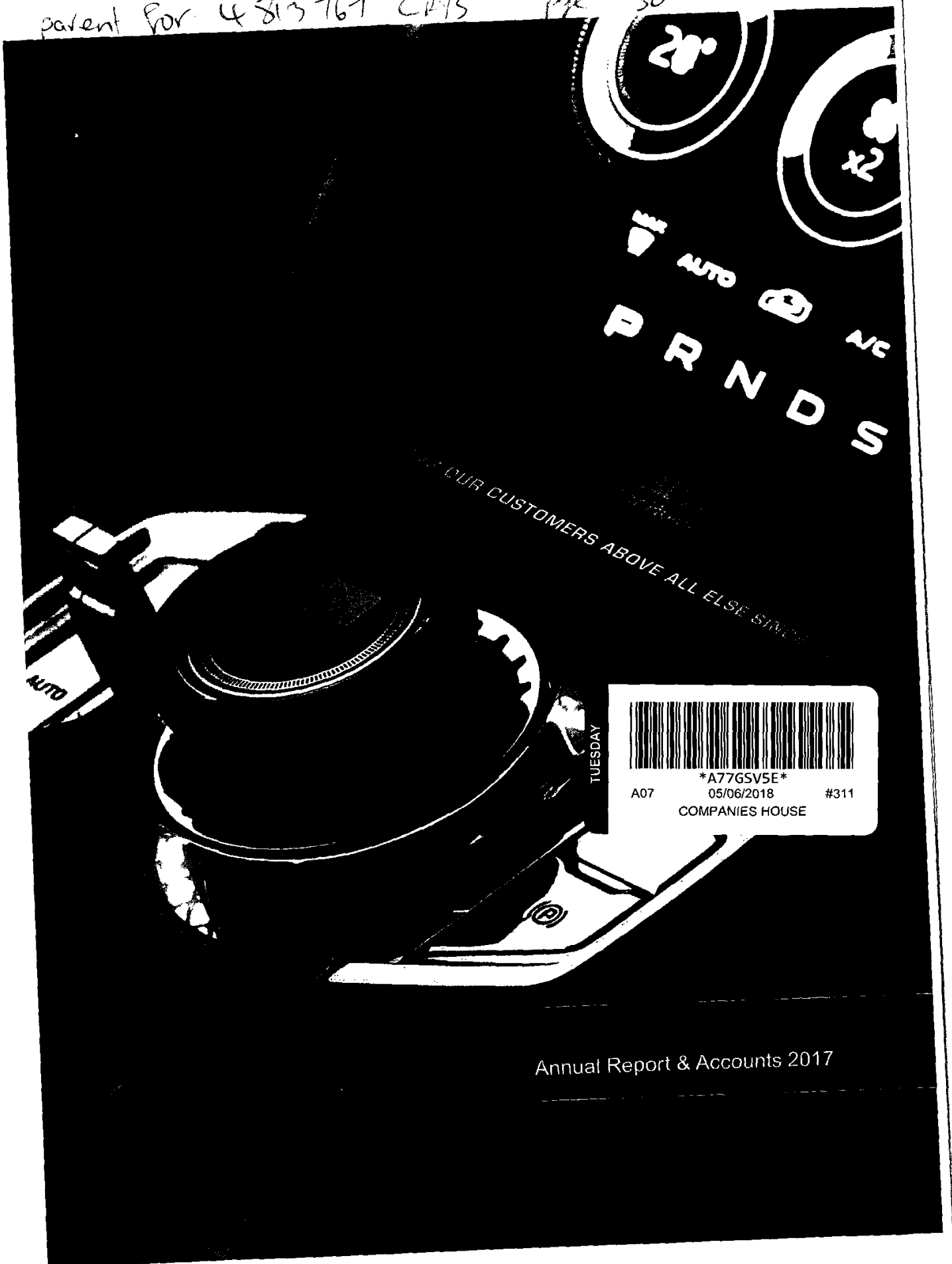
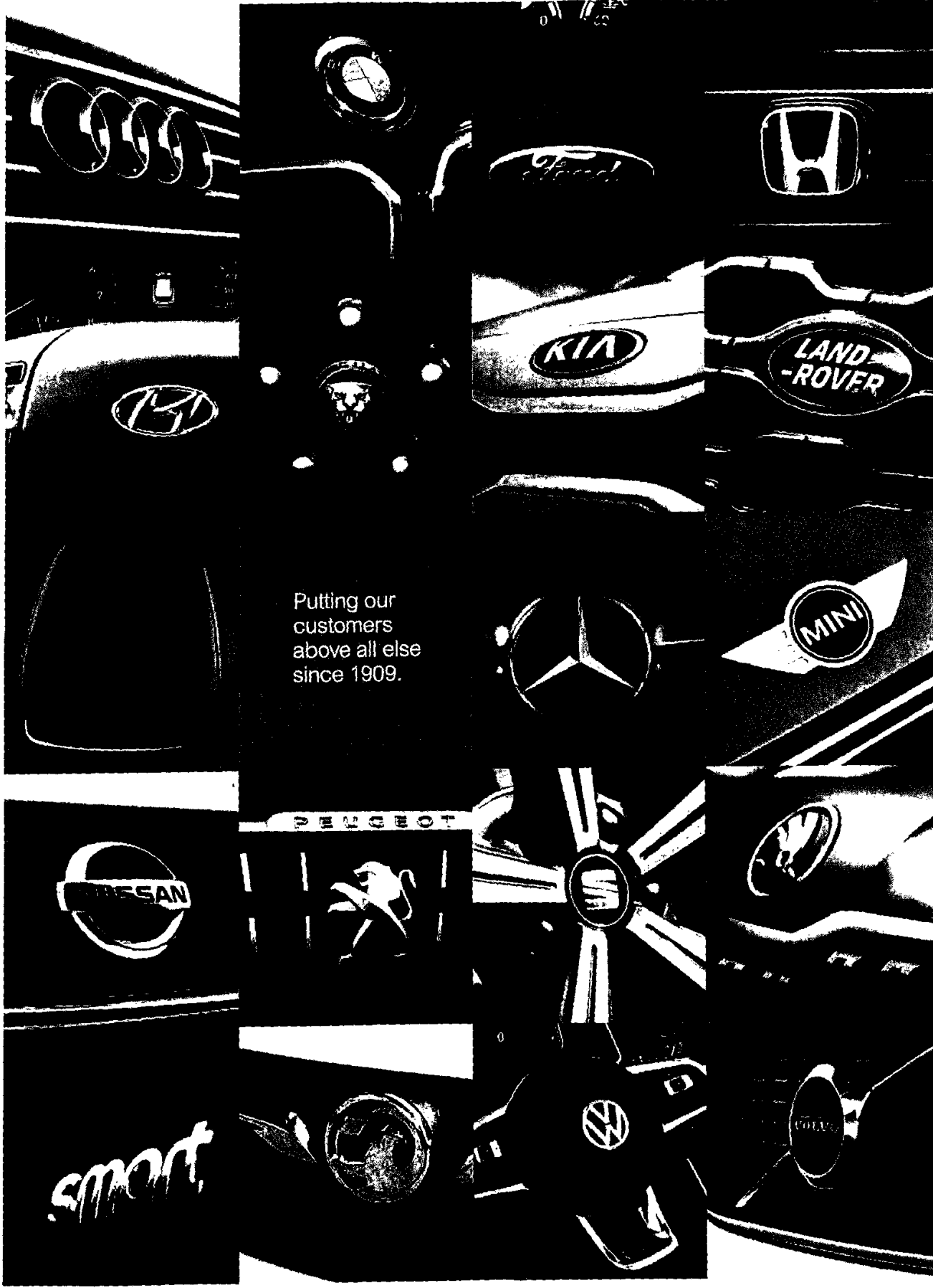


