Marshall of Cambridge (Holdings) Ltd

Annual Report & Accounts 2016

People are at the heart of our success.

Every January the Group holds the MAVTAs (Marshall Achievement Values and Teamwork Awards) at King's College, Cambridge.
We recognise colleagues from across the Group who have demonstrated their commitment to living our company values.

2016 Headlines

- Revenue up 43% to £2.26bn
- Operating loss before tax of £4.5m
- Loss provision of £26m against our largest and most complex engineering project
- Dividends to Ordinary and NVPO shareholders maintained at 4.0p and 6.0p per share respectively
- Increased NVPO share price
- Marshall Motor Holdings plc acquires Ridgeway for £109m
- Marshall Aerospace and Defence Group receives Queen's Award for Enterprise: International Trade
- Completion of Section 106 agreement and subsequent grant of planning permission on Wing
- Marshall Aerospace and Defence Group celebrates 50 years supporting the Royal Air Force's fleet of Hercules C-130s
- Sir Michael Marshall confirmed as President from 1st October 2016 and Alex Dorrian CBE appointed as Chairman

Organisational Structure

Marshall

Marshall Aerospace and Defence Group

Military Aerospace
Civil Aerospace
Aviation Services
Land Systems
Advanced Composites
Aerostructures
Major Projects

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

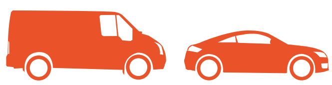
Marshall Group Properties

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

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

Marshall Group Finance

Marshall Motor Holdings plc
Marshall Fleet Solutions
Martlet and Marquity



As an operating entity within the company, Marshall Group Finance (MGF) aims to be profit and cash generative, through the active management of its assets and investments. Under the new structure, MGF will control the treasury functions for the Group.

Contents

Alex Dorrian CBE
Chairman

I was honoured to be invited by the Board to succeed Sir Michael Marshall as Chairman on 1st October. Marshall is a very special business, uniquely placed with a broad range of diverse but complementary business interests and Sir Michael has strengthened the Company greatly during his remarkable career. We all wish him well in his new role as President.

Chairman's Statement

In my first report we have some significant disappointments to highlight, but I am pleased that we have also had some substantial successes across the Group. Our turnover is up 43% to £2.3bn; however we are reporting a loss before taxation of £9.8m driven by a significant loss provision of £25.9m against our largest and most complex engineering project and combined losses of £13.4m in two of our Aerospace and Defence businesses. These challenges have been painful to address and we have taken some difficult decisions to strengthen the business for the future. In particular, we enhanced our core management in the Aerospace & Defence business, restructured the Group Board substantially, and embarked on a programme to simplify and focus our portfolio of businesses starting with the successful divestment of FlairJet.

The key achievements in the year include:

- The transformational acquisition in May by Marshall Motor Holdings plc (MMH) of the Ridgeway Group which has seen MMH move up the rankings to be the seventh largest dealer group in the country. This strategic acquisition by MMH has enriched the portfolio and extended its reach across the affluent central southern counties of the UK.

- The formal award of outline planning permission for our Wing development on the land we own to the north of Newmarket Road in Cambridge was given in November 2016. Our dynamic property team are to be commended for the speed with which they were able to conclude the complex legal negotiations on our planning obligations and financial contributions to local infrastructure and education, commonly referred to as S106 obligations (S106 of the Town & Country Planning Act 1990). This will deliver 1,300 new homes which are much needed in the Cambridge area, together with a primary school and other community and business facilities.

- The award of a second Queen's Award for Marshall Aerospace and Defence Group, this time for International Trade, reflecting the progressive growth of our overseas business activities over the last three years.

- Marshall Aerospace and Defence Group's celebration of fifty years in support of the Royal Air Force's fleet of Lockheed Martin Hercules C-130 aircraft.

We continue to develop and support our people and I am pleased to report further progress on key talent development programmes, including the next phase of our Leadership Development Programme and the bolstering of the leadership of our Human Resources team.

We have been delighted to welcome three new directors to the Board. In the summer, Sean Cummins joined the Company as Chief Financial Officer, bringing a wealth of external experience. In the autumn, we were joined by Philip Yea, who is Chairman of Greene King plc and a non-executive director of Vodafone Group plc among other appointments, and whose in-depth knowledge of private equity and finance should stand us in good stead. Julie Baddeley joined us in December and was appointed our Senior Independent Director. She is one of the most experienced directors in the UK and is Chairman of the recruitment consultants Harvey Nash, as well as a non-executive director on a number of other boards.

We have seen strong growth in the value of our NVPO shares, which are openly traded, from 290p at the start of the year to 365p at the end of the year. Despite having to deal with the challenges of 2016, our focus remains firmly on our ambitious five year business plan as we look to optimise and balance our three core businesses in terms of earnings, asset strength and risk. In anticipation of the trading performance in the current year returning to levels achieved in 2015 I am pleased to report that, subject to shareholder approval, the Company will be paying a final dividend of 3.0p per Ordinary and NVPO share. This will take the total for the year to 4.0p per Ordinary share and 6.0p per NVPO share, being the same as last year, with no repeat of the one-off special dividend paid to mark the flotation of MMH.

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

Alex Dorrian CBE

Sir Michael Marshall becomes President

After 56 years as a director, including 27 years as Chairman, Sir Michael Marshall stood down from the Board on 1st October 2016, taking up the new position of President, still actively supporting and promoting the Company in local and national arenas. Having joined the Company in 1955, he was appointed a Director in 1960 before taking up the role of Managing Director of the retail motor business in 1963 and then Deputy Chairman of the Group in 1965, succeeding his father in 1990 to become Chairman.


Love


FIRE

Robert Marshall
Group Chief Executive

The headline financial performance reported here is clearly not one that I would have wished for and with this disappointment has come the need to address the root causes. When viewed in the overall context of our 5 year strategic aim, however, we can demonstrate an upward trajectory of earnings and continuation of value creation over the previous five years.

Group Strategic Report

Group Chief Executive's Statement

During the year we have addressed three specific issues, which resulted from decisions made more than three years ago and which have each had a profound negative impact on our overall Group outturn in 2016. These are:

- A major failure of our project processes on our most challenging discrete engineering programme resulting in a best estimate loss provision of £26m. As a result, we have changed the project management team and our approach to project processes throughout the company. Successful on-time delivery to our customers is critical to our core values and we will continue our programme of improvements throughout the coming year.

- In 2013, we acquired Hawker Beechcraft Ltd at Broughton. This acquisition has not been successful and necessitated a write down of assets in 2015. Subsequently, trading conditions have deteriorated further and we have suffered worsening trading losses in 2016. The action taken has been to downsize the business, further strengthen the management team, and to overhaul completely MADG's approach to acquisitions (initiated in 2015 and completed in 2016). Following an unsuccessful sale process we will announce a consultation process about the closure of the operation.

- In recent years, under-investment in the development of a strong pipeline of potential contracts in Advanced Composites meant that we started the year with an inadequate level of order coverage, which became more acute as the year progressed. Our direct action was to integrate the unit within our core operations in Cambridge. As a result, the order book increased significantly over the latter part of the year and our execution, as well as delivery, has improved.

These three failures have pointed to some challenges in the management of Marshall Aerospace and Defence Group, which have been addressed, and also in the way Group manages, monitors and influences practices in its wholly owned subsidiaries. I have therefore instigated a more structured interaction with the management of these companies.

Set against these challenges, however, there were many key positive achievements made this year:

- **Marshall Group Properties** has secured planning consent for our 1,300 home Wing development in Cambridge, within the timescales articulated in last year's report. We are now in negotiation with a development partner and expect to commence development in 2019 and selling properties in 2020. This is a major value-adding opportunity which we intend repeating and have started to work to gain planning permission over the next two years on some of our land north of Cherry Hinton for a further 700 houses.

- As a precursor to the initiation of housing development, significant progress has been achieved on the planning application for a new engine running enclosure, master planning for the South Works and proposals for the relocation of the North Works.

- Our **Marshall Group Finance** business has had a good year overall. I would highlight:

- Marshall Motor Holdings plc (MMH), in which we hold a 65% share, has had an excellent year, adding a further £1bn to its annual sales turnover through the very successful acquisition of Ridgeway, a dealer group based in the central south of England. They acquired this company without recourse to raising additional shareholder capital but instead used the bank facilities which had become available following flotation of the business on AIM in 2015. During the year, MMH has also continued to upgrade its property portfolio in accordance with the manufacturers' standards across many of its sites, especially for Jaguar Land Rover and Audi, and they are now a third of the way through this £75m upgrade programme. With only 7 months' benefit from Ridgeway in the year, the operating profit for MMH plc is up 57.6%.

Marshall of Cambridge - Growth Strategy

- Ambition to grow the Profit Before Tax of the business beyond £60m by 2021
- Which, if achieved, will build the value of each of the 3 legs to over £200m in that time, thereby balancing the Risk and Assets of the Group
- Build the skill base and management strength to take the Company beyond this ambition

Marshall Aerospace and Defence Group

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

Expand international reach in alliance with our strategic partners

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

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

Grow underlying asset value

Marshall Group Properties

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

Develop land projects in partnership with experienced and trusted development partners

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

Maximise value of unsold land and our overall property legacy

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

Marshall Group Finance

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

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

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

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

Change the Gear, Hold the Values

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

One Company

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

Consistency in Performance

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

Pride in our Values and making them work

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

Group Strategic Report

Group Chief Executive's Statement

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

- Our Martlet and Marquity investment portfolio has grown to 32 companies. We have benefitted from the successful exit of two investments, realising £0.6m cash from our £0.2m investment, with additional receipts possible in the future. The growth of our portfolio of investments in, primarily, Cambridge-based technology companies, is a year ahead of our 5 year plan to build a self-sustaining portfolio with net cash generation whilst annually increasing the asset value.

- Marshall Fleet Solutions, however, had a difficult 2016. The downgrade in the value of Sterling following the EU Referendum had an adverse effect on refrigeration unit sales volumes and margins. This, along with the associated impact on productivity of installation engineers, resulted in a trading loss for the year. A series of initiatives have been implemented to resolve these issues, meaning that an improved result is expected for 2017.

- In **Marshall Aerospace and Defence Group** (MADG), there were a number of standout results: our C-130 business has been exceptionally busy and delivered a great result, building on our continued focus on our customers' requirements and our relationship with Lockheed Martin. With respect to the latter, on 19th December 2016 we celebrated the 50th anniversary of the first delivery of the Lockheed Martin C-130 to the UK Royal Air Force.

- Additionally, our Land Systems business continued to flourish and outperformed expectations, as did Aeropeople and our Aerostructures operation, which predominantly provides long-range fuel tanks for the Boeing P8 Poseidon maritime patrol aircraft.

- Progress in these businesses is ahead of the 5-year business plan which has been reviewed and updated in 2016.

Our strategy is well articulated on the previous page but I would like to make special reference to the work we have been doing in MADG to build on the opportunities afforded to us by the quinquennial Strategic Defence and Security Review (SDSR) published at the end of 2015.

The review confirmed the extension of the out-of-service date of the RAF C-130J fleet from 2022 to 2035 for 14 of the 24 aircraft, with the remainder of the fleet still intended to retire by 2020 via a phased approach.

Our partnerships with the UK and other defence ministries, coupled with those with Lockheed Martin and the Boeing Aircraft Company, have been strengthened during the year and we look forward to supporting all of them fully in the year ahead, including Boeing for the UK's procurement of P8 maritime patrol aircraft.

Our people agenda remains an extremely important part of our strategy and there was progress in our annual employee engagement survey across most parts of the business in the year. Our flagship Leadership Development Programme (LDP) continues with the launch of LDP3 which follows on from the very successful LDP1 and LDP2 programmes which we have been running over the last 5 years.

A couple of years ago, we signalled that the Group would require investment capital to fulfil our strategic aspirations and to invest in upgrading our infrastructure and buildings at Cambridge to make it fit for the 21st century, in addition to our £20m runway and taxiway upgrades in 2015. On the airport, we need to invest in building a modern engine running bay and to upgrade some of our electronic navigational aids. As planned, the Group moved from the position of being a net holder of cash to being moderately indebted during 2016, with both the Core Group (Marshall of Cambridge (Holdings) Ltd, excluding MMH) and MMH securing financial facilities with a consortium of banks.

Looking ahead to 2017, the executive team is committed to building on the underlying profitability of the Group across all sectors and to demonstrate clearly that we are still on track to deliver against our very ambitious 5-year strategic aims through continuous development of our people and constant vigilance on satisfying our customers' needs.

Finally, I would just like to add my personal thanks to my father, Sir Michael Marshall, for all that he has done for the Group during his 56 years as a director, including 27 as Chairman. He has handed the business over with far stronger prospects than it had when he took full responsibility in 1990 and we intend to continue to build upon his great achievements.

Robert Marshall

Putting our customers above all else.

Group Strategic Report

Marshall Aerospace and Defence Group (MADG)

Financial Performance

During 2016, specific challenges in certain market sectors have resulted in an operating loss of £27.3m for the year.

The overall loss was driven by one-off losses in respect of a key aircraft modification programme of £25.9m; continuing difficult trading conditions in our Aviation Services division, which reported a loss of £9.3m (2015 - loss of £9.9m) for the year; and operating losses in our Advanced Composites business (£4.1m) linked primarily to delayed order capture on key marine and missile programmes which have since been secured, which bodes well for a strong improvement in 2017. In addition, whilst we made significant progress in securing work with a number of key customers in our Civil Aerospace aircraft business, growing revenues to £5.8m (2015 - £1.5m), activity levels were beneath target overall and resulted in an under-recovery of costs within the division.

Our Military Aerospace business, however, continued to perform strongly, delivering operating profits which exceeded target by 16.8% as a result of increased workloads in support of our international C-130 customers, whilst our Aerostructures business delivered significant profit growth when compared with 2015, due to a number of operating efficiencies and foreign exchange gains following the weakening of Sterling against the US Dollar. Our Land Systems division, despite the impact of delays in certain key orders planned for the year, delivered an operating profit 4.1% ahead of its target, representing a return on sales of 8.9%.

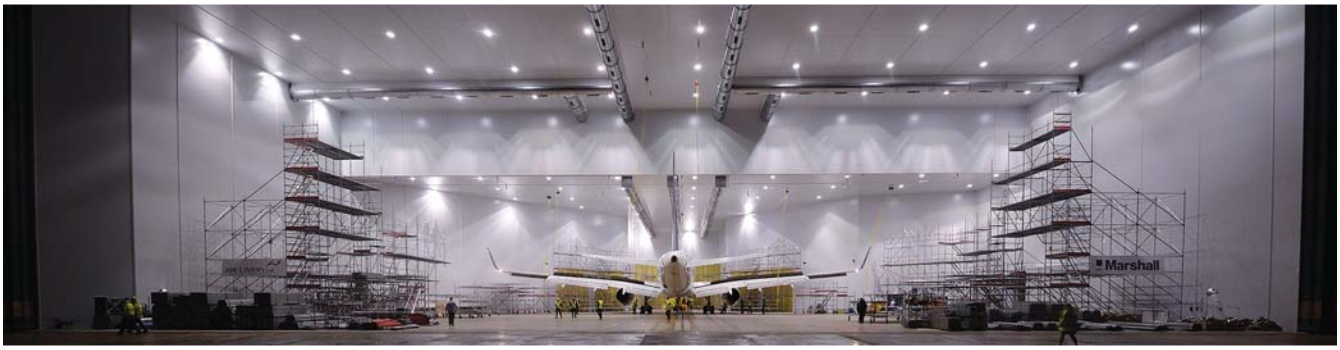
As a result of our operating losses, net assets within MADG reduced to £38.1m (2015 - £67.3m), but a strong focus on improving working capital disciplines across our businesses helped to reduce the impact on our cash reserves. We remain, therefore, well placed to support future investment and capitalise on growth opportunities in 2017 and beyond.

Business Environment

Defence budgets in the United States, United Kingdom, Netherlands, France, the Middle East, and other nations are increasing at a time when national security threats are being heightened. Consequently, gentle growth in defence expenditure is expected to return in 2017 as governments across the world equip their armed forces with modern defence platforms and next-generation technologies, including cyber, intelligence gathering and defence electronics. In the UK, the Strategic Defence and Security Review (SDSR) completed in November 2015 has presented the company with a number of opportunities and we are now working to capture some of these and grow our Military Aerospace business. Our Land Systems business has also experienced a good year and awaits the outcome of a number of significant bids to continue this growth through 2017 and beyond. Following significant investment in equipment processes and facilities, our Advanced Composites business has won significant new orders in late 2016 and expects to build on this in the current year.

In parallel, the commercial aerospace subsector is expected to continue its decade-long trend of above-average growth rates, driven by growth in passenger travel demand and an accelerated equipment replacement cycle. The continued growth in global air passenger traffic means that the outlook in the civil aerospace market remains, in the medium term, positive. Strong annual increases in global revenue passenger kilometres are leading to an unprecedented level of aircraft production rates, which in 2015 were about twice the levels experienced 10 years ago, with government sources citing that the UK industry has “strong foundations” to grow. We continue to provide support to this market via our Aerostructures, Aeropeople and Civil Aerospace businesses and, following the commissioning of a new aircraft paint facility, we are seeing an increasing number of narrow and wide-body civil aircraft in Hangar 17.

Excluding the HIOS contract, our order intake for 2016 was £171m, representing a book to bill ratio of 1.12 (2015 - 1.12), and the pipeline remains strong. Notwithstanding this, we have continuously improved order intake every year for the last five years, and we commence 2017 with the highest revenue order cover for many years across all the business units. As such, whilst our financial performance in 2016 has failed to meet expectations, we have generated long-term value for the business via the strengthening of our order book and further developing our operational capabilities in support of our ambitious growth plans.



Maintaining competitive edge through innovation and creativity.

THE QUEEN'S AWARDS FOR ENTERPRISE
INNOVATION
2013

THE QUEEN'S AWARDS FOR ENTERPRISE:
INTERNATIONAL TRADE
2016

Group Strategic Report

Marshall Aerospace and Defence Group (MADG)

Strategy

The key objectives underpinning our strategy are set out within the diagram below:

During the course of 2016 we have made good progress simplifying our business, by successfully completing the sale of our Flairjet business and also implementing a series of restructuring actions elsewhere within our Aviation Services division. We continue to seek ways to reduce our exposure to the challenging and difficult market conditions in the business aviation sector.

We have continued to build on the positive opportunities presented in the 2015 SDSR and have successfully progressed and strengthened our strategic relationships with key OEM partners such as Lockheed Martin, Boeing Defence, Airbus and Bombardier on a number of programmes.

Internally, we have launched and successfully embedded our “Safety Matters” programme, which is designed to create and sustain a best in class safety culture which protects our employees and customers to the highest possible standards. As a result, we have already seen a significant 12% reduction in safety incidents in 2016.

We have continued to invest in strengthening our management teams and processes across the business, particularly in our operations and engineering functions, as part of our commitment to delivering operational excellence. In the fourth quarter of 2016 we launched a dedicated internal programme, with the support of PA Consulting, to challenge and reduce our operating cost base, introducing a cost-efficient culture within our support functions.

In terms of investing in our capability, despite the disappointing financial results in the year, we continued to commit significant investment in developing our key businesses, completing the renovation of our dedicated composite manufacturing facilities in Kirkbymoorside, Yorkshire, and making significant progress in terms of the implementation of a new product lifecycle management system to support our aviation businesses.


Integrity | Customers | People | Innovation
Upholding the highest standards of integrity and fairness.

