 4,524 | 793 | 4,201 | 5,283 |
| Dividends per Ordinary share paid and proposed for the year | 2.75p | 1.5p | 1.5p | 1.75p | 2.25p |
| Special and Centennial dividends per Ordinary share | 3.125p | 3.125p | - | - | - |
| Dividends per NVPO share paid and proposed for the year | - | 3.5p | 3.5p | 3.75p | 4.25p |
| Dividend cover for Ordinary and NVPO shares (excluding special dividends) | 3.0 | 6.4 | 1.5 | 3.1 | 3.3 |
| Basic earnings per share | 8.1p | 17.8p | 4.3p | 10.1p | 12.2p |
| Underlying earnings per share | 7.7p | 18.1p | 5.1p | 11.8p | 19.9p |
| Return on average shareholders' funds | 4.6% | 9.9% | 3.3% | 5.5% | 7.7% |
| Cash balance at year end | 25,254 | 20,796 | 48,730 | 24,905 | 58,796 |
| Cash generated/(utilised) | 10,355 | (4,458) | 27,934 | (23,825) | 33,891 |
| Capital expenditure, acquisitions and investment (net) | 27,776 | 22,632 | 33,049 | 30,788 | 31,317 |
| Closing no. of staff | 4,084 | 4,119 | 4,245 | 4,075 | 4,188 |
| Fixed assets | 132,864 | 138,567 | 143,601 | 146,104 | 144,863 |
| Net current assets | 41,189 | 44,324 | 42,178 | 49,385 | 54,050 |
| Creditors over one year, provisions, pension liability and minority interests | (23,455) | (28,362) | (29,827) | (40,193) | (39,451) |
| Shareholders' funds | 150,598 | 154,529 | 155,952 | 155,296 | 159,462 |

Notice of the Twenty Seventh Annual General Meeting

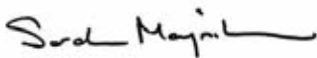
Notice is hereby given that the Twenty Seventh Annual General Meeting of Marshall of Cambridge (Holdings) Limited (the Company) will be held at 11.00 am on Wednesday 29th May, 2013 at 4 Hamilton Place, London, W1J 7BQ for the following purposes:

Ordinary Business

1. Notice of Meeting.
2. Proxies.
3. Statement by the Chairman of the Company.
4. To receive and consider 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 2012.
5. To declare a final dividend of 1.75p per Ordinary share and NVPO share amounting to £1,026,550 to be paid on 28th June 2013 to those shareholders on the register of members as at 29th May 2013. The Company paid an interim dividend on 21st December 2012, of 0.5p per Ordinary share and 2.5p per NVPO share, amounting to a total of £1,165,137, which, together with the proposed final dividend, brings the total dividend in respect of the year to £2,191,687.
6. To re-elect D. Gupta, who retiring by rotation as director and, being eligible, is offering himself for re-election as director.
7. To re-elect C.J. Sawyer, who retiring by rotation as director and, being eligible, is offering himself for re-election as director.
8. To re-elect S.J. Sillars, who retiring by rotation as director and, being eligible, is offering herself for re-election as director.
9. 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.
10. To propose the date of the next Annual General Meeting as Wednesday 4th June, 2014.
11. Any other business.

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 a power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company Secretary at Airport House, Newmarket Road, Cambridge CB5 8RY, not less than 48 hours before the time of the meeting.



S. J. Moynihan
Secretary

Dated this 23rd April, 2013
by Order of the Board

Shareholder Information

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

Registration details
Registered in England and Wales
Company Number: 2051460

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 following the AGM. 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 Capita Registrars, which is primarily responsible for updating the share register and for dividend payments. Capita 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.capitashareportal.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.

Future dividend payment dates

Final Ordinary and NVPO shares 28th June 2013
Interim Ordinary and NVPO shares 20th December 2013
A and B preference shares 15th October 2013
A and B preference shares 15th April 2014

Dividend history

| | Ordinary shares Amount per share | NVPO shares Amount per share | A preference shares Amount per share | B preference shares Amount per share |
|--------------------------------|--|------------------------------------|--|--|
| Payment date: | | | | |
| 15th April 2013 | - | - | 4.0p | 5.0p |
| Year ending 31st December 2013 | - | - | 4.0p | 5.0p |

| | | | | |
|-------------------------------|-------|-------|------|-------|
| Payment date: | | | | |
| 21st December 2012 | 0.5p | 2.5p | - | - |
| 15th October 2012 | - | - | 4.0p | 5.0p |
| 29th June 2012 | 1.25p | 1.25p | - | - |
| 13th April 2012 | - | - | 4.0p | 5.0p |
| Year ended 31st December 2012 | 1.75p | 3.75p | 8.0p | 10.0p |

| | | | | |
|-------------------------------|------|------|------|-------|
| Payment date: | | | | |
| 22nd December 2011 | 0.5p | 2.5p | - | - |
| 14th October 2011 | - | - | 4.0p | 5.0p |
| 1st July 2011 | 1.0p | 1.0p | - | - |
| 15th April 2011 | - | - | 4.0p | 5.0p |
| Year ended 31st December 2011 | 1.5p | 3.5p | 8.0p | 10.0p |

Key Group Personnel

MARSHALL GROUP OF COMPANIES

Sir Michael Marshall
R D Marshall
W C M Dastur
S J Moynihan
C M H Walkinshaw
K A Davies
T M Holloway

Chairman
Group Chief Executive
Group Financial Director
Group Company Secretary
Group Corporate Communications Director
Group Internal Audit Manager
Group Support Executive

MARSHALL AEROSPACE AND DEFENCE GROUP

S Fitz-Gerald
G J Clark
I W Atkinson
C Hughes
K Hussey
N M Jennion
B Phillipson
N Whitney
K J Bishop
S M Boyd
R D Cutting
A Pettitt

Chief Executive
Financial Director
Commercial Director
Strategy & Business Development Director
Human Resources Director
Operations Director & Managing Director - Engineering Solutions
Engineering Director
Managing Director - Support Solutions
Managing Director - Aeropeople
Managing Director - Advanced Composites
Managing Director - Land Systems
Financial Director - Land Systems

MARSHALL MOTOR HOLDINGS

D Gupta
F Laud
C M Sheppard
C A Burman
S Myers
N Tonks
D Waghorn
A Wallington
N Hunton
C Norris
T Phillips
P G Cakebread
J A Ross
P Targett

Chief Executive
Financial Director
Commercial Director
Human Resources Director
Director of Sales Process, Finance, Insurance & Warranty
Group After Sales & Corporate Sales Director
Franchise Director
Franchise Director
Brand Director
Brand Director
Brand Director
Managing Director - Marshall Leasing
Sales & Marketing Director - Marshall Leasing
Customer Services Director - Marshall Leasing

MARSHALL AIRPORT PROPERTIES

J D Barker
E Fletcher

Managing Director
Property Director

CAMBRIDGE AIRPORT

S Jones
S Kissane

Managing Director - Aviation Services
Infrastructure Director

OTHER KEY PERSONNEL

A J Howells
D Cattermole
M A Furniss

Managing Director - Marshall Fleet Solutions
Human Resources Director - Pensions & Benefits
Director - Special Projects