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Annual Report & Accounts 2017



Putting our
customers
above all else
since 1909.

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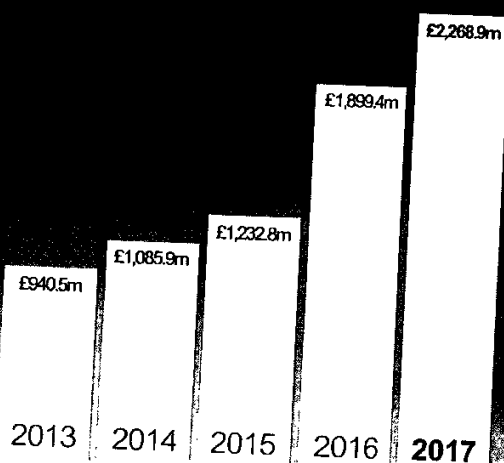
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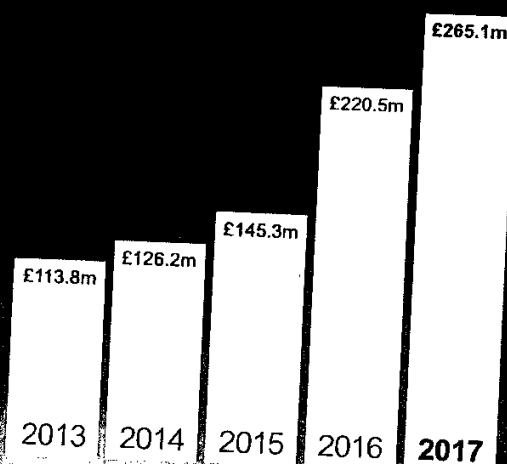
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Historical Financial Trends