Group Strategic Report

Marshall Group Properties

Strategy and Objectives

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

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

Business Environment

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

Position

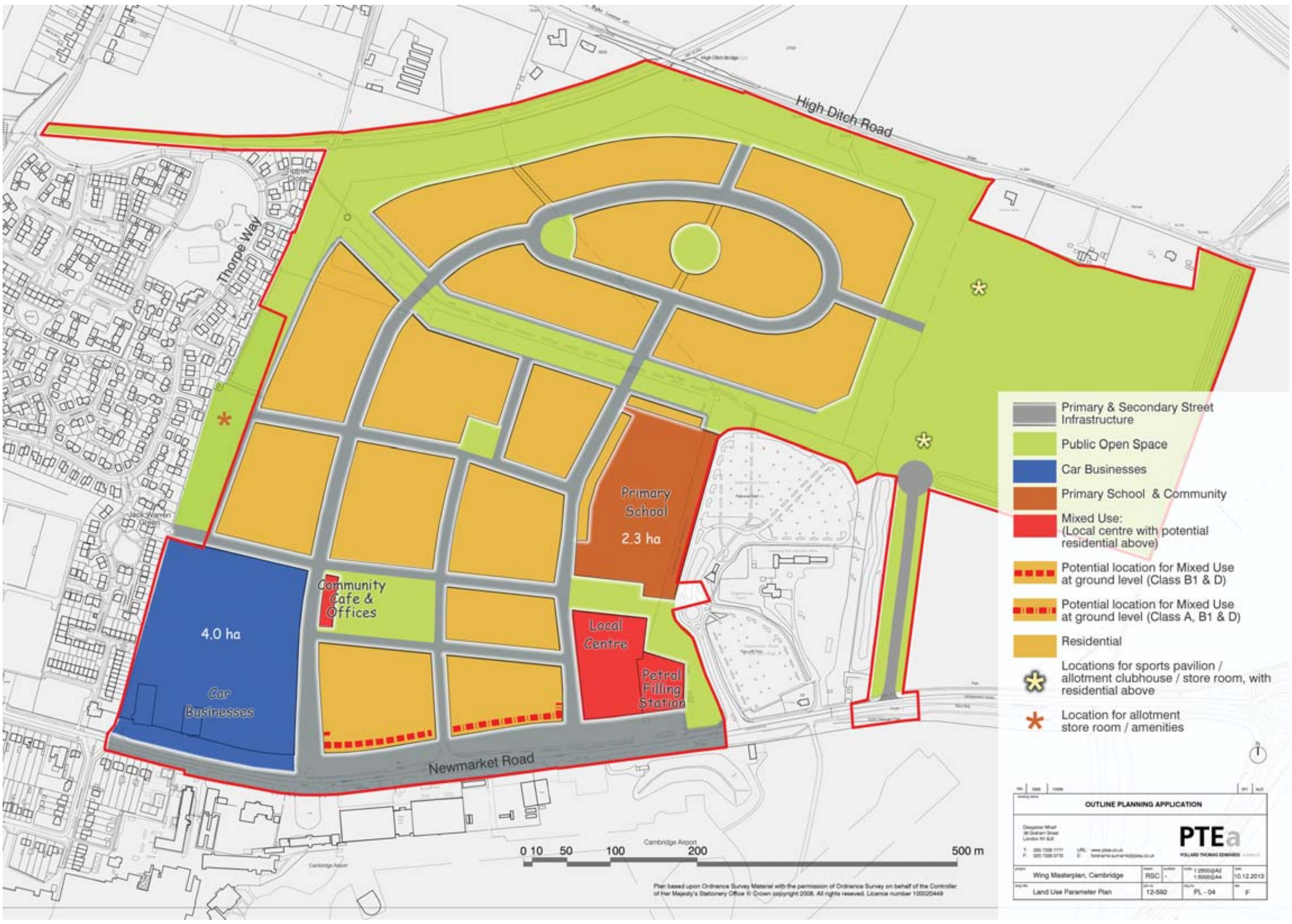
The business is currently progressing two major development projects in Cambridge:

- The Wing development – a proposed development of up to 1,300 homes, replacement car showrooms, a commercial hub, primary school and open space for the community to enjoy. A key driver for this project has been to create an impetus for investment in modern facilities for the Group businesses currently located on North Works.
- Land North of Cherry Hinton – in partnership with the adjoining landowner, work is underway to prepare a planning application for the development of around 1,200 homes, a primary school, secondary school, local centre and spine road which will provide a relief road for Cherry Hinton. The scheme will deliver around 700 homes on Marshall-owned land.

In addition, we are developing a full estate master plan, working closely with MADG as our largest tenant.

Pictured: Land North of Cherry Hinton with Cambridge Airport in background


Pictured: WING - Artists impression


High Ditch Road
Thorpe Way
Newmarket Road
Primary School
2.3 ha
Community Cafe & Offices
4.0 ha
Car Businesses
Local Centre
Petrol Filling Station
Primary & Secondary Street Infrastructure
Public Open Space
Car Businesses
Primary School & Community
Mixed Use: (Local centre with potential residential above)
Potential location for Mixed Use at ground level (Class B1 & D)
Potential location for Mixed Use at ground level (Class A, B1 & D)
Residential
Locations for sports pavilion / allotment clubhouse / store room, with residential above
Location for allotment store room / amenities
0 10 50 100 200 500 m
OUTLINE PLANNING APPLICATION
PTEa
Wing Masterplan, Cambridge
RSC
1:2500@A2
1:5000@A4
10.12.2013
Land Use Parameter Plan
12-592
PL - 04
F

Group Strategic Report
Marshall Group Properties

Performance
Following Cambridge's Joint Development Control Committee's resolution to grant planning permission for the Wing development in April 2016, we have been in detailed negotiations in respect of the legal agreements that underpin the permission, ensuring the terms of the permission are viable and workable. This led to the formal grant of permission in November 2016.

In parallel with securing the planning permission, we have been working with a team of professional advisors to commence the process of identifying a developer joint venture partner for phase one. We have decided upon a joint venture route to ensure we have the right balance of risk and reward. The process is well advanced, having shortlisted the parties based on their proposals. Our objective is to formalise contractual arrangements with the preferred partner during the first half of 2017, with a view to commencement on-site during 2018.

A key enabling project of Wing is the relocation of the aircraft ground running activity from the current site. A preferred location has been identified for the construction of a purpose built Aircraft Ground Run Enclosure adjacent to Hangar 17 apron/Delta taxiway, and a planning application was submitted to the Local Authorities in December 2016, with an expectation of a decision by the summer of 2017. The new facility will enable the relocation of ground running activities from the existing location adjacent to Newmarket Road and will reduce noise levels for the majority of the Airport's neighbours. Construction is planned to commence in the latter part of 2017.

We are also progressing the outline planning application for around 1,200 homes, with associated primary and secondary schools and other community facilities, to the North of Cherry Hinton. The scheme will deliver around 700 homes on Marshall-owned land and the development will also safeguard the potential for around a further 600 additional homes on Marshall-owned land which may be brought forward as a further planning application in due course, most likely following the planned review of the Local Plans in 2018/19.

There was a conscious decision within the year not to re-let the vacated suites at the Quorum office complex, the Group's principal investment property. Whilst the Cambridge market for office space remains highly competitive and buoyant, a strategic decision was taken to use the space as a means to assist in the delivery of Wing-enabling projects by allowing activities previously situated on the North Works to be relocated to the Quorum in the fullness of time.

The business has also been supportive of the planning application to site a new Ice Rink within the boundary of Greenhouse Farm. This facility is seen as complementary to the Wing development and, following the grant of permission for Wing, lease arrangements are being formalised with the operator. In addition we have leased land to BP on Newmarket Road, who opened its new petrol filling station in December 2016.

Maintaining competitive edge through innovation and creativity.

Group Strategic Report
Marshall Group Finance

The first year of reporting for the Group Finance division has seen transformational change in Marshall Motor Holdings plc (MMH), and impressive growth in the investment portfolio. The results, however, were held back by poor volume and margins in Marshall Fleet Solutions (MFS), our transport refrigeration business.

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

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

The Martlet fund invests in early stage companies, usually with a technology bias, under a clear investment strategy. The book value of the fund at the end of the year was £1.3m (2015 - £1.4m). The fair value, based on latest investment rounds, is estimated to be £2.5m (2015 - £1.8m).

Thirteen investments were made during 2016 with a total value of £0.5m, adding seven new companies to the Martlet portfolio. Provisions of £0.4m (2015 - £0.4m) were taken where later investment rounds are completed at a lower price.
During the year, two of our Martlet portfolio companies were sold realising cash receipts of £0.6m and achieving an internal rate of return in excess of 40%. As a result gains of £0.3m have been recognised in the year (2015 - £nil).

The MarQuity fund sources its opportunities from the Martlet fund. As larger follow-on investments are made, MGF expects access to the investee company's board and enhanced information rights. The book value of the fund at the end of the year was £1.9m (2015 - £1.0m). The fair value, based on latest investment rounds, is estimated to be £2.8m (2015 - £1.3m).

Four investments totalling £0.9m were made during the year into the companies in the MarQuity portfolio: Vantage Power (manufactures complete hybrid powertrains for bus OEMs – pictured); Arachnys (a unique combination of automation and analyst cognitive enhancement to help businesses overcome their due diligence challenges); Undo Software (improved program execution technology) and Plumis (innovative sprinkler alternative that uses a fine mist to suppress fires).

MGF also holds listed investments in two companies quoted on AIM (Abcam plc and Frontier Developments plc). During the year the value of these investments grew by £0.3m (2015 - £0.6m) to £2.5m. These investments will be realised during 2017 for re-investment into other funds.

Marshall Fleet Solutions
MFS experienced a challenging trading year, despite growing revenues by 17% to £46.8m. The uncertainty generated by the EU Referendum result and the resultant fall in the value of Sterling, meant that margins on the sale of refrigeration units were £1.4m lower than the previous year. MFS, therefore, reported an operating loss before tax of £1.5m for 2016 (2015 - profit £0.5m).

MFS was awarded the contract to maintain Tesco's home delivery fleet of 2,000 vehicles based in the South East of England late in 2015.
A number of difficulties were experienced in the early stages of the operation, but as 2017 began these had been resolved meaning that a positive contribution is expected in the future.

MFS has responded well to the change in the economic situation, working with Thermo King Europe, its main OEM partner, to implement improved sales processes that are already achieving more acceptable margins and reductions in working capital. Similarly, changes to working practices in unit installation and after sales maintenance are improving engineers' productive efficiency.

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

Maintaining competitive edge through innovation and creativity.

Group Strategic Report

Marshall Group Finance

People are at the heart of our success

Marshall Motor Holdings plc

This subsidiary was 100% owned until its listing on the AIM market of the London Stock Exchange in April 2015. At 31st December 2016, Group ownership was just under 65%. Marshall Motor Holdings plc (MMH) operates with its own board and publishes its own annual report, which is available from www.mmhplc.com.

MMH's accounts are published under IFRS but for Group purposes these have been converted into FRS 102 and consolidated with the rest of the Group to produce the overall Group results.

Financial Performance

MMH delivered another record trading performance in 2016 driven in large part by two successful acquisitions but also strong organic growth as measured by like-for-like* comparisons which is standard in the retail sector. Revenue of £1,899m was ahead of last year by 54.1% with the business also enjoying strong like-for-like revenue growth of 10.7%.

The business recorded new vehicle revenue growth of 54.2% (13.1% like-for-like) and used vehicle revenue growth of 56.4% (8.3% like-for-like). As a result of its positive sales performance in recent years, and an increasing UK vehicle parc, MMH has continued to enjoy growth in aftersales and revenue grew by 58.4% (5.7% like-for-like).

Operating profit of £27.1m (2015 - £17.2m) was 57.6% ahead of the comparable period last year. Gross margin at 11.6% is 19 basis points below last year (2015 – 11.8%). The business experienced underlying margin pressure on both new and used vehicles, which was partly offset by further margin improvement in aftersales.

Despite tough market conditions in the second half of the year, overall the retail business delivered profit growth of 45%, whilst the leasing segment continued to perform strongly throughout the year with PBT of £4.9m (2015 - £4.9m). At 31st December, 2016, the leasing fleet was 6,192 vehicles (31st December, 2015 - 6,029), an increase of 2.7%.

Business Environment

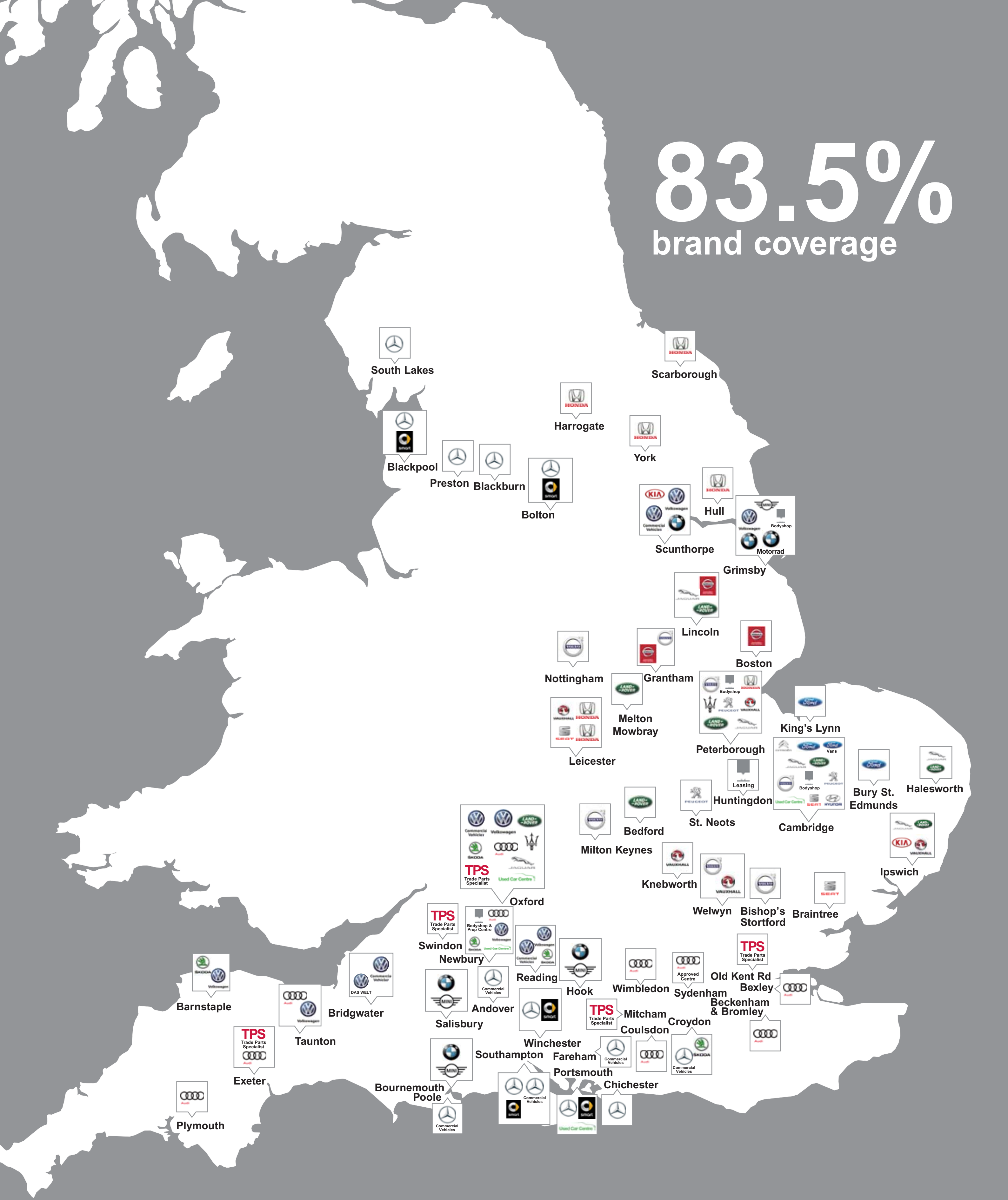
UK new car registrations of 2.69m in 2016 were 2.3% ahead of 2015 (including dealer and self-registrations). Registrations to retail customers were down 0.2% in 2016, while fleet/business sales grew by 4.3%. Against this market back drop, MMH's new car sales performance showed overall new unit sales increasing by 39.3%, benefitting from the Ridgeway acquisition and full year contribution from SGS. Like-for-like growth in new vehicle unit sales outperformed the wider market, up 5.5%.

Following the UK referendum on EU membership in June 2016, the overall UK economy has entered a period of economic uncertainty. This was reflected in a slowing of growth of new car registrations in the second half of 2016, increasing by 1.2% (H1: 3.2%). Despite this, MMH performance in the second half of the year improved, with like-for-like new car sales up 8.0% versus the comparable period in 2015.

Following five consecutive years of growth, the latest forecast from the Society of Motor Manufacturers and Traders ("SMMT") for 2017 is for 2.56m UK new car registrations. Whilst this would be a decline of 5.0% compared with 2016, it would still represent a historically strong market; the third highest in history. The strategic acquisition of Ridgeway extended MMH's footprint into new and attractive geographical territories and greatly increased the business' scale with key brand partners. The acquisition added 30 franchises and moved the Group from 10th to 7th largest dealer group in the UK.

Following the strategic acquisition of Ridgeway, the retail business now consists of 103 franchises, representing 24 brand partners, trading from 89 sites in 25 counties. In addition, MMH operates five trade parts specialists, four used car centres, five standalone body shops and one PDI centre. The business operates a balanced portfolio of volume, prestige and alternate premium brands, including all of the top 5 premium brands. This diverse portfolio means it represents manufacturer brands accounting for around 83.5% of all new vehicle sales in the UK. This increased scale and diversified spread of representation helps mitigate the effect of the cyclical nature of individual brand performance.

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



Marshall
Motor Holdings plc

• 24 brands • 103 locations • 25 counties

Group Strategic Report

Marshall Group Finance

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

Customer first
MMH continues to enjoy high levels of customer advocacy. In 2016 43.4% of 41,928 customers surveyed indicated that they were either previous customers or MMH had been recommended to them. The new MMH website was launched in April 2016 and provides additional content and functionality to support the customer journey. The new website is fully optimised for mobile and tablet browsers, reflecting the clear move by consumers from desktop to mobile and tablet devices. The Group also acquired the domain name, "marshall.co.uk" which has now replaced the "marshallweb.co.uk" URL.

Retailing excellence
New technology is being used to drive efficiencies and to improve the customer journey. During the second half of the year the implementation of a tablet based enquiry management system was extended to the newly acquired businesses. The second iteration of the group's bespoke management information ('MI') system, Phoenix 2, was implemented and rolled out in the acquired businesses in the latter part of the year. Finally, MMH continues to embrace social media as a means of connecting with its customers. Marshall is the most influential dealer group in the UK on Twitter with over 32,000 followers across our various Twitter accounts. It also has over 60,000 likes on Facebook, 1.3m YouTube views and 30,000 likes on Instagram. The Group received recognition for its focus on social media and digital initiatives by winning accolades at the Automotive Management awards in February 2017.

People centric
Once again, in recognition of the continued focus on all aspects of colleague engagement, MMH was delighted to be recognised by The Great Place to Work Institute, being ranked 19th in 2016. This was the seventh year running it had been classified as a Great Place to Work and the second year it was ranked in the top 30, amongst the best companies in the UK including Volkswagen Financial Services, Cisco UK, Hyatt and Hilton Hotels.

Strategic growth
The strategy to grow scale with existing brand partners in new geographical territories has been particularly well demonstrated by the acquisitions of both SGS and Ridgeway. In both cases the businesses operated in territories complementary to the existing operations and with attractive brands MMH already represented. These acquisitions were made with the full support of brand partners and MMH will continue to work in partnership with all of its brand partners to execute the growth strategy moving forward.

Investment in new retail locations
In addition to the Ridgeway acquisition, the Group continued its significant investment in new retail locations with three key site openings in the year:

- In October 2016, MMH completed and opened a new Jaguar Land Rover dealership in South Oxford. This relocation brought together the existing Land Rover and Jaguar businesses which were previously on separate sites in Oxford, in the Jaguar Land Rover "Arch" concept.
- In November 2016, the relocation of Halesworth Land Rover and Ipswich Jaguar to a new purpose built Jaguar Land Rover site in Ipswich was completed as part of a strategic market area reorganisation. The Halesworth site will remain open as an authorised repair centre.
- In December 2016, the rebuild of Cambridge Jaguar Land Rover was completed. The existing site has been fully redeveloped to meet the Jaguar Land Rover "Arch" concept requirements.

