2020

Marshall

A company driven by purpose.

Annual Report & Accounts

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Headlines

- Revenue of £2.49bn (2019 - £2.64bn)
- Statutory profit before tax of £30.5m (2019 – £27.2m)
- Underlying profit before tax of £39.1m (2019 – £35.2m – see note 3)
- Closing net cash of £12.9m (2019 – net debt of £24.9m)
- Further 2020 Interim dividend at 3p per Ordinary share and Non-Voting Priority Ordinary share (NVPO) payable on 9th July 2021
- Marshall Aerospace and Defence Group (MADG) signs 10-year enabling contract with US Marine Corps to support their 66-strong fleet of C-130 aircraft
- MADG continues to expand its market share for International C-130 maintenance and modifications
- MADG delivers the 400th shelter to the Dutch Armed Forces as part of the DVOW contract for 1,600 shelters
- The Marleigh sales and marketing suite opened on 21st March 2020, with 10 residential units sold during the year.
- Resolution to grant planning permission received for the Land North of Cherry Hinton. The sale of the land was completed on 17th March 2021
- Marshall Motor Holdings plc (MMH) continues to outperform the UK market for new and used vehicles sales
- 2020 represents 100 years of consecutive annual apprenticeship intake

Executive Chairman's Introduction

2020 will long be remembered for many reasons, largely for the challenges which the COVID-19 pandemic presented. It was also, however, a year of significant achievement from which Marshall can draw great pride.

After a good start to the year, the arrival in March of the virus and the first national lockdown created a great deal of uncertainty for the business, our employees and our many stakeholders. However, swift and decisive action, working closely with our many customers and suppliers enabled the business to adapt, developing new working practices which were designed to keep our employees, and their families, safe while also protecting the business and looking after our customers.

Remaining true to the long-standing reputation Marshall has for responding in times of national crisis, we were all exceptionally proud of our teams who, alongside our ongoing contracts, produced and delivered many thousands of items of PPE, provided food to support the most needy in our communities and led on the product development of the remarkable Exovent negative pressure ventilator prototype.

Individual businesses within Marshall adapted well to changing market conditions. Collectively, we have finished the year much stronger than we had expected when we reviewed the initial impact analysis in April. Indeed, many parts of the business have finished the year on or ahead of their original targets for 2020, even if the performance of the constituent parts has not been as originally envisaged.

The statutory profit before tax achieved in the year of £31m, or £39m excluding separately disclosed exceptional items, is therefore a remarkable result in the circumstances.

Most of our customers in MADG are national governments and the vast majority of our contracts were designated by customers to be essential so, having made the appropriate adjustments to make our workplaces COVID-19 safe, our frontline teams in the hangars and workshops were able to press on to meet our contractual promises. In Land Systems, our DVOW contract for the Netherlands was in full production and our Aerostructures team has continued to exceed expectations with the P8 long range fuel tanks for Boeing.

The Defence Command Paper, published on 22nd March 2021, announced that the UK fleet of 14 C-130 aircraft would be retired by 2023. We had been anticipating the Ministry of Defence might bring forward the out-of-service date, but we had expected a longer time frame than that indicated. Whilst this outcome is disappointing, it is too soon to confirm the full impact this decision will have on our operations. In the meantime, we will continue to work with the customer to manage the withdrawal and resale of the aircraft as effectively as possible. MADG continues to develop its international market share for C-130 maintenance, securing a significant 10-year enabling contract with the US Marine Corps to support some of their 66-strong fleet of C-130 aircraft. We have also completed the modification work on our most complex engineering programme and both aircraft are now in-country undergoing final acceptance testing.

Marshall Fleet Solutions (MFS) also rose to the challenge arising from the pandemic. Three quarters of the team were designated 'key workers' under the Government definition through their important role supporting the distribution of food, medical and other essential supplies.

During the initial lockdown, the MFS team responded to over 20,000 call outs and drove over 700,000 miles to help maintain essential supplies across the country. They secured a number of significant new contracts in the year, whilst also delivering exceptional service levels for the Tesco.com Home Shopping fleet which experienced unprecedented continuous demand.

Marshall Motor Holdings plc continued to strengthen its reputation for outperforming the market, and growing its share, despite being required to shut all of its showrooms during the first lockdown and operating under tight restrictions during the second lockdown. The business finished the year strongly having also benefitted from the pent up consumer demand during Q3 which coincided with some unique trading conditions. MMH utilised a variety of Government support programmes, enabling them to protect the vast majority of jobs within the business and their liquidity.

Marshall Group Properties also had another outstanding year with some landmark achievements. First, securing outline planning permission on the Land North of Cherry Hinton to the south of the airport. Secondly, the Marleigh development on the north side of the Airport has progressed rapidly, despite the COVID-19 restrictions and the first residents of the new community moved into their homes before Christmas.

Since the announcement in 2018 of our intention to relocate our Aerospace business by 2030 and put forward the current airport land for development as part of the next Local Plan, we have been working to identify the optimum new location for those parts of our business which need to relocate. We were pleased in October 2020 to sign an option agreement with Cranfield University in the event that site proves to be the best relocation option for us, although we have not yet reached any firm conclusions.

Despite the challenges of COVID-19, the Company has performed well ahead of the revised expectations and we were pleased to be able to pay an interim dividend in July 2020 in place of the final dividend for 2019. With the strength of the business through the second half of the year, and with the support of our bankers, we were also pleased to be able to pay a further interim dividend for 2020 in December. Further to my letter to shareholders of 18th January 2021, in which I confirmed that the AGM would be delayed until September, I am pleased to confirm that the Board has now agreed to pay a further interim dividend of 3p per Ordinary and NVPO share, payable on 9th July 2021.

In the summer of 2020 Robert Marshall stood down after nearly 27 years with the Company, including 20 years as a director. We are grateful to Robert for his significant contribution to the business and we wish him well for the future as he focuses on building Martlet Capital as an independent early-stage investor based in Cambridge, as well as his other personal interests.

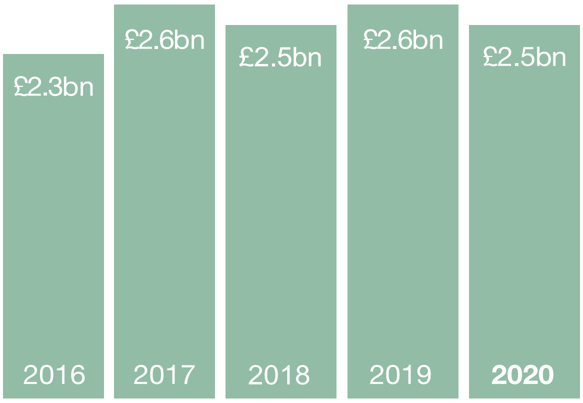
At the same time, we welcomed Charlie Marshall to the Board. Charlie has significant business experience, having built two successful companies of his own and he shares the values on which Marshall of Cambridge has been built over more than 110 years so far. We have exciting and ambitious plans for the future of the Company and Charlie's experience and commitment will be invaluable as we transform the business.

Finally, I am delighted to confirm the appointment of Kathy Jenkins as Group Chief Executive, the first non-family Chief Executive of Marshall in the near 112-year history of the Company. Kathy will also join the Board as a director of Marshall of Cambridge (Holdings) Ltd. Kathy joined Marshall in 2017 and was appointed Chief Operating Officer in 2019. Through a global career with some of the biggest names in our sectors including GEC-Marconi, Marconi and Thales, Kathy has developed a formidable reputation for delivery with a breadth of experience across HR, operations, business transformation and turnaround. Over the next few years, as we continue to transform Marshall, build on our many strengths, grow our national and international customer base and invest in new state-of-the-art facilities, Kathy's background and experience will be invaluable.

I would like to finish by thanking all of our teams for their extraordinary efforts during 2020 which contributed to such a strong result. I would also like to thank our bankers, business partners and stakeholders for their active support and our shareholders for their understanding and backing through what has been a truly exceptional year.

Alex Dorrian CBE
Executive Chairman
1st July, 2021

At a Glance



Group Revenue

£582m

excluding UK C-130

MADG Engineering Order Book

87,439

MMH Vehicles Sold

16

MADG International C-130 Customers

Marleigh development, November 2020

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

Purpose

One Company of diverse operations, united by a common purpose and culture, committed to serving our customers and the community.

Marshall is a unique private company committed to making a difference through providing support and services to its growing customer base; support which cannot be provided as effectively by others.

At its core, Marshall is determined to develop and deliver long-term value whilst also noticeably contributing to making Cambridge a better place.

Serve our customers in a way that no one else can

Our success relies on our unfaltering customer focus. We work tirelessly to meet all our customers' needs, delivering tailored solutions in all of our sectors.

Creating long-term value

We continue to invest in our long-term future in areas of sustainable growth and opportunity. We seek to generate value for our business and our customers in all we do.

Making Cambridge a better place

We remain committed to supporting Cambridge's extraordinary growth and development. In addition to our influence on the city's growth, we provide a vast range of skills development and employment opportunities.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DAF

Group Strategic Report

Growth Strategy

The overarching strategic objective over the next 20 years or more is the successful development of Cambridge East as part of the growth aspirations in the local authorities' 2030 Local Plan.

Marshall Aerospace and Defence Group will continue to seek significant growth in the C-130 market.

Marshall Motor Holdings plc, with its independent board, will continue to seek appropriate growth opportunities in a changing and consolidating market.

Marshall Aerospace and Defence Group

Manage the conclusions of the Integrated Review published by the Government in March 2021.

Expand international reach in alliance with our strategic partners.

Invest significantly in transformation to achieve best in class levels of productivity.

Build firm foundations with appropriate research and technology expenditure as MADG aims to develop and deliver world leading applied engineering services.

Marshall Group Properties

Increase value of the portfolio whilst simultaneously developing and disposing of outlying and non-core land.

Develop land projects in partnership with experienced and trusted development partners, building continuous profit and cash streams.

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

Maximise long-term value of unsold land and our overall property legacy.

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

Marshall Ventures

Manage our investment in Marshall Motor Holdings plc as it continues to grow through bolt-on acquisitions.

Achieve benchmark return on capital from Martlet Capital's investments in the seed equity portfolio of predominantly Cambridge originated, high technology companies.

Support Marshall Fleet Solutions in its ambition to return to market normal returns by re-establishing its reputation as the best national support organisation for the UK distribution industry.

One Company, diverse operations

Consistency in performance

- We will drive for consistent improvement in year on year **performance** of the Group.
- 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 an outstanding place to work.

Group Strategic Report

Alignment of Purpose and Strategy

Marshall

Marshall Aerospace and Defence Group	Marshall Group Properties	Marshall Ventures
Making Cambridge a better place		
We are committed to generating further interest in engineering for today's young people, developing employability skills and providing the required training for them to excel in the aerospace industry in the future.	Our property developments will provide vibrant extensions to the city and significant space for new communities to flourish and succeed.	Cambridge continues to be a dynamic marketplace to invest in; our two investment vehicles demonstrate our ongoing commitment to the city, creating jobs and securing the future of local enterprises.
Creating long-term value		
We will deliver our current business and invest across MADG to become fit for the future, a profitable and sustainable business operating effectively in the global marketplace.	We will optimise the value of our land assets, creating a fitting legacy for the Group with the associated value generated, supporting the business for future generations.	Marshall Motor Holdings plc, Martlet Capital and Marshall Fleet Solutions will continue to pursue strategic growth both organically and through targeted acquisitions to create long-term value for their shareholders.
Serve our customers in a way that no one else can		
We will continue to employ highly talented teams who provide outstanding solutions to our customers, delivering a range of projects and programmes tailored to them.	We will develop unique additions to the city to benefit the local community and invest in our property assets to generate state-of-the-art facilities.	We will continue to foster a dynamic business, promoting strong customer engagement and improving our position in our chosen markets.

Group Strategic Report

Business Model

Marshall Aerospace and Defence Group

Marshall Aerospace and Defence Group (MADG) delivers world leading applied engineering services and technology through its capability in Managed Services, Integration and Product Technologies. MADG operates within three core segments, Military Aerospace, Advanced Structures (delivered through Aerostructures and Advanced Composites), and, Land Systems, reflecting the differing needs of its customers in the Land, Air and Sea markets. Our Aeropeople business was sold on 18th April 2021.

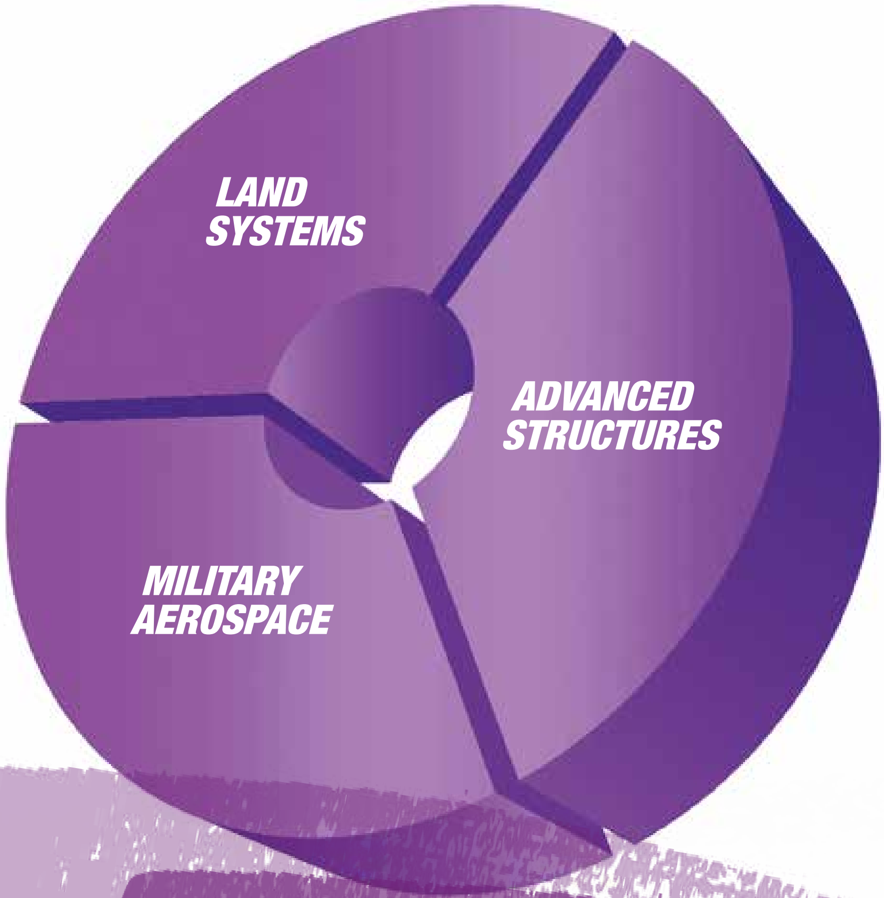
The business activities are unified by MADG's purpose which is to protect people in critical situations. This lens is used when assessing developing market trends and opportunities. Similarly, this approach helps to provide effective alignment between long-term value generation for our shareholders whilst delivering a recognisable business model with which our key stakeholders, including employees and partners, can identify and engage.

The depth of MADG's engineering and project management capabilities allows the business to operate across the full lifecycle from complex new product introduction, through volume production and into optimising availability and operational costs. These capabilities can be delivered independently, such as the managed service provided to the RAF under the Hercules Integrated Operational Support (HIOS) programme, or the provision of complex manufacturing, modification and certification services, which then migrate into ongoing operational support contracts.

MADG primarily operates as a Tier 1 prime contractor and its customer base principally comprises government procurement agencies and armed forces across the globe. In addition, the business has established a number of significant and long-term supply arrangements with key OEM (Original Equipment Manufacturer) partners. MADG deploys a subset of its Advanced Structures technology capabilities as a Tier 2 supplier for both the UK and US defence sectors.

The business continues to develop its relationship with Lockheed Martin, the OEM for the C-130 platform. The C-130 remains a trusted platform for more than 60 nations around the world, with Lockheed Martin continuing to meet the demand for new aircraft each year. MADG has successfully implemented a strategic objective to expand its customer base to meet the needs of a growing number of international customers, currently working with 17 operators, with further expansion a key to future growth.

Future investment is focused on all stages of research and development (R&D). As well as R&D into product development, the FutureworX business unit has been launched to meet the demand from customers for innovative solutions.



Aircraft Ground Running Enclosure

Group Strategic Report

Business Model

Marshall Group Properties

The core objective of the property business is to create long-term value for shareholders and other stakeholders within the overall Group strategic framework. This is achieved through protecting and leveraging our land and property assets, managing and investing in the existing property portfolio, ensuring the successful development of Marleigh, the sale, in conjunction with our collaboration partner, of the Land North of Cherry Hinton and actively promoting Cambridge Airport in the next Local Plan.

Additionally, the property business will consider strategically acquiring and consolidating land and property, provide support to fellow subsidiaries in the achievement of their strategies and act as a fair and equitable property company for both internal and external tenants.

The property business holds and rents out investment properties and properties used in, or important to, the business of other group companies which are in 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.

The property business is currently progressing two major development projects:

Marleigh – a development of up to 1,300 homes, replacement car showrooms, a commercial hub, primary school, sports facilities 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.

Cambridge East – The promotion of Cambridge Airport and adjoining land in the new local plan which will set the development framework for Cambridge and South Cambridgeshire beyond 2030.

Land North of Cherry Hinton was sold in March 2021, with agreed design principles in place, to Bellway Latimer Cherry Hinton LLP. This will be a development of up to 1,200 homes, a primary school, secondary school, local centre and spine road. The scheme will deliver around 700 homes on the portion of the site previously owned by Marshall.

The property team also continues to work closely with MADG and Marshall Motor Holdings plc (MMH) to manage the assets on the Cambridge campus and, in particular, the strategy for relocating businesses from the North Works to facilitate future phases of the Marleigh development, whilst providing improved facilities for our employees.

Business Model

Marshall Ventures

Marshall Ventures incorporates the remaining activities of the Group. This business unit consists of our majority stake in Marshall Motor Holdings plc, the 100% owned subsidiaries of Marshall Fleet Solutions and Cambridge Aero Club (a small flying school operating from Cambridge Airport) together with the management of Martlet Capital, our investment portfolio of high-tech start-up businesses.

Marshall Motor Holdings plc

MMH was 100% owned until its listing on the AIM market of the London Stock Exchange in April 2015. At 31st December 2020, the controlling interest was just over 64%. MMH operates as an independent public company, with its own board and publishes its own annual report, which is available from www.mmhplc.com.

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

Marshall Fleet Solutions (MFS)

Marshall Fleet Solutions (MFS) is the UK's largest independent commercial vehicle service organisation, providing premium sales, service and parts support for the UK distribution industry. MFS is a long established dealer of Thermo King equipment, as well as being a main dealer for most manufacturers of tail lifts sold in the UK.

The company has over 150 engineers, together with regional call centres in operation 24 hours a day, 365 days a year. MFS offers unrivalled fleet management, breakdown support, repair and routine maintenance for transport fleet operators across the UK.

Martlet Capital

Martlet Capital has identified and invested in start-up businesses which aim to achieve capital growth. With close links to Cambridge University and a distinct focus on investing in the Cambridge eco-system, Martlet Capital has invested in early stage technology companies in line with an investment strategy which considered the quality of the management team, scale of the target market, competitive dynamics, the business model and valuation.

The venture capital investments are separated into two funds, Martlet and MarQuity. The MarQuity portfolio consists of companies identified from the Martlet portfolio which are worthy of higher levels of investment and support from the Group.

Exonate

Group Strategic Report

Business Context

Marshall Aerospace and Defence Group

The onset of the COVID-19 pandemic has resulted in significant changes to the way we work, the way we live and the way we buy. These changes are having a profound impact on all of our businesses both short-term and long-term.

Similarly, governments around the world have significantly increased borrowings during the pandemic and it remains to be seen how budgets are managed in the future.

The Integrated Review of Security, Defence, Development and Foreign Policy ("Integrated Review") was launched by the UK Government at the beginning of 2020 to define the Government's vision for the UK's role in the world over the next decade. The outcome of the Integrated Review was published in March 2021, with the announcement that the UK's fleet of 14 C-130 aircraft would be retired by 2023. Whilst this outcome is disappointing, it is too soon to confirm the full impact this decision will have on our operations. In the meantime, we will continue to work with the customer to manage the withdrawal and resale of the aircraft as effectively as possible.

In the United States, we have seen the US market for C-130 aircraft support opened up to international competition, as the existing military and government-backed maintenance facilities shift their focus to support on newer platforms such as the Lockheed Martin F-35 Lightning. Having won our first framework contract with US Defence, we continue to investigate opportunities to grow the business in this market.

We are also seeing Canada move into a period where, under its latest Defence Investment Plan, it intends to deliver several key equipment programmes which are of significant interest to us over the next five years.

In Europe and elsewhere, the shift in procurement practices in the Land domain, with a move towards integrated vehicle and deployable system programmes, rather than the traditional practice of separating these elements has continued, although a number of projects have been deferred.

Marshall Group Properties

The property team, in conjunction with its Joint Venture Partner (Hill Residential), continues to monitor closely the impact of economic conditions, along with consumer confidence on the housing market in Cambridge.

Whilst 2020 has been an unprecedented and tumultuous year, government support to the industry by way of extending phase one of the Help-to-Buy scheme and the Stamp Duty Land Tax holiday until 30th September 2021 has provided stimulus to keep the housing market moving in the short-term. Cambridge has demonstrated resilience in previous recessions and is still attracting investment from major global companies seeking to create a base in the city, so market conditions remain favourable, although there is significant competition from other residential developments in the locality.

The Joint Venture with Hill has drawn on its industry experience and knowledge to minimise disruption to the delivery programme and has maintained a safe and secure working environment for the construction site and for customers visiting the sales and marketing suite. The Joint Venture also receives the continued support of Homes England and its development funders through these challenging times.

Sustainability is also a key area of focus for the Joint Venture. Whilst the anticipated Building Regulations changes to Part L are still being consulted on the Government consultation document expressed a preference for reducing CO_2 emissions to 31% below the current Regulation's requirements and the 'Future Homes' requirement of 80% improvement by 2025 will very quickly be the minimum regulatory target as we progress towards net zero carbon homes.

A key pillar of the Joint Venture demonstrating its commitment to net zero carbon homes is the pilot scheme with the Active Building Centre, a UK Research and Innovation funded organisation working with academia and industry to reduce energy use. The pilot homes will be constructed to Passivhaus standards, a leading international low energy design standard, making even further improvements to: airtightness; thermal bridging; and significantly, in addition to Passivhaus, air source heat pumps will be used as the primary energy source rather than gas fired boilers. The five pilot Active homes, along with two non-Active homes on the first phase of the development, will then be monitored to evaluate the building and system performance. The learning from the pilot scheme will then be fed into future phases as the Marleigh development is delivered.

Marshall Ventures

Both Marshall Motor Holdings plc (MMH) and Marshall Fleet Solutions (MFS) operate across the whole of the UK and have, therefore, been managing the impact of the various tiers of lockdown in each location they operate.

The retail automotive market had a difficult year but temporarily bounced back strongly, fuelled by pent up demand after the initial lockdown. MMH coped well during the following lockdowns, when businesses were able to operate click-and-collect sales operations underpinned by an online capability. 2021 has started remarkably well, but the second half is likely to see some supply shortages.

Refrigerated transport has seen two sides of the lockdowns with home delivery of groceries booming, but the closure of restaurants and venues throughout most of the year has dramatically reduced vehicle movements in this sector.

The resolution of Brexit negotiations has eased concerns over the possible impact of duties on prices and the market.

Group Strategic Report

Business Performance

Marshall Aerospace and Defence Group

Following a comprehensive contract-by-contract review after the onset of the first lockdown, most of MADG's activities were classified as essential by our customers enabling work to continue through the lockdown periods. The significant re-shaping of our working practices to ensure that the site could operate in a COVID-19 secure way enabled work to continue onsite, albeit at a significant cost. We are immensely proud of how the teams transitioned into this new environment, including remote working for half of the work force, whilst maintaining the high level of service and quality demanded by our customers.

In such a challenging year, MADG delivered a better than expected performance in difficult circumstances with a result of £17.5m underlying profit before tax, excluding separately disclosed items, maintaining profitability at the level achieved in the prior year (2019 - £17.1m).

During the year, a revised operating model was implemented, significantly reducing the future cost base. The revised model de-centralised a number of key functions, removed duplication and improved engineering utilisation. The £2.4m cost of the exercise has been reported as a separately disclosed exceptional item, along with £1.1m of costs related to the creation of COVID-19 secure working environments, and the R&D investment into the Exovent ventilator project. Statutory profit before tax, after separately disclosed items, was £14.0m (2019 - £19.2m).

The onset of the pandemic did have an impact on order intake in some of our business units, with Land Systems and Advanced Composites affected by the deferral or cancellation of a number of projects. Despite the strong position of Aeropeople within the civil aviation market, revenues fell by 50% to £12.5m from that achieved in 2019.

Order intake, however, was very strong in Military Aerospace, continuing to expand the depth of work with existing customers and winning new customers. The strategically important ten-year framework contract with the US Marine Corps was won in October, with the first aircraft arriving in Cambridge in December. Although each aircraft input will be competed individually, the arrangement gives the Group the opportunity to support the customer's fleet of 66 aircraft and potential access to further C-130 aircraft in the wider US military fleet. Towards the end of the year, we were also delighted to win a six year extension of the contract with Norway and Denmark to maintain their C-130 fleets.

Excluding the HIOS contract with the UK MoD, orders of £192m (2019 - £334m) were received, representing a book-to-bill ratio of 1.1 : 1 (2019 – 1.6 : 1). The overall MADG order book stood at £742m at the end of the year (2019 - £817m). Excluding the HIOS contract with the UK MoD, the order book was £582m at the year end (2019 - £570m).

Military Aerospace continued to deliver efficiency improvements and margin growth in 2020. Although revenues fell 6% to £180m, operating profit was up 19% to £24m. The strategic objective to diversify from UK MoD continued with 45% of revenue arising from international customers (2019 - 36%) With hangar refurbishment now completed, further capacity is available to continue growth into the future.

In respect of MADG's most complex programme, the export of the second aircraft was delayed due to a temporary suspension in the UK government issuing export licences in respect of the end user country, but was successfully achieved in November. Subsequently, a joint accord was agreed with the customer that should see the main production contract conclude during 2021.

The DVOW and GASKET programmes have taken centre-stage in the Land Systems business in 2020, with differing outcomes. The DVOW programme has performed well, with over 415 shelters delivered to the end customer out of a contract total of 1,632, with margins in line with expectations. The GASKET programme, however, has experienced issues in the design phase alongside a significant element of customer driven change which has delayed the programme and impacted margin. Growth in revenue was restricted to 6% at £43m (2019 - £40.5m). With planned increases in activity in both of the key programmes and successful contract wins for deployable systems and CT scanner systems we expect further growth in 2021.

Our Advanced Structures offerings to customers are delivered through our Aerostructures and Advanced Composites teams. The Aerostructures business continued to deliver predictable and reliable results, despite the operational disruption caused by operating in a COVID-19 secure environment and the impact on supply of materials. Further orders for fuel tanks were received from the customer meaning production is likely to extend beyond the end of 2024.

The Advanced Composites business delivered a significant turnaround from the disappointing losses of 2019. Revenues were lower at £10.4m (2019 - £12.7m), but improved operational efficiency and a lower cost base, following a restructuring exercise, ensured a profitable result for the year. With opportunities for business development limited in 2020, improved order-take through 2021 will enable the business to grow thereafter.

With the collapse in the civil aviation market the Aeropeople business continues to be loss-making. As such, the business was re-sized to meet the demands of a market that is likely to remain depressed for an extended period and was sold on 18th April 2021.

Business Performance

Marshall Group Properties

Despite the disruption to operations resulting from compliance with government guidelines, there has been a real focus on delivering phase one of Marleigh with our Joint Venture partner in the year. The Sales and Marketing suite was opened in March with the first owners moving into their new properties in November. By the year end 10 completions had been achieved.

Planning committee approval for the detailed planning application for the next element of the development was obtained in November, taking the number of consented dwellings to 547 including the planning approval for delivery of 'The Plains' sports facilities and pitches. The Marleigh Primary School was also granted planning permission with a target opening date of September 2022.

Hill and Marshall formally entered into a second Joint Venture to deliver phase two of Marleigh for a further c.400 dwellings. The partnership then commenced pre-application engagement with the planning authority, with the plan having been submitted on 21st May 2021.

As part of the enabling works to deliver phase three of Marleigh on the North Works, we are working closely with Marshall Motor Holdings to progress the development of the Motor Dealer area of Marleigh and Austin Street, which is the primary road that will link round to Marleigh Avenue in the fullness of time. The first demolitions of facilities on the North Works as part of the Marleigh programme have now been completed.

The Land North of Cherry Hinton development has had a pivotal year. The Joint Development Control Committee resolved to grant the outline planning permission in May and the s106 legal agreement was subsequently signed in December. In collaboration with the adjoining landowner a sales process was commenced for the whole site, resulting in the selection of a preferred bidder in December, with the sale completing in March 2021.

The Cambridge East project team achieved two critical milestones in the year. Firstly, in October, an option agreement was secured with Cranfield University to support the planned relocation of the Aerospace business away from Cambridge Airport. There is strong support from Central Bedfordshire Council to assist MADG's possible relocation to Cranfield. From a planning perspective, this agreement shows that there is no impediment to the airport site being released for development.

Secondly, in December, the team submitted a comprehensive package of evidence to both local Councils, refining the overall vision for the project, and incorporating an appraisal of the key choices available to the Council as they work towards the delivery of their key local plan objectives. This submission will help inform the Planning Authority as it considers all of the options in advance of publishing their emerging preferred Local Plan strategy in 2021. MGP's submission demonstrates the unique scale of opportunity, in the most sustainable location, and sets out more detailed strategies to achieve key priorities including net zero carbon, biodiversity net gain, a comprehensive transport strategy and a visionary approach to green infrastructure. This all complements and supports delivery of the Council's own priorities. Evidence published by the Local Authorities in November highlights the sustainability advantages of growth close to the City, specifically referencing the Airport site, which was safeguarded in 2008 under the previous Local Plan for its long-term development potential.

MGP continues to work closely with key stakeholders including Central and Local Government officers, the Cambridgeshire and Peterborough Combined Authority and the Greater Cambridge Partnership to progress the vision for the site along with the enabling rapid transit solution. There is increasing recognition from a range of stakeholders that Cambridge East can be a catalyst for positive change, helping to address some of the City's challenges such as where to locate future employment growth, the affordability and supply of housing, traffic congestion and air quality.

The Local Authorities' position will become clear later in 2021 when the first draft Preferred Options Local Plan documents are due to be released for consultation, setting out clearly the emerging preferred development strategy from 2030. MGP remains confident Cambridge East will be central to the plan, and the Preferred Options consultation is expected to provide further impetus to all public sector partners to identify funded infrastructure solutions to unlock Cambridge East's potential.

Group Strategic Report

Business Performance

Marshall Ventures – Martlet Capital

Martlet Capital follows industry accepted best practice when estimating the fair value of its investments.

The Martlet fund invests in early stage technology companies under a clear investment strategy. The fair value is estimated to be £5.0m (2019 - £3.6m). Fourteen new investments were made during 2020 with a total value of £1.6m, adding six new companies to the Martlet portfolio. Eight follow-on investments were made into existing portfolio companies. Provisions for the write-down of investments are taken where later investment rounds are completed at a lower price, or the prospect of realisation is unlikely.

Provisions of £0.4m (2019 - £nil) were recognised during the year along with a fair value increase of £0.2m. (2019 - £0.2m).

The fair value of the MarQuity fund is estimated to be £6.6m (2019 - £4.3m). During the year three follow-on investments were completed with a total value of £0.6m. The MarQuity portfolio consists of six companies: Undo Software, Plumis, Audio Analytic, Dogtooth, Octagon and Paragraf. A fair value increase of £1.7m was recognised (2019 - £0.7m). The fair value increase includes £0.9m relating to Arachnys, which was realised in March 2021 for £2.1m, being 2.4x original cost.

Plumis

Marshall Ventures – Marshall Fleet Solutions (MFS)

The Fleet Solutions business was severely impacted by the onset of the pandemic as the food hospitality and restaurant market collapsed, resulting in reduced unit sales and maintenance activity. The groceries home delivery market, however, has grown sharply and the management team responded to the onset of the pandemic by finding new revenue streams. As a result of the increase in home delivery activity, profitability from fleet management services increased significantly during the year.

Despite the market conditions, the implementation of a de-centralised strategy enabled the business to deliver its first profit for several years. Profits for the year were £0.1m (2019 – loss £1.5m) on revenues that fell 17% to £43.9m (2019 - £53.0m).

Group Strategic Report

Business Performance

Marshall Ventures – Marshall Motor Holdings plc (MMH)

The COVID-19 pandemic caused showrooms to be closed during two national lockdown periods in 2020. During this time, MMH furthered the development of its digital strategy, including the introduction of "click-and-collect" and online reservation services as well as the continued promotion of the Marshall brand through television marketing campaigns and social media activities.

Revenues of £2.2bn were achieved in 2020 (2019 - £2.3bn), with like-for-like revenues down 13.5%.