Revenue £m

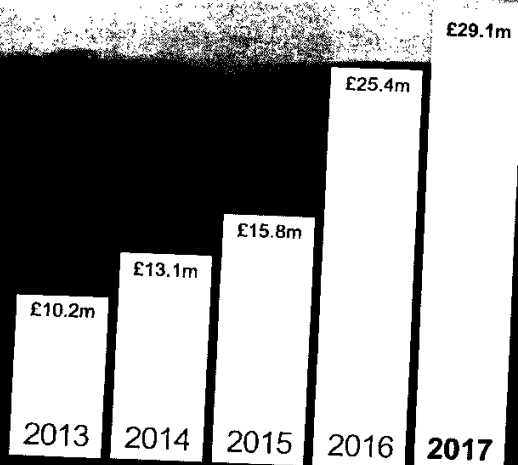


Gross Profit £m



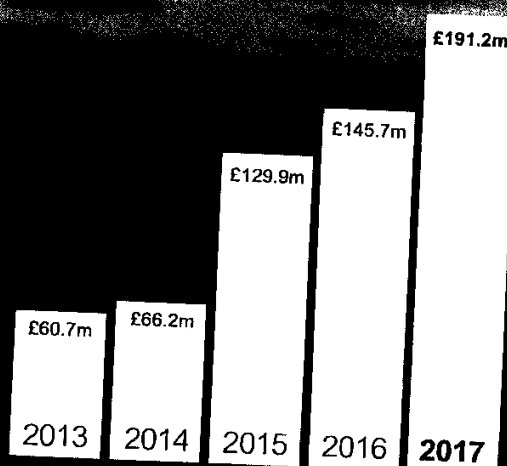
CAGR 23.5%

Underlying Profit Before Tax £m



CAGR 29.9%

NPV A £m



CAGR 33.2%

* underlying profit before tax is presented excluding non-underlying items (see Note 7)

Our 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**.

2017 Quick Overview

£2.3bn

Revenue

£29.1m

Underlying Profit Before Tax

97,545

New and Used Units Sold



101

Franchised Dealerships



3,923



Colleagues

No.1

AUTOMOTIVE
RETAIL EMPLOYER

As Voted by our Colleagues

GREAT
PLACE
TO
WORK*

% 2017
Manufacturer
Market
Share

Retail Franchised Dealerships

6.9		Beckenham & Bromley, Bexley, Cuckfield, Exeter, Newbury, Oxford, Plymouth, Taunton and Wimborne
6.9		Bournemouth, Grimsby (with Motorrad), Hook, Salisbury and Southampton
11.3		Bury St Edwards, Cambridge and Kings Lynn
2.1		Harrogate, Hull, South Leicester, Peterborough, Scarborough and York
3.7		Cambridge
1.4		Cambridge, Ipswich, Lincoln, Newbury, Oxford and Peterborough
3.7		Ipswich, Stuntthorpe
3.3		Bedford, Cambridge, Ipswich, Lincoln, Milton Masbury, Newbury, South Oxford and Peterborough
0.1		Peterborough
7.1		Blackburn, Blackpool, Bolton, Chichester, Portsmouth, Preston, Southampton, South Lakes and Winchester
2.7		Bournemouth, Grimsby, Hook and Salisbury
5.9		Grantham and Lincoln
3.2		Cambridge, Peterborough and St Neots
2.2		Braintree, Cambridge and Leicester
3.1		Barnstaple, Croydon, Newbury, Oxford and Reading
0.4		Blackpool, Bolton, Portsmouth and Southampton
7.7		Ipswich, Knebworth, Leicester and Peterborough
8.2		Barnstaple, Grimsby, Newbury, North Oxford, South Oxford, Reading, Southampton and Taunton
1.8		Bishops Cleeve, Cambridge, Grantham, Leeds, Milton Keynes, Nottingham, Peterborough, and Welwyn Garden City

Commercial Vehicle Dealerships

	Cambridge
	Andover, Farnham, Poole and Southampton
	Bridgwater, Oxford, Reading and Southampton

Other Stand-Alone Operating Units

	Exeter, Milham, Old Kent Road / Dartford, Oxford and Seward
	Cambridge, Greenham Prep Centre, Grimsby, New Forest and Peterborough
	Systonham
	Cambridge, Newbury and Portsmouth
	Halesworth Jaguar Land Rover Approved Repairer
	Croydon Service Centre

81.7%

brand coverage

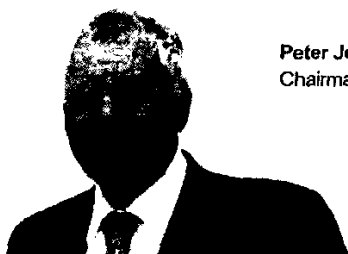


101

Franchised Dealerships
at 31 December 2017

Marshall Motor Holdings is the seventh largest UK motor dealer group. Since 2008 the Group has restructured its dealership portfolio, operating 101 full retail franchised dealerships and representing 23 brand partners across 26 counties. In addition, the Group operates a number of after-sales and used car operations.