Development of the new Exeter Audi retail centre, which will be located in Marsh Barton, one of Europe's largest motor retail parks, is progressing well and is expected to open in Q4 2017. Construction of a new Jaguar Land Rover dealership in Newbury also began in the second half of the year. There has been encouraging initial customer feedback for all these new developments and, following the initial transition, each one is expected to generate additional revenue and profitability over the medium to longer term.

Putting our customers above all else.

Group Strategic Report

Risk Management

Managing Our Risks

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

All of our principal risks are mapped against the three key elements of the Group strategy:

- One Company
- Consistency in Performance
- Pride in our Values and making them work

Risk Appetite

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

Risk Framework

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

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

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

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

Accountability

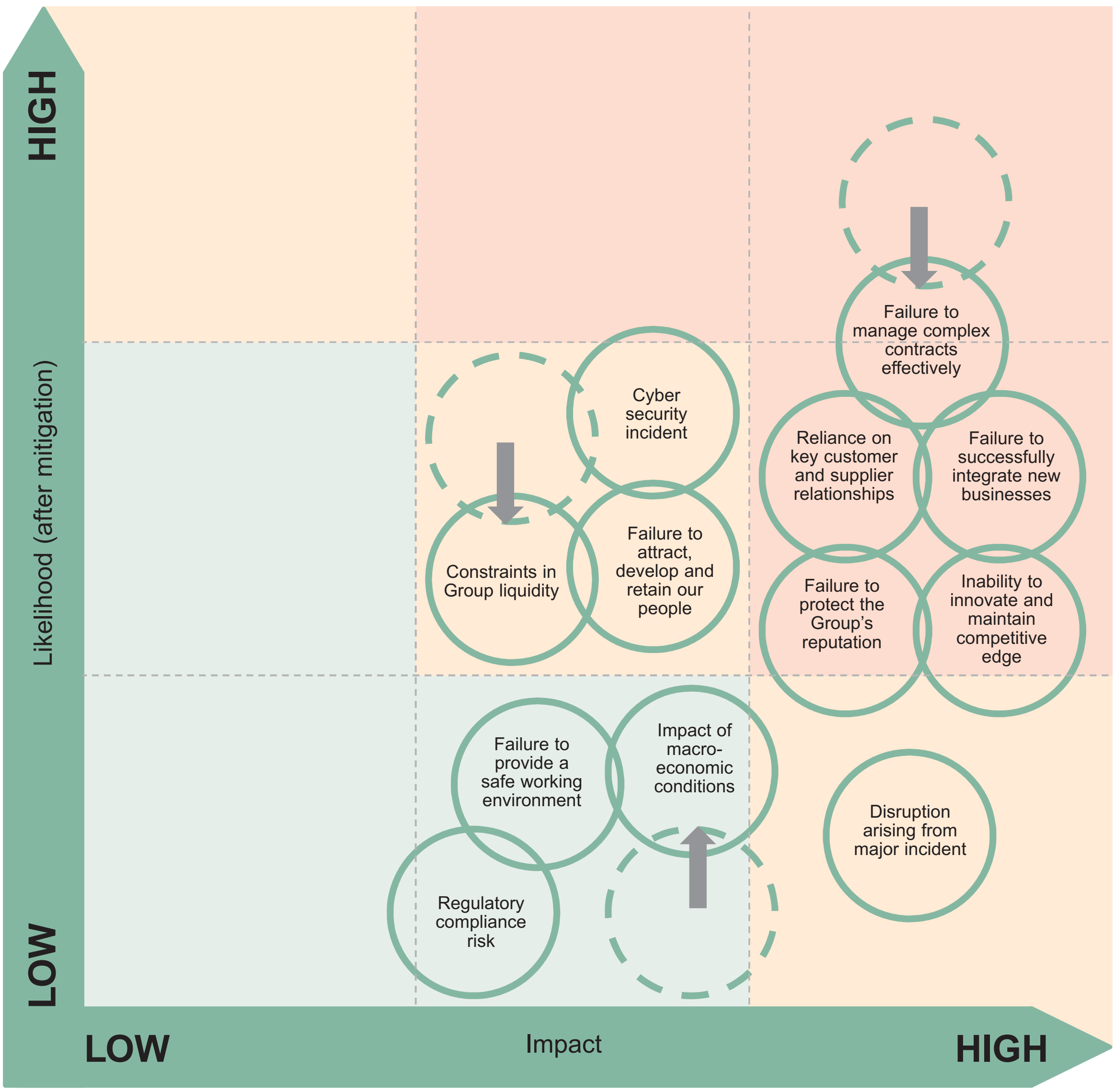
To facilitate the effective identification and management of risk throughout the Group, a Risk Advisory Group meets at least three times a year under the chairmanship of the Company Secretary. Relevant directors from each operating company, with additional invitees at the Group's request, attend to share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

Communication

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

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:



Group Strategic Report

Risk Management

The Group's principal risks, together with their potential impact and the actions and controls put in place by the Group to mitigate those risks, are set out below.

RISK	CONSEQUENCES	IMPACT
Failure to protect the Group's reputation	Potential loss of trust and confidence could result in a decline in the customer base. This could also affect the ability of the Group to recruit and retain good people as well as having an adverse impact on financial performance.	HIGH
Inability to innovate and maintain competitive edge	The global markets in which the Group operates are intensely competitive from both incumbent organisations and new market entrants. The landscape is expected to remain highly competitive in all areas, which could adversely affect the Group's profitability.	HIGH
Failure to attract, develop and retain our people	Shortages of key staff in critical business areas introduce cost and delays in delivering our core services to our customers. Skills and experience lost are difficult to replace in our specialist markets, and the loss of knowledge within the business can have a detrimental impact on our operations.	MEDIUM
Reliance on key customer and supplier relationships	The Group depends on the successful performance of its OEM partners and key customers, and its continuing relationships with them. Although not unduly dependent on any single manufacturer or supplier, a change in strategic relationship or continuing drop in demand could threaten the operational and financial performance of the Group.	HIGH
Cyber security incident	The Group is dependent on the secure, efficient and uninterrupted operation of its information technology and the safeguarding of third party and customer information from loss, theft or corruption. Computer systems are inherently vulnerable to damage or interruption from power loss, telecommunications failures, sabotage, vandalism or infiltration.	MEDIUM
Disruption arising from major incident	The Group operates a variety of sites across the UK and internationally. A major incident resulting in the denial of access to our key assets may impact our ability to fulfil contracts and provide services to our customers.	HIGH
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 the 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.	MEDIUM
Constraints in Group liquidity	Due to the diverse nature of the Group and the competing demands of its subsidiary companies, there may at times be constraints in Group liquidity. Furthermore, 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.	MEDIUM
Impact of macro-economic conditions	Deterioration in economic conditions in the UK may adversely impact the markets in which we operate and alter the investment and spending decisions of our key customers. In addition, governments may impose taxes and implement other measures to manage the economic conditions in ways that adversely affect the Group's business. Volatility in exchange and interest rates, to which the Group is exposed, could have a material impact on the financial performance of the Group. Any of the foregoing could have a material adverse effect on the Group's prospects, results of operations and financial condition.	MEDIUM
Failure to successfully integrate new businesses	The underperformance of new acquisitions against expectations could adversely affect the Group in terms of financial, operational and reputational performance.	HIGH
Failure to provide a safe working environment	Due to the scale and nature of its operations, the Group faces a multitude of health, safety and environmental risks. A significant failure in the compliance framework could place our people in danger, and subsequently a curtailment of operations and significant financial penalties. Furthermore, an incident of this nature may have a detrimental impact on our wider stakeholder community.	HIGH
Failure to manage complex contracts effectively	Potentially significant adverse financial and reputational consequences, including the risk of potential litigation. Additional resources required which could have a knock on impact to other projects and cause further delays.	HIGH

MITIGATION	LIKELIHOOD	OWNERSHIP	TREND
The Group safeguards its reputation through adhering to its stated ethics and values, as well as business continuity planning and a responsibility to the local community and environment.	**MEDIUM**	The Board	
The Group's balanced portfolio of businesses, specialist capabilities, focus on delivering innovative solutions and outstanding customer service continue to address this risk.	**MEDIUM**	Subsidiary Management Boards	
The Group recognises that people are at the heart of our success, and have the power to drive the Marshall Group forward. The Group continues to invest strongly in training at all levels, from apprenticeship schemes through to the leadership development programme.	**MEDIUM**	The Board	
The Group continues to monitor its key suppliers and customers in each of its markets, in order to manage reliance on any one party.	**MEDIUM**	Subsidiary Management Boards	
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. The Group also continues to benefit from support from external organisations and MADG achieved the Cyber Essentials Plus accreditation in 2016.	**MEDIUM**	Subsidiary Management Boards	
The Group recognises the strategic importance of its key assets and infrastructure, and maintains its resilience through such tools as business continuity, disaster recovery and emergency response planning.	**LOW**	The Board	
The Group mandates and seeks assurance from each subsidiary business dedicates the necessary resource to maintain regulatory compliance in the markets and geographies in which they operate.	**LOW**	The Board	
The Group operates a central treasury function which monitors the cash requirements of the business on a daily basis. Rolling 13 week cash forecasts identify liquidity requirements and a new multi-option facility has recently been secured.	**MEDIUM**	Chief Financial Officer	
The decision for the UK to leave the European Union and changes to the international political landscape may give rise to a period of economic uncertainty. The Group is cognisant of this and other macroeconomic conditions, and continues to monitor and take steps to mitigate.	**LOW**	The Board	
The Group has refreshed its governance procedures around the acquisition and integration of new businesses. Investments are also scrutinised by the Audit Committee.	**MEDIUM**	The Board/Subsidiary Management Boards	
The Group mandates and seeks assurance that each subsidiary operates a robust health, safety and environment compliance framework which is regularly updated and ensures the safety of our people and the communities in which we operate. In additional the airworthiness and technical safety in MADG is considered of utmost importance.	**LOW**	The Board/Subsidiary Management Boards	
Greater selectivity on the type of project we would consider, supported by a very stringent tender review process. All major contracts and programmes are subject to regular status review by the subsidiary management Board, with escalation to the Group as appropriate. There is mature project risk management in place, with particular focus on emerging risks, and lessons learned from previous contracts.	**MEDIUM**	The Board/Subsidiary Management Boards	

Sean Cummins
Chief Financial Officer

Revenue for the year was £2.3bn, representing an increase of 42.5% over the previous period (2015 - £1.6bn). The primary reason for the increase was the full year impact of MMH's acquisition of S.G. Smith in November 2015 and additional revenue of £415m arising from the acquisition of Ridgeway in May 2016.

Group Strategic Report

Chief Financial Officer's Report

Trading Performance
84.1% of the Group's revenues arose from motor retailing (2015 - 77.7%) and, with a full 12 months contribution of Ridgeway in 2017, Group revenue is likely to continue to grow.

On a statutory basis, the Group reported a loss before tax of £9.8m (2015 - profit of £22.2m). The result reflects loss provisions of £25.9m taken against our largest and most complex engineering project within MADG, as well as a number of exceptional restructuring and asset impairment expenses. When reviewing the results before a number of exceptional separately disclosed items, as set out in note 3, this highlights a more positive underlying foundation for the future with MMH, Military Aerospace, Land Systems and Aerostructures all performing extremely well during the year.

Aviation Services and Advanced Composites reported disappointing results with combined losses of £13.4m (2015 - £9.3m). We will announce a consultation process about the closure of our operations at Broughton within the former and significantly improved order coverage in the latter should ensure a much improved result in the current year.

With a higher level of average net borrowing over the year, finance costs rose to £7.3m (2015 - £3.1m).

The Group owns just under 65% of MMH plc. Recognition of this is highlighted in the income statement to reflect the profit after taxation in the year relevant to the 35% not owned by the Group, along with the corresponding share of the net assets being recorded on the balance sheet.

The Core Group (Group excluding MMH) recorded significant tax losses during 2016, which have been mitigated by disclaiming capital allowances and utilising loss carry-back provisions where possible. As the Group's holding in MMH is less than 75%, group relief of losses is not available. As a result of this, despite the overall loss position, the Group is expecting to pay cash tax relating to the 2016 results of £4.6m (2015 - £6.5m), including local corporation tax paid in our overseas operations.

Deferred tax on losses has been recognised where the Directors consider that profits will be made in the foreseeable future, ensuring full recovery. The Group's effective tax rate for 2016 was (8.6%) (2015 - 30.9%).

The losses per share, on a statutory basis, were 29.4p (2015 - earnings per share of 22.3p). Adjusting for separately disclosed items, as set out in note 3, underlying earnings per share were 21.8p (2015 - 25.1p).

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

The Board is recommending a final dividend of 3p per Ordinary and NVPO share for approval at the AGM to be paid on 30th June 2017. This would take the full year normal dividend to 4p and 6p respectively, the same level as 2015, with no repeat of the one-off special dividend paid last year to mark the flotation of MMH.

Net Debt / Cashflow
The Group closed the year with a total debt net of cash at 31st December of £122.2m (2015 - cash net of debt £1.7m) after investing £96.7m in acquisitions.

Capital expenditure, excluding leasing vehicles, totalled £40.3m (2015 - £35.0m) as the Group continued to invest in its infrastructure for the future. The runway rehabilitation project was completed in the early part of the year and new Jaguar Land Rover facilities were constructed in Oxford, Cambridge and Ipswich. The next two years will see continued investment in the future as hangars are refurbished in Cambridge, the Ground Running Enclosure is relocated to accommodate the Wing project and MMH completes further OEM-led facility improvements and refurbishments.

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

Financing
The Group completed two major re-financing exercises during the year. First, in May, MMH completed a £120m three-year revolving credit facility for general corporate purposes including acquisitions. This was supplemented by an increased level of funding for the leasing business, which was partially utilised for the Ridgeway acquisition. The second activity was in December, with the Core Group finalising a £75m three-year revolving credit facility to support the 5 year business plan and the Wing enabling works in particular. Both facilities are provided on an equal basis by Barclays Bank plc and HSBC plc.

Intangible Assets
In accordance with FRS102, the Group has identified goodwill of £25.0m and other intangible assets of £59.5m arising on MMH's acquisition of Ridgeway.

As required by the standard, the acquisition of S.G. Smith in November 2015 has been reviewed with original estimates adjusted such that goodwill of £5.3m and intangible assets relating to franchise agreements of £13.6m has been identified.

These assets will be amortised over 20 years to an estimated residual value. Including previously acquired goodwill, total amortisation during the year was £5.0m (2015 - £2.8m), with the net intangible asset carried on the balance sheet rising to £117.2m (2015 - £37.8m).

Pensions
The deficit on the Group's defined benefit scheme, the 'Plan', under FRS 102 increased to £17.5m from £11.5m, but after deferred tax there was a net liability of £14.5m (2015 - £9.4m). The expected liabilities increased as a result of lower bond yields (which determine the discount rate), which more than offset a small benefit from increasing asset values largely through stock market gains.

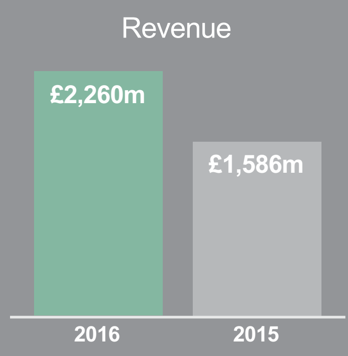
Both the Trustees of the Plan and the Board continue to work together to reduce the inherent risk and ensure the Plan remains viable, effective and cost efficient. A funding valuation used both by the Trustees and the Group, as at 31st December 2013, indicated an actuarial deficit of only £1.5m and the Group eliminated this in full by March 2015. The next funding valuation is due to be carried out as at 31st December 2016 and should be concluded during 2017.

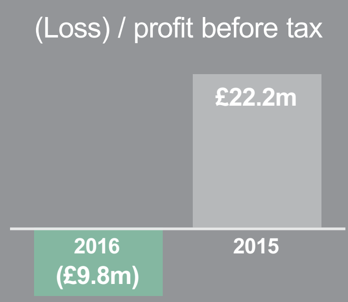
Treasury Operations
Our policy on treasury and financial risk is set by the Board and reviewed on a regular basis.

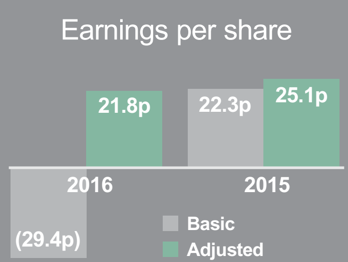
The majority of the Group's revenue and expenditure from operations is denominated in the same currency giving an effective natural hedge to relevant transactions. The net foreign exchange risk is hedged at the point of order placement, using a combination of currency swaps and overdrafts.

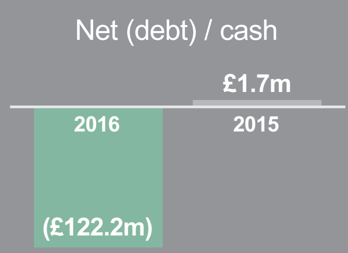
Key Performance Indicators
The individual businesses use a number of Key Performance Indicators (KPIs), both financial and non-financial to gauge performance. The diversity of the nature of the Group's businesses, particularly after the Motor Holdings flotation, means that few are universal or applicable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

Key Performance Indicators









Group Strategic Report

Corporate Social Responsibility

Health, Safety and the Environment

Group

There is a complex and changing regulatory environment surrounding the management of Health, Safety and the Environment (HSE) and the Group prides itself on maintaining a robust governance framework to discharge its responsibilities and exercise its duty of care and environmental stewardship in this regard. The provision of a safe working environment for all of the Group's employees is of paramount importance along with the safety of stakeholders that interact with the business, including our customers, suppliers, contractors and visitors.

Whilst the operating companies clearly have the responsibility to manage the specific risks relevant to their operations, the Group takes a very clear role in overseeing and providing support and guidance where appropriate. At a Group level the Holdings Board has a standing agenda item for Health and Safety and the Company Secretary provides a written report analysing accidents, trends and safety initiatives within the operating companies to keep the Board abreast of any issues warranting the Board's focus. Where relevant, Health and Safety risks are also discussed at the Group's Risk Advisory Group and reported to the Audit Committee if deemed to be of a significant nature warranting the appropriate level of scrutiny.

Marshall Aerospace and Defence Group

MADG continues to be successful at the RoSPA awards and in 2016 achieved the 14th successive Presidents Award demonstrating commitment and effort in accident prevention across the workplace.

The significant investment in the Safety Matters change programme continued and entered the 'Power Up' phase in 2016 which resulted in 2,000 employees attending a 1 day workshop on how they, individually, have a responsibility to take ownership and personal responsibility for their own safety and that of their colleagues and third parties operating on our sites.

There has also been a 38% reduction in major accidents resulting in lost time (from 24 in 2015 to 15 in 2016).

To assist in the communication of the initiative a new Safety Matters intranet has been launched along with a newsletter and clearer reporting using distinctive infograhics as illustrated below.

Marshall Group Finance

Marshall Motor Holdings Plc

A HSE newsletter is published regularly highlighting relevant information to colleagues to communicate and bring to their attention any issues or concerns that relate to their health, safety and welfare. Similarly, a quarterly bulletin is published to management to highlight key focus areas and new processes.

All new managers to the business receive the Manager's handbook and remote training in their first month in the business.

The HSE department aims to provide support and direction to all sites by reviewing policies and procedures as well as supporting and advising managers to help them fulfil their responsibilities. It also coordinates training for first aiders, fire wardens and risk assessors and monitors, reports and investigates incidents.

During 2016 there has been a 64% reduction in major incidents resulting in lost time (from 14 in 2015 to 5 in 2016).

Marshall Fleet Solutions (MFS)

In the summer MFS was recognised at the Food Storage & Distribution Federation annual Health & Safety awards ceremony.

