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Marshall of Cambridge (Holdings) Ltd

Annual Report 2013

Marshall

Performance Positioning People

Marshall of Cambridge (Holdings) Ltd

Annual Report 2013

2013 Highlights

- Sales up 15% to £1,293m
- Profit before tax up nearly 50% to £18.1m
- Return on Capital Employed 11.7% (14.6% excluding exceptional items)
- Cash balances of over £54m
- Net assets grown to £172m from £160m
- Investment in acquisitions and fixed assets of £56m
- Acquisitions of £13m in:
  - Flairjet
  - Silver Street Automotive
  - Hawker Beechcraft Ltd
  - Grants Seat Braintree
- Dividends to Ordinary and NVPO shareholders up 20% to 3p and 5p per share respectively
- Queen's Award for Enterprise awarded to Marshall Land Systems
- Marshall Leasing voted 2013 Fleet Service Company of the Year

Performance
Positioning
People

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Group Operating Profit

↑ 37%

Chairman's Statement

I am delighted that all our businesses have made great advances in 2013, thereby contributing to an excellent Group profit before tax of £18.1m and increasing shareholders' funds to £172m.

As a result, I am pleased that the Board is recommending an increase in the final dividend to 2.25p payable on both ordinary and NVPO shares in June, taking our total dividends for the year to 3p and 5p respectively.

Our Aerospace and Defence Group has made significant strides in generating new business to offset the retirement of the Royal Air Force's C-130Ks last October, after 47 years of service, and the TriStars at the end of March this year, after nearly 30 years of service. We are very sad to see both of these fine aircraft retired. The C-130Ks and TriStars provided valuable work and employment in Cambridge, and have been a huge success for us, and above all, for the Royal Air Force. We are proud to have been able to play our part in making this possible.

We have compensated for this loss of workload through providing increased support for the Royal Air Force on the C-130J and by providing ongoing C-130 support for the air forces of many other nations, as well as adding and expanding new business streams. Our purchase in August 2013 of Hawker Beechcraft Ltd. at Broughton near Chester and Flairjet earlier in the year, have enhanced our Aviation Services business and further investment in our advanced composites capabilities at Kirkbymoorside is also increasing the range of our capabilities to serve our customers more comprehensively. Our Aeropeople business has shown significant growth.

We were all proud when in April this year we were presented, by Boeing, with a Supplier of the Year award for our building of the specialised hi-tech integral fuel tanks which form a vital part of the Boeing P-8 Maritime Patrol Aircraft. This is a great achievement for us, as we are one of 15 award recipients out of a base of 23,000, and the only UK company to win such an award. Orders are being received in our Land Systems business for additional CT scanner shelters and other advanced technical expandable shelters, a business line which continues to thrive.

Our Motor Group increased sales by over 18% last year and has grown to be one of the top 10 motor groups in the UK and the largest private motor group in England thanks to the success of all our franchises. This includes nearly a full year contribution in 2013 from our Silver Street acquisition in the south-west which joined the Group in February and was followed later in the year by Seat in Braintree. We are very proud of the number of awards with which we have been presented for many of the franchises which we represent and also for the Cambridge News Barclays Award in recognition of our recent growth. I was particularly proud when one of our employees was selected out of 10,000 nationally as being Motability Person of the Year. Our Leasing business also continues to exceed our expectations, with another year of record growth, and was the winner of the ACFO Fleet Service Company of the Year Award.

Our Airport Property team has worked enormously hard to submit a formal outline planning application for the high quality new housing development, called Wing, on 160 acres of our land to the north of Newmarket Road. By sticking to our core family company values and by focusing on the needs of the community the Wing development aims to create a very desirable place to live.

I am grateful to all members of our team, particularly our employees, who helped to achieve the Group's result and to all our customers for giving us the opportunity to serve them.

I am delighted to welcome two new Board members. In March, Peter Johnson, who has an outstanding record in the retail motor industry, joined us, closely followed in April by James Buxton who brings us his huge experience in property. Robert in his capacity as CEO and I as Chairman, are fortunate to have an excellent Board, both non executive and executive directors, and we are grateful for their wisdom and guidance.

Sir Michael Marshall
Chairman

Group Strategic Report
Group Chief Executive's Statement

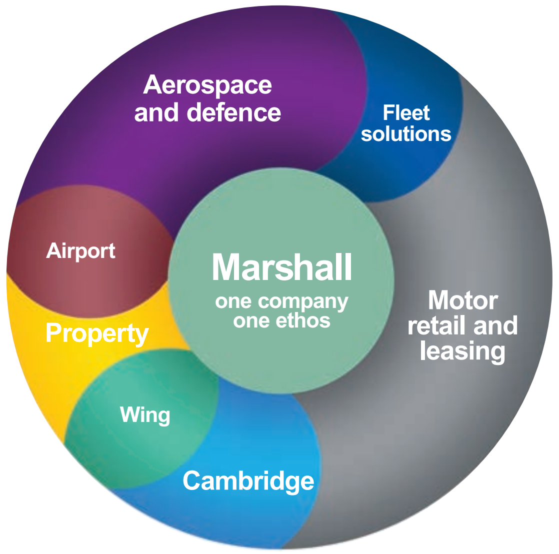
The 2013 results, with a near 50% increase in profit before tax to £18.1m, demonstrate that we are changing the gear, whilst holding our values.

STRATEGY AND OBJECTIVES
Over the last three years we have refined our strategy around the cornerstone "Change the Gear; Hold the Values". This is now yielding commendable results, with all of our key businesses delivering improved returns on assets and building on our embedded core values of delivering for our customers through engagement of our people.

In the last year, we have seen growth in the profitability of our core businesses. Excellent cashflow planning and cash generation in all of our businesses are providing valuable resource to reinvest in those operations to support their development plans.

Into the future, we intend to grow our businesses within the constraints of a privately-held company but recognising and taking full advantage of the benefits of long term planning horizons which are afforded by our private status.

GROUP BUSINESS MODEL
We operate as a holding company, overseeing the shareholders' portfolio of businesses.



In Marshall Aerospace and Defence Group (MADG), we have successfully integrated all of our principal engineering businesses under one umbrella, and are focused on serving civilian and military customers in the air, on land and at sea, both in the UK and, increasingly, overseas. We remain one of very few independent aerospace companies in the world. Within this new grouping, we have also brought together all of our business aviation assets into a single aviation services division, which also runs our international airport at Cambridge.

Our long established automotive business, Marshall Motor Holdings, comprises the successful leasing company and our retail motor operations which have grown into a highly regarded national network of franchised dealerships, with strong relationships with our core manufacturer brand partners.

Creating long term shareholder value from under-utilised property assets remains a core strategic objective. The Wing development and other prospective developments on the edges of the Airport site, including the newly acquired land at Cherry Hinton, require ambition, innovation and creativity, as well as significant investment of Group resources in order to realise the right levels of return. We are committed to exploiting the potential these opportunities bring, whilst continuing to manage efficiently all our property assets both in and outside Cambridge including those held and occupied by our operating companies.

In addition, we have our Marshall Fleet Solutions business which specialises in the supply, installation and ongoing aftersales support for vehicle-mounted temperature control systems and tail lifts, and which has made considerable progress in the last year.

REVIEW OF THE BUSINESS
The achievements of each of the main operating companies is described in detail later in this report, demonstrating how we have been "Changing the Gear" in each part of the Group. The other part of our strategic aim is to "Hold the Values" which have been at the heart of our business for over a hundred years, but which have been published and reinforced over the last three years.

We strive to maximise the value of the Marshall brand by operating as One Company when appropriate, where each of our businesses is additive to the others and to the whole Group. The Marshall Values have become embedded throughout our increasing number of businesses and integrated into our processes and our culture, driving the emphasis on our people and our customers.

The main activities and initiatives over the last year for our people are described later in this report in more detail, but I would particularly wish to draw your attention to the significant investment we continue to make in the development of leadership skills in our top 250 senior leaders across all of our businesses. This is now moving into its second phase, helping our leaders to apply their skills practically in the business.

I am also delighted to report that our employee engagement levels have continued to grow right across the Group as noted below. These results are cascaded down to all employees in every business and are used as the basis for workshops identifying and addressing areas for improvement, whilst also helping us to personalise our talent and skills development reviews.

Our business is founded on customer service and we consistently seek to put our customers first. Maintaining this focus drives regular measurement and we commission independent surveys of customers of each of our businesses to monitor our progress. These surveys help us to get to the root of the drivers of customer satisfaction in each business. In Marshall Aerospace and Defence, on-time and on-specification delivery is critical, whereas in Marshall Motor Group and Marshall Leasing we have to balance the specific needs of our customers with efficiency and care. In our property business, it is all about our relationship with local planners and the community around us.

FUTURE DEVELOPMENTS
Each of our operating companies has ambitious plans to develop through organic growth and through acquisition. These growth plans are consolidated into the Group strategy which seeks to balance risk with increased scale and opportunity. Through this, we have a clear view of the funding requirements for each of our businesses to feed their attainment of their ambitions for the future.

KEY PERFORMANCE INDICATORS
I am pleased to report that 2013 has been another good year for Marshall, with improved returns on assets in all of our key businesses, continuing the pattern established over the last three years for year-on-year improvement, giving us the stability on which to plan for future investment. Profit in the year rose again, with return on capital employed rising to 11.7%. Cash finished the year at over £54m.

Looking at the key values measures, our overall Trust Index score in the Great Place to Work employee survey rose from 59% to 68%, on the back of a participation rate which rose to 85% in the year. In the independent customer surveys, all our businesses recorded improvements in the overall ratings from our customers. In motor retail, 96.8% of the customers surveyed rated themselves to be satisfied or completely satisfied with our service.

PRINCIPAL RISKS AND UNCERTAINTIES
Risk management is co-ordinated across the Group by the Company Secretary, Sarah Moynihan, and more information can be found on pages 18 to 21.

The Group operates through four business segments: Aerospace and defence; Motor retail and leasing; Property; and Fleet Solutions.

Marshall Group

Performance
The Group had an excellent year in 2013, with turnover up by 15% and profit before tax up by nearly 50% to £18.1m.

Sales
£1,293m 2012: £1,126m

Operating profit
£19.5m 2012: £14.2m

Operating profit margin
1.51% 2012: 1.26%

Return on capital employed
11.7% 2012: 9.0%

Positioning
The overall strategy remains to "Change the Gear, Hold the Values". Our focus is on a rebalancing of the civil/military mix in aerospace and defence; consolidating the motor retail franchise and leasing portfolio and continuing with the Wing development, as well as acquisition and infrastructure investment.

People
People are at the heart of our success and must remain so if we are to continue to deliver the best for our shareholders and, indeed, all our stakeholders. We have increased investment in creating and delivering targeted training and development programmes for employees at all levels in the Group. The Group now employees some 4,500 people and in a year when the overall UK 'Trust Index' score in the GPTW surveys fell, on the back of continued economic austerity, we saw our overall score, for all of our businesses combined, rise by 9 percentage points to 68%, closing in on the 70% threshold to be considered a Great Place to Work.

Aerospace and defence

Performance
Overall financial performance during the year was very encouraging although this included some mixed performances within the various business areas.

Sales
£320m 2012: £304m

Operating profit
£14.3m 2012: £13.1m

Operating profit margin
4.5% 2012: 4.3%

Return on capital employed
19.8% 2012: 20.6%

Positioning
Aerospace and defence is a diverse group of companies which provides services in the civil, military and commercial markets to a range of customers in the air, land and sea domains. There are seven elements, comprising five core business units, the airport operation and the central functional support departments.

People
The organisation is managed by way of a matrix with embedded functional staff and employs around 2,200 people. Employee engagement scores have improved dramatically since 2012, but remain beneath the levels we would like at 56% for 2013. Significant management effort is invested in various initiatives across the business to improve levels of engagement, including our highly successful "Engaging for Success" conferences carried out in the latter part of 2013.

For more content on operations,
go to page 8

Motor retail and leasing

Performance
The business enjoyed a record year in 2013 with further key strategic acquisitions. Records were achieved in terms of revenue, operating profit, vehicle sales and fleet size.

Sales
£941m 2012: £794m

Operating profit
£11.8m 2012: £6.7m

Operating profit margin
1.25% 2012: 0.85%

Return on capital employed
18.3% 2012: 10.8%

Positioning
Since 2008 the business has operated with the vision to be the UK's premier automotive and leasing group as recognised by our colleagues, customers, business partners and shareholders. Now a national dealer group, it is the second largest privately owned motor retailer in the UK whilst Marshall Leasing is also recognised as a nationally renowned vehicle leasing and contract hire business.

People
Creating a "Great Place to Work" for our employees is paramount to delivering outstanding service to our customers and financial returns to our shareholders. The business has been participating in the GPTW survey since 2008 and has shown consistent progress towards the aim of achieving a result where 80% of employees agree that it is a "Great Place to Work". In 2013, the business achieved top 25 ratings in four out of the five categories within the survey and will continue the evolution process in 2014. There are now over 2,000 employees.

For more content on operations,
go to page 12

Property

Performance
The property team spent most of the year designing and consulting on the outline planning application for 1,300 new homes in Cambridge, the Wing development, which was submitted in December 2013.

Capital expenditure
£2m 2012: £0.5m

Rental yield
5.3% 2012: 5.5%

% occupancy
97.0% 2012: 97.5%

Land bank
900 acres 2012: 900 acres

Positioning
The core property strategy is to create long term value for the shareholders through enhancing land values, maximising income from land and property assets and improving and upgrading existing property assets. The Wing development and other recent land acquisitions provide a huge opportunity and challenge to build leading and iconic settlements which say the very best about Marshall, its interaction with stakeholders and its values.

People
Wing is a very personal project for Marshall. It will be our back garden for many years to come. How it looks, how it feels, how people live and work there is extremely important to us and our shareholders. There is a strong commitment to remain engaged in all aspects of the development of Wing to create a real community with a spirit attuned to our values.

For more content on operations,
go to page 16

Fleet Solutions

Performance
Growth in both refrigeration sales and aftersales revenues, derived from a continuing improvement in Thermo King product volumes, was partially offset by a decrease in tail lift maintenance income.

Sales
£30m 2012: £26m

Operating loss
£0.9m 2012: £1.7m

Operating loss margin
3.1% 2012: 6.4%

Positioning
The company's recent focus on the supermarket home delivery refrigeration market, via the formation of a dedicated light commercial division, has yielded a huge (16 fold) increase in Thermo King direct drive unit sales since 2009. Whilst a growing light commercial reputation has also assisted in doubling sales of Thermo King self powered product over the same period, raising the company's profile in the fragmented tail lift marketplace remains a key challenge for the business in 2014.

People
The company recognises that effective, two-way communications are vital, especially to a business with 12 UK locations and 140 mobile engineers. Assisted by an annual GPTW survey, the company actively seeks continuous employee feedback and is currently engaged in ensuring that all relevant and appropriate criticisms are addressed. The business now employs around 250 people.

Trusted for our quality of service, engineering excellence, flexibility and reliability

Revenue by Activity

Steve Fitz-Gerald
Chief Executive
Marshall Aerospace and Defence Group

Operating Profit

↑ 9%

Key Performance Indicators

	2014 Target	2013 Actual	2012 Actual
Sales	£345m	£320m	£304m
Return on Capital Employed (ROCE)	20%	19.8%	20.6%
Customer Satisfaction (out of 10)	8.0	8.1	7.8
Book to Bill Ratio (order capture)	0.7	0.7	0.6
Employee Engagement (GPTW)	70%	56%	44%

MADG aims to be a successful, privately owned, independent aerospace and defence group, delivering innovative engineering, support solutions and services.

STRATEGY AND OBJECTIVES

Our strategic aims can be summarised as follows:

- Grow sales to £400m by 2020
- Deliver sustainable return on sales of 10%, or greater, per annum
- Maintain customer satisfaction at 7.5 out of 10 or better
- Sustain our workforce and core capabilities
- Improve our Great Place To Work (GPTW) score to 70% or better

In recent years we have made substantial progress against these objectives which has led us to increase our targets in two areas, namely sales and customer satisfaction.

Our target for sales growth was originally to reach £335m by 2020. Growth across the business, both organically and by acquisition has led us to surpass that objective and re-set it. Our core business of Support Solutions, which focuses on providing operational support to a range of customers, has been dominated in recent years by military work. We have supported the TriStar and C130 aircraft for UK MoD for many years. The TriStar has been retired from service and the C130K aircraft will also be progressively retired, leaving only the C130J aircraft being supported for UK MoD. Our core workload for Support Solutions will thus, inevitably, decline. To address this, we are seeking: to rebalance our business by undertaking more civil and commercial work; to expand our footprint in the Special Missions arena (modification and conversion of aircraft to undertake a particular role); and to expand into new aircraft types. At the same time we are seeking to reposition our overall business by increasing the other elements, such as Engineering Services, Aviation Services, Land Systems and Aeropeople; this may be achieved through organic growth or by acquisition.

We are currently running a programme called 'Fit For Growth', focused on improving the efficiency and effectiveness of our business, with a view to improving our competitiveness. This programme is fundamental to ensuring that we are in the best position to provide solutions to our customers at attractive prices and to deliver improvements to our return on sales.

Our customer satisfaction scores are already very good and we are achieving our strategic aim in this respect. We are very focused on ensuring that our customers get what they need on time, at the right quality and at a competitive price. We strive to help and support our customers, to be responsive and proactive and to be part of the process of designing solutions to their requirements.

Sustaining our workforce is fundamental to our success. We are reliant upon a broad range of skills and we actively invest to ensure that we have those skills available to us. We continue to run an apprenticeship programme, we invest heavily in training across all areas of our business and we aim to recruit new staff of the very highest standard. We are committed to making MADG a Great Place To Work and use the GPTW employee engagement survey to ensure that we listen and take account of the views of all our staff so that we can focus our effort on the areas which need most improvement.

