Marshall

Annual Report & Accounts 2018

Marshall of Cambridge (Holdings) Ltd

Our 2018 employee recognition event, the MAVTAs, was held at King’s College, Cambridge in April.

2018 **Headlines**

- Revenue from continuing operations down 2.7% to £2.5bn
- Statutory profit before tax of £40.4m (2017 – £30.2m)
- Underlying profit before tax of £36.0m (2017 – £34.7m)
- Closing net debt of £2.4m (2017 – net funds £5.9m)
- Dividends to Ordinary and NVPO shareholders maintained at 4.0p and 6.0p per share respectively
- Global 6000 aircraft integration project proceeding in line with the Board's expectations
- Marshall Aerospace and Defence Group (MADG) signed several C130 total support contracts with a number of new international air forces
- Through Marshall Land Systems, MADG secured major contracts with the Netherlands for shelter systems and the UK MoD for specialist vehicles
- Land to be utilised for the first stages of Wing has been transferred into the joint venture entities
- Planning application submitted, jointly with our partners, for the development of Land North of Cherry Hinton
- Despite challenging market conditions, Marshall Motor Holdings plc reports a strong underlying profit before tax

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Chairman's Report

2018 was a year of steady progress following the challenges that we experienced in 2016 and 2017.

Our complex engineering project (Global 6000 aircraft integration) continued to perform in line with the revised plan established in August 2017 and we are now aiming to capitalise on the deep expertise gained on that platform.

Marshall Aerospace and Defence Group (MADG) has won some very exciting long-term contracts. Our C130 business is expanding its reach and deepening its relationship with the sixteen countries we now directly support. Our Land Systems business has had a string of contract wins with the programme to deliver 1,400 specialist shelters to the Royal Netherlands Ministry of Defence over the next five years being particularly noteworthy. Whilst winning new business is important, our successful focus on efficiency and continuous improvement has resulted in markedly better hangar productivity and improved delivery performance.

Infrastructure works for the Wing property development have commenced as we get nearer to the first residential build phase. The key enabling project for all our property developments in Cambridge is the Aircraft Ground Running Enclosure which is being built close to Hangar 17. The structure is expected to be complete and commissioned in Autumn 2019, satisfying a major planning condition for the development projects. Coupled with a joint planning application submitted for the Land North of Cherry Hinton, the total number of homes being built across both developments is expected to be up to 2,500, contributing significantly to Cambridge's housing needs.

Marshall Motor Holdings plc (MMH) enjoyed another record year of profitability in a period where market uncertainty and regulation change caused volumes of both new and used vehicles to fall nationally. The clear strategic objectives of portfolio management and operational excellence continues to reap rewards. MMH, however, remains conscious of continuing market uncertainty.

During the year we have been searching for a non-executive director from the aerospace and defence sector and, as a result, I am delighted to be able to welcome Jonathan Flint CBE to the Board. Jonathan brings over 30 years of industry experience gained from his leadership roles at BAE Systems, Cobham and Oxford Instruments. Jonathan took up his new role on 1 March 2019. I am now satisfied that the Board has the appropriate mix of skills, experience and knowledge to help us take advantage of the exciting opportunities ahead of us.

Following on from the 2017 board evaluation overseen by Julie Baddeley in her role as Senior Independent Director, we commissioned an external evaluation of the operation of the Board, which was carried out in the last quarter of 2018. The overall conclusion was that the Board governance is of a high standard for a private company of our size and stature. It also supported a further change we are making to our Board structure and composition. Robert Marshall will take up the new role of Vice Chairman, in which he will focus on the long-term strategy of Marshall. He will also lead the growth and development of Martlet and MarQuity, and he will chair our new Marshall Academy. With this change, I will now become Executive Chairman and our established and experienced Group Executive team will now report to the Board through me. Together with the appointment of Jonathan Flint mentioned above, we have now completed the restructuring of the Group to ensure we have appropriate focus and experience to deliver on our objectives.

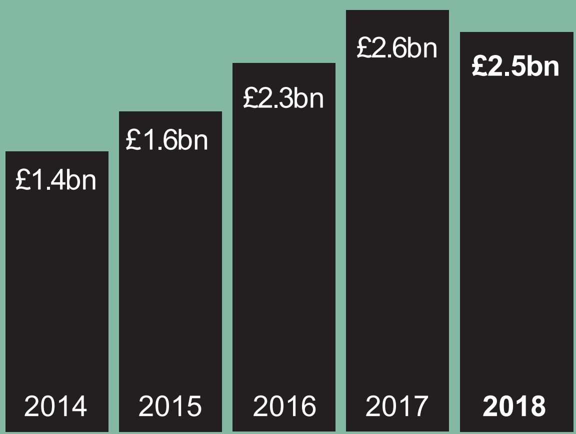
I am pleased to report that, subject to shareholder approval, the Company will be paying a final dividend of 3.0p per Ordinary and NVPO share. This will take the total for the year to 4.0p per Ordinary share and 6.0p per NVPO share, maintaining normal dividend payments at the level paid in the previous three years. These payments will be made on 5th July, 2019 to all shareholders on the register as at 14th June, 2019.

The Board remains committed to increasing shareholder value and serving our customers in our unique family-company culture. Our people make this possible and I would like to finish by thanking everyone at Marshall, as well as our customers and partners, for their invaluable and enduring support.

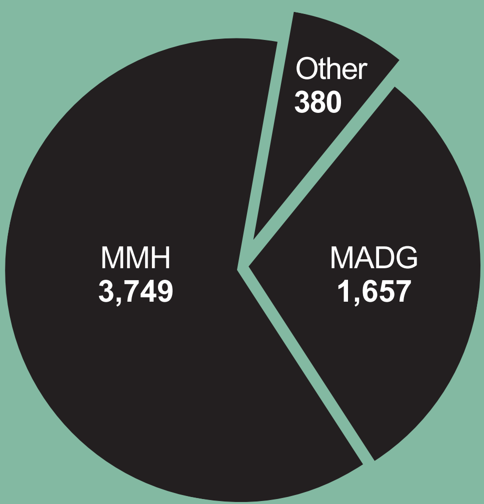
Alex Dorrian CBE
27th March 2019

At a Glance

"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."



Revenue



Employees

Marshall Motor Holdings plc

5,786

Employees

1.5m ft^2

Hangar Space

89,515

Vehicles Sold

£2.5bn

Revenue

900 Acres

Land

106

Franchise Dealerships

Marshall Aerospace and Defence Group

Purpose

Marshall is a unique private company committed to making a difference through providing support and services to its growing customer base; support that 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.

Marshall

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

Serve our customers in a way that no one else can

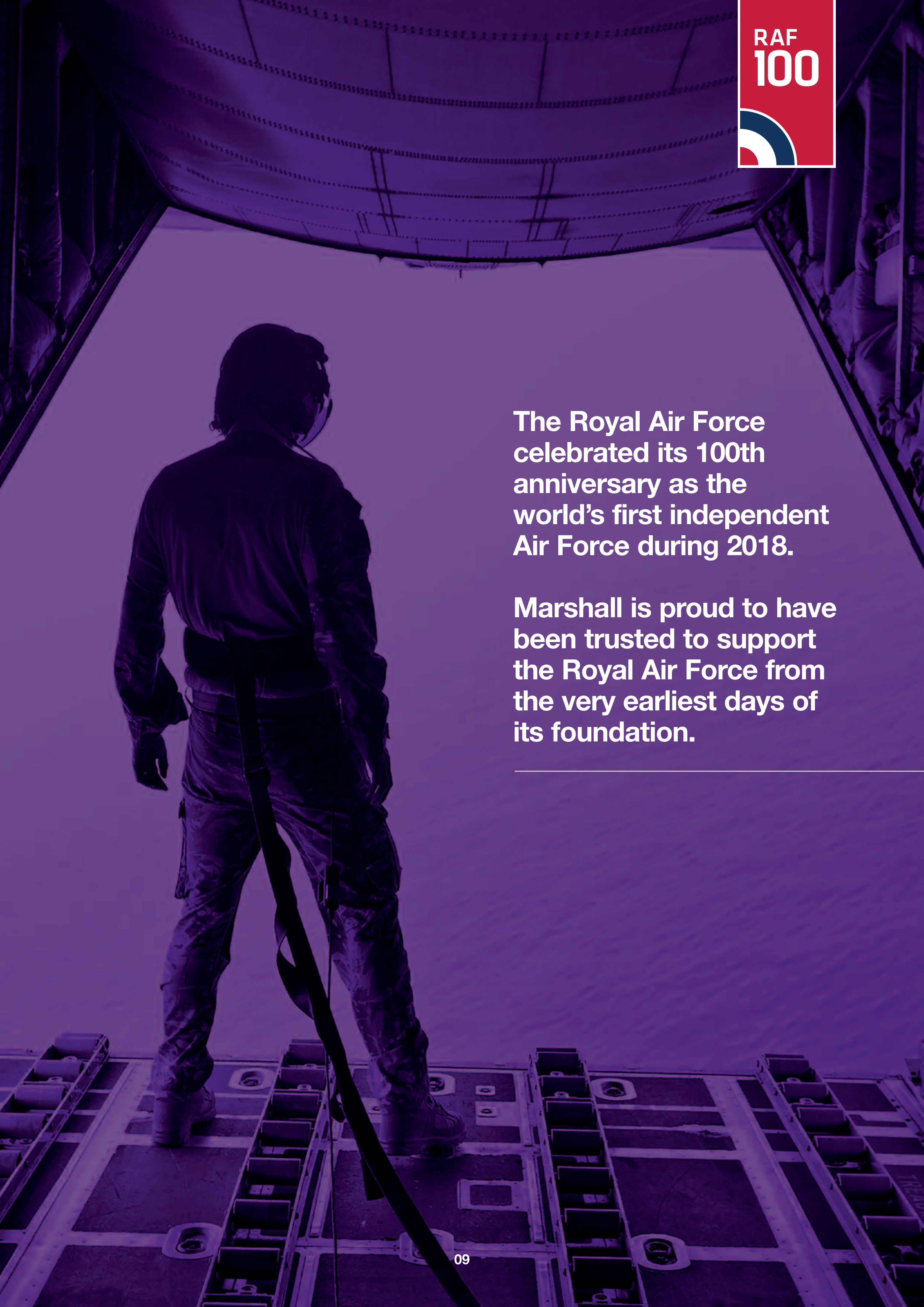
Our success relies on our unfaltering customer focus. We work tirelessly to meet all our customers' needs, delivering tailored solutions in all of our sectors.

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 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.



RAF 100

The Royal Air Force celebrated its 100th anniversary as the world's first independent Air Force during 2018.

Marshall is proud to have been trusted to support the Royal Air Force from the very earliest days of its foundation.

Growth Strategy

The overarching strategic objective over the next 20 years is to transition from a Group with revenue of £2.5bn to a Group with £2.5bn of assets under management.

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

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

Expand international reach in alliance with our strategic partners.

Significant investment 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

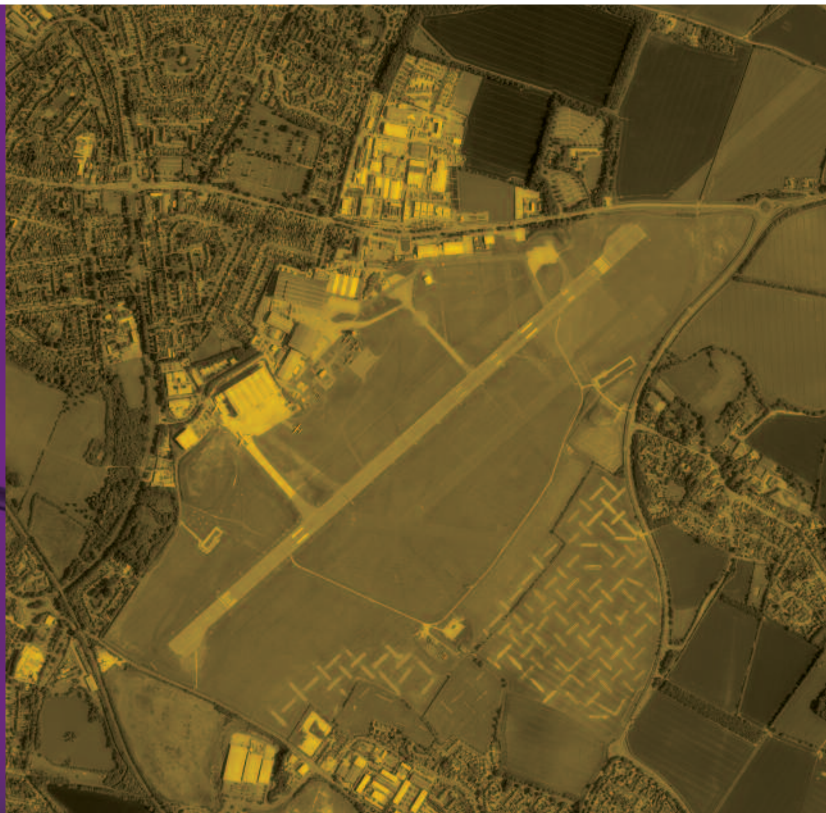
Increase value of the portfolio whilst simultaneously developing and disposing of outlying and non-core land.

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

Achieve satisfactory 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 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.



"Over the next five years, we will create an outstanding place to work with benchmark engagement, career planning and talent development, and a highly respected Academy."

Marshall Ventures

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

Build on growing the seed equity portfolio of predominantly Cambridge originated high technology companies, achieving benchmark return on capital.

Help Marshall Fleet Solutions with its aim to achieve top-quartile returns and re-establish our reputation to be the best national support organisation for the UK distribution industry.

1 One Company

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

Consistency in performance

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

Pride in our Values and making them work

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

Alignment of Purpose and Strategy

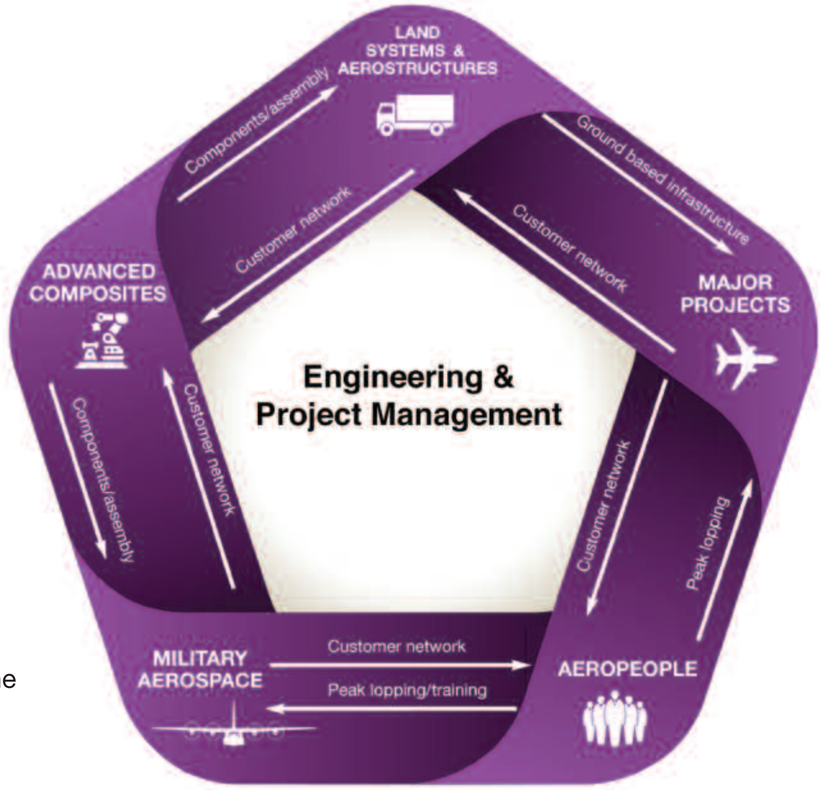
Marshall

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 businesses.
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, MarQuity 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 service 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 develop an already dynamic business, promoting strong customer engagement and improving our position in our chosen markets.


UKP

Business Model

Marshall Aerospace & Defence Group



MADG remains focused on creating an aligned and integrated organisation, structured around five operating divisions which leverage off a common core skillset of systems engineering and high-quality project management. This structure has been very successful in driving growth and increasing efficiency during 2018. Particularly important, are the customer synergies this brings across the divisions. In this respect, we have been able to use good customer relationships established in one division to generate opportunities in others.

During 2019, we will continue to explore the merits of simplifying our operating activities. This will see the Composites business joining with the Land Systems and Aerostructures division in one consolidated Advanced Structures proposition. We believe this could add incremental value to our customers and drive future growth in line with our business plan.

Our growth aspirations continue to be focused on our Land Systems, Aerostructures and Composites businesses. We also seek to create a sustainable special missions support business off the back of the significant market-leading capability we have developed in support of our current Global 6000 aircraft integration programme in Major Projects.

Aeropeople remains committed to providing first class engineering services, specialist resourcing solutions and high quality technical training.

Our goals for the Military Aerospace division remain centered around maximising customer value realised from the unique capabilities of the C130 aircraft, both within the UK and internationally, through our extensive experience on the platform, whilst expanding our support to other large military aircraft in the UK fleet.

Our strategy has delivered significant growth in 2018 in line with our plans. Especially pleasing is the progress in Land Systems where contract wins in the Netherlands and Denmark have transformed the prospects for this business. The shelters contract for the Netherlands armed forces is the largest ever secured by Land Systems. At its peak, we will be delivering a shelter a day to the Netherlands. We have also been notified that we are the preferred bidder for the UK MOD Gasket programme. This vehicle-based programme is expected to be awarded in Spring 2019 and will be a collaboration between Land Systems, MMH and MFS. The RNLAF C130 Sustainment project in Military Aerospace introduces elements of an integrated operational support programme through to 2030 for the Netherlands C130 fleet, which is a first for a small fleet of aircraft. We have also added new C130J operators in Bangladesh and Bahrain to our list of actively supported customers, bringing the number of customers to a total of 16. Another important award in the year was the engineering support contract for the French Air Force C130s.

We continue to re-evaluate those elements of the business which are core to our future, and those adjacent and undefined future markets which align strategically with our core capabilities and purpose and provide the opportunity for sustained long term growth. Ultimately, as an independent privately-owned business, this enhanced clarity of purpose is expected to enhance the prioritisation and returns realised from long term capital investment whilst increasing the ability for our employees, partners and customers to identify what makes MADG unique and compelling for them as part of long term value generating relationships.

Our Purpose:

To protect people in critical situations

What we do:

We develop and deliver world leading applied engineering services and technology

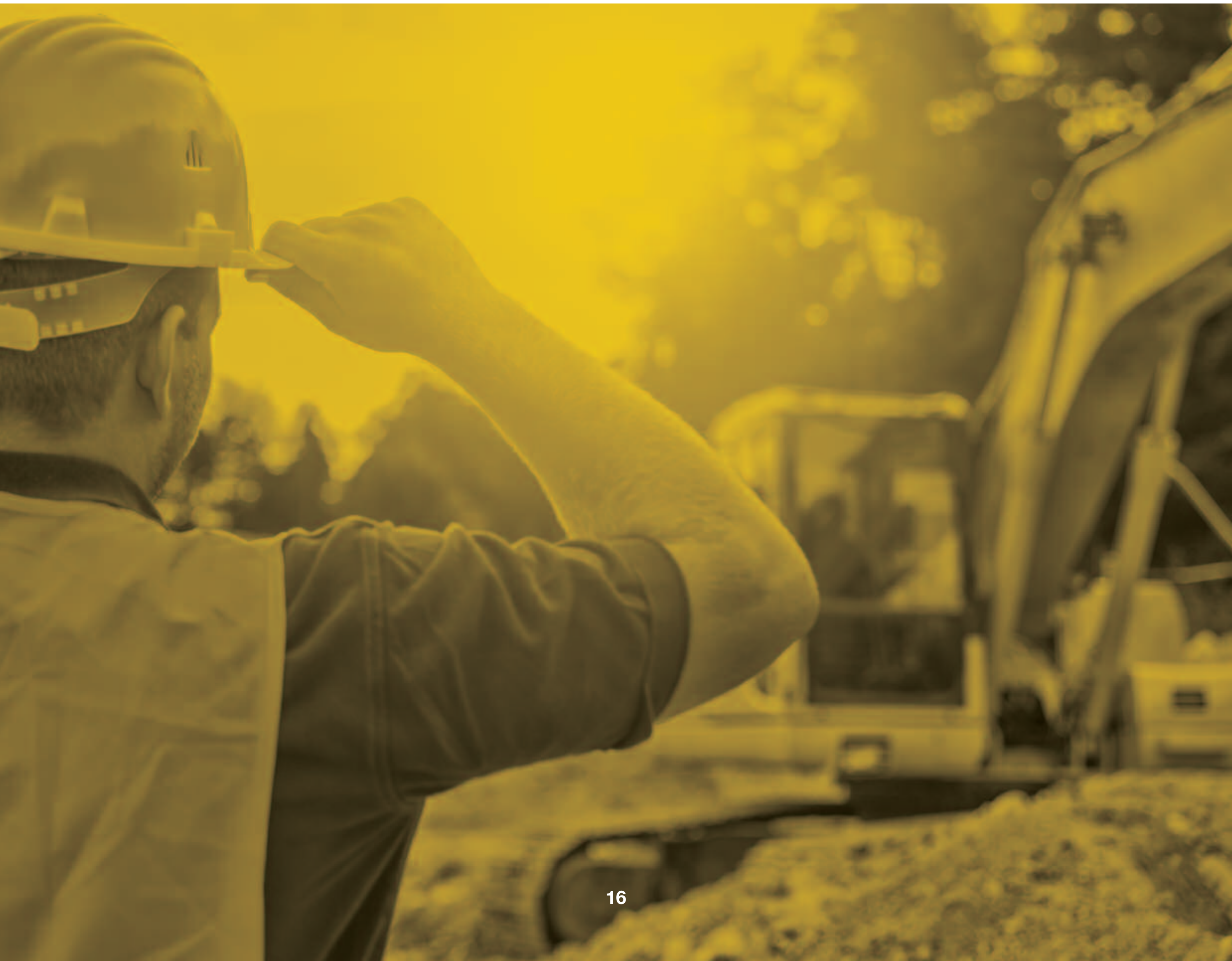
Business Model

Marshall Group Properties

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

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

The property business holds and rents out both 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 progressing two major development projects in Cambridge:

- Wing – a proposed 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.