There has been an ongoing investment in training and awareness and MFS has embarked on a three year E-Learning for all employees. Furthermore, managers within the business have undergone specific tuition in key areas of HSE risk management.

In terms of employee communication, MFS has instigated bi-monthly Health, Safety & Environment forums to re-invigorate engagement across the business.

There were 4 major incidents in 2016 (2015 - 4) resulting in lost time.

Upholding the highest standards of integrity and fairness.

Group Strategic Report

Corporate Social Responsibility

Environmental Initiatives

- During the year a Tenants Handbook was issued to all of our tenants on the Cambridge site to articulate and raise the awareness and responsibility they have to ensure a safe, compliant working environment.
- MADG has numerous regulated processes and permits in place and works closely with regulators, who audit and visit the site on a regular basis to ensure compliance with the relevant standards.
- MFS introduced a new fleet management tracking system which provides information on how the vehicles are driven including harsh breaking and turning, gear shifts, and vehicle speeds. In addition, it has an Eco Driver function which assists the driver to achieve improved fuel consumption. Following the roll out of the new tracking system, each month, within the business streams, driver efficiency awards are announced to encourage a change in behaviour.
- MFS also instigated a review of lighting at their regional depots and a programme of LED lighting installations is underway; to date six depots have had new energy efficient lights installed.
- Furthermore, the business constantly scans and assesses the impact of new legislation, an example being the Minimum Energy Efficiency Standard (MEES) which will apply to all rented commercial buildings from April 2018. Marshall Group Properties, as landlord to the tenants at the Cambridge site, is currently undertaking a review and implementing the relevant measures to ensure compliance with MEES by April 2018.

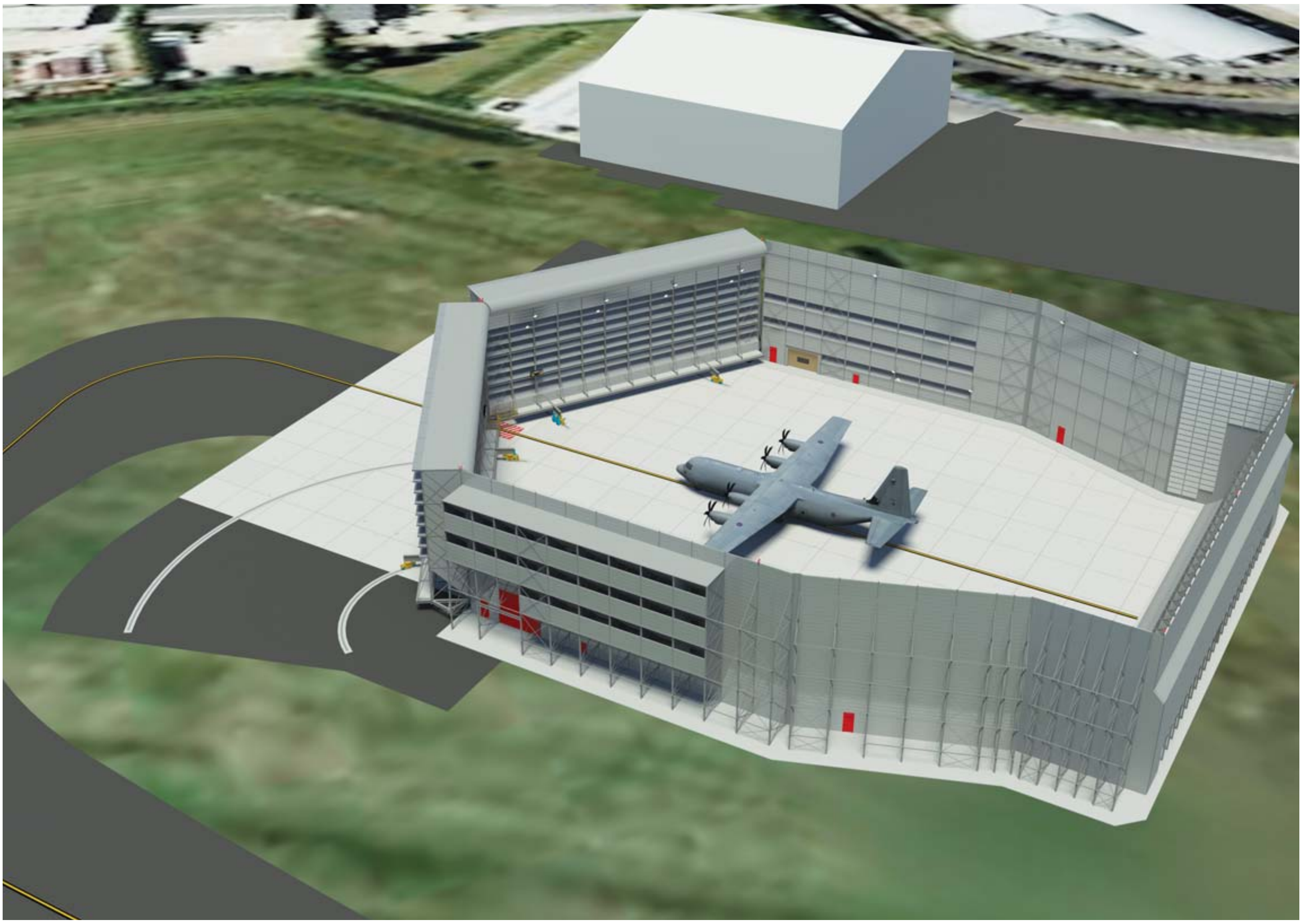
Case Study

Engine Ground Running Enclosure

In 2016 Marshall submitted a planning application for a purpose built aircraft Ground Run Enclosure (GRE) which, subject to planning, will be constructed in the coming years. The sole purpose of the facility is as an acoustic enclosure, specifically designed to reduce noise associated with aircraft engine testing. This is an intrinsic element of the Aerospace business and is routinely undertaken to test engine performance and aircraft systems once work is complete and prior to the return of an aircraft to the customer. These activities have taken place at Cambridge since the 1940s.

Delivery of the new facility will ensure improvements to the health and quality of life of the communities surrounding the airfield. With front doors to limit noise forward of the aircraft, and 20 metre high side walls, the facility will ensure almost all residents are removed from the highest levels of noise exposure (i.e. above 70 decibels), with the vast majority of residential, school and other community buildings experiencing a significant reduction in noise compared with today.

A further benefit of the GRE will be to limit the noise effects from engine testing on land being promoted by Marshall for residential led development. The first, known as Wing, was granted planning permission in November 2016 and will deliver up to 1,300 homes, a primary school and local centre. The second, known as Land North of Cherry Hinton, will deliver up to 1,200 homes, a primary school, a secondary school and a local centre. In both cases, the delivery of the GRE will ensure that the maximum potential of the landholdings can be realised and ensure that new residents are protected using leading edge technology. Marshall is proud to be promoting one of the most advanced acoustic enclosures in the world. This development acknowledges the close and special relationship that we have with our existing neighbours and those who will be moving into new homes, schools and community buildings in the coming years and with whom we will co-exist for many years to come.



Pictured: Marshall ADG, Engine Ground Running Enclosure - Artists impression

Group Strategic Report

Corporate Social Responsibility

Our People

Developing and recognising our people is at the heart of the business. Our ongoing development and training programmes build on our 96 years of continuous apprentice training and our successful graduate recruitment scheme. This has been supplemented in recent years by a clear focus on Leadership Development, the first two waves of which have been focused on our senior management team, developing awareness of the distinction between management and leadership and equipping the team with practical skills and tools which they have been able to bring into their roles in the business.

During 2016 we have taken this a step further, developing a highly targeted and focused third wave, known as LDP3, aimed at a smaller group of identified leadership candidates for the future. This programme will launch fully in 2017 and has been developed in conjunction with the world-leading Møller Centre in Cambridge.

Across the whole group, we continue to subscribe to the annual independent employee survey run by the Great Place to Work Institute; we have seen some really positive progress in many parts of the business, which is encouraging but the real value of these surveys comes from the feedback which helps us to identify the areas which require improvement.

Over the last 6 years our annual Marshall Achievement, Values and Teamwork Awards (MAVTAs) have become ingrained in the business as a unique way to recognise and celebrate the very many employees, either individually or collectively in teams, who have made a significant contribution to the business. Candidates for the MAVTAs are nominated by their colleagues and peers and these nominations are then reviewed and sifted by the senior terms in each of the businesses before the strongest nominees are submitted to Group for the final round of judging. As has become customary, the award winners were announced at a gala dinner in the unparalleled surroundings of the Great Hall at King's College in Cambridge, when all of the finalists gathered from all parts of the business, including Canada, again this year.

Making a difference in the communities in which we operate remains a key driver for all of the Marshall businesses and we continue to encourage employees from all parts of the business to get involved in local groups, charities and organisations with which they feel some connection. We find that harnessing individuals' passions significantly broadens and strengthens the impact Marshall people make.

Cambridge LaunchPad is our headline programme aimed at making a difference in Cambridge by exposing young people between the ages of 8 and 18 to the delights and wonders of technology in all its forms. Our long term goal is to encourage more young people, especially girls to make subject choices which will open up the opportunities for them to work in technology-related businesses. Cambridge has an extraordinary array of businesses offering a vast range of career opportunities and we want to give Cambridge's children a head start over those from anywhere else. One of the unique features of Cambridge LaunchPad is a rigid 50:50 gender split.

In the first 2 years, more than 2,000 young people have engaged with Cambridge LaunchPad and the interest from schools, parents, businesses and politicians has encouraged us to take the necessary steps to enable Cambridge LaunchPad to scale up. At the end of 2016 we entered into an agreement with Form the Future, a Cambridge-based Social Enterprise exemplar, which already has a proven track record in bringing schools and businesses together, to take over the management and growth of Cambridge LaunchPad over the next few years. Working with them, we are now bringing on board key Cambridge businesses and more schools to increase the capacity and reach of the programme. Our belief is that this can grow into a movement which will give young people growing up in Cambridge unique experiences and opportunities that will enhance their future careers.

People are at the heart of our success.

Governance
The Board

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

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

Robert Marshall FRAeS
Group Chief Executive – Appointed 2000

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

Julie Baddeley * °
Non-Executive Director – Appointed 2016

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

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

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

Sean Cummins ACA
Chief Financial Officer – Appointed 2016

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

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

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

Sarah Moynihan FCA CRAeS
Company Secretary – Appointed 2012

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

Christopher Sawyer † *
Non-Executive Director – Appointed 2008

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

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

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

Auditor
Ernst & Young LLP

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

Insurance Brokers
Willis

Pension and Actuarial Advisers
Conduent

Property Advisers
Bidwells
Rapleys
Russells
Savills

Solicitors
Bird & Bird
Dentons
Greenwoods
Mills & Reeve
Travers Smith

Tax Advisers
Deloitte LLP

Registered Office
Airport House
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Cambridge CB5 8RY

Registered Number
2051460

www.marshallgroup.co.uk

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

Governance

Corporate Governance

The Group endeavours to apply the highest standards of corporate governance and has considered the guidance set out in the UK Corporate Governance Code (April 2016) 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.

Leadership

Board membership

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

The role of the Board

The Board is responsible for creating the framework within which the Group operates and is collectively responsible to the Company's shareholders for the direction and oversight of the company to ensure its long-term success. It provides leadership for the Group, devises strategy, ensures the necessary resources are available and sets controls and standards. Other core activities include obtaining assurance that material risks to the Group are identified, defining the Group's appetite for risk and ensuring that appropriate systems of risk management and internal control exist to mitigate such risks, as well as responsibility for ensuring the effectiveness of, and reporting on, the system of corporate governance. It also monitors performance, and approves budgets and material initiatives and commitments. The Board has formally reserved specific matters for its determination and has approved terms of reference for all Board committees.

The Board's schedule of matters reserved includes:

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

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

Board meetings

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

Board attendance

The table below sets out details of all directors who have served during the year and their membership of Board committees. This includes details of each member's attendance at the Board meetings held in 2016. There are separate attendance statements in respect of the nomination, remuneration and audit committees on pages 43, 44 and 46 respectively.

Director	Date appointed	Role	Committee (C = current chair)	Attendance record
Alex Dorrian *(appointed 26th January 2016, Chairman from 1st October 2016)*	2016	Chairman	Nomination (C) Remuneration	10/10
Julie Baddeley *(appointed 1st December 2016)*	2016	Non-executive Director and Senior Independent Director	Nomination Remuneration	1/1
James Buxton	2014	Non-executive Director	Nomination	10/10
Sean Cummins *(appointed 13th July 2016)*	2016	Group Chief Financial Officer		4/4
Peter Harvey	2008	Non-executive Director	Remuneration (C) Audit Nomination	9/10
Robert Marshall	2000	Group Chief Executive		10/10
Christopher Sawyer	2008	Non-executive Director	Audit (C) Nomination Remuneration	10/10
Philip Yea *(appointed 27th September 2016)*	2016	Non-executive Director	Audit	2/3
Sir Michael Marshall *(retired 1st October 2016)*	1960	Chairman		8/8
Sarah Sillars *(resigned 1st June 2016)*	2004	Non-executive Director		5/5
Bill Dastur *(retired 30th April 2016)*	1996	Group Finance Director		4/4
Steve Fitz-Gerald *(resigned 12th December 2016)*	2011	Marshall Aerospace and Defence Group - Chief Executive		9/9

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

Board agenda
Business considered at each meeting includes:

- a review from the Company Secretary of health and safety statistics, management and monitoring;
- the Group Chief Executive's report on strategic and business developments, together with operational updates from the operating companies; and
- the Group Chief Financial Officer's report which includes commentary and highlights from the latest available management accounts, and where relevant, budgets and forecasts.

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

The Board also met in 2016 for a two-day strategy and business planning meeting.

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.

Activity	Progress
Shareholder focus During 2015 and 2016 the Board conducted a review of its relationship with shareholders. The project was known internally as Eclipse. It was proposed that, as part of increasing the accountability to shareholders and to improve levels of communication, certain transactions, not in the ordinary course of business, should be subject to a requirement to provide information to shareholders, and in some cases should be subject to approval by ordinary shareholders.	The Articles of Association were amended to require the Board to adopt new Terms of Reference which set out the accountability to shareholders. These Terms of Reference and the revised Articles were approved and formally adopted at the 2016 AGM held on 1st June 2016. In addition to the requirement to provide information or gain shareholder approval for certain transactions, the Articles were updated to remove the existence of permanent directors and to include a right for the Board to remove a director with a 75% majority.
Risk Appetite Statement Following a review of Corporate Governance by the Financial Reporting Council, which highlighted the need for Boards to re-evaluate how good they are at managing risk, it was agreed that the Board should consider producing a Risk Appetite Statement. Although the Group is not required to follow the UK Corporate Governance Code, it does try to adopt it where appropriate and practical.	A Risk Appetite Statement was debated and agreed by the Board, following consultation with major shareholders. Risk appetite is the level of risk the Group chooses to accept in pursuit of its strategic objectives. The Group's lowest risk appetite relates to safety and compliance objectives, and its reputational exposure, with a higher risk appetite towards its strategic and operations objectives. The Board will formally review the Group's risk appetite statement annually.
Revolving Credit Facility In order to fulfil the strategic objectives of the Company, the existing bank facilities were subjected to detailed review and negotiation during the year.	In December 2016 the Board replaced the existing debt facility with a new revolving credit facility of £75m.
Acquisitions A key objective of the AIM listing of Marshall Motor Holdings plc in April 2015 was to provide them with the means to fulfil their strategic objectives, including becoming the UK's premier automotive and leasing group.	Marshall Motor Holdings plc acquired the privately owned Ridgeway Group on 26th May 2016. This was both a significantly strategic and value enhancing acquisition for Marshall Motor Holdings plc and thus the Group as a whole.
Strategy away days The Board received presentations from the executive teams of the operating companies and reviewed the medium and long-term strategy of the Group following the successful Eclipse review.	The Board agreed a number of strategic objectives over a five to 25 year horizon, together with agreeing an organisational strategy and proposed changes to the organisational structure.
Corporate Governance Bible Originally endorsed by the Board in 2004, and most recently re-issued in 2012, the Corporate Governance Bible provides the Group with a clear and concise governance framework. The Board requested a refreshing of the Corporate Governance Bible to ensure that it continues to support the activities of the Group in today's business environment.	During the year the Corporate Governance Bible was refreshed. It includes important revisions reflecting Project Eclipse along with the revised risk management guidelines and code of ethics booklets. In addition, in order to comply with the Modern Slavery Act 2015, a Human Slavery and Trafficking Statement was approved by the Board and incorporated in the Corporate Governance Bible.
Quarterly Business Reviews The remit of Project Eclipse included a review of management and accountability of the operating companies. As a result of this review, in 2016 the Group Chief Executive introduced Quarterly Business Reviews with each of the operating companies in order to increase scrutiny.	During the year there have been four Quarterly Business Reviews with each of the operating companies. This has facilitated additional review thus providing further assurance to the Board over the financial and operational performance of the operating companies.
Business planning and budgeting The core Group has been restructured into three operating divisions and the five year business plan was issued and approved.	Each operating company presented their five year business plan and these were reviewed and approved by the Board. In addition, the Board agreed the 2017 budget which has been designed to achieve long term growth as well as short term profitability.

Governance

Effectiveness

Composition

The composition of the Board reflects a good balance between aerospace, property and general business skills. The ratio of non-executive directors to executive directors ensures an independent Board which is also highly experienced.

Independence

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

Senior Independent Director (SID)

Until his retirement, Allan Cook fulfilled the role of SID, providing an additional contact point for shareholders. Following his appointment to the Board on 26th January 2016, Alex Dorrian took on this role until he became Chairman on 1st October 2016. Following her appointment to the Board on 1st December 2016, Julie Baddeley has now taken on the position of SID.

Board Evaluation

In 2013, an external facilitator with no other connection to the Group, Armstrong Bonham Carter, was used to assist in the evaluation of the performance of the Board and its committees. The Board had intended to carry out a further external review in 2016, but due to the number of changes to the Board during the year this decision has been deferred.

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

Induction

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 an introduction to the Marshall values and code of business ethics.

Training

The Board is kept up-to-date on legal, regulatory and governance matters through regular papers from the Company Secretary and by presentations from internal and external advisors. During the year, the Board received guidance on updates on changes in corporate governance regulation and practice.

Re-appointment

With effect from the AGM on 1st June 2016, all directors have been subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter by rotation at an interval of no more than 3 years.

Accountability

Risk management

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

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

The Board empowers and gives ownership of the identification and management of risk to all of the operating companies. Risk management activity is regularly supported through discussion and appropriate action by the Group. This includes a thorough review and confirmation of the significant risks, evaluation of their mitigation strategies and establishment of supporting actions to be taken to reduce them to an acceptable level. How risks are identified and managed is set out in more detail on pages 26 to 29.

Internal control

The Board has established what it believes is an appropriate control environment. The internal control system is designed to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the Group's assets. The system is designed to manage rather than eliminate the risk of assets being unprotected and the failure to achieve business objectives. Internal controls only provide reasonable and not absolute assurance against material misstatement or loss. The Board delegates responsibility for reviewing and monitoring the Group's internal controls to the Audit Committee and the key features of the Group's internal control systems are therefore set out in the audit committee report on page 48.

Ethics

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

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

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

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

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

Relations with shareholders

Annual General Meeting
The Board recognises that the annual General Meeting provides shareholders with an important opportunity to receive information on the Group's business performance and to meet with the Board. The Chairman, the executive directors and Board committee chairmen were present at the 2016 AGM.

Interim Financial Statements
In addition to the annual report, the Board also provides shareholders with Interim Financial Statements, as at 30th June each year, which sets out the key highlights of the half year, together with the main Financial Statements.

Terms of Reference
The review of Board structure and interactions with the shareholders produced several recommendations, and included the creation of a new Board Terms of Reference, which enshrines the basis on which the Board will keep shareholders informed and, where appropriate, seek ordinary shareholder consent for certain major transactions or changes in ownership of major assets. The shareholders approved these Board Terms of Reference at the 2016 AGM held on 1st June 2016.