Chairman's Statement



Peter Johnson
Chairman

"We have taken significant steps to prepare the Group for the future"

Introduction

I am delighted to present our Annual Report and Accounts for the year ended 31 December 2017 (the "Year"). Whilst the market backdrop for the Year was a more challenging one, the Group has strongly outperformed the UK car market and we are pleased to be reporting another record set of results at both revenue and underlying profit before tax ("underlying PBT")*. We have also taken significant steps to prepare the Group for the future.

Strategy

Since our IPO three years ago, the Group has, in line with its stated strategy, delivered material growth both organically and through the acquisitions of SG Smith in November 2015 and Ridgeway in May 2016.

In 2017 we focused on preparing for the next stage of the Group's development and growth. The strategic disposal of our leasing business Marshall Leasing Limited ("Marshall Leasing") in November 2017, for gross consideration of £42.5m (before costs and expenses), combined with ongoing portfolio management and the closure of a number of sub-scale, loss-making sites, has reduced our cost-base, significantly strengthened our balance sheet and enabled us to focus exclusively on our retail businesses. As a result, we are well positioned to continue to deliver our future growth aspirations.

Results

The Group has enjoyed another record year, delivering 19.5% revenue growth and 14.4% underlying PBT growth.

Our net debt was effectively eliminated following the disposal of Marshall Leasing and was £2.2m at 31 December 2017 (2016: £119.0m). The Group's significantly strengthened balance sheet remains underpinned by £116.3m of freehold/long leasehold property.

* underlying profit before tax is presented excluding non-underlying items (as set out in Note 7)

Dividend

The Group's stated dividend policy is to maintain a progressive dividend policy where dividends are covered between 4 to 5 times by underlying earnings. The Board is, therefore, pleased to recommend a final dividend of 4.25p per share which, with the interim dividend of 2.15p per share, gives a total dividend for the Year of 6.40p per share (2016: 5.50p, up 16.4%).

If approved by shareholders at our AGM on 22 May 2018, the final dividend will be paid on 25 May 2018 to shareholders who are on the Company's register at close of business on 27 April 2018.

AGM

Our annual general meeting will be held on 22 May 2018 and I look forward to meeting all shareholders who are able to attend.

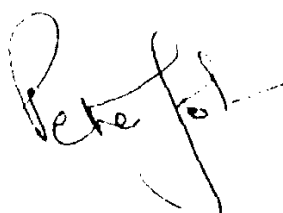
Outlook

The Board notes the latest Society of Motor Manufacturers and Traders ('SMMT') UK new car market forecasts for a decline of 5.6% in 2018. As a consequence the Board therefore remains cautious about the UK car market in 2018 as it returns to a more normalised level. Our trading performance in the current financial year to date is in line with our expectations and our outlook for the full year remains unchanged.

The Group has a strong brand mix, attractive geographic territories and excellent brand partner relationships and is well placed to continue to outperform the UK new car market. The strategic disposal of Marshall Leasing allows the Group to focus on its core motor retail business.

Finally, I would like to thank the Board, the executive team, our brand partners, business suppliers and colleagues throughout the Group for their support during another successful year.

Peter Johnson
Chairman
13 March 2018

A handwritten signature in dark ink, appearing to read 'Peter Johnson'.

Vision

To be the UK's premier automotive retail group

Class leading
returns



Customer
first



Retailing
excellence



People
centric

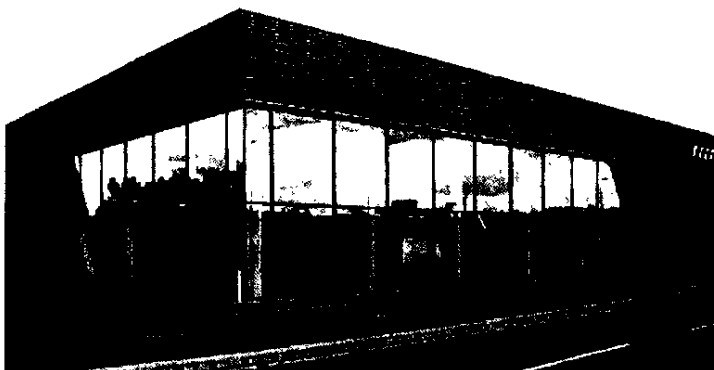


Underpinned by five strategic pillars



Volkswagen T-Roc

Exeter Audi Dealership



Reds Volvo Dealership



Operating Review



Daksh Gupta
Chief Executive
Officer

"The Group has delivered another record result at both revenue and underlying PBT"

"We have continued to outperform the new and used UK retail markets"

Overview

Since our IPO in April 2015, the Group has delivered material and sustained improvements in its financial and operational performance. Our 2017 results continue this excellent track record, benefitting from both continued organic growth and the first full year contribution from the Ridgeway acquisition which is now fully integrated.