BUSINESS MODEL

MADG is a diverse group of companies which provides services in civil, military and commercial markets to a range of customers in the air, land and sea domains. It has seven elements, comprising five core business units, the Airport operation and the central functional support departments. The organisation is managed by way of a matrix with embedded functional staff. The five core businesses are:

Group Strategic Report
Marshall Aerospace and Defence Group

Support Solutions – provides a wide range of services covering all aspects of aircraft support, maintenance and repair. This is the largest element of our business and also runs the operations function, which organises and manages our hangar staff. Support Solutions also takes responsibility for our businesses providing engineering support in Australia and Canada.

Engineering Solutions – undertakes full scope tasks, including design engineering and production. This includes the building of our aircraft fuelling products such as auxiliary fuel tanks and complex aircraft modification programmes. Engineering Services also manages our advanced composites facility in Yorkshire.

Land Systems – operates covering all aspects of vehicles, shelter systems and logistic support in the Land domain. Land Systems also manages the Manufacturing Support function for MADG.

Aviation Services – provides business aviation maintenance and modification, aircraft brokerage, aircraft sales and distribution, executive aviation management and charter, including the recently acquired business in Broughton, and Flairjet, based at Oxford.

Aeropeople – provides a wide range of staffing solutions from provision of contract staff to fulfilling short term requirements and also full recruitment service provision contracts. It provides staff across Europe, mainly to the aerospace industry and to Formula 1 motor racing constructors.

In addition, MADG operates Cambridge International Airport which supports scheduled and charter airline services and also supports our business and executive aviation businesses. One of its key functions is as a gateway for the MADG business.

Finally, our Central Functions cover a range of administrative and assurance services providing, inter alia, services such as finance, human resources, purchasing, commercial, facilities management and quality assurance.

MADG is primarily located in the UK, with our centre of operations in Cambridge and other facilities at Brize Norton, Kirkbymoorside and Broughton. We do have important operations in Canada, Australia and The Netherlands providing key support overseas. In addition, we have a number of offices at airports in the UK and overseas providing technical and logistical support to our customers.

Our strategy is based on remaining independent because independence of original equipment manufacturers (OEMs) allows us to provide the best solution for a customer's needs, rather than being limited to providing a specific manufacturer's product. Coupled with a full scope of capability, in terms of aircraft design, support, modification and repair, which is very rare in the industry, we are able to solve problems when others cannot because of capability limitations. Despite the depth of our capability, however, we value partnering extremely highly. Strategic partnerships within the aerospace industry are key to success; leveraging the abilities and customer focus of service providers with the Intellectual Property (IP) of OEMs is a powerful way to build competitive support offerings.

Risk management in our business is undertaken in a structured way. We maintain risk registers at all levels of the organisation, with a top level corporate risk register for MADG which is fed into the Group risk management process. Risk management is considered more fully below.

MADG draws upon a wide range of resources. We need an airport, with all its requirements, to allow aircraft to position here; we need extensive covered space to undertake work; we need quality approvals from various authorities; and we need arrangements for the supply of parts and materials and access to the IP which allows us to bring all these things together. Most of all we need people and skills as we are highly dependent upon well trained, highly motivated staff to deliver our services to customers. This is why sustaining our workforce and progressing towards an improved GPTW score are such a fundamental part of our strategic objectives.

REVIEW OF THE BUSINESS

Overall financial performance during the year was very encouraging, but this comprised mixed performances within the various business areas.

Support Solutions benefitted from the additional repair and restitutional work which became necessary, following the unfortunate impact of an extreme weather event in Afghanistan, which damaged a large number of UK MoD aircraft. Along with already higher than planned workloads, delivery was far ahead of plan.

Engineering Solutions also delivered a performance ahead of plan, with efficiency across a range of programmes. An investment programme to enhance the capability of our Advanced Composites facility progressed well during the period.

Aviation Services completed two critical acquisitions; the first of which was Flairjet Limited; and the second Hawker Beechcraft Limited, which was subsequently renamed Marshall Aviation Services Limited. These acquisitions were aimed at broadening and deepening our Aviation Services business and enhancing MADG's overall position in the Special Missions sector. The newly formed aircraft brokerage business has made a good start and has secured a number of transactions in 2013 and early 2014.

In late 2013, we received notification that Cessna intended to set up its own service centre operation in the UK and would, therefore, be withdrawing our Cessna Service Centre approval, which we have held for many years. We will continue to support our customers who own and operate Cessna aircraft as much as we can, but certain aspects of service, for example undertaking warranty work, are restricted to approved service centres and this may impact sales and hence the profitability of our Aviation Services business.

Land Systems had a challenging year in securing sufficient orders, particularly in shelter systems. Nevertheless, it has entered 2014 well positioned to leverage the benefits of its restructuring and integration into MADG during 2013, with some exciting order prospects in its key product specialities and competencies.

In the Airport we saw the start up of international flight operations by Darwin, now Etihad Regional, to four destinations in Europe. Initial signs were good, and passenger experience and feedback from those travelling through Cambridge was excellent. However, booking levels did not grow sufficiently and, hence, flights were suspended by Etihad Regional from the end of March 2014. We have continued to pursue opportunities to enhance the level of passenger traffic from Cambridge International Airport and a new carrier, CityJet, has announced services starting in May 2014.

In the central area, the results were dominated by a restructuring and redundancy programme which took place at the end of the year. The redundancy programme was part of our overall Fit For Growth programme and released staff from all areas of the business. As part of this process, we offered voluntary redundancy terms with a full programme of support. This was taken up by a high proportion of staff in the continuing businesses, such that, of approximately 170 redundancies, only 21 were compulsory. A further 39 staff were made redundant at our Marshall Vehicle Engineering business at Mildenhall, following the closure of this business.

FUTURE DEVELOPMENTS

An emphasis on growth in all our businesses, assisted by strategic acquisitions, so as to improve the overall level of profitability remains the key imperative for the immediate future. MADG is focused on improving all its customer, employee engagement and financial and operating indicators. Achieving a better proportioned military / civil workload is critical to ensuring the business overall is well balanced in the future for all the inevitable market fluctuations.

KEY PERFORMANCE INDICATORS

Our KPIs have been selected to align with our key strategic objectives: Sales, Net Profit Margin, ROCE and Customer Satisfaction and correlate directly with our strategic targets. The Book to Bill ratio reflects our order capture performance which underpins our strategic sales growth targets and we currently measure Employee Engagement through the overall headline score from our independent employee engagement partner, the Great Place to Work Institute.

An analysis of the movements in KPIs is included below:

- Sales have continued to increase over the past two years through both organic and acquisition growth. Anticipated growth in 2014 is primarily driven by the effect of including a full year of sales of the Beechcraft dealership and maintenance businesses.

- Net Profit Margin has also shown a steady improvement, driven primarily by addressing performance in our loss making businesses, but remains at a level significantly beneath our long term strategic target of 10%. Initiatives such as our "Fit for Growth" programme are critical to improving our long term performance.

- Return on Capital Employed has consistently exceeded Board expectations over recent years and we expect it will increase in line with improvements to operating profits in future years.

- Our assessment of Customer Satisfaction is obtained from the results of an independent customer survey carried out by SMS Associates. Our overall score has improved as a result of a focused effort across our business but particular improvements were made in our Land Systems division during 2013. Our long term target remains to hold these scores above an average of 7.5 out of 10.

- Our Book to Bill ratio has remained relatively flat over the analysis period and we expect it to remain at a broadly similar level in 2014. This reflects that the key HIOS programme in our Support Solutions business is awarded in multi-year tranches with the last award in 2011, and the next due in 2015. This means our Book to Bill ratio is high in the year of award and falls below a value of 1.0 in intervening years. Order capture performance met expectations in 2013.

- Employee Engagement scores have improved dramatically since 2012, but remain beneath the levels we would like at 56% for 2013. Significant management effort is invested in various initiatives across the business to improve levels of engagement, including our highly successful "Engaging for Success" conferences carried out in the latter part of 2013.

PRINCIPAL RISKS AND UNCERTAINTIES

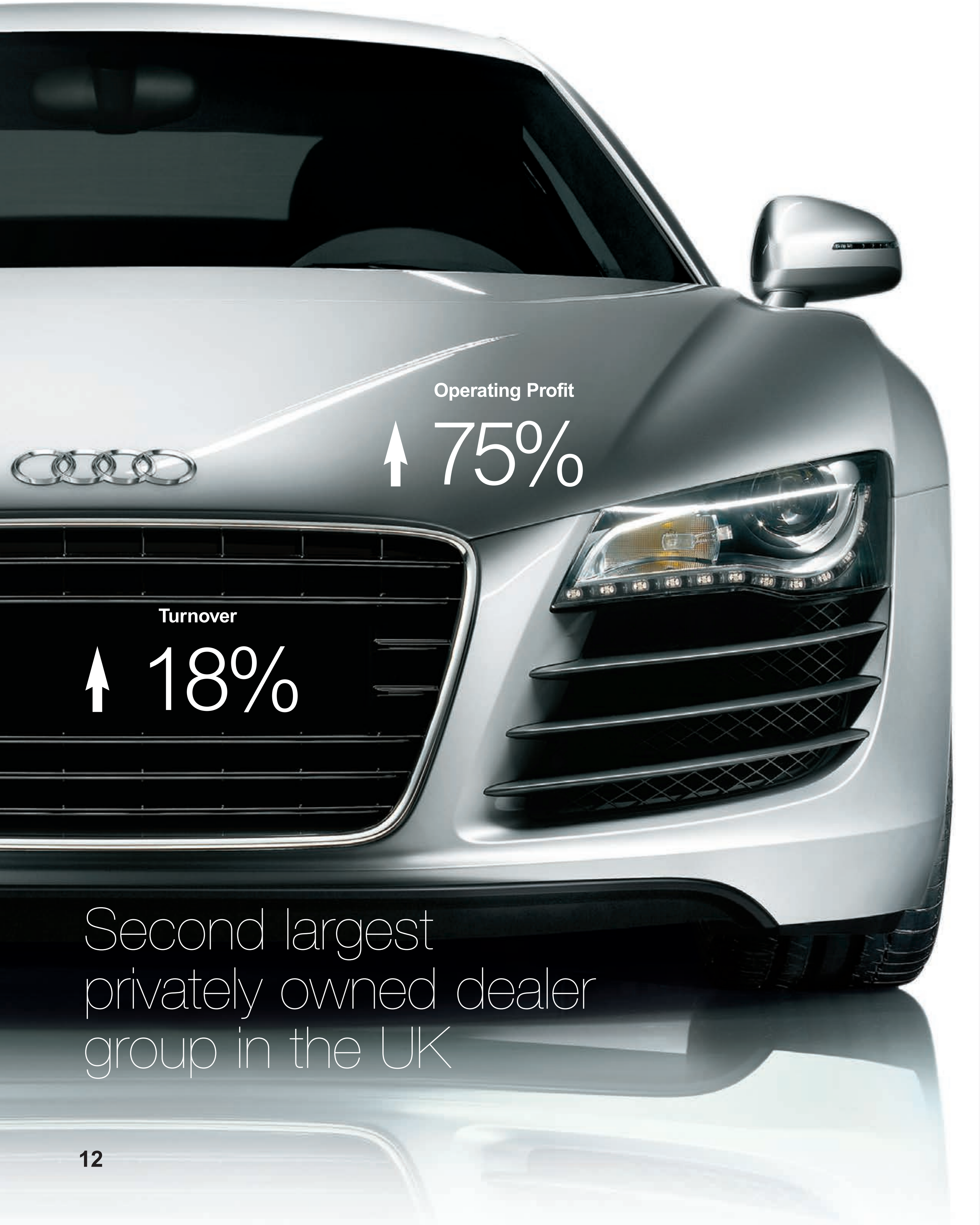
There are four principal risks to our business which have been relatively stable for the last three years; each is outlined further below.

Failure to maintain and grow a sustainable order book – most of MADG's core business consists of longer term contractual arrangements and these contracts tend to be of considerable size. The nature of these contracts is such that they can take a long time to secure and each one utilises considerable resources. Gaps in the flow of work can thus expose the business to significant losses. We, therefore, focus considerable resource on delivering new work into the organisation and are seeking to rebalance our overall mix of business to undertake a higher proportion of transactional work such as we see in Aeropeople and Aviation Services.

Inadequate employee skills and experience and loss of key staff – people are our key asset and we invest a tremendous amount to ensure that we are not exposed to skill shortages in the business and that our staff are trained to an excellent standard. We have a detailed people agenda encompassing capability and talent management training with our flagship leadership development programme, specifically designed functional development plans and an extensive employee engagement programme.

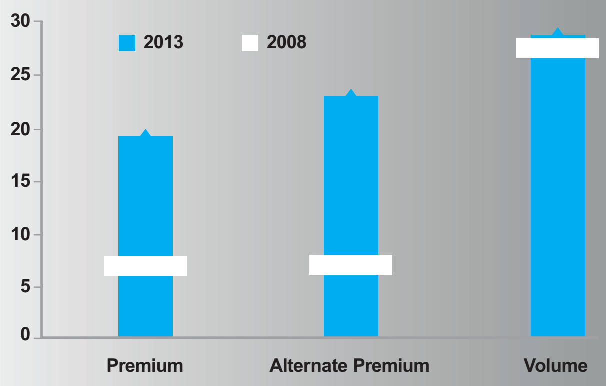
Access to IP – over time OEMs have begun to guard their IP more carefully. Where previously we may have been able to negotiate access, and purchasers of assets were happy to buy the asset alone, we now face an environment where OEMs have recognised the value of restricting access to IP whilst customers more and more wish to purchase a capability rather than a physical asset. This has led to the bundling of asset and in-service support together as a contractual package. Notwithstanding this, OEMs do recognise that they may not be best placed to deliver in-service support and sometimes contract this element out to a third party. We value strategic relationships very highly in positioning us to take advantage of these opportunities and work hard to develop such relationships.

Access to airport facilities – to protect the gateway to our site, which a large part of our customer base uses, we have a full runway rehabilitation programme for which the preparation is underway. The runway at Cambridge International Airport is in need of refurbishment and we have developed an outline plan which includes resurfacing the main runway, a new taxiway, and repairs to the apron to our wide-body hangar. This plan will continue to be developed with a view to completing works within the next two years.



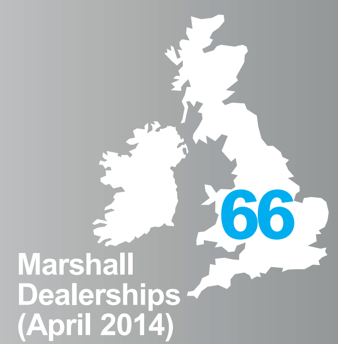
Daksh Gupta
Chief Executive
Marshall Motor Holdings

Number of dealerships



Key Performance Indicators

	2014 Target	2013 Actual	2012 Actual
Retail new units sold	19,000	16,777	13,562
Total new units sold	30,000	27,250	25,245
Retail used units sold	26,000	23,395	18,965
Leasing contract hire fleet size	5,900	5,610	5,212
Sales	£1,050m	£941m	£794m
Return on capital employed (ROCE)	20%	18.3%	10.8%
Employee engagement (GPTW)	80%	75%	62%



The business aims to be the UK's premier automotive and leasing group as recognised by our employees, customers, business partners and shareholders.

STRATEGY AND OBJECTIVES

Our strategy, which started in 2008, was to build a scalable national dealer group, which would reduce Motor Holdings' exposure to its clusters in East Anglia, and this was largely achieved by 2013. Our next five year plan, builds on this and should drive the business forward in partnership with our key stakeholders.

The business has grown significantly during the last five years, with 49 franchises being added and 23 leaving the portfolio; we have also grown geographically from representation in six counties to 17. With such a high proportion of the company's dealerships being "new" and an even greater percentage of the people new to Marshall, there has been a significant challenge and imperative to standardise processes and develop the values-driven culture required to deliver the growth objectives. At the end of 2013, Motor Group represented some 24 individual franchise marques, trading from 33 locations.

Motor Holdings is currently the second largest privately owned motor retailer in the UK, and the largest in England, whilst Marshall Leasing is also a nationally renowned contract hire business. The strategy to focus on balancing the brand portfolio in the Motor Group has seen a number of non-core businesses closed or sold since 2008. These businesses aggregated to over £100m in annual revenue, but were generally subscale and produced a negative contribution. Although this phase is now complete, the portfolio is continuously reviewed so as to ensure its ongoing capability to deliver the growth and our performance objectives.

Our strategy to improve positioning and achieve a better equilibrium between premium, alternate premium and volume brands is a key feature of this. Nevertheless, volume brands have been and will continue to be an important part of the business. We continue to explore opportunities as they become available and acquisition, as well as organic growth, remains an integral part of our growth plans.

BUSINESS MODEL

The business model reflects the five key pillars of the strategy.

Class Leading Returns – to be achieved by controlling margins, working capital, inventory and costs and measured by external benchmarking.

Customer First – to be achieved by embedding DNA of experiential customer service and a zero tolerance to "own goals" and measured by benchmarked scoring in manufacturer surveys and a focus on retention rates.

Retailing Excellence – to be achieved by adhering to company values, processes and policies, class leading standards of presentation in all retail centres, and innovation to maintain competitive edge and measured by upper quartile performance for in-territory sales and brand scorecards.

People Centric – to be achieved by recruiting, training and retaining the best talent in the industry, encouraging a performance culture and rewarding excellent performance financially and with career development, and will be measured by the Great Place to Work survey and a target of less than 20% staff turnover.