With strong management actions to reduce overheads, partner support and by taking advantage of government initiatives, profit before separately disclosed items was similar to the previous year at £23.0m (2019 - £22.9m). With profits from the sale of surplus property, statutory profit before tax increased from £14.1m in 2019 to £14.9m in 2020.

Operational Activity

New vehicle unit sales decreased by 9.2% to 42,934 units, with like-for-like total new vehicle unit sales down 19.4%, representing a strong outperformance against a UK market registration decline of 29.4%. Within the total for new vehicles:

- sales to retail customers decreased 4.6% with like-for-like sales down 16.9%, an outperformance of 9.7% versus the market; and
- sales to fleet customers decreased 16.8% with like-for-like sales down 23.2%, an outperformance of 8.5% versus the market.

The sale of used vehicles is a much larger market than new vehicles, with a larger number of participants, including franchised dealers, independent traders and private sellers. The used car market declined 14.9% versus 2019. Against this challenging backdrop, with the franchised sector more adversely affected by showroom closures, MMH's used vehicle sales decline was contained at 5.3% and 14.6% on a like-for-like basis.

Aftersales performance was impacted by the lockdown periods, with only 65 businesses remaining open during the first lockdown, the deferral of MOT and servicing work and fewer miles being travelled by customers. As a result revenues declined 6.7%, or 13.5% on a like-for-like basis.

Acquisitions and Disposals

On 10 July 2020, the Group completed the acquisition of Aylesbury Volkswagen. The Aylesbury business formed part of the strategic acquisition announced in December 2019 with its completion being deferred pending resolution of certain property issues. All deferred consideration has now been paid to the seller, Jardine Motor Group UK Limited.

The businesses acquired have been loss-making. The integration is progressing well, with the businesses already benefitting from MMH's scale and operating model.

During the year, MMH secured the opportunity to represent Ford Commercial Vehicles in King's Lynn and SEAT in Oxford. These new businesses commenced trading in early 2021 following completion of associated corporate identity upgrades.

MMH has continued to focus on driving operational efficiencies and responding to a number of its brand partners' network rationalisation strategies and the ongoing impact of COVID-19. As a result of a review of its portfolio, and with the full support and approval of its brand partners, during the year, MMH announced the closure of four sub-scale franchised dealerships: Cambridge Hyundai, Bury St Edmunds Ford, Knebworth Vauxhall and Poole Mercedes-Benz Commercial Vehicles.

Investment in Facilities

MMH continues to invest in its retail sites, investing £11.7m into its portfolio during the year. Investment in relocations and major rebuilds included: Newbury Audi, Wimbledon Audi (completion of the first "city concept" facility in the UK), Derby Volvo, Welwyn Volvo, Oxford SEAT and King's Lynn Ford Commercial Vehicles.

Group Strategic Report

Engagement with Stakeholders

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

As an independent plc, MMH has established its own stakeholder engagement framework, set out in its Annual Report.

Our people

The Group has long held the value that people are at the heart of its success, recognising that 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.

Why we engage:

- To understand how our employees feel across a number of areas which impact their work environment
- To optimise input into changes with significant impact on our employees
- To keep employees up to date and encourage feedback and comments
- To give quarterly face-to-face business updates on performance and major projects
- To enable two-way communication with employees to generate understanding and engagement

How we engage:

- Jonathan Flint, a non-executive director, has responsibility for employee engagement
- Employees are consulted through surveys taken at appropriate intervals
- Peer nominations are made to the Group for its annual Marshall Achievement, Values and Teamwork Awards (MAVTAs)
- Company-wide intranet
- Director safety tours
- In-house magazine
- 'Town hall' events

Due to the pandemic, 2020 has been more challenging in the Group in terms of delivering its usual Town Hall updates, safety tours, conferences and other face-to-face communication. However, some of this activity was moved into the virtual space using pre-recorded videos and online meetings. To protect front-line employees on site, movement and mixing was restricted but the local management teams have been visible on site. The management of COVID-19 and subsequent decisions around creating a safe working environment have actually helped to increase local communication.

In 2020, the MADG business held three leadership virtual events with its top 150 leaders, delivered two pre-recorded updates from the CEO and other directors and held two phone-in updates for all those people working from home rather than on site. During the year there were a number of business wins, a change programme involving the implementation of a new ERP, a restructure of the business and ongoing changes to terms and conditions of employment. The latter two resulted in a high level of collective consultation through the year with the employee and trade union representatives meeting with the company at least twice per month. The Employee Forum was particularly pro-active in the early stages of planning the business' response to the pandemic and provided ideas and feedback on the actions and decisions made. The areas represented by trade unions were also involved in decisions and actions to create a safe work environment for those employees working on site.

MFS held its annual management conference in January 2020 but only one short tour of the business was possible, in August 2020. Both events were well received and the Managing Director managed to see every engineer during the tour.

The company has also instigated monthly management meetings online for all managers across the business to attend and share information. In addition, a business update has been sent to all employees every two weeks to keep them informed and engaged when face-to-face visits have not been possible.

The Managing Director has also held regular informal meetings known as "virtual coffee meetings" with employees from different departments to update them about progress and so that they can ask any questions of him that they may have. "My MFS", a quarterly newsletter for all staff keeping them appraised of important news within the business, has continued throughout the year.

The company has an employee of the quarter award where nominations are made by peers for outstanding achievement and going "above and beyond". Long term service awards recognising the contribution made by staff have also been introduced by the company.

At a Group level, the Board took the decision to delay the annual employee engagement survey this year to allow our people to focus on the key issues and their own wellbeing. Although the MAVTAs could not be physically celebrated, the winners and highly commended received cash awards and gifts to share with their families.

Group Strategic Report

Engagement with Stakeholders

Our customers

A key tenet to our purpose is to serve our customers in a way that no one else can. Our success relies on our unfaltering customer focus. We work tirelessly to meet all our customers' needs, delivering tailored solutions in all of our sectors.

Why we engage:

- To enhance our understanding of, and alignment with, customer requirements
- To ensure the business has an objective view of its performance
- To allow the business to solicit informed feedback
- To use good customer relationships established in one division to generate opportunities in others
- To develop enduring strategic partnerships

How we engage:

- Visits to customer premises and attendance at customer working groups
- Participation in joint steering board committees to ensure delivery of service and project outputs
- Board to Board meetings with significant industry customers
- Industry days and supplier forums, as supplier
- Customers are invited to attend corporate events and exhibitions throughout the year
- Customers are invited to the Group annual reception

As with employee engagement, the pandemic made 2020 more challenging for face-to-face meetings with customers. However the Group was still able to strengthen existing customer relationships and develop new ones by increasing communication with customers around the world using the various digital technologies available. Dedicated sales people were able to maintain a high level of trust by demonstrating an in-depth understanding of customer needs as well as the value and benefits of working together.

The MADG business constantly monitored and measured customer satisfaction levels, requesting feedback through customer surveys on a very regular basis. This was then applied to the drive towards continuous improvement across all operating divisions. Performance against customer KPIs was assessed during monthly contract status reviews and reported to the subsidiary boards.

During 2020, the customer service teams stepped up their engagements with customers to manage the overall experience from start to finish, demonstrating that the customer was at the heart of the solution lifecycle. At key milestones throughout the development of the solution, the customer was invited to formal design reviews (Preliminary, Critical and Final) to ensure that the business was meeting expectations, whilst getting customer buy-in to the solution approach.

The differing market sectors in which MFS operates meant differing ways that customer engagement changed in 2020. Many customers, such as dry freight haulage and hospitality food delivery businesses, ceased transporting goods overnight and have still not returned to pre-COVID business levels. This has meant that large national fleets have been stood down not requiring service and maintenance work. Conversely, primary food distribution and home shopping customer sectors have seen significant increases in demand with traditional Christmas annual peaks levels now seen as a normal working week volume. MFS has, therefore, had to adapt and respond rapidly to the everchanging demands and needs of each of its customers.

During 2020, the business reached out to organisations in the pharmaceutical sector to ascertain ways in which it could assist in the national effort to tackle COVID-19. MFS consequently was awarded a number of significant local authority NHS contracts providing immediate response mobile temperature control solutions throughout the UK with a 24/7 service provision.

Our shareholders

The Board has a collective duty to promote the long-term success of the Group for its shareholders, and recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders.

Why we engage:

- To maintain strong links with the Marshall family
- To ensure a mutual understanding of objectives and to deal with issues of concern
- To communicate financial performance and strength of the business
- To update on key and emerging issues and overall business performance
- To ensure the Board is aware of any shareholder issues

How we engage:

- A transparent and detailed Annual Report
- Business update presentations and site tour on AGM day
- An interim report to highlight progress on a number of key initiatives
- Regular informal shareholder briefings to update shareholders on the direction of travel of the business
- Board Terms of Reference
- Work experience days for the younger generation of the Marshall family
- E-mail updates of significant business news

Throughout 2020, the Executive Chairman ensured that all directors were made aware of major shareholder issues and concerns. The Board is committed to maintaining an effective engagement with shareholders to ensure a mutual understanding of objectives and to deal with issues of concern. Responsibility for communications with shareholders rests with the executive directors, assisted by the Group Company Secretary, and regular briefings and meetings are held with various shareholder groups.

During 2020, as well as the email updates on business wins, the Executive Chairman or the Company Secretary also wrote to shareholders on fifteen separate occasions. The letters outlined the impact of the pandemic on the Group and its response to the business challenges arising, as well as the work carried out in support of the national effort from the design and manufacture of PPE to a leading role in the ground-breaking Exovent negative pressure ventilator. They also kept shareholders updated on dividend decisions and changes to the date of the Annual General Meeting and the way it could be held.

The Board recognises that the Annual General Meeting (AGM) provides shareholders with an important opportunity to receive information on the Group's business performance and to meet with the Board. In light of COVID-19, the 2020 Annual General Meeting was postponed from its usual mid-May date to 23rd September 2020.

The Company was able to take advantage of the new Corporate Insolvency and Governance Act, which temporarily allowed an AGM to be held virtually, without members being together at the same place, and votes cast by electronic means, irrespective of the Company's constitution.

The decision to hold a virtual AGM was not taken lightly, but was driven by the overriding requirement to ensure the safety of both the workforce and shareholders. All shareholders were invited to attend remotely, and those that did were able to vote on the resolutions, and submit live questions which the Board answered in real time.

The Financial Reporting Council carried out an analysis of AGMs held in 2020. Less than 9% of FTSE 350 companies it sampled held similar open meetings which were facilitated through webinars or audiocast with live voting capabilities in the way that the Group held its AGM. The rest held closed meetings where all shareholders were requested to vote in advance via a proxy and were only invited to submit questions in advance with answers placed on the company website following the AGM.

As a result of the later AGM and the pandemic, the Board was not able to hold its more informal shareholder briefing in November, nor its work experience days. It is hoped both can be restarted as soon as it is safe to do so. However, the number of briefings held with different shareholder groups did increase during the year.

Engagement with Stakeholders

Our communities

Whilst we operate globally, the Group has been headquartered in Cambridge since it began 111 years ago and moved to its current 900-acre site in 1937. We remain committed to Cambridge's extraordinary growth and development.

Why we engage:

- We benefit from actively engaging with other community members to understand their priorities and seek mutually beneficial outcomes
- To make a positive impact and be a good neighbour by the responsible running of our operations
- To provide experiences and opportunities designed to address the diversity issues which exist in STEM employment with the aim to improve gender diversity

How we engage:

- We support local communities who need help through charitable contributions and by encouraging employees to donate their time to community and charitable initiatives
- The Group is a founding industry partner of the Launchpad initiative in Cambridge, an outreach programme for students aged 8 to 18

The Group continues to encourage and support its employees in a wide variety of fundraising and volunteering activities. It concentrates its corporate giving through the D G Marshall of Cambridge Trust, donating £100,000 in 2020 to the charity.

The Group takes its role in the community extremely seriously, and is an active member of Cambridge Ahead, Cambridge Network and the Greater Cambridge Partnership. These organisations allow the Group, along with other prominent Cambridge businesses, to offer support and advice on matters affecting Cambridge and the surrounding areas.

Cambridge LaunchPad is a movement led by science, technology, engineering and maths (STEM) organisations, who invest their talent and resources to inspire young people into STEM careers. The programme provides students aged 8 to 18 with experiences and opportunities, and is designed to address the diversity issues which exist in STEM employment. With the Group's financial and employee support, the programme now involves 30 companies, reached over 6,200 young people in 2020 and put on 170 events.

Following the installation of the new airport radar in the autumn, we received a number of significant complaints in relation to its size, proximity to housing, light flicker and noise impacts. We subsequently held a number of meetings with residents to listen to their specific concerns and, as a result, launched an independent review in December. Having carefully considered the findings of the independent reviews, and listened to our local community, we have now concluded that the most appropriate course of action is for us to relocate the radar to an alternative site.

Our suppliers

Suppliers play a critical role in the Group's ability to operate sustainably, safely and efficiently.

Why we engage:

- To communicate future requirements and performance
- To qualify suppliers as suitable for specific contracts
- To provide a safe working environment for suppliers and visitors
- To reduce the carbon footprint in supply chain
- To build strategic partnerships from which we can mutually benefit

How we engage:

- Supplier forums
- Visits to supplier premises
- Performance reviews with suppliers
- Supplier conferences and training

MFS works very closely with its main supplier Thermo King Europe (TKE). Every year TKE measures the performance of its dealers around the world in all aspects of its business. The company achieved the highest possible levels of recognition from Thermo King in 2020. The company attends events held by TKE including conferences and training as well as dealer events to ensure that its engineers and staff have unrivalled knowledge of their range of refrigerated equipment.

MADG creates strong partnerships with its key suppliers through a combination of performance, improvement and engagement. This is evidenced by measurement of quality, cost competitiveness, delivery and service, and working closely with suppliers in bids, programmes, process improvements and supply chain risk mitigation. Clear regular communication and the sharing of plans and requirements at the earliest possible opportunity has been critical to successful supplier engagement. In 2020, the pandemic restricted the opportunities for face-to-face contact with its suppliers but this did not prevent considerable engagement in a number of areas.

The rapid increase in demand for PPE at the start of the pandemic was globally significant but the long term relationships that the business had already developed with its PPE suppliers ensured that there was an uninterrupted supply to all Marshall businesses, which in turn meant our people could continue working on the essential contracts. Through its strong supplier links MADG was also able to divert supplies to local health authorities.

The Brexit negotiations created uncertainty in supply chains across the world, and so the business, closely with its suppliers, helped to prepare and plan for different scenarios and possible outcomes. Factors including the threat of delays at ports and increasing processing of goods at borders were mitigated through the strong relationships with key suppliers. Tactical stock holding through the supply chain to ensure operations were not impacted and guidance and close support from logistics providers ensured that the threatened disruption during December 2020 and January 2021 was diminished and the planning with suppliers avoided significant interruption.

With new products and new customers, key strategic suppliers were invited to engage at the earliest opportunity. This may be at the bid phase or design stage of a product or programme, where technical requirements, cost targets and supply chain design can be established and agreed early, in order to meet customers' requirements. This provided opportunities for innovation and enhancements in the products and services provided by Marshall to its customers.

MADG encourages and works with suppliers to hold consignment stocks at its sites. A number of suppliers manage their own stock levels and fulfilment service levels to Marshall through managing their own on site stock levels.

Risk Management

Managing our risks

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

All of our principal risks are considered against the backdrop of the overarching Group strategy and purpose: “One Company of diverse operations, united by a common purpose and culture, committed to serving our customers and the community” and are mapped against the three central tenets:

- Serving our customers in a way that no one else can;
- Creation of long-term value; and
- Making Cambridge a better place.

As an independent public limited company (plc), Marshall Motor Holdings plc has established its own risk management framework. Its board has identified and assessed the principal risks and uncertainties which could have the most significant adverse impact on its business, together with the controls in place to mitigate those risks. More details can be found in the Marshall Motor Holdings plc annual report which is available from www.mmhplc.com.

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 operational objectives. The Board has identified ten key risk categories that are intrinsic to its consideration of appetite for risk, and which align with the published Group strategy. The Group is willing to bear or retain risks that have been assessed as being within the levels set for each risk category. Each risk category has a unique series of performance metrics which provide guidance to the Group and business units as to the level of performance required. Each principal strategic risk is mapped to one or more risk categories.

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 by each risk owner. Regular review, monitoring and reporting by the businesses enables the Board to ensure its risk appetite remains appropriate and that the businesses act consistently within 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. Equally as important is ensuring the Group operates in a sustainable manner, minimising its impact on the environment and its neighbours. The operating companies continue to maintain an appropriate governance structure for managing the complex regulatory landscape surrounding health, safety and the environment.

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

Accountability

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

Principal strategic risks

The Board has identified twelve principal strategic risks, ten of which were already identified in the previous year:

- Business interruption
- Cyber attack
- Contract completion
- Group liquidity constraints
- Brexit / Political
- Organisational capability
- Regulatory breach
- UK defence policy
- Succession planning
- Relocation of MADG
- Impact of and response to COVID-19
- Bribery and corruption


CLIMAVENT
CLIMAVENT

Group Strategic Report

Risk Management

Further details are set out on pages 39 to 44. The impact of, and response to, COVID-19, was identified in the early part of 2020 as an emerging strategic risk, and continues to be monitored as a principal risk. In addition, the risk of bribery and corruption, whilst not a new risk or of any increased concern, has been escalated from operating company level to Group level due to the seriousness of the impact of any potential breach. As part of the wider risk management process each principal strategic risk has been mapped to one or more of the risk appetite categories. Business decisions and discussions on further risk mitigations take into consideration whether the likelihood and / or impact breach agreed appetite levels.

The Group is exposed to exchange rate variations in both customer and supplier contracts within its operating subsidiaries; an imbalance in these could lead to significant exchange rate risk exposure.

The Group uses foreign exchange hedging instruments to mitigate this risk on a case by case basis. Recognising that the majority of our customers are government-backed and individual exposure to other customers is very low, the directors believe they have appropriate plans in place to mitigate credit risk in the business.

Governance

The Audit and Risk Committee operates a programme of rolling deep dives to ensure each principal risk undergoes scrutiny at least once within an eighteen month period. This includes a review of past and future actions together with mitigations. The Committee undertook deep dive reviews at three of the four meetings held last year:

- Regulatory breach – January 2020
- UK defence policy – January 2020
- Relocation of MADG – January 2020
- Bribery and corruption – July 2020
- Business interruption – July 2020
- Cyber attack – July 2020
- Brexit / Political – November 2020
- Organisational capability – November 2020

The management of the risks relating to the impact of COVID-19, contract completion and Group liquidity constraints continue to be reviewed directly by the Board at each meeting in view of their materiality. Succession planning underwent a deep dive as part of the Board's strategy days in October 2020.

The Audit and Risk Committee also reviews at each meeting the progress on the replacement ERP (Enterprise Resource Planning) system, a principal decision made by the Board during last year. The Committee is also regularly updated on compliance with GDPR and information governance.

Operational Risk Management Committee
The Operational Risk Management Committee (ORMC) has the responsibility for the oversight of the maintenance of the Company's operational risk management plan. This provides the framework for monitoring risk management activities.

The plan includes the following elements:
- identification of key risks;
- measurement of risk in terms of probability and impact in the context of current controls and strategies;
- evaluation and prioritisation of risks including severe, but plausible scenarios;
- development and implementation of risk control strategies; and
- monitoring and reviewing the effectiveness of the risk management system.

The ORMC is charged with the responsibility of reviewing and monitoring key risks which are identified, assessed, reviewed and reported by the businesses. To support the businesses, the ORMC assists in establishing, maintaining and reviewing procedures at management and operational level to identify, monitor and mitigate operational risk.

The ORMC met four times during the year under the chairmanship of the Group Company Secretary, with meetings scheduled in accordance with the Audit and Risk Committee timetable. 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 ORMC serves both to embed risk management procedures and advise the Audit and Risk Committee on current risk exposures and potential changes to future risk strategy.

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

Risk assurance activity during the year
Risk assurance activity in 2020 included the following:
- confirmation of the Board's risk appetite to ensure risks are only taken in pursuit of strategy;
- mapping of each risk on the Group's risk heat map to a risk appetite category;
- re-evaluation by the ORMC at each meeting of the Group's top strategic risks and their position on the Group's risk heat map;
- pre-review by the ORMC of all risks undergoing deep dive at the Audit and Risk Committee, whereby the management or mitigation of the Group's principal risks are presented by line management who are responsible for the relevant risk;
- continued development of the rolling deep dive programme for the Audit and Risk Committee;
- consideration of new risks and whether current risks are increasing or decreasing;
- regular review of most significant risks continuing at Board level; and
- reassessment of the viability statement in the annual report.

Communication
The Group provides all employees with the necessary tools to support all of its operating companies in their effective management of risk. The aim of the risk management framework is to ensure a consistent approach to managing risks across the Group, and to show employees how everyone can contribute to the process, identifying risks as early as possible and understanding how to deal with them effectively.

Board assessment of principal risks
The Board confirms that it has carried out a robust assessment of the principal risks facing the Group in 2020, including those that would threaten its business model, future performance, solvency or liquidity. The Group's risk profile evolves as changes in circumstances elevate risk, mitigating activities reduce net risk over time, or as new risks emerge. In 2020, the onset of the COVID-19 pandemic meant that some of the previously identified severe but plausible scenarios crystallised. More detail on the Board's response can be found in the Section 172 statement on pages 71 and 72. More detail on the risk activity can be found in the Audit and Risk Committee Report on pages 79 to 82.

The risks listed do not comprise all those associated with the Group and the order does not denote priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business. These less material risks are kept in view in case their likelihood or impact should show signs of increasing.

Principal Risks & Uncertainties

Business interruption

Risk description
Delivery of the Group's business plan requires continuity of business operations. In the event of disruption, the Group needs to restore activity as safely and as quickly as possible.

Context
The Group's business environment has ageing facilities and infrastructure, including some of the non-property assets such as plant and equipment. The operational environment includes aircraft maintenance activities, processes and manufacturing.

Severe but plausible scenarios
Loss of access to employees and / or facilities as a result of a pandemic was identified as a potential severe but plausible scenario many years ago. The onset of the COVID-19 pandemic caused serious disruption to the business in the second quarter of 2020 and has had a continuing impact, particularly as the third national lock down was introduced. Other scenarios that could cause severe disruption include: a major incident at the airport; disruption to core IT systems; loss of regulatory approvals and the loss of business critical buildings or infrastructure.

Mitigating activities
As the severe but plausible scenario of a pandemic unfolded, the business continuity plan was put into action and effectively tested live. The business implemented the actions required including working from home or other locations, strengthening of internet and remote working resilience, social distancing measures, and modification of the business operating models. A practice of everyday safety actions was also established and promoted. The business information and systems team have implemented increased resilience during 2020, adding additional capacity for remote connections and then distributing this across both of the computer rooms. This enables the whole IT business estate to be serviced by just one of the computer rooms, providing increased resilience.

Other business continuity plans, incident notification plans and airport emergency plans are in place and have been tested. Assets deemed critical to core business and timescales for the reintroduction of such assets should a major incident evolve have been identified and encapsulated on a risk register. High risk compliance contracts and service level agreements are in place with third party specialists.

Responsibility	Likelihood / Impact	Risk movement
MADG Chief Executive / MMH Board	Low / High	Decreasing

Contract completion

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

Context
The Group continues to review estimated costs to complete and monitor progress against the key milestones embedded in the project, including the reduction in the performance bond.

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

Mitigating activities
During 2020, a further Joint Accord was agreed with the customer. The second aircraft has been delivered, historic milestones have been closed and accepted, and the likelihood of any of the severe but plausible scenarios materialising has reduced. Correspondingly, the risk score has reduced over the year.

Responsibility	Likelihood / Impact	Risk movement
MADG Chief Executive	Low / Low	Decreasing

Regulatory breach

Risk description	Context
Breach of airworthiness or health, safety and environmental regulations. Failure to adequately interpret, apply and implement regulatory requirements. Failure to follow or adapt internal policies, processes and procedures. Failure to effectively address major audit non-conformances.	Regulatory environment continually evolving against a backdrop of safety culture and development of appropriate safety behaviour.

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

Mitigating activities
Improving safety and regulatory competencies at all levels through delivery of improved programme of safety and regulatory training. Reinforcement of positive safety behaviours and challenge of inappropriate safety behaviours through the application of safety coaching conversations. Reporting of both safe and unsafe acts to embed awareness and reporting of good safety issues in employee behaviours. Improvement in capability across the business on root cause and corrective action identification through delivery of training. Improvement of effectiveness of internal policies, processes and procedures. Benchmarking of accident frequency rates across the businesses and with other organisations with improvement targets. Improving engineer call out and lone-working processes and policies in our fleet business.

Responsibility	Likelihood / Impact	Risk movement
MADG Chief Executive / MFS Managing Director	Low / Medium	Stable

UK defence policy

Risk description	Context
UK Government budget constraints, particularly given the impact of COVID-19 on the country's finances could lead to reduced spending in the core markets in which the Group operates. The Government's Integrated Review has announced the retirement of the RAF C-130J fleet as 2023, significantly ahead of its original expected out of service date of 2035.	Despite an increase in its financial settlement, announced in 2020, it is likely that much of the new funding will be absorbed by the existing programme. The MoD is seeking to transform the Armed Forces by retiring "sunset" capabilities.

Severe but plausible scenarios
The most significant scenario was the shortening of the C-130J out of service date. The timing of the retirement was key as to the severity of the impact on the Group. The Integrated Review announcement that the out of service date has been brought forward to March 2023 is undergoing significant risk assesment. Although it is too early to confirm the overall impact, the financial impact could be very significant and could have a knock-on effect on the Group's ability to compete cost effectively in the global market.

Mitigating activities
Reducing impact by diversifying C-130 business away from the UK and working with more C-130. This is combined with engagement with stakeholders to ensure that the value of the C-130 is recognised by MoD and the decision makers. Driving capability improvements onto the platform to help to secure the Group's position which includes centre wing replacement and other special forces modifications and contracts. The business continued to expand its portfolio of international customers in 2020.

Responsibility	Likelihood / Impact	Risk movement
MADG Chief Executive	High / High	Increasing

Principal Risks & Uncertainties

Cyber attack

Risk description	Context
Operational disruption, commercial penalties, and / or reputational damage associated with a successful cyber-attack on ICT infrastructure.	The threat environment is continually evolving. MADG, as a defence company, is at a higher risk of being targeted by a high end sophisticated sleeper or gathering attack which does not readily present visible symptoms.

Severe but plausible scenarios
The key scenarios include operational disruption caused by ICT infrastructure disruption; loss of engineering design data compromising national security resulting in inability to tender for secure government programmes; employee data loss or other breach of GDPR; and operational costs associated with remediation activities necessary in the event of a significant or sustained breach.

Mitigating activities
The nature of cyber threats means that the penetration of the lower risk general data perimeter on occasion is generally accepted as unavoidable. Significant investment has been made to increase rapid threat identification, response and containment, together with layered defence which negates the ability to compromise high value data/systems. Independent third party reviews during the year of our threat/activity logging has confirmed no breach events.

A “Red Team" active compromise drill was completed in Q4 2019, which identified only minor observations on our incident response and which were incorporated straight away into our processes. MoD accreditation has been achieved. The business’s cyber security maturity is regularly audited by various organisations and customers. Phase 1 of the plan to achieve a segregated and layered network architecture that allows a risk tailored approach to data handling has been completed. The overall programme should be completed in 2021.

Responsibility	Likelihood / Impact	Risk movement
MADG Chief Executive / Chief Technology Officer	Medium / Medium	Stable

Succession planning

Risk description	Context
To deliver the strategic plan and restore business performance the business requires continuity and succession planning for key executives and specialists with critical skills.	The current business context has some critical programmes and projects that will need to be delivered over the course of the five-year business plan. The delivery of some key programmes is currently dependent on a few key individuals.

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

Mitigating activities
A key tenet of the Alignment project launched in 2019 was to give clear career development structures. Succession planning is reviewed twice annually and was considered again at the October 2020 Board strategy days. The organisational review currently underway incorporates the actions arising from this.

Responsibility	Likelihood / Impact	Risk movement
Chief Operating Officer	Medium / Medium	Stable

Relocation of MADG

Risk description	Context
Multiple factors could affect the proposed relocation of MADG from its current site at Cambridge Airport, with the potential to impact significantly the current and future prospects of the business, especially in relation to staff morale, retention and recruitment, business winning and programme delivery. It may also impact the progress of MADG, the Group's planning application and in the extreme, impede the Cambridge East development.	The redevelopment of the Cambridge Airport site is contingent on the successful delivery of the proposed relocation of MADG from Cambridge Airport, currently scheduled for 2030.

Severe but plausible scenarios
The Group fails to find a suitable site for MADG, impacting the deliverability of Cambridge East. Some business units may require two moves, which would result in significant additional cost, risk and disruption. Growth of MADG constrained by new site proving to be unsuitable for some future needs. Loss of staff as a result of the proposed move impacts MADG's business.

Mitigating activities
In addition to input into employee forums, workforce communications are being delivered at least quarterly. A significant tranche of work has been undertaken to provide a deeper analysis of issues and the suitability of candidate sites from an operational and a socio-economic / workforce perspective, to inform the cost model (capital, transitional and operational). In October 2020, the Group signed an Option Agreement for a 150-year lease on a parcel of land on Cranfield University's proposed Air Park development.

Responsibility	Likelihood / Impact	Risk movement
MADG Chief Executive	Medium / Medium	Stable

Organisational capability

Risk description	Context
Failure to deliver the strategic plan and impact on business performance. The business requires robust resource planning in order to ensure the Group has the organisational capability to deliver.	Past business performance has created an unpredicted workload and a skills, utilisation and loading mismatch.

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

Mitigating activities
The risk is being managed by limiting permanent recruitment and maintaining flexibility with contractors. Integrated business planning (IBP) and resource planning tools are being progressively embedded throughout the business. The Alignment project launched in 2019 has modernised the employee value proposition whilst simplifying and ensuring consistency of employment terms, giving clear career development opportunities, and flexible terms of working. A restructuring programme was carried out in the last quarter of 2020 and an organisational review with a third-party partner has now commenced. A new HR system has been scoped and approved and its implementation in 2021 will help to design and embed resource planning and management.

Responsibility	Likelihood / Impact	Risk movement
Chief Operating Officer	Medium / Medium	Stable

Principal Risks & Uncertainties

Group liquidity and cashflow constraints

Risk description	**Context**
Inadequate facility capacity available during our investment phase and any impact on the ability of operating subsidiaries to pay for goods and services required to trade.	At the end of 2016 the Group entered into a new bank facility agreement in support of the five year business plan adopted by the Board. Financial covenants must be complied with and any unplanned events must be monitored and managed within the overall debt capacity.

Severe but plausible scenarios
The total facility cap for loans and ancillary services is £75m. The cumulative impact of unplanned events could consume the headroom in the facility. If the Group's trading performance falls, the Group could be in breach of the financial covenants and the facility agreement. This scenario seemed likely in March 2020 with the onset of the COVID-19 pandemic.

Mitigating activities
In 2019, the bank facility agreement was extended by 12 months to March 2022. We are in regular dialogue with our core lenders and they continue to be very supportive and encourage the start of discussions over the summer of 2021 to renew the facility. Awareness of the facility is promoted at directors' and leadership conferences; weekly 13-week forward-looking cash forecasts of likely cash requirements and quarterly forward-looking profit, cash and covenant compliance forecasts are produced and analysed. This process provided early warning of a possible covenant breach in June 2020, which enabled early engagement with our lenders. Covenants are now reset and we are forecast compliant. Following verbal confirmation from our lenders, we are confident that follow-on facilities will be made available.

Development of safety levers that can be pulled in the event of forecast difficult position. A number of safety valves were successfully executed during the year and the previous planning and forethought ensured they were at best value for the Group.

The directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the period up to 31st December 2023, and do not consider the cash flow risks to be significant.

Responsibility	**Likelihood / Impact**	**Risk movement**
Chief Financial Officer	Low / Medium	Decreasing

Covid-19

Risk description	**Context**
Failing to deliver safely business continuity throughout the COVID-19 pandemic whilst protecting our employees.	The business has a number of critical programmes and projects that will need to be delivered over the course of the five-year business plan. The delivery of some key programmes is currently dependent on a few key individuals, as well as the wider workforce in the hangars.

Severe but plausible scenarios
We have cases of infection inside and outside the organisation that impede/prevent the delivery of products and services or that require complete temporary closure of business activities. We are unable to deliver current business plans and breach the commitments associated our current funding agreements. Our financial position erodes requiring emergency measures to be taken. We fail to comply with government policy and guidelines.

Mitigating activities
The risks have been identified by the business and plans have been established to respond to the crisis as it continues to evolve. Almost half of our workforce have worked successfully from home. For those in critical positions where they must attend site, a number of measures are in force, including social distancing and additional PPE. We have mobilised a routine of on-site testing and this has been extended to all front-line workers. All measures and actions are reviewed weekly to ensure effectiveness.