During the Year, the Group also continued being proactive in portfolio management, announcing the acquisition of Leeds Volvo in June 2017, the disposal of Marshall Leasing Limited in September 2017 and the closure of six sub-scale, loss-making businesses in November 2017.

2017 was another successful year for the Group:

- Revenue up 19.5% to £2.3bn (2016: £1.9bn) with the Group also achieving like-for-like** revenue growth of 3.5%.
- Underlying PBT up 14.4% to £29.1m (2016: £25.4m).
- Significant growth in underlying PBT in our retail segment, up 20.8% to £34.9m (2016: £28.9m), driven by a combination of contribution from the Ridgeway acquisition and continued organic growth.
 - o Like-for-like new unit vehicle sales to retail customers outperformed the UK market.
 - o Excellent performance in used unit vehicle sales with like-for-like unit sales outperforming the UK market.
 - o Aftersales like-for-like revenue continued to grow, up 2.3%.

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

- The disposal of Marshall Leasing has enabled us to focus exclusively on our UK motor retail operations as well as further strengthening the Group's balance sheet.

Our continued outperformance of the UK new car retail market in the Year was particularly pleasing. In 2017 UK new car registrations were 2.54m (including dealer and self-registrations), 5.7% lower than in 2016. Registrations to retail customers in 2017 were 6.8% lower than in 2016. Against this market backdrop, we have continued to outperform the retail market with our like-for-like unit sales to new retail customers in the Year 2.6% lower than in 2016.

The SMMT reported a used vehicle market decline of 1.1% in the Year, however, at 8.11m units this was still the second highest market on record. Despite this overall decline, the Group recorded a like-for-like growth in used unit sales of 5.2%.

Strategy

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

Class leading returns

The Group's strategy of building a balanced brand portfolio, in attractive geographic locations and with an increased premium franchise mix, has assisted the continuation of our strong track record in the face of a more challenging market. Total new vehicle revenue grew by 18.6% (1.0% like-for-like) and total used vehicle revenue grew 21.1% (7.0% like-for-like).

The completion of the integration of Ridgeway has also enabled the Group to access further benefits of scale across a number of areas of the business including improved commercial terms with suppliers and vehicle stock management.

An important element of the Group's success continues to be our strong and growing relationships with our brand partners, many of which are reacting to a more challenging market with a number of positive actions.

Aftersales continues to be a key focus of the Group and our strong performance in recent years continued during the Year, with total revenue growth of 20.0% (2.3% like-for-like). We continue to focus on maintaining high levels of customer retention and repeat business through the use of service plans as well as investing in technical and product training for our technicians.

**RECOGNISING
THAT
ARE AT THE
HEART OF OUR
SUCCESS**

Recognising and thanking colleagues is a fundamental element of our commitment to provide a great environment for colleagues to work in. It also supports our desire to continue to be recognised as a Best Large UK Workplace.

Whether it's for loyalty, outstanding achievement or delivery of our values we hold several annual events and award ceremonies to celebrate our incredible colleagues. Details and photos of each event are featured in our quarterly colleague magazine so we can share our colleague's success with everyone and reinforce how important these programmes are.

Marshall

Loyalty

11

Dolores & Anthony

Marshall Group
1st January 2018 - 31st March 2018
£10.00

STRATEGIC REPORT

Customer first

The Group continues to enjoy high levels of customer advocacy. In 2017, 42% of customers surveyed who visited our showrooms indicated that they were either previous customers or were recommended to us.

The launch of the domain marshall.co.uk enabled us to market all Group stock, including those of SG Smith and Ridgeway, on one website for the first time, giving customers increased choice with c.6,000 used vehicles available online. In 2017, visits to our website increased materially and in December 2017 marshall.co.uk was the fifth most visited franchised dealer group website in the UK (Source: Hitwise).

Retailing excellence

We continue to recognise the ever increasing importance of investment in technology, aimed towards expanding the Group's customer base and improving our own internal operating efficiencies. We have continued to invest in these areas during the Year.