Strategic Growth – to be achieved by organic growth ahead of market performance, acquisitions in line with portfolio strategy, together with exploring adjacent business and market opportunities.

Group Strategic Report
Marshall Motor Holdings

Strong relationships with manufacturers are at the core of our vision. The business is committed to ensuring our manufacturer partners are represented in facilities that meet the latest franchise standards and are fit for purpose. A number of refurbishments were completed in 2013, with significant investment required in our Volkswagen businesses in Scunthorpe and Grimsby, in particular. This investment will continue into 2014 with refurbishments planned at a number of dealerships.

Along with investment in corporate image, the business also requires a major investment in working capital, particularly new and used vehicle stocks. Manufacturer partners offer stock funding facilities for new and demonstrator vehicles, which are utilised throughout the business along with a variety of third party stock funding facilities together with supplier and bank advances.

Marshall Leasing provides fleet management and fleet funding services to its client base. Operating from its base in Huntingdon with a team of 34 people, the business offers a high standard of service and innovative products to its clients. It is this high service level which differentiates the business from its much larger competitors, most of which are owned by banks or vehicle manufacturers.

Contract hire with maintenance is still the dominant product in the portfolio and is offered on vehicles of all makes and models, sourced from Marshall dealerships where possible. This product means Marshall Leasing carries the risk in the residual value of the vehicle, the maintenance cost and the interest rate funding the contract. These risks are carefully monitored and controlled by an experienced Board which has worked successfully together for many years under the leadership of Peter Cakebread.

To allow for any diminution in used car residual values, a prudent funding model continues to be adopted. The fleet is funded on a mortgage basis with around 15% to 25% equity held by the business at any time.

REVIEW OF THE BUSINESS

Motor Holdings enjoyed a record year in 2013 for both sales and profit buoyed by recent acquisitions, strong organic growth and an improving motor retail environment. Records were achieved in terms of revenue (£941m), profit before tax (£8.9m), vehicle sales (50,645 units) and fleet size (5,610 units). Our leasing operation produced another record profit and a fifth successive year of profit growth.

The acquisition of Silver Street Automotive was completed in February 2013. This acquisition added to the Volkswagen portfolio and brought Audi and Skoda to the business. With dealerships in the South West of England, we extended our coverage to include Devon and Somerset.

In December 2013, Grants Seat in Braintree was purchased from its administrator taking the number of Seat dealerships to three. Seat is a brand within the Volkswagen family, which means at the end of 2013 the Volkswagen Group is Motor Holdings' largest partner, with 15 locations.

The UK new car market reached its highest level since 2007 with 2.26m registrations during the year. This represents a 10.8% increase over the prior year.

On a like-for-like basis, Motor Group achieved an increase in new retail sales of 10.8% and used retail sales of 13.1%, which compares favourably with the market.

In line with the Marshall Values, Motor Holdings is committed to delivering the highest standard of experiential service to its customers and is also fully committed to treating customers fairly in line with the principles laid down by the Financial Conduct Authority (FCA).

Performance is monitored through a quarterly mystery shop process and an enquiry satisfaction survey. During 2013, nearly 8,000 surveys were completed by customers, with 93.4% responding that they were either very, or completely, satisfied with the way their enquiry was handled. A scoring mechanism has been in place since the mystery shop process began in 2011, with the final score for 2013 showing a 21% improvement since commencement.

The number of ways customers can interact with the business is increasing, with the surge of interest in tablet and improving mobile technology really emphasising the importance of the digital environment to the business. In order to ensure Marshall continues to satisfy this new demand, the first stage of a new website, including improved mobile functionality, was launched in the summer of 2013. The new website has been well received within the industry and by customers alike. www.marshallweb.co.uk was awarded top 10 status by a reputable trade publication. As a result, visitor traffic to the site in 2013 increased by 36% from 2012, with the number of page views up by 52% as customer engagement also improved.

During 2013, Marshall Leasing was voted winner of the 2013 ACFO Fleet Service Company of the Year Award. This award is voted for by the major fleet operators and is a proud achievement for the team after being runners up in 2011 and 2012 and winners in 2010.

Motor Group received recognition or awards from a number of our manufacturer partners: best Land Rover dealer group for sales on balanced scorecard; best Jaguar dealer for after sales on balanced scorecard; Jaguar dealer group of the year; Mercedes Benz aftersales team of the year and the Honda business in Hull was recognised by Honda as the best Honda dealership in the UK for customer service.

Creating a Great Place to Work (GPTW) for our employees is paramount to delivering outstanding service to our customers and financial returns to our shareholders.

Motor Holdings has been participating in the GPTW survey since 2008 and has shown steady progress towards the aim of achieving a result where 80% of employees agree that Motor Holdings is a "Great Place to Work".

With a result in excess of 70%, Motor Holdings is considered a Great Place to Work by the research institute, but continues to work towards the aim of being a top 25 large company to work for within the UK. In 2013, the business achieved a participation rate of 91% and top 25 ratings in the UK in four out of the five categories within the survey, and is committed to future improvement.

In Health and Safety, EDP, an external provider, was appointed, bringing a new emphasis and dynamic, to help the Group improve its processes and culture. Every dealership has been audited and action plans created for implementation during 2014. Supported by St John Ambulance, Nuffield Health and local fire brigades, a comprehensive Health and Safety Awareness Event was held in all dealerships during December and it was embraced with enthusiasm by all our people.

We actively support BEN, the automotive industry charity, through donations, payroll giving and events and Daksh Gupta is a trustee of this important charity.

FUTURE DEVELOPMENTS

In contrast to lacklustre volumes in Europe, the UK market for new cars is operating near to pre-recession levels. With fewer dealerships in the market, returns within the sector have improved.

This level of optimism means that a number of acquisition opportunities are coming to market and the sector continues to consolidate as a result. We are still looking to grow by acquisition and are offered many of these opportunities because of our strong links to manufacturer partners and our reputation within the industry.

We shall continue to apply our strategic filters relating to brand and location before considering these opportunities and pursue only those opportunities which provide the best chance for a successful integration and value for money for our shareholders.

For the future, initiatives are being implemented to improve processes and customer experience for enquiries received from all sources, but particularly enquiries from digital or social media interfaces.

Following the embedding of the Marshall Values into the business, we are now committed to the implementation of updated processes to drive consistency in customer experience, regulatory compliance and better financial performance.

With internal planning taking place in 2013, investment has been allocated to deliver sales processes which are aligned to our standards and values and meet the needs of customers of all demographics. In particular, the digital customer using the internet now seeks buying information and service delivered in the way they want it, when they want it, wherever they are located.

People remain at the forefront of all our initiatives and are critical to our success. New processes are due to be implemented in 2014 for recruitment and induction. 2014 will also see the roll out of the Marshall Academy to ensure all sales staff are trained to the Marshall standard. In association with Aston University and Loughborough College, the Academy will be extended to include a "gap" assessment for all management. As a result of the assessment individual development plans, with a tailored training programme, will be created and monitored.

KEY PERFORMANCE INDICATORS

With a wide variety of portfolio mixes, gearing and property strategies within the industry, appropriate and accurate benchmarking is challenging. Nevertheless, within each dealership, volume, margin and profit performance is measured against its peers within the business and also against national composite averages produced by manufacturers. This benchmarking is reviewed monthly at management performance reviews in every dealership.

Operating margin performance is benchmarked by looking at operating profit before interest, tax, goodwill amortisation, depreciation (excluding contract hire) and property lease payments, as well as the more traditional profitability measures.

Within each dealership, margins are monitored across new vehicle sales, used vehicle sales and after sales functions. Cash generation and working capital control remain a key priority in managing operational performance.

As noted earlier, the GPTW survey, industry awards, charity contributions and health and safety are also key indicators of our wider commitment to all our stakeholders.

PRINCIPAL RISKS AND UNCERTAINTIES

There are three principal risks to our business, which are outlined below:

Business conditions, general economy and Government policy

The profitability of the business is directly influenced by the strength of the economic climate in the UK. Factors such as unemployment, interest rates, exchange rates, and inflation or deflation could all impact the markets in which the business operates and reduce demand.

Vehicle manufacturer dependencies

Motor Group operates with a number of motor vehicle franchise partners. The loss of a major franchising partner could result in a significant reduction in profits due to the inability then to source new product or vehicles to sell, perform warranty repairs or carry out maintenance activity.

Acquire premium and specialist brand franchises

A key part of the future strategy is to continue to acquire premium and specialist brand franchises with the approval of our manufacturer partners. There are significant risks to this strategy in terms of the availability, quality and price of such marques and the ability to fund this acquisitive growth. We will continue to work closely with our manufacturer partners to mitigate this risk, whilst ensuring, where good value can be obtained, the necessary funding resources are available.

The property business aims to be a long-term wealth creator for the Group, whilst maintaining its close relationships with the rest of the business.

STRATEGY AND OBJECTIVES
The core property strategy is to create long-term value for the shareholders within the overall Group strategic framework through:
- Strategically acquiring and consolidating land holdings
- Protecting and leveraging our land and property assets to maximise value and income
- Managing and investing in the existing property portfolio
- Retaining a high level of control of the Wing development

BUSINESS MODEL
The property business holds and rents out both investment properties and properties used in, or important to, the business of other group companies, sited within Cambridge. The Group also owns and occupies other freehold and leasehold properties, outside of Cambridge, specifically for aerospace and defence, motor retail and leasing and the fleet solutions operations, and these are held in their respective businesses.

The property business also carries out farming and related agricultural activities on its land; makes strategic acquisitions of both property and land where the opportunity arises; and has more recently taken on an increasingly proactive property development role culminating in an outline planning application being submitted for a new 160 acre development, known as Wing (www.wingcambridge.co.uk).

The vision for Wing is to develop a new urban village for Cambridge, including up to 1,300 homes, replacement car showrooms, a primary school, provision of open spaces and a commercial hub. The planning application is expected to go before the local authority planning committee, for review and approval, during 2014. With the Group's ability to maintain a long-term outlook stewardship over the Wing development, management believes it can create an exemplar new community for the city, whilst improving shareholder value.

REVIEW OF THE BUSINESS
Much of the focus in 2013 was on the lengthy and rigorous process of community and stakeholder engagement, and a full programme of pre-application consultation with key stakeholders for the Wing development, such that the outline planning application could be submitted. This ranged from developing the public art strategy to assessing the environmental impact of the proposed development. The managed property portfolio remained stable throughout 2013 with no significant changes in external or internal tenants. The property company disposed of one residential investment property in the year and made no acquisitions, although the purchase of the remaining 50% of a 20 acre piece of land, adjacent to the airport, was completed in February 2014.

The Quorum office complex, the Group's principal investment property, achieved full occupancy during 2013. An uptake in the prime office market in the centre of Cambridge has seen a marked improvement in the office market outside of the central business district. This, combined with a higher than average car parking ratio and a programme of refurbishment, has meant that the Quorum can be seen as a desirable office location situated on the edge of Cambridge but easily accessible to the city centre and the major road networks.

FUTURE DEVELOPMENTS
To maintain the balance of the existing property portfolio, future acquisitions and retain sufficient control over the Wing development, the business has established the following key short, medium and long-term objectives:

Short-term
- Achieve outline planning permission for the Wing development
- Ongoing support for the property needs of the Marshall operating companies
- Implement an integrated electronic property management system
- Following the acquisition of 20 acres of land north of Cherry Hinton in February 2014, submit a planning application for residential development, comprising 250 new homes
- Maximise site occupancy by achieving an optimal balance of external and internal tenants

Medium-term
- Oversee, manage and control the Wing development within the development phase to maximise returns and shareholder value
- Locate and invest in suitable relocation premises for Marshall operating companies displaced by the Wing development
- Maintain high levels of occupancy in the Quorum office complex and other property assets

Long-term
- Create sustainable long term income and value from the property portfolio
- Protect the long term value of the Cambridge site
- Deliver new residential communities of which the company, stakeholders and local communities can be justifiably proud
- Actively seek new opportunities to strengthen and consolidate the portfolio and to provide expertise and support to other Group companies.

KEY PERFORMANCE INDICATORS
The following KPIs are used to monitor the business:

	2014 Target	2013 Actual	2012 Actual
Ratio of external to internal income	0.2	0.16	0.17
Quorum rental yield	9.5%	9.2%	11.9%
Overall rental yield	5.5%	5.3%	5.5%
Maintenance costs per sq ft property	£0.30	£0.38	£0.23
Quorum occupancy	100%	100%	78%
Overall occupancy	97.5%	97.0%	97.5%

An analysis of the movements in the KPIs is included below:

- The ratio of external to internal income reflects the targeted increase in the number of third party tenants on the site and reduction in reliance on Group operating companies. It has remained static over the period but there is a target to increase third party tenants over a period of time.
- Maintenance costs per sq ft of our Cambridge real estate increased in the year and, whilst there is a programme of proactive maintenance, the age of the buildings can sometimes lead to costly reactive maintenance which is party the reason for the increased cost in 2013.
- With the successful letting of suites 120, 210 and 355 in the year the Quorum was 100% occupied at the year end.
- The overall occupancy has decreased slightly predominantly as a result of an internal tenant vacating premises in the year.
- Whilst rental income has remained stable, the Quorum rental yield has decreased due to the recovery in the property market, resulting in an upwards revaluation of the Quorum.
- The slight decrease in the overall rental yield is predominantly related to the Quorum revaluation combined with a reduction in rental income from an internal tenant vacating premises.

PRINCIPAL RISKS AND UNCERTAINTIES
There are two principal risks to our business:

Obtaining the planning permission and successfully deliver the Wing development
As with any planning application for a major development, there are always inherent risks in the process which may impact on the determination or the future value of the development. We are confident, however, that the significant amount of wider stakeholder engagement above that which is legally required, prior to the submission of the outline planning application, has assisted in minimising the risk of an unsuccessful application. Furthermore, Cambridge as a prime regional location, has benefitted from the trickledown effect of significant growth in the London housing market and has also proved a resilient location during the recent recession.

Voids and unoccupied buildings within the core property portfolio
The business maintains effective and open dialogue with all of its tenants, both internal and external third parties, working with them to improve tenant satisfaction by maintaining the Cambridge site and infrastructure, responding to maintenance requests in a timely fashion to ensure properties are fit for purpose and where appropriate re-housing and providing new facilities for internal tenants.

Risk Management

Risk management approach

Managing our risks sensibly and effectively should ensure 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 we operate within and therefore risk management is a fundamental part of achieving our strategy. As our operating companies are diverse in their range of activities, the Group aims to provide a mix of guidance complimented with appropriate reporting requirements for each of them. This should ensure a robust process is in place to manage risks across the Group. The responsibility for risk identification, assessment, mitigation and reporting lies with the management of each of our businesses.

The Group takes a proactive approach to risk management, with the expectation that by identifying risks early, the likelihood and impact of those risks might be reduced or removed before they transpire, and appropriate plans can be put in place to deal with them effectively if they materialise. The Group is committed to safeguarding its assets, from infrastructure through to people, using an effective risk management process underpinned, where appropriate, by insurance.

Risk reporting within the Group is structured such that the key issues are escalated up to management, and ultimately the Board where appropriate. The Group's risk management framework and guidelines ensures that risks are monitored continuously, associated actions are reviewed, appropriate contingencies provisioned and this information reported through established management control procedures. Identified risks are documented in risk registers, ranked by likelihood of occurrence and potential impact. As with any system of internal control, risk management policies and processes are designed to manage, not eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

To facilitate the effective identification and management of risk throughout the Group, a Risk Advisory Group meets at least three times a year under the chairmanship of the Company Secretary. Commercial directors from each operating company, with additional invitees at the Group's request, attend to share best practice across the Group, and to review and monitor current risk registers, new risks and procedures. The Risk Advisory Group serves both to embed risk management procedures and to advise the Audit Committee on current risk exposures and potential changes to future risk strategy.

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.

Risk Management Process

HOLDINGS BOARD
Overall responsibility for risk management

AUDIT COMMITTEE
Review of risk registers and risk management policies

RISK ADVISORY GROUP
Peer review of risk registers and best practice

SUBSIDIARY BUSINESSES
Holdings Board approved strategy
Regular Board meetings - at which risk is a standing agenda item for each subsidiary
Business Plans - one and five year plans for each business
Quarterly Business Reviews - quarterly reviews of the performance of each subsidiary against objectives
Quarterly reviews of risk registers - risk registers reviewed and signed by subsidiary CEO

Internal Control

The Board has established what it believes is an appropriate control environment. The internal control system is designed to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the Group's assets. The system is designed to manage rather than eliminate the risk of assets being unprotected and the failure to achieve business objectives. Internal controls only provide reasonable and not absolute assurance against material misstatement or loss.

Key features of the Group's internal control systems:

Financial controls
- Board approved budgets and business plans for all subsidiaries
- Monthly results reporting to Board for all subsidiaries, with written commentary including key developments for each business stream
- Organisational structure at head office and subsidiary level which clearly defines responsibilities
- Independent internal audit function
- Board approval of significant acquisitions and disposals, tenders and large long term contracts

Operational controls
- All Group entities have specific, written policies and procedures which cover all material aspects of their operations. Compliance with these policies is subject to internal and external review.

Compliance
- Policies for health, safety and the environment which are enforced across the whole Group
- Group Code of Business Ethics, Marshall Values booklet and separate anti-bribery policy in place
- Detailed matrix across the Group setting out levels of authority

Group strategy

The Group strategy of "Change the Gear; Hold the Values" continues to be the cornerstone, underpinned by five key elements, against which all our risks are mapped and KPIs used to measure and monitor the strategic actions.

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

Principal risks and uncertainties

The Group's principal risks, which have been identified by our businesses and reviewed by the Board are set out below, 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	Volatility 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 22 to 23.
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 managing and monitoring the potential interest rate on borrowings.
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 working capital facilities for at least a 12 month period.