- Land North of Cherry Hinton – in partnership with the adjoining landowner, an outline planning application has been submitted for up to 1,200 homes, a primary school, secondary school, local centre and spine road. The scheme will deliver around 700 homes on Marshall-owned land.

The Property team continues to work closely with MADG and 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 development, whilst providing improved facilities for our employees.

Business Model

Marshall Ventures

Marshall Motor Holdings plc (MMH)

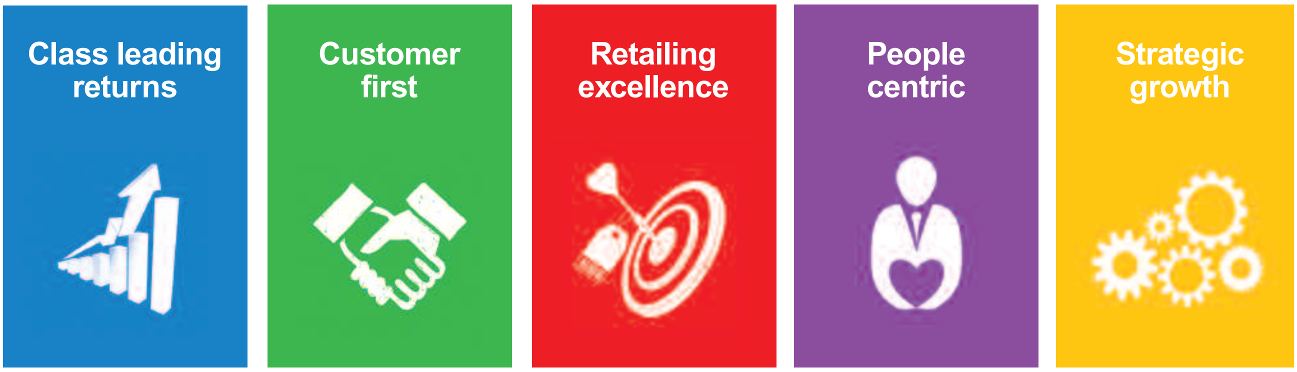
This subsidiary was 100% owned until its listing on the AIM market of the London Stock Exchange in April 2015. At 31st December 2018, the Group ownership was around 65%. Marshall Motor Holdings plc operates with its own board and publishes its own annual report, which is available from www.mmhplc.com.

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

MMH's Vision

To be the UK's **premier automotive retail group** as recognised by our colleagues, customers, business partners and shareholders. To achieve our vision we will create a **people centric culture**, as well as operate as retailers who deliver **retailing excellence** and are regarded as an **employer of choice**.

Marshall
Motor Holdings plc



Class leading returns
MMH's strategy of building a balanced brand portfolio in attractive geographic locations, has assisted the continuation of its strong track record in the face of a more challenging market.

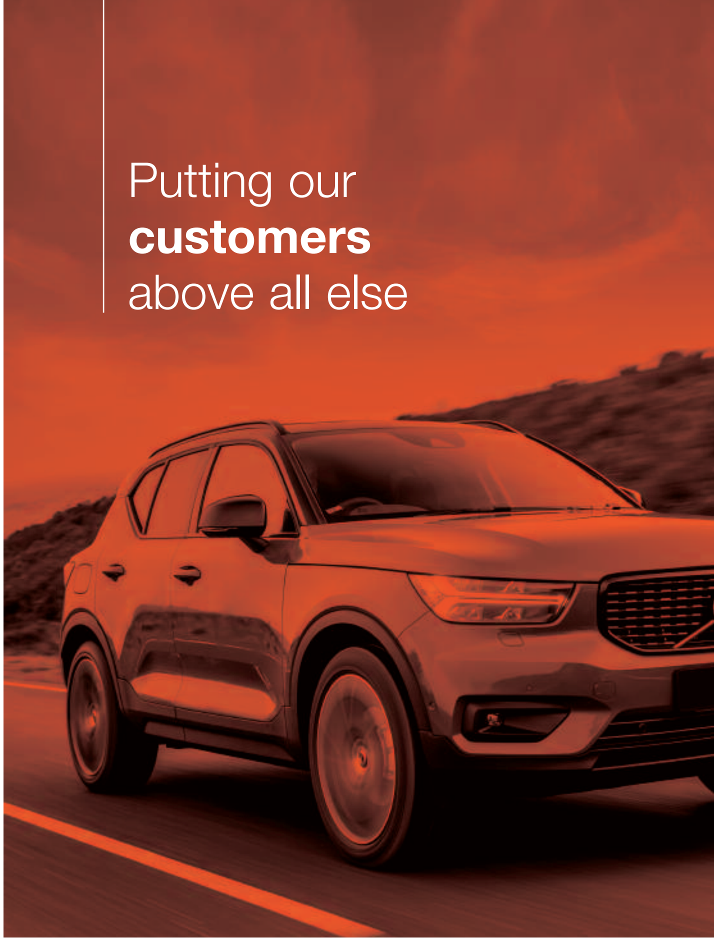
Continuing to grow with its brand partners will enable MMH to access further benefits of scale across a number of areas of the business, including improved commercial terms with suppliers and vehicle stock management.

Customer First
Customer satisfaction is an important element of MMH's strategy, driving repeat business and loyalty to the Marshall brand.

MMH's continued expansion and scale gives customers a wider choice of location and products, increasing both customer satisfaction and sales.

Retailing excellence
A key differentiator is MMH's focus on, and investment in, technology aimed at expanding its customer base and improving operating efficiencies. 2018 saw further investment in these areas.

MMH is focused on engaging and attracting new and existing customers with its online presence both through its website and social media. MMH is widely regarded as being at the forefront of social media in the sector, winning 14 awards in the last two years and two further awards so far in 2019.



People-centric
For the ninth consecutive year, MMH has been recognised by the Great Place to Work Institute as a 'great place to work' based on colleagues surveyed during 2018. Its 2018 scores were excellent with 78% of colleagues stating that Marshall was a 'great place to work'. This compares to an average UK score of 55%.

Strategic growth
MMH's strategy is to grow scale with existing brand partners in new geographical territories, as demonstrated by the acquisitions completed since its IPO. There has been considerable consolidation in the UK motor retail market over the last ten years, in which MMH has played an active role. MMH expects further industry consolidation over the coming years for which it is very well positioned, with a strong balance sheet and excellent manufacturer relationships.

Investment Portfolio – Martlet and MarQuity
With the aim to realise value for the Group, the venture capital investments are separated into two funds: Martlet and MarQuity. The Martlet fund invests in early-stage technology companies in line with an investment strategy that considers the quality of the management team, scale of the target market, competitive factors, valuation and the business model.

The MarQuity portfolio consists of companies identified from the Martlet portfolio that are worthy of higher levels of investment and support from the Group.

Marshall Fleet Solutions (MFS)
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 main dealers for most manufacturers of tail lifts sold in the UK. The company has over 200 engineers, together with a national call centre in operation 24 hours a day, 365 days a year. The company offers unrivalled fleet management, breakdown support, repair and routine maintenance for transport fleet operators across the UK.

Business Environment

Through its main operating divisions, the Group is managing ever-evolving scenarios across national and international markets.

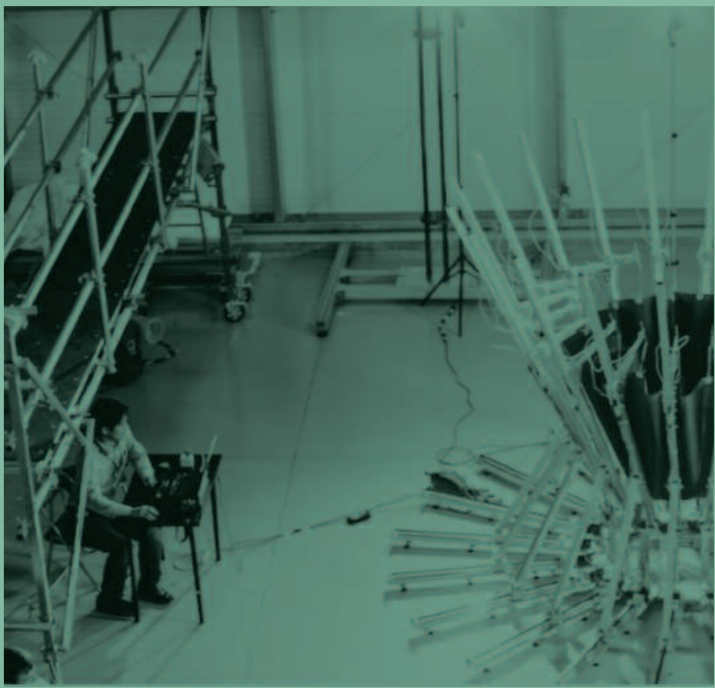
We have continued to see strong defence spending in many of our key target markets, combined with a more selective focus by those customers on investment in key programmes. This approach has increased the importance of targeting our efforts on key opportunities which align closely with our strategic competencies, and then identifying key partners which complement our capabilities to create a compelling winning team. We have also been successful in leveraging our distinctive UK sovereign capability in supporting key partners, such as Boeing, and also the UK MoD in terms of its resale of C130J aircraft which are being retired from the UK fleet. We continue to expect this to be a key "win" theme for UK related defence spending going forward.

Outside of the EU, we continue to see a compelling and attractive market for our operating divisions and capabilities in the Middle East and Canada, whilst we are also beginning to see interesting opportunities presenting themselves within emerging economies in Asia, the Far East and Africa.

Our existing aerospace and defence business has not been significantly exposed to the uncertainty created by Brexit and we have also not seen a meaningful change in the procurement strategy of potential customers within the EU. Indeed, we have been successful in securing several key opportunities during the year in terms of the shelter systems and RNLAF C130 sustainment contracts in the Netherlands, and a shelters contract for Denmark. Nevertheless, we anticipate that there may be increased barriers to competition post Brexit within the EU and have put in place the appropriate preparatory steps to enhance the role of our existing base of operations in the Netherlands should that become necessary to retain effective access to EU customers.

In relation to MMH, as has been widely reported, 2018 was challenging for the new vehicle market. The Society of Motor Manufacturers and Traders (SMMT) recorded new vehicle registrations of 2.37m in the year, a decline of 6.8% versus 2017 (2.54m). Several factors impacted the market:

- Firstly, general economic uncertainty, including the negative impact of Brexit on consumer confidence. Weakness in Sterling also impacted new vehicle prices and European manufacturers' focus on the UK market.



- Secondly, the introduction of the Worldwide Light Vehicle Test Procedure (WLTP) which replaced the outgoing New European Driving Cycle (NEDC) in September 2018, significantly impacted the new vehicle market in 2018. The introduction of the new procedure, during a peak registration month, led to shortages of supply and longer lead times in certain brands and continued to impact the industry for the remainder of 2018 and into 2019.

- Thirdly, the current uncertainty of future government policy in relation to diesel engines has led to a decline of 29.6% in total diesel registrations, taking its share to a 15 year low of 31.7%. This particularly impacted the premium segment which has historically offered a higher proportion of diesel vehicles. Manufacturers have been responding to changing consumer demand for petrol engines by switching production through 2018 and we expect to see this continue through 2019.

The SMMT also reported a used vehicle market decline of 2.1% in 2018 despite the used car market benefiting from WLTP-related supply shortages in the new vehicle market.

As the release of new housing into the market draws closer, the Group continues to monitor economic conditions more locally. The continued uncertainty in the UK economy has seen property values and time-on-market to soften in the Cambridge market during 2018 from the peaks seen in the years prior. The Government's commitment, however, to the Help-to-Buy scheme continues to drive first time buyers into the market, ensuring that market volumes and prices have continued to grow.

Cambridge enjoys an economic micro-climate of its own, which has continued to flourish with many of the world's largest companies now operating from the city. We are still seeing significant numbers of investment opportunities in our venture capital operation and opportunities for profitable exits are beginning to materialise. Support by the University of Cambridge, local and national governments and a very active investing community, mean the ingredients that make Cambridge a successful hub for technology based start-ups look set to continue for the foreseeable future.

Business Performance

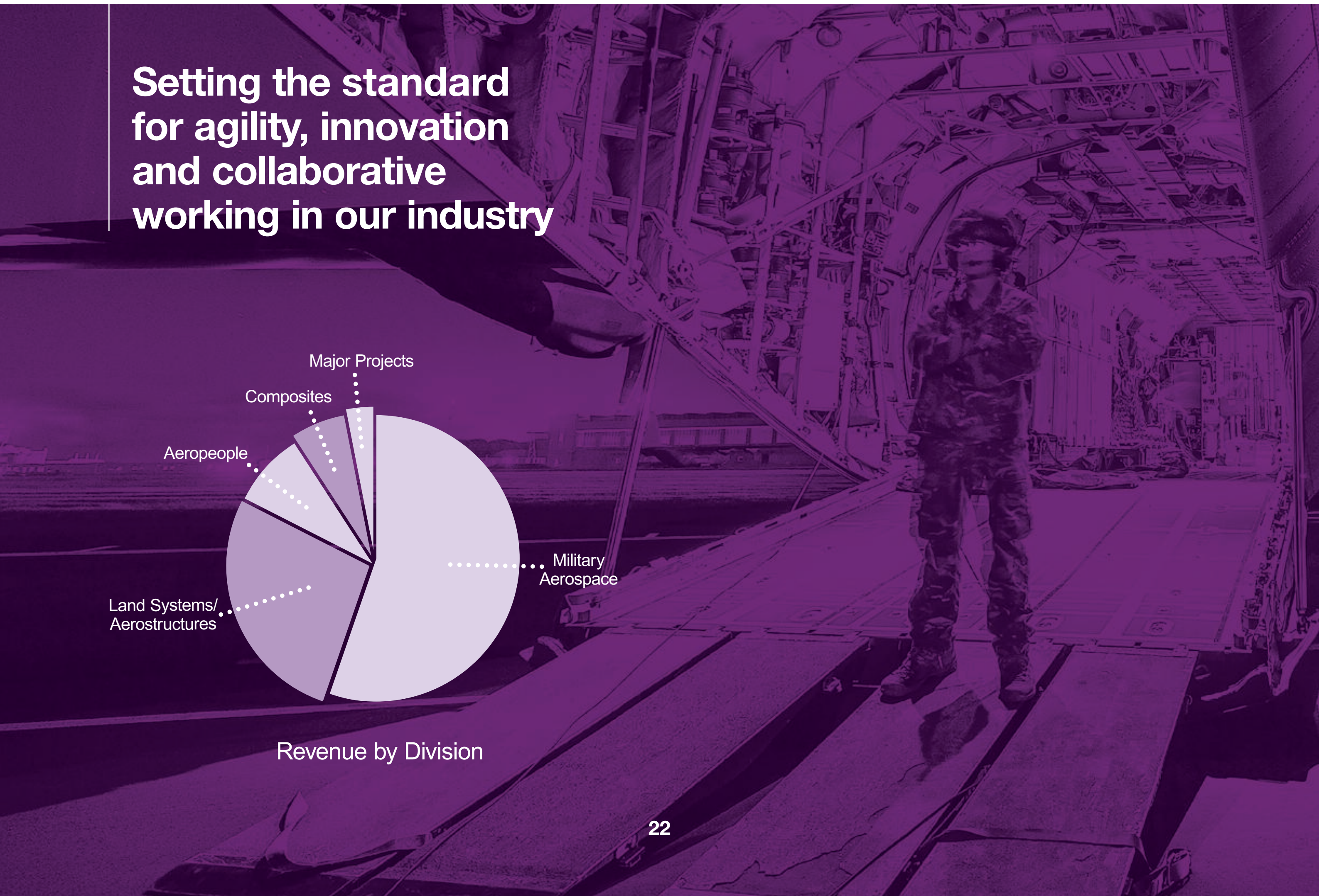
Marshall Aerospace and Defence Group

Underlying operating profits, before separately disclosed items, increased to £15.3m (2017: £12.8m) reflecting performance improvements in almost all of our operating divisions following completion of the difficult but necessary strategic restructuring activities undertaken over the past two years. Overall profit before tax, after separately disclosed items, also showed a significant improvement at £12.1m (2017: loss of £41.9m) for the year whilst the operating profit to cash conversion ratio improved despite the impact of the utilisation of contract loss provisions recognised in previous years.

Our Major Projects division has also continued to make consistent and reliable progress on the Global 6000 aircraft integration programme, achieving several key milestones during the year including delivery of the first aircraft to our customer and successful flight testing of the second aircraft. We have now signed a contract for aircraft support activities in the end user country.

The business has had a good year on all major fronts, making sound progress against our strategic goals.

Over the past year we were also delighted to be able to confirm the capture of several strategically important orders, including the multi-year shelter systems programme for the Netherlands armed forces, support contracts to Bangladesh and Bahrain in respect of the UK Government sale of C130J aircraft to those countries as well as being selected as preferred bidder on a specialist vehicle contract for the UK MoD. As a result of intensive team focus on our



Setting the standard for agility, innovation and collaborative working in our industry

Revenue by Division

key programmes, we were successful in securing all our key targets for the year despite facing fierce competition on those programmes. This represented a significant positive step to delivering on the ambitious multi-year growth targets within our business plan. The overall value of orders captured during the year was £404m (2017: £321m), representing a book to bill ratio of 2.51:1 (2017: 1.27) excluding the Hercules Integrated Operational Support contract with the UK MoD.

Our Military Aerospace division continued to grow its customer base, whilst also delivering several operational performance improvement initiatives which have significantly improved both the delivery schedule performance for our customers, and the consistency of financial outturn on aircraft inputs.

Elsewhere, our Land Systems and Aerostructures businesses delivered results ahead of our budget targets, whilst our Advanced Composites division has made significant progress on the key marine programmes which it undertakes for Rolls Royce and BAE Systems.

Results in our Aeropeople subsidiary were disappointing, driven by a difficult and commoditised contractor recruitment market and lower than planned revenues in respect of line maintenance and engineering activities. To reinvigorate that business, we have made some changes to the team and anticipate that this should yield improvements to operating performance in 2019.

Business Performance

Marshall Group Properties

The Wing development has made significant progress during 2018. Following the establishment of the joint venture, Hill Marshall LLP, with equal representation from Marshall and Hill Residential, 2018 has seen a considerable focus on the detailed planning applications, submission and approval of the design code and discharging the necessary pre-commencement conditions to allow the development to commence. On-site activity began in earnest in October with the archaeological excavations on the fields and the highway works on Newmarket Road. With planning for the infrastructure secured (covering roads, utilities, drainage and strategic landscaping), the emphasis has now switched to the first (of two) planning applications for the residential dwellings, with a target of obtaining planning approval by Summer 2019.

A key enabling project of Wing is the relocation of the aircraft ground running activity from the current site adjoining Newmarket Road to a new purpose built aircraft Ground Running Enclosure (GRE), close to Hangar 17. Planning permission was granted in November 2017 and construction commenced in March 2018. The overall construction programme is approximately fifteen months and in December 2018 VolkerFitzpatrick (delivering the civil engineering works) formally handed over the site to Blast Deflectors Inc for the installation of the above ground acoustic enclosure. The project remains on programme with build completion and commissioning expected during 2019.

Wing - Gregory Park

Wing - Market Square

A £22m loan from Homes England, which was secured by the joint venture, to fund the construction of the GRE and to allow early delivery of infrastructure, was successfully drawn in the year following the transfer of land in to the joint venture entities in March 2018.

The overall programme envisages the sales centre being open in early 2020 with houses available for occupation from Winter 2020/2021.

The outline planning application for Land North of Cherry Hinton was submitted in March 2018, for up to 1,200 homes, with associated primary and secondary schools, and other community facilities, to the north of Cherry Hinton. The development will deliver around 700 homes on Marshall-owned land, and will retain flexibility for a future phase should we wish to bring it forward.

Substantial progress has been made in conjunction with the Local Authorities and the focus is on negotiating the terms of a planning permission, including the form of the section 106 obligations and planning conditions.