Nomination Committee Report

The company has established a nomination committee which comprises the Chairman and all non-executive directors, subject to a minimum of three to be quorate.

Committee attendance

Director	Role	Attendance record
Alex Dorrian	Committee Chairman[1]	3/3
Julie Baddeley	Non-executive Director	1/1
James Buxton	Non-executive Director	4/4
Peter Harvey	Non-executive Director	4/4
Christopher Sawyer	Non-executive Director	4/4
Philip Yea	Non-executive Director	2/2
Sir Michael Marshall	Committee Chairman[2]	2/2
Sarah Sillars	Non-executive Director	2/2

[1] Appointed 1st October 2016
[2] Resigned 1st October 2016

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

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

Main activities during the year
The committee identified and met with a number of candidates for the role of Chief Financial Officer, following the retirement of the Group Finance Director. The committee proposed the appointment of Sean Cummins, who was approved unanimously and appointed to the Board.

The committee also identified and met with a number of candidates for the role of non-executive director, as the Board had agreed that it needed strengthening in terms of financial and people expertise. The committee proposed the appointment of Alex Dorrian, Julie Baddeley and Philip Yea, all of whom were approved unanimously and appointed to the Board. All were selected based on merit against objective criteria and with due regard to the benefits of diversity on the Board.

The Committee Chairman further proposed that on appointment to the Board, Julie Baddeley be appointed Senior Independent Director, and that she be appointed as Chairman of the Remuneration Committee with effect from 1st April 2017 and that Philip Yea be appointed as Chairman of the Audit Committee with effect from 1st April 2017. The Nomination Committee unanimously approved the proposed changes.

In addition, the committee identified and met with a number of candidates for the role of CEO of MADG, and approved the appointment of Alistair McPhee.

Governance

Remuneration Committee Report

Introduction from Peter Harvey, Committee Chairman:

"I am pleased to present the Remuneration Committee's annual report for 2016, which is to inform shareholders on how senior executive remuneration is determined, although as a private Company there is no formal requirement to do so.

The Group's remuneration policy has been designed to attract, motivate and retain high calibre executives, supporting achievement of the Group's business strategy, encouraging behaviours in accordance with Marshall values, incentivising performance and the delivery of exceptional results, and rewarding the creation of long-term shareholder value.

During 2016 the Group commissioned Deloitte to undertake the triennial benchmarking exercise of executive remuneration to ensure that remuneration stays competitive, when compared with similar business entities, and to determine that fair and appropriate total reward packages are in place with the opportunity for upper quartile total earnings for achieving exceptional business and personal performance.

The Group also implemented a revised Long Term Incentive Plan (LTIP) to reflect the new structure of the Group following the listing of Marshall Motor Holdings plc on the AIM market of the London Stock Exchange in 2015. LTIP awards were made to the Executive Directors during the year for both 2015 and 2016.

It is intended to issue total reward statements to include all fixed and variable pay, rewards and benefits, to all senior executives to demonstrate the value of their entire remuneration."

Committee attendance

Director	Role	Attendance record
Peter Harvey	Committee Chairman	4/4
Sir Michael Marshall	Chairman	3/3
Alex Dorrian	Chairman	1/1
Sarah Sillars	Non-executive Director	3/3
Julie Baddeley	Non-executive Director	1/1
Christopher Sawyer	Non-executive Director	4/4

Objective

The remuneration committee works with the Group Chief Executive to set executive remuneration and review subsequent performance. The overarching aim is to ensure that remuneration policies and practices remain competitive within the industries in which the Group operates, and to attract the best talent, whilst driving behaviours that are in the long-term interests of the Group and its shareholders.

Responsibilities

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

- determining and agreeing with the Board the framework for the remuneration of the Company's President, Chairman, Group Chief Executive, Executive Directors, Company Secretary and such other members of the executive management as it is designated to consider;
- Reviewing the ongoing appropriateness and relevance of the remuneration policy;
- Reviewing the design of all Long Term Incentive Plans and other performance related pay schemes;
- Reviewing and approving the total annual payments made under such schemes;
- In consultation with the Chairman and Group Chief Executive, as appropriate, determining the total individual remuneration package of each Executive Director and other senior executives including bonuses, incentive payments and any other remuneration awards.

Committee focus and activities during the year

The key focus of remuneration is long-term performance and delivery of value to shareholders. In line with this, the committee:

- reaffirmed the strategic objective to offer competitive base salaries which attract and retain high quality executives, with the opportunity of upper quartile total earnings, subject to achieving both business and personal performance targets;
- reviewed performance against the 2015 annual bonus targets and agreed payments;
- reviewed and agreed stretching 2016 annual bonus targets and agreed payments. The Group Chief Executive and President have voluntarily declined a bonus payment for 2016;
- reviewed and approved 2016 salary levels for the Group Chief Executive, the Executive Directors and the Company Secretary. The Group Chief Executive declined any salary increase for 2017;
- reviewed performance against the 2013-2015-2018 Long Term Incentive Plan;
- completed a review by Deloitte to identify changes to the Notional NVPO share scheme, so as to align more closely the objectives of the executive team with the delivery of value to shareholders;
- considered and established the remuneration for the newly created role of President;
- managed the transition of the position of Committee Chairman to Peter Harvey from Sarah Sillars which became effective from 1st January 2016;
- agreed the appointment of Alex Dorrian to the Committee in December 2016; and
- agreed the appointment of Julie Baddeley to the Committee in December 2016 who will chair this Committee from April 2017.

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 Senior Independent Director or as chairman of any of the Board's committees (excluding the nomination committee).	Account is taken of: • increases awarded across the Group as a whole • fee levels at organisations of a similar size, complexity and type • changes in complexity, responsibility or time commitment required for the role

Remuneration Policy for Executive Directors

	Objectives	Operational and Performance Conditions	Opportunity
Base Salary	A competitive market salary commensurate with responsibility and experience.	Reviewed at 1st January each year taking into account increases awarded across the Group as a whole, personal contribution and performance, market changes and any change in role or responsibility.	Increases are generally expected to be in line with inflation and comparative increases in the business and competitor companies.
Annual Bonus	To motivate and reward annual performance specifically with respect to the business and overall profitability.	Maximum 100% of salary which is only available for exceptional performance. Paid in cash after the Group annual report and financial statements have been approved.	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 125% of salary can be achieved but only 50% can be taken in cash in the year after the initial performance period. the remainder is held for a further three years 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.	First operated in 2013, a further opportunity was offered in 2014. Up to £100,000 of deferred earned award could be swapped into ‘notional shares’. There are no longer any Notional NVPO shares in issue as they were all converted into cash and paid to executives during 2016. Some of the executives elected to re-invest part of their net proceeds into NVPO shares which have been issued by the Company.

Governance

Audit Committee Report

Introduction from Christopher Sawyer, Committee Chairman

"I am pleased to present the Audit Committee's annual report on its activities during the year. The committee has considered the applicable provisions of the various corporate governance codes and principles, together with the latest FRC guidance, and is satisfied that its terms of reference are in line with them. The committee has spent considerable time reviewing the projects undertaken by internal audit, and has also reviewed the external audit plans and met with auditors to ensure that the key areas of focus across the Group are included. The committee also considered the possibility of conversion of the financial statements to IFRS and has agreed that an impact assessment is performed in early 2017."

Committee attendance

Director	Role	Attendance record
Christopher Sawyer	Committee Chairman	4/4
Peter Harvey	Non-executive Director	4/4

Objective

The objective of the audit committee is to ensure the Board has adequate oversight of the Group's financial reporting, audit and internal control functions, together with compliance with the Group's risk management framework.

Governance

The audit committee comprises a minimum of two members, all of whom are independent non-executive directors of the company. Two members constitute a quorum. Appointments are for a period of three years after which they are subject to annual review, extendable by two further three-year periods so long as members continue to be independent.

Any term beyond six years is subject to particularly rigorous review.

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

Whilst there was not an individual member of the audit committee with both the recent and relevant financial experience envisaged by the UK Corporate Governance Code, the Board considers that the skills and attributes of the members, complemented by the attendance of the Group Chief Financial Officer, the Company Secretary and the Group Internal Audit Manager who are all qualified chartered accountants and members of the ICAEW, are sufficient to allow the audit committee to discharge its responsibilities. Philip Yea will assume the position of Chairman of the Audit Committee effective from 1st April 2017. Philip will bring both recent and relevant financial experience to the role.

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

Responsibilities

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

- monitoring the integrity of the financial statements;
- review of the financial statements and 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 the external audit plan;
- review of the internal audit plan; and
- review of whistleblowing arrangements

Review of financial statements and audit findings

The committee reviewed the annual report and financial statements to ensure that they are fair, balanced and understandable, and provide the information necessary for shareholders and other stakeholders to assess the company's performance, strategy and business model. To enhance its review, the committee considers reports from the Group Chief Financial Officer and also the external auditor on the outcomes of their review and annual audit. As a committee it supports EY in displaying the necessary professional scepticism required by their role.

Misstatements

Management reported to the committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation. The external auditor reported to the committee any misstatements that they had found in the course of their work. After due consideration the committee concurred with management that no adjustments were required.

Significant accounting issues considered by the committee in relation to the Group's financial statements
In the preparation of these financial statements a number of areas required the exercise of management judgement or a degree of estimation. The key judgement areas considered by the committee in relation to the 2016 financial statements, 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 recorded in each period. In this period the focus has been on the major complex project and the estimation basis for the expected loss. Working with the Board, there was challenge of operating management's analysis of the risks and assumptions, resulting in further risk weighted provisions being established. The committee monitored this and other contracts through regular Board updates on contract performance, and, where required, key individuals from the business attended meetings to provide a deeper understanding. EY also reported its audit findings on the key judgements used in material contracts.
Liability provisioning	Provisions have been established for the major project loss (as noted above), onerous leases, pensions and other exposures where it is probable that there will be an outflow of resources. In each of these cases considerable judgement has been applied. The committee reviewed reports from management, the external auditors and experts (in the case of pensions) and assessed the appropriateness of the related judgements and assumptions.
Goodwill impairment	The key goodwill impairment reviews were in relation to prior acquisitions Marshall Motor Holdings plc. The key assumptions in the value-in-use analysis largely relate to short-term profitability projections, long-term growth and the discount rate. In some cases the realisable value of the business is considered. Where appropriate, provision was made. The committee reviewed these assumptions and estimates, and discussed them with EY, which provided a detailed report on its audit findings.
Inventory provisioning	Provisions in all operating sub groups were assessed and discussed to ensure they are based on reasonable assumptions and a consistency of application. EY also reported its findings on the appropriateness of the management judgements and related provisions.
Revenue recognition	The appropriate recognition of revenue on long-term contracts as well as the proper application of cut off procedures in the Group's retail operations were reviewed and assessed. EY also reported its findings on the application of the Group's procedures and the judgements used.
Acquisition fair values	Marshall Motor Holdings plc (MMH) fair valued the assets and liabilities acquired in the Ridgeway acquisition, and updated the fair values for the SG Smith acquisition in the prior year. The fair values included £58m ascribed to franchise agreements, as valued by an external valuer. The committee reviewed all the values incorporated by MMH under IFRS to ensure appropriate for the UK GAAP accounts of the Group by reference to discussions with management and the external auditors.

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, 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.

At the December meeting the Audit Committee asked the external auditor to perform an independent review of the options to develop, enhance and strengthen the Audit Committee in the future.

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 AGM to be held on 7th June 2017.

Governance

Audit Committee Report (continued)

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

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

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

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

During the second half of 2016, the committee directed the Group internal audit manager to focus on ensuring the financial internal controls were appropriate and in operation, and this will continue into 2017.

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

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

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

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

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable to the UK and Republic of Ireland". Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the Parent Company and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

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

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

Directors' Report

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

The directors present their annual report, together with the audited financial statements for the year ended 31st December, 2016.

Results and dividends

The Group recorded a loss after tax and minority interests for the year of £16,561,000 (2015 – profit of £13,826,000). On 16th December, 2016, the Board paid a priority dividend of 2.0p per share on the non-voting priority ordinary (NVPO) shares, together with an interim dividend of 1.0p per share for both Ordinary and NVPO shareholders. The directors recommend a final dividend of 3.0p per Ordinary and NVPO share making a total for the year of 4.0p per Ordinary share and 6.0p per NVPO share. In accordance with FRS 102, the final dividend of 3.0p is not shown as a liability in the financial statements as it has been proposed after the balance sheet date and will be included in the financial statements for 2017. Preference dividends on the A and B preference shares amounting to £744,000 were paid in the year.

Research and development

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

Post balance sheet events

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

Directors

The following served as directors of the Company during the year ended 31st December, 2016 and up to the date of signing except as stated otherwise:

Sir Michael Marshall (Chairman, retired 1st October 2016)
Alex Dorrian (appointed 26th January 2016, Chairman from 1st October 2016)
Julie Baddeley (appointed 1st December 2016)
James Buxton
Sean Cummins (appointed 13th July 2016)
Bill Dastur (retired 30th April 2016)
Steve Fitz-Gerald (resigned 9th December 2016)
Peter Harvey
Robert Marshall
Christopher Sawyer
Sarah Sillars (resigned 1st June 2016)
Philip Yea (appointed 27th September 2016)

Julie Baddeley, Sean Cummins and Philip Yea retire on first appointment and, being eligible, are offering themselves for re-appointment as director. Robert Marshall retires by rotation, and, being eligible, is offering himself for re-appointment as director.

The interests of the directors, who were directors of the Company at the date of the approval of the financial statements, in the shares of the Company at 31st December, 2016 were:

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

The interests of the directors, who were directors of the Company at the date of the approval of the financial statements, at 1st January, 2016 were:

	Ordinary Shares of 12.5p each		NVPO Shares of 12.5p each		8% preference A shares of £1 each		10% preference B shares of £1 each	
	Beneficially	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**	**Beneficially**	**As trustee**
James Buxton	-	7,260,390	-	20,768,010	-	2,402,000	-	1,801,000
Robert Marshall	205,900	29,500	57,983	373,167	-	60,666	-	28,333
Christopher Sawyer	-	-	109,275	-	-	-	-	-

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

Directors' 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 £75.8m (2015 - £64.0m) in new fixed assets and investments and a further £96.7m (2015 - £22.0m) 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 2016 and together with the Group's other existing freehold investment properties which were revalued by the directors, at 31st December 2016, resulting in a total valuation of £13,989,000 (2015 - £13,755,000). A revaluation surplus of £2,282,000 (2015 – £791,000) has been taken to the income statement and non-distributable reserves. Other tangible fixed assets' details and movements can be found in note 14 to the financial statements.

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

Charitable donations
The Group made charitable donations of £147,000 (2015 - £191,000) during the year.

Political contributions
There were no political donations in either year.

Future developments and risk management
The Group Strategic Report gives further details on future developments and the Group's risk management framework, as set out on pages 4 to 37.

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

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are described within the Strategic Report on pages 4 to 37. Included within this, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 30 and 31 whilst the principal risks and uncertainties facing the Group are set out in the Strategic Report and specifically on pages 26 to 29. The Group is diversified across a number of customers and suppliers across different industries and the directors believe the Group is well placed to manage its business risks successfully. The Board has reviewed the latest budgets and forecasts for the Group and, as a result, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

BY ORDER OF THE BOARD

Sarah Moynihan
Group Company Secretary
28th March, 2017

Consolidated Income Statement

for the year ended 31st December, 2016

	Notes	2016 £000	2015 £000
Continuing operations			
Revenue	2/4	**2,259,884**	1,585,732
Cost of sales		**(1,937,896)**	(1,314,531)
Gross profit		**321,988**	271,201
Administrative expenses		**(328,151)**	(251,115)
Other operating income		**1,661**	2,611
Operating (loss) / profit	3/5	**(4,502)**	22,697
(Loss) / profit on disposal of tangible fixed assets	6	**(542)**	1,602
Profit on disposal of investments		**358**	-
Loss on disposal of subsidiary / businesses		**(90)**	-
Gain on revaluation of investment properties	14	**2,282**	791
Gain on revaluation of investments	15	**334**	606
Amounts provided against investments	15	**(399)**	(395)
Income from investments		**27**	25
Net finance charges	7	**(7,291)**	(3,095)
(Loss) / profit on ordinary activities before taxation		**(9,823)**	22,231
Tax on (loss) / profit on ordinary activities	9	**(842)**	(6,863)
(Loss) / profit on ordinary activities after taxation		**(10,665)**	15,368
Non-controlling interests	24	**(5,896)**	(1,542)
(Loss) / profit for the financial year		**(16,561)**	13,826
Basic and diluted (loss) / earnings per share	10	**(29.4p)**	22.3p

Consolidated Statement of Comprehensive Income

for the year ended 31st December, 2016

	Notes	2016 £000	2015 £000
(Loss) / profit on ordinary activities after taxation		**(10,665)**	15,368
Exchange differences on re-translation of subsidiary undertakings		**1,062**	(676)
Fair value (loss) / gain recognised on cash flow hedges		**(184)**	441
Taxation on cash flow hedges		**36**	(5)
Remeasurement (loss) / gain recognised on defined benefit pension scheme	31	**(5,276)**	1,201
Movement on taxation relating to defined benefit pension scheme	31	**782**	(497)
Total other comprehensive (expense) / income		**(3,580)**	464
Total comprehensive (expense) / income		**(14,245)**	15,832
Total comprehensive (expense) / income for the year attributable to:			
Non-controlling interests	24	**5,896**	1,542
Owners of the parent		**(20,141)**	14,290
		(14,245)	15,832

Balance Sheets
as at 31st December, 2016

		Group		Company	
		2016	2015	**2016**	2015
	Notes	**£000**	£000	**£000**	£000
Fixed assets					
Intangible assets	13	**117,192**	37,822	**-**	-
Tangible assets	14	**289,486**	194,542	**140**	185
Investments	15	**5,715**	4,543	**51,754**	50,583
Total fixed assets		**412,393**	236,907	**51,894**	50,768
Current assets					
Stocks	16	**409,711**	264,949	**-**	-
Debtors	17	**181,725**	129,665	**25,035**	19,623
Cash at bank and in hand		**18,506**	54,317	**10,717**	24,279
		609,942	448,931	**35,752**	43,902
Creditors: amounts falling due within one year	18	**(699,975)**	(410,735)	**(43,919)**	(52,085)
Net current (liabilities) / assets		**(90,033)**	38,196	**(8,167)**	(8,183)
Total assets less current liabilities		**322,360**	275,103	**43,727**	42,585
Creditors: amounts falling due after more than one year	19	**(50,237)**	(34,872)	**(997)**	(1,525)
Provision for liabilities	21	**(49,117)**	(6,392)	**(8,800)**	-
Net assets before pension liability		**223,006**	233,839	**33,930**	**41,060**
Pension liability	31	**(17,510)**	(11,516)	**(17,510)**	(11,516)
Net assets		**205,496**	222,323	**16,420**	**29,544**
Capital and reserves					
Called up share capital	22	**15,785**	15,733	**15,785**	15,733
Share premium		**611**	-	**611**	-
Capital redemption reserve	23	**130**	130	**130**	130
Cash flow hedge reserve	23	**115**	263	**-**	-
Profit and loss account		**138,854**	161,926	**(106)**	13,681
Shareholders' funds		**155,495**	178,052	**16,420**	**29,544**
Non-controlling interests	24	**50,001**	44,271	**-**	-
Total capital employed		**205,496**	222,323	**16,420**	**29,544**

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 28th March, 2017. They were signed on its behalf by:

R D Marshall

Director

S V Cummins

Director

Company Registration No. 2051460

Statement of Changes in Equity

at 31st December, 2016

Group	Share capital	Share premium	Capital redemption reserve	Cash flow hedge reserve	Retained earnings	Total	Non-controlling interest	Total
	£000	£000	£000	£000	£000	£000	£000	£000
At 1st January, 2015	15,733	-	130	(173)	160,921	176,611	36	176,647
Profit for the financial year	-	-	-	-	13,826	13,826	1,542	15,368
Other comprehensive income	-	-	-	436	28	464	-	464
Total comprehensive income for the year	-	-	-	436	13,854	14,290	1,542	15,832
Equity dividends paid (see note 11)	-	-	-	-	(6,758)	(6,758)	(155)	(6,913)
Expenses directly attributable to subsidiary's IPO	-	-	-	-	(650)	(650)	-	(650)
Change in interest in subsidiary's net assets	-	-	-	-	(5,441)	(5,441)	42,848	37,407
At 31st December, 2015	15,733	-	130	263	161,926	178,052	44,271	222,323
At 1st January, 2016	15,733	-	130	263	161,926	178,052	44,271	222,323
(Loss) / profit for the financial year	-	-	-	-	(16,561)	(16,561)	5,896	(10,665)
Other comprehensive expense	-	-	-	(148)	(3,432)	(3,580)	-	(3,580)
Total comprehensive (expense) / income for the year	-	-	-	(148)	(19,993)	(20,141)	5,896	(14,245)
Equity dividends paid (see note 11 and 24)	-	-	-	-	(4,010)	(4,010)	(1,135)	(5,145)
Issue of share capital	52	611	-	-	-	663	-	663
Share based payment charge	-	-	-	-	587	587	-	587
Change in interest in subsidiary's net assets	-	-	-	-	344	344	969	1,313
At 31st December, 2016	**15,785**	**611**	**130**	**115**	**138,854**	**155,495**	**50,001**	**205,496**

Parent Company	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
At 1st January, 2015	15,733	-	130	3,183	19,046
Profit for the financial year	-	-	-	17,202	17,202
Other comprehensive income	-	-	-	704	704
Total comprehensive income for the year	-	-	-	17,906	17,906
Expenses directly attributable to subsidiary's IPO	-	-	-	(650)	(650)
Equity dividends paid (see note 11)	-	-	-	(6,758)	(6,758)
At 31st December, 2015	15,733	-	130	13,681	29,544
At 1st January, 2016	15,733	-	130	13,681	29,544
Loss for the financial year	-	-	-	(5,870)	(5,870)
Other comprehensive expense	-	-	-	(4,494)	(4,494)
Total comprehensive expense for the year	-	-	-	(10,364)	(10,364)
Issue of share capital	52	611	-	-	663
Share based payment charge	-	-	-	587	587
Equity dividends paid (see note 11)	-	-	-	(4,010)	(4,010)
At 31st December, 2016	**15,785**	**611**	**130**	**(106)**	**16,420**

Group Statement of Cash Flows
for the year ended 31st December, 2016

	Notes	2016 £000	2015 £000
Operating activities			
Net cash inflow from operating activities	12	**67,908**	38,590
Investing activities			
Dividends received from investments		**27**	25
Interest received	7	**234**	341
Payments to acquire intangible fixed assets	13	**(506)**	-
Payments to acquire tangible fixed assets	14	**(73,820)**	(63,809)
Payments to acquire fixed asset investments	15	**(1,468)**	(960)
Receipts from sales of tangible fixed assets		**12,310**	10,891
Net cash flow from sale of businesses		**2,999**	-
Receipts from sales of fixed assets investments		**589**	-
Acquisition of businesses	13	**(109,322)**	(24,450)
Net cash acquired on acquisitions	13	**12,664**	2,477
		(156,293)	(75,485)
Financing activities			
Interest paid	7	**(3,156)**	(1,496)
Stock finance interest paid	7	**(3,958)**	(1,507)
Dividends paid to preference shareholders	11	**(744)**	(744)
Equity dividends paid	11	**(3,266)**	(6,014)
New shares issued by subsidiary undertaking		**-**	36,853
New shares issued		**663**	-
Dividends paid to non-controlling interests	24	**(1,135)**	(155)
New loans and overdrafts	20	**106,444**	29,861
Repayment of loans	20	**(45,343)**	(30,812)
Directly attributable IPO costs		**-**	(650)
		49,505	25,336
Decrease in cash and cash equivalents		**(38,880)**	(11,559)
Effect of exchange rates on cash and cash equivalents		**3,069**	405
Cash and cash equivalents at 1st January	12c	**54,317**	65,471
Cash and cash equivalents at 31st December	12c	**18,506**	54,317

Notes to the financial statements
at 31st December, 2016

1a. Accounting policies

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

The Group's and Parent Company's financial statements have been prepared in compliance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as it applies to the financial statements of the Group and Parent Company for the year ended 31st December, 2016.

Basis of preparation and change in accounting policy
The financial statements of Marshall of Cambridge (Holdings) Limited were authorised for issue by the board of directors on 28th March, 2017. The financial statements have been prepared in accordance with applicable accounting standards. They have been prepared in sterling which is the functional currency of the Group and the Parent Company and are rounded to the nearest £'000.

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

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities. Ridgeway Garages (Newbury) Limited and subsidiaries has been included in the Group financial statements using the purchase method of accounting. Accordingly the Group profit and loss account and statement of cash flows include the results and cash flows of Ridgeway Garages (Newbury) Limited and subsidiaries for the period from its acquisition on 25th May, 2016. The purchase consideration has been allocated to the assets and liabilities on the basis of the preliminary fair value at the date of acquisition.

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

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

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

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

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

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

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

Notes to the financial statements
at 31st December, 2016

1a. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements
at 31st December, 2016

1a. Accounting policies (continued)

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

a) the items traded in the market are homogeneous;

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

c) prices are available to the public.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

at 31st December, 2016

1a. Accounting policies (continued)

Pensions

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

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

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

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

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

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

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

Leases

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

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

Foreign currencies

Parent Company

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

Group

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

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

Derivative financial instruments

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

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

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

Notes to the financial statements

at 31st December, 2016

1a. Accounting policies (continued)

Government grants

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

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

Provision for liabilities

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

Cash and cash equivalents

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

Share based payments

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

Separately disclosed exceptional items

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

Classification of shares as debt or equity

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

Post balance sheet events

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

1b. Judgements and key sources of estimation uncertainty

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

Equity investments

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

Impairment of intangible assets

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

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

Notes to the financial statements
at 31st December, 2016

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

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

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income Statement. The Group engaged independent valuation specialists to assist the directors in determining fair value at 31st December, 2016. The valuer determines fair value by considering comparable local market data such as rental yields, location, condition and nature of the property.

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

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

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

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

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

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

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

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

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

Notes to the financial statements
at 31st December, 2016

2. Segmental analysis

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

With effect from 1st January, 2016 the business is split into three main operating segments generating revenue and a fourth support segment. Prior year comparatives have been restated to reflect the new segmental structure.

	Revenue		Operating (loss) / profit		Net assets / (liabilities)	
	2016	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000
Business segments:						
Aerospace and Defence	**329,089**	324,919	**(27,306)**	12,287	**38,058**	67,329
Property	**8,004**	8,618	**3,640**	1,244	**50,468**	48,481
Group Finance						
- Motor retail and leasing	**1,899,405**	1,232,761	**27,073**	17,194	**141,272**	126,205
- Fleet solutions	**46,291**	39,634	**(1,503)**	465	**(342)**	1,212
	1,945,696	1,272,395	**25,570**	17,659	**140,930**	127,417
Unallocated central costs	**-**	-	**(6,406)**	(8,493)	**-**	-
Consolidation adjustments	**(22,905)**	(20,200)	**-**	-	**(23,960)**	(20,904)
	2,259,884	1,585,732	**(4,502)**	22,697	**205,496**	222,323

	Revenue by destination		Revenue by origin		Operating (loss) / profit		Net assets / (liabilities)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Geographical segments:	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
UK	**2,127,410**	1,470,651	**2,248,326**	1,576,089	**(5,699)**	21,212	**200,231**	216,762
Rest of Europe	**44,503**	33,665	**2,140**	1,248	**64**	394	**260**	237
North America	**41,151**	37,604	**8,621**	7,739	**1,244**	1,219	**4,570**	5,036
Rest of World	**46,820**	43,812	**797**	656	**(111)**	(128)	**435**	288
	2,259,884	1,585,732	**2,259,884**	1,585,732	**(4,502)**	22,697	**205,496**	222,323

	2016	2015
The total amount of income, including revenue, recognised in the year is analysed as follows:	**£000**	£000
Sale of goods	**1,719,994**	1,113,824
Rendering of services (including long term contracts)	**538,606**	470,394
Rents received	**1,284**	1,514
Revenue	**2,259,884**	1,585,732
Interest received	**234**	341
Research and development expenditure credit	**905**	1,974
Dividends received	**27**	25
Other income	**756**	637
Total income	**2,261,806**	1,588,709

Revenue recognised on long term contracts was £257,619,000 (2015 - £259,508,000).

Notes to the financial statements

at 31st December, 2016

3. Separately disclosed exceptional items

	2016	2015
	£000	£000
Operating profit:		
Before separately disclosed items	**31,520**	26,415
Separately disclosed exceptional items	**(36,022)**	(3,718)
Reported operating (loss) / profit	**(4,502)**	22,697
Details of separately disclosed exceptional items:		
Amortisation of intangible fixed assets	**(4,983)**	(2,843)
Impairment of tangible fixed assets	**(946)**	(467)
Provision for losses on complex programme	**(25,925)**	-
Non directly attributable IPO costs	**-**	(408)
Restructuring costs	**(4,168)**	-
Separately disclosed exceptional items	**(36,022)**	(3,718)

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

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

4. Acquired operations

The Consolidated Income Statement for the year includes, in respect of acquisitions during the year, revenue of £414,681,000 and profit before tax of £4,736,000.

5. Operating (loss) / profit

		2016	2015
		£000	£000
Operating (loss) / profit is after charging / (crediting):			
Depreciation	- tangible fixed assets	**31,691**	29,182
Amortisation	- positive goodwill and intangible assets	**4,983**	2,843
Impairment	- tangible fixed assets	**946**	467
Operating lease rentals	- land and buildings	**17,450**	7,541
	- plant and machinery	**472**	328
Net foreign exchange gains		**(1,432)**	(96)
Profit on disposal of tangible fixed assets		**(75)**	(30)
Research and development	- current year expenditure	**2,702**	2,374
Research and development expenditure credit included in operating income		**(905)**	(1,974)
Auditor's remuneration	- audit of the financial statements of the parent company	**58**	66
	- audit of subsidiary undertakings	**597**	729
	- review of subsidiary's interim financial statements	**36**	40

Notes to the financial statements
at 31st December, 2016

6. (Loss) / profit on disposal of tangible fixed assets

	2016	2015
	£000	£000
(Loss) / profit on disposal of tangible fixed assets - non operating assets	(542)	1,602

The tax (credit) / charge relating to (loss) / profit on disposal of tangible fixed assets is £nil (2015 - £275,000).

7. Net finance charges

	2016	2015
	£000	£000
(a) Finance income		
Bank interest receivable	234	341

	2016	2015
(b) Finance cost	£000	£000
Bank loans and overdrafts - interest and charges	2,407	302
Interest payable on asset backed finance	749	1,125
Stock financing charges and other interest	3,958	1,507
Interest payable on tax payments	-	69
Interest on defined benefit scheme liabilities	411	433
	7,525	3,436
Net finance charges	7,291	3,095

8. Profit attributable to members of the Parent Company

No income statement is presented for the Parent Company as permitted by Section 408 of the Companies Act 2006. The loss for the financial year dealt with in the financial statements of the Parent Company was £5,870,000 (2015 – profit of £17,202,000).

Notes to the financial statements

at 31st December, 2016

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

	2016	2015
	£000	£000
(a) Analysis of tax charge for the year		
UK corporation tax charge on the (loss) / profit for the year	**4,228**	5,433
UK corporation tax adjustment in respect of prior years	**(306)**	707
Overseas tax on profit for the year	**513**	328
Overseas tax adjustment in respect of prior years	**115**	72
Current tax charge	**4,550**	6,540
Deferred tax (credit) / charge (see note 21b)	**(3,708)**	323
Total tax on (loss) / profit on ordinary activities	**842**	6,863

	2016	2015
	£000	£000
(b) Factors affecting the total tax charge for the year		
(Loss) / profit on ordinary activities before tax	**(9,823)**	22,231
(Loss) / profit on ordinary activities before tax at 20.00% (2015 - 20.25%)	**(1,965)**	4,502
Effects of:		
Expenses not deductible for tax purposes	**1,859**	1,423
Overseas tax losses not recognised	**36**	208
Adjustments in respect of prior years	**(870)**	898
Change in recognition of deferred tax	**1,782**	(168)
Total	**842**	6,863

	2016	2015
	£000	£000
(c) Tax included in the statement of other comprehensive (expense) / income		
Current taxation on cash flow hedges	**(36)**	5
Deferred tax (credit) / charge on actuarial loss / (gain)	**(782)**	497
Tax (credit) / charge included in the statement of other comprehensive (expense) / income	**(818)**	502

d) Factors that may affect future tax charges

The applicable tax rate for the current year is 20.00% (2015 – 20.25%) following the reduction in the main rate of UK corporation tax from 21% to 20% with effect from 1st April, 2015. A reduction to the corporation tax rate to 19% (effective from 1st April, 2017) was substantively enacted on 26th October, 2016 and a further reduction to 17% (effective from 1st April, 2020) was substantively enacted on 23rd November, 2016.

These changes will reduce the Group's future tax charge accordingly and reduce the deferred tax asset at 31st December, 2016 (which has been calculated based on the expected long-term rate of 17% substantively enacted at the balance sheet date).

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £1,690,000 (2015 - £1,159,000) in respect of losses arising that can be carried forward against future taxable profits in the companies in which the losses arose.

During the year ending 31st December, 2017, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £467,000. This is due to reversal of deferred tax and fixed asset timing differences.

e) Close company

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

Notes to the financial statements
at 31st December, 2016

10. Earnings per share

	2016 £000	2015 £000
(Loss) / profit on ordinary activities after taxation	**(10,665)**	15,368
Non-controlling interests	**(5,896)**	(1,542)
Dividends on preference shares	**(744)**	(744)
Basic (loss) / earnings	**(17,305)**	13,082
Separately disclosed exceptional items (note 3)	**36,022**	3,718
- tax impact	**(4,448)**	(92)
Loss on disposal of business units	**90**	-
Loss / (profit) on disposal of property	**542**	(1,602)
- tax impact	**-**	275
Investment property fair value movements	**(2,282)**	(791)
- tax impact	**202**	156
Underlying earnings	**12,821**	14,746
Average number of shares issue during the year (000)	**58,871**	58,660
Basic and diluted (loss) / earnings per share	**(29.4p)**	22.3p
Underlying earnings per share	**21.8p**	25.1p

Basic earnings per share are calculated by dividing the basic earnings for the year by the average number of Ordinary and NVPO shares in issue during the year. Diluted earnings per share are calculated in the same way as currently there is no irrevocable commitment to issue shares in the future. Underlying earnings which exclude separately disclosed exceptional items, profit and losses on disposal of property, profit and losses on disposal of business units and investment property fair value movements 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.

Comparative values for underlying earnings per share in 2015 have been amended to reflect the change in reporting applied to the current year.

11. Dividends

	2016	2015
Dividends on Ordinary shares:	**£000**	£000
3.00p per Ordinary share of 12.5p each paid on 24th June, 2016 (26th June, 2015 - 2.75p)	**437**	413
1.00p per Ordinary share of 12.5p each paid on 16th December, 2016 (18th December, 2015 - 6.00p)	**139**	873
	576	1,286
Dividends on NVPO shares		
3.00p per Ordinary share of 12.5p each paid on 24th June, 2016 (26th June, 2015 - 2.75p)	**1,336**	1,200
3.00p per NVPO share of 12.5p each paid on 16th December, 2016 (18th December, 2015 - 8.00p)	**1,354**	3,528
	2,690	4,728
Dividends on preference shares:		
8.00p per A preference share	**384**	384
10.00p per B preference share	**360**	360
	744	744
Aggregate dividends declared and paid during the year	**4,010**	6,758

Notes to the financial statements
at 31st December, 2016

12. Notes to the statement of cash flows

	2016	2015
	£000	£000
a) Reconciliation of (loss) / profit to net cash inflow from operating activities		
Group (loss) / profit on ordinary activities before tax	**(9,823)**	22,231
Loss / (profit) on disposal of tangible fixed assets	**467**	(1,632)
Profit on disposal of investments	**(358)**	-
Loss on disposal of subsidiaries / businesses	**90**	-
Gain on investment properties at fair value through profit and loss	**(2,282)**	(791)
Gain on investments at fair value through profit and loss	**(334)**	(606)
Amounts provided against investments	**399**	395
Income from investments	**(27)**	(25)
Net finance charges	**7,291**	3,095
Foreign exchange movement	**(2,225)**	(1,136)
Depreciation of tangible fixed assets and impairment charges	**32,637**	29,649
Amortisation of intangible fixed assets and impairment charges	**4,983**	2,843
Research and expenditure credit	**(905)**	(1,974)
(Increase) in stocks	**(22,532)**	(60,968)
Decrease / (increase) in debtors	**5,664**	(36,362)
Increase in provisions	**22,704**	608
Increase in creditors	**35,092**	89,466
Share based payment charge	**1,313**	554
Adjustment for pension funding	**308**	(566)
UK corporation tax paid	**(3,858)**	(5,880)
Overseas tax paid	**(696)**	(311)
Net cash inflow from operating activities	**67,908**	38,590

b) Reconciliation of net cash flow to movement in net (debt) / funds		**2016**	2015
	Notes	**£000**	£000
Decrease in cash		**(35,811)**	(11,154)
Acquisitions - debt	20	**(25,705)**	-
Acquisitions - derivatives	20	**(1,258)**	-
Cash inflow from new loans	20	**(106,444)**	(29,861)
Repayment of loans	20	**45,343**	30,812
Decrease in net funds		**(123,875)**	(10,203)
Net funds at 1st January		**1,721**	11,924
Net (debt) / funds at 31st December		**(122,154)**	1,721

	At 1st January, 2016	**Cash movement**	**Non-cash movement**	**Foreign exchange**	**At 31st December, 2016**
c) Analysis of net (debt) / funds	**£000**	**£000**	**£000**	**£000**	**£000**
Cash at bank and in hand	54,317	(38,880)	-	3,069	**18,506**
Bank overdrafts	(1,219)	653	-	-	**(566)**
Short term loans	(26,700)	(29,061)	(42,969)	-	**(98,730)**
Long term loans	(24,677)	(32,693)	16,006	-	**(41,364)**
Net funds / (debt)	1,721	(99,981)	(26,963)	3,069	**(122,154)**

Notes to the financial statements
at 31st December, 2016

13. Intangible fixed assets

	Franchise agreements £000	Goodwill £000	Software £000	Favourable leases £000	Order backlog £000	Total £000
Cost:						
At 1st January, 2015	-	36,111	-	-	-	36,111
Acquisitions	13,552	5,251	-	-	-	18,803
At 31st December, 2015	**13,552**	**41,362**	**-**	**-**	**-**	**54,914**
Additions	-	-	506	-	-	506
Acquisitions	58,563	25,118	-	172	769	84,622
Disposals	-	(1,662)	(49)	-	-	(1,711)
Transfers	-	-	622	-	-	622
At 31st December, 2016	**72,115**	**64,818**	**1,079**	**172**	**769**	**138,953**
Amortisation:						
At 1st January, 2015	-	14,249	-	-	-	14,249
Provided during the year	-	2,843	-	-	-	2,843
At 31st December, 2015	**-**	**17,092**	**-**	**-**	**-**	**17,092**
Provided during the year	44	3,887	250	33	769	4,983
Disposals	-	(440)	(44)	-	-	(484)
Transfers	-	-	170	-	-	170
At 31st December, 2016	**44**	**20,539**	**376**	**33**	**769**	**21,761**
Net book amount:						
At 31st December, 2016	**72,071**	**44,279**	**703**	**139**	**-**	**117,192**
Net book amount:						
At 1st January, 2016	13,552	24,270	-	-	-	37,822

During the period, the Group disposed of two Toyota dealerships, one Nissan dealership and Flairjet Limited, the business aviation charter business.