Change the way we go to market

Risk	Impact	Mitigation
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.
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 significantly affect 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 impending change to EU Bloc Exemption rules 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.
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 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/ Cyber security 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 information security policies, contingency plans and tools, to monitor and mitigate this risk.
Manufacturer dependency	There is some dependence on manufacturers' Intellectual Property (IP), financial condition, marketing, design, production capabilities, reputation, management and industrial relations. Although neither MADG nor the Motor Group are unduly dependent on any single manufacturer, a change in strategic relationship or continuing drop in demand could threaten the operational and financial performance of the Group.	The strategies adopted by both MADG and the Motor Group are based on a diversified portfolio of manufacturers in order to mitigate this risk.

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 24 to 27.
Synergy	The distraction 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 32.

Change our efficiency and productivity (continued)

Risk	Impact	Mitigation
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, MADG operate a life cycle management (LCM) process. A separate bid LCM programme provides approval processes for bids and tenders. Project performance is monitored using standardised KPIs and metrics.
Estimates of 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 will manage any exposure should the trend analysis predict it.

Change the culture

Risk	Impact	Mitigation
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 Conduct 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.
Health & Safety	The Group faces health and safety, as well as engineering and product safety, risks due to the scale and nature of its operations. A significant failure could lead to significant fines or curtailment of operations, and 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. The Group has health and safety policies and practices embedded along with an ethos of workplace safety throughout its operations. The Group takes particular care to ensure compliance with new regulations, legislation and best practice in the industries in which it operates.
Management succession	The Group is dependent on members of its senior management team. A failure to plan for succession to key roles could lead to a lack of management continuity and therefore an adverse effect on financial and operational performance.	The Group's approach to training and developing its staff is a key part of addressing this risk, as detailed on pages 24 to 27.

Underpinned by our values

Risk	Impact	Mitigation
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 around 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 stated Code of Business Ethics and Marshall Values, as well as business continuity planning and a keen sense of responsibility to the local community and environment, the Group safeguards its reputation.
Ethical business practice	The Group operates in various markets and geographies, and is reliant on the continued application of acceptable business practices by all of its employees and management. Unacceptable business practices, which contravene our Code of Business Ethics, could result in significant fines or curtailment of operations, as well as having an adverse impact on the reputation and performance of the Group.	All employees sign up to the Group's Code of Business Ethics and a programme of training and compliance has been implemented for all employees. Anti-bribery and corruption training has also been implemented for employees identified as being in high risk positions, and refresher training rolled out to relevant staff. The Group has also commissioned an independent whistleblowing hotline to facilitate effective reporting of malpractice.

The Group achieved a profit before tax of £18.1m in 2013, a record trading year.

RESULTS
A near 50% increase in profit before tax, on the back of a 15% uplift in sales to £1.3bn, coupled with an increase in net assets to £172m, marked another a year of improvement for the Group, thereby increasing shareholder value.

Group profit
£18.1m 2012: £12.1m

This was accomplished on the back of another good year for Marshall Aerospace and Defence but also an impressive 75% increase in operating profits from our motor retail and leasing operations. An 18.4% improvement in motor retail and leasing sales, following a 16% increase in 2012, was buoyed by the impact of a full year trading from F. Cross and Lincoln Jaguar together with the new Silver Street Audi and Volkswagen group franchises which joined the Group in February 2013. Marshall Aerospace and Defence grew by a creditable 5.3% at the sales level.

Sales
£1,293m 2012: £1,126m

Gross profits rose by nearly £32m, some 15.4% ahead of 2012 (11.5%) 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' continuing lower order intake, and thus activity, impacted on its margins. Marshall Aerospace and Marshall Land Systems activities were merged from 1st January 2013 to form Marshall Aerospace and Defence Group. The segmental analysis on page 44 has been prepared on our new internal reporting basis to reflect this.

Operating profit
£19.5m 2012: £14.2m

EARNINGS PER SHARE
Basic earnings per share increased 70% to 20.7p as against 12.2p in 2012 whilst the underlying earnings per share rose to 31.3p, an increase of 57%. Note 9 on page 46 provides an analysis of the underlying earnings figure which has been calculated using profits excluding exceptional items, goodwill amortisation and impairment losses on fixed assets and investments, so as to give shareholders a better understanding of the recurring level of earnings per share.

DIVIDENDS
Preference dividends amounting to £744,000 were paid to preference shareholders as usual 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 0.75p per share, paid to both Ordinary and NVPO shareholders, on 20th December 2013.

The Board is recommending an improved final dividend of 2.25p per Ordinary and NVPO share for approval by the shareholders at the AGM and it is the intention to pay this on 27th June 2014. Total dividends paid to shareholders in respect of the year will then have amounted to £3.38m (2012 - £2.94m), an overall increase of 15.0% whilst the increase in dividends to Ordinary and NVPO shareholders will be 20.1%.

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 to ordinary and NVPO shareholders for 2013 are more than 4 times covered.

RESTRUCTURING AND IMPAIRMENT COSTS
Following the end of the support vehicle contract, at the Mildenhall facility, and with no follow on work secured for 2014, the decision was made to close the operation and provision has been made for all the closure costs including irrecoverable property lease costs, dilapidations, redundancies and the write down of plant and machinery. Provision has also been made to reduce the value of one of the company aircraft to recoverable amount or, in essence, a more realistic value.

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 probably made during 2014 as to which option the Group will take.

TAXATION
The Group current tax charge of £6.8m or 37.4% (2012 - 31.1%) although this reduces to 28.7% (2012 – 34.6%) when deferred tax is taken into account. This rate is above the effective statutory rate of 23.25%, principally because of expenditure disallowable for tax relief particularly in respect of depreciation or allowances for showroom and operating plant and equipment.

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 or 2013, there is the prospect of further tax credits in the future, which will be recognised in the financial statements once agreed. A full analysis and reconciliation of the tax charges is given in Note 8 on pages 45 to 46.

The Government continues to signal further reductions in headline corporation tax, rates down to 20% from 1st April 2015, 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 closer to 30%, rather than 25% or even 20%.

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
The Aerospace and Motor acquisitions in 2013 resulted in additional goodwill of £3.1m being set up but, after amortisation in the year of £2.3m, the net goodwill being carried on the balance sheet only rose to £11.4m from £10.7m in 2012.

The Group's policy is to capitalise and then amortise goodwill over those future years expected to benefit from each acquisition. The maximum period for amortisation is currently 10 years although shorter periods are used if the perceived benefit erodes more quickly.

CASH FLOW
The Group's continued emphasis on managing its cash resources positively resulted in a closing gross cash position of £54.7m, only £4.1m below 2012's record position.

Cash balance
£54.7m 2012: £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 £45.9m from its operating activities, although net investment in new businesses, fixed assets and investments consumed £47.8m. Nevertheless, we entered 2014 in a strong position which has continued for the first quarter of the year.

TREASURY MANAGEMENT
The Group Finance function continues to manage, monitor and control the Group's loans, cash, currency and interest risk. The function does not operate as a profit centre but is there to assist the operating units mitigate cost and risk. The Group trades not only in Sterling but in a number of other currencies, principally US Dollars, Canadian Dollars, Australian Dollars and Euro. Where it is possible to protect overall Group trading margins against the adverse impact of currency movements, forward exchange cover is considered.

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.

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 £45.6m. In addition, we received a loan of £6.5m to support motor retail working capital needs. This attracts interest only at base rate.

Net funds
£2.5m 2012: £16.7m

The other 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 also 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 total commitment on operating leases for properties increased during the year as a result of acquisitions so that, at the end of 2013, the annual recurring commitment on property leases had risen from £4.9m to £6.7m.

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. Post expenditure effectiveness reviews are subsequently performed by the Audit Committee.

Some £55m was expended on building a stronger Group for the future. £25.2m gross (£18.8m net) was invested in the Leasing fleet which ended the year with 5,610 vehicles (2012: 5,212 vehicles); a further £17.0m, up from £8.2m in 2012, was spent on property, equipment and technological improvements. Gross investment on acquisitions of new businesses made in the year amounted to £13.0m.

PENSIONS
The FRS17 deficit on the Group's defined benefit scheme, the 'Plan', reduced very slightly to £8.0m from £8.2m, but due to a reduction in the rate of deferred tax the net liability actually increased marginally to £6.4m from £6.3m. 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 increasing asset values largely through stock market gains. 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 which were satisfied before the end of 2013. The next funding valuation is due to be carried out in 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, monitoring against the Group strategy objectives map has been a regular feature of our management reporting.

Return on capital employed, based on operating profit, was up to 11.7% for the year, but before exceptional items was a creditable 14.6%.

Return on capital employed
11.7% 2012: 9.0%

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 represent at least 5% of turnover. In 2013, the Group comfortably achieved both of these targets. All subsidiary companies are monitored on their cash generative performance and use of Group facilities.

Our People

Our people are at the heart of our success and must remain so if we are to continue to position the Group to deliver the best for our shareholders and, indeed, all our stakeholders.

MARSHALL VALUES

Following the launch of the Marshall Values in 2012, we have continued to reinforce these values by associating new initiatives directly with the relevant value. Our values are:

- 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 advantage through **innovation** and **creativity**

We already measure the impact of two of our values through the annual Great Place to Work (GPTW) employee survey and the independent customer surveys. We have now begun work on a new measure to monitor the value of integrity and fairness. This will be rolled out in 2014.

We also continue to maintain our focus on health, safety and environmental matters and are delighted to have been recognised again by RoSPA with the award of our 13th consecutive Gold Award, which translates into our fourth consecutive President's Award. For the first time this award covers all of our engineering businesses which have come together under the Marshall Aerospace and Defence Group banner.

EMPLOYEE DEVELOPMENT

We seek to provide opportunities for every employee in Marshall to improve their skills and fulfil their personal potential. An important part of delivering on this commitment is our increasing investment in creating and delivering targeted training and development programmes for employees at all levels in the Group. A total of 4,400 training days were delivered in the year to 3,300 employees.

LEADERSHIP

In 2013, we completed the first round of our leadership development programme (LDP1) which was developed and delivered in partnership with Pilkington Leadership. The principal objective of LDP1 was to help individual senior leaders in our businesses to recognise the value and power of utilising leadership skills to motivate and inspire their teams. Over 250 of our senior leaders attended one of these two-day sessions, during which time effective leadership techniques were demonstrated and put into practice. Follow-on coaching has been provided to many of the participants to help them embed the leadership techniques thereby maximising the value of the programme.

During the year, to build on the success of the LDP1 programme, and again working with our chosen partner, Pilkington Leadership, we have been developing the second phase LDP2 programme. LDP2 was launched at the beginning of 2014 and will roll out through the year and into 2015, helping our senior leaders to take the skills and techniques learnt in LDP1 and translate them into the business environment, including the use of advanced coaching techniques.

ANNUAL TALENT AND SUCCESSION REVIEWS

Work began in the year on the preparation for annual talent reviews in each of the operating companies, and the first of these reviews will be completed in 2014 as part of the annual business planning and strategy review. In addition to our ongoing commitment to develop the skills of our existing employees and leaders, we are also keen to formalise a process for identifying high potential individuals early on in their careers so we can prepare and implement high quality, bespoke development plans for these potential senior leaders of the future.

In developing our model for these talent and succession reviews, we have sought to learn from the leading organisations which are already doing this work. The goal will be to identify the very highest calibre individuals through a robust selection process which will be tailored to the specific needs of the relevant business; we will then work with carefully selected partners to devise and execute an individual programme for each successful candidate with a view to ensuring they acquire the skills and experience necessary in our future senior leaders.

EMPLOYEE ENGAGEMENT

We continue to work with the GPTW Institute in seeking active feedback from all our employees across the Group. Over 3,500 employees took part in the survey in 2013, giving Marshall one of the highest participation rates in the UK at 85%. This in itself indicates a high level of willingness among our employees to engage with the Group to improve the working environment for everyone. In its sixth consecutive year taking part in this survey, our motor retail and leasing business achieved a 91% participation rate and its scores in four of the five measures of the key 'Trust Index' matched those of the top 25 businesses in the UK.

In a year when the overall UK 'Trust Index' score in the GPTW surveys fell back by 2 percentage points on the back of continued economic austerity, we saw our overall Group score rise by 9 percentage points to 68%, closing in on the 70% threshold to be considered a Great Place to Work. To ensure continuity of measurement, which helps the businesses drive their individual action plans, we have now signed up with the Great Place to Work Institute for a further 3 year period.

MAVTA AWARDS

Celebrating the significant contributions made to the Group by employees in all our 54 locations across the world is the main driver behind our annual Marshall Achievement Values & Teamwork Awards (MAVTAs). In 2013, around one third of our employees were nominated for a MAVTA, either as an individual or as part of a team. Employees and teams are nominated for these awards by their peers throughout the year before being shortlisted by their own business in one of the seven categories:

- Business Excellence
- Customer Service
- Leadership
- Best Environmental Initiative
- Innovation
- Service to the Community
- Team

The shortlist of finalists was published in December and the awards were announced and presented at a gala dinner in January 2014 in the splendid surroundings of King's College in Cambridge, hosted this year by Kate Silverton, the well-known television newsreader. The MAVTA nomination process for 2014 has opened, enabling employees to nominate their colleagues.

FIT FOR THE FUTURE

In line with our Group values, we recognise the importance of protecting the interests of our people as well as the immediate needs of our businesses.

Towards the end of the year, we faced the need to adapt and re-shape our aerospace and defence business to maximise the opportunities in the international markets in which we now operate. Our employees, and the impact of the changes on them and their families, was a central factor in our planning. This approach and planning ensured the number of employees who left the businesses involuntarily was minimised, with large numbers reassigned to new roles within the Group. We worked closely with the unions, agencies and local businesses to try to ensure that alternative employment was offered.

LONG SERVICE

Across the Group we recognise the long service of very many of our employees, with the individual companies celebrating all employees who have completed 5, 10, 15, 20 or 25 years of service. At a Group level, we continue to mark the extraordinary contributions of the many employees who have completed 30, 40, 50 or even 60 years of service. In 2013, many of the employees who joined us in 1983 for the start of the RAF TriStar contract were presented with their 30 year awards by Sir Michael and Robert Marshall. In total 473 employees have been recognised for their ongoing commitment to the Group.

PENSIONS

Helping our employees to plan for their future retirement is a responsibility which the Group shares with the pension trustees. As the national emphasis has moved increasingly towards individuals taking responsibility for their retirement provision, the trustees have been steadily improving the range of fund options which are available to the members of the scheme.

In 2013, the pension trustees switched to a new provider, Standard Life, with a view to increasing further the investment options available to employees and to take advantage of higher levels of service offered by the new provider. Nevertheless, Friends Life continues to provide investment services for a large legacy with-profits fund. The provision of a new provider preceded the introduction of auto enrolment on 1st November 2013 to most of our employees, and this project should be completed in 2014. We also introduced during the year the option of Smart Pay for all employees who are also scheme members. This enables employees to elect to reduce the cost of saving for their retirement using a Government-promoted salary exchange arrangement.

FLEXIBLE BENEFITS

Reflecting the latest trend to offer increasingly tailored employment packages, we have committed to investigating and to establishing a flexible benefits package available to all Marshall employees. The commitment to do this has been signalled to our employees and the programme will be developed during 2014, with a launch planned for 2015. Under the scheme, employees should be able to select and optimise the benefits which best suit their individual circumstances, adapting them over time as their personal and family requirements change.

CODE OF BUSINESS ETHICS AND WHISTLEBLOWING

Reinforcing our Group value of 'doing the right thing' by upholding the highest standards of integrity and fairness, we have been reviewing and updating our Code of Business Ethics and this will be reissued in 2014. This will be supported by the introduction of a new Group-wide whistleblowing policy, backed by a 24-hour independent reporting service and a toolkit to help any employee who feels that they need to draw our attention to a concern they may have.

COMMUNITY AND CHARITABLE WORK

We continue to encourage all employees in all parts of the business to be actively involved in community and charitable work. This ranges from special constables to reading assistants, from school governors to scout leaders and from sports team coaching to supporting a wide range of charitable activities. Employees are encouraged to engage with and organise charitable fundraising events. The Group indirectly supports a diverse range of national and local charities, by encouraging individual employees or groups of employees to put their time and effort in to raising funds for their chosen cause. For this reason we do not have approved charities of the year. As a Group, we maintain our membership of the Percent Club and a number of our senior team act as trustees for local and national charities including BEN, the principal motor retail industry charity. We also continue to support major community initiatives and events, wherever our businesses are based, throughout the UK and overseas.

With our Wing development, we are specifying very high insulation standards and developing an integrated sustainability and transport strategy. We view sustainability as being more than just bricks and mortar, and the communities around us have always been equally important to the Group.

SECTOR SUPPORT

We continue to support the active involvement of Marshall employees in a number of industry bodies which are relevant to the business sectors in which we operate. These include: The Engineering Employers' Federation; ADS; the Defence Growth Partnership; Semta; the Institute of the Motor Industry; the Royal Academy of Engineering; the National Franchise Dealer Association; the British Vehicle Rental and Leasing Association and the Air League.

MARSHALL NETWORK

Since its establishment in 2009, the Marshall Network has continued to play a significant role in the Group, helping to drive and support a number of initiatives in the operating companies. Membership of the Marshall Network is targeted at younger employees who manage and govern their activities with the direct support of the senior teams in the operating companies and at Group level. As well as supporting company projects, the Network is also a social network for like-minded employees from across the Group, with an active committee which organises a range of events and activities each year for their members and others.