Responsibility	**Likelihood / Impact**	**Risk movement**
Chief Operating Officer	High / High	Stable

Bribery and Corruption

Risk description	**Context**
Risk of exposure to or involvement in bribery, corruption or unethical practices.	The inherent risk of being affected by bribery and corruption is heightened in the aerospace and defence sectors as evidenced by high-profile cases in this sector. This risk is also acknowledged as being potentially increased in jurisdictions known for corrupt behaviour, as assessed by third party organisations. The relevant legislation driving compliance is the Bribery Act (UK) 2010. This is includes the scope covered by the US Foreign Corrupt Practices Act (FCPA).

Severe but plausible scenarios
The Group engages an advisor or representative, or has an employee who engages in practices which are contrary to legislation or Marshall's ethical standards. The Group contracts with a company, government or government-connected organisation which renders it more vulnerable to unethical practices or illegal activity, either directly or from a reputational perspective.

Mitigating activities
Customers are mainly Government bodies or 1st Tier Contractors with many interested parties / multiple approvers or decision makers. Regulated scoring systems and scrutiny through Freedom of provisions. Minimum use of representatives and where used, these are carefully vetted and closely monitored. Independently checked processes and procedures and layers of delegated authority. Regular reviews by the Executive Ethics Committee.

Responsibility	**Likelihood / Impact**	**Risk movement**
MADG Chief Executive	Low / Low	Stable

Brexit/Political

Risk description	**Context**
The UK left the EU on 31st January 2020 with a transition agreement in place until 31st December 2020. A deal governing the future trading arrangements between the UK and the EU was eventually agreed on 24th December, ahead of the end of the transition period but the full impact is still uncertain.	After a period of uncertainty, the deal gives businesses a framework to work with, although there will be a period of adjustment while the new arrangements settle in.

Severe but plausible scenarios
The risk that the transition period would conclude without a deal has now been mitigated. The attendant risk of challenges with the movement of products and labour between the UK and Europe, including additional charges being levied at borders, affecting both import and export is still ongoing. Other areas of concern include regulatory risks relating to the acceptability of product standards to UK and EU authorities.

Mitigating activities
Recognising the fixed date for the end of the transition period, each of the businesses focused on identifying and making plans where possible to mitigate any major impact in the event of a 'no deal' environment, including changes to supply chains and increasing stocks ahead of the deadline. We continue to monitor and adjust to any impacts of the new trading regulations. We also maintain links with government (politicians and officials) at a local and national level, in particular in relation to the impact of the COVID-19 pandemic on the economy and government investment decisions.

Responsibility	**Likelihood / Impact**	**Risk movement**
MADG Chief Executive	Medium / Low	Decreasing

Viability Statement

Following public company practice, the directors have formally assessed the viability of the Group over a three year period to 31st December 2023. Marshall Motor Holdings plc (MMH) is currently funded by a revolving credit facility and stock secured asset financing, all of which is managed by an independent board. The Core Group, excluding MMH, has separate financing facilities and cash generation.

The Board has considered that a period of three years is appropriate because:

- although longer term business plans exist, the budget process provides a more considered three year view. Budgets, covering a three year period, are prepared each year;
- the nature of Marshall Aerospace and Defence Group means that some major contracts provide greater visibility of longer periods, but the majority do not extend beyond three years;
- the Group's retail and property development activities are exposed to considerably more uncertainty over the short-term; and
- the Group's funding facilities tend to cover a period of three years from each renewal date. Facilities may be extended, subject to bank consent.

The annual budget process provides a forecast of the divisional business performance, anticipated cash flows as well as net debt headroom and financial covenant compliance against existing facilities. In assessing the viability of the Group, the directors have considered the principal risks from pages 39 to 44 to determine those risks, which could potentially pose the most significant threat to viability over the period.

The sensitivity analysis includes the assumption that the Core Group will renew its lending facilities, on similar terms, on expiry of the existing agreement in March 2022. Relations with the Core Group's banks have been very constructive during the pandemic and the directors believe that this is a reasonable assumption. In preparing the sensitivity analysis the Director's have applied what they consider to be an appropriate set of assumptions in respect of revenue growth, operating margins, working capital flows, routine capital expenditure and all other matters that could have an impact on the liquidity of the Group.
The directors have also assumed that the MMH directors' viability assessment is reasonable and takes proper account of the risks and scenarios that MMH faces.

Severe but plausible scenarios within the Core Group which the board has considered in reaching the conclusion concerning the Group's viability are shown below.

Scenario One

The Core Group's covenant leverage test and cash flows over the period are dependent on trading performance within MADG. Scenarios have been modelled where MADG performance is significantly lower than expectations, including a scenario where the UK MoD retires the C-130 from service within the next five years, with all major modification and maintenance inputs ceasing within twelve months. The scenario assumed minor maintenance and safety work would continue until each aircraft is withdrawn from service, but excluded the benefit of any activity relating to the resale of the aircraft and any compensation that may be received from the UK MoD for the early termination of the contract.

Reverse stress testing processes have also been completed, including a scenario where the UK MoD removes the C-130 from service on very short notice, ceases all work and pays no compensation, to identify the theoretical sensitivity that the Group could absorb without affecting its viability.

Link to Principal Risks and Uncertainties - Cyber attack, COVID-19, political, organisational capability, regulatory breach, UK defence policy and succession planning.

Scenario Two

The second scenario assumes that the progress of our property development projects is delayed to such an extent that no property sales are realised in the three-year period.

Link to Principal Risks and Uncertainties - political, COVID-19, organisational capability and succession planning.

Conclusion

The directors confirm that their assessment of the principal risks was robust and the modelling is reasonable. Based on the results of their review, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the period up to 31st December 2023, subject to the assumptions outlined above.

Group Strategic Report

Financial Review

Trading Performance
With lockdowns affecting activity, particularly in MMH, revenue for the year was £2.5bn, representing a small decrease over the previous period (2019 - £2.6bn).

88% (2019 - 88%) of the Group's revenues arose from Marshall Ventures, 12% (2019 - 12%) from Marshall Aerospace and Defence Group and <1% from Marshall Group Property.

On a statutory basis, the Group reported a profit before tax of £30.5m (2019 - £27.2m). When reviewing the results before several non-recurring items, underlying profit before tax of £39.1m (2019 - £35.2m) was significantly better than our expectations following the onset of the pandemic with strong performances from core businesses; Military Aerospace and Aerostructures, as well as our independently listed subsidiary, Marshall Motor Holdings plc.

Details of the government support received by the Group in the year are provided in note 4 to the accounts.

With revolving credit facility drawdowns held for a longer duration than usual, particularly during lockdown periods, finance costs increased to £7.2m (2019 - £6.4m).

The Group owns just over 64% of MMH, with recognition of the minority shareholding noted as non-controlling interests in the Consolidated Income Statement and the Consolidated Balance Sheet. The Core Group (excluding MMH) recorded significant tax losses during 2017, which has had a positive impact in the current year tax charge through the utilisation of brought forward losses. The Group, therefore, is expecting to pay cash tax relating to the 2020 results of £4.4m (2019 - £3.7m), including local corporation tax paid in our overseas operations.

Deferred tax assets on losses have been recognised where the directors consider that profits will be made in the foreseeable future, ensuring full recovery. Following the Government's decision not to implement a lower corporation tax rate from April 2021, deferred tax liabilities were re-valued using the continuing higher corporation tax rate of 19%, causing the Group's effective tax rate for 2020 to increase to 27.8% (2019 – 22.3%).

The earnings per share, on a statutory basis, were 30.0p (2019 – 27.9p). Adjusting for separately disclosed items, as set out in note 3, underlying earnings per share were 41.3p (2019 – 35.3p).

Dividend
As in previous years, preference dividends amounting to £744,000 were paid to preference shareholders. In place of the final dividend for 2019, an interim dividend for 2020 was paid in July 2020. With the strength of the business through the second half of the year, and the support of our bankers, we were also pleased to be able to pay a further interim dividend for 2020 in December. The Board has now agreed to pay a third interim for 2020 of 3p per Ordinary and NVPO share, dividend payable on 9th July 2021. As such, no final dividend is proposed for 2020.

Setting aside the technicalities of interim and final dividends, the cumulative proposed dividend payments throughout this difficult period equate to 4p per Ordinary share per year and 6p per NVPO share per year, which is at the same level as pre-pandemic dividend payments.

Net Debt / Cash Flow
The Group closed the year with total cash, net of debt at 31st December of £12.9m (2019 net debt- £24.9m). Capital expenditure totalled £40.0m (2019 - £47.6m). The Group continued to invest in its infrastructure for the future. In Cambridge, the refurbishment of Hangar 16 was completed along with the ongoing implementation of new enterprise wide systems in MADG, whilst several refurbishments were completed in MMH.

During the year, MMH completed the acquisition of Aylesbury VW for a total purchase price of £3.0m, following the deferral of the transaction from 2019 and the ASC office building at Cambridge Airport was sold in a sale and leaseback transaction realising gross proceeds of £10.4m.

MMH enjoyed a positive cash flow for the year as inventory levels were held at lower levels, supported by steps taken by OEM partners including revisions to stocking payment periods and other measures to support their dealer networks.

Another major factor in the movement in cash in the year was a decrease of £14.4m (2019 increase - £16.7m) in the balance of customer advance payments in MADG, which is a natural timing issue as we execute major projects.

We anticipate that borrowings will increase further during 2021 as we continue our investment programme and we see certain programmes with particularly positive cash profiles come to an end. Similary, within MMH, inventory levels are expected to return to more normal levels.

Financing
The Group operates with two major loan facilities. The Core Group has a committed, unsecured £75m revolving credit facility, due to expire in March 2022. MMH's £120m revolving credit facility, originally due to expire in June 2021, was extended to January 2023 during the year.

As a result of the impact of COVID-19 on our trading performance, revised financial covenants were agreed for the Core Group for the period to March 2021 and for

MMH for the period to December 2020. MMH subsequently agreed a further revision of financial covenants through to June 2021.

Prior Year Adjustments
A change in auditor for 2020 has brought a fresh set of eyes to the Group's accounts. As a result, a small number of adjustments have been made to the prior year in relation to: the amortisation of franchise agreements, the implementation of software assets and the calculation of the non-controlling interest in MMH. Further details can be found in note 31 of the accounts.

Intangible Assets
Goodwill and franchise agreements are amortised over periods up to 20 years. Total amortisation during the year was £7.4m (2019 - £7.7m), with the net intangible asset carried on the balance sheet of £94.1m (2019 - £93.9m). Intangible assets added by acquisition were £1.1m (2019 - £7.3m).

Joint Ventures
During 2017, the Group entered two joint venture partnership arrangements with Hill Residential Limited, relating to the Marleigh development. The Group holds a 50% interest in both partnerships with each party having equal representation on the joint venture boards. Sales activity commenced in 2020, with ten completions achieved by the year end. The Group has recognised £0.5m of profit, representing its share of the net profit achieved in the development. A new debt facility for the construction of residential and commercial property of £30m was entered into by the joint venture in March 2020.

Pensions
The deficit on the Group's defined benefit pension scheme, the 'Plan', as calculated under FRS 102, increased from £3.0m to £4.6m, and after deferred tax there was a net liability of £3.7m (2019 - £2.5m). The expected liabilities increased primarily due to a decrease in the discount rate however, the investment performance of the scheme assets was higher than expected. The Plan was closed to future accrual of benefits during 2018.

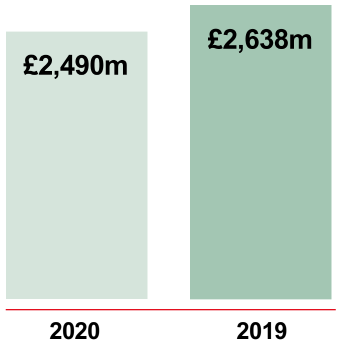
The Board and the Trustees of the Plan continue to work together to agree steps to reduce the inherent risk and ensure that the Plan remains viable, effective and cost efficient. A funding valuation used both by the Trustees and the Group, as at 31st December, 2019, indicated an actuarial deficit of £5.0m. To address the deficit, the Group has agreed to make annual cash contributions through to 2023 of £1.24m.

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.

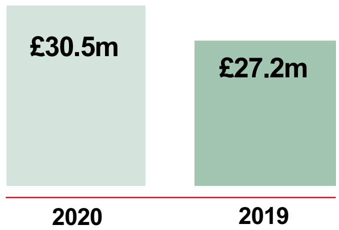
Key Performance Indicators
The individual businesses use a number of Key Performance Indicators (KPIs), both financial and non-financial to gauge performance. The diversification of the Group's businesses, particularly after the flotation of MMH, means that few are applicable for every company. There are a small number of specific KPI's, against which individual or Group performance can be monitored, with order intake and profitability being particularly important.

Key Performance Indicators

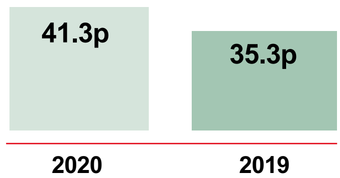
Revenue



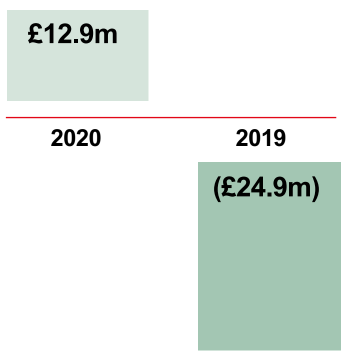
Profit before tax



Underlying earnings per share



Net cash/(debt)



Group Strategic Report

Sustainability

Overview

The Group is committed to making a difference and alleviating the pressures placed on the environment. As signalled in last year's annual report, during 2020 the Group undertook a full review of its operations to assess how the businesses could reduce their impact on the environment and local communities and maximise opportunities to improve performance in alignment with the United Nations Sustainable Development Goals. The review, carried out in conjunction with Deloitte UK, also provided a framework that underpins the new Group sustainability strategy - Ambition 2030 - which is currently in development.

The Ambition 2030 strategy framework is based around three core elements:

- Taking ambitious climate action and building climate resilience
- Ensuring a healthy environment for employees and the local community
- Using and developing sustainable products and services

Further details of each of these areas are set out below, together with highlights of some of the achievements in 2020.

Governance

The Group recognises that a key aspect of ensuring the Ambition 2030 strategy is successful is to embed accountability at Board level. To achieve this the Board has established a Sustainability Committee, chaired by the Senior Independent Director with two other non-executive directors as members. The Chief Operating Officer and Group Company Secretary are also in attendance. The Committee will meet on a regular basis to support the development and implementation of the Ambition 2030 strategy and will present their recommendations on sustainability objectives, goals and management approaches to the Board for approval. A new operational sustainability group is also being set up to action the decisions made by the Board.

Objective

The key objective is to develop a detailed strategy and roadmap to implement Ambition 2030 throughout the Group by the end of 2021. This will include an outline of the resources required for implementation. It will also include a set of clear, quantifiable targets, for both 2030 and the years leading up to this milestone, that will be used to monitor and report on progress. Once the targets and goals have been agreed they will be rolled out and communicated throughout the Group and incorporated into the Ambition 2030 strategy framework.

Climate action and resilience

The first pillar of the Ambition 2030 strategy framework includes a focus on continuing to reduce emissions at the same time as building climate resilience.

The Board recognises that climate change is a major global risk to society and the economy. The Group is committed to its role in reducing this risk at the same time as transitioning its businesses to align with a low carbon economy. In line with the UK's commitment to net-zero emissions by 2050 and given the UK is hosting COP26 this year – an important milestone in the international process to address climate change – the Group is actively investigating how to learn from and apply best practices in the 'Race to Net Zero'.

A significant achievement in 2020 was to increase purchases of electricity from renewable sources for key operations in Cambridge. The Group will continue to investigate options for sourcing renewable power for all its locations. The Group is committed to find ways to become more efficient with the energy used across its operations in line with best practices and to benefit from further cost reductions. For example, technical improvements to one of the painting operations in the Marshall Aerospace and Defence Group delivered 40% energy efficiency savings. Further performance improvements to energy intensive operations will be investigated during 2021.The businesses are also looking into ways to lower emissions from energy use, particularly in relation to transportation

The Group will continue to look for ways to become more energy efficient and to switch to low-carbon energy for heating, cooling and transportation to mitigate its impact. However, building resilience to reduce and manage the impact that climate change has on operations is equally important.

A key objective, therefore is to increase the Group's resilience to the physical impacts of climate change at its key operating sites and across the value chain. The Group undertook a high-level assessment of the physical risks of climate change under both a 2°C and a 4°C average increase in global temperature scenario. It will build on this understanding to develop a more detailed risk mitigation and management plan during 2021.

Healthy environment
The second pillar of the Ambition 2030 strategy framework is to create a healthy environment for both employees and the local communities in which the Group operates. The key focus will be on preventing pollution to air, water and land, minimising use of natural resources and production of waste, and enhancing local biodiversity.

The Group already has a comprehensive programme that enables it to comply with all regulatory requirements related to using and disposing of potentially hazardous substances and materials. The businesses will continue to strive for zero breaches in environmental permits as the new strategy is developed and implemented.

The businesses are considering the ways in which the amount of waste produced can be reduced, and will assess opportunities for applying the well accepted hierarchy for waste management, which involves 'reducing, reusing and recycling' wherever possible. Good progress in reducing waste to landfill was made by Marshall Motor Holdings in 2020 with over 98% of hazardous waste and almost 65% of non-hazardous waste being recycled and recovered.

Biodiversity is becoming an increasingly important issue for businesses to understand and manage, particularly in light of the results of the Dasgupta Review which was initiated by the UK Treasury and led by Professor Sir Partha Dasgupta, an economist at the University of Cambridge. The Review highlights the important role nature has to play in the economy and the need to consider the benefits of protecting and restoring nature for businesses and local communities.

The Group plans to build a better understanding of the most relevant biodiversity issues in its local areas and explore opportunities for engaging with local groups to support conservation and restoration projects that will not only enhance biodiversity but will also help build climate resilience.

Sustainable products and services
The third pillar of the Ambition 2030 strategy framework is to select suppliers that align with our sustainability objectives and to continue to engage with customers to support them with their sustainability objectives. Current practices already address a range of issues to ensure legal compliance and adherence to best practice expectations. The next step is to take a more strategic and proactive stance to go beyond the basic requirements to ensure the Group can continue to add value in its strategic partnerships.

To achieve this, the Group will review and improve its supplier selection criteria and assessment process to enhance the sustainability of the products and services used. It will also build sustainability criteria into its design and development processes to ensure impacts on the environment and society are considered at the earliest stage in its processes.

Engaging customers to better understand their short-, medium- and long-term sustainability goals is critical so that the businesses can be proactive in responding to potential changes in their requirements. For example, the switch to low carbon emission heavy-duty vehicles is an area under review to ensure the businesses have clear insight into the best available technology options.

Looking forward
During 2020 the Group made good progress in understanding the critical environmental risks and opportunities for its businesses and this has led to the creation of the Ambition 2030 strategy framework. It is now focussed on developing a clear strategy and roadmap which will include setting clear targets and goals which will be reported on next year. In addition the Group will review its risk assessment and disclosure approach in line with the Taskforce on Climate-related financial disclosures with the view to being ready to report formally on the recommendations once the application to, and guidance for, private companies is published.

Sustainability

Streamlined Energy and Carbon Reporting

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (the Regulations), the Group is mandated to disclose its UK energy use and the associated greenhouse gas emissions relating to natural gas, electricity and transport fuel. In addition, publication of an intensity ratio as well as the calculation methodology is required.

Calculation methodology

Scope 1, 2 and 3 energy consumption and greenhouse gas emissions data has been calculated in line with the 2019 UK Government environmental reporting guidance. There were a number of instances, equating to 15.6% of the total MMH reported consumption figures where it was necessary to calculate some estimated consumption to achieve 100% data coverage. Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used, utilising the current published kWh gross calorific value (CV) and kgCO2e emissions factors (and further converted into tonnes of CO2e) relevant for the reporting year.

Results

The table on page 52 shows the energy consumption and associated greenhouse gas emissions of the Group's operations during the reporting year from 1st January 2020 to 31st December 2020. The calculations are for the following scopes:

- Scope 1 consumption and emissions relate to the direct consumption of natural gas used in our offices and buildings, and fuels utilised for business owned or controlled transportation operations, such as company vehicle fleets;
- Scope 2 consumption and emissions relate to indirect emissions resulting from the consumption of purchased electricity in day-to-day business operations; and
- Scope 3 emissions relate to transport covered under 'grey fleet' (personal cars used for business purposes)

Being the first year that the Group has been required to assess and report this information, the following values constitute the baseline reporting for future assessments.

Greenhouse Gas Emissions	Consumption (kWh)	Greenhouse Gas Emissions (tCO_2e)
Scope 1 – Direct Emissions (natural gas, transport, LPG, kerosene and gas oil)	61,147,790	14,089
Scope 2 – Indirect Emissions (electricity)	31,318,521	7,302
Scope 3 – All other Indirect Emissions (transport – grey fleet, other activities)	14,121	645
Total	**92,480,432**	**22,036**
Intensity Metric:		
Tonnes of CO_2e per £m revenue		**8.42**

Energy efficiency improvements
The Group is committed to year-on-year improvements in operational energy efficiency.

All property improvements and refurbishment programmes are developed to ensure improvements in energy efficiency and a reduction in consumption by using sustainable energy solutions where appropriate.

MADG – Energy and Environment Strategy
MADG developed an Environmental Strategy in-line with sustainability obligations and extant MADG Environmental Continual Improvement (CI) programme. The strategy focuses on five Priority Topics, one of which is energy reduction. A business leading commitment has also been set to achieve net-zero carbon emissions by 2030.

MADG - Renewable Energy Source
During 2020 we purchased or generated the same amount of electricity from a Renewable Energy Source, wind power, as certified under the Guarantees of Origin scheme by our energy supplier.

MADG - Hangar 17 'RTO' Optimisation
The Hangar 17 Paint Facility Regenerative Thermal Oxidiser (RTO) abatement plant underwent an optimisation programme during Q4 of 2019, with projected operational gas consumption savings of 40%. During 2020 performance evaluation realised annual CO_2 emission reductions of 980 tonnes.

MADG - Hangar 16 Refurbishment
The project aim was to modernise a 1970's large single span aircraft hangar and improve its thermal efficiency. This was achieved through the replacement of the building roof fabric, new LED smart sensor lighting, and the heating and ventilation system controlled via a new building management system.

Sustainability

Streamlined Energy and Carbon Reporting (continued)

MADG - SMART Meter Install Evaluation
In support of a Climate Change Levy (CCL) tax relief application (expected during 2021) and the need for accurate monitoring and recording of energy data, automated SMART metering was evaluated to identify the opportunities of real-time energy data from our processes and activities for the internal teams to identify where our high energy consumption activities take place.

MADG – Energy Efficient Plant and Equipment Replacement
During the year a planned replacement programme of old inefficient equipment with new modern reduced energy equipment was actively rolled-out. Examples include a fibre laser, press brake machines and welding plant, as well as pneumatic and electrical hand tools. In addition, new bespoke energy efficient substrate blasting booths were introduced into Hangar 15 to support the new production contracts.

MADG – LED Lighting Upgrade
To support the new DVOW production area, the entire Hangar 14 lighting infrastructure was replaced with a brighter and more energy efficient LED lighting system. Other lighting upgrade projects included motion sensor-controlled LED lighting installs in Hangar 20 and the Manufacturing Support building.

MMH – Investment in vehicle charging infrastructure
Along with our brand partners the Group is investing in the installation of electric vehicle charging points across the dealership estate. While this will not reduce the overall emissions of the Group, it demonstrates the Group's support of the required decarbonisation of the transport sector. Through the planned installation of charging points, the Group will contribute to the growing infrastructure for electric vehicles throughout the UK.

Measures prioritised for implementation in 2021

Ongoing Compliance with Energy Reporting Legislation
The Group is mandated to comply with the Energy Savings Opportunity Scheme and, as such, produces a summary of all available energy efficiency improvements on a four-year cycle. This will be completed again in line with the 2023 Phase 3 compliance deadline. Recommendations found within the Phase 2 reporting are being reviewed.

Upon normalisation of operations following the COVID-19 pandemic, the implementation of ongoing training in energy conservation and sustainability awareness is being considered for all employees across the Group.

MADG - COVID-19 Impact and Agile Working
Increased staff numbers working from home and reduced employee presence on-site has seen a marked reduction in energy consumption from the Cambridge site. An agile working project is reviewing the opportunities that this enforced change can have in the future.

MMH - Energy and Environment Strategy
MMH is working towards implementing an Energy and Environment Strategy that ensures the outgoing energy and carbon reductions over the coming years are in line with the UK 2050 net zero targets.

MFS – Energy and Environmental Strategy
Marshall Fleet Solutions began several initiatives in 2020 with a focus on reducing the environmental impact and emissions from transport refrigeration. The most progressive to date being the introduction of the Thermo King Advancer Unit. Understanding the environmental challenges faced by the transport industry, reduced fuel consumption, pull down efficiency, noise reduction and environmental impacts are a design focus that is set to continue within the TK range. The Advancer unit delivers up to 24% fuel efficiency compared to preceding SLXi units and on average, 30% less fuel consumption than the equivalent units on the market. Due to the reduced fuel consumption and increased efficiency, emissions have been reduced to 50% less than the maximum permissible levels. The Advancer's environmental impact is 65% less than the overall industry benchmark for fuel consumption and emissions.

In parallel with this, MFS has some exciting projects, focusing on renewable energy and bio-fuel sources, some of which have already moved past conceptual stages and are undergoing active trials. An innovation we are particularly excited about is a solar-kinetic energy source, initially used to power vehicle refrigeration units but there is also potential opportunity to implement this technology into the tail-lift division, other ancillary devices or even our own vehicles. We expect these advancements to evolve significantly during 2021.

MADG – Energy and Environmental Strategy
In support of our 2030 vision, a focus will be on behavioural change within the business delivered through the Continual Improvement Environment Pillar teams, implementing a programme of energy efficiency and environmental awareness from our processes and activities. This will also include utilities supplier engagement, particularly energy and water, to identify consumption reduction opportunities.

Several energy feasibility studies are planned during 2021, particularly on installing heat exchange technology to reclaim process exhaust heat for building space heating and adoption of battery storage to reduce supplier transmission reliance, peak time electricity and offering back-up capability.

Following the automated SMART metering study, justification will be sought for project delivery during 2021. The opportunities of real-time energy data and potential energy reductions are expected to show a return on investment within a 12-month period.

Conclusion

The Group Strategic Report has been approved by the Board and signed on its behalf by:

Alex Dorrian CBE
Executive Chairman
1st July, 2021

Sean Cummins
Chief Financial Officer
1st July, 2021

The Board

Alex Dorrian
CBE FREng FRAeS FIET

Executive Chairman
Appointed: 2016

Skills and experience

Alex has extensive experience of senior leadership of global businesses and brings to the Group a deep understanding of the aerospace and defence industries gained from his career with BAe Systems and Thales. He continues to use this experience to oversee the development of the Group's strategy, its risk management and the effectiveness of its operations. He was awarded a CBE in 2002 and was made Officier de la Legion d'Honneur in 2010.

Committee membership

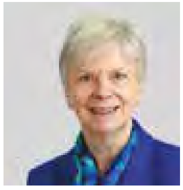
- Chairman, Nomination

Current external appointments

- None

Key former appointments

- Chairman of Thales UK
- Executive Vice President of Thales Group
- Chairman of Manoir Aerospace
- Non-executive director of UKTI
- Founding President of ADS



Julie Baddeley

Senior Independent Non-Executive Director
Appointed: 2016

Skills and experience

Julie is one of the UK's most experienced women directors having served in both an executive and non-executive capacity on the boards of leading public companies, as well as major public sector organisations, and across a range of sectors including consumer, retail, industrial, financial and professional services. She has significant remuneration committee experience and an independent focus on leadership, change management, governance and talent.

Committee membership

- Chairman, Remuneration
- Chairman, Sustainability
- Audit and Risk
- Nomination

Current external appointments

- Non-executive director of Ebiquity plc
- Director of the Hughes Hall Centre for Climate Change Engagement
- Chair of Chapter Zero, the Directors' Climate Forum

Key former appointments

- Chairman of Harvey Nash plc
- Non-executive director of Chrysalis VCT plc
- Non-executive director of Greggs plc
- Non-executive director of Camelot Group plc
- Non-executive director of BOC Group plc
- Non-executive director of Yorkshire Building Society

Charlie Marshall

Non-Executive Director
Appointed: 2020

Skills and experience

Charlie brings significant retail and entrepreneurial experience to the Board, having started his first company, Primal Soup, a food manufacturer, after leaving university. Having sold this business after 8 years, in 2008 Charlie launched an online furniture company called The Sleep Room, which was an immediate success, and in 2012, when it started selling sofas, it was rebranded as Loaf. Charlie remains the CEO and majority shareholder. Charlie is also a great grandson of the Marshall Group founder, David Marshall.

Committee membership

- Nomination

Current external appointments

- CEO of Really Comfy Beds trading as Loaf

James Buxton
DL FRICS

Non-Executive Director
Appointed: 2014

Skills and experience

With over 40 years of experience, James is a well-recognised figure in the national property market having advised landowners, developers and institutions on all aspects of property development and promotion. The depth and breadth of his knowledge and advice have been key in progressing the Group's major property developments in Cambridge. He was appointed a Deputy Lieutenant of Cambridgeshire in 2006.

Committee membership

- Nomination
- Sustainability

Current external appointments

- Chairman of Pigeon Investment Management
- Trustee for a number of landowning families

Key former appointments

- Senior Partner, Bidwells LLP
- Chairman of the CBI in the East of England
- Advisory Board of the Department of Land Economy at Cambridge University
- Non-executive Director of Strutt & Parker Farms Ltd

Philip Yea
FCMA

Independent Non-Executive Director
Appointed: 2016

Skills and experience

Phil brings significant executive and financial management experience from both private equity and public companies with a focus on creating and implementing strategic and financial change. A chartered management accountant, he has experience as a CEO and CFO, over twenty years serving on public company boards and has chaired nearly a dozen companies in multiple sectors. His particular focus is on strategy, finance and risk management.

Committee membership

- Chairman, Audit and Risk
- Nomination
- Remuneration

Current external appointments

- Chairman of Equiniti Group plc
- Chairman of Mondi plc

Key former appointments

- Chairman of Greene King plc
- Senior Independent Director of Vodafone Group plc
- Chief Executive of 3i Group plc
- Group Finance Director of Diageo plc
- Non-executive director of HBOS plc
- Non-executive director of Aberdeen Standard Asia Focus plc

Jonathan Flint
CBE FREng, FInstP

Independent Non-Executive Director
Appointed: 2019

Skills and experience

Jonathan brings extensive aerospace and defence experience to the Board, having held a variety of aerospace technical and managerial roles at Marconi and BAe Systems and more latterly as a non-executive director of Cobham plc. He has also delivered strong growth and shareholder value in technology-led markets around the world. He was awarded a CBE in 2012 for services to business and science.

Committee membership

- Audit and Risk
- Nomination
- Remuneration
- Sustainability

Current external appointments

- President, Council of the Institute of Physics
- Chairman of QuantIC strategic advisory board
- Non-executive director of Oxford University Innovation
- Executive Chairman of Refeyn Ltd

Key former appointments

- Chief Executive of Oxford Instruments plc
- Non-executive director of Cobham plc

Sean Cummins
ACA

Chief Financial Officer
Appointed: 2016

Skills and experience

Sean qualified as a chartered accountant with PwC and has 30 years' experience in financial leadership, mostly as Group Finance Director of London listed companies, which has instilled strong disciplines operating in a regulated environment. He has significant experience in corporate transactions, debt raising and management, together with demonstrated success in stakeholder engagement, winning the AIM Best Communications award in 2016 with WYG plc.

Committee membership

- N/A

Current external appointments

- None

Key former appointments

- Group Finance Director of WYG plc
- Group Finance Director of Scott Wilson plc
- Group Finance Director of Yule Catto plc

Sarah Moynihan
FCA CRAeS

Group Company Secretary
Appointed: 2012

Skills and experience

Sarah qualified as a chartered accountant with EY, specialising in mergers and acquisitions. She joined the Group as Financial Controller and was appointed Company Secretary in 2012. She provides regulatory, legal, governance and compliance advice to the Board and its Committees, as well as advising and supporting shareholders. She is responsible for the co-ordination of the Group's risk management framework, chairs the Pension Governance Committee and is a trustee of the Group's pension scheme.

Committee membership (Secretary to:)

- Audit and Risk
- Nomination
- Remuneration
- Sustainability

Current external appointments

- Independent Trustee of the Royal Aeronautical Society

Key former appointments

- N/A

Governance

Corporate Governance

Governance framework

Governance overview

The Group has always endeavoured to apply the highest standards of corporate governance and has a goal of continuous improvement of its governance processes. Throughout the year ended 31st December 2020, the Group and its subsidiaries continued to operate under high standards of corporate governance which underpin the importance of the role of statutory directors, at both Group and subsidiary level. The Board has overall responsibility for the governance framework within which the Group operates.

Governance model and purpose

The governance framework encapsulates the Group's approach to governance, with a range of robust processes, information and methods to ensure that stakeholder and employee concerns are considered at Board level and to ensure the long-term success of the organisation. The Group is a purpose led organisation and operates with a focus on long-term value for the business, its employees, its shareholders and for the Cambridge community, among other stakeholders.