The Group recognised in the 2015 financial statements a provisional fair value of net assets acquired of £8,885,000 and a provisional fair value for goodwill of £16,260,000 in respect of S.G. Smith Holdings Limited.

Within the measurement period following acquisition and in accordance with FRS102 section 19, the purchase price allocated has been finalised. This included an exercise to identify franchise agreements, favourable leases and order backlog. As a result of this, a value of £13,552,000 has been ascribed to franchise agreements reflecting the ability to sell manufacturer vehicles and to offer manufacturer standard aftersales services in a particular geographic area. This amount has been reclassified from goodwill to franchise agreements, and a corresponding deferred tax liability of £2,439,000 (note 21) has been recognised.

The finalisation of the completion accounts exercise also resulted in an increase in the fair value of trade and other payables acquired of £104,000 (note 18).

In accordance with FRS102 section 19, the measurement period adjustment has been reflected in these financial statements as if the final purchase price allocation had been completed at the acquisition date. The impact was to increase the value of goodwill by £2,543,000, increase the value of trade payables by £314,000 and increase the value of deferred tax liabilities by £2,439,000 from the values previously reported at 31st December, 2015.

Notes to the financial statements
at 31st December, 2016

13. Intangible fixed assets (continued)

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

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

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

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

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

On 16th November, 2015 Marshall Motor Holdings plc acquired the entire share capital S.G. Smith Holdings Limited and subsidiaries. The net assets (* restated as described previously) at the date of acquisition are stated at their fair value as set out below.

	Book value and fair value to Group
	£000
Intangible assets*	13,552
Property, plant & equipment	6,750
Inventories	24,195
Trade receivables and other current assets	5,548
Cash and cash equivalents	2,477
Trade and other payables*	(29,981)
Net assets acquired*	**22,541**
Deferred tax liability arising on business combination*	(3,342)
Goodwill*	5,251
Total cash consideration	**24,450**

Notes to the financial statements
at 31st December, 2016

13. Intangible fixed assets (continued)

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

Motor retail CGUs
The recoverable amounts of all CGUs have been determined based on value-in-use calculations. These calculations use projections based on financial budgets approved by the management which are extrapolated using the estimated long term growth rates. The budgets were prepared to 31st December, 2017 and then projected for a further 4 years. A discounted cash flow model was prepared taking into account management's assumptions for growth in EBITDA and the long term growth rate for the industry. These assumptions are based on past experience of growth rates in both existing and new markets. The discount rate used is 10% and the perpetual EBITDA growth rate beyond 5 years is assumed as 2% to arrive at a terminal value.

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

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

14. Tangible fixed assets

Group	Land and buildings						
	Freehold Properties	Investment Properties	Short Leasehold	Plant and Machinery	Assets held for contract rental	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation:							
At 1st January, 2016	95,321	13,755	10,844	144,554	96,890	-	361,364
Additions	4,898	2	317	9,433	35,537	23,633	73,820
Additions on acquisition	53,276	-	2,872	5,007	-	3,899	65,054
Disposals	(2,751)	-	(278)	(5,613)	(30,483)	-	(39,125)
Revaluation	-	2,282	-	-	-	-	2,282
Transfers	20,017	(2,050)	(186)	1,278	-	(20,510)	(1,451)
Exchange adjustment	-	-	-	265	-	-	265
At 31st December, 2016	**170,761**	**13,989**	**13,569**	**154,924**	**101,944**	**7,022**	**462,209**
Depreciation:							
At 1st January, 2016	32,997	-	2,482	96,914	34,429	-	166,822
Provided during the year	2,292	-	1,200	10,856	17,343	-	31,691
Impairment provision	-	-	93	853	-	-	946
Eliminated on disposals	(1,917)	-	(259)	(4,240)	(19,514)	-	(25,930)
Transfers	233	-	(42)	(1,190)	-	-	(999)
Exchange adjustment	-	-	-	193	-	-	193
At 31st December, 2016	**33,605**	**-**	**3,474**	**103,386**	**32,258**		**172,723**
Net book value:							
At 31st December, 2016	**137,156**	**13,989**	**10,095**	**51,538**	**69,686**	**7,022**	**289,486**
Net book value:							
At 1st January, 2016	62,324	13,755	8,362	47,640	62,461	-	194,542

Included within freehold land and buildings are costs of £4,301,000 (2015 - £2,390,000) which relate to costs incurred on planning applications submitted and to be submitted.

Notes to the financial statements

at 31st December, 2016

14. Tangible fixed assets (continued)

Investment properties included in freehold land and buildings are stated at fair value with changes in fair value being recognised in the Income Statement. No depreciation is provided in respect of such properties in accordance with FRS 102 Chapter 16 Investment Property. Residential investment properties have been included at a directors' valuation of £1,875,000 (2015 - £1,925,000), having taken professional advice. Fair value is determined by considering comparable market data such as rental yields, location, condition and nature of the property. Motor retail investment properties no longer occupied by the Group for trading purposes have been included at a directors' valuation of £2,590,000 (2015 - £1,920,000), having taken professional advice. The remaining Group freehold investment properties have been included at a directors' valuation of £9,524,000 (2015 - £9,910,000). These properties were formally valued on an open market basis by Bidwells, Chartered Surveyors on 31st December, 2014. A revaluation surplus of £2,290,000 (2015 – £791,000) has been taken to the Income Statement. The historical cost of the investment properties held at valuation in land and buildings is £10,901,000 (2015 - £12,473,000). There are no restrictions on the Group's ability to dispose of the investment properties or use any funds arising from the disposal. There are no contractual commitments for further development of the investment properties.

Company	Plant and machinery	Motor vehicles	Total
	£000	£000	£000
Cost:			
At 1st January, 2016	417	341	758
Additions	10	-	10
Disposals	(2)	(62)	(64)
At 31st December, 2016	425	279	704
Depreciation:			
At 1st January, 2016	282	291	573
Provided during the year	34	19	53
Disposals	-	(62)	(62)
At 31st December, 2016	316	248	564
Net book value:			
At 31st December, 2016	109	31	140
Net book value:			
At 1st January, 2016	135	50	185

15. Investments

Group	Listed*	Other investments	Total
	£000	£000	£000
Cost or valuation:			
At 1st January, 2016	2,121	3,190	5,311
Additions	-	1,468	1,468
Disposals	-	(231)	(231)
Mark to market	334	-	334
At 31st December, 2016	**2,455**	**4,427**	**6,882**
Provision:			
At 1st January, 2016	-	768	768
Provided during the year	-	399	399
At 31st December, 2016	**-**	**1,167**	**1,167**
Net book value:			
At 31st December, 2016	**2,455**	**3,260**	**5,715**
Net book value:			
At 1st January, 2016	2,121	2,422	4,543

Notes to the financial statements
at 31st December, 2016

15. Investments (continued)

Company	Subsidiary undertakings	EQUITY INVESTMENTS Listed*	Other investments	Total
	£000	£000	£000	£000
Cost or valuation:				
At 1st January, 2016	56,050	2,121	3,180	61,351
Additions	-	-	1,468	1,468
Disposal	(1)	-	(231)	(232)
Mark to market	-	334	-	334
At 31st December, 2016	**56,049**	**2,455**	**4,417**	**62,921**
Provision:				
At 1st January, 2016	10,000	-	768	10,768
Provided during the year	-	-	399	399
At 31st December, 2016	**10,000**	**-**	**1,167**	**11,167**
Net book value:				
At 31st December, 2016	**46,049**	**2,455**	**3,250**	**51,754**
Net book value:				
At 1st January, 2016	46,050	2,121	2,412	50,583

* The original cost of investments listed on equity investments is £80,000 (2015 - £80,000).

The Company's direct investments in subsidiary undertakings at 31st December, 2016 were as follows:

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

Notes to the financial statements
at 31st December, 2016

15. Investments (continued)

Other subsidiary undertakings are detailed below:

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

* 99% owned by Marshall Motor Holdings plc.

** Subsidiaries for which exemption from audit by virtue of s479A of the Companies Act 2006 has been taken for the year ended 31st December, 2016.

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

Notes to the financial statements
at 31st December, 2016

16. Stocks

	Group	
	2016	2015
	£000	£000
Raw materials, components and consumables	**9,325**	7,668
Work in progress	**13,577**	13,936
Finished goods and goods for resale	**386,809**	243,345
	409,711	264,949

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

As at 31st December, 2016 £364,695,000 (2015 – £186,185,000) of finished goods are held under vehicle funding agreements (see note 18).

Stocks recognised as an expense in the year were £1,787m (2015 – £1,191m). The difference between purchase price and production cost of stocks and their replacement cost is not considered material by the directors.

17. Debtors

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Trade debtors	**124,027**	81,862	**-**	-
Amounts recoverable on long term contracts	**1,349**	460	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**18,713**	14,508
Derivative financial instruments	**54**	258	**-**	-
Corporation tax recoverable	**4,801**	8	**2,210**	2,120
Other taxes recoverable	**308**	16	**-**	-
Other debtors	**29,525**	33,679	**50**	300
Prepayments and accrued income	**17,418**	11,254	**397**	174
Deferred tax asset (See note 21b)	**4,243**	2,128	**3,665**	2,521
	181,725	129,665	**25,035**	19,623

Other debtors include finance lease and hire purchase receivables of £494,000 (2015 - £572,000). Of these £283,000 (2015 - £396,000) are amounts due in more than one year.

Notes to the financial statements
at 31st December, 2016

18. Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Loans and overdrafts	**99,296**	27,919	**21,000**	-
Payments received on account	**10,082**	38,519	**-**	-
Trade creditors	**106,400**	56,127	**128**	228
Vehicle funding agreements	**364,695**	186,185	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**16,172**	43,635
Corporation tax payable	**4,537**	391	**-**	-
Other taxation and social security costs	**10,965**	12,469	**248**	208
Other creditors	**28,296**	13,923	**-**	-
Accruals and deferred income	**75,704**	75,202	**6,371**	8,014
	699,975	410,735	**43,919**	52,085

The Group finances the purchase of new and used vehicle inventories using vehicle funding agreements provided by various lenders, including finance companies associated with brand partners. These funding agreements generally have a maturity of 90 days or less and the Group is normally required to repay amounts outstanding on the earlier of the sale of the vehicles that have been funded under the facilities or the stated maturity date. Vehicle funding agreements are subject to LIBOR-based (or similar) interest rates. The interest incurred under these arrangements is included within finance costs and classified as stock finance charges. Related cash flows are reported within cash flows from financing activities within the Group statement of cash flows.

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

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Loans	**41,364**	24,677	**-**	-
Accruals and deferred income	**8,873**	10,195	**997**	1,525
	50,237	34,872	**997**	1,525

Included within accruals and deferred income are costs of £997,000 (2015 - £1,525,000) relating to long-term employee benefits.

Notes to the financial statements
at 31st December, 2016

20. Loans

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Amounts falling due:				
Within one year	**99,296**	27,919	**21,000**	-
Between one and five years	**36,340**	24,677	**-**	-
More than five years	**5,024**	-	**-**	-
	140,660	52,596	**21,000**	-
Less: included in creditors: amounts falling due within one year	**(99,296)**	(27,919)	**(21,000)**	-
Amounts falling due after more than one year	**41,364**	24,677	**-**	-

	Group		Company	
	2016	2015	**2016**	2015
Analysis of changes in loan financing during the year:	**£000**	£000	**£000**	£000
At 1st January	**52,596**	53,547	**-**	-
Acquisitions - debt	**25,705**	-	**-**	-
Acquisitions - derivatives	**1,258**	-	**-**	-
New loans	**106,444**	29,861	**21,000**	-
Loans repaid	**(45,343)**	(30,812)	**-**	-
At 31st December	**140,660**	52,596	**21,000**	-

Total loans include bank loans which are unsecured and asset backed financing, which is secured by a fixed charge over specific vehicles held for leasing. Asset backed finance in respect of assets held for contract rental are secured by fixed charges over specific vehicles. The related finance comprises chattel mortgages.

The Group (excluding MMH) has a multi-option facility amounting to £75,000,000 of which £21,000,000 was utilised at the year end. Subject to bank approval the revolving credit facility has an option to be extended by a further £15,000,000. These facilities are available for general corporate purposes including acquisitions or working capital requirements. Interest is chargeable on the amounts drawn under the facilities at between 1.0% and 2.0% above LIBOR. The facilities are unsecured but contain cross guarantees granted by certain members of the Group, excluding MMH. The Group is also able to extend the term of the facility by up to 24 months.

Marshall Motor Holdings plc has access to additional banking facilities amounting to £120,000,000 represented by a revolving credit facility of £95,000,000, of which £35,000,000 was utilised at the year end and an overdraft facility of £25,000,000, of which £12,707,000 was utilised at the year end. These facilities are available for general corporate purposes including acquisitions or working capital requirements. Interest is chargeable on the amounts drawn under the facilities at between 1.2% and 2.0% above LIBOR. The facilities are unsecured but contain cross guarantees granted by certain members of the MMH Group. The facility is available until 25th August, 2019. The Group is also able to extend the term of the facility by up to 12 months.

21. Provision for liabilities

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Closed sites	**195**	122	**-**	-
Dilapidations, onerous leases and contracts	**25,181**	1,135	**8,800**	-
Redundancy	**-**	143	**-**	-
Tax	**4,242**	-	**-**	-
Warranty	**845**	1,333	**-**	-
	30,463	2,733	**8,800**	-
Deferred tax (see note 21b)	**18,654**	3,659	**-**	-
	49,117	6,392	**8,800**	-

Notes to the financial statements
at 31st December, 2016

21. Provision for liabilities (continued)

(a) Provisions excluding deferred tax	Closed sites	Dilapidations and onerous leases and contracts	Redundancy	Tax	Warranty	Total
	£000	£000	£000	£000	£000	£000
At 1st January, 2016	122	1,135	143	-	1,333	2,733
Fair value on acquisition	12	772	-	4,242	-	5,026
Arising during the year	194	23,598	-	-	255	24,047
Amounts utilised	(133)	(324)	(143)	-	(260)	(860)
Amounts released	-	-	-	-	(483)	(483)
At 31st December, 2016	**195**	**25,181**	**-**	**4,242**	**845**	**30,463**

Closed sites
The Group manages its portfolio carefully and either closes or sells sites which no longer fit with the Group's strategy. When sites are closed or sold, provisions are made for any residual costs or commitments. The Group expects the provision to be fully utilised by 31st December, 2017.

Dilapidations and onerous leases and contracts
The Group operates from a number of leasehold premises under full repairing leases. The provision recognises that repairs are required to put the buildings back into the state of repair required under the leases. Where property commitments exist at sites which are closed or closing the Group provides for the unavoidable cost of those leases post closure. £289,000 of this provision is long term and is expected to be utilised or released by 31st December, 2024. During the year a provision of £21,200,000 was recognised on a complex programme, which is expected to be utilised or released by 31st December, 2018.

Warranty provision
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 financial year and will all be incurred by 31st December, 2018.

Tax provision
Provision for tax liabilities, arising in Ridgeway Garages (Newbury) Limited, in respect of various film tax planning initiatives. Settlement of this liability has been agreed subsequent to the year end.

(b) Deferred tax

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

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Accelerated capital allowances	**(1,052)**	756	**(38)**	(37)
Tax losses carried forward	**(1,185)**	(58)	**-**	-
Rolled over gains and investment properties	**2,969**	1,027	**-**	-
Deferred tax on defined benefit pension scheme	**(2,977)**	(2,073)	**(2,977)**	(2,073)
Deferred tax on unremitted earnings	**106**	193	**-**	-
Deferred tax arising on business combinations	**18,530**	3,796	**-**	-
Other timing differences	**(1,980)**	(2,110)	**(650)**	(411)
	14,411	1,531	**(3,665)**	(2,521)

	Group		Company	
	2016	2015	**2016**	2015
Shown as:	**£000**	£000	**£000**	£000
Deferred tax asset	**(4,243)**	(2,128)	**(3,665)**	(2,521)
Deferred tax liability	**18,654**	3,659	**-**	-
	14,411	1,531	**(3,665)**	(2,521)

Notes to the financial statements
at 31st December, 2016

21. Provision for liabilities (continued)

The movement in the deferred tax liability / (asset) during the year comprises as follows:	Group	Company
	£000	£000
At 1st January, 2016	1,531	(2,521)
Charge to the profit and loss account for the year	(3,708)	(362)
Movement in RDEC	(262)	-
Deferred taxation in OCI	(782)	(782)
Acquisitions during the year	17,632	-
At 31st December, 2016	**14,411**	**(3,665)**

The deferred tax credit / (charge) in the income statement for the year comprises as follows:		Group
	2016	2015
	£000	£000
Origination and reversal of timing differences	**(1,809)**	282
Tax rate change	**(1,216)**	(78)
Adjustments in respect of prior years	**(683)**	119
	(3,708)	323

The deferred tax asset not recognised comprises as follows:		Group
	2016	2015
	£000	£000
Other short term timing differences	**1,622**	59
Capital losses	**-**	85
Trading losses	**1,690**	1,159
	3,312	1,303

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

Notes to the financial statements
at 31st December, 2016

22. Share capital

	Alloted, called up and fully paid			
	2016	2015	**2016**	2015
	No. '000	No. '000	**£000**	£000
Ordinary shares of 12.5p each	**13,940**	14,552	**1,743**	1,819
Non-voting priority dividend ordinary NVPO shares of 12.5p each	**45,142**	44,108	**5,642**	5,514
8% A preference shares £1 each	**4,800**	4,800	**4,800**	4,800
10% B preference shares of £1 each	**3,600**	3,600	**3,600**	3,600
	67,482	67,060	**15,785**	15,733

	Ordinary shares at 12.5p each		NVPO shares at 12.5p each	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
At 1st January, 2016	**1,819**	1,880	**5,514**	5,453
Ordinary shares converted to NVPO shares	**(76)**	(61)	**76**	61
New Issues	**-**	-	**52**	-
At 31st December, 2016	**1,743**	1,819	**5,642**	5,514

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

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

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

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

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

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

During 2016, holders of 611,320 Ordinary shares (2015 - 487,600) elected to convert these into 611,320 NVPO shares.

23. Reserves

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

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

Notes to the financial statements
at 31st December, 2016

24. Non-controlling interests

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

The Group's interest in the net assets of Marshall Motor Holdings plc on 31 December, 2016 was 64.62% (2015 – 64.99%).

25. Contingent liabilities

Guarantees to third parties, granted by subsidiary undertakings, amounted to £830,000 (2015 - £930,000). Performance guarantees granted by subsidiary undertakings amounted to £1,382,000 (2015 - £10,171,000), €5,000,000 (2015 - €3,000,000) and OMR nil (2015 – OMR11,700). The Group (excluding MMH) has access to a £75,000,000 banking facility (see note 20) which is secured by cross guarantees granted by certain members of the Group, excluding MMH. Marshall Motor Holdings plc has access to additional banking facilities which are secured by cross guarantees between certain members of the MMH Group.

On 24th February 2015, the Group entered into a five year agreement to purchase irrevocably, certain inventory with a total commitment of approximately £15,000,000. In accordance with FRS 102 Section 21, the Group considers the agreement represents a possible contingent liability in the event that, once the inventory is available for sale, the Group is not able to sell it for a profit.

26. Capital commitments

		Group		Company
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Authorised by the Board and contracted but not provided for	**3,170**	4,934	**350**	450

27. Other financial commitments

Finance leases - Group as lessor
Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of the discounted future lease payments. At 31st December, 2016 these receivables amounted to £494,000 (2015: £572,000) and will bear interest income until their maturity dates.