In addition to our website presence, we continue to drive social media as a means of connecting with our customers. As a result of this, I am delighted that during the Year we received six awards including Most Influential Franchised Dealer (Car Dealer Awards), Best Digital Initiative (Automotive Management) and Best use of Social Media (Automotive Management).

Our tablet-based enquiry management system has now been successfully implemented across all sites and provides both a seamless customer experience as well as assisting compliance in the marketing and sale of regulated ancillary products.

Development of our internal systems also continued, with extensive upgrades to our financial reporting system which is now fully implemented across every site. This has provided a number of enhanced features which have improved the speed and quality of management information.

People-centric

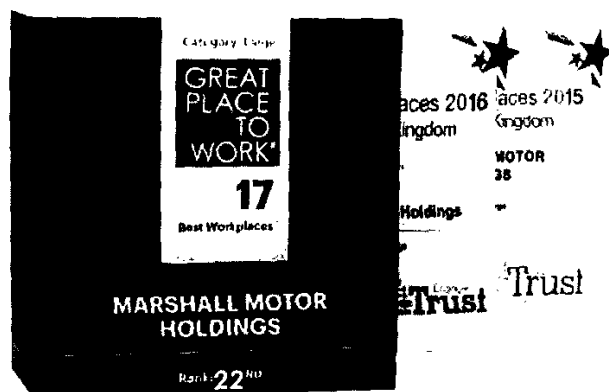
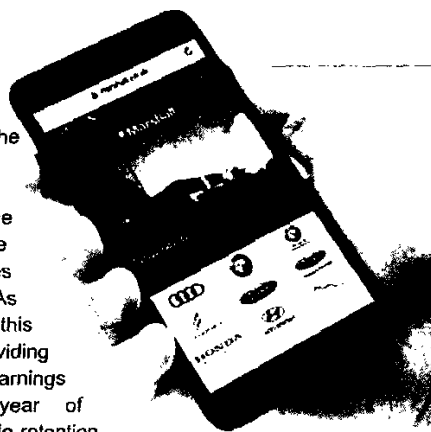
The Group was pleased to have been ranked 22nd of the Top 30 large employers based on The Great Place to Work Institute's 2016 survey.

We are also proud that during the Year we have, for the eighth consecutive year been recognised by the Great Place to Work Institute as a 'great place to work' based on colleagues surveyed during 2017. This is particularly pleasing as the 2017 survey included over 1,200 colleagues from the former Ridgeway businesses for the first time and as such reinforces the importance of our structured approach to the integration of new businesses as part of our acquisition strategy. We look forward to receiving our final ranking for this survey.

We are now in the second year of our initiative to attract new talent to the industry and improve the retention of sales executives. As

previously reported, this initiative includes providing a guarantee of earnings during the first year of employment, alongside retention bonuses and ongoing training and support. Whilst we have further work to do in this area, the results of this initiative have exceeded our expectations with a significant reduction in sales executive colleague turnover. We are also pleased that it has attracted talent from a wide variety of industry backgrounds, not just the automotive industry, which we expect to add strength and depth to our teams as well as improving our overall customer service.

Following the success of this programme, we are expanding it to other job roles and these initiatives will assist us in identifying the future leaders of our business.



Strategic growth

The Group's strategy is to grow scale with existing brand partners in new geographical territories, as demonstrated by the acquisitions of both SG Smith in 2015 and Ridgeway in 2016.

During the Year we added three new franchises to our portfolio in two locations. In June 2017 we completed the purchase of Leeds Volvo followed by the opening in December 2017 of a new Jaguar Land Rover dealership in Newbury, a previously unrepresented territory for these brands.



Hyundai KONA



Ford Fiesta

Putting our
customers
above all else
since 1909.



Jaguar E-PACE



Maserati Quattroporte



Peugeot 5008

STRATEGIC REPORT

Retail segment

Overview

During the Year, the retail segment contributed an underlying PBT before unallocated costs of £34.9m, a growth of 20.8% from 2016.

Following the acquisition of Leeds Volvo, the opening of Newbury Jaguar Land Rover and the recently announced closures, the retail segment now consists of 101 franchises representing 23 brand partners trading in 26 counties. In addition, the Group operates 5 trade parts specialists, 3 used car centres, 5 standalone body shops and 1 pre-delivery inspection (PDI) centre. The Group operates a balanced portfolio of volume, premium and alternate premium brands including all of the top 5 premium brands.

The Group's diverse portfolio means it represents manufacturer brands accounting for 81.7% of all new vehicle sales in the UK. This scale and diversified spread of representation helps mitigate the effect of the cyclical nature of individual brand performance.