Governance principles and application

Although the Group is not subject to the UK Corporate Governance Code ("the Code"), the Board has taken account of the Code and related guidelines in developing the form of governance that is appropriate for the Group and its values. The Group's governance framework is driven through its application (where practical) of the Code along with the full application of the Wates Principles which provide for a robust corporate governance framework. This is defined as the Marshall Group Corporate Governance Framework.

Section 172 protocol

All directors of the Group have a duty to promote the success of the Company. This is set out in Section 172 of the Companies Act 2006. The Board has adopted a protocol which provides detailed guidance for directors and management on the application and execution of their Section 172 duties. The protocol also sets out the Board's process for adhering to the duty to act in the best interests of the Company. This protocol serves as a point of reference for the Board when making collective decisions that have the potential to impact the Company and the Group.

Principal decision making protocol

The Board has adopted a principal decision making protocol to support the directors within the Group in making principal decisions. Principal decisions are those that are strategic, commercially material and impact the Group's stakeholders. In addition, principal decisions are made by the Board when the value and/or the type of decision exceeds the delegated authority level or financial limits of its subsidiaries.

Purpose and Leadership

Purpose and Leadership is the first principle of the Wates Principles and is set out as follows:

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

To support the application of this principle, the Board has approved the adoption and implementation of the statements and terms of reference as outlined below. These documents are reviewed and maintained by the Company Secretary and are utilised by the Board and relevant Committees in fulfilling the requirements set out in the Wates Principles in relation to purpose and leadership.

Purpose, Vision and Strategy

The Group has a One Company strategy, where the different operating divisions of the business are united by a common purpose and culture and the Board has full oversight of the progress of the Group strategy and transformation during the year. The Group is committed to making a difference and its strategy is underpinned by the alignment of purpose and strategy within its divisions. The Group's strategic directives within its overall purpose are:

(a) Making Cambridge a better place
(b) Creating long-term value
(c) To serve our customers in a way no one else can

These central tenets are underpinned by the governance framework supporting the directors and the business to ensure that they are able to act in line with the Group's guiding governance principles whilst making their decisions.

Matters reserved for the Board

The Board has a clearly articulated set of matters which are specifically reserved for its determination and which includes:

- The role of the Board
- The Schedule of Matters reserved for the Board
- Division of responsibilities

This supports the Group's application of the first Wates principle in evidencing that the Board is committed to developing and promoting the purpose of the Company by setting out clear roles and responsibilities for the Board, both collectively and individually, and linking these to the furtherance of the Company's purpose, vision, and strategy.

The role of the Board

The Board is responsible for the governance framework within which the Group operates and is collectively responsible to the Company's shareholders for the direction, promotion 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. In doing so, the directors comply with their duties under Section 172.

Other core activities include defining the Group's appetite for risk, obtaining assurance that material risks to the Group are identified, and ensuring that appropriate systems of risk management and internal control exist to mitigate such risks. The Board also has responsibility for ensuring the effectiveness of, and reporting on, the system of corporate governance. It also monitors performance and approves budgets, major acquisitions, projects and contracts.

The Schedule of Matters reserved for the Board

This includes: strategy; 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; acquisitions, disposals, projects and contracts; Section 172 protocol; and dividend policy.

Division of Responsibilities

The Board also delegates certain powers and responsibilities to a number of committees, and these committees report back to the Board on a regular basis. These committees provide oversight over the matters contained in their terms of references. These terms of references are regularly reviewed and updated. The Board is also responsible for setting the levels of delegated authority, whilst retaining overall responsibility for the governance of the Group.

Board Committees

Audit and Risk Committee

Key purpose: To support the Board in its oversight of the Group's financial reporting, internal and external audit, and internal controls, and to give assurance as to the risk management framework.

Remuneration Committee

Key purpose: To support the Board in fulfilling its responsibilities relating to the Group's remuneration policies and procedures, incentive design and setting of targets, and review of executive remuneration.

Nomination Committee

Key purpose: To take responsibility for Board and committee composition, to lead the process for appointments and to ensure plans are in place for orderly succession.

Sustainability Committee

Key purpose: To recommend to the Board for approval of the Company's sustainability strategy and monitor its implementation and application.

Corporate Governance

Executive Committees

Group Executive Committee
Key objectives: To provide advice, guidance and challenge, and to act as a communication forum to ensure alignment of the strategies of the operating subsidiaries.

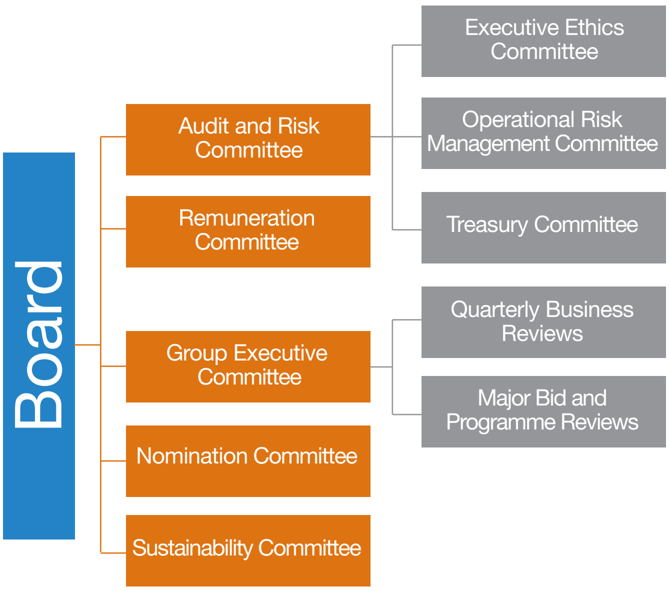
Executive Ethics Committee
Key objectives: To recommend objectives, policies and procedures that best serve the Group's interests in maintaining a business environment committed to high standards of ethics and integrity, corporate responsibility and legal compliance and to approve intermediary sales agency agreements.

Operational Risk Management Committee
Key objectives: To take responsibility for the oversight of the maintenance of the Group's operational risk management plan.

Treasury Committee
Key objectives: To review, update and monitor compliance with the Treasury Management Policy and record significant treasury decisions.

Quarterly Business Reviews
Key objectives: To monitor, challenge and review business performance across the operating subsidiaries.

Major Bid and Programme Reviews
Key objectives: To challenge and review bids, tenders and gateways with delegated authority and to review papers before submission to the Board.



Board Composition

Board Composition is the second principle of the Wates Principles and is set out as follows:

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

To support the application of this principle, the Board has approved the adoption and implementation of the documents outlined below. These documents are reviewed and maintained by the Company Secretary and are utilised by the Board and relevant Committees in fulfilling the requirements set out in the Wates Principles in relation to board and committee composition.

Board membership

Information about the Board members and their membership of Board Committees is given on pages 55 and 56. Charlie Marshall was appointed to the Board on 25th August 2020 and Robert Marshall stepped down from the Board on 31st August 2020.

The Board and Committee membership document integrates the current Board and Committee composition of the Company to provide a comprehensive overview of the structure of the Board and its committees. It contains individual director profiles that include the following information in respect of each director and the position(s) they hold:

- Skills and experience
- Tenure length
- Reasons for appointment(s)
- Evidence of board appraisal
- Current external appointments
- Key former appointments

This document supports the fulfilment of principle two of Wates by enabling the Board and the Nomination Committee to assess the skills and experience of the Board and its committees, to develop strong succession plans, and to inform the board evaluation process as well as to record its outcomes.

The Board operates through clear protocols and governance processes which allows for both independent challenge and transparency in its decision making, and is supported through the executive management team and its internal executive committees.

The Board considers the overall size and composition to be appropriate, having regard to the experience and skills that individual Board members bring to their duties. They are able to operate at a high level independently of each other, but also work together as a team. The Board considers that the skills and experience of its individual members, particularly in the areas of aerospace and defence, property, retail, entrepreneurship, general business skills, corporate finance, governance, and risk management, have provided both support and challenge to the Executive Chairman, Chief Financial Officer and the executive management team during the year. This is in terms of the Group strategy as well as significant commercial projects and contracts.

The Board has operated with an Executive Chairman and an executive Chief Financial Officer since April 2019. It considers that this ensures a balance of power and effective decision-making with the non-executive directors, whilst evaluating the right Board structure for the future.

The Board comprises the Executive Chairman, the Chief Executive Officer, five highly experienced non-executive directors, three of whom are considered fully independent, the Chief Financial Officer and the Group Company Secretary.

Following the Board meeting on 30th March 2021, Kathy Jenkins was appointed as Group Chief Executive with effect from 1st April 2021 and will join the Board on 1st May 2021. The Executive Chairman will revert to non-executive Chairman with effect from the same date.

The Executive Chairman
The Executive Chairman, working with the Group Company Secretary, sets the agenda for Board meetings and encourages an open and constructive debate. In addition to his normal duties which will continue, Alex Dorrian continues to attend a number of executive meetings and major programme reviews albeit virtually for the majority of 2020.

Senior Independent Non-Executive Director
The Senior Independent Non-Executive Director acts as a sounding board for the Executive Chairman and as an intermediary for other directors. She is responsible for holding annual meetings with the non-executive directors, without the Executive Chairman present, to appraise the Executive Chairman's performance, and acts as the Executive Chairman's deputy in his absence. Julie Baddeley continues to take on the responsibility of being the Senior Independent Non-Executive Director.

Non-executive directors
The non-executive directors bring independent judgement on key issues affecting the Group and its business operations, including strategy, performance, resources (including key appointments) and standards of conduct. They provide constructive challenge to management and help develop proposals on strategy. The Board considers that three of the five non-executive directors were completely independent of the Group's executive management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement throughout the last financial year. Their independence of character and integrity, together with the experience and skills that they bring to their duties, prevent any individual or small group from dominating the decision-making of the Board.

Designated employee engagement non-executive director
The designated employee engagement non-executive director's role is to understand the views of the workforce and identify any areas of concern; to communicate the views of the workforce to the Board and to ensure the Board considers the workforce in all its key decisions. Jonathan Flint continues to take on this responsibility.

Corporate Governance

Group Company Secretary

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

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 Group Company Secretary if they become aware of actual or potential conflict situations or a change in circumstance relating to an existing authorisation.

Board diversity

The Board is, by necessity, a diverse group of individuals, with a variety of professional qualifications and experience across many sectors and industries. This level of diversity is needed to make sure the decisions made at this level have the right input and challenge. It is also important for the Board to try to understand and influence the culture around the business, which cannot be achieved solely from inside the boardroom.

Board evaluation

Accountability is driven through routine evaluations of the Board. The Board evaluation document details the internal and external board evaluations that have been undertaken in the past, as well as setting out a timetable for board evaluations that are planned for the future. The outcomes of each completed board evaluation are summarised on a collective and individual basis and are used to inform the succession plans for the Board and its committees. It also includes the selection process for an external board evaluator to provide assurance that the provider is independent and can provide a satisfactory service to the Board. The board evaluation process supports the application of principle two of Wates by ensuring that the board is composed of individuals who are able to contribute effectively and valuably to the company's strategy and long term goals.

The external Board evaluation carried out in the last quarter of 2018 had an overall conclusion that the current Board governance was of a high standard for a private company of its size and stature. In the first quarter of 2020 an internal Board evaluation of its performance in 2019 was carried out by the Senior Independent Non-Executive Director and the Group Company Secretary, using the same scoring matrix as the 2018 external valuation. The key areas evaluated were:

- Efficiency of Board process
- Contribution from all Board members
- Level of debate and challenge
- Board contribution to strategy
- Board skills and experience mix

Improvement was seen across all areas, with a number of minor actions taken to improve further in the first three categories. In terms of Board contribution to strategy, the Board agreed it would like to devote more time to understanding and influencing appropriately the Group's strategic direction. To this end the Strategy Committee has been disbanded, with the whole Board now investing more time in the strategic plan. In addition, more time is devoted to strategic matters at Board meetings, and non-executive directors are spending more time individually and collectively with the executive management team. The Board is also planning a strategy workshop day, in addition to its usual two day strategy meeting.

In terms of Board skills and experience mix, the Board agreed that it was important to strengthen its skills mix in terms of both retail and entrepreneurship. Once Robert Marshall had indicated his intention to step down from the Board, the Nomination Committee considered the appointment of Charlie Marshall, which was unanimously approved by the Board.

The Board carried out its internal evaluation of its performance in 2020, during the first quarter of 2021. One of the key recommendations was the request for a Group Chief Executive. An update on other recommendations and actions taken will be included in next year's Annual Report.

Induction and training programme
The induction programme for new executive and non-executive directors has been designed to cover the core competencies required to support effective contributions, whilst introducing elements of tailoring to enhance the overall learning experience for each new director. It also provides an induction into company culture, relationships and board dynamics to give broader coverage of the soft elements required to contribute successfully. The induction programme supports principle two of the Wates Principles by providing new directors with the tools, resources and one to one engagement with key board members and stakeholders for them to develop rapidly and effectively so that their contributions are effective and are guided through knowledge of the company's purpose, vision and strategy.

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

Terms and Conditions for non-executive directors
The terms and conditions for the appointment of non-executive directors provide a detailed overview of the key governance considerations that arise when appointing non-executive directors. The terms and conditions support the application of principle two of Wates by ensuring that newly appointed directors are able to contribute effectively by understanding time commitments, the impact of over-boarding, independence, liability and insurance, as well as the general role and responsibilities that are in place for directors of a limited liability company.

Skills matrix and succession planning
The skills matrix and succession planning document is a tool used primarily by the Board and the Nomination Committee to plot the key skills, attributes, demographic factors and experience of board and committee members in a tabled fashion to be referred to in the board evaluation and succession planning process. The types of skills that are covered in the skills matrix include qualifications and accreditations, directors' duties training, previous and current external positions held and in which industries, cultural and digital competencies and other demographic considerations.

By recording the skills, attributes, demographics and experience of the board and committee members, the Board and the Nomination Committee are able to undertake gap analyses to assess what skills and competencies the board and committees may be limited in, which may in turn lead to the agreement of specific training to support board and committee development. This can also be applied on an individual level to support the personal and professional needs of individual directors.

The skills matrix is used in conjunction with the board and committee membership document to formulate a succession pipeline to ensure that the Board as a whole is able to continue to contribute effectively following the departure of directors in the future. By doing so, this supports the application of principle two of Wates by ensuring the continuity of an effective board and committee structure.

Governance

Corporate Governance

Director Responsibilities

Director Responsibilities is the third principle of the Wates Principles and is set out as follows:

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

To support the application of this principle, the Board has ensured that it has a clear understanding of its powers conferred in the Company's Articles of Association and that the directors are aware of their responsibility to fulfil the directors' duties prescribed by the Companies Act 2006. In addition, the Board Terms of Reference enshrine the basis on which the Board will keep shareholders informed and, where appropriate, seek ordinary shareholder consent for certain major transactions or changes in ownership of major assets. All directors are subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter by rotation.

All Board members receive a formal induction and have access to ongoing training and development to support them with the fulfilment of their responsibilities as directors of the Company. The Board has also set expectations in respect of attendance, contribution and business ethics to support the Company's business strategy and corporate governance objectives.

Directors' Duties

Directors' duties, and the understanding and application of them, is of paramount importance to the Board as well as to the Company's long-term business strategy, and its ongoing financial performance and economic viability. The Board, as a whole and as individuals, is well versed in their understanding of their duties and the potential risks and liabilities that may arise in situations where standards fall below what is required by law. The expectations set by the Board are greater than what is required by law to mitigate further potential financial, operational, compliance and reputational risks that may materialise in the event of irresponsible acts or omissions. Furthermore, the Board has access to counsel from the Company Secretary and to third party advisors.

Operation of the Board

The Board has an annual calendar of meetings and operates through a comprehensive set of processes and themes to be considered by the Board and its Committees during the annual business cycle. These include the purpose and vision of the Group, the level of delegated authorities, the key strategic issues and decisions, the Group's business ethics, risk management, and health, safety and environmental processes.

The timetable is set in the prior year to ensure that sufficient regular meetings are scheduled and other meetings held, as required, 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. If 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.

There are robust internal processes to ensure that the Board receives accurate, regular and timely information about the performance of the business. Information provided to the Board includes financial information, review of actual performance against budget and forecast, and strategy and business updates. The provision of accurate and relevant management information and reports to the Board is essential for effective decision-making.

The standing agenda items considered at every meeting include:

- any potential conflicts of interest, and if necessary, disclosure of the required authorisations/advance declarations;
- reports from the Executive Chairman and / or the Chief Financial Officer on strategic and business developments, together with relevant operational updates, employee engagement and the key actions taken since the previous Board meeting;
- reports from the Chief Financial Officer which include commentary and highlights from the latest available management accounts, and where relevant, budgets and forecasts;
- reports from the Group Company Secretary which include health and safety management, risk management, interactions with shareholders, and any key legal or regulatory issues that affect the Group; and
- reports from the Group's nominee directors on the Board of Marshall Motor Holdings plc.

From March 2020 onwards the Board has held its meetings virtually. Two extra Board meetings, in addition to the original eight scheduled, and a number of additional Committee and subcommittee meetings, were held to ensure the Board could react and respond to the additional issues raised by the pandemic. The Board devotes much of its time to strategy and business planning issues that have an impact on the Group. The Board also met virtually in October for a two-day strategy and business planning meeting.

Attendance and contribution

Attendance at board meetings is regarded as important so that assurances can be provided to the Company's shareholders that the expected commitments are being met by individual board members. It is the responsibility of the directors to make themselves available to attend meetings, unless there are special circumstances preventing them from doing so. Furthermore, directors are expected to plan in advance and attend all meetings fully prepared and ready to contribute to discussions and decision-making, so that the varied experiences of those on the Board are heard and challenged, all in pursuit of the Company's best interests.

The Board, as part of their engagement with the shareholders and wider stakeholder groups, has therefore approved the recording of attendance of board members at board and general meetings to use as a metric in the annual report. The contributions of directors in board meetings to the furtherance of the Company's strategy and best interests is recorded in board minutes taken by the Company Secretary and this information feeds into the board evaluation process devised by the Board.

The expectations, policies and processes set out in respect of meeting attendance and contribution demonstrates the Board's awareness of and commitment to their responsibilities as directors of the Company in relation to meetings. This further demonstrates the application of principle three of Wates.

Corporate Governance

The table below sets out details of all directors who have served during the year and includes details of each member's attendance at the Board meetings held in 2020. There are separate attendance statements in respect of the nomination, remuneration and audit and risk committees on pages 74 to 80.

Alex Dorrian	10/10
James Buxton	10/10
Julie Baddeley	9/10*
Sean Cummins	10/10
Jonathan Flint	10/10
Charlie Marshall *(appointed 25th August 2020)*	4/4
Robert Marshall *(resigned 31st August 2020)*	5/6
Philip Yea	10/10

** Unable to attend one meeting due to ill health*

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 and to ensure the long-term success of the Group for customers, employees and wider stakeholders, and to create shareholder value. The Board considers the meetings an effective mechanism for discharging its duties under Section 172 of the Companies Act 2006.

The actions taken by the Board throughout the period reflected the strategic goals. The Board also regularly discussed the ongoing pandemic, governance, risk management and the Group's financial performance giving particular consideration to the Group's stakeholders and to ensuring that the culture is aligned with its purpose, values and strategy. The key matters considered and the outcomes are set out below.

The Group's purpose, vision and strategy
The Board has had full oversight of the progress of the Group strategy and transformation programmes during the year. At each meeting the Board has had the opportunity to question and challenge the work being undertaken. The October Board strategy meeting was a two-day meeting held virtually where the strategy for the Group was reviewed by the Board. Reading materials were circulated in advance of the meeting, setting the strategic market context and including updates on strategic initiatives, the strategy for each business, and updates on the Group's financial performance and trajectory.

The output was an updated strategic plan, which identified the timing and context of the key strategic decisions that needed to be taken over the next one, five and ten year periods, together with the workstreams required to reach the required level of maturity. The Board also agreed to undertake a thorough review of the Group's purpose, building on the current tenets with emerging themes and stakeholder input. The work is in the research and define phase, with a launch expected in the summer.

Review of principal risks
As detailed on pages 39 to 44, the management of the risks relating to the impact of Covid-19, contract completion, UK defence policy and Group liquidity constraints continue to be reviewed directly by the Board at each meeting in view of their materiality.

The impact of Covid-19 has had wide ranging implications for the Group, all of its operating businesses and all of its stakeholders. Plans have been established to respond to the crisis as it continues to evolve. Almost half of our workforce has worked successfully from home. For those in critical positions where they must attend site, a number of measures are in force, including social distancing and additional PPE. The MADG business has mobilised a routine of on-site testing and this has been extended to all front-line workers. All measures and actions are reviewed weekly to ensure effectiveness.

With respect to the risk of contract completion, a further Joint Accord was agreed with the customer during the year, the second aircraft has been delivered, and historical milestones have been closed and accepted.

With respect to the liquidity constraints risk, the quarterly forward-looking profit, cash and covenant compliance forecast process provided early warning of an expected covenant breach in June 2020, which enabled much appreciated early engagement with the Group's lenders and a reset of covenants until March 2021. Ultimately, the original covenants were not breached during 2020.

Board evaluation

After carrying out an external Board evaluation in 2018, and implementing its recommendations in 2019, the Board initiated an internal Board evaluation, which was carried out in the first quarter of 2020. Its findings have been implemented during the rest of the year.

Operational performance updates

The Board received regular operational performance updates from each of the Group's key business streams, giving senior management the opportunity to interact with the Board.

Contract bids and tenders

The Board received and approved several presentations on new bids and tenders, giving senior management the opportunity to interact with the Board.

Safety incidents

The Board was briefed at each meeting as to whether any reportable incidents (RIDDORs), significant lost time incidents or airworthiness incidents have arisen, along with actions taken and the overall ongoing risk mitigation.

Governance

The Board was kept up-to-date on its adherence to its corporate governance framework.

Principal decisions

The Board made a number of principal decisions which are explained in more detail on pages 71 to 73. Matters determined to be principal decisions are those that are strategic, commercially material and impact the Group and / or the operating subsidiary stakeholders.

Board review of the effectiveness of risk management and internal control processes

The Board conducted a review of the effectiveness of the risk management and internal control systems in operation during the year and considers that the risk review activities addressed the key aspects of risk management and internal control for the year under review.

Corporate Governance

Opportunity and Risk

Opportunity and Risk is the fourth principle of Wates and is set out as follows:

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

To support the application of this principle, the Board has formulated the Group's risk appetite policy and risk management framework. The policy and framework serve as a source of guidance to all directors in identifying, assessing, and responding to financial, operational and compliance risks. They also support the implementation of appropriate control activities and ensure that the Group has a robust monitoring and communication system in place to shield the Group from risks that materialise, preserving the Group's value, whilst enabling the Group to develop opportunities for growth and long-term sustainability.

Opportunity

Part of the Group's purpose and a key focus for the Board is creating long term value, by continuing to invest in areas of sustainable growth and opportunity and seeking to generate and preserve value for the business and its customers. All of the Board's principal decisions are those which should add to the long-term success of the Group whilst creating and preserving value. Some of the key areas of focus on opportunity include:

- The Board considers all major projects bids and tenders by reference to both the opportunities and risks they bring;
- Programme reviews are regularly carried out using a SOFT analysis system (successes, opportunities, failures and threats);
- MADG has recently set up a new division to identify long-tail value capture opportunities;
- The new sustainability strategy, roadmap and ambition, as set out on pages 49 to 54 is also an area of great opportunity as both the aerospace and property development industries consider what must be done to target net zero carbon;
- Cambridge East will be a transformational development. MGP's recent submission to the local Councils demonstrates the unique scale of opportunity, in the most sustainable location, and sets out more detailed strategies to achieve key priorities including net zero carbon, biodiversity net gain, a comprehensive transport strategy and a visionary approach to green infrastructure.

Other opportunities considered include further investment opportunities and the benefits from recent cost rationalisations.

Risk Appetite

The consideration and approval of the risk appetite and risk tolerance for the Group is a key responsibility of the Board. This sets a threshold for both the pursuance of viable opportunities and the avoidance, transference or reduction of material risk. The Board's approval of risk appetite and risk tolerance sets a baseline for all strategic and operational decision-making and creates an expectation for all directors in the Group to approach decision-making with knowledge of the Group's material risks and approaches towards these. The risk appetite statement that is prepared for and approved by the Board is a clear demonstration of the Board's application of principle four of Wates. The statement includes financial and non-financial risks, including reputational risks, and sets out the appetite levels for the Group in its operations and summarises the material risk types, their definitions, the Group's risk appetite levels towards these risks, along with commentary supporting the appetite level that has been selected and approved by the Board.

Group Risk Management Framework

The Group Risk Management Framework contains the Group's Risk Management Policy which recognises risk management as a fundamental aspect of the Group's vision, values, culture and strategy. This policy is to be understood in conjunction with other supporting documentation to form an integrated framework that supports the Group with effectively managing all forms of risk. By doing so, the Group is able to provide assurances to the Group's shareholders and wider stakeholders that risk management is given full consideration throughout the organisation business, and that the role risk plays in the delivery of strategy and long-term objectives is given due recognition by all.

The framework also establishes a structure and process for the management of risks and sets out responsibilities in relation to risk identification, assessment, mitigation and monitoring and reporting, through the maintenance of risk registers within each business and at Group level.

Accountability for risk management is overseen by the Audit and Risk Committee and operational risk management planning is supported by the Operational Risk Management Committee. The Group's dual-pronged approach to risk management demonstrates the Company's commitment to establishing robust risk management procedures throughout the Group's operational businesses and this is in line with the expectations set out in principle four of Wates.

Reporting on Risk
The Company's approach to reporting on risk is underpinned by the Board's commitment to providing risk assurance across the Group and is evidenced through the three step defence model that has been established. This model integrates the observations and contributions of the Board, its various committees and its internal assurance functions. The model entails the completion of rolling deep-dive programs, allocated risk ownership and responsibility, risk modelling, and principal risk plotting against strategic heat maps.

The permeation of the Board's approach to risk management throughout the Group is an intrinsic aspect of quality risk reporting and this is evidenced through the Group's decision to publish all risk related policies, statements and processes to ensure overall consistency within the Group in terms of risk management. The Board's approach to reporting on risk management, along with its commitment to ensuring that the Group as a whole acts consistently in relation to risk, demonstrates the Board's application of principle four of Wates.

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 and Risk Committee and the key features of the Group's internal control systems are therefore set out in the Audit and Risk Committee Report on pages 79 to 82.

Remuneration

Remuneration is the fifth principle of Wates and is set out as follows:

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

Remuneration Policy
The Group's remuneration policy is set and monitored by its Remuneration Committee with clear objectives to incentivise management based on the long-term success of the Group's strategic goals and business plans. Succession planning and talent retention are key focus areas for the Group at operating business levels, and remuneration plays an integral role in the attraction and retention of the workforce, which enables the Group to meet its goals in delivering excellent service to its customers.

The policy is focused on the attraction, motivation and retention of high calibre executives, who have a track record of achievement in high performing businesses, who demonstrate behaviours in accordance with Group values and who can deliver the Group's strategic objectives in a manner consistent with both its purpose and the interests of its shareholders. The Board has demonstrated that the Group remuneration policy is consistent with the requirements set out in principle five of Wates.

Reporting on Remuneration
Reporting on remuneration is a responsibility of the Remuneration Committee and is required to provide an annual and comprehensive form of assurance to the Company's members that remuneration levels for the various Board members have been reviewed and agreed. The Remuneration Committee Report is set out on pages 75 to 78. In line with principle five of Wates, the Committee has taken the opportunity to include more transparency of actions and decisions taken during the year.

Corporate Governance

Stakeholder Relationships and Engagement

Stakeholder engagement is the sixth principle of the Wates principles and this states that:

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

The Group defines its stakeholders as employees, customers, suppliers, shareholders and local communities. As detailed in the Group Corporate Governance Framework the Board is ultimately responsible for delivering the Group's purpose and in doing so the directors consider the various stakeholder interests as and when they arise. In order to ensure the Group can continue to deliver its purpose, the Group supports and retains its highly skilled workforce which is essential for its success. The Engagement with Stakeholders report can be found on pages 29 to 34.

Responsibility for Engagement

The Board has overall responsibility for engagement, though in some circumstances this is delegated to various committees or to individuals. Engagement on key issues is communicated to the Board and additional engagement takes place as part of the Group's principal decision-making process. Feedback from engagement is reported to the Board and to the various committees and the Board is regularly appraised of various stakeholder matters. Reporting on engagement is undertaken in the Group's annual report as well as to Board and Committee meetings.

Ethics and Policy

In line with the Group's culture and strategic objectives the Group has a number of policies and procedures which support the directors, employees and ultimately the Group to continue to deliver its purpose.

Ethics

The Group has a number of complementary policies which together combine to demonstrate its ethical principles. In line with the Group's culture of fair business practise and good governance, the Board is responsible for the approval of the Group's Code of Business Ethics. This applies to all operating companies and all employees within the Group and helps them to act and operate appropriately within the confines of legislation and the Group's ethical code of conduct.

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 and are asked to reinforce its messages via an e-learning system. The Executive Ethics Committee, which comprises the Chief Financial Officer, the Chief Operating Officer and the Group Company Secretary, has continued to operate during the year.

Anti-bribery Policy

The Board is responsible for the approval of the Group's Anti-bribery Policy which sets out the Group's position and response in respect of the requirements set out in the Bribery Act 2010. The policy details the principles and procedures that are applicable to all companies and employees within the Group in respect of the prevention of bribery and corruption. The Group's anti-bribery and corruption e-learning is also mandatory for relevant new employees, along with regular refresher training for existing employees.

Whistleblowing Policy

The Board is responsible for the approval of the Group's Whistleblowing Policy which sets out the Group's position and response to whistleblowing in line with best standards and practice. The policy details its scope of application, the principles that underpin it, the responsibilities it creates for those it applies to, and the outcomes of any whistleblowing claim that is made in good faith.

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 raise confidentially any concerns about business conduct. The Group has an independent third party whistleblowing hotline and website affording employees the mechanism by which to report concerns to a party unconnected with the Group.

Modern Slavery Policy

The Board is responsible for the approval of the Group's Modern Slavery Policy which sets out the Group's position and response in respect of the requirements set out in the Modern Slavery Act 2015. The policy entrenches the Group's zero-tolerance approach to modern slavery and emphasises the Group's commitment to acting ethically, transparently, and with integrity, throughout all of the Group's operating companies and supply chains. In accordance with the Group's disclosure obligations, the Group has published its Slavery and Human Trafficking Statement on its website.

Diversity, Inclusion, Equality and Human Rights Policy

The Board is responsible for the approval of the Group's Diversity, Inclusion, Equality and Human Rights Policy which sets out the Group's approach to compliance with the requirements set out in the Equality Act 2010. This policy is applicable to all operating subsidiaries in the Group and it demonstrates the Board's commitment to ensuring equality of opportunity for all employees through the promotion of diversity and inclusion in respect of all demographic factors. This policy also strives to eliminate discrimination and harassment in the workplace and to prevent any potential breaches of human rights as set out in the Human Rights Act 1998.

Tax policy

The policy which governs the Group's management of its tax affairs is fully aligned with the Group's wider commercial, reputational and business practices and is consistent with the Group's values and commitment to good corporate responsibility.

The underlying 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 ensures it maintains 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.

Corporate Governance

Section 172 Statement

Under Section 172 of the Companies Act 2006, the Board is required to act in a way that the directors consider, in all good faith, would most likely promote the success of the Company. This is success for our shareholders, but also for our other stakeholders, which include our people, customers, suppliers and communities.

The Board ensures that all decisions are taken for the long term, whilst acknowledging that long-term growth and prosperity require it to understand the needs of the Company's shareholders and other stakeholders to whom it is accountable, as well as the environment in which it operates. The Board fulfils its duties partly through its robust governance framework which delegates day-to-day decision making to its leadership teams and its people without losing overall accountability. Within the governance framework is a protocol which provides detailed guidance for all directors and management on the application and execution of their Section 172 duties.

The Board has always taken its responsibilities under Section 172 seriously, and this has been demonstrated throughout the COVID-19 pandemic. The businesses have worked tirelessly to keep our employees safe, whilst supporting and delivering to our customers, and keeping our shareholders informed. This required an instant and constantly adapting response to those essential logistic contracts with governments around the world, as well as those with the NHS and many supermarkets.

The businesses have also designed and manufactured PPE, produced and delivered meals for the most needy in our community and delivered rapid ventilator prototypes for various customers and partners, including our leading role in the ground-breaking Exovent negative pressure ventilator.

More detail on the methods the directors have used to engage with stakeholders and understand the issues can be found in the Engagement with Stakeholders report on pages 29 to 34.

Principal Decisions

The Board has also adopted a protocol to support the directors of subsidiaries within the Group in making principal decisions. Principal decisions are those that are strategic, commercially material and impact the Group's stakeholders. The principal Board decisions made during the year and how the Board considered stakeholders views are set out below.

Response to COVID-19

The COVID-19 pandemic created significant uncertainty, particularly in the first half of the year, and the full impact is still unknown. The Board oversaw the Group's response with the overarching aim of ensuring the business emerged from the crisis well positioned for long-term success, whilst supporting our employees and their safety and continuing to deliver for our customers.