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

	Total future payments	2015 Unearned interest income	Present value
	£000	£000	£000
Within 1 year	214	11	203
Between 1 and 5 year	411	42	369
	625	**53**	**572**

Notes to the financial statements

at 31st December, 2016

27. Other financial commitments (continued)

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

Operating leases - Group as lessor

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

	2016	2015
	£000	£000
Within 1 year	**26,408**	23,105
Between 1 and 5 years	**71,891**	63,142
	98,299	86,247

Future minimum lease payments receivable for assets held for contract rental under non-cancellable operating leases are as set out below.

	2016	2015
	£000	£000
Within 1 year	**275**	817
Between 1 and 5 years	**813**	1,535
After 5 years	**908**	1,108
	1,996	3,460

Operating leases - Group as lessee

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

	Land and buildings		**Other**	**Group**
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Within 1 year	**12,394**	8,276	**383**	440
Between 1 and 5 years	**41,181**	29,639	**860**	1,326
After 5 years	**63,160**	52,055	**-**	-
	116,735	89,970	**1,243**	1,766

28. Derivative financial instruments

	Group		**Company**	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Financial assets at fair value through the income statement				
Listed investments	**2,455**	2,121	**2,455**	2,121
Financial assets that are equity investments which are measured at cost less impairment.	**3,260**	2,422	**49,300**	48,462
Financial liabilities measured at fair value through the income statement				
Forward foreign exchange contracts	**(35)**	258	**-**	-
Financial liabilities measured at amortised cost				
Bank loans and overdrafts	**(99,296)**	(52,596)	**(21,000)**	-
Trade creditors	**(106,400)**	(56,023)	**(128)**	(228)
Vehicle funding agreements	**(364,695)**	(186,185)	**-**	-

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

Notes to the financial statements
at 31st December, 2016

29. Staff costs and directors' emoluments

	2016	2015
	£000	£000
(a) Group staff costs		
Wages and salaries	**202,044**	165,156
Social security costs	**20,995**	17,260
Other pension costs (see note 31)	**6,805**	6,323
Share based payment charge (see note 31)	**1,313**	554
	231,157	189,293

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

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

	2016	2015
	No.	No.
Aerospace and defence	**2,087**	2,046
Motor retail and leasing	**3,570**	2,369
Property and head office	**30**	36
Fleet solutions	**372**	316
	6,059	4,767

The total number of employees of the Group at 31st December, 2016 was 6,013 (2015 - 5,100).

		2016	2015
		£000	£000
(b) Directors' remuneration			
Emoluments	-continuing	**1,500**	3,313
	-leavers	**630**	731
Long term incentive payments	-continuing	**296**	441
	-leavers	**497**	1,541
Compensation for loss of office	-continuing	**435**	-
	-leavers	**1,374**	-
Company contributions to defined benefit pension scheme		**-**	38
Company contributions to defined contribution pension scheme		**7**	62
		4,739	6,126

The number of full time equivalent directors who were remunerated during the year was 5 (2016 – 6).

	2016	2015
	No.	No.
Contributing members of defined benefit pension scheme	**1**	1
Contributing members of defined contribution pension scheme	**1**	1

	2016	2015
	£000	£000
Remuneration of highest paid director:		
Emoluments	**173**	446
Long term incentive payments	**347**	1,095
Compensation for loss of office	**764**	-
	1,284	1,541

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

Notes to the financial statements

at 31st December, 2016

29. Staff costs and directors' emoluments (continued)

(c) Share option schemes

Under Marshall Motor Holdings plc, one of the Group subsidiaries, equity settled share option scheme, share options in that subsidiary's shares may be granted to executive directors and selected employees and grants were made on admission of Marshall Motor Holdings plc to AIM and during the year to 31st December, 2016. Share options comprise IPO Performance Awards and IPO Restricted Share Awards and 2016 Performance Awards. The extent of vesting of awards granted to executive directors of the subsidiary (other than an IPO Restricted Share Award) will be subject to performance conditions set by the Remuneration Committee of Marshall Motor Holdings plc. The extent of vesting of awards granted to other participants may be subject to performance conditions set by that subsidiary's Remuneration Committee.

The weighted average remaining period until expiry for the awards outstanding at 31st December, 2016 is 8.6 years (2015 – 9.3 years).

The fair value of nil cost awards granted under both the IPO Performance Awards and IPO Restricted Awards is the market value of the related shares at the time of grant.

The weighted average fair value at 31st December, 2016 is £1.65 (2015 - £1.49).

All options issued are nil cost awards and, therefore, there is no range of weighted average exercise, as all are nil.

As at 31st December, 2016, outstanding share options under the IPO Performance Award and 2016 Performance Awards were as below:

Award date	No of shares over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
2nd April, 2015	1,406,040	Nil	2nd April, 2018	2nd April, 2025
13th June, 2016	660,801	Nil	13th June, 2020	13th June, 2026

	2016 No.	2015 No.
2016 Performance Award		
Outstanding as at 1st January, 2016	-	-
Granted during the year	675,364	-
Forfeited during the year	(14,563)	-
Outstanding as at 31st December, 2016	**660,801**	-

	2016 No.	2015 No.
IPO Performance Reward		
Outstanding as at 1st January, 2016	1,459,730	-
Granted during the year	-	1,486,575
Forfeited during the year	(53,690)	(26,845)
Outstanding as at 31st December, 2016	**1,406,040**	1,459,730

The performance condition applying to the IPO Performance Awards and 2016 Performance Awards is based on the growth in the MMH's underlying basic Earnings Per Share (EPS). In respect of IPO Performance Awards 25% will vest for achieving growth in underlying basic EPS of CPI plus 4% per annum increasing on a straight line basis up to 100% vesting for achieving growth of CPI plus 10% per annum between 2014 and 2017. 50% of the IPO Performance Awards vest on the third anniversary of Admission and the remaining 50% vest on the fourth anniversary subject to continued employment. In respect of the 2016 Performance Awards 25% will vest for achieving underlying basic EPS of CPI plus 3% per annum increasing on a straight line basis up to 100% vesting for achieving CPI plus 8% per annum between 2015 and 2018. A 12 month holding period applies to the 2016 Performance Awards.

Notes to the financial statements
at 31st December, 2016

29. Staff costs and directors' emoluments (continued)

(c) Share option schemes (continued)

As at 31st December, 2016, outstanding share options under the IPO Restricted Share Awards were as below:

Award date	No of shares over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
2nd April, 2015	313,199	Nil	2nd April, 2016	2nd April, 2025

	2016	2015
	No.	No.
IPO Restricted Share Award		
Outstanding as at 1st January, 2016	**469,798**	-
Granted during the year	**-**	469,798
Exercised	**(156,599)**	-
Outstanding as at 31st December, 2016	**313,199**	469,798

The IPO Restricted Share Award vest in three equal tranches on the first, second and third anniversaries of Admission.

The fair value of options granted during the year was £2.06 (2015 - £1.49). The fair value of equity settled share options granted was based on market value on 13th June, 2016 when the share options were granted.

A share based payment charge of £1,313,000 (2015 - £556,000) has been recognised during the year.

Notes to the financial statements
at 31st December, 2016

30. Related parties

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

	Sales to related party	Purchases to related party	Amounts due from / (to) related party
Group	**£000**	**£000**	**£000**
Entities over which the group has significant influence			
2016	1,056	2,005	95
2015	3,497	1,206	345

Parent Company	Sales to related party	Purchases to related party	Amounts due from / (to) related party
	£000	**£000**	**£000**
Entities over which the Parent Company has significant influence			
2016			
Marshall Motor Group Limited	360	75	27
Marshall Leasing Limited	-	7	-
2015			
Marshall Motor Group Limited	2,438	68	102
Marshall North West Limited	9	40	-

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at normal market prices. Outstanding balances with these entities are unsecured, interest free and cash settlement is expected within 60 days of invoice. The Group and Parent Company have not benefited from any guarantees for any related party receivables or payables. During the year ended 31st December, 2016, the Group and Parent Company have not made any provision for doubtful debts relating to amounts owed by related parties (2015 - £nil).

31. Pensions and other retirement benefit costs

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

The scheme which has elements of both defined benefit and defined contribution is known as the Marshall Group Executive Pension Plan (the “Plan”). The defined contribution type schemes, which cover approximately 95% of scheme members, were established in 1982 and 1988. The total pension cost for the Group for the year in respect of all defined contribution schemes in the UK was £6,072,000 (2015 - £5,696,000). A further £198,000 (2015 - £202,000) was paid into defined contribution schemes overseas. The total defined benefit cost for the Group in respect of the Plan was £947,000 (2015 - £858,000) under FRS 102 Chapter 28 of which £536,000 (2015 - £425,000) has been charged against operating profit and £411,000 (2015 - £433,000) has been charged to other finance expense.

The plan was assessed by a qualified independent actuary from Buck Consultants, as at 31st December, 2013 using the projected unit method and indicated a funding deficit of £1,523,000. To address the past service deficit, the Parent Company and the Trustees agreed that the Parent Company would pay annual contributions of £310,000 over a period of five years, although £930,000 had been settled before 31st December, 2014 and the remaining payments had been fully paid by 31st March, 2015. The valuation of the defined benefit section of the plan under FRS102 Chapter 28 has been based on the actuarial valuation, updated by the actuary from Buck Consultants in order to assess the assets and the liabilities of the scheme as at 31st December, 2016. The assets and liabilities shown exclude those relating to defined contribution pensions.

Notes to the financial statements

at 31st December, 2016

31. Pensions and other retirement benefit costs (continued)

	2016	2015
The major assumptions used by the actuary were:	**%**	%
Discount rate	**2.54**	3.60
Salary increase rate	**3.06**	2.60
Retail price inflation rate	**3.31**	3.00
Rate of revaluation in deferment	**2.31**	2.00
Pension increase rate:		
- pre 1993 discretionary increases	**2.70**	2.70
- price inflation, capped at 5.0%	**3.31**	3.00
- as above, but for those pensions subject to 3.0% floor	**3.36**	3.35
- as above, but for those pensions subject to 2.7% floor	**3.31**	3.21
- as above, but for those pensions subject to 8.5% cap	**3.31**	3.00
Life expectancy at 65		
- for male aged 65	23.80	23.80
- for female aged 65	25.90	25.90
- for male aged 45	25.70	25.70
- for female aged 45	27.50	27.50

The post retirement longevity assumption uses 73% of SIPxA tables, with CMI 2013 projections from 2008 with a long term improvement of 1.25% per annum for males (2015 - 1.25%) and 1.00% for females (2015 - 1.00%), and allow for expected increases in longevity. The disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date.

Amounts recognised in the Balance Sheet are determined as follows:

	2016	2015
	£000	£000
Fair value of plan assets at the end of year	**36,975**	34,546
Present value of defined benefit obligations at end of year	**(54,485)**	(46,062)
Deficit in the scheme as at 31 December	**(17,510)**	(11,516)
Reconciliation of defined benefit obligations:		
Present value of obligations at start of year	**46,062**	46,969
Current employer service cost	**480**	383
Interest cost	**1,632**	1,603
Contributions by plan participants	**16**	25
Actuarial losses and (gains)	**7,748**	(555)
Benefits paid	**(1,453)**	(2,363)
Present value of obligations at end of year	**54,485**	46,062
Reconciliation of fair value of assets:		
Fair value plan assets at start of year	**34,546**	34,119
Interest income on plan assets	**1,222**	1,170
Return on plan assets in excess of interest income	**2,472**	646
Contributions by the employer	**228**	991
Contributions by plan participants	**16**	25
Benefits paid	**(1,453)**	(2,363)
Administration expenses	**(56)**	(42)
Fair value of assets at end of year	**36,975**	34,546

Notes to the financial statements
at 31st December, 2016

31. Pensions and other retirement benefit costs (continued)

	2016	2015
	£000	£000
Analysis of amount charged against (loss) / profit:		
Current employer service cost	**480**	383
Administration expenses	**56**	42
Net interest on net defined benefit liability	**411**	433
Total expense recognised in the Income Statement	**947**	858

Analysis of amount credited / (charged) against other comprehensive (expense) / income:		
Remeasurement (loss) / gain recognised on defined benefit pension scheme	**(5,276)**	1,201
Movement on deferred tax relating to defined benefit pension scheme	**782**	(497)
	(4,494)	704

	Value	2016	Value	2015
	£000	% Total	£000	% Total
Breakdown of value of plan assets				
UK equities	**5,320**	**14.39%**	4,737	13.71%
Overseas equities	**12,216**	**33.03%**	10,165	29.43%
Property	**6,850**	**18.53%**	7,159	20.72%
Liability driven investment	**4,311**	**11.66%**	4,280	12.39%
Insight Broad Opportunities Fund	**5,860**	**15.85%**	5,895	17.06%
Cash	**120**	**0.32%**	491	1.42%
Net current liabilities	**-**	**0.00%**	(362)	(1.04%)
Insured pensions	**2,298**	**6.22%**	2,181	6.31%
Total fair value of plan assets	**36,975**	**100.00%**	34,546	100.00%

	2016*	2015*	2014*	2013	2012
The five year history of experience adjustments is as follows:	**£000**	£000	£000	£000	£000
Experience adjustments on scheme assets	**2,472**	646	2,002	986	958
Experience adjustments on scheme liabilities	**1,356**	(1,077)	(320)	(2,257)	102
Changes in assumption	**(9,104)**	1,632	(6,402)	465	(1,399)
Total recognised in other comprehensive (expense) income	**(5,276)**	1,201	(4,720)	(806)	(339)
Fair value of scheme assets	**36,975**	34,546	34,119	32,006	29,502
Present value of scheme liabilities	**(54,485)**	(46,062)	(46,969)	(39,962)	(37,656)
Deficit in the scheme	**(17,510)**	(11,516)	(12,850)	(7,956)	(8,154)

*Values for 2016, 2015 and 2014 have been prepared under FRS 102, whilst amounts for earlier periods remain under previously extant UK GAAP. Through the defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility - the Plan assets holds 80 per cent growth assets and these will not provide a match to the movement in the discount rate. Consequently the difference in the values of the assets and liabilities may be quite volatile. Returns on scheme assets will also be affected by changes in fixed income yields.

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

Life expectancy - increases in life expectancy will increase plan liabilities, the inflation linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

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, 2016 which comprise the Group Income Statement, the Group and Parent Company Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statement of Changes in Equity, the Group Statement of Cash Flows, 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), including FR2 102 “The Financial Reporting Standard applicable to the UK and Republic of Ireland”.

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 49, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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, 2016 and of the Group’s loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”; 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.

Bob Forsyth (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory
Auditor Cambridge

28th March, 2017

Recent Financial History

	2012	2013	2014*	2015*	**2016***
	£000	£000	£000	£000	**£000**
Revenue	1,126,374	1,292,522	1,425,853	1,585,732	**2,259,884**
Operating profit before exceptional items	16,631	24,177	24,185	23,572	**26,537**
Impairment charges	(680)	(1,564)	(2,093)	(467)	**(946)**
Provision for losses on complex programme	-	-	-	-	**(25,925)**
Restructuring costs	(1,718)	(3,124)	-	-	**(4,168)**
Non-directly attributable IPO costs	-	-	(1,159)	(408)	**-**
Operating profit / (loss)	14,233	19,489	20,933	22,697	**(4,502)**
Profit / (loss) on disposal of fixed assets, investments and businesses	-	217	56	1,602	**(274)**
Net interest / investment income, fair value gains and amounts provided against investments	(2,115)	(1,601)	(1,769)	(2,068)	**(5,047)**
Profit / (loss) before tax	12,118	18,105	19,220	22,231	**(9,823)**
Taxation	(4,198)	(5,195)	(5,837)	(6,863)	**(842)**
Non-controlling interests	5	3	3	(1,542)	**(5,896)**
Profit / (loss) for the financial year	7,925	12,913	13,386	13,826	**(16,561)**
Dividends paid by the parent company	(2,642)	(3,083)	(3,523)	(6,758)	**(4,010)**
Retained profit / (loss)	5,283	9,830	9,863	7,068	**(20,571)**
Dividends per ordinary share paid and proposed for the year	2.25p	3.00p	3.75p	4.00p	**4.00p**
Dividends per NVPO share paid and proposed for the year	4.25p	5.00p	5.75p	6.00p	**6.00p**
Dividend cover for ordinary and NVPO shares (excluding special dividends)	3.3	4.6	4.1	4.1	**(3.5)**
Special dividends per Ordinary and NVPO share paid during the year	-	-	-	5.00p	**-**
Basic earnings / (loss) per share	12.2p	20.7p	21.6p	22.3p	**(29.4p)**
Underlying earnings per share	19.9p	31.3p	31.0p	25.1p	**21.8p**
Return on capital employed	9.0%	11.7%	12.0%	12.5%	**(5.9%)**
Cash balances at year end (excluding bank overdraft)	58,796	54,676	65,471	54,317	**18,506**
Cash (utilised) / generated	33,891	(4,120)	10,795	(11,154)	**(35,811)**
Capital expenditure, acquisitions and investment (net)	31,317	49,366	58,395	75,851	**156,554**
Closing no. of staff	4,188	4,533	4,607	5,100	**6,013**
Fixed assets	144,863	158,222	188,120	236,907	**412,393**
Net current assets	54,050	56,712	39,877	38,196	**(90,033)**
Creditors over one year, provisions, pension liability less non-controlling interests	(39,451)	(42,637)	(51,386)	(97,051)	**(166,865)**
Shareholders' funds	159,462	172,297	176,611	178,052	**155,495**

* Prepared under FRS102

Shareholder Information

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

Registration details
Registered in England and Wales
Company Number 2051460

Group Company Secretary
Sarah Moynihan

Enquiry email address
shareholderenquiries@marcamb.co.uk

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

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

James Sharp & Co.
The Exchange, 5 Bank Street, Bury, Lancashire BL9 0DN
Tel 0161 764 4043
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
A and B preference shares 14th April, 2017
Final Ordinary and NVPO shares 30th June, 2017
A and B preference shares 13th October, 2017
Interim Ordinary and NVPO shares 15th December, 2017

Dividend history

	Amount per share			
	Ordinary shares	NVPO shares	A preference shares	B preference shares
Payment date:				
16th December, 2016	1.00p	3.00p	-	-
14th October, 2016	-	-	4.00p	5.00p
24th June, 2016	3.00p	3.00p	-	-
15th April, 2016	-	-	4.00p	5.00p
Year ended 31st December, 2016	**4.00p**	**6.00p**	**8.00p**	**10.00p**
Payment date:				
16th December, 2016	6.00p	8.00p	-	-
14th October, 2016	-	-	4.00p	5.00p
24th June, 2016	2.75p	2.75p	-	-
15th April, 2016	-	-	4.00p	5.00p
Year ended 31st December, 2015	8.75p	10.75p	8.00p	10.00p

Notice of the 31st Annual General Meeting

Notice is hereby given that the 31st Annual General Meeting of Marshall of Cambridge (Holdings) Limited ("the Company") will be held at 11.00 am on Wednesday 7th June, 2017 at The Airport, Cambridge, CB5 8RY to consider the following:

Ordinary business

Resolutions 1 to 7 will be proposed as ordinary resolutions. For each of these resolutions to be passed, more than 50% of the votes cast must be in favour of the resolution.

Resolution 1

To receive the Company's annual report and financial statements together with the reports of the directors and the auditor for the financial year ended 31st December, 2016.

Resolution 2

To declare a final dividend of 3.00p per Ordinary share and NVPO share to be paid on Friday 30th June, 2017 to those shareholders on the register of members as at 7th June, 2017. The Company paid an interim dividend on 16th December, 2016 of 1.00p per Ordinary share and 3.00p per NVPO share.

Resolution 3

To re-appoint Julie Baddeley, who retiring on first appointment as director and, being eligible, is offering herself for re-appointment as director.

Resolution 4

To re-appoint Sean Cummins, who retiring on first appointment as director and, being eligible, is offering himself for re-appointment as director.

Resolution 5

To re-appoint Philip Yea, who retiring on first appointment as director and, being eligible, is offering himself for re-appointment as director.

Resolution 6

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

Resolution 7

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

Sarah Moynihan
Group Company Secretary
Dated this 28th March, 2017
by Order of the Board

Note

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

Marshall

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