Acquisitions and disposals

During the Year, the Group acquired the business and assets of Leeds Volvo for £0.1m. This acquisition further strengthened the Group's position as the largest franchise partner of Volvo Car UK by number of sites and was in line with our stated strategy to grow scale with existing brand partners and extend our geographic footprint into new regions. Our focus will remain on ensuring a strong strategic and financial case for any opportunity. We have further headroom to grow with all brand partners in what we believe, with market uncertainty ahead, will continue to be a consolidating market.

In November 2017 the Board made the decision to close five sub-scale, loss-making franchise dealerships and one used car centre. Three of the franchise dealerships were within close proximity to existing Group dealerships of the same franchise which has enabled the Group to retain some of the existing customer base, these were Honda Mountsorrel, Nissan Boston and Vauxhall Welwyn Garden City.

Two of the impacted businesses shared a sub-scale site in Oxford with a high fixed cost base which was not sustainable in the longer term. These were the Maserati franchise and one of the Group's used car centres. The final closure announced was Citroen Cambridge, being the Group's only representation point with this particular brand partner.

In addition to the removal of these loss-making franchises and the cash realisation of associated working capital, the closures will allow management to give greater focus to our remaining franchises.

Investment in new retail locations

During the Year, the Group continued its significant investment in new retail locations with two key site openings:

- In August 2017, we completed and opened a new Audi dealership in Marsh Barton, Exeter, one of Europe's largest motor retail parks. This investment has significantly increased both used car and aftersales capacity with 70 used vehicle display spaces and 14 aftersales bays. Total investment (including freehold land) was £7.8m.
- In December 2017, we opened our Newbury Jaguar Land Rover dealership in a previously unrepresented territory. Total investment (including long leasehold land) was £10.9m.

Investment in existing businesses

The Group continues to invest in upgrading existing businesses to enhance the customer experience, satisfy brand requirements and increase sales and aftersales capacities. Upgrade and refurbishment investment during the Year included:

- Salisbury BMW/MINI: customer experience refurbishment and used vehicle sales extension.
- Bedford Land Rover: commencement of redevelopment.
- Mercedes-Benz Bolton and Portsmouth: customer experience upgrade, sales and aftersales.
- Grantham Nissan: customer experience upgrade.
- Peugeot – all sites: customer experience upgrades.
- Cambridge Volvo: relocation to long leasehold premises and upgrade to new Volvo standards.
- Seat – all sites: customer experience upgrade.
- Newbury SKODA: relocation to an existing freehold site.



Cambridge Volvo Dealership



Twelve months ended 31 December 2017

	Revenue		Gross Profit	
	£m	mix*	£m	mix
New Car	1,166.5	51.2%	311	32.6%
Used Car	869.7	38.2%	59.9	23.2%
Aftersales	243.1	10.6%	114.0	44.2%
Internal	(47.6)	—	—	—
Total	2,231.7	100.0%	258.0	100.0%

Twelve months ended 31 December 2016

	Revenue		Gross Profit	
	£m	mix	£m	mix
New Car	983.3	51.0%	179	32.9%
Used Car	718.3	37.7%	60.7	24.1%
Aftersales	202.6	10.7%	105.5	44.6%
Internal	(44.5)	—	—	—
Total	1,859.7	100.0%	245.9	100.0%

* mix calculation excludes internal revenue

£24.4 million



of investment in retail sites



Ipswich Jaguar Land Rover Dealership

STRATEGIC REPORT

New vehicles

	2017	2016	Growth	
			Total	LFL
Retail Units	31,801	28,321	12.3%	(2.0%)
Fleet Units	21,507	20,563	4.6%	(13.9%)
Total Units	53,308	48,884	9.0%	(7.5%)

During the Year, the Group's retail new car unit sales increased by 12.3%, benefitting from the full year impact of the Ridgeway acquisition. Like-for-like new retail units declined by 2.6% which was a strong performance against an overall UK new retail market decline of 6.8%.

Like-for-like unit sales to fleet customers declined by 13.9% versus an overall market decline of 4.7%. This performance was, as expected, largely driven by a commercial decision we took during the Year to withdraw from certain low margin fleet business.

As has been widely reported, sales of diesel vehicles have been adversely impacted by consumer reaction around emissions and uncertain future government policy. Diesel registrations fell 17.1% during the Year (including manufacturer registrations) across the UK market with diesel registrations accounting for 42.0% of new car registrations during the Year, down from 47.7% in 2016.

One of the Group's key strengths is its balanced portfolio of volume, alternate premium and premium brands. This balance is important due to the cyclical nature of individual brands. This has helped the Group outperform the overall new car market in 2017 with premium and alternate premium brands (which now account for over three quarters of the Group's franchise portfolio) performing more strongly than the overall market.