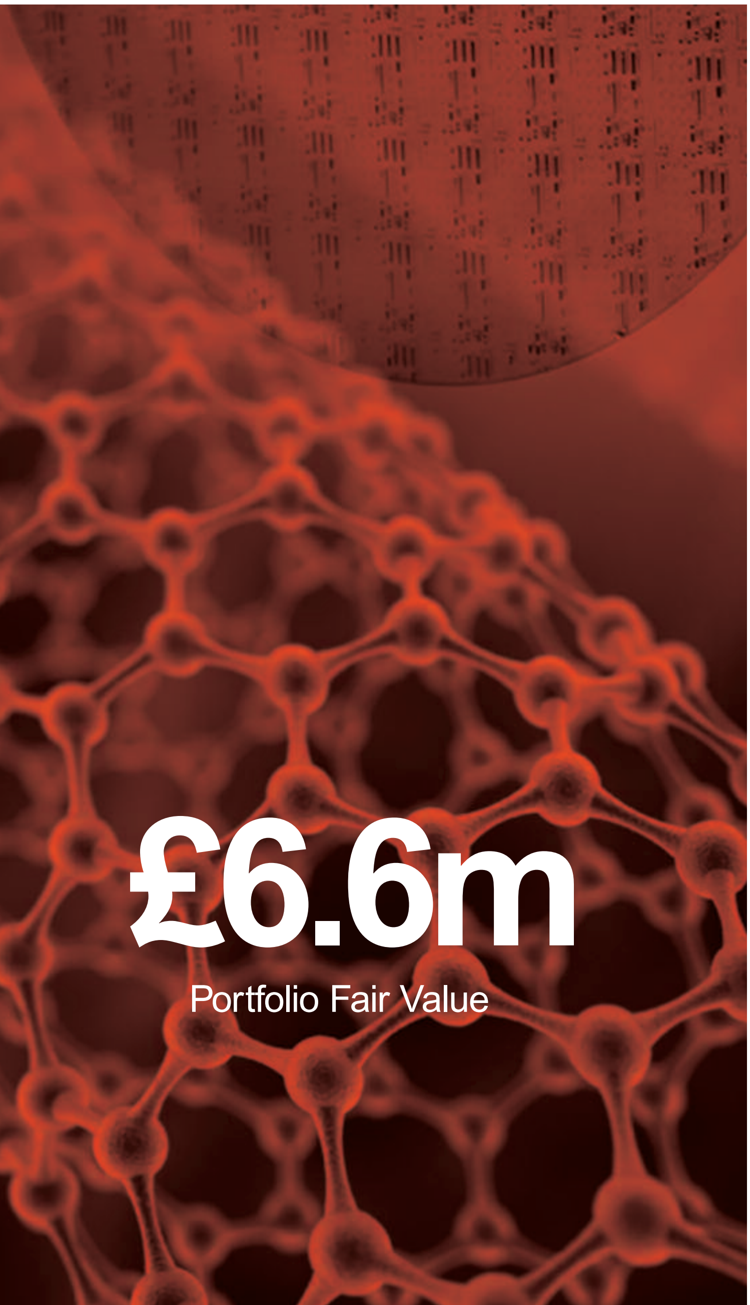
We anticipate the grant of outline planning permission towards the end of 2019.

Business Performance

Marshall Ventures – Investment Portfolio

The Group's corporate venture capital operation achieved returns ahead of expectations and saw the portfolio of investments continue to expand.

The Martlet fund invests in early stage technology companies under a clear investment strategy. The fair value, based on latest investment rounds, is estimated to be £2.5m (2017 - £2.0m). Sixteen new investments were made during 2018 with a total value of £1.0m, adding seven new companies to the Martlet portfolio. Provisions of £0.2m (2017 - £0.2m) were taken where later investment rounds were completed at a lower price, or the prospect of realisation is unlikely. Disposals during the year realised £0.2m.



The MarQuity fund sources its opportunities from the Martlet fund. As larger follow-on investments are made, the Group expects access to the investee company's board and enhanced information rights. The fair value, based on latest investment rounds and including additions during the year, is estimated to be £4.1m (2017 - £2.8m).

Two new companies were added to the MarQuity portfolio in 2018, taking the total to six. Octagon (wireless and cloud-based technologies to help construction companies plan and execute projects more efficiently) and Dogtooth (smart autonomous robots for the soft fruit farming industry) join Arachnys, Undo Software, Plumis and Vantage Power in the portfolio.

No provisions were recorded in the MarQuity portfolio in 2018 (2017 - £nil), whilst a small fair value increase of £0.2m (2017 - £nil) was recognised.

Marshall Ventures – Marshall Fleet Solutions (MFS)

Despite achieving good growth in revenues, up by 10.7% to £47.4m (2017: £42.8m), MFS reported a loss before tax of £1.7m (2017: loss of £2.8m). Profitability from fleet management services increased along with the volume of vehicles under management with Tesco.com. Although sales volumes of units increased, margins were tighter due to the continued fall in Euro exchange rates. Aftersales revenues and margins fell during the year as the business attempted to implement leaner processes.

Whilst trading results were disappointing the continued focus on capital expenditure and working capital management ensured cash targets were achieved within the business.

A new leadership team appointed in late 2018 is expected to drive the business on delivering the high level of service required by the transport refrigeration sector and seek to turnaround the trading result over the next couple of years to deliver industry benchmarked returns.

Business Performance

Marshall Ventures – Marshall Motor Holdings plc (MMH)

MMH enjoyed another strong year, delivering like-for-like revenue growth of 1.2% and continuing underlying profit before tax of £25.6m.

New vehicles

Against a challenging market backdrop, during the year, MMH's like-for-like new retail unit sales declined by 8.4% against an overall UK new retail registration decline of 6.4%. Like-for-like new revenues declined by 4.5%. Given MMH's weighting towards premium brands which were more affected by the decline in diesel, together with a number of its key brands being more exposed to WLTP supply shortages, MMH was pleased with this result.

Total unit sales to fleet customers declined by 19.4%. This was largely driven by a commercial decision taken during 2017 to withdraw from certain low margin fleet business. Excluding the impact of this and site closures, like-for-like unit sales to fleet customers declined by 7.7% versus an overall market decline of 7.2%.

Total new vehicle gross margins were flat versus 2017 at 7.2%, a pleasing performance in a difficult market.

Used vehicles

In the context of an overall market decline, MMH was pleased to report continued like-for-like growth in used vehicle unit sales. In addition to increased unit sales, MMH also delivered a total gross margin improvement of 36bps which it considers to be an excellent performance.

As a result of the closures made in November 2017, total used car unit sales declined by 2.1%. Like-for-like used unit sales grew 2.3% and like-for-like used vehicle revenues increased by 8.1%. This is a particularly strong performance when compared with the overall market decline.

The continued improvement in used volumes and margins has been driven by the addition of its recently enhanced in-house management information system. This, along with a continuation of its 56-day stocking policy which encourages accelerated stock turn, leading to higher sales volumes and reduced residual value risk, contributed to the strong volume and margin performance during the year.

Aftersales

Aftersales remains a key strategic focus for MMH, providing revenue and profit assurance during a challenging economic environment. Its strong performance in recent years continued during the year, with total revenue growth of 1.3% (2.3% like-for-like). This growth has partially offset margin pressure (down 126bps versus 2017) as a result of reduced pre-delivery inspection revenue caused by fewer new vehicle sales and an increased proportion of lower margin parts sales.

In addition to its retail centre based aftersales facilities, MMH operates five standalone bodyshops, five trade parts centres and one PDI centre.

Aftersales contributes 44.0% of total retail gross profit and therefore makes a significant financial contribution to the business which is important in the context of a more cyclical new car market.

Investment in new retail locations and major developments

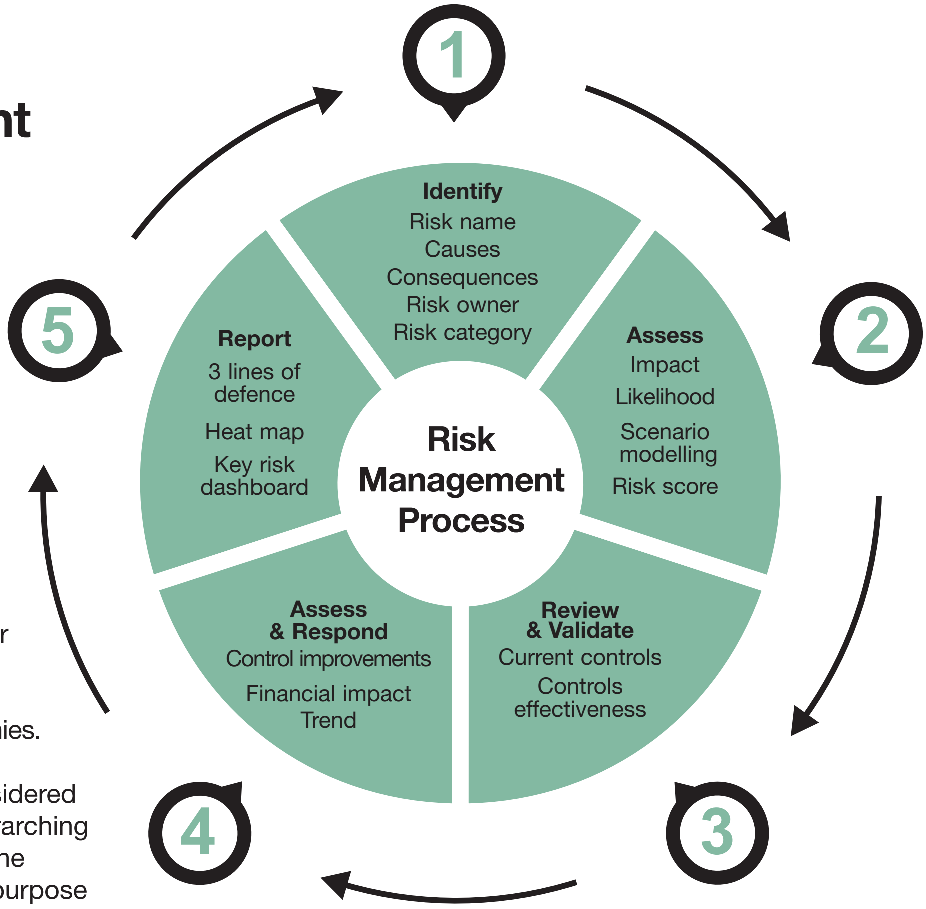
MMH continues to invest in its retail sites and has invested a total of £19.6m into its property portfolio during the year. Investment in relocations and major rebuilds included:

- Lincoln Jaguar Land Rover - this development brings together Lincoln Jaguar and Lincoln Land Rover, previously two separate leasehold sites, on one purpose-built freehold site providing a significant increase in capacity for both vehicle and aftermarket sales.

- Cambridge Ford - this relocated its existing showroom on Newmarket Road to a state-of-the-art Ford Store providing a significantly improved customer experience.

- Completion of a redevelopment of Bedford Land Rover, an existing freehold site. This investment brings the site up to Jaguar Land Rover 'arch' concept standard.

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 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.

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 considers its adherence to, and the appropriateness of, the Group's risk appetite statement at each meeting and formally reviews it annually.

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

The Group takes a proactive approach to risk management, with the expectation that by identifying risks early, the likelihood and impact of those risks might be reduced or removed before they transpire, and appropriate plans can be put in place to deal with them effectively if they materialise. Providing a safe working environment for employees, customers, suppliers and visitors is of paramount importance to the Group, as is ensuring the Group operates in a sustainable manner, in minimising its impact on the environment and its neighbours. The operating companies continue to maintain an appropriate governance structure for managing the complex regulatory landscape surrounding health, safety and the environment.

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

Accountability
The Board oversees the system of risk management and internal control by means of the Audit 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.

Governance
The Board has identified nine principal strategic risks, as set out on pages 32 to 34.

The Audit and Risk Committee met three times during the year and completed deep dive risk reviews of business interruption, cyber-attack, regulatory breach and UK defence policy. The remaining five risks were reviewed by the Board, with contract delay and Group liquidity constraints considered at every meeting.

The Operational Risk Management Committee (ORMC) was established in 2017. The ORMC has the responsibility for the oversight of the maintenance of the company's operational risk management plan. This provides the framework for monitoring risk management activities.

The plan includes the following elements:
• Identification of 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 meets at least three times a year under the chairmanship of the Chief Executive Officer. 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
A revised risk reporting format was prepared by the ORMC and reviewed by the Audit and Risk Committee in 2017. Following various revisions, it was approved and implemented in 2018 with periodic future reviews scheduled.

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 audit team, reporting to the ORMC and to the Audit and Risk Committee.

Risk assurance activity during the year
Risk assurance activity in 2018 included the following:
• Further development of the ORMC;
• Re-evaluation by the ORMC of the Group's top strategic risks and their position on the Group's risk heat map;
• Further development of the "severe but plausible scenario" modelling applied to each strategic risk;
• Continued development of the rolling deep dive programme whereby the management or mitigation of the Group's principal risks are presented by line management who are responsible for the relevant risk to the Audit and Risk Committee;
• The most significant risks continued to be reviewed by the Board;
• Continued alignment of Board themes to the key risks as risks are only taken in pursuit of strategy; and
• Introduction of a viability statement in the annual report.

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

Board assessment of principal risks
The Board confirms that it has carried out a robust assessment of the principal risks facing the Company in 2018, 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 2017 the business underwent considerable change, affecting our people and operations. In 2018 the business experienced a period of consolidation and re-alignment which influenced the principal risks and uncertainties.

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.

More detail on the risk activity can be found in the Audit and Risk Committee Report starting on page 58.

Principal Risks and 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
Serious incident resulting in closure of airport. Unplanned disruption to delivery of core ICT systems and services necessary to support operation of the business. Loss of regulatory approvals in relation to suitable facilities. Loss of use of business-critical buildings or utilities through storm damage, fire, explosion, vehicle or aircraft impact, or on-site contractors.

Mitigating activities
Infrastructure and facilities risk registers are in place; controls and mitigation measures identified on the register complete with owner.
Business continuity plans in place with links to the Emergency Incident Notification Plan and Cambridge Airport Emergency Plan. A specialist third party has independently reviewed and tested the plans. High risk compliance contracts are in place for asbestos management, water quality and ICT key systems under robust service level agreements with third party specialists.

Responsibility
MADG Chief Executive

Likelihood / Impact
Low/Medium

Risk movement
Stable

Cyber attack

Risk description
Operational disruption, commercial penalties, and/or reputational damage associated with a successful cyber-attack on ICT infrastructure.

Context
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
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. Operational costs associated with remediation activities necessary in the event of a significant or sustained breach.

Mitigating activities
The nature of cyber threats means penetration of lower risk general data perimeter on occasion is generally accepted as unavoidable. In 2018 significant investment including upgrading the site wide IT systems was made to increase rapid threat identification, response and containment, together with layered defence which negates ability to compromise high value data/systems. In addition, the business recruited a specialist cyber security officer to lead activities and implementation of automated analytical network activity monitoring software.

Responsibility
MADG Chief Executive

Likelihood / Impact
Medium/Medium

Risk movement
Stable

Contract delay

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

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

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

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

Responsibility
MADG Chief Executive

Likelihood / Impact
Low/Medium

Risk movement
Stable

Group liquidity constraints

Risk description
Inadequate facility capacity available during our investment phase.

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

Severe but plausible scenarios
The total facility cap for loans and ancillary services is £75m with circa £10m currently used for ancillary services. 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.

Mitigating activities
Awareness of the facility promoted at directors and leadership conferences; weekly 13-week forward looking cash forecasts of likely cash requirements; quarterly forward-looking profit, cash and covenant compliance forecasts; development of safety levers that can be triggered in the event of forecast difficult position; more acute focus on cash element in budget and performance reviews. In 2018, the bank facility agreement was extended by 12 months. With bank consent, the facility can be extended a further 12 months to April 2022.

Responsibility
Chief Financial Officer

Likelihood / Impact
Low/Medium

Risk movement
Decreasing

Brexit/Political

Risk description
The UK has given notice to leave the EU under Article 50 of the EU treaty and the subsequent disruption is creating uncertain trading and operating conditions.

Context
Details of the relationship between the UK and EU after the 29 March 2019 remain uncertain. In addition, a period of transition and further uncertainty is likely.

Severe but plausible scenarios
Negative impact on profitability and competitiveness for those of our businesses which source goods from the EU. Potential disruption caused by lack of trade agreements. Loss of EU national workforce. Regulatory risks relating to the acceptability of product standards to UK and EU authorities.

Mitigating activities
Safety valves are in place, including pre-negotiated lease break clauses and potential moth ball of some sites. Some stockpiling activity / buffer stocks are available, advanced delivery programmes and alternative supply chain movements considered. Analysis and challenge of first and second tier suppliers' mitigating actions. Continual monitoring of Brexit impact for example on CAA and maintenance engineer licences.

Responsibility
MADG Chief Executive /Chief Executive Officer

Likelihood / Impact
High/Medium

Risk movement
Increasing

Organisational capability

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

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

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 were embedded throughout the business in 2018 allowing the resourcing team within the HR function to work more closely with the businesses, to plan for future projects.

Responsibility
Group HR Director

Likelihood / Impact
Medium/Medium

Risk movement
Stable

Principal Risks and Uncertainties

Regulatory breach

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

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

Severe but plausible scenarios
Aircraft failure leading to loss of aircraft; health and safety incident leading to fatalities or major 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 Just Culture principles and continuous improvement in effectiveness of Quality Assurance team by replacing / upskilling staff. Improvement in capability across the business on root cause and corrective action identification through delivery of training. Improvement of effectiveness of internal policies, processes and procedures.

Responsibility
MADG Chief Executive

Likelihood / Impact
Low/Medium

Risk movement
Stable

UK defence policy

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

Context
Potential cuts to the MoD budget with regard to future costing and affordability.

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

Mitigating activities
Reducing impact by diversifying C130 business away from the UK and working with more C130 customers combined with engagement with stakeholders to ensure that the value of C130 is recognised by MoD and the decision makers. Driving capability improvements onto the platform to help to secure the Group's position which includes centre wing replacement and other special forces modifications and contracts.
In 2018, the business secured new international long-term C130 contracts together with other new appointments, "decreasing" the risk.

Responsibility
MADG Chief Executive

Likelihood / Impact
Low/Medium

Risk movement
Decreasing

Succession planning

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

Context
The current business context has some critical programmes and projects that will need to be delivered over the course of the five year business plan. The delivery of some key programmes are 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
The risk was recognised by the businesses in 2016 and the succession planning tools that were in place have been refreshed in 2018. An organisational capability review/gap analysis was also conducted with regard to key projects. A development pathway programme is in progress and should be launched in 2019.

Responsibility
Group HR Director

Likelihood / Impact
Medium/Medium

Risk movement
Stable

Viability Statement

Following public company practice, the directors have assessed the viability of the Group over a three year period to December 2021.

Marshall Motor Holdings plc is funded by a revolving credit facility and stock secured asset financing, all of which is managed by an independent board. The Core Group 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 firmer three year view. Budgets, covering a three year period, are prepared each year.
- The nature of Marshall Aerospace and Defence Group means that one major contract provides greater visibility of longer periods but most others do not extend beyond three years. The Group's retail and property development activities are exposed to considerably more uncertainty over the short-term.
- The Group's funding facilities tend to cover a period of three years. New 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 on pages 32 to 34 to determine those risks which could potentially pose the most significant threat to viability over the period. The scenarios selected for modelling are shown below.

Scenario modelled	Link to Principal Risks and Uncertainties
The Group's covenant leverage test and cash flows over the period are dependent on trading performance within MADG. A scenario has been modelled where MADG performance is significantly lower than expectations.	Cyber attack, contract delay, Brexit/political, organisational capability, regulatory breach, UK defence policy and succession planning.
A major change in circumstances, with an impact of £30m, relating to our complex engineering project.	Contract delay, organisational capability and succession planning.
The progress of our property development projects is delayed.	Brexit/political, organisational capability and succession planning.

The sensitivity analysis includes several reasonable assumptions, including:

- That the Group's debt facilities will continue to be available on the same, or similar basis throughout the review period; and
- That outcomes have been assessed after the effective implementation of mitigating actions such as reducing any non-essential capital expenditure and operating expenditure on projects.

Reverse stress testing has also been performed to identify the theoretical sensitivity that the Group could absorb without affecting its viability.

The directors confirm that their assessment of the principal risks was robust and the modelling is reasonable, considering the inherent uncertainty involved. 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 31 December 2021.

Financial Review

Revenue for the year was £2.5bn, representing a decrease of 2.7% over the previous period (2017 - £2.6bn). The primary reason for the decrease was the impact of challenging market conditions in motor retail.

Trading Performance
88.0% of the Group's revenues arose from motor retailing (2017 – 85.7%).

On a statutory basis, the Group reported a profit before tax of £40.4m (2017 - £30.2m). Land relating to the initial phase of the Wing development was transferred to the joint venture entities in March resulting in an exceptional profit of £22.6m, representing 50% of the land fair value, being recognised on the transfer.

When reviewing the results before several non-recurring items, underlying profit before tax of £36.0m represents a slight increase over the previous year (2017 - £34.7m). With strong performances from core businesses; Military Aerospace and Aerostructures, as well as our independent subsidiary, Marshall Motor Holdings plc, the Group continues to perform in line with the Board's expectations.