Actions were taken to support employees working both on site and from home. These included revised working practices, additional PPE and repatriation of overseas employees, together with the improving the remote working infrastructure, resilience and security. More wellbeing support was also provided, together with the provision of free meals and supermarket vouchers for those working on site. There is now also routine on and off site testing for all frontline workers. The Board and the executive directors also agreed to a voluntary fee and salary reduction as part of the actions taken to reduce costs whilst minimising the impact on employees.

The businesses worked closely with each of our customers for a definitive view, contract-by-contract, as to which fell into the critical or essential category, and how best to support each one. The Board also satisfied itself with the continuity plans in place and considered the strategic response to permanent changes in future customer priorities.

The Board engaged early with the Group's lenders when the forecast process provided early warning of an expected covenant breach in June 2020. With the banks' full support, the Board was able to complete the renegotiation of banking covenants within the previously agreed facility levels. The Board's preventative actions ensured that original covenants were not breached during the year. Throughout the year, the Board engaged with shareholders, keeping them informed by letter, email, and virtual briefings. In light of the pandemic, and the overriding requirements of certainty and safety, the Board made the decision to postpone the 2020 Annual General Meeting from May to September 2020, and to hold it virtually.

The Board also considered the impact of the pandemic on our local community and the business worked with our on-site caterers and key local partners on the ground in Cambridge to provide ready-to-eat meals for those of our neighbours most in need of support.

Government support

During the first half of 2020, when the uncertainty brought by the COVID-19 pandemic was at its peak, the Board made the decision to access the Coronavirus Job Retention Scheme. This was predominantly to support employee job security within MADG. As the year unfolded, the outlook and the longer term visibility improved, and, with the support of shareholders, the Board made the decision to repay the full amount utilised by the core Group. The Group also accessed the VAT Deferral Scheme enabling £4.3m of VAT liabilities to be repaid in instalments between March 2021 and January 2022. At the onset of the pandemic, PAYE liabilities were deferred but repaid in full in June 2020.

Dividend

As a private limited Company, access to external capital is limited. When making a decision on the level of ordinary dividend to recommend, whilst recognising the importance of a dividend to its shareholders, the Board has to take a number of factors into account. These include liquidity of funds, stability of earnings, strengthening of the balance sheet, past dividend rates, debt obligation, ability to borrow and the growth needs of the Group.

Corporate Governance

Section 172 Statement continued

As a result of the onset of the pandemic in March 2020, and the requirement to renegotiate bank covenants with the Group's lenders, the Board made the reluctant decision to postpone the preference dividend payment due in April. The Board committed to reviewing dividend payments at each meeting until it was able to make a decision on resumption.

In June 2020, the Board considered the strong performance in 2019, the strong start to 2020 in the first quarter, the ongoing performance of the business and the support of its lenders. The Board was able to approve the payment of an Ordinary Dividend in July and approve the reinstatement and payment of the full Preference Dividend due for 2020. After a further review in November, in which it again considered the impact on stakeholders, the Board concluded that a second Ordinary Dividend would be paid in December. The Company was therefore able to maintain dividends such that the cash dividend payments made to shareholders in the calendar year 2020 were the same total as the pre-COVID-19 cash dividend payments made in 2019.

Property

How the Board manages its property portfolio is pivotal to the long term success of the Company. To this end, the Board made a number of key decisions during the year. The Board considered the progress of the first phase of the Marleigh development, together with the industry experience and knowledge of its joint venture partner, Hill Residential, and in particular their commitment to sustainability and net zero carbon homes. The Board approved entering into a second joint venture agreement with Hill Residential to deliver the second phase of Marleigh for a further 400 dwellings.

In May 2020, the Land North of Cherry Hinton development was granted a joint outline planning permission with the adjoining landowner. This followed consultation with the local authorities and neighbouring residents and was based on a set of agreed design principles. After a detailed analysis of the options available, the Board concluded that marketing the land for sale would be in the best interests of the long term business, the shareholders and the wider community. The land was sold in March 2021 to Bellway Latimer Cherry Hinton LLP.

As reported last year, the Board approved the intention to relocate the MADG businesses from Cambridge Airport to new, state-of-the-art facilities as part of its commitment to investing in the long term future of the Company. In October 2020, the Board approved an option agreement for a 150-year lease on a parcel of land on Cranfield University's proposed Air Park development. In making this decision, the Board considered the impact on employees, customers, the community and the environment and agreed it was the right step towards unlocking value for all stakeholders.

Governance

Nomination Committee Report

Alex Dorrian, Nomination Committee Chairman

Introduction

During the year the Committee's principal focus and purpose has been to lead the process for appointment to the Board, satisfy itself that plans are in place for an orderly succession to the Board and management team and oversee the development of a diverse pipeline of succession for the Group. This report sets out the governance, roles and responsibilities of the Committee, together with the key matters considered by the Committee since the last report to shareholders.

Governance, roles and responsibilities

Throughout 2020, the members of the Committee continued to be the Executive Chairman and all non-executive directors.

Committee attendance record

Alex Dorrian 1/1
Julie Baddeley 1/1
James Buxton 1/1
Jonathan Flint 1/1
Philip Yea 1/1

As set out in its terms of reference, the key responsibilities of the Committee include:

- overseeing the development of a diverse succession pipeline (across the immediate, medium and long-term) taking into account the strategic skills and experience required on the Board in the future;
- maintaining a skills matrix for the Board and its Committees containing the key skills, attributes and qualities that each director has in relation to each of their appointments;
- regularly evaluating the composition of the Board through the balance of skills, knowledge, experience and diversity;
- maintaining the strategic framework for Board succession and replacement, and leading the process for the appointment and reappointment of both executive and non-executive directors;

Key matters considered in 2020

The key matters considered during the year encompass the responsibilities set out in the Terms of Reference and are set out in more detail below.

The Committee met formally once in the year to evaluate the composition and the skills matrix of the Board, and, having been advised of the Vice Chairman's intention to step down, to consider the key attributes required in a new non-executive director. Having considered the relevant experience and transferable skills of Charlie Marshall, together with input from stakeholders, the Committee recommended his appointment to the Board. Following unanimous approval Charlie was appointed to the Board with effect from 25th August 2020.

Following the departure of the MADG Chief Executive, the Committee has also been considering the best way to reshape the business for future growth, including succession planning at both Group and operating levels. To this end, and in conjunction with its strategic review, the Group launched a project to design the longer term organisation and operating models. One recommendation was the appointment of Kathy Jenkins as Group Chief Executive, and, as a consequence the Executive Chairman returning to non-executive status.

Alex Dorrian CBE
Nomination Committee Chairman
1st July, 2021

Remuneration Committee Report

Julie Baddeley, Committee Chairman

Introduction

During the year the Committee's principal focus and purpose has been to ensure that the remuneration policy is one which will secure, motivate and retain a senior leadership team that not only can deliver the Group's strategic ambitions in a manner consistent with its purpose, values and the interests of all its stakeholders, but against a background of uncertainty resulting from the ongoing pandemic throughout the year. This report sets out the governance, roles and responsibilities of the Committee, together with the key matters considered by the Committee since the last report to shareholders.

Governance, roles and responsibilities

Throughout 2020, all members of the Committee continued to be independent non-executive directors.

Committee attendance record

Julie Baddeley 7/8*
Jonathan Flint 8/8
Philip Yea 8/8
*Did not attend one meeting due to ill health

Given the requirement to react quickly and flexibly to the changing environment, the Committee met eight times during the year. The Executive Chairman, the Group Company Secretary and the Chief Operating Officer also attended each meeting at the invitation of the Committee chairman. The Committee also met separately without any executive management present.

The Committee has unrestricted access to company documents and information, as well as to employees of the company and 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 at each meeting which follows a Committee meeting.

As set out in its terms of reference, the key responsibilities of the Committee include:

- determining and agreeing with the Board the framework for the remuneration of the Executive Chairman, Vice Chairman (until his retirement from the Board in August 2020) executive directors, Group Company Secretary and other members of executive management it is designated to consider;
- in consultation with the Executive Chairman, based on benchmarks and performance, determining the total individual remuneration package of each executive director and specified senior executives including bonuses, incentive payments and any other elements of remuneration;
- reviewing the ongoing appropriateness, relevance and efficiency of remuneration policy and practice;
- reviewing the design of performance-related pay schemes and Long Term Incentive Plans; and
- reviewing and approving the total annual payments made under such schemes.

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 signed.	75% of salary, for stretch financial targets, with on-target achievement realising 50%, and a threshold level to be reached for 25%. Up to 25% of salary based on achievement of specified personal objectives bringing the total opportunity to 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 based on a three year performance period. Performance is against profitability, cash generation and adherence to Group objectives and values.	Up to 125% of salary can be achieved. Awards are calculated at the end of the three year period. There is then a further two year holding period until cash is paid out. This is in accordance with recent and best industry practice.
Pension	To provide competitive levels of retirement benefit.	Membership of company pension scheme or salary supplement or cash deferral scheme.	Typically a Defined Contribution arrangement with some variation of contributions based on time employed.
Other Benefits	To provide competitive levels of employment benefits.	Benefits include: • car and fuel benefit or equivalent • private medical insurance • income protection insurance • life assurance of four times cover	Cost of providing a car benefit, life assurance, private medical insurance and income protection insurance which are reviewed annually to ensure they are competitive.

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 donot participate in any incentive schemes or receive any other benefits. Fee levels are reviewed annually. Additional fees are payable for acting as Senior Independent Director or as chairman of any of the Board's committees (excluding the nomination committee).	Account is taken of increases awarded across the Group as a whole, fee levels at organisations of a similar size, complexity and type, changes in complexity, and responsibility or time commitment required for the role.

Governance

Remuneration Committee Report

Key matters considered in 2020

The key matters considered during the year encompass the responsibilities set out in the Terms of Reference and are set out in more detail below.

Remuneration policy and framework

The remuneration policy objectives, conditions and opportunity for the executive directors (other than the Executive Chairman) for salary, annual bonus, long term incentive plan ("LTIP"), pension and other benefits is set out below. The Executive Chairman receives a base salary, does not participate in any bonus or incentive scheme and does not have an entitlement to any pension benefit.

A number of key decisions relating to this cohort were made as follows:

- In the first quarter of the year the Committee agreed to reverse the decision to apply the previously agreed base salary increases as the extent of the impact of the pandemic was unknown.
- In the first quarter of the year the Committee agreed that it was not possible to set realistic targets for either the 2020 annual bonus or the 2020 – 2022 LTIP scheme, and would defer any decision on potential discretionary awards until 2021.
- Following the Board decision to postpone the payment of the preference dividend in April, the Committee agreed to postpone the payment of earned and approved 2019 annual bonuses and earned and approved 2017 – 2019 LTIP payments until such time there was certainty over dividends and bank support.
- From the end of April 2020 through to August 2020 the executive directors and independent non-executive directors agreed to take a voluntary non – compensated salary and pension reduction.
- Following the approval by the Board to declare and pay an ordinary dividend in July 2020, together with a full year's preference dividend, and with the support of the banks, the Committee approved the payment of the previously delayed 2019 annual bonus and 2017 – 2019 LTIP commitments.
- Upon the resignations of the Vice Chairman and the MADG Chief Executive in August 2020, the Committee reviewed their contractual entitlements and recommended to the Board that they should be paid. The Board approved both payments.
- In August 2020, the Committee agreed an enhanced interim package for the interim MADG Chief Executive.

During the year, the Committee continued to have oversight of the Alignment project to modernise the employee value proposition whilst simplifying and ensuring consistency of employment terms. The Committee also reviewed and agreed the LTIP participants including the next level of executive management.

Julie Baddeley
Remuneration Committee Chairman
1st July, 2021

Audit & Risk Committee Report

Philip Yea, Committee Chairman

Introduction
During the year the Committee's principal focus and purpose has been to ensure the integrity of the Group's financial reporting and audit processes and the maintenance of sound internal control and risk management procedures, by providing independent challenge and oversight, with particular reference to the impact of the pandemic. This report sets out the governance, roles and responsibilities of the Committee, together with the key matters considered by the Committee since the last report to shareholders.

Governance, roles and responsibilities
Throughout 2020, all members of the Committee continued to be independent non-executive directors.

Committee attendance record
Philip Yea 4/4
Julie Baddeley 3/4*
Jonathan Flint 4/4

**Did not attend one meeting due to ill health*

The Committee met four times during the year. The Executive Chairman, the Chief Financial Officer, the Group Company Secretary, the Chief Operating Officer, the external audit partner and members of the Grant Thornton internal audit team also attended all or part of each meeting at the invitation of the Committee chairman. Other relevant people from the business were invited to attend meetings as required for the Committee to discharge its duties, including presentations on principal risks, mitigation and actions. The Committee chairman also met separately with the external audit partner and Chief Financial Officer without others being present.

The Committee has unrestricted access to company documents and information, as well as to employees of the company and the internal and 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 at each meeting which follows a Committee meeting.

As set out in its terms of reference, the key responsibilities of the Committee include:
- review of the effectiveness of the Group's internal controls;
- review of the effectiveness of the Group's risk management systems;
- oversight of the rolling cycle of deep dives into the principal risks identified;
- review of whistleblowing arrangements;
- review of the effectiveness of the internal audit function;
- oversight of the Treasury Committee;
- recommendations on the appointment of the external auditor;
- review of the external and internal audit plans;
- monitoring the integrity of the financial statements including both the annual and interim reports;
- challenging the accounting policies and methodology, and the clarity of disclosure in the annual and interim reports;
- review of going concern and viability; and
- recommendation of the annual and interim reports to the Board for approval.

Key matters considered in 2020
The key matters considered during the year encompass the responsibilities set out in the Terms of Reference and are set out in more detail below.

Internal control
The key features of the Group's internal control systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures. The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Committee. This covers all material controls including financial, operational and compliance controls.

The Group's control environment is underpinned by matters reserved for the Board, operating company terms of reference and delegated authorities, financial procedures, and health and safety, environmental and ethics policies. The Group operates various programmes to improve the control environment and management of risk, including e-learning modules on ethics and anti-bribery and corruption, and an external whistleblowing hotline.

Financial Controls

- Board approved budgets with a three-year time horizon for the Group and all operating companies
- Monthly financial reports from the Chief Financial Officer and quarterly reports from the Executive Chairman to the Board, with written commentary including key developments for each business stream
- Corporate governance framework for the Group and at operating company level which clearly defines responsibilities and delegated authority levels
- Independent internal audit function
- Board approval of acquisitions and disposals, significant tenders and 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 audit and review

Compliance Controls

- Health and safety and environmental policies in place at both Group and operating company level
- Group Code of Business Ethics
- Executive Ethics Committee in place which recommends and reviews policies and procedures to maintain high standards of ethics and integrity, corporate responsibility, anti-bribery and legal compliance
- Detailed matrix across the Group setting out levels of authority

The Committee and the Board receive regular risk management reports and together they ensure that there are adequate internal controls in place and that these are functioning effectively.

The Directors consider that the Group's system of internal financial control provides reasonable, but not absolute, assurance in the following areas: that the assets of the Group are safeguarded; that transactions are authorised and recorded in a correct and timely manner; and that such controls would prevent or detect, within a timely period, material errors or irregularities. The system is designed to mitigate and manage risk to an acceptable level, rather than eliminate it and to address key business and financial risks.

Risk management framework

The Group's risk management process is set out in more detail on pages 35 to 38. The Board has delegated responsibility for reviewing the effectiveness of the Group's risk management systems to the Committee. Any matters of particular concern are escalated for presentation to the Board.

Principal risks rolling deep dive programme

The Group's principal risks are set out in more detail on pages 39 to 44. At each Committee meeting, risk reports from the Group Company Secretary outlining the areas of focus of the Operational Risk Management Committee were presented and debated. The reports highlighted key changes in risks since the previous meeting and which risks would undergo a deep dive. The Audit and Risk Committee has a programme of rolling deep dives to ensure each principal risk undergoes scrutiny at least once within an eighteen month period. Each deep dive includes a review of actions taken and planned together with mitigations. The Committee undertook deep dive reviews at three of the four times it met during the year as follows:

- Regulatory breach – January 2020
- UK defence policy – January 2020
- Relocation of MADG – January 2020
- Business interruption – July 2020
- Cyber attack – July 2020
- Bribery and corruption – July 2020
- Brexit / Political – November 2020
- Organisational capability – November 2020

The management of the risks relating to the impact of COVID-19, contract completion and Group liquidity constraints continue to be reviewed directly by the Board at each meeting in view of their materiality. Succession planning underwent a deep dive as part of the Board's strategy days in October 2020.

The Committee also reviewed at each meeting the progress on the replacement ERP system, a principal decision made by the Board during last year, and was updated on compliance with GDPR and information governance. As part of this process, the Committee made the recommendation to the Board that the new HR system be implemented as a priority.

Review of whistleblowing arrangements

During the year, the Group undertook a review of its whistleblowing arrangements and its policy. A new third party provider was appointed which now allows anonymous concerns to be raised both online and by telephone, and has been extended to overseas subsidiary companies. The Committee receives an annual report of any cases, and has requested ongoing anonymous testing of the new system to ensure the reporting process is complete and timely.

Audit & Risk Committee Report

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 has its own internal audit function, which reports solely to its Board. Recognising the benefits of access to a broad range of skills and experience, as well as a fully flexible resource, the Committee continues to outsource the function to Grant Thornton UK LLP.

As the Core Group's internal auditors, Grant Thornton UK LLP have direct access to, and are responsible to, the Committee. Their work is risk focused, and the areas of audit focus are determined by the Committee based on a combination of risk registers and assessments, discussions held with senior management and requests received from the Committee, the Executive Chairman, board members or other senior executive directors.

During the year, the Committee approved the annual plan of internal audits to be undertaken and received progress reports at each meeting. The progress reports summarised audit findings, management responses and ongoing internal audit activity within the Group. The progress reports were reviewed in detail and contributed to the Committee's view on the effectiveness of the company's internal control and risk management framework. The internal auditors also attended the steering committee meetings for the implementation of the ERP system and provided an independent report to the Committee at each meeting.

The Committee also reviewed the flexibility of the internal audit plan to changing external factors and the effectiveness of remote audits. The Committee also met with executive management without the internal audit team present to ascertain that the function continued to provide value.

Treasury Committee

The Board has adopted a Treasury Management Policy setting out the policies and strategies the Group will follow to manage its cash resources, minimise financial and operational risks and establish and manage relationships with financial institutions. The Treasury Committee, which comprises the Chief Financial Officer, the Group Company Secretary and the Group Treasurer met twice in 2020 and reported to the Committee on banking relationships, hedging contracts, foreign currency management, and covenant compliance.

External auditor and audit plan

During 2019 the Audit Quality Review team of the Financial Reporting Council reviewed the EY audit papers for 2018. Following the 2019 audit, and in response to developing market sentiment and shareholder questions regarding rotation of audit firm, the Committee recommended to the Board that the external audit should be put out to tender. Following a process in accordance with Financial Reporting Council guidelines a resolution for the appointment of BDO LLP for the 2020 audit was put to the shareholders at the AGM and was approved.

Since appointment, the Committee has received reports from the external auditor on three occasions. This included a review of the audit planning report, an update on progress and a review of the final audit findings. The audit planning report set out the strategy, the scope and the materiality, and the Committee was satisfied that the materiality chosen by the audit partner was appropriate. It also identified the key risks on which the audit would focus. The Committee also met with the external auditor without the executive management being present. The effectiveness of the external auditor will be assessed by the Committee in 2021 taking into account feedback from executive management. This assessment will consider the quality of the audit and the service from BDO, and provide feedback to the lead audit partner.

Review of the interim and annual report and accounts, audit findings and significant accounting issues

The Committee reviewed the interim and the annual report and accounts to ensure that they were fair, balanced and understandable, and provided the information necessary for shareholders and other stakeholders to assess the company's performance, strategy and business model. To enhance its review, the Committee also considered reports from the Chief Financial Officer and the external auditor.

In the preparation of the annual report and accounts, 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 2020 financial statements, and how these were addressed, were:

Going concern and viability

The Committee joined the Board in reviewing the revised projections and assumptions for going concern and viability. This review also challenged the stress testing of the projections and assessed the quality of disclosures of the process, and assumptions over going concern, taking into account feedback from the Group's bankers, the MMH Board and the external auditors.

Long-term contract revenue recognition

The judgements made in relation to the accounting for long-term contracts are key to the revenue and profit recorded in each period. Material contracts and the related management assumptions and assessments used were reviewed by the Committee through regular Board updates on contract performance, and, where required, key individuals from the business attend meetings to provide a deeper understanding. BDO also reported its audit findings on the key judgements used in material contracts.

Exceptional costs

The Committee considered the amounts included as exceptional income and costs in the year to ensure that the categorisation was appropriate by reference to their nature and relevant guidance. BDO also commented on this assessment providing a detailed report on its audit findings.

Prior year adjustments

During the audit process a number of items were identified that would require prior year comparatives to be adjusted. These are outlined in note 31 to the accounts. The Committee reviewed the appropriateness of each adjustment and interrogated management and BDO on the circumstances of each item.

Marshall Motor Holdings plc (MMH)

MMH is fully consolidated into the Group's financial statements due to the controlling shareholding. The Committee considers the key issues that arise in those financial statements as publicly reported and as reported through BDO who are auditors to the whole group. The key matters of judgment were assumptions around impairment reviews of goodwill and franchise intangibles, supplier rebates, accruals and provisions. Management reported to the Committee that they were not aware of any material misstatements. The auditors reported to the Committee any misstatements that they had found in the course of their work. After due consideration, the Committee concurred with management that no adjustments were required.

Recommendation of the interim and the annual report and accounts to the Board for approval

Following the relevant meeting, the Committee unanimously recommended the interim and the annual report and accounts to the Board for approval.

Philip Yea
Audit and Risk Committee Chairman
1st July, 2021

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Strategic Report, governance statements, 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' statement in respect of 'fair, balanced and understandable' assessment

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

Advisers and Registered Office

Auditor
BDO LLP

Bankers
Barclays Bank plc
HSBC Bank plc
Lloyds TSB Bank plc
Royal Bank of Scotland plc
Santander UK plc

Insurance Brokers
Willis Towers Watson
PiiQ Risk Partners

Pension and Actuarial Advisers
Buck Consultants
Hymans Robertson

Property Advisers
Bidwells
Rapleys
Savills

Solicitors
Bird & Bird
Dentons
Greenwoods
Mills & Reeve
Travers Smith

Tax Advisers
Deloitte LLP

Registered Office
Airport House
The Airport
Cambridge CB5 8RY

Registered Number
2051460

www.marshallgroup.co.uk

Governance

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 2020.

Results and dividends
The Group recorded a profit after tax and minority interests for the year of £18,472,000 (2019 – £17,231,000). In place of the final dividend for 2019, an interim dividend for 2020 was paid in July 2020. With the strength of the business through the second half of the year, and the support of our bankers, we were also pleased to be able to pay a further interim dividend for 2020 in December. The Board has now agreed to pay a third interim dividend for 2020 of 3p per Ordinary and NVPO share, payable on 9th July 2021. As such, no final dividend is proposed for 2020. 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, focusing future investment on all stages of research and development (R&D). The FutureworX unit has been launched to meet the demand from customers for innovative solutions (see note 6 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' indemnities
In accordance with our Articles of Association and to the extent permitted by law, directors are granted an indemnity from the Company in respect of liability incurred as a result of their office. In addition, the Group maintained a directors' and officers' liability insurance policy throughout the year. Neither the indemnity nor the insurance provides cover in the event that a director is proven to have acted dishonestly or fraudulently.

Fixed assets
The Group invested £40.0m (2019 - £47.6m) in new fixed assets and investments and a further £3.0m (2019 - £28.2) in new businesses. The Group's other existing freehold investment properties were revalued by the directors as at 31st December 2020, resulting in a total valuation of £7.3m (2019 - £9.5m). A revaluation surplus of £0.1m (2019 – £0.6m) has been taken to the income statement and non-distributable reserves. Other tangible fixed assets' details and movements can be found in note 13 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 £154,000 (2019 - £185,000) during the year. In addition, the Group led the product development of the Exovent negative pressure ventilator prototype.

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 9 to 54.

Directors
Details of the current directors are set out on pages 56 to 57. The following served as directors of the Company during the year ended 31st December 2020 and up to the date of signing:
Alex Dorrian (Executive Chairman), Julie Baddeley, James Buxton, Sean Cummins, Jonathan Flint, Charlie Marshall (appointed 25th August 2020) and Philip Yea.

Robert Marshall resigned on 31 August 2020.

In accordance with the Articles of Association of the Company, James Buxton, Sean Cummins and Alex Dorrian will retire by rotation, and, being eligible, offer themselves for re-appointment as directors at the forthcoming Annual General Meeting.

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 1st January 2020 and 31st December 2020 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**
Julie Baddeley	-	-	7,000	-	-	-	-	-
James Buxton	-	7,260,390	-	18,059,010	-	2,402,000	-	1,801,000
Alex Dorrian	-	-	10,000	-	-	-	-	-
Charlie Marshall	5,000	-	3,000	-	-	-	2,000	-

*Charlie 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.

Governance
The Group's corporate governance framework and its application of S172 of the Companies Act 2006 is set out on pages 57 to 73.

Sustainability
The Group's Streamlined Energy and Carbon Reporting is set on pages 49 to 54.

Board Engagement
The Board's engagement with stakeholders and the principal decisions made during the year are set out on pages 29 to 34.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are described within the Group Strategic Report on pages 9 to 54. 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 47 and 48 whilst the principal risks and uncertainties facing the Group are set out in the Group Strategic Report and specifically on pages 39 to 44.

Based on this assessment, the directors have adopted the going concern basis in preparing the financial statements, subject to the risks and uncertainties described in this section.

At 31st December 2020, the Group reported net current liabilities of £30.2m (2019 - £37.8m).

The directors have modelled a base case scenario that assumes the periodic disruption of engineering operations experienced in 2020, continues throughout 2021 and completed a stress-test, including the impact of mitigating action, to understand the point where the conditions of banking facilities could be breached. Similarly, severe, but plausible scenarios have been modelled that relate to the early retirement of the C-130 aircraft from the UK fleet, following publication of the Integrated Review. The directors have concluded that the announced retirement date of 2023 does not alter its conclusion relating to the appropriateness of the use of the going concern basis of preparation.

Scenarios relating to MMH have been modelled separately to those of the Core Group (the Group excluding MMH), including assumptions around the expected re-opening of showrooms and any further lockdown periods.

The Group has the following facilities currently in place:

(a) Core Group - £75m multi-option facility maturing in March 2022, with an accordion option of £15m at the lenders' option; and
(b) MMH - £120m of facilities due to expire in January 2023. MMH also has substantial vehicle inventory financing arrangements with £365m utilised at 31st December 2020.

The sensitivity analysis includes the assumption that the Core Group will renew its lending facilities, on similar terms, on expiry of the existing agreement in March 2022. Relations with the Core Group's banks have been very constructive during the pandemic and the directors believe that this is a reasonable assumption.

Having assessed the combination of these scenarios, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of approval of the financial statements.

For these reasons, the directors continue to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern

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.

BY ORDER OF THE BOARD

Sarah Moynihan
Group Company Secretary
1st July, 2021

Independent Auditor's Report

Independent Auditor's Report to the members of Marshall of Cambridge (Holdings) Limited

Opinion on the financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Marshall of Cambridge (Holdings) Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet and the Company Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information
The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting
In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

- adequate accounting records have not been kept 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.

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

The objectives of our audit, in respect to fraud, are to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses, and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group that would be contrary to applicable laws and regulations, including due to fraud. We designed audit procedures at Group and significant component levels to respond to the risk. We focussed on laws and regulations that could give rise to a material misstatement in the financial statements including, but not limited to, the Companies Act 2006.
- We understood how the Company complies with legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it is considered there was a susceptibility of fraud. We also considered potential fraud drivers: including financial or other pressures, opportunity, and personal or corporate motivations. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing journals and challenging assumptions made by management in key areas of estimation uncertainty or judgement, for example in revenue recognition policy choices and judgements, financial and non-financial asset valuations, including but not limited to property assets, stocks and debtors.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Mark Cardiff (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
1st July, 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

for the year ended 31st December, 2020

	Notes	2020 £000 Total	Restated 2019 Note 31 £000 Total
Revenue	2	**2,488,114**	2,637,961
Cost of sales		**(2,166,951)**	(2,253,813)
Gross profit		**321,163**	384,148
Operating expenses		**(315,951)**	(351,724)
Profit on transfer of land and buildings		**8,873**	-
Other income	4	**23,190**	1,176
Operating profit	6	**37,275**	33,600
Share of profit in the year in joint ventures		**428**	-
Net finance expenses	7	**(7,243)**	(6,413)
Profit before taxation		**30,460**	27,187
Analysed as:			
Underlying profit before tax		**39,064**	35,159
Separately disclosed exceptional items	3	**(8,604)**	(7,972)
Tax on profit	8	**(8,469)**	(6,051)
Profit after taxation		**21,991**	21,136
Attributable to:			
Owners of the parent		**18,472**	17,231
Non-controlling interest		**3,519**	3,905
		21,991	21,136
Basic and diluted earnings per share	9	**30.0p**	27.9p
Underlying earnings per share	9	**41.3p**	35.3p

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31st December, 2020

	Notes	2020 £000	Restated 2019 Note 31 £000
Profit after taxation		**21,991**	21,136
Exchange differences on re-translation of subsidiary undertakings		**(71)**	(5)
Fair value (loss) / gain recognised on cash flow hedges		**(2,442)**	6,093
Taxation on cash flow hedges	8c	**371**	(1,037)
Actuarial loss recognised on defined benefit pension scheme	30	**(2,801)**	(79)
Deferred tax credit relating to defined benefit pension scheme	30, 8c	**592**	14
Total other comprehensive (expense) / income		**(4,351)**	4,986
Total comprehensive income		**17,640**	26,122
Total comprehensive income for the year attributable to:			
Owners of the parent		**14,121**	22,217
Non-controlling interest	23	**3,519**	3,905
		17,640	26,122

Financial Statements

Consolidated Balance Sheet

As at 31st December, 2020

	Notes	2020 £000	Restated 2019 £000
Fixed assets			
Intangible fixed assets	12	**94,051**	93,852
Tangible fixed assets	13	**271,089**	264,844
Investments	14	**12,070**	7,864
Total fixed assets		**377,210**	366,560
Current assets			
Stocks	15	**384,936**	490,609
Debtors			
Amounts falling due within one year	16	**162,267**	172,634
Amounts falling due after more than one year	16	**20,446**	30,026
Cash at bank and in hand		**43,920**	11,573
Total current assets		**611,569**	704,842
Creditors: amounts falling due within one year	17	**(638,927)**	(739,825)
Net current liabilities		**(27,358)**	(34,983)
Total assets less current liabilities		**349,852**	331,577
Creditors: amounts falling due after more than one year	18	**(29,313)**	(32,946)
Provision for liabilities	20	**(31,162)**	(25,090)
Net assets before pension liability		**289,377**	273,541
Pension liability	30	**(4,633)**	(2,985)
Net assets		**284,744**	270,556
Capital and reserves			
Called up share capital	21	**15,785**	15,785
Share premium		**611**	611
Capital redemption reserve	22	**130**	130
Cash flow hedge reserve	22	**1,770**	3,841
Profit and loss account		**197,812**	185,272
Shareholders' funds		**216,108**	205,639
Non-controlling interest	23	**68,636**	64,917
Total capital employed		**284,744**	270,556

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 1st July, 2021. They were signed on its behalf by:

S V Cummins

Director

Financial Statements

Consolidated Statement of Changes in Equity

for the year ended 31st December, 2020

	Share capital £000	Share premium £000	Capital redemption reserve £000	Cash flow hedge reserve £000	Restated Profit and loss account £000	Restated Total £000	Restated Non-controlling interest £000	Restated Total £000
At 1st January, 2019 (as previously stated)	15,785	611	130	(1,215)	173,557	188,868	69,174	258,042
Prior year adjustments (note 31)	-	-	-	-	(854)	(854)	(6,097)	(6,951)
At 1st January, 2019 (as restated)	15,785	611	130	(1,215)	172,703	188,014	63,077	251,091
Profit for the financial year (restated - note 31)	-	-	-	-	17,231	17,231	3,905	21,136
Other comprehensive income / (expense)	-	-	-	5,056	(70)	4,986	-	4,986
Total comprehensive income for the year	-	-	-	5,056	17,161	22,217	3,905	26,122
Equity dividends paid (note 10 and 23)	-	-	-	-	(4,013)	(4,013)	(2,567)	(6,580)
Share based payment credit (restated - note 31)		-	-	-	728	728	402	1,130
Change in interest in subsidiary net assets (restated - note 31)	-	-	-	-	(1,307)	(1,307)	100	(1,207)
Change in interest in subsidiary net assets	-	-	-	-		-		-
At 31st December, 2019	15,785	611	130	3,841	185,272	205,639	64,917	270,556
Profit for the financial year	-	-	-	-	18,472	18,472	3,519	21,991
Other comprehensive expense	-	-	-	(2,071)	(2,280)	(4,351)	-	(4,351)
Total comprehensive (expense) / income for the year	-	-	-	(2,071)	16,192	14,121	3,519	17,640
Equity dividends paid (note 10 and 23)	-	-	-	-	(4,013)	(4,013)	-	(4,013)
Share based payment charge	-	-	-	-	361	361	200	561
Change in interest in subsidiaries' net assets	-	-	-	-	-	-		-
At 31st December, 2020	**15,785**	**611**	**130**	**1,770**	**197,812**	**216,108**	**68,636**	**284,744**

Financial Statements

Consolidated Statement of Cash Flows

	Notes	2020 £000	Restated 2019 £000
Operating activities			
Net cash inflow from operating activities	11a	**76,619**	65,925
Investing activities			
Interest received	7	**134**	124
Payments to acquire intangible fixed assets	12	**(6,795)**	(7,863)
Payments to acquire tangible fixed assets	13	**(30,961)**	(38,268)
Payments to acquire fixed asset investments	14	**(2,215)**	(1,479)
Receipts from sales of tangible fixed assets - excluding property		**780**	610
Receipts from sales of tangible fixed assets - property		**14,981**	47
Receipts from sales of fixed assets investments		**-**	1,320
Acquisition of businesses (including acquisition costs)	5	**(2,958)**	(28,232)
		(27,034)	(73,741)
Financing activities			
Interest paid	7	**(2,093)**	(1,279)
Stock finance and other interest paid	7	**(5,485)**	(5,961)
Dividends paid to preference shareholders	10	**(744)**	(744)
Equity dividends paid	10	**(3,269)**	(3,269)
Settlement of exercised share options	28	**-**	(708)
Dividends paid to non-controlling interest	23	**-**	(2,567)
New loans	19	**79,898**	28,000
New overdrafts	19	**1,081**	-
Repayment of overdrafts	19	**(2,851)**	-
Repayment of loans	19	**(83,641)**	(6,781)
		(17,104)	6,691
Increase / (decrease) in cash and cash equivalents		**32,481**	(1,125)
Effect of exchange rates on cash and cash equivalents		**(134)**	(202)
Cash and cash equivalents at 1st January	11c	**11,573**	12,900
Cash and cash equivalents at 31st December	11c	**43,920**	11,573

Notes to the Consolidated Financial Statements

1a. Accounting policies

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

The Group'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 for the year ended 31st December, 2020.