PROMOTING CAREERS IN ENGINEERING

In various ways, the Group is actively engaged in initiatives to support efforts to redress the national issue over the lack of engineering-minded young people entering the workplace, and especially the shortage of young women making this career choice. Using many of our existing apprentices and young engineers as ambassadors, we support local schools and colleges with STEM (science, technology, engineering and mathematics) advocates and visits to our main site in Cambridge. It is our intention to launch a more comprehensive and co-ordinated programme aimed at encouraging more young people growing up in the Cambridge area to consider careers in engineering or engineering-related jobs.

The Strategic Report was approved by the Board on 29th April, 2014.

S.J. Moynihan
Secretary

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.

Corporate Governance
The Board

SIR MICHAEL MARSHALL CBE DL MA 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 82.

A.E. COOK CBE * **Appointed 2010 Deputy Chairman**
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, and lead non-executive director for BIS (Department for Business Innovation and Skills). He is a Fellow and a council member of the Royal Academy of Engineering. Aged 64.

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 51.

S.J. MOYNIHAN FCA **Company Secretary**
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 44.

Pictured clockwise

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 81.

A.J.F. BUXTON DL FRICS **Appointed 2014**
He worked with Bidwells LLp for over 30 years, and was Senior Partner from 2000 to 2010. He was appointed Chairman of Pigeon Investment Management in 2011. Prior to this he was Chairman of the CBI in the East of England from 2003 to 2005, and on the Advisory Board of the Department of Land Economy at Cambridge University from 2003 to 2007. He was appointed a Deputy Lieutenant of Cambridgeshire in 2006, and served as High Sheriff of Cambridgeshire for 2013/14. Aged 58.

P.W. JOHNSON † **Appointed 2014**
After 20 years with the Rover Group, he joined the Marshall Group for the first time in 1990 and was Managing Director of the Motor Group. He then joined Inchcape plc in 1995, became Chief Executive in 1999 and was Chairman from 2006 until 2009. He was the senior independent non-executive director of Wates Group Limited from 2011 until 2013 and was Chairman of The Rank Group Plc from 2007 until 2011. He is also currently a non-executive director of Bunzl plc and Chairman of the NFDA. Aged 66.

Pictured left to right

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 63.

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 the Institute of Directors, and a Freeman of the City of London. Aged 61.

S.J. FITZ-GERALD FRAeS **Appointed 2011**
He was appointed as Chief Executive of Marshall Aerospace in January 2011 and subsequently Chief Executive of Marshall Aerospace and Defence Group in 2013. Prior to this, he was President of Cobham Aviation Services for 5 years. He has 35 years of experience in the defence industry with Plessey, Marconi and BAE Systems. He is also a Fellow of the Royal Aeronautical Society and Chairman of the Value Chain Competitiveness Team, the Government's new initiative for the defence industry which is called the Defence Growth Partnership. Aged 56.

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, and Franchise Director for Inchcape PLC for 7 years where he was responsible for the Volkswagen, Audi and Mercedes Benz brands. He is a Fellow of the Institute of the Motor Industry and a trustee of BEN, the benevolent charity of the automotive industry. He is also a Freeman of the City of London. Aged 43.

Pictured left to right

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. Chairman of the Remuneration Committee. Aged 55.

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, and estate agency. He is a Fellow of the RSA and the Institute of Directors, Companion of the Chartered Management Institute and is a Freeman of the City of London. Chairman of the Audit Committee. Aged 67.

P.J. HARVEY ACIB DipFS †* **Appointed 2008**
He is a former chief executive of Barclays Corporate and Commercial Banking and, latterly, until his retirement in 2008, Vice Chairman of Barclays UK Banking. He is now a non-executive director of Co-operative Banking Group. He is a member of the Chartered Institute of Bankers. Aged 58.

Pictured left to right

AUDITOR
Ernst & Young LLP

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

INSURANCE BROKERS
Willis

PENSION AND ACTUARIAL ADVISERS
Buck Consultants

PROPERTY ADVISERS
Bidwells
Russells
Savills

SOLICITORS
Bird & Bird
Eversheds
Greenwoods
Mills & Reeve

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

The Board

HOW THE BOARD OPERATES

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 28 to 29.

THE 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.

The Board has a schedule of matters reserved for its decision, which includes:

- Strategy and management
- Structure and capital
- Financial reporting and controls
- Internal controls
- Authorisation and approval levels
- Board membership
- Delegation of authority and policy development
- Corporate governance matters

Other specific responsibilities are delegated to the Board committees, further details of which are given later. 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.

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.

Board papers are circulated electronically via a secure system to facilitate the effective flow of latest information. A detailed agenda is prepared for, and formal minutes are taken of, each meeting.

The Board agenda at every meeting contains:

- A report from the Chairman outlining key areas for discussion and key business developments;
- The CEO's report on strategic and business developments;
- The Group Financial Director's report which includes commentary and highlights from the latest available management accounts;
- Operations and risk management updates from the subsidiary CEOs and, where applicable, reports from the Board Committees.

The Board also met informally in 2013 to discuss strategic issues and other business developments.

BOARD ATTENDANCE

Membership	Attendance
Sir Michael Marshall	9
A.E. Cook	9
P.J.Harvey	9
Sir Ralph Robins	7
C.J.Sawyer	9
S.J.Sillars	8
R.D.Marshall	9
W.C.M.Dastur	9
S.J.Fitz-Gerald	9
D.Gupta	9
J.D.Barker	9

9 meetings were held in the year

BOARD FOCUS AND ACTIVITIES DURING THE YEAR

The activities undertaken by the Board are designed to assist them in the objective of supporting and advising executive management on the delivery of the Group's strategy within a framework of effective corporate governance.

Summarised below are the key areas of Board focus during the year. Focused discussion of these items assists the Board to make good decisions based on the long-term opportunities for the business and its stakeholders.

Business strategy
- Commercial, technical, high level operational and financial strategy

Business performance
- Chairman and CEO's progress reports
- Subsidiary commercial performance in local markets
- Operational updates

Diversity and talent
- Succession planning
- Talent capability and diversity

Business risks
- Strategic and operational risks

Investment case reviews for acquisitions and major bids
- Acquisition of Silver Street in February 2013
- Acquisition of Hawker Beechcraft in September 2013
- Planning application for Wing development

Governance
- Board performance evaluation by ABC
- Reports from Board committees
- Corporate governance updates

Financial performance
- Group Financial Director's reports
- Review and challenge of Group budgets, forecasting and management accounts
- Group treasury and cash flows

Shareholder focus
- Shareholder value
- Shareholder returns

Business conduct
- Reputation
- Compliance control, including HSE and FCA conduct

During the year, the Board initiated a reissue of the Group's Code of Business Ethics, which contains updates for latest best practice and legislation.

The Group will be launching the updated code in 2014, along with a refreshed edition of the Marshall Values, and the roll-out to all employees will be facilitated by a bespoke e-learning system. The Group's existing anti-bribery and corruption e-learning has also been updated and refresher training will be developed and rolled out.

INDEPENDENCE AND CONFLICTS OF INTEREST

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

During the year there was one conflict of interest which the director concerned declared to both parties at the outset, and removed himself from any relevant discussions. The Company Secretary ensured that all board papers were screened for information regarding the conflict, and the director concerned was issued a separate, edited set of papers.

SENIOR INDEPENDENT DIRECTOR

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

NON-EXECUTIVE DIRECTORS

The Chairman holds meetings with the non-executive directors without the executive directors present which provides the non-executive directors with a further platform to discuss developments or concerns, without prejudicing the main activity of the Board meetings themselves.

Board Effectiveness

PERFORMANCE EVALUATION

In 2013 an external facilitator with no other connection to the Group, Armstrong Bonham Carter (ABC), was used to assist in the evaluation of the performance of the Board and its committees. ABC conducted interviews with each member of the Board and the Company Secretary following an agenda circulated to each member in advance. The Board requested that the evaluation covered the key areas of:

- Strategy
- Board structure, organisation and dynamics
- Board effectiveness and efficiency
- People issues

A written report from ABC was received by the Board which identified areas for improvement. The report was debated and discussed in detail, and an action plan for the year ahead was developed containing several new initiatives.

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.

The Board also ensures that new directors receive an induction covering, amongst other things: the business of the Group; their statutory responsibilities as directors; opportunities to visit business operations; and the Group's values and code of business ethics.

SHAREHOLDER ENGAGEMENT

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 Company Secretary, the executive directors and Board committee chairmen were all present at the 2013 AGM.

The Company issued its second interim financial statements for the six months ended 30th June 2013 in October 2013 to all shareholders. This is part of the Group's continuing endeavour to engage more frequently with shareholders so as to update them on the operational and financial progress of the Group and other important changes.

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 continues to act as the Board liaison for family shareholders.

Board Committees

In accordance with the principles of good governance, the following committees have been established by the Board:

- Nomination Committee
- Audit Committee
- Remuneration Committee

All of these committees operate under written terms of reference and their objectives, responsibilities and activities during the last year, are set out below in their individual reports.

Nomination Committee Report

Membership	Attendance
Sir Michael Marshall (Chairman)	2
A.E.Cook	2
P.J.Harvey	2

2 meetings were held in the year

OBJECTIVE

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

The effectiveness of the committee was considered as part of the external review of the Board's effectiveness performed during the year.

RESPONSIBILITIES

The key responsibilities of the committee include:

- Annual review of the Board's composition and consideration of any proposed changes for proposal to the Board
- The formation of a strategic succession and replacement plan for the Board
- Leading the process for identifying and making recommendations to the Board regarding candidates for appointment as directors

COMMITTEE FOCUS AND ACTIVITIES DURING THE YEAR

The committee reviewed its terms of reference during the year, and has incorporated recommendations from the board effectiveness review. The committee also identified, met with and proposed to the Board two new candidates as non-executive directors, both of whom have been ratified and appointed to the main Board in early 2014. The candidates were selected based on their merits against objective criteria and with due regard to the benefits of diversity on the Board.

P.W. Johnson, who was appointed on 1st March 2014, has over 40 years of motor trade experience, culminating in being Chairman of Inchcape plc. He has a proven track record of driving strategic and behavioural change.

A.J.F. Buxton, who was appointed on 1st April 2014, has over 30 years of commercial property experience and was the Senior Partner of Bidwells LLP for many years. His advice should be invaluable as our property development projects progress.

Audit Committee Report

Introduction from Christopher Sawyer:
"I am pleased to present the Audit Committee's annual report on its activities during the year. During the year, we have considered the applicable provisions of the various corporate governance codes and principles, together with the latest FRC guidance on Audit Committees and are satisfied that our terms of reference are in line with them. The committee has spent considerable time reviewing both the internal and external audit plans and meeting with auditors to ensure that the key areas of focus across the Group are included. The committee also undertook a review of the Group's use of professional service firms to ensure the independence of the external auditor remains robust."

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 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 effectiveness of the committee was considered as part of the external review of the Board's effectiveness performed during the year. In April 2014, P.W. Johnson joined the committee.

The committee meets at least four times during the year. 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. Other relevant people from the business are invited to attend certain meetings in order to provide a deeper level of insight into key issues and developments. The committee chairman also meets separately with the external audit partner, Group Financial Director and Group Internal Audit Manager without others being present.

OBJECTIVE
The objective of the Audit Committee is to ensure the Board has oversight of the Group's audit and internal control functions.

RESPONSIBILITIES
The key responsibilities of the committee include:
- Monitoring the integrity of the financial statements
- Review of the financial statements and recommendation to the Board for approval
- Review of the Group's internal controls and risk management systems
- Post acquisition/major capital expenditure reviews
- Review of major contracts
- Review of external audit plan
- Review of internal audit plan
- Review of whistleblowing arrangements

COMMITTEE FOCUS AND ACTIVITIES DURING THE YEAR
Review of financial statements and audit findings
The committee reviewed the annual report and financial statements to ensure that they are fair, balanced and understandable, and provide the information necessary for shareholders and other stakeholders to assess the Group's performance, strategy and business model. To enhance its review, the committee considers reports from the Group Financial Director and also the external auditor on the outcomes of its review and annual audit. As a committee it supports Ernst and Young LLP in displaying the necessary professional scepticism required by its role.

The key judgement areas considered by the committee in relation to the 2013 accounts, and how these were addressed, were:

Issue	Assessment
Long term contract accounting	The judgements made in relation to the accounting for long term contracts are key to the revenue and profit recognition recorded in each period. Material contracts and the related management assumptions and assessments used are reviewed by the committee through regular Board updates on contract performance, and, where required, key individuals from the business attend meetings to provide a deeper understanding and explanations. Ernst and Young LLP also reports on the key judgements used in material contracts.
Liability provisioning	The appropriate level of provisioning for contingent and other liabilities is an issue in which management assessments are critical. The committee addresses these by discussing with management the key judgements made, including any relevant legal advice taken. Ernst and Young LLP also report on the key judgements used in material provisions.
Goodwill impairment	The key goodwill impairment reviews are in relation to Marshall Motor Holdings. The key assumptions in the value-in-use analysis largely relate to short-term profitability projections, long-term growth and the discount rate. In some cases the realisable value of the business is considered. The committee reviews these assumptions and estimates, and discusses them with Ernst and Young LLP, which provides a detailed report.

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 services firms or providers including the external auditor. This includes the provision of auditing and accounting services, taxation compliance and advice, regulatory compliance, 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 advisers.

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. Independence and objectivity are assured through the rotation of the audit partner on a regular basis, the last such rotation having taken place in 2010. 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 4th June 2014.

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 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 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 committee's view on the effectiveness of the company's internal control framework.

Risk management and internal control
The 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 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 18 to 21.

During the year, the 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.

Whistleblowing
Commensurate with best practice, and to ensure that the Group works to the highest ethical standards, the Group operates an independent whistleblowing procedure to allow staff to confidentially raise any concerns about business conduct. This has been enhanced in early 2014 with the Group engaging Expolink to operate an independent whistleblowing hotline, affording employees the mechanism by which to report concerns to someone unconnected with the Group. The whistleblowing policy is set out in the refreshed Code of Business Ethics which is being distributed to all staff in 2014 and reinforced with computer based training.

Remuneration Committee Report

Introduction from Sarah Sillars:
"On behalf of the Board I am pleased to present the Remuneration Committee's annual report for 2013. As a private company we are not required to publish the large volume of data that would be expected from a company in the public domain. However, in the spirit of openness and to keep shareholders informed of how senior executive remuneration is determined we have prepared this report.

Our Remuneration Policy is designed to attract, motivate and retain high calibre executives, supporting achievement of the Company's business strategy, encouraging behaviours in accordance with Marshall Values, incentivising superior performance and the delivery of exceptional results and rewarding the creation of long term shareholder value.

The main components of our executive remuneration are:

- ***Base salaries which are competitive in the markets in which we operate.***
- ***Annual incentives designed to motivate high performance in each of the different business segments which make up the Group and offer outstanding reward for outstanding results.***
- ***Long term incentives which recognise contribution to the financial strength of the Group through Return on Capital Employed, encourage shareholding by key executives and align the interests of executive directors with those of shareholders in the sustained success of the Group."***

Membership	Attendance
S.J.Sillars (Chairman)	3
Sir Michael Marshall	3
Sir Ralph Robins	2
C.J.Sawyer	3

3 meetings were held during the year.

OBJECTIVE
The Group has a Remuneration Committee to assist the Chairman and Group Chief Executive in the process of setting and reviewing executive remuneration. The Group's remuneration policy is set so as to be in line with the overall Group strategy and objectives. It aims to align behaviours behind what is best for the Group and its shareholders, whilst providing sufficient incentive to attract, retain and motivate executive management of the right calibre.

The effectiveness of the committee was considered as part of the external review of the Board's effectiveness performed during the year.

RESPONSIBILITIES
The key responsibilities of the committee include:
- Setting of the remuneration policy for executive directors
- Implementation of the remuneration policy

COMMITTEE FOCUS AND ACTIVITIES DURING THE YEAR
The committee took the opportunity in autumn 2013 to ask an independent firm of remuneration specialists, New Bridge Street, to review current arrangements, benchmark against like entities and advise on whether fair and appropriate remuneration policies were in place, and to what extent changes might be required. The report concluded that the salary, bonus and LTIP arrangements for senior executives were in line with relevant median market levels and market practice.

The Group Chief Executive, the Group Financial Director, operating subsidiary Chief Executives, the Property Managing Director and the Company Secretary have service contracts, which are terminable by no longer than twelve months' notice given by either party thereto.

There were no major changes to the Group's remuneration policy during the year. Remuneration focus continues to be on revenue and operating profit in the short-term and return on capital employed (ROCE), cash generation and overall shareholder returns (dividends) in the medium to long-term. The committee has noted that the Group had a strong performance in the year, with operating profit up by 37% and profit before tax up by nearly 50% on 2012 whilst net assets rose to over £172m.