With a lower level of average net borrowing over the year, finance costs fell to £5.7m (2017 - £8.9m).

The Group owns 65% of MMH, with recognition of the minority 35% share 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 have been utilised where possible in 2018. As the Group's holding in MMH is less than 75%, group relief of losses is not available. The Group, therefore, is expecting to pay cash tax relating to the 2018 results of £5.9m (2017 - £6.2m), including local corporation tax paid in our overseas operations.

Deferred tax assets on losses has been recognised where the directors consider that profits will be made in the foreseeable future, ensuring full recovery.
The Group's effective tax rate for 2018 was 24.5% (2017 – 0.3%).

The earnings per share, on a statutory basis, were 45.6p (2017 – 21.1p). Adjusting for separately disclosed items, as set out in note 3, underlying earnings per share were 33.9p (2017 – 31.4p).

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

The Board is recommending a final dividend of 3.0p per Ordinary and NVPO share for approval at the AGM to be paid on 5th July, 2019. This would take the full year normal dividend to 4.0p and 6.0p respectively, the same level as 2017.

Net Debt / Cashflow
The Group closed the year with a total debt net of cash at 31st December of £2.4m (2017 - net funds of £5.9m).

Capital expenditure totalled £48.0m (2017 - £31.9m, excluding leasing vehicles). The Group continued to invest in its infrastructure for the future. In Cambridge, the Aircraft Ground Running Enclosure is under construction and MMH completed a new Ford Store, which opened to the public in January 2019. New facilities were constructed for Jaguar Land Rover in Lincoln and Bedford.

Another major factor in the movement in cash in the year was an increase of £28.7m (2017 - reduction of £11.0m) in the balance of customer advance payments, which is a natural timing issue as we execute major projects.

Financing
The Group operates with two major loan facilities. The Core Group has a committed, unsecured £75m three-year revolving credit facility, previously due to expire in April 2020. During the year, however, the Group exercised an option to extend the facility to April 2021. There remains an additional option, subject to bank approval, to extend by one further year. MMH has a £120m committed, unsecured revolving credit facility, which was put in place in May 2016 and, following an extension in the year, is due to expire in 2021. Both facilities are provided on an equal basis by Barclays Bank plc and HSBC plc.

Intangible Assets
Goodwill and franchise agreements are amortised over 20 years to an estimated residual value. Total amortisation during the year was £4.8m (2017 - £4.8m), with the net intangible asset carried on the balance sheet falling to £94.8m (2017 - £112.3m).

Following a review of the carrying values of intangible assets an impairment charge of £13.0m (2017 - £0.4m) has been recognised in the Income Statement.

Joint Ventures
During 2017, the Group entered two new joint venture partnership arrangements with Hill Residential Limited, relating to the Wing development. The Group holds a 50% interest in both partnerships with both parties having equal representation on the respective boards. Activity in the partnerships during 2018 related to the detailed planning and infrastructure stages of the development.

Pensions
The deficit on the Group's defined benefit scheme, the 'Plan', under FRS 102 decreased to £9.9m from £12.3m, and after deferred tax there was a net liability of £8.2m (2017 - £10.2m). The expected liabilities decreased because of payments made by the Group under the agreed funding plan and cash received from Marshall Leasing Limited following its disposal in 2017. During the year, the scheme was closed to future accrual of benefits.

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

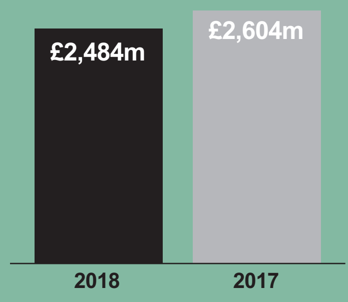
Treasury Operations
Our policy on treasury and financial risk is set by the Board and reviewed on a regular basis.

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

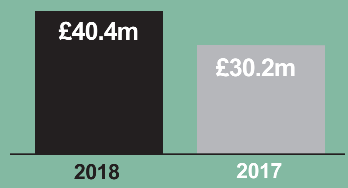
Key Performance Indicators
The individual businesses use a number of Key Performance Indicators (KPIs), both financial and non-financial to gauge performance. The diversity of the nature of the Group's businesses, particularly after the flotation of MMH, means that few are universal or applicable for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

Key Performance Indicators

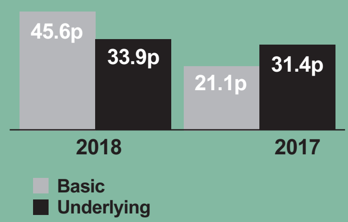
Revenue



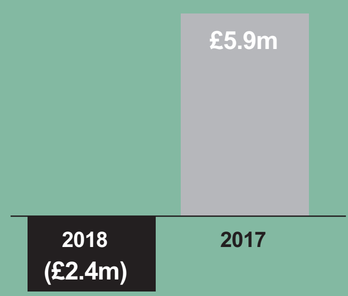
Profit before tax



Earnings per share



Net (debt) / funds



Our People

Values

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.

In living these values, we will:

- Unlock our potential by recognising that everyone has an important role;
- Maintain a safe working environment;
- Build effective working relationships;
- Adopt a "One Company, One Team" approach and be proud of what we can achieve together;
- Acknowledge others' involvement and seek their contribution;
- Trust our colleagues and managers;
- Be willing and co-operative;
- Be passionate about delivering excellence;
- Question how we can contribute more to an open and rewarding culture; and
- Respect and value our differences and embrace diversity.

Apprentices

For many, employment with the Marshall Group starts as an apprentice. The Group has been operating apprentice programmes continuously since 1920. MMH works with apprentice programmes operated by brand partners. Within MADG, our apprentice scheme is managed internally and is subject to inspection by OFSTED. The scheme achieved top grades following a monitoring visit in October 2018. The narrative below is extracted from the OFSTED report:

"Leaders have created a culture of open and fair recruitment for apprentices. Due to the esteem in which the company's training is held, competition for the limited places is high. Managers select apprentices on appropriate criteria. For young people, especially those who are going to live away from home for the first time, this process involves their families, to help them make the transition to the workplace. Leaders use their links with local schools to great effect to recruit apprentices. In the words of one first-year apprentice: 'from the day they visited my school in year 10, I knew I wanted to be a Marshall apprentice.'"

"From the day they visited my school in year 10, I knew I wanted to be a Marshall apprentice"

Development

In the coming years we will further develop our apprentice and training programmes into the Marshall Academy, creating a "learning environment that will transform Marshall, prioritise diversity, enrich our people, our customers, our partners and make Cambridge a better place."

MADG is a proud member of the 5% club. The 5% club consists of UK companies wishing to invest in skills creation and employability. Members of the club pledge to make at least 5% of its workforce apprentices, or students on formal programmes. Since 2015, MADG has consistently achieved a result of more than 10%.

Long Service

A long standing apprentice programme, commitment to our people values and personal development mean that long service has become a hallmark of our business which we treasure hugely. It contributes enormously to team building, stability and in-depth knowledge of what our customers need from us.

The Group formally started to recognise long service in 1976 and since then 1,192 awards have been given to employees with more than 30 years service, with 46 awards made for service in excess of 50 years. 37 long service awards were made in 2018.

Health, Safety and the Environment

Health and Safety

A relentless focus on safety during 2018 saw Marshall Aerospace and Defence reduce its Riddor/Lost Time Accident incidents by 30%.

The entire business adopted a new structured Continuous Improvement (CI) approach to safety management underpinned by a common language and understanding of reporting data that in turn enabled teams to prioritise activity, conduct robust root cause analysis and identify fixes to address immediate and potential safety issues.

However, the real benefit has been the change in behaviours that CI has driven, with frontline teams taking the lead in driving safety performance, particularly within the model areas which now consistently outperform other parts of the business.

Military Aerospace's Hangar 16, where the frontline teams have driven the Riddor/Lost Time Accident rate to 0 per 100,000 hours worked, is one great example. Using safety data, the hangar's CI Safety Team put in place several mitigation actions to try to address some of the most common forms of accident, ranging from 'one-point lesson' posters to raise awareness of potential safety hazards to the sourcing and trialling of new equipment such as new bump caps, intrinsically safe head torches and whip cables to prevent injury from compressed air-lines.

Having driven such positive results, safety activity will now be rolled out across all remaining areas. Team leaders and supervisors are currently engaged in training that will equip them to support and champion CI activity to deliver embedded, sustainable culture change.

Environment – MADG Case Study

In 2018 the One Marshall Continuous Improvement (OMCI) programme was launched within MADG. This programme was built around the model of World Class Manufacturing (WCM) following its principles of 10 pillars of improvement activity – including environment – driven by the front line.

This programme created an opportunity to reduce the company's most significant environmental impacts: waste disposal and energy consumption.

A trial was implemented in one of the company's hangars, where all general waste bins were removed and bespoke segregated waste bins were installed. The employees were trained on where the different waste streams could be placed. The amount of recycled waste at source for 2018 increased by 169% (an increase of 4.2 tonnes from one hangar alone). The trial has now been rolled out to all service hangars.

Reducing single-use plastic cups

Employees were made aware of the decomposition rates of waste and this information instigated a separate recycling opportunity for the elimination of polystyrene from our restaurant. This has resulted in a planned launch in early 2019 of replacement polystyrene packaging that is fully compostable within 12 weeks. Areas of the business (where practicable) eliminated the single use plastic cups from the drinking water stands and the total amount of cups purchased from 2017 to 2018 reduced by over 40% or 200,000 cups. The next step in the programme will be working with suppliers to encourage them to eliminate/reduce their packaging when delivering to our company.

As a further commitment to the environment the company has invested in environmental e-learning for all employees to educate them on the importance of a sustainable environment and enable them to identify and reduce their environmental impact in all areas of their work.

Reducing CO2 emissions

The next step for the OMCI programme is to focus on reducing the company's energy consumption – the company has set a stretched goal of a 25% reduction in CO2 emissions in 2019. Arrangements continue to be planned on energy management and monitoring systems, and through the focus of the OMCI Energy Review Group, there are a series of measures proposed to achieve this, notably: an energy efficiency campaign, a trial hangar area for smart metering and energy mapping. Energy mapping particularly aims to integrate all aspects of energy from procurement to consumption, infrastructure and monitoring to new projects and adoption of new technologies.


ZAXIS
140W
Marshall
Hill

Community

The Group encourages and supports its employees in a wide variety of fundraising activities. For example, the Cambridge site held its 22nd annual coffee morning for Macmillan Cancer Support, raising over £5,000 and MMH held a week of fundraising for its industry benevolent charity, BEN, raising £4,000. Employees of the Group partake in incredible activities to raise money for charity. The Group is proud to support them with time and sponsorship, often through The D G Marshall of Cambridge Trust.

The Group continues to support its employees in their volunteering activities in the community. These activities are many and varied, including offering time to charities, air cadets and as school governors for example.

LaunchPad continues to go from strength to strength since the programme started in 2013. Now known as Cambridge LaunchPad, 2018 saw 28 of Cambridge's great companies involved and over 6,500 young people participated in its activities. Our desire with LaunchPad is to make a real difference to children in our local area and also to provide our own people with experience running and organizing the practical sessions. It is good to see that there has been a 20% increase in uptake by these children opting for triple science as a GCSE subject, one of the main aims of the programme.

Conclusion

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

Robert Marshall
Chief Executive Officer
27th March 2019

Sean Cummins
Chief Financial Officer
27th March 2019






The Board

Alex Dorrian
CBE FREng FRAeS FIET

Chairman – Independent on appointment
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
- Audit
- Remuneration

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
- Nomination

Current external appointments

- Non-executive director of Ebiquity plc
- Non-executive director of Chrysalis VCT plc

Key former appointments

- Chairman of Harvey Nash 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

Robert Marshall FRAeS

Chief Executive Officer
Appointed to Board: 2000 **CEO:** 2012

Skills and experience

After attaining a 1st Class degree in engineering at Cambridge University, Robert spent time in the USA as a Scientific Research Associate with Lockheed Martin. Robert joined the Group in 1994 taking on roles in each of the businesses. In 2010 he became Chief Operating Officer and in 2012 was appointed Chief Executive Officer. Robert retains his focus on engineering, education and training as well as the purpose, vision and strategy of the Group.

Committee membership

- Nomination

Current external appointments

- Chairman of Vantage Power Ltd
- Non-executive director of EEF Ltd

Key former appointments

- Chairman of Marshall Motor Holdings
- Chairman of Marshall Land Systems
- Project director at Marshall Aerospace

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

Current external appointments

- Chairman of Pigeon Investment Management
- Non-executive Director of Strutt & Parker Farms Ltd
- 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

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
- Nomination
- Remuneration

Current external appointments

- Chairman of Greene King plc
- Chairman of Equiniti Group plc
- Non-executive director of Aberdeen Standard Asia Focus plc

Key former appointments

- 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

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 been 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
- Nomination
- Remuneration

Current external appointments

- President Elect Council of the Institute of Physics
- Member of QuantIC strategic advisory board
- Non-executive director of Oxford University Innovation

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, and is a trustee of all the Group's pension schemes.

Committee membership (Secretary to:)

- Audit
- Nomination
- Remuneration

Current external appointments

- Independent Trustee of the Royal Aeronautical Society

Key former appointments

- N/A

Corporate Governance

Governance framework

The Group has always endeavoured to apply the highest standards of corporate governance and has a goal of continuous improvement in governance processes. Although as a private limited group it is not subject to the UK Corporate Governance Code ("the Code"), the Group has, for the last 20 years, implemented the Code guidelines where it has been practical and appropriate to do so. During the year ended 31st December 2018, the Group continued to follow a corporate governance framework very closely aligned to the Code.

The Board has considered the Companies (Miscellaneous Reporting) Regulations 2018 (the "Regulations"). For accounting years beginning on or after 1 January 2019, companies that meet certain thresholds will be required to report under four corporate governance reporting regimes. These centre primarily on a director's application of their section 172 duty to promote the success of the Company, as set out in the Companies Act 2006, along with stakeholder and employee engagement. These will be reported upon in next year's Annual Report, and the Group is currently undergoing an assessment as to its readiness to ensure its directors both at Group board and subsidiary board level are able to comply with their section 172 duty. This assessment is based on the criteria set out below.

1. Training
Establish and attend training courses on induction to all statutory boards, with ongoing updates that are relevant to directors' section 172 duty.

2. Information
Ensure that information needed to properly consider the section 172 duty is presented and considered at board level.

3. Policies and process
Adopt policies and processes to achieve operating strategy with appropriate mechanism in place to support due consideration to the section 172 duty.

4. Strategy: Opportunity and risk
Reflect the section 172 duty when setting and updating strategy and the risk management framework.

5. Engagement
Consider what the approach should be to engagement with employees and other stakeholders through both board engagement and wider corporate engagement.

Section 172 of the Companies Act 2006

Duty to promote the success of the company

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to-

- (a) the likely consequences of any decision in the long term,
- (b) the interests of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,
- (d) the impact of the company's operations on the community and the environment,
- (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
- (f) the need to act fairly as between members of the company.

The Board has also considered the Wates Corporate Governance Principles for Private Business ("Wates Principles") which were published on 10th December 2018, noting that their adoption is voluntary but welcoming the focus on purpose, culture and employee and stakeholder engagement. They introduce 'Principles' of best practice to be adopted on an 'apply and explain' basis, and provide suggested guidance as to how companies might achieve each of the respective Principles.

As part of the Group's preparation for the new requirements a review has been undertaken in the first quarter of 2019 on behalf of the Board to assess to what extent the Group applies the Wates principles. The outcome of this review is set out below.

Principle	Applied	How Marshall has applied it
Principle One: Purpose and Leadership An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	Applied ✓	• Through the leadership of the Board, a clear vision for the Group's purpose and overall values is articulated which underpins and defines the strategy and culture of the organisation. This is embedded at every level of management. • Policies and protocols are in place to support the execution of the Group's purpose and values across the organisation, which drives overall engagement with employees, shareholders and wider stakeholders across the operating businesses. • Group wide initiatives such as LaunchPad and the 'One Company' ethic are examples of how purpose is brought to life and benchmarked.
Principle Two: Board Composition 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.	Applied ✓	• The Group operates through clear Board protocols and governance processes. These are set out in its terms of reference and standing items for the Board and its committees. This allows for both independent challenge and transparency in its decision making. • The Board is supported through the executive management team and its internal governance protocols including, for example, the ethics, operational risk management and other executive committees. • Accountability is driven through routine evaluations of the Board with a recent external Board evaluation having been undertaken in 2018. • The Board composition is balanced between executive and independent non-executive directors.
Principle Three: Director Responsibilities 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.	Applied ✓	• Given the diverse nature of the businesses within the Group, Board appointments have been made with care and to ensure that its membership includes the right and appropriate levels of skills and experience to address the challenges that the business currently face along with those of the future. • Through the company secretary's office, the Board has been given sufficient infrastructure to allow them to undertake their work with due care, which is aligned to achieving the Group's long-term success and vision. • The Board is focused on improving its operational governance to ensure that the Group's corporate purpose and strategy remains at the centre of its decision-making protocols.

Corporate Governance

Principle	Applied	How Marshall has applied it
Principle Four: Opportunity and Risk 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.	Applied ✓	• Through clear definition of the Group's corporate purpose and values the Board's decisions are focused on promoting and delivering long term value; at the heart of which are its customers and the City of Cambridge. This is embedded across the Group's key operating businesses and strategic decision-making areas. • Principal risks have been identified across the Group and at the operating business level with robust reporting to the Board on the plans to address and mitigate these. These are articulated in the annual report and are set out also in the viability statement.
Principle Five: Remuneration 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.	Applied ✓	• The Group's remuneration policy is set out and monitored by its remuneration committee with clear objectives to incentivise management based on the long-term success of its strategic goals and business plans. • Succession planning and talent retention are key focus areas for the Group and at operating business levels.
Principle Six: Stakeholder Relationships and Engagement 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.	Applied ✓	• Through the Group's defined purpose and overall 'One Company' ethic, stakeholder engagement is embedded at all levels of the organisation with clear direction and endorsement from the Board and senior management across each of the operating businesses. • The Group promotes an annual cycle of stakeholder engagement and has embarked on an ongoing programme to improve both its employee consultations and engagements with the appointment of a non-executive director with responsibility for employee engagement.

Purpose and vision

During the year, the Board refined and agreed the purpose and the vision of the Group as set out below:

One company united by a common purpose and culture, committed to serving our customers and the community.		
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 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.

The Board has integrated the purpose and vision into its ongoing strategy and business model development.

Leadership

Board membership

Information about the Board members is given on pages 44 and 45. The Board has developed considerably over the last three years and balances five highly experienced and independent non-executive directors with two executive directors and the company secretary.

The role of the Board

The Board is responsible for creating the framework within which the Group operates and is collectively responsible to the Company's shareholders for the direction, 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 of the Companies Act 2006.

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

The Board's schedule of matters reserved 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
- Major acquisitions, projects and contracts
- Dividend policy

The Chairman

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

The Chief Executive Officer

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

Senior Independent Director

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

Non-executive directors

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

Company Secretary

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

Corporate Governance

Operation of the Board

The Board has an annual calendar of meetings and operates through a comprehensive set of processes which define the themes to be considered by the Board and its Committees during the annual business cycle. This includes the purpose and vision of the Group, the level of delegated authorities, the Group's business ethics, risk management, and health, safety and environmental processes. The Board devotes much of its time to strategy and business planning issues that have an impact on the Group. The Board also met in 2018 for a two-day strategy and business planning meeting.

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.

The standing agenda items considered at every meeting include:

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

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

Board attendance

The table below sets out details of all directors who have served during the year and their membership of Board committees. This includes details of each member's attendance at the Board meetings held in 2018. There are separate attendance statements in respect of the nomination, remuneration and audit and risk committees on pages 55, 56 and 58.

Director	Role	Committee (C = current chair)	Attendance record
Alex Dorrian	Chairman	Nomination (C) Remuneration	9/9
Julie Baddeley	Non-executive director and Senior Independent Director	Nomination Remuneration (C)	9/9
James Buxton	Non-executive director	Nomination	9/9
Sean Cummins	Chief Financial Officer		9/9
Peter Harvey (stepped down at the AGM on 23rd May 2018)	Non-executive director	Audit and Risk Nomination Remuneration	3/4 *
Robert Marshall	Chief Executive Officer	Nomination	9/9
Christopher Sawyer (stepped down at the AGM on 23rd May 2018)	Non-executive director	Audit and Risk Nomination Remuneration	4/4
Philip Yea	Non-executive director	Audit and Risk (C) Nomination	8/9 *

** Unable to attend one meeting due to a previous commitment to attend a third party board meeting in capacity as a director of that third party.*

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

Matters considered	Outcome
Review and refresh the Group's purpose, vision and strategy	The Board has had full oversight of the progress of the Group strategy and transformation programme during the year. At each meeting the Board had the opportunity to question and challenge the work being undertaken. The June Board Strategy meeting was a two-day meeting held at an off-site location where the strategy for the Group 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 Board also agreed the purpose and the vision of the Group.
Review of principal risks, including deep dives on contract Group liquidity constraints	With respect to the risk of contract delay, the independent peer review of the Group's cost control, engineering, risk management, and project control processes continued through 2018 and the Board is satisfied that both the costs and the programme continue to be in line with the integrated master schedule. With respect to the liquidity constraints risk, the Group has been within its covenant levels throughout the year and the bank facility agreement has been extended for a further 12-month period.
Risk appetite	The Board considered its adherence to and appropriateness of the risk appetite statement at each meeting, with a formal annual review held in January of each year, including engaging with the majority shareholders.
Board evaluation	After carrying out an internal Board evaluation in 2017, the Board judged that 2018 was the time to commission and carry out an external evaluation of the operation of the Board.
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.
Board visits	The Board made several visits to the operational businesses to see aircraft in work, a mobilization centre for a new contract win, and the new continuous improvement safety pillars. This gave employees the opportunity to present to and interact with the Board.
Safety incidents	The Board are briefed at each meeting as to whether any RIDDORs, significant lost time incidents or airworthiness incidents have arisen, along with actions taken and the overall ongoing risk mitigation.
Governance	The Board were kept up-to-date on the proposed changes to the governance landscape for private businesses including both the Companies (Miscellaneous Reporting) Regulations 2018 and the Wates Principles and considered how best to maintain its high standards of corporate governance.