Basis of preparation
The consolidated financial statements of Marshall of Cambridge (Holdings) Limited were authorised for issue by the board of directors on 1st July, 2021. The consolidated financial statements have been prepared in accordance with applicable accounting standards. They are presented in sterling and are rounded to the nearest £'000.

In the preparation of the financial statements for the year ended 31st December 2020, the directors have made certain changes to the comparatives. These changes have been applied retrospectively in accordance with FRS 102, paragraph 10.21.

Details of the nature and the financial effect of these adjustments is disclosed in Note 31.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are described within the Group Strategic Report on pages 7 to 54. 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 47 and 48 whilst the principal risks and uncertainties facing the Group are set out in the Group Strategic Report and specifically on pages 39 to 44.

Based on this assessment, the directors have adopted the going concern basis in preparing the financial statements, subject to the risks and uncertainties described in this section.

At 31st December 2020, the Group reported net current liabilities of £27,358,000 (2019 - £34,983,000).

The directors have modelled a base case scenario that assumes the periodic disruption of engineering operations experienced in 2020, continues throughout 2021 and completed a stress-test, including the impact of mitigating action, to understand the point where the conditions of banking facilities could be breached. Similarly, severe, but plausible scenarios have been modelled that relate to the early retirement of the C-130 aircraft from the UK fleet, following publication of the Integrated Review. The directors have concluded that the announced retirement date of 2023 does not alter its conclusion relating to the appropriateness of the use of the going concern basis of preparation.

Scenarios relating to MMH have been modelled separately to those of the Core Group, including assumptions around the expected re-opening of showrooms and any further lockdown periods.

The Group has the following facilities currently in place:

(a) Core Group (the Group excluding MMH) - £75,000,000 multi-option facility maturing in March 2022, with an accordion option of £15,000,000 at the lenders' option; and
(b) MMH - £120,000,000 of facilities due to expire in January 2023. MMH also has substantial vehicle inventory financing arrangements (c.£365m utilised at 31st December 2020).

The sensitivity analysis includes the assumption that the Core Group will renew its lending facilities, on similar terms, on expiry of the existing agreement in March 2022. Relations with the Core Group's banks have been very constructive during the pandemic and the directors believe that this is a reasonable assumption.

1a. Accounting policies (continued)

Going concern (continued)
Having assessed the combination of these scenarios, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of approval of the financial statements.

For these reasons, the directors continue to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern

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.

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.

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 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. These criteria are considered to be met when the goods are delivered to the buyer.

- 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 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.

Unwind of discounting
The finance income associated with the time value of money on discounted receivables is recognised within interest receivable and similar income as the discount unwinds over the life of the relevant item.

1a. Accounting policies (continued)

Business combinations
The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the estimate of the amount payable if probable in relation to any liability resulting from a contingent consideration arrangement.

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be reliably measured, in which case the value is subsumed into goodwill.

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 (CGU) or group of CGUs that is expected to benefit from the synergies of the combination.

If a subsidiary, associate or business is subsequently sold or discontinued, any related goodwill arising on acquisition that has not been amortised through the Consolidated Income Statement is taken into account in determining the profit or loss on sale or discontinuance, measured on a pro-rata basis for part disposals.

Intangible assets
Other intangible assets, when acquired separately from a business combination, include computer software and licenses. Cost comprises purchase price from third parties and amortisation is calculated on straight line basis over the assets' expected economic lives, which varies depending on the nature of the asset. Licenses are amortised, commencing on the date the intangible asset is capable of being brought into use, over the length of the license and software is amortised between 3-10 years.

Other intangible assets, acquired as part of a business combination, include franchise agreements These items are capitalised separately from goodwill if the asset is separable and if the fair value can be measured reliably on initial recognition. Such assets are stated at fair value less accumulated amortisation which is calculated on straight line basis. Franchise agreements are amortised at fair value, over 20 years. Amortisation is included within operating expenses in the Consolidated Income Statement.

Estimates of the useful economic life of intangible assets are based on a variety of factors such as the expected use of the intangible asset, the business plan for the use of the assets and any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar intangible assets.

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.

1a. Accounting policies (continued)

Tangible fixed assets (continued)
Land is not depreciated. Depreciation is provided on 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:

Freehold properties	20 - 50 years
Short leasehold	Shorter of the lease or 10 years
Plant and machinery:	
General	3 – 8 years
Aircraft	5 – 20 years
Assets under construction	Not depreciated

Costs wholly attributable to future property developments are capitalised to the extent they are considered recoverable against future economic benefits. Such costs are capitalised from the point that a viable development is considered probable and includes external and directly attributable incremental internal costs relating to planning, site preparation, infrastructure and construction costs.

Costs incurred for constructing assets for use in the business are capitalised and comprise both external costs and directly attributable internal costs. Depreciation of such “Assets under construction” commences when the asset is available to be brought into use.

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
If any such indication exists the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in the Consolidated Income Statement.

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

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 Consolidated Income Statement. The Group engages independent valuers to assist the directors in determining fair value.

1a. Accounting policies (continued)

Investment properties (continued)

- After initial recognition, investment properties are recorded at fair value. The surplus or deficit on revaluation is recognised in the Consolidated Income Statement and accumulated in the non-distributable reserve. The company engages independent valuers to assist the directors in determining fair value.

- Expenditure to improve the rentals or capital appreciation are recorded as additions to investment properties. Where a substantial development is commenced with a view to a sale, the property is transferred to inventory.

- Properties currently rented to third parties which will be used in the residential development are valued using the discounted cash flow technique to arrive at a fair value of the asset.

- Transfers into and out of investment properties are made at fair value determined above.

Investments

Unlisted investments

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 Consolidated Income Statement). Subsequently, the investments are measured at fair value through the Consolidated Income Statement except for those investments that are not publicly traded or whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available.

Consistent with the requirements of FRS 102 paragraph 11.3(d)(iv) and (v), such investments are held at cost less impairment, as no reliable fair value estimate can be determined given limited or no active market for such investments.

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

Investment in joint ventures

Entities in which the Group holds an interest and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the consolidated financial statements, joint ventures are accounted for using the equity method. Under the equity method, any unrealised profits as a result of transactions between the joint venturer and the joint venture shall be eliminated to the extent of the venturer's interest in the joint venture.

Long term debtors

Long term balances due from joint ventures relate to land transferred to the joint ventures and are initially recognised at the present value of consideration payable by the counterparty (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation (unwinding of discount) is included as part of interest receivable and similar income in the Consolidated Income Statement.

1a. Accounting policies (continued)

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 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 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 such as stock holding cost, responsibility for safe-keeping and some risk of obsolescence rest within the Group. Stock held on consignment are accounted for net of value added taxes, with a corresponding liability which includes value added taxes.

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

Supplier income
MMH receives income from brand partners and other suppliers based on specific agreements in place. These are generally based on achieving certain objectives such as specific sales volumes and maintaining agreed operational standards. This supplier income received is recognised as a deduction from cost of sales at the point when it is reasonably certain that the targets have been achieved for the relevant period and when income can be measured reliably based on the terms of each relevant supplier agreement.

Supplier income that has been earned but not invoiced at the balance sheet date is recognised in other receivables and primarily relates to volume-based incentives that run up to the period end.

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.

1a. Accounting policies (continued)

Research and development expenditure credit
Costs incurred which qualify as research and development entitles the Group to a payment from HM Revenue and Customs. Income is only recognised when it is "probable", and the business has reasonable assurance the conditions have been met. The receipt, which has the nature of a government grant, is credited to other income.

Government grants
Grants are account for under the accruals model as permitted by FRS102. The deferred element of grants is included in creditors as deferred income. Grants of a revenue nature are recognised as "other income" within profit or loss in the same period as the related expenditure. The group has benefitted from government assistance and details are disclosed in note 4.

Taxation
The charge / (credit) for taxation is based on the profit or loss 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;

- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and

- 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.

Pensions
The Group operates, for the benefit of its employees, a number of pension schemes, one of which has elements of both defined benefit and defined contribution, while the others are entirely defined contribution. The defined contribution pension 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 Consolidated Income Statement during the period in which it occurs.

1a. Accounting policies (continued)

Pensions (continued)
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 Consolidated 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 Consolidated Income Statement in subsequent periods.

The net defined benefit pension asset or liability in the Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Balance Sheet. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Consolidated 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 Consolidated 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
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.

1a. Accounting policies (continued)

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 Other Comprehensive Income. 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 using counterparty valuation reports as the basis of the fair value recorded. In 2020, the currency derivatives in some of the subsidiaries met the requirements for hedge accounting in full and qualify for fair value hedge accounting.

Changes in the value of derivatives are recognised in the Consolidated Income Statement within administrative expenses, except where they have been designated as qualifying cash flow hedges. Gains or losses on derivatives designated as cash flow hedges are initially recognised within Other Comprehensive Income, and subsequently recycled to the Consolidated Income Statement when the derivative is settled.

Provision for liabilities
A provision is recognised in the Consolidated Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event 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 Consolidated Balance Sheet comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less. Where a right of offset exists, overdrafts are netted against cash and cash equivalents, otherwise they are disclosed as loans and borrowings within creditors: amounts falling due within one year.

Share based payments
One of the Group's subsidiaries, Marshall Motor Holdings plc (MMH) operates a number of equity-settled share-based compensation plans through which the Group allows MMH employees to receive shares in MMH.

The grant of share options by MMH to its employees gives rise to an expense that is recorded in operating expenses and a credit to equity, which is apportioned between the Profit and Loss Account reserve in Shareholders' Funds, and the Non-controlling interest. On exercise of share options or on any other issuance of new equity instruments by MMH, there is a dilution of the interest that the equity holders of the Company have in MMH. The effect of this dilution is recorded in "Change in interest in subsidiaries' net assets" in the Consolidated Statement of Changes in Equity

Equity-settled share-based payments are measured at fair value (calculated excluding the effect of service and non-market based performance vesting conditions) at the date of grant. The share-based payment charge to be expensed is determined by reference to the fair value of share options granted.

The share-based payment charge is recognised on a straight-line basis over the vesting period (being the period over which all vesting conditions are to be satisfied). An award subject to graded vesting is accounted for as though it were multiple, separate awards, the number of awards being determined in direct correlation to the number of instalments in which the options vest.

Notes to the Consolidated Financial Statements

1a. Accounting policies (continued)

Share based payments (continued)
The share-based payment charge is based on MMH's estimate of the number of options that are expected to vest. At each balance sheet date, MMH revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. MMH's remuneration policy gives its Remuneration Committee discretion to revise performance conditions to adjust for the impact of Group restructurings and reorganisations on incentive outcomes. The impact of any revisions to original vesting estimates or performance conditions is recognised in the Consolidated Income Statement with a corresponding adjustment to equity.

Social security contributions payable in connection with share options granted are considered to be an integral part of the grant and are, therefore, treated as cash-settled transactions. For cash settled share-based payments, MMH recognises a liability for the services acquired, measured initially at the fair value of the liability. This liability is re-measured at each balance sheet date and at the date of settlement, with any changes in fair value recognised in the Consolidated Statement of Comprehensive Income.

Where shares options are forfeited, effective from the date of the forfeiture, any share-based payment charge previously recognised in both the current and prior periods in relation to these options is reversed though the Consolidated Income Statement with a corresponding adjustment through the Consolidated Statement of Changes in Equity.

Separately disclosed exceptional items
Items which are material or significant to the reader's understanding of the financial statements are presented as exceptional items within the Consolidated Income Statement. The separate reporting of exceptional items helps provide additional information to the reader, which management considers useful and relevant in understanding the Group's underlying business performance. More details on these items can be found in note 3.

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

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

Post balance sheet events
The financial statements take into consideration events occurring between the year end date and the date of their approval by the board of directors, as indicated on the Consolidated 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 and estimates have had the most significant effect on amounts recognised in the financial statements.

Judgements

Valuation of unlisted investments

Investments are recognised initially at fair value. Subsequently, the investments are measured at fair value, calculated in accordance with IPEV guidelines or cost less impairment where fair value cannot be reliably measured. The Group makes certain judgements to apply fair value measurement principles which may have a material impact on the reported profits of the group in the current, or, in the event that the value of the investment ultimately realised differs from management's judgement of its value at the period end, future accounting periods. Those judgements include MCH's assessment of the achievement or otherwise of strategic milestones and financial track record.

The assessment of fair values also requires management to make certain estimates. The value of unlisted investments carried at fair value totals £6,669,000 (2019 - £4,130,000).

Determination of useful life of goodwill and franchise agreements
Goodwill and franchise agreements are intangible assets acquired through business combinations. The useful life is determined at initial recognition and based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units, review of the franchise agreement and experience of working with the franchisor.

Recoverability of property development costs
The directors have made a judgement that the property costs capitalised to date in connection with the development of the airport and associated land will be recoverable on the basis that they expect planning permission will be obtained and that they have reviewed viable development projections.

Sources of estimation uncertainty

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in the Consolidated Income Statement. The Group engaged independent valuation specialists to assist the directors in determining fair value at 31st December, 2020. The valuer determines fair value by considering comparable local market data such as rental yields, location, condition and nature of the property. At 31st December, 2020 the fair value of investment properties was £7,276,000 (2019 - £9,512,000).

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 judgement 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 judgemental 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. Revenue recognised on long term contracts for the year ended 31st December, 2020 was £278,421,000 (2019 - £291,126,000).

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

Impairment of goodwill and intangible assets
The Group reviews the goodwill arising on the acquisition of subsidiaries or businesses for impairment 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 judgments relating to 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 Consolidated 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.

Details of the cost, amortisation and net book value of goodwill and intangible assets can be found in note 12.

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 net realisable value, it is possible that ultimate sales values can vary from those applied. The gross value of motor vehicle inventories at 31st December, 2020 was £374,347,000, a provision of £11,468,000 has been recorded resulting in a net value of £362,879,000.

Timing of joint venture cash receipts
The fair value of receivables for land transferred to Hill Marshall LLP is dependent on our estimate of cash contributions expected to be received by Hill Marshall LLP from Hill Residential Limited and the timing of individual property sales from the joint venture entity in future periods. This estimate is based on our current expectation of development progress and latest available information to guide expectations of revenue when individual properties become available for sale.
Details of the joint venture receivables can be found in note 16.

2. Revenue and profit before tax analysis

Management has determined the operating units based on the operating reports used to assess both performance and strategic decisions. These results have been determined using consistent accounting policies as the overall financial statements.

	Revenue		Profit / (loss) before tax	
				Restated
	2020	2019	**2020**	2019
	£000	£000	**£000**	£000
Business units:				
Aerospace and Defence	**286,635**	307,585	**13,979**	19,248
Property	**8,078**	7,775	**10,763**	3,610
Ventures	-			
- Motor retail	**2,154,415**	2,276,129	**14,887**	14,096
- Fleet solutions	**45,694**	52,966	**57**	(1,476)
- Martlet	**-**	-	**1,011**	676
Ventures total	**2,200,109**	2,329,095	**15,955**	13,296
Unallocated central costs	**-**	-	**(10,237)**	(8,967)
Internal sales	**(6,708)**	(6,494)	**-**	-
	2,488,114	2,637,961	**30,460**	27,187

	Revenue by destination		Revenue by origin	
	2020	2019	**2020**	2019
Geographical areas:	**£000**	£000	**£000**	£000
UK	**2,329,654**	2,487,715	**2,475,942**	2,614,760
Rest of Europe	**55,467**	41,603	**1,251**	1,183
North America	**53,647**	65,233	**10,921**	22,018
Rest of World	**49,346**	43,410	**-**	-
	2,488,114	2,637,961	**2,488,114**	2,637,961

The total amount of income, including revenue, recognised in the year is analysed as follows:	**2020**	2019
	£000	£000
Sale of goods	**1,971,264**	2,088,862
Rendering of services (including long term contracts)	**515,480**	547,818
Rents received	**1,370**	1,281
Revenue	**2,488,114**	2,637,961
Interest received	**1,512**	1,410
Research and development expenditure credit	**1,069**	945
Other income	**22,121**	327
Total income	**2,512,816**	2,640,643

Revenue recognised on long term contracts was £278,421,000 (2019 - £291,126,000).

3. Separately disclosed exceptional items

	2020 £000	Restated 2019 £000
Underlying profit	**39,064**	35,159
Separately disclosed exceptional items:		
Amortisation of intangible fixed assets - franchise agreements and goodwill (restated - notes 12 and 31)	**(6,504)**	(7,232)
Release of provision for losses on complex programme [1]	**-**	1,776
Restructuring costs [1]	**(7,731)**	(1,736)
Exovent ventilator development costs [2]	**(801)**	-
COVID-19 expenses [1]	**(1,564)**	
Profit / (loss) on disposal of property and impairment of property [1]	**7,996**	(780)
Separately disclosed exceptional items	**(8,604)**	(7,972)
Profit before tax	**30,460**	27,187

[1] Management consider these costs to be non-routine in nature

[2] Considered by management to be non-recurring.

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 relating to franchise agreements and goodwill. These charges have arisen from accounting for acquisitions in previous years;
- Other costs relating to a number of significant restructuring exercises across the Group and the closure of dealerships in Motor Holdings;
- Profit and losses on disposal, or impairment charges relating to land, property and investment property. The most significant transaction completed during the year was the sale and leaseback of an office building at the Airport in Cambridge, realising net cash proceeds of £10,000,000 and recognising £7,400,000 of profit on disposal;
- As a response to the onset of the COVID-19 pandemic, costs relating to the development of the Exovent negative pressure ventilator are disclosed separately; and
- COVID-19 costs relating to the incremental cost of providing personal protective equipment and all associated cleaning, sanitisation and other costs required to keep both colleagues and visitors safe.

4. Other income

	2020	2019
	£000	£000
Coronavirus Job Retention Scheme grant received	**21,097**	-
Research and development expenditure tax credit	**1,069**	945
Rent receivable	**473**	231
Deferred land profit	**451**	-
Trademark licence income	**100**	-
	23,190	1,176

The Core Group utilised the VAT Deferral Scheme enabling £4,297,000 of VAT liabilities to be repaid in instalments between March 2021 and January 2022. At the onset of the pandemic, PAYE liabilities were deferred but repaid in full in June 2020. The Core Group decided to utilise government support relating to the Coronavirus Job Retention Scheme, claiming £700,000, and then approved the repayment of the support in March 2021.

MMH utilised applicable support measures introduced by the UK Government, including £20,400,000 under the Coronavirus Job Retention Scheme, £7,200,000 under the Expanded Retail Discount 2020/21 for business rates and the deferral of £10,900,000 VAT payments. While this support has been beneficial, the better-than-expected performance in the second half of 2020 permitted MMH to repay all deferred VAT amounts in full during September 2020, eighteen months ahead of the due date.

5. Acquisitions

a) Current period

On 10th July, 2020 MMH acquired the trade and assets of a Volkswagen dealership in Aylesbury. Acquisition of this dealership brought to a successful conclusion the strategic acquisition of eight Volkswagen Group UK franchises announced in December 2019. This acquisition is part of MMH's stated strategy to grow with existing brand partners in new geographical territories by adding further sites in excellent locations.

The estimated identifiable assets and liabilities at the date of acquisition are stated at their provisional fair value as set out below. The goodwill arising on acquisition is attributed to the expected synergies and benefits associated with the increased brand representation which has resulted in MMH becoming Volkswagen Group UK's largest partner by number of locations.

	Fair value of net assets acquired £000
Intangible assets	350
Property, plant and equipment	569
Stock	1,333
Trade and other receivables	26
Cash and cash equivalents	1
Trade and other payables	(9)
Deferred tax liabilities	(49)
Net assets acquired	**2,221**
Goodwill	94
Total consideration	**2,315**
Cash paid	2,302
Acquisition costs	13
Total consideration	**2,315**

The completion payment for the Aylesbury VW business included the consideration of £2,302,000 as set out above, plus the addition of £13,000 of transaction costs and a further payment of £643,000 held back from the acquisitions completed in December 2019 as an incentive to the vendor to complete the Aylesbury sale. Had the Aylesbury sale not been completed this further payment would not have been due.

The results of the acquired dealership were consolidated into MMH's results from 10th July, 2020. For the period from acquisition to 31st December 2020, the revenues and the loss before tax generated by these dealerships were immaterial in the context of MMHs revenues and profit before tax.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1st January 2020), on a pro forma basis, the change in revenue and profit before tax of MMH for the year ended 31st December 2020 would have been immaterial in the context of MMH.

Goodwill is being amortised over the estimate of its useful economic life which is 20 years.

6. Operating profit

		2020 £000	Restated 2019 £000
Operating profit is after charging / (crediting):			
Depreciation	- tangible fixed assets	**18,511**	17,129
Amortisation	- positive goodwill and intangible assets	**7,415**	7,677
Impairment	- tangible fixed assets	**273**	708
Operating lease rentals	- land and buildings	**14,573**	12,506
	- plant and machinery	**1,052**	558
Net foreign exchange gain		**(49)**	(88)
(Profit) / loss on disposal of property		**(8,725)**	97
(Profit) / loss on disposal of investment property		**(148)**	72
(Profit) / loss on disposal of tangible fixed assets (excluding property)		**(16)**	229
Research and development	- current year expenditure	**1,623**	2,269
Research and development expenditure credit included in other income		**(1,069)**	(945)
Gain on revaluation of investment properties		**(104)**	(581)
Gain on revaluation of investments		**(1,988)**	(887)
Amounts provided against investments		**425**	19
Gain on disposal of investments		**-**	(236)
Auditor's remuneration	- audit of the financial statements of the parent compa	**203**	91
	- audit of subsidiary undertakings	**542**	671
	- review of subsidiary's interim financial statements	**39**	36
	- tax advisory fees	**43**	-

Included in auditors remuneration in 2020 is £68,200 (2019 - £nil) relating to amounts paid to previous auditors.

7. Net finance expenses

	2020	2019
	£000	£000
(a) Finance income		
Bank interest receivable	**134**	101
Interest receivable from joint ventures	**118**	73
Other interest receivable	**-**	23
Unwind of discounting (note 16)	**1,260**	1,213
	1,512	1,410

	2020	2019
(b) Finance cost	£000	£000
Bank loans and overdrafts - interest and charges	**2,093**	1,279
Interest payable to joint ventures	**526**	482
Stock financing charges and other interest	**5,485**	5,961
Interest on defined benefit scheme liabilities	**47**	101
Present value adjustment - deferred receivable on land sale	**604**	-
	8,755	7,823
Net finance expenses	**7,243**	6,413

Interest payable to joint ventures relates to a Homes England infrastructure loan which was drawn by Hill Marshall LLP on behalf of the Group to fund the construction and commissioning of the Ground Running Enclosure. The loan is secured by a fixed charge over land transferred to Hill Marshall LLP and Hill Marshall (Phase 2) LLP. The loan bears interest at 2.5% above the EC base rate.

8. Tax on profit

	2020	Restated 2019
	£000	£000
a) Analysis of tax charge for the year		
UK corporation tax charge on the profit for the year	**3,950**	4,217
UK corporation tax adjustment in respect of prior years	**274**	(919)
Double tax relief	**(9)**	(17)
Overseas tax on profit for the year	**164**	390
Overseas tax adjustment in respect of prior years	**(4)**	-
Current tax charge	**4,375**	3,671
Deferred tax charge (see note 20b)	**4,094**	2,380
Total tax charge on profit	**8,469**	6,051

8. Tax on profit (continued)

	2020 £000	Restated 2019 £000
b) Factors affecting the total tax charge for the year		
Profit before tax	**30,460**	27,187
Profit before tax at 19% (2019 - 19%)	**5,787**	5,166
Effects of:		
Expenses not deductible for tax purposes	**1,510**	1,600
Overseas tax	**62**	135
Non taxable income	**(1,448)**	(355)
Deferred tax rate change	**2,337**	-
Difference in rate between corporation tax and deferred tax	**6**	(249)
Utilisation of brought forward losses on which no deferred tax asset recognised	**(9)**	157
R&D enhanced claims	**(75)**	(18)
Taxable chargeable gains	**-**	(67)
Adjustments in respect of prior years	**280**	(319)
Change in recognition of deferred tax	**19**	1
Total	**8,469**	6,051

	2020 £000	2019 £000
c) Tax included in the Statement of Other Comprehensive Income		
Taxation on cash flow hedges	**371**	(1,037)
Deferred tax credit on actuarial loss	**592**	14
Tax charge included in the Statement of Other Comprehensive Income	**963**	(1,023)

d) Factors that may affect future tax charges

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

The standard rate of tax applied to reported profit is 19% (2019 - 19%). Finance Act 2020 maintained the UK corporation tax rate at 19% with effect from 1st April 2020, reversing the previously enacted reduction in the rate of UK corporation tax to 17% from 1st April, 2020. In the 2021 Spring Budget the UK Chancellor announced a prospective headline corporate tax rate change to 25% and that this will be reflected in measuring tax assets and liabilities in the 2021 consolidated financial statements now that it has been substantially enacted.

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 £718,000 (2019 - £684,000) 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, 2021, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £1,487,000. This is due to the anticipated change of deferred tax on fixed asset timing differences and utilisation of brought forward tax losses.

e) Close company

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

9. Earnings per share

	2020 £000	Restated 2019 £000
Profit after taxation	**21,991**	21,136
Non-controlling interest	**(3,519)**	(3,905)
Dividends on preference shares	**(744)**	(744)
Basic earnings	**17,728**	16,487
Separately disclosed exceptional items (note 3)	**8,604**	7,972
- tax impact	**(1,137)**	(861)
- non-controlling interest impact	**(2,523)**	(2,729)
Impact of change of tax rate on opening deferred tax liabilities	**2,337**	-
- non-controlling interest impact	**(614)**	-
Underlying earnings	**24,395**	20,869
Weighted average number of shares in issue during the year ('000)	**59,082**	59,082
Basic and diluted earnings per share	**30.0p**	27.9p
Underlying earnings per share	**41.3p**	35.3p

Basic earnings per share is calculated by dividing the basic earnings for the year by the average number of Ordinary and Non-voting priority dividend ordinary NVPO shares (NVPO) 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, are presented to assist the understanding of the underlying performance of the Group. Underlying earnings per share is calculated by dividing the underlying earnings for the year by the average number of Ordinary and NVPO shares in issue during the year.

10. Dividends

	2020 £000	2019 £000
Dividends on Ordinary shares:		
1.00p per Ordinary share of 12.5p each paid on 10th July, 2020 (5th July, 2019 - 3.0p)	**138**	415
3.00p per Ordinary share of 12.5p each paid on 12th December, 2020 (13th December, 2019 - 1.0p)	**415**	138
	553	553
Dividends on NVPO shares:		
3.00p per NVPO share of 12.5p each paid on 10th July, 2020 (5th July, 2019 - 3.0p)	**1,358**	1,358
3.00p per NVPO share of 12.5p each paid on 12th December, 2020 (13th December, 2019 - 3.0p)	**1,358**	1,358
	2,716	2,716
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	**4,013**	4,013

The Board has agreed to pay a third interim dividend for 2020 of 3p per Ordinary and NVPO share, dividend payable on 9th July, 2021. As such, no final dividend is proposed for 2020.

11. Notes to the Consolidated Statement of Cash Flows

	2020 £000	Restated 2019 £000
a) Reconciliation of profit to net cash inflow from operating activities		
Group profit before tax	**30,460**	27,187
(Profit) / loss on disposal of tangible fixed assets	**(8,889)**	398
Share of profit in the year in joint venture	**(428)**	-
Profit on disposal of investments	**-**	(236)
Gain on investment properties at fair value through Consolidated Income Statement	**(104)**	(581)
Gain on investments at fair value through Consolidated Income Statement	**(1,988)**	(887)
Amounts provided against investments	**425**	19
Net finance expenses	**7,243**	6,413
Foreign exchange movement	**(2,376)**	6,291
Depreciation of tangible fixed assets and impairment charges	**18,784**	17,837
Amortisation of intangible fixed assets and impairment charges	**7,415**	7,677
Research and expenditure credit	**(1,069)**	(945)
Decrease / (increase) in stocks	**107,005**	(67,773)
Decrease / (increase) in debtors	**22,657**	(15,023)
Increase / (decrease) in provisions	**2,891**	(12,638)
(Decrease) / increase in creditors	**(100,293)**	107,310
Share based payment charge	**668**	1,282
Adjustment for pension funding	**(1,200)**	(7,055)
UK corporation tax paid	**(4,387)**	(2,961)
Overseas tax paid	**(195)**	(390)
Net cash inflow from operating activities	**76,619**	65,925

b) Reconciliation of net cash flow to movement in net funds / (debt)

	Notes	2020 £000	2019 £000
Increase / (decrease) in cash		**32,347**	(1,327)
Cash inflow from new loans	19	**(79,898)**	(28,000)
Cash inflow from new overdrafts	19	**(1,081)**	-
Repayment of overdrafts	19	**2,851**	-
Repayment of loans	19	**83,641**	6,781
Decrease / (increase) in net funds / (debt)		**37,860**	(22,546)
Net debt at 1st January		**(24,943)**	(2,397)
Net funds / (debt) at 31st December		**12,917**	(24,943)

11. Notes to the Consolidated Statement of Cash Flows (continued)

c) Analysis of net (debt) / funds	At 1st January, 2020 £000	Cash movement £000	Change in maturity £000	Foreign exchange £000	At 31st December, 2020 £000
Cash at bank and in hand	11,573	32,481	-	(134)	**43,920**
Bank overdrafts	(2,851)	1,770	-	-	**(1,081)**
Short term loans	(28,641)	3,743	(641)	-	**(25,539)**
Long term loans	(5,024)	-	641	-	**(4,383)**
Loans and overdrafts	(36,516)	5,513	-	-	**(31,003)**
Net (debt) / funds	(24,943)	37,994	-	(134)	**12,917**

12. Intangible fixed assets

	Restated Franchise agreements £000	Goodwill £000	Restated Software £000	Restated Total £000
Cost:				
At 1st January, 2020 (as previously stated)	77,173	65,652	2,593	145,418
Prior year adjustment (note 31)	-	-	6,819	6,819
At 1st January, 2020 (as restated)	77,173	65,652	9,412	152,237
Additions	350	737	6,795	7,882
Adjustments *	-	-	153	153
Disposals	-	-	(632)	(632)
At 31st December, 2020	**77,523**	**66,389**	**15,728**	**159,640**
Amortisation:				
At 1st January, 2020 (as previously stated)	6,108	39,058	1,295	46,461
Prior year adjustment (note 31)	11,924	-	-	11,924
At 1st January, 2020 (as restated)	18,032	39,058	1,295	58,385
Provided during the year	3,877	2,627	911	7,415
Adjustments *	-	-	153	153
Disposals	-	-	(364)	(364)
At 31st December, 2020	**21,909**	**41,685**	**1,995**	**65,589**
Net book amount:				
At 31st December, 2020	**55,614**	**24,704**	**13,733**	**94,051**
Net book amount:				
At 1st January, 2020 (restated)	59,141	26,594	8,117	93,852

Changes to the prior presentation of franchise agreements and software cost have been applied as a prior year adjustment, as disclosed in note 1a and note 31.