Remuneration Policy for Executive Directors

	Objectives	Operational and Performance Conditions	Opportunity
Base Salary	A competitive market salary commensurate with responsibility and experience.	Reviewed at 1st January each year taking into account market changes, change in role or responsibility.	Increases are generally expected to be in line with inflation and comparative increases in the business and competitor companies.
Annual Bonus	To motivate and reward annual performance specifically with respect to the business and overall profitability.	Maximum 100% of salary which is only available for exceptional performance. Paid in cash after the Group annual report and financial statements have been approved.	Around 75% of salary, with budget or target achievement realising 50% and a threshold level to be reached for 25%. There is a subjective element which can be up to 25% of salary and thereby make the total opportunity 100%.
Long Term Incentive Plan 'LTIP'	To focus on longer term performance and growth and align executive director interests with those of shareholders.	Awards are made annually based on three year performance period. Performance is against ROCE, cash generation, shareholder dividend growth and adherence to Group objectives and values. 50% paid out after three years but remainder withheld for further three years in accordance with recent and best industry practice.	Up to 100% of salary can be achieved but only 50% can be taken in cash in the year after the initial performance period. The remainder is held for a further three years but can be 'notionally invested' in 'notional NVPO shares' during this period and converted into cash or NVPO shares (at the Company's discretion) after a further three years.
Pension	To provide competitive levels of retirement benefit.	Membership of company pension scheme or salary supplement or cash deferral scheme.	Usually up to 24% of salary with some variation based on time employed.
Other Benefits	To provide competitive levels of employment benefits.	Benefits include: • Car and fuel benefit or equivalent • Private medical insurance • Income protection insurance • Life assurance of four times cover	Cost of providing a car benefit, life assurance, private medical insurance and income protection insurance which are reviewed annually to ensure they are competitive.
'Notional NVPO' Scheme	To ensure that executive directors' interests are aligned with those of shareholders over a longer time horizon.	Opportunity to convert part of withheld LTIP balance into notional shares for the three year deferral period following the three year performance period.	Up to £100,000 of deferred earned award can be swapped into 'notional shares'. In operation for first time in 2013 and also available for 2014.

Notional NVPO Share Scheme

The following executives exercised the opportunity to convert up to £100,000 of deferred earned LTIP award into 'notional NVPO' shares in 2013 at a discount of 30%.

	Amount	Notional NVPO Shares held at 31st December 2013
J.D Barker	£26,956	32,091
W.C.M Dastur	£100,000	119,047
S.J Fitz-Gerald	£100,000	119,047
D Gupta	£100,000	119,047
R.D Marshall	£100,000	119,047

No actual shares are held under this scheme and it is accounted for within the Company's accounts and accrued therein. Those notional NVPO shares are convertible in 2016, into either cash (at an equivalent to the prevailing NVPO share price at exercise or conversion date), or NVPO shares (at the Company's option). Notional dividends are also accrued and payable after 3 years.

Remuneration Policy for Non-Executive Directors

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

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Directors' Report, the Strategic 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.

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, 2013.

RESULTS AND DIVIDENDS
The Group recorded a profit after tax and minority interests for the year of £12,913,000 (2012 - £7,925,000). On 20th December 2013, the Board paid a priority dividend of 2.00p per share on the non-voting priority ordinary (NVPO) shares, together with an interim dividend of 0.75p per share for both Ordinary and NVPO shareholders. The directors recommend a final dividend of 2.25p per Ordinary and NVPO share making a total for the year of 3.0p per Ordinary share and 5.0p per NVPO share. In accordance with FRS 21, the final dividend of 2.25p 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 2014. Preference dividends on the A and B preference shares amounting to £744,000 were paid in the year.

RESEARCH AND DEVELOPMENT
The Group continues to be committed to research and development, especially in its 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.

DIRECTORS
The directors who served during the year were:-

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

P.W. Johnson was appointed a director from 1st March, 2014 and A.J.F. Buxton was appointed a director from 1st April, 2014.

At the forthcoming Annual General Meeting, J.D. Barker, W.C.M. Dastur and P.J. Harvey retire by rotation, and, being eligible, offer themselves for re-election. A.J.F. Buxton and P.W. Johnson retire on first appointment, 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, 2013 were:

	Ordinary Shares of 12.5p each		NVPO Shares of 12.5p each		8% preference A shares of £1 each		10% preference B shares of £1 each	
	Beneficially	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**
Sir Michael Marshall	3,042,150	7,289,890	2,334,900	20,974,510	240,000	2,462,666	180,000	1,829,333
R.D. Marshall	205,900	29,500	53,983	373,167	-	60,666	-	28,333
J.D. Barker	-	29,500	11,000	206,500	-	60,666	-	28,333
W.C.M. Dastur	-	29,500	198,550	206,500	-	60,666	15,000	28,333
S. Fitz-Gerald	-	-	10,000	-	-	-	-	-
D. Gupta	-	-	16,250	-	-	-	-	-
C.J. Sawyer	-	-	54,300	-	-	-	-	-

The interests of the directors of Marshall of Cambridge (Holdings) Limited and their families in the shares of the Company at 1st January 2013 were:

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

FIXED ASSETS
The Group invested £42.7m (2012 - £33.5m) in new fixed assets and investments and a further £13.0m (2012 - £3.4m) in new businesses. Certain of the Group's freehold property interests were reclassified from own use to investment properties as a result of being let to third party tenants. These were formally valued for the first time as at 31st December 2013 and together with the Group's existing freehold investment properties which were revalued by the directors, also at 31st December 2013, resulted in a total valuation of £13,520,000 (2012 - £7,695,000). A revaluation surplus of £4,303,000 (2012 – deficit of £695,000) has been taken to the revaluation reserve. Other tangible fixed assets' details and movements can be found in note 13 to the financial statements.

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.

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

POLITICAL CONTRIBUTIONS
There were no political donations in either year.

CORPORATE GOVERNANCE
Corporate governance reports are set out on pages 28 to 35.

GOING CONCERN
The Group's business activities, together with the factors likely to affect its future development, performance and position are described within the Strategic Report on pages 4 to 27. Included within this, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 22 to 23 whilst the principal risks and uncertainties facing the Group are set out in the Strategic Report and specifically on pages 18 to 21. The Group is diversified across a number of customers and suppliers across different industries and the directors believe the Group is well placed to manage its business risks successfully. The Board has reviewed the latest budgets and forecasts for the Group and, as a result, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

BY ORDER OF THE BOARD

S.J. Moynihan
Secretary
29th April, 2014

Group Profit and Loss Account
for the year ended 31st December, 2013

	Notes	2013 £000	2012 £000
TURNOVER			
Existing operations		**1,169,238**	1,095,196
Acquisitions		**123,284**	31,178
Continuing operations	2	**1,292,522**	1,126,374
Cost of sales		**(1,056,263)**	(921,707)
GROSS PROFIT		**236,259**	204,667
Administrative expenses		**(217,233)**	(190,932)
Other operating income		**463**	498
OPERATING PROFIT			
Existing operations		**19,938**	14,579
Acquisitions		**(449)**	(346)
Continuing operations	2/4	**19,489**	14,233
Profit on disposal of tangible fixed assets	5	**216**	-
Profit on disposal of investments		**1**	-
Amounts provided against investments	14	**(110)**	(241)
Income from investments		**22**	18
Interest receivable and similar income	6	**503**	235
Interest payable and similar charges	6	**(2,368)**	(2,318)
Other finance income	31	**352**	191
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**18,105**	12,118
Tax on profit on ordinary activities	8	**(5,195)**	(4,198)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		**12,910**	7,920
Equity minority interests	24	**3**	5
PROFIT FOR THE FINANCIAL YEAR	22	**12,913**	7,925
BASIC AND DILUTED EARNINGS PER SHARE	9	**20.7p**	12.2p
UNDERLYING EARNINGS PER SHARE	9	**31.3p**	19.9p

Group Statement of Total Recognised Gains and Losses
for the year ended 31st December, 2013

	Notes	2013 £000	2012 £000
PROFIT FOR THE FINANCIAL YEAR	22	**12,913**	7,925
Unrealised gain / (deficit) on revaluation of investment properties	22	**4,303**	(695)
Actuarial loss recognised on defined benefit pension scheme	31	**(806)**	(339)
Tax credit on actuarial loss	8/31	**187**	83
Net exchange loss on retranslation of overseas subsidiary undertakings	22	**(679)**	(166)
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT AND FINANCIAL STATEMENTS		**15,918**	6,808

Group Statement of Cash Flows
for the year ended 31st December, 2013

	Notes	2013 £000	2012 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	11	**45,905**	69,761
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends received from investments		**22**	18
Interest received		**503**	235
Interest paid		**(1,195)**	(1,166)
Interest element of finance lease rental payments and stock finance		**(1,173)**	(1,152)
		(1,843)	(2,065)
TAXATION			
UK corporation tax repayment		**-**	2,077
UK corporation tax paid		**(5,165)**	(1,196)
Overseas tax paid		**(600)**	(882)
		(5,765)	(1)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		**(42,109)**	(33,080)
Payments to acquire investments		**(616)**	(461)
Receipts from sales of tangible fixed assets		**7,847**	5,958
Receipts from sales of fixed asset investments		**23**	-
		(34,855)	(27,583)
ACQUISITIONS AND DISPOSALS			
Acquisition of businesses	12	**(13,008)**	(2,261)
Net overdrafts acquired on acquisition		**(1,503)**	-
Payment of deferred consideration on prior acquisitions		**-**	(1,153)
		(14,511)	(3,414)
EQUITY DIVIDENDS PAID	10	**(3,083)**	(2,642)
NET CASH (OUTFLOW) / INFLOW BEFORE FINANCING	11	**(14,152)**	34,056
FINANCING			
New loans	11/19	**34,061**	20,688
Repayment of loans	11/19	**(24,029)**	(20,834)
Repayment of capital element of finance leases	11	**-**	(19)
		10,032	(165)
(DECREASE) / INCREASE IN CASH AT BANK AND IN HAND	11	**(4,120)**	33,891

Group Balance Sheet
at 31st December, 2013

	Notes	2013 £000	2012 £000
FIXED ASSETS			
Positive goodwill		**11,870**	10,693
Negative goodwill		**(438)**	-
Intangible assets	12	**11,432**	10,693
Tangible assets	13	**144,056**	132,259
Investments	14	**2,734**	1,911
TOTAL FIXED ASSETS		**158,222**	144,863
CURRENT ASSETS			
Stocks	15	**167,292**	137,115
Debtors	16	**112,344**	77,936
Cash at bank and in hand	11	**54,676**	58,796
		334,312	273,847
CREDITORS: amounts falling due within one year	17	**(277,600)**	(219,797)
NET CURRENT ASSETS		**56,712**	54,050
TOTAL ASSETS LESS CURRENT LIABILITIES		**214,934**	198,913
CREDITORS: amounts falling due after more than one year	18	**(32,949)**	(29,459)
PROVISION FOR LIABILITIES	20	**(3,284)**	(3,672)
NET ASSETS BEFORE PENSION LIABILITY		**178,701**	165,782
PENSION LIABILITY	31	**(6,365)**	(6,278)
NET ASSETS		**172,336**	159,504
CAPITAL AND RESERVES			
Called up share capital	21	**15,733**	15,733
Revaluation reserve	22	**5,541**	1,238
Capital redemption reserve	22	**130**	130
Profit and loss account	22	**150,893**	142,361
SHAREHOLDERS' FUNDS	23	**172,297**	159,462
Equity minority interests	24	**39**	42
TOTAL CAPITAL EMPLOYED		**172,336**	159,504

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 29th April 2014. They were signed on its behalf by:

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

Company Registration No. 2051460

Company Balance Sheet
at 31st December, 2013

	Notes	2013 £000	2012 £000
FIXED ASSETS			
Tangible assets	13	**250**	246
Investments	14	**18,773**	17,950
TOTAL FIXED ASSETS		**19,023**	18,196
CURRENT ASSETS			
Debtors	16	**56,613**	40,226
Cash at bank and in hand		**46,618**	50,119
		103,231	90,345
CREDITORS: amounts falling due within one year	17	**(93,724)**	(79,904)
NET CURRENT ASSETS		**9,507**	10,441
TOTAL ASSETS LESS CURRENT LIABILITIES		**28,530**	28,637
PENSION LIABILITY	31	**(6,365)**	(6,278)
NET ASSETS		**22,165**	22,359
CAPITAL AND RESERVES			
Called up share capital	21	**15,733**	15,733
Capital redemption reserve	22	**130**	130
Profit and loss account	22	**6,302**	6,496
SHAREHOLDERS' FUNDS	23	**22,165**	22,359

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 29th April 2014. They were signed on its behalf by:

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

Company Registration No. 2051460

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.

Revenue recognition
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 and profit from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.
- **Long-term contracts:** 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 and profit from the provision of services is recognised as the contract activity progresses to reflect the performance of the underlying contractual obligations.
- **Leases:** Rental income from operating leases is recognised on a straight line basis over the lease term.

Positive 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.

Negative goodwill
Negative goodwill is the excess of the Group's share of the fair value of the attributable net identifiable assets at the date of acquisition over the purchase consideration. Negative goodwill which relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but does not represent identifiable liabilities at the date of acquisition, is recognised as income when the future losses and expenses occur. Any amount of negative goodwill in excess of the fair value of the acquired identifiable non-monetary assets is recognised in the profit and loss account as the non-monetary assets are recovered, whether through depreciation or sale.

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.

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

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.

1. ACCOUNTING POLICIES (continued)

Investments
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.

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 recognised at cost plus profit recognised on the basis described in the revenue recognition policy, less provisions for forseeable losses and payments on account received or receivable. Stocks held on consignment are accounted for in the balance sheet when the terms of a consignment agreement and commercial practice indicate that the principal benefit of owning the stock (the ability to sell it) and principal risks of ownership (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.

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.

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 / (liabilities)	
	2013	2012	**2013**	2012	**2013**	2012
	£000	£000	**£000**	£000	**£000**	£000
Business segments:						
Aerospace and defence	**320,468**	304,209	**14,333**	13,153	**77,959**	67,071
Motor retail and leasing	**940,505**	794,437	**11,752**	6,717	**66,263**	62,445
Property	**1,448**	1,335	**701**	985	**17,602**	15,414
Fleet solutions	**30,101**	26,393	**(943)**	(1,695)	**(2,921)**	(3,323)
Unallocated central costs	**-**	-	**(6,354)**	(4,927)	**(42,739)**	(40,008)
	1,292,522	1,126,374	**19,489**	14,233	**116,164**	101,599
Unallocated net assets	**-**	-	**-**	-	**56,172**	57,905
	1,292,522	1,126,374	**19,489**	14,233	**172,336**	159,504

	Turnover by destination		Turnover by origin		Operating profit		Net assets / (liabilities)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Geographical segments:								
UK	**1,187,994**	1,044,028	**1,275,295**	1,105,989	**15,726**	10,407	**109,917**	93,980
Rest of Europe	**68,590**	47,061	**3,403**	3,181	**919**	763	**(40)**	74
North America	**29,377**	30,312	**10,663**	12,854	**2,013**	1,780	**3,915**	6,461
Rest of World	**6,561**	4,973	**3,161**	4,350	**831**	1,283	**2,372**	1,084
	1,292,522	1,126,374	**1,292,522**	1,126,374	**19,489**	14,233	**116,164**	101,599
Unallocated net assets	**-**	-	**-**	-	**-**	-	**56,172**	57,905
	1,292,522	1,126,374	**1,292,522**	1,126,374	**19,489**	14,233	**172,336**	159,504

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.

	2013	2012
	£000	£000
Unallocated net assets comprise:		
Fixed asset investments	**2,734**	1,911
Corporation tax payable	**(2,902)**	(2,090)
Deferred tax asset / (liability), excluding deferred tax asset on pension liability	**1,664**	(712)
Cash	**54,676**	58,796
	56,172	57,905

3. CONTINUING AND ACQUIRED OPERATIONS

Continuing operations in 2013 include, in respect of acquisitions during the year, cost of sales of £107,766,000 (2012 - £27,311,000) and administrative expenses £15,967,000 (2012 - £4,213,000).

Notes to the Financial Statements
at 31st December, 2013

4. OPERATING PROFIT

		2013	2012
		£000	£000
Operating profit is after charging / (crediting):			
Depreciation	- owned assets	**27,705**	27,253
	- leased assets	**-**	14
Amortisation	- positive goodwill	**2,334**	2,271
Impairment	- owned assets	**1,564**	680
Restructuring costs		**3,124**	1,718
Operating lease rentals	- land and buildings	**7,332**	5,235
	- plant and machinery	**421**	507
Finance lease rental income	- motor vehicles	**(312)**	(250)
Operating lease rental income	- motor vehicles	**(21,015)**	(19,709)
Net foreign exchange losses		**60**	710
(Profit) / loss on disposal of tangible fixed assets		**(54)**	6
Research and development	- current year expenditure	**149**	524
Auditor's remuneration	- audit of the financial statements of the Company	**44**	43
	- audit of subsidiary undertakings	**498**	411
	- audit of joint venture	**6**	6
	- tax compliance and planning	**430**	292

In addition to the auditor's remuneration above, corporate finance services of £16,000 and tax advisory services of £37,000 were paid and have been capitalised within fixed asset investments.

5. PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS

	2013	2012
	£000	£000
Profit on disposal of tangible fixed assets, net of taxation of £nil (2012 - £nil)	**216**	-

6. INTEREST

	2013	2012
	£000	£000
(a) Interest receivable and similar income		
Bank interest receivable	**503**	218
Interest receivable on tax repayments	**-**	17
	503	235

	2013	2012
	£000	£000
(b) Interest payable and similar charges		
Bank loans	**1,195**	1,166
Stock finance charges	**1,173**	1,152
	2,368	2,318

7. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

No profit and loss account is presented for the parent company as permitted by section 408 of the Companies Act 2006.

The profit dealt with in the financial statements of the parent company was £3,508,000 (2012 - £3,106,000).