Corporate Governance

Effectiveness

Composition of the Board

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

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

At the date of this report, the Board has seven members: the non-executive Chairman; four other non-executive directors; and two executive directors, the Chief Executive Officer and the Chief Financial Officer.

Independence

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

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.

Senior Independent Director

Following her appointment to the Board on 1st December 2016, Julie Baddeley continues to take on the responsibility of being the Senior Independent Director.

Board evaluation

After carrying out an internal Board evaluation in 2017, the Board judged that 2018 was the time to commission and carry out an external evaluation of the operation of the Board. The objectives of this evaluation were twofold:

- to provide an opportunity for the Board to reflect on its current performance and identify improvements in its capability and ways of working, to ensure that it meets the future demands of the Group; and
- to give confidence to the Board's stakeholders that the current Board operation and governance meets best practice using the UK Corporate Governance Code and the then draft Wates Corporate Governance Principles for Large Private Companies as a benchmark.

Alex Cameron from Socia Limited was appointed in September 2018, and during October he collated the documentation covering the operation the Board, interviewed each member of the Board and observed the Board at its October meeting. Draft conclusions were discussed with the Chairman and the Senior Independent Director and the final Board evaluation results were presented to the Board at the December meeting. The overall conclusion was that the current Board governance is of a high standard for a private company of our size and stature.

Some recommendations were made on ensuring the Board remains fit for purpose for future challenges. These recommendations are being implemented in 2019.

Induction, development and training

The Board also ensures that new directors receive a bespoke induction programme covering, amongst other things: the business of the Group; their statutory responsibilities as directors; opportunities to visit business operations and meet with management and employees; and an introduction to the Marshall values code of business ethics and risk management framework. The Board is kept up-to-date on legal, regulatory and governance matters through regular papers from the Company Secretary and by presentations from internal and external advisors. The Board has established procedures to allow individual directors to seek independent professional advice at the Company's expense for the furtherance of their duties. All directors have access to the services of the Company Secretary who is responsible for ensuring compliance with relevant procedures, rules and regulations.

Re-appointment

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

Accountability

Risk management

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

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

The Board involves, empowers and gives ownership of the identification and management of risk to all the operating companies. Risk management activity is regularly supported through discussion and appropriate action by the Group. This includes a thorough review and confirmation of the significant risks, evaluation of their mitigation strategies and establishment of supporting actions to be taken to reduce them to an acceptable level. How risks are identified and managed is set out in more detail on pages 30 to 31.

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 page 58.

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

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

Ethics

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

Anti-bribery and the prevention of corruption

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

Whistleblowing

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

Corporate Governance

Executive Ethics Committee
The Executive Ethics Committee, which comprises the Chief Executive Officer, the Chief Financial Officer, the Company Secretary and the Group HR Director was formed during the year. Its duties and responsibilities include, but are not limited to:

- Reviewing the adequacy of the Group's framework for the effective governance of ethics and recommending improvements where necessary;
- Overseeing and reviewing annually key policies in relation to ethics, including but not limited to:
  - Code of Business Ethics
  - Anti-bribery and corruption policies
  - Corporate Hospitality policy
- Ensuring the appropriate training is provided for employees in relation to ethics;
- Reviewing the adequacy of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing;
- Ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- Reviewing overseas sales agency agreements including appropriate due diligence, the agency's credentials, how they were sourced, what services were being carried out for the payment, and how the checks and balances on the payments would be monitored;
- Giving clearance for sales agency agreements to be signed;
- Reviewing periodically the Corporate Hospitality and Gifts register; and
- Reviewing and considering any other topics or risks appropriate to the overall remit of the committee as delegated by the Board from time to time.

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

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

Relations with shareholders

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

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

Annual General Meeting
The Board recognises that the Annual General Meeting provides shareholders with an important opportunity to receive information on the Group's business performance and to meet with the Board. The Chairman, the executive directors and Board committee chairmen were present at the 2018 Annual General Meeting in May.

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

Interim briefing
The Board introduced a more informal shareholder briefing in October 2018 to share the interim report and update shareholders on the direction of travel of the business.

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

Board committees

In accordance with the principles of good governance, a number of Board committees, all of which operate under written terms of reference, have been established by the Board. The key remits of each of the committees is set out below and the reports can be found on pages 55 to 61.

Nomination Committee	Audit and Risk Committee	Remuneration Committee
Board & committee composition	Financial reporting	Remuneration policy
Board nominations	Internal controls	Incentive design and setting of targets
Succession planning	Risk management	Executive remuneration review
	Internal and external audit	

Nomination Committee Report

Committee attendance

Director	Role	Attendance record
Alex Dorrian	Committee Chairman	2/2
Julie Baddeley	Senior Independent Director	2/2
James Buxton	Non-executive director	2/2
Robert Marshall	Chief Executive Officer	2/2
Philip Yea	Non-executive director	2/2
Peter Harvey *(stepped down at the AGM on 23rd May 2018)*	Non-executive director	1/1
Christopher Sawyer *(stepped down at the AGM on 23rd May 2018)*	Non-executive director	1/1

Objective

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

Governance

The Nomination Committee membership comprises the Chairman (as Committee Chairman), the Chief Executive Officer and all non-executive directors, subject to a minimum of three to be quorate.

Responsibilities

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

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

Committee focus and activities during the year

The Committee carried out its annual review of the Board's composition and reiterated the requirement for a non-executive director with significant aerospace and defence experience and strategic thinking. A candidate initially identified was ruled out on the basis of conflict of interest, and the Committee took the opportunity to define further the role and engage a third-party head hunter. The appointment of Jonathan Flint CBE was announced on 14th February 2019, and took effect from 1st March 2019.

Following the retirement of Christopher Sawyer from the Board at the AGM on 23rd May 2018, the Committee considered his replacement as nominee director on the board of Marshall Motor Holdings plc. Consideration was given to current non-executive directors, external candidates and internal executive candidates. It was noted that the role required a significant time commitment, and given the conflicts of interest of appointing from the Board, the Committee agreed that Kathy Jenkins, the Group HR director, had the requisite skillset and was approved as the replacement, to join Christopher Walkinshaw, Group Communications Director, as a nominee director.

Remuneration Committee Report

Introduction from Julie Baddeley, Committee Chairman

"I am pleased to present the Remuneration Committee's annual report for 2018. The report is structured to inform shareholders on how senior executive remuneration is determined and to describe the work the Committee has been doing during the year."

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

Committee attendance

Director	Role	Attendance record
Julie Baddeley	Committee Chairman	4/4
Alex Dorrian	Chairman	4/4
Peter Harvey *(stepped down at the AGM on 23rd May 2018)*	Non-executive director	1/1
Christopher Sawyer *(stepped down at the AGM on 23rd May 2018)*	Non-executive director	1/1
Philip Yea	Non-executive director	3/4

Objective

The key objective of the Committee is to assist the Board in fulfilling its responsibilities relating to the Group's remuneration policies and procedures.

Governance

The Remuneration Committee membership comprises the Senior Independent Director (as Committee Chairman), the Chairman, and two other independent non-executive directors. The Chief Executive Officer attends meetings at the request of the Committee.

Responsibilities

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

- determining and agreeing with the Board the framework for the remuneration of the Company's President, Chairman, Chief Executive Officer, Executive Directors, Company Secretary and other members of executive management it is designated to consider;
- in consultation with the Group Chairman and Chief Executive Officer, 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.

Committee focus and activities during the year

The main topics of discussion have included the actions to simplify organisation and management structures, the implementation of changes to our pension schemes and the re-design of our Long Term Incentive Arrangements. These arrangements have been simplified to focus on the key performance indicators in our three year business plan. In addition, we took the opportunity to ensure we comply with the current and evolving governance on such reward structures.

Remuneration Policy for Executive Directors

	Objectives	Operational and Performance Conditions	Opportunity
Base Salary	A competitive market salary commensurate with responsibility and experience.	Reviewed at 1st January each year taking into account increases awarded across the Group as a whole, personal contribution and performance, market changes and any change in role or responsibility.	Increases are generally expected to be in line with inflation and comparative increases in the business and competitor companies.
Annual Bonus	To motivate and reward annual performance specifically with respect to the business and overall profitability.	Maximum 100% of salary which is only available for exceptional performance. Paid in cash after the Group annual report and financial statements have been approved.	75% of salary, for stretch financial targets, with on-target achievement realising 50%, and a threshold level to be reached for 25%. Up to 25% of salary based on achievement of specified personal objectives bringing the total opportunity 100%.
Long Term Incentive Plan 'LTIP'	To focus on longer-term performance and growth and align executive director interests with those of shareholders.	Awards are made 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	Chairman and Non-executive directors receive a fixed fee and do not participate in any incentive schemes or receive any other benefits. Fee levels are reviewed annually. Additional fees are payable for acting as Senior Independent Director or as chairman of any of the Board's committees (excluding the nomination committee).	Account is taken of: • increases awarded across the Group as a whole • fee levels at organisations of a similar size, complexity and type • changes in complexity, responsibility or time commitment required for the role

Julie Baddeley
Remuneration Committee Chairman
27th March 2019

Audit and Risk Committee Report

Introduction from Philip Yea, Committee Chairman

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

Following the introduction of the rolling deep dive programme with effect from July 2017, where the Audit and Risk Committee reviews the principal risks over the course of 12 to 18 months, all of the identified key risks have now gone through the process, either at Audit and Risk Committee level or at Board level. The Group's risk management framework is now embedded and understood throughout the business.

The Committee also reviewed the work of internal audit, as well as the external audit plans and has met with auditors to ensure that the key areas of focus across the Group are suitably addressed.

Committee attendance

Director	Role	Attendance record
Philip Yea	Committee Chairman	3/3
Alex Dorrian	Chairman	2/2
Peter Harvey *(stepped down at the AGM on 23rd May 2018)*	Non-executive director	1/1
Christopher Sawyer *(stepped down at the AGM on 23rd May 2018)*	Non-executive director	1/1

Objective

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

Governance

The Audit and Risk Committee comprises a minimum of two members, both of whom are independent non-executive directors of the company. Two members constitute a quorum. Appointments are for a period of three years, extendable by two further three-year periods, after which they are subject to annual review so long as members continue to be independent. Any term beyond six years is subject to particularly rigorous review. Peter Harvey and Christopher Sawyer stood down at the AGM held on 23rd May 2018, and Alex Dorrian, with his significant aerospace and defence experience, became a member from the same date.

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

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

Responsibilities

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

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

Review of financial statements and audit findings

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

Significant accounting issues considered by the Committee in relation to the Group's financial statements
In the preparation of these financial statements a number of areas required the exercise of management judgement or a degree of estimation. The key judgement areas considered by the Committee in relation to the 2018 financial statements, and how these were addressed, were:

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

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

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

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

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

Independence and objectivity are assured through the rotation of the audit partner on a regular basis, the last such rotation having taken place in 2010, with the allowed rotation period being 10 years. The Committee, having also evaluated the performance of the external auditor remains satisfied with the effectiveness of the external auditor and, after review, has recommended to the Board that a resolution for the reappointment of the external auditor should be put to the shareholders at the AGM to be held on 22nd May 2019.

Audit and 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 also has its own internal audit function which reports solely to its Board. The Group internal audit function has direct access and is responsible to the Audit and Risk Committee. The work is risk focused, and the areas of audit focus are determined by a combination of risk registers and assessments, discussions held with senior management and requests received from the Audit and Risk Committee, the Chairman or other senior executive directors.

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

During the year, the Audit and Risk Committee considered the potential option of outsourcing the internal audit function, recognising the benefits of access to a broad range of skills and experience, as well as a fully flexible resource. In early 2019, the Board agreed to outsource the function to Grant Thornton UK LLP.

Risk management and assurance

The Group's risk management process and its principal risks are set out in more detail on pages 30 to 34.
The key features of the Group's internal control and risk management systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures.

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

The nine principal risks identified include eight previously identified, which, following review and challenge, continue to be a principal risk:

- Business interruption
- Cyber attack
- Contract delay
- Group liquidity constraints
- Regulatory breach
- Organisational capability
- UK defence policy
- Succession planning

An additional risk – Brexit / political – has been upgraded to a principal risk during the year. The management of the risks relating to contract delay and Group liquidity constraints continue to be reviewed directly by the Board in view of their materiality. Succession planning, organisational capability and Brexit / political risk have now also been designated as Board risks. Deep dive risk reviews were carried out by the Audit and Risk Committee on business interruption, cyber-attack, regulatory breach and UK defence policy during 2018.

Internal control

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

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

Philip Yea
Audit and Risk Committee Chairman
27th March 2019

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.

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

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

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

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

Advisors and Registered Office

Auditor
Ernst & Young LLP

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

Insurance Brokers
Willis Towers Watson

Pension and Actuarial Advisers
Buck Consultants

Property Advisers
Bidwells
Rapleys
Russells
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

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 2018.

Results and dividends

The Group recorded a profit after tax and minority interests for the year of £27,678,000 (2017 – £13,227,000). On 14th December 2018, the Board paid a priority dividend of 2.0p per share on the non-voting priority ordinary (NVPO) shares, together with an interim dividend of 1.0p per share for both Ordinary and NVPO shareholders. The directors recommend a final dividend of 3.0p per Ordinary and NVPO share making a total for the year of 4.0p per Ordinary share and 6.0p per NVPO share. In accordance with FRS 102, the final dividend of 3.0p is not shown as a liability in the financial statements as it has been proposed after the balance sheet date and will be included in the financial statements for 2019.

Preference dividends on the A and B preference shares amounting to £744,000 were paid in the year.

Research and development

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

Post balance sheet events

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

Directors

Details of the current directors are set out on pages 44 to 45. The following served as directors of the Company during the year ended 31st December, 2018 and up to the date of signing:

Non-Executive Directors

Alex Dorrian (Chairman)
Julie Baddeley
James Buxton
Jonathan Flint
(appointed 1st March 2019)
Peter Harvey
(resigned 23rd May 2018)
Christopher Sawyer
(resigned 23rd May 2018)
Philip Yea

Executive Directors

Sean Cummins
Robert Marshall

In accordance with the Articles of Association of the Company, Alex Dorrian and Sean Cummins will retire by rotation, and, being eligible, offer themselves for re-appointment as director at the Annual General Meeting ("AGM") to be held on 22nd May 2019. Jonathan Flint will retire on first appointment, and, being eligible, is offering himself for re-appointment as director at the AGM.

The interests of the directors, who were directors of the Company at the date of the approval of the financial statements, in the shares of the Company at 31st December 2018 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	-	-	-	-	-
Robert Marshall	205,900	29,500	275,763	373,167	-	60,666	-	28,333

The interests of the directors, who were directors of the Company at the date of the approval of the financial statements, at 1st January 2018 were:

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

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

Directors' indemnities
In accordance with 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, we maintained a directors' and officers' liability insurance policy throughout the year. Neither our 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 £48.0m (2017 - £66.6m) in new fixed assets and investments and a further £nil (2017 - £0.1m) in new businesses. The Group's other existing freehold investment properties were revalued by the directors, at 31st December 2018, resulting in a total valuation of £10.1m (2017 - £12.2m). A revaluation surplus of £0.1m (2017 – £0.1m) has been taken to the income statement and non-distributable reserves. Other tangible fixed assets' details and movements can be found in note 12 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 £17,000 (2017 - £32,000) during the year.

Political contributions
There were no political donations in either year.

Future developments and risk management
The Group Strategic Report gives further details on future developments and the Group's risk management framework, as set out on pages 8 to 43.

Governance
Governance reports are set out on pages 44 to 60.

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 8 to 43. 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 36 and 37 whilst the principal risks and uncertainties facing the Group are set out in the Group Strategic Report and specifically on pages 32 to 34. The Group is diversified across a number of customers and suppliers across different industries and the directors believe the Group is well placed to manage its business risks successfully. The Board has reviewed the latest budgets and forecasts for the Group and, as a result, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

BY ORDER OF THE BOARD

Sarah Moynihan
Group Company Secretary
27th March 2019

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Marshall of Cambridge (Holdings) Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31st December 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the group and parent company Balance Sheet, the group and parent company Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 31st December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the statement of directors' responsibilities set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:-

https://www.frc.org.uk/auditorsresponsibilities.

This description forms part of our auditor's report.

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

R. Forsyth

Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge, UK
27th March, 2019

Consolidated Income Statement

for the year ended 31st December, 2018

	Notes	**2018 £000** *Total*	2017 £000 *Continuing operations*	2017 £000 *Discontinued operations*	2017 £000 *Total*
Revenue	2,4	**2,483,942**	2,553,986	49,616	**2,603,602**
Cost of sales		**(2,112,152)**	(2,202,243)	(43,162)	**(2,245,405)**
Gross profit		**371,790**	351,743	6,454	**358,197**
Net operating expenses		**(350,970)**	(345,680)	(12,860)	**(358,540)**
Profit on transfer of land to joint venture entities	3	**22,621**	-	-	**-**
Other income - including gain on disposal of subsidiary		**2,708**	644	38,734	**39,378**
Operating profit	5	**46,149**	6,707	32,328	**39,035**
Net finance expenses	6	**(5,710)**	(8,278)	(580)	**(8,858)**
Profit / (loss) before taxation		**40,439**	(1,571)	31,748	**30,177**
Analysed as:					
Underlying profit / (loss) before tax		**36,038**	34,746	(6,603)	**28,143**
Separately disclosed exceptional items	3,4	**4,401**	(36,317)	38,351	**2,034**
Tax on profit / (loss)	7	**(9,895)**	(1,649)	1,743	**94**
Profit / (loss) after taxation		**30,544**	(3,220)	33,491	**30,271**
Attributable to:					
Owners of the parent		**27,678**			**13,227**
Non-controlling interests		**2,866**			**17,044**
		30,544			**30,271**
Basic and diluted earnings per share	8	**45.6p**			**21.1p**
Underlying earnings per share - continuing operations	8	**33.9p**			**31.4p**

Consolidated Statement of Comprehensive Income

for the year ended 31st December, 2018

	Notes	**2018 £000**	2017 £000
Profit after taxation		**30,544**	30,271
Exchange differences on re-translation of subsidiary undertakings		**(247)**	(3)
Fair value loss recognised on cash flow hedges		**(1,464)**	(34)
Taxation on cash flow hedges		**249**	(81)
Remeasurement (loss) / gain recognised on defined benefit pension scheme	29	**(660)**	5,762
Deferred tax credit / (charge) relating to defined benefit pension scheme	29	**112**	(980)
Total other comprehensive (expense) / income		**(2,010)**	4,664
Total comprehensive income		**28,535**	34,935
Total comprehensive income for the year attributable to:			
Non-controlling interests	22	**2,866**	17,044
Owners of the parent		**25,669**	17,891
		28,535	34,935

Balance Sheet
as at 31st December, 2018

	Notes	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Fixed assets					
Intangible fixed assets	11	**94,752**	112,295	**-**	-
Tangible fixed assets	12	**237,905**	218,932	**112**	111
Investments	13	**6,601**	4,810	**51,416**	50,859
Total fixed assets		**339,258**	336,037	**51,528**	50,970
Current assets					
Stocks	14	**406,034**	428,668	**-**	-
Debtors					
Amounts falling due within one year	15	**158,270**	154,733	**24,378**	46,551
Amounts falling due after more than one year	15	**28,330**	-	**-**	-
Cash at bank and in hand		**12,900**	19,662	**1,057**	20
		605,534	603,063	**25,435**	46,571
Creditors: amounts falling due within one year	16	**(619,624)**	(606,420)	**(24,604)**	(31,092)
Net current assets / (liabilities)		**(14,090)**	(3,357)	**831**	15,479
Total assets less current liabilities		**325,168**	332,680	**52,359**	66,449
Creditors: amounts falling due after more than one year	17	**(19,338)**	(12,513)	**(1,409)**	(1,412)
Provision for liabilities	19	**(37,928)**	(72,253)	-	-
Net assets before pension liability		**267,902**	247,914	**50,950**	65,037
Pension liability	29	**(9,860)**	(12,333)	**(9,860)**	(12,333)
Net assets		**258,042**	235,581	**41,090**	52,704
Capital and reserves					
Called up share capital	20	**15,785**	15,785	**15,785**	15,785
Share premium		**611**	611	**611**	611
Capital redemption reserve	21	**130**	130	**130**	130
Cash flow hedge reserve	21	**(1,215)**	-	**-**	-
Profit and loss account		**173,557**	150,859	**24,564**	36,178
Shareholders' funds		**188,868**	167,385	**41,090**	52,704
Non-controlling interests	22	**69,174**	68,196	**-**	-
Total capital employed		**258,042**	235,581	**41,090**	52,704

The loss for the financial year dealt with in the financial statements of the Parent Company was £7,053,000 (2017 – profit £35,511,000).