* The adjustment within cost and depreciation relates to grossing up assets where the net book value had initially been recorded as cost.

Included within software are £12,800,000 of costs relating to an ERP system which is being implemented across the MCH group. The total cost of the software in the subsidiaries where implementation is taking place is expected to be £15,900,000 and once available for use, will be amortised over 7 years. For those subsidiaries where the software is in use amortisation of £446,000 has been charged to date.

Estimates of the useful economic life and net book value of intangible assets are based on a variety of factors such as the expected use of the intangible asset, the business plan for the use of the assets and any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar intangible assets.

12. Intangible fixed assets (continued)

Impairment testing

For the purpose of impairment testing, goodwill and franchise agreements acquired in a business combination are 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 intangible assets are allocated represents the lowest level within the entity at which the intangible asset is monitored for management purposes. 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 to perpetuity calculated using a discounted cash flow approach, with a pre-tax discount rate applied to the projected, risk-adjusted, pre-tax cash flows and terminal value. Where higher, the fair value of groups of CGUs, less costs of disposal is taken as the recoverable amount.

The value in use of each CGU is calculated using cash flow projections for a five year period from 1st January, 2021 to 31st December, 2025. These projections are based on the MMH Board approved budget for the year ended 31st December, 2021 which were updated to reflect the expected impact of the additional trading restrictions in response to the COVID-19 pandemic which were announced during December 2020.

The key assumptions on which the cash flow projections are based relate to expectations of sales volumes and margins and expectations around changes in the operating cost base. The assumptions made are based on management's current understanding of the extent and duration of the COVID-19 related trading restrictions imposed by the UK Government, the current macro-economic context and outlook, past experience adjusted for expected changes, and external sources of information. The cash flows include ongoing capital expenditure required to maintain MMH's dealership network but exclude any growth capital expenditure projects to which MMH was not committed at the balance sheet date. The discount rate used is 7.8%.

The net book values of motor retail CGUs at 31st December, 2020 are as follows:

	Goodwill	Franchise Agreements
	£000	£000
Volkswagen Group	12,936	27,870
BMW / MINI	-	1,860
Jaguar Land Rover	5,450	11,068
Mercedes Benz	6,113	14,801
Other	205	15
	24,704	55,614

13. Tangible fixed assets

	Land and buildings					
	Freehold properties	Investment properties	Short leasehold	Plant and machinery	Restated Assets under construction	Restated Total
	£000	£000	£000	£000	£000	£000
Cost or valuation:						
At 1st January, 2020 (as previously stated)	205,778	9,512	26,101	188,820	9,997	440,208
Prior year adjustment (note 31)	-	-	-	-	(6,819)	(6,819)
At 1st January, 2020 (as restated)	205,778	9,512	26,101	188,820	3,178	433,389
Additions	12,541	-	352	5,396	12,672	30,961
Additions on acquisition	-	-	439	130	-	569
Disposals	(5,908)	(2,140)	(2,631)	(9,775)	-	(20,454)
Transfers	225	(200)	2,274	5,531	(7,830)	-
Revaluation	-	104	-	-	-	104
At 31st December, 2020	**212,636**	**7,276**	**26,535**	**190,102**	**8,020**	**444,569**
Depreciation:						
At 1st January, 2020	40,772	-	8,749	119,024	-	168,545
Provided during the year	3,441	-	2,580	12,490	-	18,511
Impairment	248	-	-	25	-	273
Eliminated on disposals	(2,098)	-	(2,474)	(9,277)	-	(13,849)
At 31st December, 2020	**42,363**	**-**	**8,855**	**122,262**	**-**	**173,480**
Net book value:						
At 31st December, 2020	**170,273**	**7,276**	**17,680**	**67,840**	**8,020**	**271,089**
Net book value:						
At 1st January, 2020	165,006	9,512	17,352	69,796	3,178	264,844

Certain IT system costs have been reclassified from Tangible Fixed Asset to Intangible Fixed Assets as a prior period adjustment, as disclosed in note 1a and note 31.

Included within freehold land and buildings are costs and net book value of £10,812,000 (2019 - £6,751,000) which relate to costs incurred on planning applications submitted and to be submitted.

Investment properties included in freehold land and buildings are stated at fair value with changes in fair value being recognised in the Consolidated Income Statement. No depreciation is provided in respect of such properties in accordance with FRS 102 Chapter 16 Investment Property.

Fair value is determined by considering and making key judgements using 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 £1,498,000 (2019 – £3,638,000), having taken professional advice. Following a number of disposals during the year, the remaining Group freehold investment properties have been included, using the guidance of professional advisors, at a directors' valuation of £5,777,000 (2019 - £5,874,000). Each year the Group engages independent valuers to assist in determining fair value. A revaluation surplus of £104,000 (2019 – surplus £581,000) has been taken to the Consolidated Income Statement.

The historical cost of the investment properties held at valuation in land and buildings is £2,191,000 (2019 - £9,476,000), with accumulated depreciation of £632,000 and a net book value of £1,559,000.

Notes to the Consolidated Financial Statements

13. Tangible fixed assets (continued)

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.

14. Investments

	Unlisted investments		
	Carried at fair value £000	Carried at cost less impairment £000	Total £000
Cost or valuation:			
At 1st January, 2020	4,130	4,374	8,504
Additions	551	1,664	2,215
Fair value increase	1,988	-	1,988
At 31st December, 2020	**6,669**	**6,038**	**12,707**
Provision:			
At 1st January, 2020	-	640	640
Charge in year	-	425	425
At 31st December, 2020	**-**	**1,065**	**1,065**
Net book value:			
At 31st December, 2020	**6,669**	**4,973**	**11,642**
Net book value:			
At 1st January, 2020	4,130	3,734	7,864

Unlisted investments represent minority interests in small private companies, primarily in their 'start-up' phase.

Consistent with the requirements of FRS 102 paragraph 11.3(d)(iv) and (v), the majority of such investments are held at cost less impairment, as no reliable fair value estimate can be determined given limited or no active market for such investments. Accordingly, the value at which these unlisted investments will be ultimately realised is expected to be in excess of their book value, but such value cannot be estimated reliably. Certain investments have been recognised at fair value where a reliable estimate can be made.

Joint Ventures

During 2017, the Group entered into two joint venture agreements with Hill Residential Limited. The Group has a 50% ownership of the joint venture vehicles, Hill Marshall LLP and Hill Marshall (Phase 2) LLP, which were created to enable Phases 1 and 2, respectively, of the Marleigh (formerly Wing) development. The initial capital invested was £20. The loan balance with Hill Marshall LLP is disclosed in note 16, this is also the total of transactions in the period to support the development activities of both joint ventures.

At 31st December, 2020 the investment in joint ventures was £428,020 representing the initial share capital of £20 and the Group share of profits for the year ending 31st December, 2020 of £428,000.

15. Stocks

	2020	2019
	£000	£000
Raw materials, components and consumables	**14,938**	10,225
Work in progress	**5,590**	7,600
Finished goods and goods for resale	**364,408**	472,784
	384,936	490,609

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 Consolidated Balance Sheet.

As at 31st December, 2020 £364,883,000 (2019 – £443,749,000) of finished goods are held under vehicle funding agreements (see note 17).

The difference between purchase price and production cost of stocks and their replacement cost is not considered material by the directors.

16. Debtors

	2020	2019
	£000	£000
Amounts falling due within one year		
Trade debtors	**60,634**	96,338
Amounts recoverable on long term contracts	**28,070**	14,767
Amounts owed by joint ventures	**12,719**	-
Derivative financial instruments	**371**	4,233
Corporation tax recoverable	**2,279**	987
Other taxes recoverable	**409**	160
Other debtors	**40,269**	39,048
Prepayments and accrued income	**17,516**	17,101
	162,267	172,634
Amounts falling due after more than one year		
Amounts owed by joint ventures	**19,597**	30,026
Derivative financial instruments	**849**	-
	20,446	30,026
	182,713	202,660

Amounts owed by joint ventures comprise £28,709,000 (2019 - £27,602,000) representing 50% of the fair value of land transferred to Hill Marshall LLP ("LLP1") and Hill Marshall (Phase 2) LLP ("LLP2"), the cost value of the remaining 50% of land transferred to LLP1 and LLP2 and £3,607,000 (2019 - £2,424,000) comprising costs settled by the company on behalf of the LLPs.

The land value balance transferred to LLP1 will attract interest at a rate of 4.75% as land payments are received by the joint venture entity. The loan of £2,791,000 (2019 - £1,673,000) to cover the costs incurred on behalf of LLP1 attracts interest at a rate of 4.75%. The loan of £816,000 (2019 - £751,000) to cover the costs incurred on behalf of LLP2 also attracts interest at a rate of 4.75% per annum.

Other debtors includes accrued supplier income of £11,687,000 (2019 - £17,385,000).

17. Creditors: amounts falling due within one year

	2020	2019
	£000	£000
Loans and borrowings (note 19)	**26,620**	31,492
Payments received on account	**51,851**	66,064
Trade creditors	**117,222**	129,681
Vehicle funding agreements	**364,883**	443,749
Amounts owed to joint ventures	**3,110**	-
Corporation tax payable	**16**	-
Other taxation and social security costs	**14,453**	12,058
Other creditors	**23,659**	9,835
Accruals and deferred income	**37,113**	46,946
	638,927	739,825

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

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

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

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

	2020	2019
	£000	£000
Loans and borrowings (note 19)	**4,383**	5,024
Amounts owed to joint ventures	**13,430**	16,093
Accruals and deferred income		
- Other accruals and deferred income	**6,392**	6,721
- Other employee benefits	**2,267**	2,260
- Other post employment benefits	**2,841**	2,848
	11,500	11,829
	29,313	32,946

Amounts owed to joint ventures relates to Homes England infrastructure loan drawn by Hill Marshall LLP which funded the construction and commissioning of the Ground Running Enclosure. The loan is repayable in instalments commencing on the first legal completion of units and bears interest of 2.5% above the EC base rate.

19. Loans and borrowings

	2020	2019
	£000	£000
Loans and overdrafts	**25,979**	30,851
Mortgages	**5,024**	5,665
	31,003	36,516

	2020	2019
Analysis of changes in loans and borrowings during the year:	£000	£000
At 1st January	**36,516**	15,297
New loans	**79,898**	28,000
New overdrafts	**1,081**	-
Overdrafts repaid	**(2,851)**	-
Loans repaid	**(83,641)**	(6,781)
At 31st December	**31,003**	36,516

	2020	2019
	£000	£000
Amounts falling due:		
Within one year - loans and overdrafts	**25,979**	30,851
Within one year - mortgages	**641**	641
Between two and five years - mortgages	**2,565**	2,565
More than five years - mortgages	**1,818**	2,459
	31,003	36,516
Less: included in creditors: amounts falling due within one year	**(26,620)**	(31,492)
Amounts falling due after more than one year	**4,383**	5,024

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

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

The Group (excluding MMH) has a revolving credit facility amounting to £75,000,000 of which £24,726,000 (2019 - £7,139,000) was utilised at the year end. The facility includes access to an overdraft of £23,164,000. Subject to bank approval, the revolving credit facility has an accordion 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 facility contains financial covenants for leverage, with a maximum 3:1 ratio, and the ratio of adjusted EBITDA to net finance charges, which shall not be less than 4:1. On 4th June 2020, Barclays and HSBC agreed to amend the terms of the facility, by resetting the covenants for the four quarters ending 31st March, 2021. The temporary arrangements removed the existing tests described above and replaced them with absolute targets for Adjusted EBITDA and Net Debt. Financial performance has been much better than

19. Loans and borrowings (continued)

Loans and borrowings (continued)

expected when forecasts were produced at the onset of the pandemic in April 2020, meaning that significant headroom has been achieved against covenants during the year, which continued into the final temporary covenant test in March 2021. Original covenants will apply from June 2021 onwards.

The facilities are unsecured but contain cross guarantees granted by certain members of the Group, excluding MMH. The facility is available until March 2022.

Marshall Motor Holdings plc has access to a separate revolving credit facility of £120,000,000 of which £nil was drawn at 31st December 2020 (2019 - £25,000,000). The facility includes access to an overdraft facility of £25,000,000. The facility is available for general corporate purposes including acquisitions or working capital requirements. The facility is held in a cash pooling arrangement and balances have been offset in the Consolidated Balance Sheet.

All loans and borrowings are subject to floating rates of interest which are determined by reference to official market rates such as LIBOR or the Finance House Base Rate. The facilities are unsecured but contain cross guarantees granted by certain members of the MMH Group. The facility is available until January 2023.

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

20. Provision for liabilities

	2020 £000	Restated 2019 £000
Dilapidations and onerous leases	**1,964**	2,388
Onerous contracts	**4,897**	3,775
Land contamination	**2,140**	-
Redundancy	**66**	119
Warranty	**1,028**	661
Other	**1,511**	1,771
	11,606	8,714
Deferred tax (see note 20b)	**19,556**	16,376
	31,162	25,090

(a) Provisions excluding deferred tax

	Dilapidations, and onerous leases	Onerous contracts	Land contamination	Redundancy	Warranty	Other	Total
	£000	£000	£000	£000	£000	£000	£000
At 1st January, 2020	2,388	3,775	-	119	661	1,771	8,714
Arising during the year	1,093	6,661	2,140	1,532	603	-	12,029
Amounts utilised	(676)	(5,539)	-	(1,549)	(4)	(157)	(7,925)
Amounts released	(841)	-	-	(36)	(232)	(103)	(1,212)
At 31st December, 2020	**1,964**	**4,897**	**2,140**	**66**	**1,028**	**1,511**	**11,606**

20. Provision for liabilities (continued)

Dilapidations and onerous leases
The Group manages its property 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 operates from several leasehold premises under full repairing leases. The provision recognises that repairs are required to put the buildings back into the state of repair required under the leases. Where property commitments exist at sites which are closed or closing the Group provides for the unavoidable cost of those leases post closure. The Group expects the majority of this provision to be fully utilised by 31st December, 2029.

Onerous contract
The loss provision relates to management's best estimate of the foreseeable loss on a major contract. The provision is expected to be utilised during the year ended 31st December, 2021.

Land contamination
Land assessed as being at least probable to require an outflow of cash to remediate contamination, have been recognised as provisions. Given the nature of the activities conducted on some of the Group's properties, it is not a remote likelihood that further contamination may have arisen on certain properties. However, it is impractical to assess the financial effect, timing of any further remediation costs and possibility or any reimbursement of these items.

Redundancy provision
A redundancy provision was recognised in relation to costs expected to be incurred in the completion of a restructuring exercise. These costs were incurred during 2020.

Warranty provision
A provision is recognised for expected warranty claims on products sold. It is expected that the warranty costs will be incurred by 31st December, 2021.

Other
Other provisions include a total amount of £1,167,000 (2019 - £1,167,000) in respect of the Group's estimated financial exposure under open insurance claims and for the potential output VAT payable arising from uncertain VAT treatment of specific vehicle purchases. Conclusion of these open positions was expected to occur in 2020, however, due to delays and the impact of COVID-19, these are now expected to conclude in 2021.

	2020	Restated 2019
	£000	£000
Accelerated capital allowances	**1,105**	575
Tax losses carried forward	**(1,521)**	(2,816)
Rolled over gains and investment properties	**5,037**	4,599
Deferred tax on defined benefit pension scheme	**(881)**	(507)
Deferred tax on unremitted earnings	**326**	306
Deferred tax arising on business combinations (restated - note 31)	**15,840**	15,010
Other timing differences	**(350)**	(791)
	19,556	16,376

20. Provision for liabilities (continued)
Other (continued)

Shown as:	2020 £000	2019 £000
Deferred tax liability	**19,556**	16,376

The movement in the deferred tax liability / (asset) during the year comprises as follows:	2020 £000	Restated 2019 £000
At 1st January (as previously stated)	**16,376**	14,068
Prior year adjustment (note 31)	**-**	(1,424)
At 1st January (as restated)	**16,376**	12,644
Charge to the Consolidated Income Statement for the year	**4,094**	2,380
Acquisitions during the year	**49**	329
Deferred taxation in Other Comprehensive Income	**(963)**	1,023
At 31st December	**19,556**	16,376

The deferred tax charge in the Consolidated Income Statement for the year comprises as follows:

	2020 £000	2019 £000
Origination and reversal of timing differences	**1,747**	1,780
Rate change	**2,337**	-
Adjustments in respect of prior years	**10**	600
	4,094	2,380

The unrecognised deferred tax asset comprises as follows:

	2020 £000	2019 £000
Trading losses	**718**	684

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

Notes to the Consolidated Financial Statements

21. Share capital

	Allotted, called up and fully paid			
	2020	2019	**2020**	2019
	No. '000	No. '000	**£000**	£000
Ordinary shares of 12.5p each	**13,811**	13,811	**1,727**	1,727
Non-voting priority dividend ordinary NVPO shares of 12.5p each	**45,271**	45,271	**5,658**	5,658
8% irredeemable A preference shares £1 each	**4,800**	4,800	**4,800**	4,800
10% irredeemable B preference shares of £1 each	**3,600**	3,600	**3,600**	3,600
	67,482	67,482	**15,785**	15,785

	Ordinary shares at 12.5p each		NVPO shares at 12.5p each	
	2020	2019	**2020**	2019
	£000	£000	**£000**	£000
At 1st January and 31st December	**1,727**	1,727	**5,658**	5,658

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 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 vote at an AGM.

Right of conversion of Ordinary shares

The Ordinary shares have a limited right of conversion into NVPO shares. Any holder of Ordinary shares may, at any time during the two months immediately following the AGM each year, elect to convert Ordinary shares into NVPO shares. The rate of conversion is one NVPO share for each Ordinary share.

During 2020, no Ordinary shares were converted into NVPO shares (2019 – nil).

22. Other reserves

Share premium reserve
The purpose of this reserve is to show the amount subscribed for Marshall of Cambridge (Holdings) Limited's issued share capital in excess of nominal value.

Capital redemption reserve
On 2nd 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.

This reserve represents the nominal value of these shares.

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

23. Non-controlling interest

		Restated
	2020	2019
	£000	£000
At 1st January (as previously stated)	**64,917**	69,174
Prior year adjustments (note 31)	**-**	(6,097)
At 1st January (as restated)	**64,917**	63,077
Non-controlling interest profit after taxation	**3,519**	3,905
Equity dividends paid by Marshall Motor Holdings plc to third parties	**-**	(2,567)
Share based payment charge (restated - note 31)	**200**	402
Change in interest in subsidiary net assets	**-**	100
At 31st December	**68,636**	64,917

In the course of preparing these financial statements, it has been identified that the requirements of FRS102 were incorrectly applied to the Group's non-controlling interest and the director's decided to calculate intangible amortisation without residual values. This necessitated a prior year adjustment to the Group Balance Sheet and equity as at 1st January, 2019 and 31st December 2019. The financial effect of this adjustment is disclosed in Note 31.

The Group's interest in the net assets of Marshall Motor Holdings plc on 31st December, 2020 was 64.41% (2019 restated – 64.41%).

24. Contingent liabilities

Guarantees to third parties, granted by subsidiary undertakings, amounted to £nil (2019 - £800,000). Performance guarantees granted by subsidiary undertakings amounted to £5,784,000 (2019 - £7,916,000). The Group (excluding MMH) has access to a £75,000,000 banking facility (note 19) which contains cross guarantees granted by certain members of the Group, excluding MMH. Marshall Motor Holdings plc has access to additional banking facilities which contain cross guarantees between certain members of the MMH Group.

25. Capital commitments

	2020	2019
	£000	£000
Contracted but not provided for:		
Marshall of Cambridge (Holdings) Limited - excluding MMH	2,892	9,362
Marshall Motor Holdings plc	4,500	6,900
	7,392	16,262

26. Other financial commitments

Operating leases - Group as lessor

The Group has entered non-cancellable operating leases, as lessor, on several of its properties included in investment property. The terms of these leases vary. Future minimum lease payments receivable for property under non-cancellable operating leases are as set out below.

	2020	2019
	£000	£000
Within 1 year	907	599
Between 1 and 5 years	2,590	1,215
After 5 years	2,388	1,948
	5,885	3,762

Operating leases - Group as lessee

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

	Land and buildings		Other	
	2020	2019	2020	2019
	£000	£000	£000	£000
Within 1 year	15,299	14,256	817	813
Between 1 and 5 years	47,705	45,853	712	602
After 5 years	48,931	46,305	-	-
	111,935	106,414	1,529	1,415

27. Financial instruments

The Group classifies its financial assets and liabilities under the following categories: fair value through the profit and loss (FVPL), fair value through Other Comprehensive Income (FVOCI), financial assets at amortised cost and financial liabilities at amortised cost. Details of the fair value valuation methods are disclosed in note 1a.

The Group uses derivatives to hedge its foreign currency risk and the fair value of the derivative asset at 31st December, 2020 was £1,220,000 (2019 - £4,233,000). Changes in the fair value of cash flow hedges recognised in Other Comprehensive Income amounted to a loss of £2,442,000 (2019 - £6,093,000 profit). The cash flows from these derivatives are expected to occur on approximately a quarterly basis up until September 2025 and there is no hedge ineffectiveness arising to record in the profit and loss.

Bank loans and overdrafts include mortgages which comprise amounts borrowed from commercial financial institutions and are secured by fixed charges over specified property assets of certain subsidiaries of the MMH Group.

27. Financial instruments (continued)

	2020	2019
	£000	£000
Financial assets at fair value through the Profit and Loss account		
Unlisted investments carried at fair value	**6,669**	4,130
Financial assets at fair value through Other Comprehensive Income		
Forward foreign exchange contracts - cash flow hedging instruments	**1,220**	4,233
Financial assets measured at amortised cost		
Unlisted investments carried at cost less impaiment	**4,973**	3,734
Trade debtors	**60,634**	96,338
Amounts owed by joint ventures	**32,316**	30,026
Cash at bank and in hand	**43,920**	11,573
	141,843	141,671
Financial liabilities measured at amortised cost		
Bank loans and overdrafts	**(31,003)**	(36,516)
Trade creditors	**(117,222)**	(129,681)
Amounts due to joint ventures	**(16,540)**	(16,093)
Vehicle funding agreements	**(364,883)**	(443,749)
Other creditors	**(23,659)**	(9,835)
Accruals and deferred income	**(48,613)**	(58,775)
	(601,920)	(694,649)

28. Staff costs and directors' emoluments

	2020	2019
	£000	£000
(a) Group staff costs		
Wages and salaries	**234,667**	216,626
Social security costs	**25,470**	24,290
Other pension costs (see note 30)	**10,025**	8,618
Share based payment charge	**668**	1,282
	270,830	250,816

Details of amounts received under the Coronavirus Job Retention Scheme are disclosed in note 4.

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

28. Staff costs and directors' emoluments (continued)

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

	2020	2019
	No.	No.
Aerospace and defence	**1,677**	1,688
Motor retail	**4,191**	3,887
Property and head office	**56**	39
Fleet solutions	**332**	338
	6,256	5,952

		2020	2019
		£000	£000
(b) Directors' remuneration			
Emoluments	-continuing	**1,272**	2,359
	-leavers	**389**	-
Long term incentive payments	-continuing	**260**	839
Compensation for loss of office	-leavers	**1,943**	-
		3,864	3,198

No director was a contributing member of either the defined benefit of defined contribution pension scheme.

	2020	2019
	£000	£000
Remuneration of highest paid director:		
Emoluments	**389**	1,060
Long term incentive payments	**-**	483
Compensation for loss of office	**1,943**	-
	2,332	1,543

Share based payments
Marshall Motor Holdings plc (MMH), one of the Group's subsidiaries operates an equity-settled share option scheme ("the Performance Share Plan") for certain senior managers and executive directors of MMH. As at 31st December, 2020, six share grants have been awarded under the scheme being (a) IPO Performance Awards (vesting in two tranches), (b) 2016 Performance Awards, (c) 2017 Performance Awards, (d) 2018 Performance Awards, (e) 2019 Awards and f) 2020 Awards.

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

The total share-based payment charge recognised during the year ended 31st December, 2020 was £668,000 (2019: £1,282,000). This is split as £107,000 (2019 - £152,000) in accruals and deferred income and £561,000 (2019 - £1,130,000) in retained earnings.

28. Staff costs and directors' emoluments (continued)

Share based payments (continued)

If an option remains unexercised after a period of ten years from the date of grant, the option expires. The weighted average remaining contractual life of options outstanding as at 31st December, 2020 is 8.2 years (2019: 8.7 years).

The fair value of share options is determined by reference to the market value of MMH's shares at the date of grant. No valuation model is required to calculate the fair value of awards on the basis that the employees receiving the awards are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards. The weighted average fair value of options outstanding as at 31st December, 2020 is £1.45 (2019: £1.56). The fair value of options granted during the year was £1.25 (2019: £1.43). The fair value of equity settled share options granted was based on market value on 20th August, 2020 when the share options were granted.

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

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

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

In September 2020, the 2017 Performance Awards became exercisable. These awards remain unexercised as at 31st December 2020.

In June 2019, the 2016 Performance Awards became exercisable. On 23rd and 31st December, 2019, all option holders exercised these options. As such, 164,427 Ordinary shares of 64p were issued to satisfy the exercise of the options.

In April 2019, the second tranche of the IPO Performance Awards became exercisable. On 2nd April, 2019, all option holders exercised these options. As such, 306,795 Ordinary shares of 64p were issued to satisfy the exercise of options. On exercise, the MMH Remuneration Committee exercised its discretion to settle a proportion of the share options equal to the option holders' tax liability arising on exercise in cash rather than being cash settled. The total value of cash-settled transactions was £708,000.

As at 31st December, 2020 outstanding share options were as follows:

Award	Award date	No of shares over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
2017 Performance Awards	29 Sep 2017	577,690	Nil	29 Sep 2020	29 Sep 2027
2018 Performance Awards	11 Apr 2018	644,760	Nil	11 Apr 2021	11 Apr 2028
2019 Awards	28 Nov 2019	668,577	Nil	28 Nov 2022	28 Nov 2029
2020 Awards	20 Aug 2020	1,035,632	Nil	11 Mar 2023	11 Mar 2030

IPO Performance Awards

The IPO Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment. The options vest for achieving growth in EPS from 2014 to 2017; 25% vest for achieving growth of CPI plus 4% per annum increasing to 100% vesting for achieving growth of CPI plus 10% per annum.

28. Staff costs and directors' emoluments (continued)

IPO Performance Awards (continued)

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

	2020	**2020**	2019	2019
IPO Performance Awards	**No**	**WAEP**	No	WAEP
Outstanding as at 1st January	**-**	**-**	578,856	-
Exercised	**-**	**-**	(578,856)	-
Outstanding at 31st December	**-**	**-**	-	-
Exercisable at 31st December	**-**	**-**	**-**	-

2016 Performance Awards

The 2016 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment. The options vest for achieving growth in EPS from 2015 to 2018; 25% vest for achieving growth of CPI plus 3% per annum increasing to 100% vesting for achieving growth of CPI plus 8% per annum. These options all become exercisable on the third anniversary of the grant date. The 2016 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020	**2020**	2019	2019
2016 Performance Awards	**No**	**WAEP**	No	WAEP
Outstanding as at 1st January	**-**	**-**	493,575	-
Forfeited during the year	**-**	**-**	(340,126)	-
Exercised	**-**		(153,449)	
Outstanding at 31st December	**-**	**-**	-	-
Exercisable at 31st December	**-**	**-**	-	-

2017 Performance Awards

The 2017 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment. The options vest for achieving growth in underlying, basic EPS from 2017 to 2019; 25% vest for achieving growth of CPI plus 1% per annum and the percentage of options which vests increases on a straight-line basis up to 100% vesting for achieving growth of CPI plus 5% per annum. These options all become exercisable on the third anniversary of the grant date. The 2017 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020	**2020**	2019	2019
2017 Performance Awards	**No**	**WAEP**	No	WAEP
Outstanding as at 1st January	**611,373**	**-**	619,763	-
Forfeited during the year	**(33,683)**	**-**	(8,390)	-
Outstanding at 31st December	**577,690**	**-**	611,373	-
Exercisable at 31st December	**577,690**	**-**	**-**	-

28. Staff costs and directors' emoluments (continued)

2018 Performance Awards

The 2018 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment. The options vest for achieving growth in underlying, basic EPS from 2017 to 2020; 25% vest for achieving growth of 1.3% per annum and the percentage of options which vests increases on a straight-line basis up to 100% vesting for achieving growth of 6% per annum. These options all become exercisable on the third anniversary of the grant date. The 2018 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020	**2020**	2019	2019
2018 Performance Awards	**No**	**WAEP**	No	WAEP
Outstanding as at 1st January	**680,249**	**-**	731,054	-
Forfeited during the year	**(35,489)**	**-**	(50,805)	-
Outstanding at 31st December	**644,760**	**-**	680,249	-
Exercisable at 31st December	**-**	**-**	**-**	-

2019 Awards

The 2019 Awards are subject to the service condition of continuous employment. These options all become exercisable on the third anniversary of the grant date. The 2019 Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020	**2020**	2019	2019
2019 Awards	**No**	**WAEP**	No	WAEP
Outstanding as at 1st January	**710,682**	**-**	-	-
Granted during the year	**-**	**-**	710,682	-
Forfeited during the year	**(42,105)**	**-**	-	-
Outstanding at 31st December	**668,577**	**-**	710,682	-
Exercisable at 31st December	**-**	**-**	**-**	-

2020 Awards

The 2020 Awards are subject to the service condition of continuous employment. These options all become exercisable on the vesting date of 11th March, 2023. The 2020 Awards are subject to a holding period which starts on the grant date and ends on the first anniversary of the vesting date.

	2020	**2020**	2019	2019
2020 Awards	**No**	**WAEP**	No	WAEP
Outstanding as at 1st January	**-**	**-**	-	-
Granted during the year	**1,107,632**	**-**	-	-
Forfeited during the year	**(72,000)**	**-**	-	-
Outstanding at 31st December	**1,035,632**	**-**	-	-
Exercisable at 31st December	**-**	**-**	**-**	-

29. Related parties

	Sales to related party £000	Purchases from related party £000	Amounts due from / (to) related party £000
Entities over which the group has significant influence			
2020	**(1,011)**	**862**	**(459)**
2019	(14)	86	(39)

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

The Group has a 50% ownership in each of the joint venture vehicles, Hill Marshall LLP (“LLP1”) and Hill Marshall (Phase 2) LLP (“LLP2”), which were created to enable Phase 1 and 2 of the Marleigh (formerly Wing) development. The amounts receivable in the table below include amounts receivable from the transfer of land to LLP1 and LLP2, discounted as long-term debt as described in Note 16 resulting in a receivable of £32,316,000 (2019 - £30,026,000).

The following table shows the aggregate transactions with related parties carried out during the year:

	Sales to / (purchases from) £000	Net interest received / (paid) £000	Amounts receivable £000	Amounts payable £000
2020				
Hill Marshall LLP	**-**	**(408)**	**20,004**	**(16,540)**
Hill Marshall (Phase 2) LLP	**-**	**-**	**12,312**	**-**
Equiniti Group plc	**(33)**	**-**	**-**	**-**
2019				
Hill Marshall LLP	-	(408)	18,161	(16,093)
Hill Marshall (Phase 2) LLP	-	-	11,865	-
Equiniti Group plc	(7)	-	-	(7)

Terms and conditions of transactions with related parties

Sales and purchases between the Group and its related parties are made at normal market prices. Excluding the LLP’s, terms of which are detailed above and in note 16, 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, 2020, the Group and Parent Company have not made any provision for doubtful debts relating to amounts owed by related parties (2019 - £nil).

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

P Yea is Chairman of Equiniti Group plc which acts as registrar to the Company. P Yea is excluded from participation in all discussions relating to the appointment of Equiniti. Details of the transactions during the year and balances outstanding at the year-end are shown above.

30. 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 total pension cost for the Group for the year in respect of all defined contribution schemes in the UK was £9,558,000 (2019 - £8,267,000). A further £427,000 (2019 - £306,000) was paid into defined contribution schemes overseas. The total defined benefit charge for the Group in respect of the Plan was £87,000 (2019 – £146,000) under FRS 102 Chapter 28 of which £40,000 (2019 – £45,000) has been charged to operating profit and £48,000 (2019 - £101,000) has been charged to other finance expense.

The Plan was assessed by a qualified independent actuary from Buck Consultants, as at 31st December, 2019 using the projected unit method and indicated a funding deficit of £4,999,000. To address the past service deficit, the Parent Company and the Trustees agreed that the Parent Company will remove the deficit over a period of four years, by 31st December 2023. Annual instalments of £1,240,000 commenced in 2020.

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, 2020. The assets and liabilities shown exclude those relating to defined contribution pensions.