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2013	2012
	£000	£000
(a) Analysis of tax charge for the year		
UK corporation tax charge on the profit for the year	**5,902**	3,433
UK corporation tax adjustment in respect of prior years	**73**	(443)
Overseas tax on profit for the year	**898**	779
Overseas tax adjustment in respect of prior years	**(109)**	-
Current tax charge	**6,764**	3,769
Deferred tax (credit) / charge (see note 20)	**(1,569)**	429
Total tax charge	**5,195**	4,198

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2013 £000	2012 £000
(b) Factors affecting current tax charge for the year		
Profit on ordinary activities before tax	**18,105**	12,118
Profit on ordinary activities before tax at 23.25% (2012 - 24.50%)	**4,209**	2,969
Effects of:		
Expenses not deductible for tax purposes	**1,217**	1,210
Depreciation in excess of capital allowances	**1,205**	409
Short term timing differences	**172**	(369)
Research and development enhanced claim	**(176)**	(66)
Adjustments in respect of prior years	**(36)**	(443)
Tax rate changes	**-**	(22)
Higher tax rates on overseas earnings	**313**	81
Chargeable gains	**(23)**	-
Utilisation of brought forward tax losses	**(117)**	-
Current tax charge	**6,764**	3,769

(c) Tax on actuarial loss included in the statement of total recognised gains and losses

Current tax credit on actuarial loss	**(187)**	(83)
Tax credit included in the statement of total recognised gains and losses	**(187)**	(83)

(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 £5,418,000 (2012 - £4,845,000). At present, it is not envisaged that any tax will become payable in the foreseeable future.

The Finance Act 2013 reduced the main rate of UK corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. Deferred tax assets and liabilities at 31 December 2013 have been calculated at 20% and the reduction in the deferred tax asset has been included within the tax charge for the year.

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

9. EARNINGS PER SHARE

	2013 £000	2012 £000
Profit after tax	**12,910**	7,920
Minority interests	**3**	5
Dividends on preference shares	**(744)**	(744)
Basic earnings	**12,169**	7,181
Restructuring costs net of tax	**2,398**	1,297
Exceptional items net of tax	**(217)**	-
Goodwill amortisation	**2,334**	2,271
Impairment of tangible fixed assets	**1,564**	680
Amounts provided against investments	**110**	241
Underlying earnings	**18,358**	11,670
Average number of shares in issue during the year ('000)	**58,660**	58,660
Basic earnings per share	**20.7p**	12.2p
Underlying earnings per share	**31.3p**	19.9p

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.

10. DIVIDENDS

	2013 £000	2012 £000
Dividends on Ordinary shares:		
1.75p per Ordinary share of 12.5p each paid on 28th June 2013 (29th June 2012 - 1.25p)	**264**	189
0.75p per Ordinary share of 12.5p each paid on 20th December 2013 (21st December 2012 - 0.50p)	**114**	75
	378	264
Dividends on NVPO shares:		
1.75p per NVPO share of 12.5p each paid on 28th June 2013 (29th June 2012 - 1.25p)	**763**	544
2.75p per NVPO share of 12.5p each paid on 20th December 2013 (21st December 2012 - 2.50p)	**1,198**	1,090
	1,961	1,634
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	**3,083**	2,642

11. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities	2013 £000	2012 £000
Operating profit	**19,489**	14,233
(Profit) / loss on disposal of tangible fixed assets	**(54)**	6
Foreign exchange movement	**(633)**	(178)
Depreciation of tangible fixed assets and impairment charges	**29,269**	27,947
Amortisation of intangible fixed assets	**2,334**	2,271
Mark to market of fixed asset investments	**(339)**	(64)
Increase in stocks	**(5,781)**	(11,820)
(Increase) / decrease in debtors	**(25,923)**	24,286
Increase in provisions	**324**	919
Increase in creditors	**27,871**	12,670
Adjustment for pension funding	**(652)**	(509)
Net cash inflow from operating activities	**45,905**	69,761

(b) Analysis of net funds	At 1st January 2013 £000	Cash movement £000	Non - cash movement £000	At 31st December 2013 £000
Cash at bank and in hand	58,796	(4,120)	-	**54,676**
Short term loans	(21,129)	7,286	(14,281)	**(28,124)**
Long term loans	(20,973)	(17,318)	14,281	**(24,010)**
Net funds	16,694	(14,152)	-	**2,542**

(c) Reconciliation of net cash flow to movement in net funds / (debt)	2013 £000	2012 £000
(Decrease) / increase in cash	**(4,120)**	33,891
Cash inflow from new loans	**(34,061)**	(20,688)
Repayment of loans	**24,029**	20,834
Repayment of capital element of finance leases	**-**	19
(Decrease) / increase in net funds / (debt)	**(14,152)**	34,056
Net funds / (debt) at 1st January	**16,694**	(17,362)
Net funds at 31st December	**2,542**	16,694

12. INTANGIBLE FIXED ASSETS

	Negative Goodwill £000	Positive Goodwill £000	Total £000
Cost:			
At 1st January, 2013	-	19,153	19,153
Arising on acquisitions	(438)	3,511	3,073
Disposals	-	(200)	(200)
At 31st December, 2013	(438)	22,464	22,026
Amortisation:			
At 1st January, 2013	-	8,460	8,460
Provided during the year	-	2,334	2,334
Eliminated on disposal	-	(200)	(200)
At 31st December, 2013	-	10,594	10,594
Net book value:			
At 31st December, 2013	**(438)**	**11,870**	**11,432**
Net book value:			
At 1st January, 2013	-	10,693	10,693

The fully amortised goodwill relating to the prior acquisition of the Peugeot dealership in Bedford was disposed of during the year, following the closure of the business. The acquisitions by Marshall of Cambridge (Motor Holdings) Limited of Silver Street Automotive Limited on 20th February 2013 and the acquisitions by Marshall of Cambridge Aerospace Limited of Flairjet Ltd on 19th February 2013 and Marshall Aviation Services Limited (formerly known as Hawker Beechcraft Limited) on 30th August 2013 have been included at their provisional fair values at the date of acquisition. Their combined net assets at the date of acquisition were as follows:

	Book Value £000	Fair value Adjustments £000	Fair value to Group £000
Tangible fixed assets	3,063	(786)	2,277
Stock	25,169	(773)	24,396
Cash	-	-	1,305
Bank overdrafts	-	-	(2,808)
Debtors	-	-	6,970
Deferred tax asset	-	-	522
Creditors: Amounts falling due within one year	-	-	(22,727)
Net assets	28,232	(1,559)	9,935
Provisional goodwill arising on acquisition			3,073
			13,008
Discharged by: consideration paid and acquisition costs			**13,008**

The fair value adjustments include £1,155,000 in respect of aligning depreciation and stock obsolescence policies. The remaining £404,000 relates to an impairment of the tangible fixed assets acquired.

13. TANGIBLE FIXED ASSETS

Group	Land and buildings Freehold £000	Land and buildings Investment properties £000	Land and buildings Short leasehold £000	Plant and machinery £000	Aircraft £000	Motor vehicles £000	Assets held for contract rental £000	Total £000
Cost or valuation:								
At 1st January, 2013	76,124	7,695	4,770	92,147	8,827	5,491	83,400	278,454
Additions	4,600	-	635	9,576	933	1,206	25,159	42,109
Additions on acquisition	935	-	45	1,297	-	-	-	2,277
Disposals	(232)	-	(1,164)	(1,367)	-	(882)	(19,000)	(22,645)
Revaluation	-	3,315	-	-	-	-	-	3,315
Transfers*	(984)	2,510	(1,466)	(60)	-	-	-	-
Exchange adjustment	-	-	-	(143)	-	-	-	(143)
At 31st December, 2013	80,443	13,520	2,820	101,450	9,760	5,815	89,559	303,367
Depreciation:								
At 1st January, 2013	31,725	-	1,696	76,248	2,467	4,014	30,045	146,195
Provided during the year	2,252	-	254	7,162	538	788	16,711	27,705
Impairment losses	-	-	-	122	1,442	-	-	1,564
Eliminated on disposals	(83)	-	(336)	(1,217)	-	(762)	(12,670)	(15,068)
Revaluations	-	(988)	-	-	-	-	-	(988)
Transfers*	(356)	988	(627)	(5)	-	-	-	-
Exchange adjustment	-	-	-	(97)	-	-	-	(97)
At 31st December, 2013	33,538	-	987	82,213	4,447	4,040	34,086	159,311
Net book value:								
At 31st December, 2013	**46,905**	**13,520**	**1,833**	**19,237**	**5,313**	**1,775**	**55,473**	**144,056**
Net book value:								
At 1st January, 2013	44,399	7,695	3,074	15,899	6,360	1,477	53,355	132,259

*Transfers above relate to a re-classification from owned assets to investment properties following the closure of two businesses and the re-letting of the premises to third party tenants.

Included within freehold land and buildings are costs of £1,097,000 (2012 - £76,000) which relate to costs incurred on a planning application submitted during the year.

Assets acquired to let under finance leases
The Group has purchased motor vehicles with an original cost of £143,000 (2012 - £363,000) 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. Certain of the Group's freehold investment properties were formally valued on an open market basis by Savills, Chartered Surveyors and Rapleys, Commercial Property and Planning Consultants as at 31st December, 2013 at £1,820,000 (2012 - £nil). In addition, the remaining investment properties were informally valued on an open market basis by the directors at £11,700,000 (2012 - £7,695,000). These properties were last formally valued on an open market basis by Bidwells, Chartered Surveyors as at 31st December 2009. A revaluation surplus of £4,303,000 (2012 - deficit £695,000) has been taken to the revaluation reserve. The historical cost of the investment properties included at valuation in freehold land and buildings is £8,967,000 (2012 - £6,457,000).

Company	Plant and machinery £000	Motor vehicles £000	Total £000
Cost:			
At 1st January, 2013	600	297	897
Additions	54	95	149
Disposals	-	(47)	(47)
At 31st December, 2013	654	345	999
Depreciation:			
At 1st January, 2013	431	220	651
Provided during the year	68	77	145
Eliminated on disposals	-	(47)	(47)
At 31st December, 2013	499	250	749
Net book value:			
At 31st December, 2013	**155**	**95**	**250**
Net book value:			
At 1st January, 2013	169	77	246

14. INVESTMENTS

Group	Listed on Alternative Investment Market* £000	Other investments £000	Total £000
Cost:			
At 1st January, 2013	1,184	981	2,165
Additions	-	616	616
Disposals	(22)	-	(22)
Mark to market	339	-	339
At 31st December, 2013	1,501	1,597	3,098
Provision:			
At 1st January, 2013	-	254	254
Provided during the year	-	110	110
At 31st December, 2013	-	364	364
Net book value:			
At 31st December, 2013	**1,501**	**1,233**	**2,734**
Net book value:			
At 1st January, 2013	1,184	727	1,911

Company	Subsidiary undertakings £000	Listed on Alternative Investment Market* £000	Other investments £000	Total £000
Cost:				
At 1st January, 2013	26,050	1,184	970	28,204
Additions	-	-	616	616
Disposals	-	(22)	-	(22)
Mark to market	-	339	-	339
31st December, 2013	26,050	1,501	1,586	29,137
Provision:				
At 1st January, 2013	10,000	-	254	10,254
Provided during the year	-	-	110	110
At 31st December, 2013	10,000	-	364	10,364
Net book value:				
At 31st December, 2013	**16,050**	**1,501**	**1,222**	**18,773**
Net book value:				
At 1st January, 2013	16,050	1,184	716	17,950

* The original cost of investments listed on the Alternative Investment Market is £103,710 (2012 - £185,000)

14. INVESTMENTS (continued)

The Company's direct investments in subsidiary undertakings at 31st December, 2013 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 Land Systems 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 Fleet Solutions 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 of Cambridge (Garage Properties) Limited
- * Marshall Leasing Limited
- * Marshall North West Limited
- * Tim Brinton Cars Limited
- * Marshall of Scunthorpe Limited
- * + Marshall Commercial Vehicles Limited
- ** Marshall of Ipswich Limited
- ** Marshall of Peterborough Limited
- ** Marshall of Stevenage Limited
- *** + Gates Contract Hire Limited
- * Silver Street Automotive Limited
- * + Marshall Commercial Vehicles Limited
- **** Exeter Trade Parts Specialist LLP
- **** + Audi South West Limited
- ***** + Hanjo Russell Limited

** Wholly owned by Marshall of Cambridge (Motor Holdings) Limited*
*** 99% owned by Marshall of Cambridge (Motor Holdings) Limited*
**** Wholly owned by Marshall Leasing Limited*
***** Wholly owned by Silver Street Automotive Limited*
****** Wholly owned by Audi South West Limited*
+ Dormant

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 and Tim Brinton Cars Limited (which are property holding companies). Marshall Commercial Vehicles Limited, Gates Contract Hire Limited, Audi South West Limited and Hanjo Russell Limited are dormant.

On 19th February 2013, Marshall of Cambridge Aerospace Limited acquired 100% of the share capital of FlairJet Limited for £192,000 and on 30th August 2013 acquired 100% of the share capital of Hawker Beechcraft Limited (renamed Marshall Aviation Services Limited) for £10,831,000. On 20th February 2013, Marshall of Cambridge (Motor Holdings) Limited acquired 100% of the share capital of Silver Street Automotive Limited for £1,985,000.

On 6th August 2013, Marshall Land Systems Limited was renamed Marshall Fleet Solutions Limited, Marshall Fleet Solutions Limited was renamed Marshall Tail Lift Limited, Marshall Specialist Vehicles Limited was renamed Marshall Land Systems Limited and LifTow Limited was renamed Marshall Specialist Vehicles Limited.

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

Marshall Vehicle Engineering Limited and Marshall SDG Limited are wholly owned subsidiaries of Marshall Land Systems 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. Marshall Specialist Vehicles 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
- ** Aeropeople GmbH
- ** + Aeropeople Srl
- * + Aeroacademy Limited
- * Slingsby Holdings Limited
- *** Slingsby Limited
- *** Slingsby Advanced Composites Limited
- *** Slingsby Aerospace Limited
- *** Slingsby Aviation Limited
- * Marshall Aerospace Canada, Inc.
- * Marshall Aerospace Netherlands B.V.
- * Marshall Aerospace Australia PTY Limited
- * + Marshall Aerospace U.S., Inc.
- * Flairjet Limited
- * Marshall Aviation Services Limited *(formerly Hawker Beechcraft Limited)*

** Wholly owned by Marshall of Cambridge Aerospace Limited*
*** Wholly owned by Aeropeople Limited*
**** Wholly owned by Slingsby Holdings Limited*
+ Dormant

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, marine and rail industries. Aeroacademy Limited is dormant.

All subsidiary undertakings, joint ventures and the LLP 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.

15. STOCKS

	Group 2013 £000	Group 2012 £000
Raw materials, components and consumables	**8,925**	7,725
Work in progress	**20,427**	16,425
Finished goods and goods for resale	**137,940**	112,965
	167,292	137,115

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, 2013, the Group held new vehicles on consignment from manufacturers with a value of £57,205,000 (2012 - £40,248,000) which are included within finished goods and goods for resale. Of these vehicles, stock of £26,761,000 (2012 - £11,076,000) has a right of return to the manufacturer, which is rarely executed, and £30,444,000 (2012 - £29,172,000) has been invoiced to the Group. No deposits have been paid for these vehicles, and the terms of consignment vary by manufacturer and are between 90 days and one year. The difference between purchase price and production cost of stocks and their replacement cost is not considered material by the directors.

16. DEBTORS

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Trade debtors	**78,488**	46,357	**5**	2
Amounts recoverable on long term contracts	**6,595**	3,681	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**55,604**	39,562
Finance lease debtors	**911**	1,001	**-**	-
Corporation tax receivable	**-**	148	**-**	-
Other taxes recoverable	**237**	101	**-**	-
Other debtors	**17,963**	21,238	**-**	-
Prepayments and accrued income	**6,486**	5,410	**332**	234
Deferred tax asset (see note 20)	**1,664**	-	**672**	428
	112,344	77,936	**56,613**	40,226

17. CREDITORS: Amounts falling due within one year

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Loans (see note 19)	**28,124**	21,129	**-**	-
Payments received on account	**16,100**	14,486	**-**	-
Trade creditors	**115,461**	93,617	**126**	115
Vehicle funding agreements	**24,097**	15,698	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**86,202**	73,526
Corporation tax payable	**2,902**	2,238	**118**	170
Other taxation and social security costs	**11,981**	10,856	**223**	280
Other creditors	**17,169**	14,567	**-**	-
Accruals and deferred income	**61,766**	47,206	**7,055**	5,813
	277,600	219,797	**93,724**	79,904

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

	Group 2013 £000	Group 2012 £000
Loans (see note 19)	**24,010**	20,973
Accruals and deferred income	**8,939**	8,486
	32,949	29,459

19. LOANS

	Group 2013 £000	Group 2012 £000
Amounts falling due:		
Within one year	**28,124**	21,129
Between one and two years	**14,612**	14,281
Between two and five years	**9,398**	6,692
	52,134	42,102
Less: included in creditors: amounts falling due within one year	**(28,124)**	(21,129)
Amounts falling due after more than one year	**24,010**	20,973
Analysis of changes in loan financing during the year:		
At 1st January	**42,102**	42,248
New loans	**34,061**	20,688
Loans repaid	**(24,029)**	(20,834)
At 31st December	**52,134**	42,102

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

20. PROVISION FOR LIABILITIES

	Group 2013 £000	Group 2012 £000
Warranty	**1,278**	1,515
Onerous lease and dilapidations	**2,006**	1,445
	3,284	2,960
Deferred tax	**-**	712
	3,284	3,672

	Warranty £000	Onerous lease and dilapidations £000	Group Total £000
(a) Warranty and onerous lease and dilapidations			
At 1st January, 2013	1,515	1,445	2,960
Arising during the year	507	1,017	1,524
Amounts utilised	(390)	-	(390)
Amounts reversed	(354)	(456)	(810)
At 31st December, 2013	**1,278**	**2,006**	**3,284**

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 were in production until June 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 12 months.