The financial statements of Marshall of Cambridge (Holdings) Limited were approved by the board of directors and authorised for issue on 27th March, 2019. They were signed on its behalf by:

S V Cummins

Director

Statement of Changes in Equity
for the year ended 31st December, 2018

Group	Share capital £000	Share premium £000	Capital redemption reserve £000	Cash flow hedge reserve £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total £000
At 1st January, 2017	15,785	611	130	115	138,854	155,495	50,001	205,496
Profit for the financial year	-	-	-	-	13,227	13,227	17,044	30,271
Other comprehensive (expense) / income	-	-	-	(115)	4,779	4,664	-	4,664
Total comprehensive (expense) / income for the year	-	-	-	(115)	18,006	17,891	17,044	34,935
Equity dividends paid (note 9 and 22)	-	-	-	-	(4,010)	(4,010)	(1,579)	(5,589)
Change in interest in subsidiaries' net assets	-	-	-	-	(1,991)	(1,991)	2,730	739
At 31st December, 2017	15,785	611	130	-	150,859	167,385	68,196	235,581
Profit for the financial year	-	-	-	-	27,678	27,678	2,866	30,544
Other comprehensive expense	-	-	-	(1,215)	(795)	(2,010)	-	(2,010)
Total comprehensive (expense) / income for the year	-	-	-	(1,215)	26,883	25,668	2,866	28,534
Equity dividends paid (note 9 and 22)	-	-	-	-	(4,013)	(4,013)	(1,758)	(5,771)
Change in interest in subsidiaries' net assets	-	-	-	-	(172)	(172)	(130)	(302)
At 31st December, 2018	**15,785**	**611**	**130**	**(1,215)**	**173,557**	**188,868**	**69,174**	**258,042**

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1st January, 2017	15,785	611	130	(106)	16,420
Profit for the financial year	-	-	-	35,511	35,511
Other comprehensive income	-	-	-	4,783	4,783
Total comprehensive income for the year	-	-	-	40,294	40,294
Equity dividends paid (note 9)	-	-	-	(4,010)	(4,010)
At 31st December, 2017	15,785	611	130	36,178	52,704
Loss for the financial year	-	-	-	(7,053)	(7,053)
Other comprehensive expense	-	-	-	(548)	(548)
Total comprehensive expense for the year	-	-	-	(7,601)	(7,601)
Equity dividends paid (note 9)	-	-	-	(4,013)	(4,013)
At 31st December, 2018	**15,785**	**611**	**130**	**24,564**	**41,090**

Consolidated Statement of Cash Flows

for the year ended 31st December, 2018

	Notes	2018 £000	2017 £000
Operating activities			
Net cash inflow from operating activities	10a	**44,752**	61,541
Investing activities			
Dividends received from investments		**-**	4
Interest received	6	**222**	165
Payments to acquire intangible fixed assets	11	**(259)**	(236)
Payments to acquire tangible fixed assets	12	**(45,994)**	(66,603)
Payments to acquire fixed asset investments	13	**(1,761)**	(1,792)
Receipts from sales of tangible fixed assets - excluding property		**363**	11,957
Receipts from sales of tangible fixed assets - property		**6,963**	22,202
Receipts from sales of businesses / subsidiaries		**-**	44,382
Receipts from sales of fixed assets investments		**229**	3,174
Acquisition of non-controlling interests in subsidiaries		**(50)**	-
Acquisition of businesses	11	**-**	(77)
		(40,287)	13,176
Financing activities			
Interest paid	6	**(1,747)**	(3,215)
Stock finance and other interest paid	6	**(4,923)**	(5,385)
Dividends paid to preference shareholders	9	**(744)**	(744)
Equity dividends paid	9	**(3,269)**	(3,266)
Settlement of exercised share options		**(968)**	-
Dividends paid to non-controlling interests	22	**(1,758)**	(1,579)
New loans and overdrafts	18	**32,354**	47,849
Repayment of loans	18	**(30,802)**	(106,579)
		(11,857)	(72,919)
(Decrease) / increase in cash and cash equivalents		**(7,392)**	1,798
Effect of exchange rates on cash and cash equivalents		**630**	(642)
Cash and cash equivalents at 1st January	10c	**19,662**	18,506
Cash and cash equivalents at 31st December	10c	**12,900**	19,662

Notes to the financial statements

1a. Accounting policies

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

The Group's and Parent Company's financial statements have been prepared in compliance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as it applies to the financial statements of the Group and Parent Company for the year ended 31st December, 2018.

No Income Statement is presented for the Parent Company as permitted by Section 408 of the Companies Act 2006.

Basis of preparation and change in accounting policy
The financial statements of Marshall of Cambridge (Holdings) Limited were authorised for issue by the board of directors on 27th March, 2019. The financial statements have been prepared in accordance with applicable accounting standards. They have been prepared in sterling which is the functional currency of the Group and the Parent Company and are rounded to the nearest £'000.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Parent Company and all of its subsidiary undertakings drawn up to 31st December each year.

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

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

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

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

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

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 subsidiary 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 fair value of any asset or liability resulting from a contingent consideration arrangement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with FRS102.

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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination that meet the recognition criteria under FRS102.

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

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

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

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

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

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

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

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

Notes to the Financial Statements

1a. Accounting policies (continued)

Tangible fixed assets (continued)

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

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

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

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

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

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

- Investment properties are initially recognised at cost which includes purchase cost and any directly attributable expenditure.
- Investment properties whose fair value can be measured reliably are measured at fair value. The surplus or deficit on revaluation is recognised in the Income Statement. The Group engages independent valuers to assist the directors in determining fair value.
- After initial recognition, investment properties whose fair value can be measured reliably without undue cost or effort are recorded at fair value. The surplus or deficit on revaluation is recognised in the 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 the sale, the property is transferred to inventory.
- Properties held in the course of development are valued using the discounted cash flow technique to arrive at the fair value of the asset.
- Transfers into and out of investment properties are performed at fair value determined above.

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

a) the items traded in the market are homogeneous;

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

c) prices are available to the public.

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

1a. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. In 2018, the currency derivatives in some of the subsidiaries met the requirements for hedge accounting in full and qualify for fair value hedge accounting.

Notes to the Financial Statements

1a. Accounting policies (continued)

Derivative financial instruments (continued)
Changes in the value of derivatives are recognised in the 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 Income Statement when the derivative is settled.

Government grants
Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

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

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

Non-current assets
All long-term balances which are basic financial instruments 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 Income Statement.

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 employees to receive shares in the Company.

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 and is recognised as an employee expense within underlying earnings, with a corresponding increase in equity.

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.

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 performance 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 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.

When options are exercised, MMH issues new shares. These shares are gifted to its Employee Benefit Trust by MMH at nominal value. The cost of these shares is recognised as a reduction to equity in its own shares reserve. When the options are exercised and the shares transferred to the employees, the cost on the own shares reserve is transferred to equity.

When options issued by the Employee Benefit Trust are exercised the own shares reserve is reduced and a gain or loss is recognised in reserves based on proceeds less weighted-average cost of shares initially purchased now exercised.

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 Income Statement with a corresponding adjustment through the Consolidated Statement of Changes in Equity.

Notes to the Financial Statements

1a. Accounting policies (continued)

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

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

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

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

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

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

1b. Judgements and key sources of estimation uncertainty

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

Judgements

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

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

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income Statement. The Group engaged independent valuation specialists to assist the directors in determining fair value at 31st December, 2018. The valuer determines fair value by considering comparable local market data such as rental yields, location, condition and nature of the property.

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

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

Estimates

Long term contracts

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

Impairment of intangible assets

The Group reviews the goodwill arising on the acquisition of subsidiaries or businesses 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 the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying asset or group of assets and related goodwill, an impairment charge is recorded in the Income Statement.This calculation requires the exercise of significant judgement by management. If the estimates made prove to be incorrect or changes in the performance of the cash generating unit affect the amount and timing of future cash flows, goodwill may become impaired in future periods.

Impairment of tangible fixed assets

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

Motor vehicle inventory valuation

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

Assets held for contract hire

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

Unwinding of discounting

The fair value of 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. This estimate is based on our current intention and latest available information.

Notes to the Financial Statements

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

Pensions

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

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

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

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

2. Segmental analysis

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

	Revenue		**Operating profit / (loss)**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Business segments:				
Aerospace and Defence	**247,778**	295,411	**12,219**	(23,024)
Property	**7,951**	8,040	**24,683**	17,492
Ventures				
- Motor retail	**2,186,887**	2,231,979	**17,223**	22,317
- Fleet solutions	**47,443**	42,761	**(1,663)**	(2,768)
	2,234,330	2,274,740	**15,560**	19,549
Unallocated central costs	**-**	-	**(6,313)**	(7,310)
Consolidation adjustments	**(6,117)**	(24,205)	**-**	-
Continuing operations	**2,483,942**	2,553,986	**46,149**	6,707
Aerospace and Defence	**-**	12,647	**-**	(10,309)
Leasing	**-**	36,969	**-**	42,637
Discontinued operations	**-**	49,616	**-**	32,328
	2,483,942	2,603,602	**46,149**	**39,035**

2. Segmental analysis (continued)

	Revenue by destination		Revenue by origin	
	2018	2017	**2018**	2017
Geographical segments:	**£000**	£000	**£000**	£000
UK	**2,381,544**	2,442,923	**2,463,865**	2,542,765
Rest of Europe	**27,912**	32,727	**860**	1,215
North America	**54,640**	44,916	**19,217**	9,212
Rest of World	**19,846**	33,420	**-**	794
Continuing operations	**2,483,942**	2,553,986	**2,483,942**	2,553,986
UK	**-**	41,708	**-**	49,616
Rest of Europe	**-**	5,172	**-**	-
North America	**-**	167	**-**	-
Rest of World	**-**	2,569	**-**	-
Discontinued operations	**-**	49,616	**-**	49,616
	2,483,942	2,603,602	**2,483,942**	2,603,602

	2018	2017
The total amount of income, including revenue, recognised in the year is analysed as follows:	**£000**	£000
Sale of goods	**2,003,669**	2,050,170
Rendering of services (including long term contracts)	**478,956**	502,476
Rents received	**1,317**	1,340
Revenue - continuing	**2,483,942**	2,553,986
Rendering of services - discontinuing	**-**	49,616
Revenue	**2,483,942**	2,603,602
Interest received	**1,235**	165
Research and development expenditure credit	**2,182**	274
Dividends received	**-**	4
Other income	**526**	753
Total income	**2,487,885**	2,604,798

Revenue recognised on long term contracts was £228,466,000 (2017 - £250,773,000).

Notes to the Financial Statements

3. Separately disclosed exceptional items

	2018 £000	2017 £000
Details of separately disclosed exceptional items:		
Amortisation of intangible fixed assets (note 11)	**(4,791)**	(4,765)
Impairment of intangible fixed assets	**(13,011)**	-
Impairment of tangible fixed assets	**-**	(1,601)
Provision for losses on complex programme *	**-**	(30,943)
Restructuring release / (costs)	**1,232**	(13,120)
Cyber security incident response	**(772)**	-
Profit on transfer of land to joint venture entities	**22,621**	-
(Loss) / profit on disposal of tangible fixed assets	**(878)**	14,112
From continuing operations	**4,401**	(36,317)
From discontinued operations (note 4)	**-**	38,351
Separately disclosed exceptional items	**4,401**	2,034

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

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

- Charges for amortisation of acquired intangible assets and impairment of intangible fixed assets;
- Impairment of tangible fixed assets;
- Provision for losses anticipated on the completion of a major complex project within MADG;
- Other costs relating to organisational restructuring;
- Costs relating to exceptional IT security expenditure;
- Profit on transfer of land to joint venture entities;
- (Loss) / profit on disposal of property; and
- Profit on disposal of subsidiary (note 4).

4. Disposals and discontinued operations

a) Disposals

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

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

4. Disposals and discontinued operations (continued)

a) Disposals (continued)

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

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

	2017 £000
Net cash inflow from operating activities	**16,027**
Purchase of property, plant, equipment and software	(34,700)
Proceeds from sale of property, plant and equipment	9,474
Net cash outflow from investing activities	**(25,226)**
Proceeds from borrowings	31,778
Repayment of borrowings	(28,106)
Dividends paid	(18,712)
Net cash outflow from financing activities	**(15,040)**
Net decrease in cash generated by the subsidiary	**(24,239)**

b) Discontinued operations

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

Notes to the Financial Statements

5. Operating profit

		2018	2017
		£000	£000
Operating profit is after charging / (crediting):			
Depreciation	- tangible fixed assets	15,889	34,610
Amortisation	- positive goodwill and intangible assets	4,791	4,765
Impairment	- tangible fixed assets	87	1,601
	- other assets	-	506
	- goodwill and franchise agreements (intangibles)	13,011	447
Operating lease rentals	- land and buildings	11,063	10,784
	- plant and machinery	1,697	367
Net foreign exchange (gain) / loss		(975)	322
Profit on transfer of land to joint venture entities		(22,621)	-
Profit on disposal of property		(268)	(14,112)
Loss on disposal of investment property		1,228	-
(Profit) / loss on disposal of tangible fixed assets (excluding property)		(3)	2,070
Research and development	- current year expenditure	4,000	1,300
Research and development expenditure credit included in other income		(2,182)	(274)
Gain on revaluation of investment properties		(85)	(133)
Gain on revaluation of investments		(227)	(719)
Amounts provided against investments		171	242
Income from investments		-	(4)
Auditor's remuneration	- audit of the financial statements of the parent company	64	60
	- audit of subsidiary undertakings	510	553
	- review of subsidiary's interim financial statements	36	36
	- non audit services	-	26

6. Net finance expenses

	2018	2017
	£000	£000
(a) Finance income		
Bank interest receivable	**211**	108
Interest receivable from joint ventures	**45**	-
Other interest receivable	**11**	-
Unwind of discounting	**968**	-
Interest receivable on tax receipts	**-**	57
	1,235	165

	2018	2017
(b) Finance cost	**£000**	£000
Bank loans and overdrafts - interest and charges	**1,747**	2,410
Interest payable on asset backed finance	**-**	805
Interest payable to joint ventures	**93**	-
Stock financing charges and other interest	**4,923**	5,385
Interest on defined benefit scheme liabilities	**182**	423
	6,945	9,023
Net finance expenses	**5,710**	8,858

Interest payable to joint ventures relates to a Homes England infrastructure loan to fund the construction of the Ground Running Enclosure, drawn by Hill Marshall LLP. 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.

Notes to the Financial Statements

7. Tax on profit / (loss)

	2018 £000	2017 £000
(a) Analysis of tax charge / (credit) for the year		
UK corporation tax charge on the profit for the year	**6,406**	5,545
UK corporation tax adjustment in respect of prior years	**(458)**	113
Overseas tax on profit for the year	**288**	344
Overseas tax adjustment in respect of prior years	**(10)**	91
Current tax charge	**6,226**	6,093
Deferred tax charge / (credit) (see note 19b)	**3,669**	(6,187)
Total tax charge / (credit) on profit	**9,895**	(94)

	2018 £000	2017 £000
(b) Factors affecting the total tax charge / (credit) for the year		
Profit before tax	**40,439**	30,177
Profit before tax at 19% (2017 - 19.25%)	**7,683**	5,809
Effects of:		
Expenses not deductible for tax purposes	**4,293**	2,376
Overseas tax losses not recognised	**-**	29
Overseas tax	**222**	169
Non taxable income	**(5,221)**	(7,528)
Difference in rate between corporation tax and deferred tax	**(397)**	541
Utilisation of brought forward losses on which no deferred tax asset recognised	**88**	462
R&D enhanced claims	**(308)**	-
Taxable chargeable gains	**3,060**	-
Adjustments in respect of prior years	**(1,444)**	(415)
Change in recognition of deferred tax	**1,919**	(1,537)
Total	**9,895**	(94)

	2018 £000	2017 £000
(c) Tax included in the statement of other comprehensive income		
Current taxation on cash flow hedges	**(249)**	81
Difference in rate between corporation tax and deferred tax on actuarial loss / (gain)	**-**	(130)
Deferred tax (credit) / charge on actuarial loss / (gain)	**(112)**	1,110
Tax (credit) / charge included in the statement of other comprehensive income	**(361)**	1,061

d) Factors that may affect future tax charges

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

There have been no changes to the standard rate of corporation tax announced during 2018.

The standard rate of tax applied to reported profit / (loss) is 19.00% (2017 - 19.25%). Finance Act 2016 enacted a reduction in the UK corporation tax rate to 17% with effect from 1 April 2020. These changes to UK corporation tax rates impact the closing deferred tax position for 2018.

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 £692,000 (2017 - £1,593,000) in respect of losses arising that can be carried forward against future taxable profits in the companies in which the losses arose.

During the year ending 31st December, 2018, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £1,696,000. This is due to the anticipated change of deferred tax on fixed asset timing differences and utilisation of brought forward tax losses.

7. Tax on profit / (loss) (continued)

e) Close company

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

8. Earnings per share

	2018 £000	2017 £000
Profit after taxation	**30,544**	30,271
Non-controlling interests	**(2,866)**	(17,044)
Dividends on preference shares	**(744)**	(744)
Basic earnings	**26,934**	12,483
Separately disclosed exceptional items continuing operations (note 3)	**(4,401)**	36,317
- tax impact	**2,280**	(8,295)
- non-controlling interest impact	**(4,810)**	(3,843)
Profit on discontinued operations	**-**	(31,748)
- tax impact	**-**	(1,743)
- non-controlling interest impact	**-**	15,387
Underlying earnings	**20,003**	18,558
Weighted average number of shares in issue during the year (000)	**59,082**	59,082
Basic and diluted earnings per share	**45.6p**	21.1p
Basic and diluted earnings per share - discontinued operations	**0.0p**	30.6p
Underlying earnings per share - continuing operations	**33.9p**	31.4p

Basic earnings per share are 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 and discontinued operations, are adopted to assist the understanding of the underlying performance of the Group. Underlying earnings per share are calculated by dividing the underlying earnings for the year by the average number of Ordinary and NVPO shares in issue during the year.