	2020	2019
The major assumptions used by the actuary were:	**%**	%
Discount rate	1.32	1.99
Retail price inflation rate	2.98	3.24
Consumer price inflation rate	2.49	2.34
Pension increase rate:		
- price inflation, capped at 5.0%	2.98	3.24
- as above, but for those pensions subject to 3.0% floor	3.09	3.26
- as above, but for those pensions subject to 2.7% floor	3.01	3.24
- as above, but for those pensions subject to 8.5% cap	2.98	3.24

	2020	2019
Life expectancy at 65	**Years**	Years
- for male aged 65	**24.00**	23.40
- for female aged 65	**26.60**	25.60
- for male aged 45	**25.70**	25.10
- for female aged 45	**28.00**	27.10

The post retirement longevity assumption uses 80% of S3PMA / 75% of S3PFA base tables, with CMI 2019 table with A=0.75 and 1.5% (2019 – 1.5%) per annum and 1.25% (2019 – 1.25%) per annum long term improvement trend for males and females respectively (rebased to 2016). The disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date.

30. Pensions and other retirement benefit costs (continued)

Amounts recognised in the Consolidated Balance Sheet are determined as follows:

	2020 £000	2019 £000
Fair value of plan assets at the end of year	**52,007**	49,455
Present value of defined benefit obligations at end of year	**(56,640)**	(52,440)
Deficit in the scheme as at 31st December	**(4,633)**	(2,985)
Related deferred tax asset	**881**	507
Net defined benefit obligation	**(3,752)**	(2,478)

	2020 £000	2019 £000
Reconciliation of defined benefit obligations:		
Present value of obligations at start of year	**52,440**	49,245
Interest cost	**1,023**	1,378
Actuarial losses	**5,202**	3,651
Benefits paid	**(2,025)**	(1,834)
Present value of obligations at end of year	**56,640**	52,440

	2020 £000	2019 £000
Reconciliation of fair value of assets:		
Fair value plan assets at start of year	**49,455**	39,385
Interest income on plan assets	**976**	1,277
Return on plan assets in excess of interest income	**2,401**	3,572
Contributions by the employer	**1,240**	7,100
Benefits paid	**(2,025)**	(1,834)
Administration expenses	**(40)**	(45)
Fair value of assets at end of year	**52,007**	49,455

	2020 £000	2019 £000
Analysis of amount charged against profit		
Administration expenses	**40**	45
Net interest on net defined benefit liability	**47**	101
Total expense recognised in the Consolidated Income Statement	**87**	146

30. Pensions and other retirement benefit costs (continued)

	2020	2019
	£000	£000
Analysis of amount (charged) / credited against Other Comprehensive Income:		
Remeasurement loss recognised on defined benefit pension scheme	**(2,801)**	(79)
Deferred tax credit relating to defined benefit pension scheme	**592**	14
	(2,209)	(65)

	Value	**2020**	Value	2019
	£000	**% Total**	£000	% Total
Breakdown of value of plan assets				
UK equities	**5,193**	**9.99%**	5,814	11.76%
Overseas equities	**20,748**	**39.88%**	17,839	36.08%
Property	**7,142**	**13.73%**	7,068	14.29%
Insight Broad Opportunities Fund	**6,811**	**13.10%**	6,834	13.82%
Index linked gilts	**3,688**	**7.09%**	3,208	6.49%
Corporate bonds	**2,896**	**5.57%**	3,759	7.60%
Private corporate debt	**2,654**	**5.10%**	1,591	3.22%
Cash and net current assets	**1,156**	**2.22%**	1,463	2.94%
Insured pensions	**1,719**	**3.32%**	1,879	3.80%
Total fair value of plan assets	**52,007**	**100.00%**	49,455	100.00%

	2020	2019	2018	2017	2016
The five year history of experience adjustments is as follows:	**£000**	£000	£000	£000	£000
Experience adjustments on scheme assets	**2,401**	3,572	(1,536)	2,829	2,472
Experience adjustments on scheme liabilities	**(149)**	50	(1,470)	432	1,356
Changes in assumption	**(5,053)**	(3,701)	2,346	2,501	(9,104)
Total recognised in Other Comprehensive Income	**(2,801)**	(79)	(660)	5,762	(5,276)
Fair value of scheme assets	**52,007**	49,455	39,385	38,764	36,975
Present value of scheme liabilities	**(56,640)**	(52,440)	(49,245)	(51,097)	(54,485)
Deficit in the scheme	**(4,633)**	(2,985)	(9,860)	(12,333)	(17,510)

Through the defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

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

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

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

31. Prior year adjustments

In the preparation of the financial statements for the year ended 31st December 2020, the directors have made certain changes to the prior period, as noted below.

a) New IT systems costs were capitalised within Tangible Fixed Asset in the year ended 31st December, 2019 and have been reclassified to Intangible Fixed Assets in the comparative information for the year ended 31st December 2019, so they are treated in-line with FRS 102 requirements and the Group's Intangible assets accounting policy. This has resulted in a £6,819,000 decrease in Tangible Fixed Assets as at 31st December, 2019 and a corresponding increase in Intangible Fixed Assets. No-other financial statement line items have been affected. See notes 12 and 13.

b) The Group's non-controlling interest in Marshall Motor Holdings plc was previously calculated including the effect of the possible exercise of conversion share options, rather than on the basis of the existing ownership interest, as required by FRS 102. As a result of this correction, non-controlling interest recorded in the Consolidated Balance Sheet as at 1st January, 2019 has increased, and the profit and loss account reserve has reduced, by £3,644,000.

   Non-controlling interest as presented in the Consolidated Income Statement and Statement of Other Comprehensive Income has increased respectively by £223,000 with a corresponding reduction in the profit and total comprehensive income allocated to equity holders of the parent. The Consolidated Statement of Changes in Equity has also been corrected to separately disclose the MMH share based payment credit amount of £1,130,000 for the year ended 31st December, 2019 and to debit the change in equity related to "change in interest in subsidiary net assets" by £1,207,000 No other financial statement line items have been affected.

c) The inclusion of residual values in the calculation of amortisation of intangible motor retail franchise licence agreements has been changed in the year. Whilst FRS 102 permits the inclusion of residual values for intangible assets under certain conditions, we have concluded this was not correct in the context of our industry. The directors have, therefore, amended the previous treatment by re-calculating franchise agreement amortisation without any residual values. This gives rise to an increase in amortisation, but has no cash flow impact nor change to underlying profit before tax. As a result of this change, the net book value of intangible franchise agreements as at 1st January, 2019 (see note 12) has decreased by £8,374,000 and the amortisation charge in the prior year has been increased by £3,550,000, which is apportioned between shareholders' funds and non-controlling interest as shown in the table below. Corresponding reductions in the deferred tax liability and deferred tax charge have also impacted our Consolidated Balance Sheet and tax expense, as set out below. No-other financial statement line items have been affected. See note 12.

d) £2,841,000 disclosed previously as accruals and deferred income falling due within one year in 2019 has been corrected to be reclassified as accruals and deferred income falling due after one year. See note 18.

The above changes have been applied retrospectively in accordance with FRS 102, paragraph 10.21.

31. Prior year adjustments (continued)

The effects of the adjustments are summarised below:

	Shareholders' funds as at 1 January, 2019	Shareholders' funds as at 31 December, 2019	Non-controlling interest at 1 January, 2019	Non-controlling interest at 31 December, 2019	Total capital employed at 1 January, 2019	Total capital employed at 31 December, 2019
	£000	£000	£000	£000	£000	£000
As previously stated	188,868	208,922	69,174	71,531	258,042	280,453
a) Reclassification of fixed assets	-	-	-	-	-	-
b) Adjustment to non-controlling interest	3,644	3,091	(3,644)	(3,091)	-	-
c) i) Adjustment to intangible fixed asset amortisation	(5,419)	(7,684)	(2,955)	(4,240)	(8,374)	(11,924)
iI) Corresponding adjustment to deferred tax	921	1,310	502	717	1,423	2,027
d) Reclassification of creditors	-	-	-	-	-	-
As restated	**188,014**	**205,639**	**63,077**	**64,917**	**251,091**	**270,556**

	Profit attributable to owners of parent for year ended 31 December, 2019	Profit attributable to non-controlling interest for year ended 31 December, 2019	Total profit after tax
	£000	£000	£000
As previously stated	18,905	5,177	24,082
a) Reclassification of fixed assets	-	-	-
b) Adjustment to non-controlling interest	223	(223)	-
c) i) Adjustment to intangible fixed asset amortisation	(2,286)	(1,264)	(3,550)
iI) Corresponding adjustment to deferred tax	389	215	604
d) Reclassification of creditors	-	-	-
As restated	**17,231**	**3,905**	**21,136**

32. Post balance sheet events

On 16th March, 2021 the Group completed the sale of the land known as Land North of Cherry Hinton for £34.5m. Initial cash proceeds were £8,000,000, with the deferred consideration due in four equal annual instalments. Profit recognised on the disposal is £22,000,000, subject to the final reconciliation of transaction costs and land remediation costs.

On 18th April, 2021 the Group sold the entire share capital of Aeropeople Limited at its net asset value of £600,000, including a loan facility of £600,000 with the Group to be repaid in the months following completion. Total cash receipts of £1,200,000 are expected, although final values will be determined through a completion accounts process.

Financial Statements

Company Balance Sheet

	Notes	2020 £000	2019 £000
Fixed assets			
Intangible fixed assets	7	**749**	-
Tangible fixed assets	8	**159**	140
Investments	9	**56,458**	52,680
Total fixed assets		**57,366**	52,820
Current assets			
Debtors	10	**27,171**	30,557
Cash at bank and in hand		**6,518**	3,278
		33,689	33,835
Creditors: amounts falling due within one year	12	**(35,244)**	(24,107)
Net current (liabilities) / assets		**(1,555)**	9,728
Total assets less current liabilities		**55,811**	62,548
Creditors: amounts falling due after more than one year	13	**(5,108)**	(5,108)
Net assets before pension liability		**50,703**	57,440
Pension liability	14	**(4,633)**	(2,985)
Net assets		**46,070**	54,455
Capital and reserves			
Called up share capital	15	**15,785**	15,785
Share premium		**611**	611
Capital redemption reserve	17	**130**	130
Profit and loss account		**29,544**	37,929
Shareholders' funds and total capital employed		**46,070**	54,455

The loss for the financial year dealt with in the financial statements of the Parent Company was £2,163,000 (2019 – profit £17,442,000).

The Company financial statements were approved by the board of directors and authorised for issue on 1st July, 2021. They were signed on its behalf by:

S V Cummins

Director

Company Statement of Changes in Equity

	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
At 1st January, 2019	15,785	611	130	24,564	41,090
Profit for the financial year	-	-	-	17,442	17,442
Other comprehensive expense	-	-	-	(64)	(64)
Total comprehensive income for the year	-	-	-	17,378	17,378
Equity dividends paid (note 5)	-	-	-	(4,013)	(4,013)
At 31st December, 2019	15,785	611	130	37,929	54,455
Loss for the financial year	-	-	-	(2,163)	(2,163)
Other comprehensive expense	-	-	-	(2,209)	(2,209)
Total comprehensive expense for the year	-	-	-	(4,372)	(4,372)
Equity dividends paid (note 5)	-	-	-	(4,013)	(4,013)
At 31st December, 2020	**15,785**	**611**	**130**	**29,544**	**46,070**

Notes to the Company Financial Statements

1. Statement of compliance

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

The 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 Company for the year ended 31st December, 2020.

2. Basis of preparation

The financial statements of Marshall of Cambridge (Holdings) Limited were authorised for issue by the board of directors on 1st July, 2021. 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 company and are rounded to the nearest £'000.

The company is included within the consolidated financial statements of Marshall of Cambridge (Holdings) Limited.

Going concern

Treasury arrangements

The company participates in the group treasury arrangements of Marshall of Cambridge (Holdings) Limited (MCH). Under this arrangement, it has access to and shares banking arrangements and facilities with the subsidiary undertakings.

The Group's business activities, together with the factors likely to affect its future development, performance and position are described within the Group Strategic Report on pages 7 to 54. 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 47 and 48 whilst the principal risks and uncertainties facing the Group are set out in the Group Strategic Report and specifically on pages 39 to 44.

Based on this assessment, the directors have adopted the going concern basis in preparing the financial statements, subject to the risks and uncertainties described in this section.

At 31st December, 2020, the Group reported net current liabilities of £27,358,000 (2019 - £34,983,000).

The directors have modelled a base case scenario that assumes the periodic disruption of engineering operations experienced in 2020, continues throughout 2021 and completed a stress-test, including the impact of mitigating action, to understand the point where the conditions of banking facilities could be breached. Similarly, severe, but plausible scenarios have been modelled that relate to the early retirement of the C-130 aircraft from the UK fleet, following publication of the Integrated Review. The directors have concluded that the announced retirement date of 2023 does not alter its conclusion relating to the appropriateness of the use of the going concern basis of preparation.

Scenarios relating to MMH have been modelled separately to those of the Core Group, including assumptions around the expected re-opening of showrooms and any further lockdown periods.

The Group has the following facilities currently in place:

(a) Core Group (the Group excluding MMH) - £75,000,000 multi-option facility maturing in March 2022, with an accordion option of £15,000,000 at the lenders' option; and

(b) MMH - £120,000,000 of facilities due to expire in January 2023. MMH also has substantial vehicle inventory financing arrangements (c£365m utilised at 31st December 2020).

2. Basis of preparation (continued)

Going concern (continued)

The sensitivity analysis includes the assumption that the Core Group will renew its lending facilities, on similar terms, on expiry of the existing agreement in March 2022. Relations with the Core Group's banks have been very constructive during the pandemic and the directors believe that this is a reasonable assumption.

Having assessed the combination of these scenarios, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of approval of the financial statements.

For these reasons, the directors continue to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern

Exemptions adopted

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with. The company has taken advantage of the following disclosure exemptions under FRS 102 reduced disclosure framework:

a. The requirements of Section 7, Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
b. The requirements for certain financial instrument disclosures;
c. The requirements of Section 26, Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
d. The requirements of Section 33, Related Party Disclosures paragraph 33.7.

Company profit / (loss)

As permitted under section 408 of the Companies Act 2006, the Company has elected to neither present a Company Income Statement nor a Company Statement of Comprehensive Income. The loss for the financial year in the financial statements of the Parent Company was £2,163,000 (2019 – profit £17,442,000) and other comprehensive expense was £2,209,000 (2019 - £64,000).

3a. Accounting policies

Except where disclosed otherwise in this note, the accounting policies adopted in the preparation of the Company financial statements are consistent with those applied when preparing the consolidated financial statements. Details of the policies are disclosed on pages 96 to 109.

Investments

In the Parent Company financial statements investments in subsidiaries are valued at cost less impairment.

Foreign currencies

Parent Company

Transactions in foreign currencies are initially recorded in 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.

3b. 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 directors have determined that there are no judgements which require disclosure in the financial statements and have identified the following estimates.

Unlisted investments
Please refer to note 1 of the consolidated financial statements.

Impairment of subsidiary investments
Where there are indicators of impairment of investments, the company compares the carrying value of the asset with its recoverable amount, represented by the higher of its value in use and net realisable value. The key judgements relate to management's assessment of whether indicators of impairment are present.

Pensions
The liability recognised in the Balance Sheet in respect of the Marshall of Cambridge (Holdings) Limited 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. 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.

The gross amount of assets which are measured at fair value total £52,007,000 and gross liabilities are £56,640,000 resulting in a net liability of £4,633,000.

4. Auditor remuneration

The auditor's remuneration for audit services was £23,000 (2019 - £11,000). The Company also paid £112,000 (2019 - £80,000) for the audit of the consolidated financial statements of the Group.

5. Equity dividends

	2020	2019
Dividends on Ordinary shares:	**£000**	£000
1.00p per Ordinary share of 12.5p each paid on 10th July, 2020 (5th July, 2019 - 3.0p)	**138**	415
3.00p per Ordinary share of 12.5p each paid on 12th December, 2020 (13th December, 2019 - 1.0p)	**415**	138
	553	553
Dividends on NVPO shares:		
3.00p per NVPO share of 12.5p each paid on 10th July, 2020 (5th July, 2019 - 3.0p)	**1,358**	1,358
3.00p per NVPO share of 12.5p each paid on 12th December, 2020 (13th December, 2019 - 3.0p)	**1,358**	1,358
	2,716	2,716
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	**4,013**	4,013

The Board has agreed to pay a third interim dividend for 2020 of 3p per Ordinary and NVPO share, dividend payable on 9th July, 2021. As such, no final dividend is proposed for 2020.

6. Staff costs and directors' emoluments

	2020	2019
	£000	£000
(a) Staff costs		
Wages and salaries	**7,171**	8,172
Social security costs	**963**	1,197
Other pension costs	**237**	189
	8,371	9,558

The average number of employees during the year was 51 (2019 – 39).

(b) Directors' emoluments

Details of the directors' emoluments are set out in note 28 of the consolidated financial statements.

Notes to the Company Financial Statements

7. Intangible fixed assets

	Software - Total £000
Cost:	
At 1st January, 2020	-
Additions	749
At 31st December, 2020	**749**
Amortisation:	
At 1st January, 2020 and 31st December, 2020	**-**
Net book value:	
At 31st December, 2020	**749**
Net book value:	
At 1st January, 2020	-

8. Tangible fixed assets

	Plant and machinery £000	Motor vehicles £000	Total £000
Cost:			
At 1st January, 2020	545	66	611
Additions	96	-	96
At 31st December, 2020	**641**	**66**	**707**
Depreciation:			
At 1st January, 2020	411	60	471
Provided during the year	71	6	77
At 31st December, 2020	**482**	**66**	**548**
Net book value:			
At 31st December, 2020	**159**	**-**	**159**
Net book value:			
At 1st January, 2020	134	6	140

9. Investments

		Unlisted investments		
	Subsidiary undertakings	Carried at fair value	Carried at cost less impairment	Total
	£000	£000	£000	£000
Cost or valuation:				
At 1st January, 2020	46,050	4,130	4,374	54,554
Additions	-	551	1,664	2,215
Fair value increase	-	1,988	-	1,988
At 31st December, 2020	**46,050**	**6,669**	**6,038**	**58,757**
Provision:				
At 1st January, 2020	1,234	-	640	1,874
Provided during the year	-	-	425	425
At 31st December, 2020	**1,234**	**-**	**1,065**	**2,299**
Net book value:				
At 31st December, 2020	**44,816**	**6,669**	**4,973**	**56,458**
Net book value:				
At 1st January, 2020	44,816	4,130	3,734	52,680

The Company's indirect 50% interest in two joint venture partnerships is held by Marshall Group Properties Limited. The registered address of the joint venture Hill Marshall LLP is The Power House, Gunpowder Mill, Powdermill Lane, Waltham Abbey, Essex, EN9 1BN. The registered address for Hill Marshall (Phase 2) LLP is Airport House, The Airport, Cambridge, CB5 8RY.

The Company's direct investments in subsidiary undertakings at 31st December, 2020 are shown below.

Notes to the Company Financial Statements

9. Investments (continued)

	Proportion held	Nominal value (£)	Number of ordinary shares	Principal activity	Cost £000
Marshall ADG Limited	100%	1.00	14,001,000	Holding company	14,001
MGPH Limited	100%	1.00	500,000	Property holding	1,734
Marshall Motor Holdings plc	64%	0.64	50,390,625	Motor retail	30,268
Marshall Fleet Solutions Limited	100%	1.00	12,000	Holding company	20
The Cambridge Aero Club Limited	100%	1.00	5,000	Flying instruction & aircraft charter	17
Marshall Group Properties Limited	100%	1.00	10,000	Farming and property holding	10
Marshall of Cambridge (Engineering) Limited	100%	1.00	100	Dormant	-
					46,050

The registered office for the subsidiaries listed above is Airport House, The Airport, Cambridge, CB5 8RY.

9. Investments (continued)

Other wholly owned subsidiary undertakings are detailed below:

Name of Undertaking	Country of incorporation	Registered office
Aeroacademy Limited	England and Wales	Cambridge**
Aeropeople Limited	England and Wales	Cambridge**
Marshall of Cambridge Aerospace Limited	England and Wales	Cambridge**
Marshall Middle East Limited	England and Wales	Cambridge**
Slingsby Holdings Limited	England and Wales	Cambridge**
Marshall Land Systems Limited	England and Wales	Cambridge**
Marshall Aerospace Canada, Inc.	Canada	30470 Approach Drive, Abbortsfor, BC V2T 6HS, Canada
Marshall Aerospace Netherlands B.V	Netherlands	Haagse Schouwweg BM, 2332KG Leiden, Netherlands
Marshall Aerospace and Defence France SAS	France	6 place de la Madeleine 75008 Paris
Aeropeople GmbH	Germany	Herriotstr, 60528 Frankfurt am Main, Germany
Aeropeople Srl	Italy	Via Della Liberazione 32, 31100, Treviso TV
Marshall Specialist Vehicles Limited	England and Wales	Cambridge**
Slingsby Advanced Composites Limited	England and Wales	Cambridge**
Marshall Tail Lift Limited	England and Wales	Cambridge**
Marshall Thermo King Limited	England and Wales	Cambridge**
Marshall Norway AS	Norway	Hangarveien 21, 3241 Sandefjord, Norway
Marshall of Cambridge (Airport Properties) Limited	England and Wales	Cambridge**
CMG 2007 Limited*	England and Wales	Cambridge**
Marshall Commercial Vehicles Limited	England and Wales	Cambridge**
Marshall Motor Group Limited	England and Wales	Cambridge**
Marshall North West Limited	England and Wales	Cambridge**
Marshall of Cambridge (Garage Properties) Limited	England and Wales	Cambridge**
Marshall of Ipswich Limited*	England and Wales	Cambridge**
Marshall of Peterborough Limited*	England and Wales	Cambridge**
Marshall of Scunthorpe Limited*	England and Wales	Cambridge**
Marshall of Stevenage Limited*	England and Wales	Cambridge**
S.G. Smith Holdings Limited	England and Wales	Cambridge**
Silver Street Automotive Limited	England and Wales	Cambridge**
Audi South West Limited	England and Wales	Cambridge**
Tim Brinton Cars Limited*	England and Wales	Cambridge**
Exeter Trade Parts Specialists LLP*	England and Wales	Cambridge**
Ridgeway Garages (Newbury) Limited	England and Wales	Cambridge**
Hanjo Russell Limited	England and Wales	Cambridge**
Astle Limited*	England and Wales	Cambridge**
Crystal Motor Group Limited*	England and Wales	Cambridge**
S.G. Smith Trade Parts Limited*	England and Wales	Cambridge**
S.G. Smith (Motors) Beckenham Limited*	England and Wales	Cambridge**
S.G. Smith (Motors) Crown Point Limited*	England and Wales	Cambridge**
S.G. Smith (Motors) Croydon Limited*	England and Wales	Cambridge**
S.G. Smith (Motors) Limited*	England and Wales	Cambridge**
S.G. Smith (Motors) Sydenham Limited*	England and Wales	Cambridge**
S.G. Smith (Motors) Forest Hill Limited*	England and Wales	Cambridge**
Prep-Point Limited*	England and Wales	Cambridge**
S.G. Smith Automotive Limited*	England and Wales	Cambridge**
Pentagon Limited	England and Wales	Cambridge**
Pentagon South West Limited	England and Wales	Cambridge**
Ridgeway TPS Limited	England and Wales	Cambridge**
Ridgeway Bavarian Limited	England and Wales	Cambridge**
Wood in Hampshire Limited	England and Wales	Cambridge**
Wood of Salisbury Limited	England and Wales	Cambridge**

* Subsidiaries for which exemption from audit by virtue of s479A of the Companies Act 2006 has been taken for the year ended 31st December, 2020.

** The registered office for these companies is Airport House, The Airport, Cambridge, CB5 8RY.

All of the above subsidiaries are included in the consolidated financial statements.

Notes to the Company Financial Statements

10. Debtors

	2020	2019
	£000	£000
Amounts falling due within one year		
Trade debtors	**3**	-
Amounts owed by subsidiary undertakings	**24,841**	28,377
Prepayments and accrued income	**712**	840
Deferred tax asset (note 11)	**1,615**	1,340
	27,171	30,557

Where an amount owed by subsidiary undertakings relates to the group treasury arrangement, interest is charged at the Bank of England base rate plus 0.25%.

11. Deferred tax asset

The movement in the deferred tax asset during the year was:

	2020	2019
	£000	£000
At 1st January	**1,340**	2,504
Credit to the Consolidated Income Statement for the year	**(317)**	(1,178)
Deferred taxation in Other Comprehensive Income	**592**	14
At 31st December	**1,615**	1,340

The deferred tax credit in the Consolidated Income Statement for the year comprises as follows:

	2020	2019
	£000	£000
Origination and reversal of timing differences	**(486)**	(1,373)
Rate change	**105**	-
Adjustments in respect of prior years	**64**	195
	(317)	(1,178)

11. Deferred tax asset (continued)

	2020	2019
	£000	£000
Accelerated capital allowances	**43**	32
Defined benefit pension scheme	**881**	507
Other timing differences	**691**	801
	1,615	1,340

The unrecognised deferred tax asset comprises as follows:

	2020	2019
	£000	£000
Trading losses	**376**	376

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.

12. Creditors: amounts falling due within one year

	2020	2019
	£000	£000
Loans and overdrafts	**24,898**	5,272
Trade creditors	**336**	194
Amounts owed to subsidiary undertakings	**6,047**	13,857
Other taxation and social security costs	**15**	187
Accruals and deferred income	**3,948**	4,597
	35,244	24,107

Where an amount owed to subsidiary undertakings relates to the group treasury arrangement, interest is charged at the Bank of England base rate plus 0.1%.

Details in relation to loans and overdrafts can be found in note 19 of the consolidated financial statements.

13. Creditors: amounts falling due after one than one year

	2020	2019
	£000	£000
Accruals and deferred income:		
- Other employee benefits	**2,267**	2,260
- Other post employment benefits	**2,841**	2,848
	5,108	5,108

Additionally, £2,841,000 disclosed previously as accruals and deferred income falling due within one year in 2019 has been corrected to be reclassified as accruals and deferred income falling due after one year.

14. Pensions

Details of the company pension schemes are disclosed in note 30 of the consolidated financial statements.

15. Share capital

	Allotted, called up and fully paid			
	2020	2019	**2020**	2019
	No. '000	No. '000	**£000**	£000
Ordinary shares of 12.5p each	**13,811**	13,811	**1,727**	1,727
Non-voting priority dividend ordinary NVPO shares of 12.5p each	**45,271**	45,271	**5,658**	5,658
8% irredeemable A preference shares £1 each	**4,800**	4,800	**4,800**	4,800
10% irredeemable B preference shares of £1 each	**3,600**	3,600	**3,600**	3,600
	67,482	67,482	**15,785**	15,785

	Ordinary shares at 12.5p each		NVPO shares at 12.5p each	
	2020	2019	**2020**	2019
	£000	£000	**£000**	£000
At 1st January and 31st December	**1,727**	1,727	**5,658**	5,658

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 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 vote at an AGM.

Right of conversion of Ordinary shares

The Ordinary shares have a limited right of conversion into NVPO shares. Any holder of Ordinary shares may, at any time during the two months immediately following the AGM each year, elect to convert Ordinary shares into NVPO shares. The rate of conversion is one NVPO share for each Ordinary share.

During 2020, holders of nil Ordinary shares converted them into NVPO shares (2019 – nil).

16. Related parties

	Dividends received from / (to) related party £000	Sales to related party £000	Purchases from related party £000	Amounts due from / (to) related party £000
Entities over which the group has significant influence				
2020	**-**	**-**	**(50)**	**(10)**
2019	4,656	-	(2)	(3)

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

The Company has an indirect 50% ownership in each of the joint venture vehicles, Hill Marshall LLP ("LLP1") and Hill Marshall (Phase 2) LLP ("LLP2"), which were created to enable Phase 1 and 2 of the Marleigh (formerly Wing) development. The amounts receivable in the table below include amounts receivable from the transfer of land to LLP1 and LLP2, discounted as long-term debt as described in Note 16 of the consolidated financial statements resulting in a receivable of £32,316,000 (2019 - £30,026,000).

The following table shows the aggregate transactions with related parties carried out during the year:

	Sales to / (purchases from) £000	Net interest received / (paid) £000	Amounts receivable £000	Amounts payable £000
2020				
Hill Marshall LLP	**-**	**(408)**	**20,004**	**(16,540)**
Hill Marshall (Phase 2) LLP	**-**	**-**	**12,312**	**-**
Equiniti Group plc	**(33)**	**-**	**-**	**-**
2019				
Hill Marshall LLP	-	(408)	18,161	(16,093)
Hill Marshall (Phase 2) LLP	-	-	11,865	-
Equiniti Group plc	(7)	-	-	(7)

Terms and conditions of transactions with related parties

Sales and purchases between the Company and its related parties are made at normal market prices. Excluding the LLP's, terms of which are detailed above and in note 16 of the consolidated financial statements, outstanding balances with these entities are unsecured, interest free and cash settlement is expected within 60 days of invoice. The Company have not benefited from any guarantees for any related party receivables or payables. During the year ended 31st December, 2020, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2019 - £nil).

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

P Yea is Chairman of Equiniti Group plc which acts as registrar to the Company. P Yea is excluded from participation in all discussions relating to the appointment of Equiniti. Details of the transactions during the year and balances outstanding at the year-end are shown above.

Notes to the Company Financial Statements

17. Reserves

Profit and loss reserve
The profit and loss reserve represents the cumulative profit or losses, net of dividends paid and other adjustments. £27,556,000 (2019 - £37,042,000) of the profit and loss reserve is distributable and £1,988,000 (2019 - £887,000) is non-distributable.

Capital redemption reserve
On 2nd 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 106(4) Companies Act 1985.

18. Contingent liabilities

The Company issued letters of support to some of its subsidiaries for the year ended 31st December, 2020. A number of these subsidiaries have contingent liabilities included in their financial statements which are summarised in note 24 of the consolidated financial statements. Some of these subsidiaries have net current liabilities which total £4,761,000 (2019 - £26,258,000) and net liabilities of £4,997,000 (2019 - £8,902,000).

19. Other financial commitments

The Company leases several vehicles, including service contracts under operating leases. The future aggregate minimum payments under these non-cancellable leases are set out below.

	2020	2019
	£000	£000
Within 1 year	**43**	58
Between 1 and 5 years	**-**	43
	43	101

20. Capital commitments

	2020	**2019**
	£000	£000
Authorised by the Board and contracted but not provided for	**1,100**	-

Financial Statements
Recent Financial History

	2016	2017	2018	2019	**2020**
	£000	£000	£000	£000	**£000**
Revenue	2,259,884	2,603,602	2,483,942	2,637,961	**2,488,114**
Operating profit / (loss) - restated	(4,874)	35,485	43,667	33,600	**37,275**
Share of profit in the year in joint ventures	-	-	-	-	**428**
Net finance expenses	(7,291)	(8,858)	(5,710)	(6,413)	**(7,243)**
Profit / (loss) before tax - restated	(12,165)	26,627	37,957	27,187	**30,460**
Shown as:					
Underlying profit before tax - restated	26,199	28,143	36,038	35,159	**39,064**
Separately disclosed exceptional items - restated	(38,364)	(1,516)	1,919	(7,972)	**(8,604)**
Taxation - restated	(444)	698	(9,473)	(6,051)	**(8,469)**
Profit / (loss) after tax - restated	(12,609)	27,325	28,484	21,136	**21,991**
Non-controlling interest - restated	(5,183)	(14,951)	(1,987)	(3,905)	**(3,519)**
Profit / (loss) for the financial year - restated	(17,792)	12,374	26,497	17,231	**18,472**
Dividends per ordinary share paid and proposed for the year	4.00p	4.00p	4.00p	1.00p	**7.00p**
Dividends per NVPO share paid and proposed for the year	6.00p	6.00p	6.00p	3.00p	**9.00p**
Dividend cover for ordinary and NVPO shares	(5.7)	3.6	7.9	11.0	**3.5**
Underlying earnings per share - restated	36.8p	31.8p	35.9p	35.3p	**41.3p**
Net funds / (debt)	(122,154)	5,917	(2,397)	(24,943)	**12,917**
Movement in net funds / (debt)	(123,875)	128,071	(8,314)	(22,546)	**37,860**
Capital expenditure, acquisitions, investment and disposals (net)	156,554	(13,156)	40,509	73,865	**27,167**
Net current assets / (liabilities)	18,560	834	(11,245)	(34,983)	**(27,358)**
Capital employed - restated	203,551	230,690	251,090	270,556	**284,744**
Return on average capital employed - restated	(5.7%)	12.3%	15.8%	10.4%	**11.0%**

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

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

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

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

Shareholder queries
The Company's share register is maintained by Equiniti, which is primarily responsible for updating the share register, issuing new share certificates, and for dividend payments. Equiniti offer a Shareview service for shareholders to manage their shareholding online. More details on how to contact Equiniti and use this service can be found on the Group website.

Dividend history
Pence per share

		Reference Year				
Share Type	**Year of payment**	**2017**	**2018**	**2019**	**2020**	**Total paid in year**
NVPO	**2018**	3.00p	3.00p	-	-	**6.00p**
	2019	-	3.00p	3.00p	-	**6.00p**
	2020	-	-	-	6.00p	**6.00p**
	2021	-	-	-	3.00p	**3.00p**
Ordinary	**2018**	3.00p	1.00p	-	-	**4.00p**
	2019	-	3.00p	1.00p	-	**4.00p**
	2020	-	-	-	4.00p	**4.00p**
	2021	-	-	-	3.00p	**3.00p**

Marshall

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

marshallgroup.co.uk