20. PROVISION FOR LIABILITIES (continued)

(b) Deferred tax

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

	Group		Company	
	2013	2012	**2013**	
	£000	£000	**£000**	2012
				£000
Accelerated capital allowances	**181**	1,826	**(31)**	
Other short term timing differences	**(1,845)**	(1,114)	**(641)**	(27)
	(1,664)	712	**(672)**	(401)
				(428)

The movement in the deferred tax (asset) / liability during the year is as follows:	Group	Company
	£000	**£000**
At 1st January, 2013	712	(428)
(Credit) / charge to the profit and loss account for the year	(1,569)	41
Acquisitions during year	(522)	-
Adjustment for deferred tax on pension liability	(285)	(285)
At 31st December, 2013	**(1,664)**	**(672)**

		Group
The deferred tax (credit) / charge in the profit and loss account for the year is made up as follows:	**2013**	2012
	£000	£000
Origination and reversal of timing differences	**(1,326)**	85
Tax rate change	**11**	24
Adjustments in respect of prior years	**(254)**	320
	(1,569)	429

		Group
The deferred tax liability not provided is made up as follows:	**2013**	2012
	£000	£000
Trading losses	**(689)**	-
Capital gains rolled over	**4,404**	4,670
Capital losses	**(112)**	(96)
Revaluation reserve	**1,126**	271
	4,729	4,845

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

Notes to the Financial Statements
at 31st December, 2013

21. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid			
	2013	2012	**2013**	2012	**2013**	2012
	£000	£000	**No. '000**	No. '000	**£000**	£000
Ordinary shares of 12.5p each	**1,955**	1,955	**15,039**	15,068	**1,880**	1,884
Non-voting priority dividend ordinary shares of 12.5p each	**7,645**	7,645	**43,621**	43,592	**5,453**	5,449
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 2013, a total of 29,000 Ordinary shares were converted into NVPO shares.

22. 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, 2013	15,733	1,238	130	142,361	159,462
Profit for the year after minority interests	-	-	-	12,913	12,913
Dividends payable	-	-	-	(3,083)	(3,083)
Surplus on revaluation of investment properties	-	4,303	-	-	4,303
Actuarial loss net of tax	-	-	-	(619)	(619)
Net exchange losses on retranslation of overseas subsidiary undertakings	-	-	-	(679)	(679)
At 31st December, 2013	**15,733**	**5,541**	**130**	**150,893**	**172,297**

*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, 2013	15,733	130	6,496	22,359
Profit for the year	-	-	3,508	3,508
Dividends payable	-	-	(3,083)	(3,083)
Actuarial loss net of tax	-	-	(619)	(619)
At 31st December, 2013	**15,733**	**130**	**6,302**	**22,165**

23. RECONCILIATION OF SHAREHOLDERS' FUNDS

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Profit on ordinary activities after taxation	**12,910**	7,920	**3,508**	3,106
Minority interests	**3**	5	**-**	-
Dividends	**(3,083)**	(2,642)	**(3,083)**	(2,642)
	9,830	5,283	**425**	464
Revaluation of investment properties	**4,303**	(695)	**-**	-
Actuarial loss net of tax	**(619)**	(256)	**(619)**	(256)
Net exchange losses on retranslation of overseas subsidiary undertakings	**(679)**	(166)	**-**	-
Net increase / (decrease) in shareholders' funds	**12,835**	4,166	**(194)**	208
Shareholders' funds at 1st January	**159,462**	155,296	**22,359**	22,151
Shareholders' funds at 31st December	**172,297**	159,462	**22,165**	22,359

24. MINORITY INTERESTS

	£000
At 1st January, 2013	42
Minority interests loss on ordinary activities after taxation	(3)
At 31st December 2013	**39**

25. CONTINGENT LIABILITIES

Guarantees to third parties, granted by subsidiary undertakings, amounted to £930,000 (2012 - £800,000). At 31st December 2013, Marshall of Cambridge (Motor Holdings) Limited guaranteed the amounts owing by a subsidiary undertaking, Marshall Leasing, to Barclays Mercantile to the amount of £31,232,000 (2012 £31,959,000) and to Santander for £14,403,000 (2012 - £10,143,000). Performance guarantees granted by subsidiary undertakings amounted to £8,205,000 (2012 - £6,877,000).

26. CAPITAL COMMITMENTS

	Group	
	2013	2012
	£000	£000
Authorised by the Board and contracted but not provided for	**3,883**	1,012

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

27. 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	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Operating leases which expire:				
- within 1 year	**631**	360	**576**	66
- in 1 to 5 years	**1,729**	1,468	**226**	466
- over 5 years	**4,328**	3,066	**22**	-
	6,688	4,894	**824**	532

28. 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:

	2013	2012
	£000	£000
Forward contracts for the purchase of foreign currency	**(2)**	2
Forward contracts for the sale of foreign currency	**487**	104

29. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	2013	2012
	£000	£000
(a) Group staff costs		
Wages and salaries	**152,403**	134,750
Social security costs	**16,058**	14,462
Other pension costs (see note 31b)	**4,772**	3,610
	173,233	152,822

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

	2013	2012
The average monthly number of employees of the Group during the year was:	**No.**	No.
Aerospace and defence	**2,193**	1,973
Motor retail and leasing	**2,025**	1,838
Property and head office	**31**	31
Fleet solutions	**249**	244
	4,498	4,086

The total number of employees of the Group at 31st December 2013 was 4,533 (2012 - 4,188)

	£000	£000
(b) Directors' remuneration		
Emoluments	**4,130**	3,818
Compensation for loss of office	**-**	300
Long term incentive payments	**549**	406
Company contributions to defined benefit pension scheme	**25**	29
Company contributions to defined contribution pension scheme	**65**	105
	4,769	4,658

The number of full time equivalent directors who were remunerated during the year was 6 (2012 - 7)

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

	£000	£000
Remuneration of highest paid director:		
Emoluments	**771**	673
Long term incentive payments	**130**	164
Company contributions to defined benefit pension scheme	**25**	29
	926	866

30. 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) subsidiary undertakings at the end of the year		Amounts recharged by other subsidiary undertakings during the year	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Marshall of Stevenage Limited	**3,939**	2,474	**263**	255
Marshall of Ipswich Limited	**633**	1,095	**455**	523
Marshall of Peterborough Limited	**1,091**	993	**385**	356

31. 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 £4,158,000 (2012 - £2,977,000). A further £203,000 (2012 - £227,000) was paid into defined contribution schemes overseas. The total defined benefit cost for the Group in respect of the Plan was £59,000 (2012 - £215,000) under FRS 17 of which £411,000 (2012 - £406,000) has been charged against operating profit and £352,000 has been credited (2012 - £191,000) 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 agreed that the Company would 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, 2013. The assets and liabilities shown exclude those relating to defined contribution pensions.

i) The major financial assumptions used by the actuary were:	2013 %	2012 %
Discount rate	**4.50**	4.32
Salary increase rate	**3.74**	2.98
Rate of revaluation in deferment	**2.13**	1.57
Pension increase rate:		
- price inflation, capped at 5.0%	**3.33**	2.37
- as above but for those pensions subject to 3.0% floor	**3.35**	3.32
- as above but for those pensions subject to 2.7% floor	**3.35**	3.32
Expected return on assets	**7.00**	6.70
Retail price inflation rate	**3.33**	2.37
Consumer price inflation rate	**2.13**	1.57

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 2012.

ii) Analysis of the amount charged against profits:	2013 £000	2012 £000
Finance income		
Expected return on pension scheme assets	**1,964**	1,858
Interest on pension scheme liabilities	**(1,612)**	(1,667)
Net credit to finance income	**352**	191
Operating profit		
Current service cost	**(411)**	(406)
Total charge	**(59)**	(215)

iii) The amount included in the balance sheet and the expected long-term rate of return were:	Rate of return %	2013 £000	Rate of return %	2012 £000
Equities	**8.05**	**13,742**	7.92	11,731
Dynamic asset allocation	**7.30**	**5,889**	7.52	5,460
Property	**6.80**	**5,713**	6.67	5,210
Liability driven investments	**3.66**	**4,478**	4.09	4,685
Cash	**0.50**	**-**	0.50	184
Total market value of assets		**29,822**		27,270
Present value of insured annuity policies		**2,184**		2,232
Fair value of assets	**7.01**	**32,006**	6.70	29,502
Present value of scheme liabilities		**(39,962)**		(37,656)
Deficit in the scheme as at 31 December		**(7,956)**		(8,154)
Related deferred tax asset		**1,591**		1,876
Net pension liability		**(6,365)**		(6,278)

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.

31. PENSIONS AND OTHER RETIREMENT BENEFIT COSTS (continued)

iv) The movement in the fair value of the assets in the scheme is as follows:	2013 £000	2012 £000
Fair value at 1st January	**29,502**	27,093
Expected return on assets	**1,964**	1,858
Actuarial gain	**986**	958
Employers' contributions	**1,063**	915
Contributions by scheme participants	**25**	75
Benefits paid	**(1,534)**	(1,397)
Fair value at 31st December	**32,006**	29,502

v) The movement in the present value of the liabilities in the scheme is as follows:	2013 £000	2012 £000
Present value at 1st January	**37,656**	35,608
Current service cost	**411**	406
Interest cost	**1,612**	1,667
Actuarial loss	**1,792**	1,297
Contributions by scheme participants	**25**	75
Benefits paid	**(1,534)**	(1,397)
Present value at 31st December	**39,962**	37,656

vi) Analysis of the amount recognised in the statement of total recognised gains and losses	2013 £000	2012 £000
Actuarial gain on scheme assets	**986**	958
Actuarial loss on scheme liabilities	**(1,792)**	(1,297)
Actuarial loss	**(806)**	(339)
Current tax credit thereon	**187**	83
Actuarial loss net of tax recognised in the statement of total recognised gains and losses	**(619)**	(256)

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 £16,184,000 (2012 - £15,378,000).

vii) The movement in the deficit is as follows:	2013 £000	2012 £000
Deficit in the scheme at 1st January	**(8,154)**	(8,515)
Current service cost	**(411)**	(406)
Employers' contributions	**1,063**	915
Finance income	**352**	191
Actuarial loss	**(806)**	(339)
Deficit in the scheme at 31st December	**(7,956)**	(8,154)

viii) The five year history of experience adjustments is as follows:	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Experience adjustments on scheme assets	**986**	958	(1,805)	1,778	2,025
Experience adjustments on scheme liabilities	**(2,257)**	102	911	598	135
Changes in assumptions	**465**	(1,399)	(5,355)	(695)	(3,980)
Total amount recognised in the statement of total recognised gains and losses	**(806)**	(339)	(6,249)	1,681	(1,820)
Fair value of scheme assets	**32,006**	29,502	27,093	27,326	23,959
Present value of scheme liabilities	**(39,962)**	(37,656)	(35,608)	(30,307)	(29,188)
Deficit in the scheme	**(7,956)**	(8,154)	(8,515)	(2,981)	(5,229)

Independent Auditor's Report

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 2013 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 31. 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 35, 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 2013 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 Strategic Report and 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.

Ernst & Young LLP

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

29th April, 2014

Recent Financial History

	2009 £000	2010 £000	2011 £000	2012 £000	**2013 £000**
Turnover	765,802	883,974	1,002,747	1,126,374	**1,292,522**
Operating profit before exceptional items	15,029	5,204	9,366	16,631	**24,177**
Impairment charges	-	-	-	(680)	**(1,564)**
Restructuring costs	-	-	-	(1,718)	**(3,124)**
Operating profit	15,029	5,204	9,366	14,233	**19,489**
Profit on disposal of tangible fixed assets	801	1,128	622	-	**216**
Net interest / investment income and amounts provided against investments	(724)	(1,135)	(1,462)	(2,115)	**(1,600)**
Profit before tax	15,106	5,197	8,526	12,118	**18,105**
Taxation	(3,165)	(1,903)	(1,843)	(4,198)	**(5,195)**
Minority interests	-	(7)	12	5	**3**
Profit for the financial year	11,941	3,287	6,695	7,925	**12,913**
Dividends charged	(7,417)	(2,494)	(2,494)	(2,642)	**(3,083)**
Retained profit	4,524	793	4,201	5,283	**9,830**
Dividends per Ordinary share paid and proposed for the year	1.5p	1.5p	1.75p	2.25p	**3.00p**
Special and Centennial dividends per Ordinary share	3.125p	-	-	-	**-**
Dividends per NVPO share paid and proposed for the year	3.5p	3.5p	3.75p	4.25p	**5.00p**
Dividend cover for Ordinary and NVPO shares (excluding special dividends)	6.4	1.5	3.1	3.3	**4.6**
Basic earnings per share	17.8p	4.3p	10.1p	12.2p	**20.7p**
Underlying earnings per share	18.1p	5.1p	11.8p	19.9p	**31.3p**
Return on capital employed	9.9%	3.4%	6.0%	9.0%	**11.7%**
Cash balance at year end	20,796	48,730	24,905	58,796	**54,676**
Cash (utilised) / generated	(4,458)	27,934	(23,825)	33,891	**(4,120)**
Capital expenditure, acquisitions and investment (net)	22,632	33,049	30,788	31,317	**49,366**
Closing no. of staff	4,119	4,245	4,075	4,188	**4,533**
Fixed assets	138,567	143,601	146,104	144,863	**158,222**
Net current assets	44,324	42,178	49,385	54,050	**56,712**
Creditors over one year, provisions, pension liability and minority interests	(28,362)	(29,827)	(40,193)	(39,451)	**(42,637)**
Shareholders' funds	154,529	155,952	155,296	159,462	**172,297**

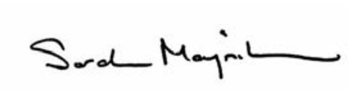
Notice of the Twenty Eighth Annual General Meeting

Notice is hereby given that the Twenty Eighth Annual General Meeting of Marshall of Cambridge (Holdings) Limited (the Company) will be held at 11.00 am on Wednesday 4th June, 2014 at The Airport, Cambridge, CB5 8RY 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 2013.
5. To declare a final dividend of 2.25p per Ordinary share and NVPO share amounting to £1,319,850 to be paid on Friday 27th June, 2014 to those shareholders on the register of members as at 4th June, 2014. The Company paid an interim dividend on 20th December 2013, of 0.75p per Ordinary share and 2.75p per NVPO share, amounting to a total of £1,312,367, which, together with the proposed final dividend, brings the total dividend in respect of the year to £2,632,217.
6. To re-elect J.D. Barker, who retiring by rotation as director and, being eligible, is offering himself for re-election as director.
7. To re-elect W.C.M. Dastur, who retiring by rotation as director and, being eligible, is offering himself for re-election as director.
8. To re-elect P.J. Harvey, who retiring by rotation as director and, being eligible, is offering himself for re-election as director.
9. To re-elect A.J.F. Buxton, who retiring on first appointment, and, being eligible, is offering himself for re-election.
10. To re-elect P.W. Johnson, who retiring on first appointment, and, being eligible, is offering himself for re-election.
11. 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.
12. To propose the date of the next Annual General Meeting as Wednesday 3rd June, 2015.
13. 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 29th April, 2014
by Order of the Board

Registration Number 2051460   Registered Office: Airport House, Newmarket Road, Cambridge, CB5 8RY, England

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 27th June 2014
Interim Ordinary and NVPO shares 19th December 2014
A and B preference shares 15th October 2014
A and B preference shares 15th April 2015

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 2014	-	-	4.00p	5.00p
Year ending 31st December 2014	-	-	4.00p	5.00p
Payment date:				
20th December 2013	0.75p	2.75p	-	-
15th October 2013	-	-	4.00p	5.00p
28th June 2013	1.75p	1.75p	-	-
15th April 2013	-	-	4.00p	5.00p
Year ended 31st December 2013	2.50p	4.50p	8.00p	10.00p
Payment date:				
21st December 2012	0.50p	2.50p	-	-
15th October 2012	-	-	4.00p	5.00p
29th June 2012	1.25p	1.25p	-	-
13th April 2012	-	-	4.00p	5.00p
Year ended 31st December 2012	1.75p	3.75p	8.00p	10.00p

Key Group Personnel

MARSHALL GROUP OF COMPANIES

Sir Michael Marshall	Chairman
R D Marshall	Group Chief Executive
W C M Dastur	Group Financial Director
S J Moynihan	Group Company Secretary
C M H Walkinshaw	Group Corporate Communications Director
F Laud	Group Financial Controller & Financial Director - Marshall Motor Holdings
K A Davies	Group Internal Audit Manager
T M Holloway	Group Support Executive

MARSHALL AEROSPACE AND DEFENCE GROUP

S J Fitz-Gerald	Chief Executive
G J Clark	Financial Director
I W Atkinson	Commercial Director
N J B Baldwin	Human Resources Director
C A Hughes	Strategy & Business Development Director
N M Jennion	Infrastructure & Compliance Director
M A Johnston	Core Engineering Director
K J Bishop	Managing Director - Aeropeople
R D Cutting	Managing Director - Land Systems
S K Jones	Managing Director - Aviation Services
B Phillipson	Managing Director - Engineering Solutions
N C Whitney	Managing Director - Support Solutions

MARSHALL MOTOR HOLDINGS

D Gupta	Chief Executive
M S Wastie	Financial Director - Marshall Motor Group
H A Burrows	Human Resources Director
C M Sheppard	Commercial Director
D Waghorn	Franchise Director
A S Wallington	Franchise Director
P A Atkinson	Brand Director
A Beaumont	Brand Director
N J Hunton	Brand Director
S L Jay	Brand Director
T W Phillips	Brand Director
P G Cakebread	Managing Director - Marshall Leasing
J A Ross	Sales & Marketing Director - Marshall Leasing
P Targett	Customer Services Director - Marshall Leasing

MARSHALL AIRPORT PROPERTIES

J D Barker	Managing Director
E L Fletcher	Property Director

OTHER KEY PERSONNEL

G A Ralph	Managing Director - Marshall Fleet Solutions
D R Cattermole	Human Resources Director - Pensions & Benefits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