9. Dividends

	2018 £000	2017 £000
Dividends on Ordinary shares:		
3.00p per Ordinary share of 12.5p each paid on 6th July, 2018 (30th June, 2017 - 3.0p)	**415**	419
1.00p per Ordinary share of 12.5p each paid on 14th December, 2018 (15th December, 2017 - 1.0p)	**138**	139
	553	558
Dividends on NVPO shares		
3.00p per NVPO share of 12.5p each paid on 6th July, 2018 (30th June, 2017 - 3.0p)	**1,358**	1,354
3.00p per NVPO share of 12.5p each paid on 14th December, 2018 (15th December, 2017 - 3.0p)	**1,358**	1,354
	2,716	2,708
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**	4,010

Notes to the Financial Statements

10. Notes to the statement of cash flows

	2018	2017
	£000	£000
a) Reconciliation of profit to net cash inflow from operating activities		
Group profit before tax	**40,439**	30,177
Profit on disposal of tangible fixed assets	**(21,665)**	(12,042)
Profit on disposal of investments	**(203)**	-
Profit on disposal of subsidiaries / businesses	**-**	(38,351)
Gain on investment properties at fair value through profit and loss	**(85)**	(133)
Gain on investments at fair value through profit and loss	**(227)**	(719)
Amounts provided against investments	**171**	242
Income from investments	**-**	(4)
Net finance charges	**5,710**	8,858
Foreign exchange movement	**(2,334)**	502
Depreciation of tangible fixed assets and impairment charges	**15,976**	36,211
Amortisation of intangible fixed assets and impairment charges	**17,802**	5,212
Research and expenditure credit	**(2,182)**	(274)
Decrease / (increase) in stocks	**22,636**	(18,939)
(Increase) / decrease in debtors	**(11,426)**	22,696
(Decrease) / increase in provisions	**(33,701)**	23,814
Increase in creditors	**23,161**	6,008
Share based payment charge	**732**	739
Adjustment for pension funding	**(3,315)**	162
UK corporation tax paid	**(6,092)**	(2,594)
Overseas tax paid	**(645)**	(24)
Net cash inflow from operating activities	**44,752**	61,541

b) Reconciliation of net cash flow to movement in net (debt) / funds	Notes	2018	2017
		£000	£000
(Increase) / decrease in cash		**(6,762)**	1,156
Acquisitions - debt repaid	18	**-**	25,705
Acquisitions - derivatives repaid	18	**-**	1,258
Disposal - debt	18	**-**	68,185
Cash inflow from new loans	18	**(32,354)**	(47,849)
Repayment of loans	18	**30,802**	79,616
(Decrease) / increase in net funds		**(8,314)**	128,071
Net funds / (debt) at 1st January		**5,917**	(122,154)
Net (debt) / funds at 31st December		**(2,397)**	5,917

c) Analysis of net funds / (debt)	**At 1st January, 2018**	**Cash movement**	**Non-cash movement**	**Foreign exchange**	**At 31st December, 2018**
	£000	**£000**	**£000**	**£000**	**£000**
Cash at bank and in hand	19,662	(7,392)	-	630	**12,900**
Bank overdrafts	(6,637)	(2,354)	-	-	**(8,991)**
Short term loans	(642)	802	(801)	-	**(641)**
Long term loans	(6,466)	-	801	-	**(5,665)**
Net funds / (debt)	5,917	(8,944)	-	630	**(2,397)**

11. Intangible fixed assets

	Franchise agreements £000	Goodwill £000	Software £000	Favourable leases £000	Order backlog £000	Total £000
Cost:						
At 1st January, 2017	72,115	64,818	1,079	172	769	138,953
Additions	-	-	236	-	-	236
Acquisitions	22	-	-	-	-	22
Disposals	-	-	-	-	(769)	(769)
Transfers	-	-	57	-	-	57
At 31st December, 2017	**72,137**	**64,818**	**1,372**	**172**	**-**	**138,499**
Additions	-	-	259	-	-	259
Disposals	-	(1,272)	-	-	-	(1,272)
At 31st December, 2018	**72,137**	**63,546**	**1,631**	**172**	**-**	**137,486**
Amortisation:						
At 1st January, 2017	44	20,539	376	33	769	21,761
Provided during the year	57	4,404	247	57	-	4,765
Impairment	-	447	-	-	-	447
Disposals	-	-	-	-	(769)	(769)
At 31st December, 2017	**101**	**25,390**	**623**	**90**	**-**	**26,204**
Provided during the year	57	4,382	295	57	-	4,791
Impairment	5,640	7,371	-	-	-	13,011
Disposals	-	(1,272)	-	-	-	(1,272)
At 31st December, 2018	**5,798**	**35,871**	**918**	**147**	**-**	**42,734**
Net book amount:						
At 31st December, 2018	**66,339**	**27,675**	**713**	**25**	**-**	**94,752**
Net book amount:						
At 1st January, 2018	72,036	39,428	749	82	-	112,295

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, or fair value less costs of sale calculations. These calculations use projections based on financial budgets approved by the management which are extrapolated using the estimated long-term growth rates. The budgets were prepared to 31st December 2019 and then projected for a further 4 years. A discounted cash flow model was prepared taking into account management's assumptions for growth in EBITDA and the long-term growth rate for the industry. These assumptions are based on past experience of growth rates in both existing and new markets. The discount rate used is 10.5% and the perpetual EBITDA growth rate beyond 5 years is assumed as 2% to arrive at a terminal value.

An impairment charge of £13.0m (2017 - £nil) has been recognised in the Income Statement where the future cash flows of certain motor retail CGUs are not expected to recover the carrying value of the intangible assets relating to goodwill and franchise agreements. The impairments recorded are a consequence of the deterioration in market conditions in these CGUs, resulting in revised assumptions around future profitability and growth rates.

Notes to the Financial Statements

12. Tangible fixed assets

Group	Land and buildings: Freehold properties	Land and buildings: Investment properties	Land and buildings: Short leasehold	Plant and machinery	Assets under construction	Total
	£000	£000	£000		£000	£000
Cost or valuation:						
At 1st January, 2018	181,130	12,159	16,677	153,426	5,123	368,515
Additions	2,775	5,800	533	9,959	26,927	45,994
Disposals	(4,345)	(7,173)	(1,386)	(7,939)	-	(20,843)
Eliminated on transfer to investment properties	-	(840)	-	-	-	(840)
Transfers*	4,001	62	4,873	3,205	(12,141)	-
Revaluation	-	85	-	-	-	85
Exchange adjustment	-	-	-	(33)	-	(33)
At 31st December, 2018	**183,561**	**10,093**	**20,697**	**158,618**	**19,909**	**392,878**
Depreciation:						
At 1st January, 2018	36,056	-	5,610	107,917	-	149,583
Provided during the year	3,245	-	1,773	10,871	-	15,889
Impairment provision	-	-	-	87	-	87
Eliminated on disposals	(772)	-	(1,422)	(7,528)	-	(9,722)
Eliminated on transfer to investment properties	-	(840)	-	-	-	(840)
Transfers*	(822)	840	324	(342)	-	-
Exchange adjustment	-	-	-	(24)	-	(24)
At 31st December, 2018	**37,707**	**-**	**6,285**	**110,981**	**-**	**154,973**
Net book value:						
At 31st December, 2018	**145,854**	**10,093**	**14,412**	**47,637**	**19,909**	**237,905**
Net book value:						
At 1st January, 2018	145,074	12,159	11,067	45,509	5,123	218,932

Included within freehold land and buildings are costs of £4,367,000 (2017 - £3,765,000) which relate to costs incurred on planning applications submitted and to be submitted.

***Transfers to software**
On integration of the Ridgeway businesses into the Group, certain items of software were identified in the tangible fixed assets records of the recently acquired businesses. These software assets have been reclassified from property, plant and equipment to intangible assets (see Note 11 'Intangible Fixed Assets') consistent with the Group's accounting policies.

12. Tangible fixed assets (continued)

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

Fair value is determined by considering comparable market data such as rental yields, location, condition and nature of the property. Motor retail investment properties no longer occupied by the Group for trading purposes have been included at a directors' valuation of £2,590,000 (2017 – £2,590,000), having taken professional advice. Following a number of disposals during the year, the remaining Group freehold investment properties have been included at a directors' valuation of £7,503,000 (2017 - £9,569,000). These properties were formally valued on an open market basis by Bidwells, Chartered Surveyors on 31st December, 2014. A revaluation surplus of £85,000 (2017 – £133,000) has been taken to the Income Statement.

The historical cost of the investment properties held at valuation in land and buildings is £10,598,000 (2017 - £9,494,000). There are no restrictions on the Group's ability to dispose of the investment properties or use any funds arising from the disposal. There are no contractual commitments for further development of the investment properties.

Company	**Plant and machinery £000**	**Motor vehicles £000**	**Total £000**
Cost:			
At 1st January, 2018	435	279	714
Additions	37	-	37
Disposals	-	(92)	(92)
At 31st December, 2018	**472**	**187**	**659**
Depreciation:			
At 1st January, 2018	347	256	603
Provided during the year	28	8	36
Disposals	-	(92)	(92)
At 31st December, 2018	**375**	**172**	**547**
Net book value:			
At 31st December, 2018	**97**	**15**	**112**
Net book value:			
At 1st January, 2018	88	23	111

Notes to the Financial Statements

13. Investments

Group	Equity Investments £000
Cost or valuation:	
At 1st January, 2018	6,219
Additions	1,761
Disposals	(702)
Fair value increase	227
At 31st December, 2018	**7,505**
Provision:	
At 1st January, 2018	1,409
Provided during the year	171
Disposal	(676)
At 31st December, 2018	**904**
Net book value:	
At 31st December, 2018	**6,601**
Net book value:	
At 1st January, 2018	4,810

13. Investments (continued)

Company	Subsidiary undertakings £000	Equity Investments £000	Total £000
Cost or valuation:			
At 1st January, 2018	56,049	6,209	62,258
Additions	-	1,761	1,761
Disposal	-	(692)	(692)
Fair value increase	-	227	227
At 31st December, 2018	**56,049**	**7,505**	**63,554**
Provision:			
At 1st January, 2018	10,000	1,399	11,399
Provided during the year	1,234	171	1,405
Disposal	-	(666)	(666)
At 31st December, 2018	**11,234**	**904**	**12,138**
Net book value:			
At 31st December, 2018	**44,815**	**6,601**	**51,416**
Net book value:			
At 1st January, 2018	46,049	4,810	50,859

The Company's direct investments in subsidiary undertakings at 31st December, 2018 were as follows:

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

The registered office for the subsidiaries listed above is Airport House, The Airport, Cambridge, CB5 8RY.

Notes to the Financial Statements

13. Investments (continued)

Other 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 Aircraft Sales Limited	England and Wales	Cambridge**
Marshall ADG Limited	England and Wales	Cambridge**
Marshall Middle East Limited	England and Wales	Cambridge**
Slingsby Holdings 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 Australia Pty Limited	Australia	Engineering Service (Australia), Hangar 523 RAAF Base, Richmond, NSW 2755
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**
Slingsby Aerospace Limited	England and Wales	Cambridge**
Slingsby Aviation Limited	England and Wales	Cambridge**
Slingsby 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, 2018.

** The registered office for these companies is Airport House, The Airport, Cambridge, CB5 8RY.

All of the above subsidiaries are included in the consolidation.

During 2017, the Group entered into two joint venture agreements with Hill Residential Limited. The Group has a 50% ownership of the joint venture vehicles, Hill Marshall LLP and Hill Marshall (Phase 2) LLP, which were created to enable Phases 1 and 2 of the Wing development. The loan balance with Hill Marshall LLP is disclosed in note 15, this is also the total of transactions in the period to support the development activities of both joint ventures.

14. Stocks

	Group	
	2018	2017
	£000	£000
Raw materials, components and consumables	**8,632**	10,320
Work in progress	**10,632**	10,633
Finished goods and goods for resale	**386,770**	407,715
	406,034	428,668

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

As at 31st December, 2018 £370,823,000 (2017 – £380,641,000) of finished goods are held under vehicle funding agreements (see note 16).

Stocks recognised as an expense in the year were £2,097m (2017 – £2,109m). The difference between purchase price and production cost of stocks and their replacement cost is not considered material by the directors.

15. Debtors

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Amounts falling due within one year				
Trade debtors	**75,650**	95,086	**-**	-
Amounts recoverable on long term contracts	**19,472**	15,740	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**21,336**	43,197
Amounts owed by joint ventures	**-**	702	-	-
Corporation tax recoverable	**363**	-	**-**	-
Other taxes recoverable	**755**	276	**-**	-
Other debtors	**42,764**	19,030	**77**	50
Prepayments and accrued income	**15,982**	16,674	**462**	293
Deferred tax asset (note 19b)	**3,284**	7,225	**2,503**	3,011
	158,270	154,733	**24,378**	46,551
Amounts falling due after more than one year				
Amounts owed by joint ventures	**28,330**	-	**-**	-
	186,600	154,733	**24,378**	46,551

Amounts owed by joint ventures comprise £26,389,000 representing 50% of the fair value of land transferred to Hill Marshall LLP ("LLP1") and Hill Marshall (Phase 2) LLP ("LLP2"), and the cost value of remaining 50% of land transferred to LLP1 and LLP2 and £1,941,000 comprising costs settled by the company on behalf of 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 £1,350,186 to cover the costs incurred on behalf of LLP1 attracts interest at a rate of 4.75%. The loan of £591,034 to cover the costs incurred on behalf of LLP2 is currently interest free until the joint venture for Phase 2 is finalised.

Notes to the Financial Statements

16. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Loans and overdrafts	**9,632**	7,279	**9,016**	5,762
Payments received on account	**49,373**	6,862	**-**	-
Trade creditors	**97,771**	103,390	**130**	135
Vehicle funding agreements	**370,823**	380,641	**-**	-
Derivative financial instruments	**1,184**	54	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**7,276**	16,476
Corporation tax payable	**-**	2,338	**-**	501
Other taxation and social security costs	**12,302**	14,203	**32**	231
Other creditors	**4,818**	11,485	**-**	-
Accruals and deferred income	**73,721**	80,168	**8,150**	7,987
	619,624	606,420	**24,604**	31,092

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

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

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

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

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Loans and mortgages	**5,665**	6,466	**-**	-
Amounts owed to joint ventures	**7,706**	-	**-**	-
Accruals and deferred income	**5,967**	6,047	**1,409**	1,412
	19,338	12,513	**1,409**	1,412

Included within accruals and deferred income are costs of £1,409,000 (2017 - £1,412,000) relating to long-term employee benefits.

Amounts owed to joint ventures relates to Homes England infrastructure loan drawn by Hill Marshall LLP to fund the construction of the Ground Running Enclosure.

18. Loans

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Amounts falling due:				
Within one year	**9,632**	7,279	**9,016**	5,762
Between one and five years	**2,566**	2,565	**-**	-
More than five years	**3,099**	3,901	**-**	-
	15,297	13,745	**9,016**	5,762
Less: included in creditors: amounts falling due within one year	**(9,632)**	(7,279)	**(9,016)**	(5,762)
Amounts falling due after more than one year	**5,665**	6,466	**-**	-

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Bank overdrafts	**8,991**	6,637	**9,016**	5,762
Mortgages	**6,306**	7,108	**-**	-
	15,297	13,745	**9,016**	5,762

	Group		Company	
	2018	2017	**2018**	2017
Analysis of changes in loan financing during the year:	**£000**	£000	**£000**	£000
At 1st January	**13,745**	140,660	**5,762**	21,000
Acquisitions - debt repaid	**-**	(25,705)	**-**	-
Acquisitions - derivatives repaid	**-**	(1,258)	**-**	-
New loans	**32,354**	47,849	**3,254**	5,762
Loans disposed	**-**	(68,185)	**-**	-
Loans repaid	**(30,802)**	(79,616)	**-**	(21,000)
At 31st December	**15,297**	13,745	**9,016**	5,762

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

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

Total loans include bank loans which are unsecured and asset backed financing, which is secured by a fixed charge over specific vehicles held for leasing. Asset backed finance in respect of assets held for contract rental are secured by fixed charges over specific vehicles. The related finance comprises chattel mortgages. All asset based finance ceased during 2017 following the disposal of Marshall Leasing Limited.

The Group (excluding MMH) has a multi-option facility amounting to £75,000,000 of which £nil (2017 - £nil) was utilised at the year end. Subject to bank approval, the revolving credit facility has an option to be extended by a further £15,000,000. These facilities are available for general corporate purposes including acquisitions or working capital requirements. Interest is chargeable on the amounts drawn under the facilities at between 1.0% and 2.0% above LIBOR. The facilities are unsecured but contain cross guarantees granted by certain members of the Group, excluding MMH. The facility is available until April 2021. Subject to bank approval, the Group is also able to extend the term of the facility by up to 12 months.

Marshall Motor Holdings plc has access to additional banking facilities amounting to £120,000,000 represented by a revolving credit facility of £95,000,000, of which £nil (2017 - £nil) was utilised at the year end and an overdraft facility of £25,000,000, of which £nil (2017 - £nil) was utilised at the year end. These facilities are available for general corporate purposes including acquisitions or working capital requirements. Both facilities are held in cash pooling arrangements and balances have been offset in the consolidated statement of the financial position. The facilities are unsecured but contain cross guarantees granted by certain members of the MMH Group. The facility is available until May 2021.

19. Provision for liabilities

		Group
	2018	2017
	£000	£000
Closed sites	**99**	527
Dilapidations, onerous leases and contracts	**18,735**	51,275
Redundancy	**1,054**	1,338
Tax	**-**	237
Warranty	**688**	900
	20,576	54,277
Deferred tax (see note 19b)	**17,352**	17,976
	37,928	72,253

(a) Provisions excluding deferred tax

	Closed sites	**Dilapidations onerous leases and contracts**	**Redundancy**	**Tax**	**Warranty**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 1st January, 2018	527	51,275	1,338	237	900	54,277
Transfer from accruals	-	530	-	-	-	530
Arising during the year	35	2,928	1,865	-	117	4,945
Amounts utilised	(328)	(31,363)	(2,149)	(237)	(147)	(34,224)
Amounts released	(135)	(4,635)	-	-	(182)	(4,952)
At 31st December, 2018	**99**	**18,735**	**1,054**	**-**	**688**	**20,576**

Closed sites
The Group manages its portfolio carefully and either closes or sells sites which no longer fit with the Group's strategy. When sites are closed, or sold, provisions are made for any residual costs or commitments. The Group expects the provision to be fully utilised by 31st December, 2019.

Dilapidations, onerous leases and contracts
The Group operates from several leasehold premises under full repairing leases. The provision recognises that repairs are required to put the buildings back into the state of repair required under the leases. Where property commitments exist at sites which are closed or closing the Group provides for the unavoidable cost of those leases post closure. The £4,635,000 release of unutilised provision resulted from the better than expected exit from these lease commitments on premises no longer used by the Group. The Group expect the provision to be fully utilised by 31st December, 2019.

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

Redundancy provision
A redundancy provision has been recognised in relation to the remaining costs expected to be incurred in completion of the restructuring exercise that commenced during 2017 and will complete in 2019.

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

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

19. Provision for liabilities (continued)

(b) Deferred tax

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

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Accelerated capital allowances	**206**	(651)	**(40)**	(45)
Tax losses carried forward	**(2,896)**	(4,633)	**-**	-
Rolled over gains and investment properties	**2,920**	1,992	**-**	-
Deferred tax on defined benefit pension scheme	**(1,676)**	(2,097)	**(1,676)**	(2,097)
Deferred tax on unremitted earnings	**279**	131	**-**	-
Deferred tax arising on business combinations	**16,937**	17,451	**-**	-
Other timing differences	**(1,702)**	(1,442)	**(787)**	(869)
	14,068	10,751	**(2,503)**	(3,011)

	Group		Company	
	2018	2017	**2018**	2017
Shown as:	**£000**	£000	**£000**	£000
Deferred tax asset	**(3,284)**	(7,225)	**(2,503)**	(3,011)
Deferred tax liability	**17,352**	17,976	**-**	-
	14,068	10,751	**(2,503)**	(3,011)

The movement in the deferred tax liability / (asset) during the year comprises as follows:	**Group**	**Company**
	£000	**£000**
At 1st January, 2018	10,751	(3,011)
Charge to the Income Statement for the year	3,669	620
Disposals during the year	9	-
Deferred taxation in Other Comprehensive Income	(361)	(112)
At 31st December, 2018	**14,068**	(2,503)

The deferred tax charge / (credit) in the Income Statement for the year comprises as follows:	Group	
	2018	2017
	£000	£000
Origination and reversal of timing differences	**4,645**	(5,568)
Adjustments in respect of prior years	**(976)**	(619)
	3,669	(6,187)

Notes to the Financial Statements

19. Provision for liabilities (continued)

The deferred tax asset not recognised comprises as follows:		Group
	2018	2017
	£000	£000
Trading losses	**692**	1,593
Excess of depreciation over capital allowances	**-**	115
Other short term timing differences	**-**	71
	692	1,779

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.

20. Share capital

	Alloted, called up and fully paid			
	2018	2017	**2018**	2017
	No. '000	No. '000	**£000**	£000
Ordinary shares of 12.5p each	**13,811**	13,940	**1,727**	1,743
Non-voting priority dividend ordinary NVPO shares of 12.5p each	**45,271**	45,142	**5,658**	5,642
8% irredeemable A preference shares £1 each	**4,800**	4,800	**4,800**	4,800
10% irredeemable B preference shares of £1 each	**3,600**	3,600	**3,600**	3,600
	67,482	67,482	**15,785**	15,785

	Ordinary shares at 12.5p each		**NVPO shares at 12.5p each**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
At 1st January	**1,743**	1,743	**5,642**	5,642
Ordinary shares converted to NVPO shares	**(16)**	-	**16**	-
At 31st December	**1,727**	1,743	**5,658**	5,642

Rights of non-voting priority dividend ordinary (NVPO) shares

NVPO shares rank pari passu with Ordinary shares except for the following:

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

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

Rights of preference shares

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

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

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

During 2018, holders of 128,983 Ordinary shares converted them into NVPO shares (2017 – nil).

21. Reserves

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

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

22. Non-controlling interests

	2018	2017
	£000	£000
At 1st January	**68,196**	50,001
Non-controlling interests profit after taxation	**2,866**	17,044
Equity dividends paid by Marshall Motor Holdings plc to third parties	**(1,758)**	(1,579)
Further change in parent company's interest in the net assets of Marshall Motor Holdings plc following issue of share options	**(130)**	2,730
At 31st December	**69,174**	68,196

The Group's interest in the net assets of Marshall Motor Holdings plc on 31st December, 2018 was 62.75% (2017 – 62.78%).

23. Contingent liabilities

Guarantees to third parties, granted by subsidiary undertakings, amounted to £800,000 (2017 - £830,000). Performance guarantees granted by subsidiary undertakings amounted to £10,108,000 (2017 - £10,204,000). The Group (excluding MMH) has access to a £75,000,000 banking facility (note 18) which is secured by cross guarantees granted by certain members of the Group, excluding MMH. Marshall Motor Holdings plc has access to additional banking facilities which are secured by cross guarantees between certain members of the MMH Group.

24. Capital commitments

		Group		**Company**
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Authorised by the Board and contracted but not provided for	**9,975**	19,002	**355**	175

At 31st December, 2018 the board of Marshall Motor Holdings plc had capital commitments totalling £20,800,000 (2017 - £7,700,000) relating to ongoing construction projects.

Notes to the Financial Statements

25. 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.

	2018	2017
	£000	£000
Within 1 year	**466**	681
Between 1 and 5 years	**1,675**	1,881
After 5 years	**3,123**	3,491
	5,264	6,053

Operating leases - Group as lessee

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

				Group
	Land and buildings		**Other**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Within 1 year	**10,117**	12,004	**354**	583
Between 1 and 5 years	**31,813**	36,436	**228**	527
After 5 years	**46,559**	54,850	**-**	-
	88,489	103,290	**582**	1,110

26. Financial instruments

		Group		**Company**
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Financial assets at fair value through the income statement				
Financial assets at fair value through the income statement	**6,601**	4,810	**51,416**	50,859
Financial liabilities measured at fair value through the income statement				
Forward foreign exchange contracts	**(1,184)**	(54)	**-**	-
Financial liabilities measured at amortised cost				
Bank loans and overdrafts	**(9,632)**	(7,279)	**(9,016)**	(5,762)
Trade creditors	**(97,771)**	(103,390)	**(130)**	(135)
Vehicle funding agreements	**(370,823)**	(380,641)	**-**	-

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

27. Staff costs and directors' emoluments

	2018	2017
	£000	£000
(a) Group staff costs		
Wages and salaries	**202,510**	216,057
Social security costs	**22,307**	24,093
Other pension costs (see note 29)	**6,394**	7,041
Share based payment charge	**732**	1,005
	231,943	248,196

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

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

	2018	2017
	No.	No.
Aerospace and defence	**1,687**	1,890
Motor retail and leasing	**3,749**	3,923
Property and head office	**37**	35
Fleet solutions	**324**	363
	5,797	6,211

		2018	2017
		£000	£000
(b) Directors' remuneration			
Emoluments	-continuing	**2,102**	1,875
	-leavers	**33**	-
Long term incentive payments	-continuing	**771**	416
		2,906	2,291

There were no contributing members of either the defined benefit of defined contribution pension scheme.

	2018	2017
	£000	£000
Remuneration of highest paid director:		
Emoluments	**1,006**	769
Long term incentive payments	**439**	316
	1,445	1,085

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

(c) Share based payments

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

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

Notes to the Financial Statements

27. Staff costs and directors' emoluments (continued)

The total share-based payment charge recognised during the year ended 31 December 2018 was £732,000 (2017: £1,005,000). This is split as £203,000 (2017 - £266,000) in accruals and deferred income and £529,000 (2017 - £739,000) in retained earnings.

If an option remains unexercised after a period of ten years from the date of grant, the option expires. The weighted average remaining contractual life of options outstanding as at 31 December 2018 is 8.1 years (2017 - 8.2 years).

The fair value of share options is determined by reference to the market value of the Group's shares at the date of grant. No valuation model is required to calculate the fair value of awards on the basis that the employees receiving the awards are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards. The weighted average fair value of options outstanding as at 31 December 2018 is £1.68 (2017 - £1.65). The fair value of options granted during the year was £1.59 (2017 - £1.69). The fair value of equity settled share options granted was based on market value on 17 April 2018 when the share options were granted.

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

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

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

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

In April 2018, the third tranche of the IPO Restricted Share Awards as well as the first tranche of the IPO Performance Awards vested and became exercisable. On 11 April 2018, all option holders exercised these options as well as the second tranche of the IPO Restricted Awards which had previously vested and become exercisable in 2017. As such, 427,791 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 £968,000.

As at 31 December 2018 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
IPO Performance Awards - Tranche	2 Apr 2015	578,856	Nil	2 Apr 2019	2 Apr 2025
2 2016 Performance Awards	13 Jun 2016	511,529	Nil	13 Jun 2019	13 Jun 2026
2017 Performance Awards	29 Sep 2017	619,763	Nil	29 Sep 2020	29 Sep 2027
2018 Performance Awards	17 Apr 2018	731,054	Nil	17 Apr 2021	17 Apr 2028

IPO Restricted Share Awards

The IPO Restricted Share Awards are not subject to any performance conditions, vesting is purely subject to the service condition of continuous employment. These options vest in three equal tranches and become exercisable on the first, second and third anniversaries of the date on which the MMH shares were admitted to the Alternative Investment Market of the London Stock Exchange (2 April 2015).

27. Staff costs and directors' emoluments (continued)

IPO Restricted Share Awards	2018 No	2018 WAEP	2017 No	2017 WAEP
Outstanding as at 1st January	313,199	-	313,199	-
Exercised	(313,199)	-	-	-
Outstanding as at 31st December	-	-	313,199	-
Exercisable as at 31st December	-	-	**156,599**	-

IPO Performance Awards

The IPO Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment. The options vest for achieving growth in EPS from 2014 to 2017; 25% vest for achieving growth of CPI plus 4% per annum increasing to 100% vesting for achieving growth of CPI plus 10% per annum. These options vest in two equal tranches and 50% become exercisable on the third anniversary of the date on which MMH's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange and the remaining 50% become exercisable on the fourth anniversary.

IPO Performance Awards	2018 No	2018 WAEP	2017 No	2017 WAEP
Outstanding as at 1st January	1,208,056	-	1,406,040	-
Forfeited during the year	(50,341)	-	(197,984)	-
Exercised	(578,859)	-	-	-
Outstanding at 31st December	**578,856**	-	1,208,056	-
Exercisable at 31st December	-	-	-	-

2016 Performance Awards

The 2016 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment. The options vest for achieving growth in EPS from 2015 to 2018; 25% vest for achieving growth of CPI plus 3% per annum increasing to 100% vesting for achieving growth of CPI plus 8% per annum. These options all become exercisable on the third anniversary of the grant date. The 2016 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

2016 Performance Awards	2018 No	2018 WAEP	2017 No	2017 WAEP
Outstanding as at 1st January	538,835	-	660,801	-
Forfeited during the year	(27,306)	-	(121,966)	-
Outstanding at 31st December	**511,529**	-	538,835	-
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.

Notes to the Financial Statements

27. Staff costs and directors' emoluments (continued)

2017 Performance Awards	2018 No	2018 WAEP	2017 No	2017 WAEP
Outstanding as at 1st January	806,141	-	-	-
Granted during the year	-	-	806,141	-
Forfeited during the year	(186,378)	-	-	-
Outstanding at 31st December	**619,763**	**-**	806,141	-
Exercisable at 31st December	**-**	**-**	**-**	-

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.

2018 Performance Awards	2018 No	2018 WAEP	2017 No	2017 WAEP
Granted during the year	930,966	-	-	-
Forfeited during the year	(199,912)	-	-	-
Outstanding at 31st December	**731,054**	**-**	-	-
Exercisable at 31st December	**-**	**-**	**-**	-

28. Related parties

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

Group	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			
2018	**275**	**1,975**	**10**
2017	775	1,981	149

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

28. Related parties (continued)

The company 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 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 15 resulting in a receivable of £28,330,000:

	Net interest received / (paid) £000	Amounts receivable £000	Amounts payable £000
2018			
Hill Marshall LLP	(45)	17,115	(7,706)
Hill Marshall (Phase 2) LLP	-	11,215	-
2017			
Hill Marshall LLP	-	702	-
Hill Marshall (Phase 2) LLP	-	-	-

Parent Company	Sales to related party £000	Purchases from related party £000	Amounts due from / (to) related party £000
Entities over which the Parent Company has significant influence			
2018			
Marshall Motor Group Limited	**52**	**606**	**(1)**
2017			
Marshall Motor Group Limited	367	62	(28)

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at normal market prices. Outstanding balances with these entities are unsecured, interest free and cash settlement is expected within 60 days of invoice. The Group and Parent Company have not benefited from any guarantees for any related party receivables or payables. During the year ended 31st December, 2018, the Group and Parent Company have not made any provision for doubtful debts relating to amounts owed by related parties (2017 - £nil).

29. Pensions and other retirement benefit costs

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

The scheme which has elements of both defined benefit and defined contribution is known as the Marshall Group Executive Pension Plan (the "Plan"). The defined contribution type schemes, which cover approximately 95% of scheme members, were established in 1982 and 1988. The total pension cost for the Group for the year in respect of all defined contribution schemes in the UK was £6,473,000 (2017 - £7,824,000). A further £276,000 (2017 - £190,000) was paid into defined contribution schemes overseas. The total defined benefit credit for the Group in respect of the Plan was £173,000 (2017 – cost of £719,000) under FRS 102 Chapter 28 of which £355,000 (2017 – charge of £296,000) has been credited to operating profit and £182,000 (2017 - £423,000) has been charged to other finance expense.

The Plan was assessed by a qualified independent actuary from Buck Consultants, as at 31st December, 2016 using the projected unit method and indicated a funding deficit of £8,059,000. To address the past service deficit, the Parent Company and the Trustees agreed that the Parent Company will remove the deficit over a period of seven years, by 31st December 2023. Annual instalments of £750,000, £1,250,000, £1,500,000 and then four instalments of £1,750,000 commenced in 2017. The deficit contributions include allowance for the future service contribution rate to be changed with effect from 1 January 2018.

The valuation of the defined benefit section of the Plan under FRS102 Chapter 28 has been based on the actuarial valuation, updated by the actuary from Buck Consultants in order to assess the assets and the liabilities of the scheme as at 31st December, 2018. The assets and liabilities shown exclude those relating to defined contribution pensions.

Notes to the Financial Statements

29. Pensions and other retirement benefit costs (continued)

The major assumptions used by the actuary were:	2018 %	2017 %
Discount rate	**2.85**	2.50
Salary increase rate	**-**	2.87
Retail price inflation rate	**3.36**	3.24
Rate of revaluation in deferment	**2.36**	2.24
Pension increase rate:		
- pre 1993 discretionary increases	**2.70**	2.70
- price inflation, capped at 5.0%	**3.36**	3.24
- as above, but for those pensions subject to 3.0% floor	**3.38**	3.35
- as above, but for those pensions subject to 2.7% floor	**3.36**	3.26
- as above, but for those pensions subject to 8.5% cap	**3.36**	3.24
Life expectancy at 65		
- for male aged 65	**23.60**	23.50
- for female aged 65	**25.80**	25.70
- for male aged 45	**25.30**	25.20
- for female aged 45	**27.30**	27.20

The post retirement longevity assumption uses 73% of SIPxA tables, with CMI 2015 projections from 2008 with a long term improvement of 1.50% per annum for males (2017 - 1.50%) and 1.25% for females (2017 - 1.25%), and allow for expected increases in longevity. The disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date.

Amounts recognised in the Balance Sheet are determined as follows:

	2018 £000	2017 £000
Fair value of plan assets at the end of year	**39,385**	38,764
Present value of defined benefit obligations at end of year	**(49,245)**	(51,097)
Deficit in the scheme as at 31 December	**(9,860)**	(12,333)
Related deferred tax asset	**1,676**	2,097
Net defined benefit obligation	**(8,184)**	**(10,236)**

Reconciliation of defined benefit obligations:		
Present value of obligations at start of year	**51,097**	54,485
Current employer service cost	**37**	214
Liabilities extinguished on curtailments	**(476)**	-
Interest cost	**1,255**	1,359
Contributions by plan participants	**2**	14
Actuarial gains	**(876)**	(2,935)
Benefits paid	**(1,794)**	(2,040)
Present value of obligations at end of year	**49,245**	51,097

29. Pensions and other retirement benefit costs (continued)

	2018 £000	2017 £000
Reconciliation of fair value of assets:		
Fair value plan assets at start of year	**38,764**	36,975
Interest income on plan assets	**1,073**	935
Return on plan assets in excess of interest income	**(1,536)**	2,829
Contributions by the employer	**2,960**	133
Contributions by plan participants	**2**	14
Benefits paid	**(1,794)**	(2,040)
Administration expenses	**(84)**	(82)
Fair value of assets at end of year	**39,385**	38,764

	2018 £000	2017 £000
Analysis of amount charged against profit		
Current employer service cost	**37**	214
Liabilities extinguished on curtailments	**(476)**	-
Administration expenses	**84**	82
Net interest on net defined benefit liability	**182**	423
Total (income) / expense recognised in the Income Statement	**(173)**	719

	2018 £000	2017 £000
Analysis of amount (charged) / credited against other comprehensive income:		
Remeasurement (loss) / gain recognised on defined benefit pension scheme	**(660)**	5,762
Deferred tax credit / (charge) relating to defined benefit pension scheme	**112**	(980)
	(548)	4,782

	Value £000	2018 % Total	Value £000	2017 % Total
Breakdown of value of plan assets				
UK equities	**5,088**	**12.92%**	5,834	15.05%
Overseas equities	**14,553**	**36.96%**	14,388	37.13%
Property	**7,170**	**18.20%**	7,076	18.25%
Liability driven investment	**3,539**	**8.99%**	3,602	9.29%
Insight Broad Opportunities Fund	**6,070**	**15.41%**	6,421	16.56%
Cash and net current assets / (liabilities)	**1,069**	**2.71%**	(526)	(1.36%)
Insured pensions	**1,896**	**4.81%**	1,969	5.08%
Total fair value of plan assets	**39,385**	**100.00%**	38,764	100.00%

Notes to the Financial Statements

29. Pensions and other retirement benefit costs (continued)

The five year history of experience adjustments is as follows:	**2018** **£000**	2017 £000	2016 £000	2015 £000	2014 £000
Experience adjustments on scheme assets	**(1,536)**	2,829	2,472	646	2,002
Experience adjustments on scheme liabilities	**(1,470)**	432	1,356	(1,077)	(320)
Changes in assumption	**2,346**	2,501	(9,104)	1,632	(6,402)
Total recognised in other comprehensive income	**(660)**	5,762	(5,276)	1,201	(4,720)
Fair value of scheme assets	**39,385**	38,764	36,975	34,546	34,119
Present value of scheme liabilities	**(49,245)**	(51,097)	(54,485)	(46,062)	(46,969)
Deficit in the scheme	**(9,860)**	(12,333)	(17,510)	(11,516)	(12,850)

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.

Marshall Motor Holdings plc defined benefit pension scheme obligations

On 31 December 2018, Marshall Motor Holdings plc (MMH) and its subsidiaries ceased to be participating employers in the Marshall Group Executive Pension Plan (Plan) as a result of it no longer employing any active members of the defined contribution section of the Plan. Accordingly, on 31 December 2018, a debt was triggered under Section 75 of the Pension Act 1995 on MMH (“Employer Debt”).

On 7 February 2019 the Plan’s actuary issued a certificate for the purposes of Regulation 5(18) and Regulation 6(8) of the Occupational Pension Schemes (Employer Debt) Regulations 2005 confirming that the Employer Debt at 31 December 2018 was £5,541,000.

On 25 February 2019 Marshall Motor Holdings plc paid the Employer Debt to the Trustees of the Plan and entered into a Deed of De-Adherance with the Trustees and Marshall of Cambridge (Holdings) Limited confirming the discharge of the relevant employers from the trusts of the Plan and from any other obligations in relation to the Plan with effect from that date. As such, this payment will have the impact of reducing the pension deficit. No entries have been made as a result of this transaction.

30. Post balance sheet events

Share reorganisation

On 5 February 2019, a group reorganisation was undertaken involving the Company and three of its wholly owned subsidiaries, Marshall ADG Limited, Marshall of Cambridge Aerospace Limited and Marshall Land Systems Limited.

The Company exchanged its entire shareholding in Marshall of Cambridge Aerospace Limited for 12,000,000 £1 ordinary shares in Marshall ADG Limited.

The Company exchanged its entire shareholding in Marshall Land Systems Limited for 2,000,000 £1 ordinary shares in Marshall ADG Limited.

As a result of this reorganisation, the Company immediately recognised an investment in Marshall ADG Limited of £14,001,000 and correspondingly de-recognised its investments in Marshall of Cambridge Aerospace Limited and Marshall Land Systems Limited.

Recent Financial History

	2014	2015	2016	2017	2018
	£000	£000	£000	£000	**£000**
Revenue	1,425,853	1,585,732	2,259,884	2,603,602	**2,483,942**
Operating profit / (loss)	21,084	25,326	(2,532)	39,035	**46,149**
Net finance expenses	(1,545)	(3,095)	(7,291)	(8,858)	**(5,710)**
Profit / (loss) before tax	19,539	22,231	(9,823)	30,177	**40,440**
Shown as:					
Underlying profit before tax	25,063	25,949	26,199	28,143	**35,267**
Amortisation and impairment charges	(4,684)	(3,310)	(5,929)	(6,366)	**(17,802)**
Provision for losses on complex programme	-	-	(25,925)	(30,943)	**-**
Restructuring costs	-	-	(4,168)	(13,120)	**1,232**
Profit on disposal of tangible fixed assets	-	-	-	14,112	**21,743**
Profit on disposal of subsidiary	-	-	-	38,351	**-**
Non-directly attributable IPO costs	(1,159)	(408)	-	-	**-**
Separately disclosed exceptional items	(5,843)	(3,718)	(36,022)	2,034	**5,173**
Taxation	(5,837)	(6,863)	(842)	94	**(9,895)**
Profit / (loss) after tax	13,383	15,368	(10,665)	30,271	**30,545**
Non-controlling interests	3	(1,542)	(5,896)	(17,044)	**(2,866)**
Profit / (loss) for the financial year	13,386	13,826	(16,561)	13,227	**27,679**
Dividends paid by the parent company	(3,523)	(6,758)	(4,010)	(4,010)	**(4,013)**
Retained profit / (loss)	9,863	7,068	(20,571)	9,217	**23,665**
Dividends per ordinary share paid and proposed for the year	3.75p	4.00p	4.00p	4.00p	**4.00p**
Dividends per NVPO share paid and proposed for the year	5.75p	6.00p	6.00p	6.00p	**6.00p**
Dividend cover for ordinary and NVPO shares (excluding special dividends)	4.1	4.1	(5.3)	3.8	**8.7**
Special dividends per Ordinary and NVPO share paid during the year	-	5.00p	-	-	**-**
Basic earnings / (loss) per share	21.6p	22.3p	(29.4p)	21.1p	**45.6p**
Underlying earnings per share	31.0p	25.1p	37.1p	31.4p	**33.9p**
Return on capital employed - shareholders' funds	11.0%	11.8%	(8.7%)	8.1%	**21.9%**
Net funds / (debt)	11,924	1,721	(122,154)	5,917	**(2,397)**
Movement in net funds / (debt)	9,382	(10,203)	(123,875)	128,071	**(8,314)**
Capital expenditure, acquisitions, investment and disposals (net)	58,395	75,851	168,864	(1,050)	**40,509**
Closing no. of staff	4,607	5,100	6,013	6,011	**5,786**
Fixed assets	188,120	236,907	412,393	336,037	**339,258**
Net current assets / (liabilities)	39,877	38,196	(90,033)	(3,357)	**(14,090)**
Creditors over one year, provisions, pension liability less non-controlling interests	(51,386)	(97,051)	(166,865)	(165,295)	**(136,300)**
Shareholders' funds	176,611	178,052	155,495	167,385	**188,868**

Shareholder Information

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

Registration details
Registered in England and Wales
Company Number 2051460

Group Company Secretary
Sarah Moynihan

Enquiry email address
shareholderenquiries@marcamb.co.uk

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

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

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

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

Expected future dividend payment dates
A and B preference shares 15th April 2019
Final Ordinary and NVPO shares 5th July 2019
A and B preference shares 15th October 2019
Interim Ordinary and NVPO shares 13th December 2019
A and B preference shares 15th April 2020

Dividend history

	Amount per share			
	Ordinary shares	NVPO shares	A preference shares	B preference shares
Payment date:				
14th December, 2018	1.00p	3.00p	-	-
15th October, 2018	-	-	4.00p	5.00p
6th July, 2018	3.00p	3.00p	-	-
13th April, 2018	-	-	4.00p	5.00p
Year ended 31st December, 2018	4.00p	6.00p	8.00p	10.00p
Payment date:				
15th December, 2017	1.00p	3.00p	-	-
13th October, 2017	-	-	4.00p	5.00p
30th June, 2017	3.00p	3.00p	-	-
13th April, 2017	-	-	4.00p	5.00p
Year ended 31st December, 2017	4.00p	6.00p	8.00p	10.00p

Notice of the 33rd Annual General Meeting

Notice is hereby given that the 33rd Annual General Meeting of Marshall of Cambridge (Holdings) Limited ("the Company") will be held at 12:15pm on Wednesday 22nd May, 2019 at The Airport, Cambridge, CB5 8RY to consider the following:

Ordinary business

Resolutions 1 to 6 will be proposed as ordinary resolutions. For each of these resolutions to be passed, more than 50% of the votes cast must be in favour of the resolution.

Resolution 1

To receive the Company's annual report and financial statements together with the reports of the directors and the auditor for the financial year ended 31st December, 2018.

Resolution 2

To declare a final dividend of 3.00p per Ordinary share and NVPO share to be paid on Friday 5th July, 2019 to those shareholders on the register of members as at 14th June, 2019. The Company paid an interim dividend on 14th December 2018 of 1.00p per Ordinary share and 3.00p per NVPO share.

Resolution 3

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

Resolution 4

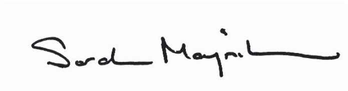
To re-appoint Sean Cummins who retiring by rotation as director and, being eligible, is offering himself for re-appointment as director.

Resolution 5

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

Resolution 6

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



Sarah Moynihan
Group Company Secretary
Dated this 27th March, 2019
by Order of the Board

Note

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

Marshall

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CB5 8RY England
+44 (0)1223 373737

www.marshallgroup.co.uk