The choice and availability of finance products for consumers, including personal contract purchase ("PCP"), continues to play an important role in the new car market. PCPs remain a popular method of financing new vehicle purchases providing the certainty of a guaranteed future value for the vehicle at the end of the contract. During the Year, c.83% of customers purchasing new cars from the Group on finance chose to do so using a PCP product. At 31 December 2017 the Group had 67,458 active PCP customers. PCPs are also beneficial to the Group as they create a defined point of renewal/purchase/replacement and we actively manage the renewal process to ensure customers are retained with the Group.

Used vehicles

	2017	2016	Growth	
			Total	LFL
Total Units	44,237	37,787	17.1%	5.2%

During the Year, the Group's used car unit sales increased by 17.1% (like-for-like 5.2%). This is a particularly pleasing performance when compared to an overall market decline of 1.1% as reported by the SMMT.

The Group continues to focus on improving its online presence to drive used vehicle sales. This objective has been particularly successful as a result of the Group's increased geographic footprint and enlarged stock pool following the acquisitions of SG Smith and Ridgeway.

Used car revenues showed growth of 21.1% (like-for-like 7.0%) driven by a strengthening premium brand mix with higher average selling prices. Gross margin at 6.9% was marginally below 2016.

We continue to control our stock appropriately to meet demand and our 56 day stocking policy encourages accelerated stock turn, leading to higher sales volumes and reduced residual value risk.

As we have seen over recent years in the new car market, PCP as a method of financing a vehicle purchase has increased in the used car market. During the Year, c.58.0% of the Group's used vehicles purchased on finance were purchased using a PCP product versus c.55.0% in 2016, frequently with service plans included. This also provides further aftersales opportunities.

Putting our
customers
above all else
since 1909.

STRATEGIC REPORT

Aftersales

Revenue (£m)	2017	2016	Growth	
	243.1	202.6	Total	LFL
			20.0%	2.3%

During the Year, the Group's aftersales revenues increased by 20.0% (like-for-like 2.3%).

In addition to our retail centre based aftersales facilities, the Group now operates five standalone bodyshops, five trade parts centres and one PDI centre. Aftersales contributes 44.2% of total retail gross profit and therefore makes a significant financial contribution to the Group which is important in the context of a more cyclical new car market.

Aftersales business is driven by the Group in a variety of ways:

- strong growth in new and used vehicle sales over recent years has increased the Group's customer-base, many

of whom return to our dealerships for the ongoing care and maintenance of their vehicles;

- used vehicle sales, and in particular those purchased on PCPs with service plans, also drive future aftersales business with used vehicles requiring additional aftersales services (e.g. MOT tests);
- we offer service plans to customers of both new and used vehicles which allow customers to plan and budget for service costs and also drives repeat visits to our dealerships and helps us develop longer term customer relationships. At 31 December 2017 the Group had over 77,000 live service plans;
- customer service is crucial in ensuring customer retention and we monitor customer feedback throughout the business on a weekly basis and customer satisfaction is built into all of our operational pay plans.

As a result of these factors, gross margin at 46.9% improved in the Year, up from 45.6% in 2016.

Leasing segment

On 21 September 2017 the Group announced the strategic disposal of Marshall Leasing to N.I.I.B. Group Limited (trading as Northridge Finance) for gross cash consideration of £42.5m. The disposal completed on 24 November 2017.

The leasing and fleet management market continues to consolidate and the Board considered that scale was becoming increasingly important to underpin the capital intensive nature of the business model. The disposal

allows the Group to focus exclusively on its UK motor retail operations, a segment which the Board believes continues to offer attractive opportunities for future growth.

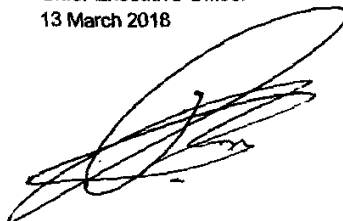
As part of the transaction, the Group entered into an operating agreement with Northridge Finance for the ongoing supply of new vehicles. We are pleased to have this opportunity as we anticipate that under new ownership, Marshall Leasing will continue to grow its leasing fleet, providing an increased opportunity to the Group.

Summary

The Group has produced another record set of results at both revenue and underlying PBT, building on our strong historical performance. In the face of a more challenging new car market, the Group has continued to show progress in like-for-like performance, has integrated recent acquisitions, restructured the balance sheet following the disposal of Marshall Leasing and closed six subscale, loss making businesses. This leaves the Group well positioned for the future.

In what is now my 10th year with the Group, I would like to take this opportunity to thank our colleagues, Board members, brand and business partners for their hard work and support and I look forward to continuing to work together in 2018.

Daksh Gupta
Chief Executive Officer
13 March 2018





Honda Civic

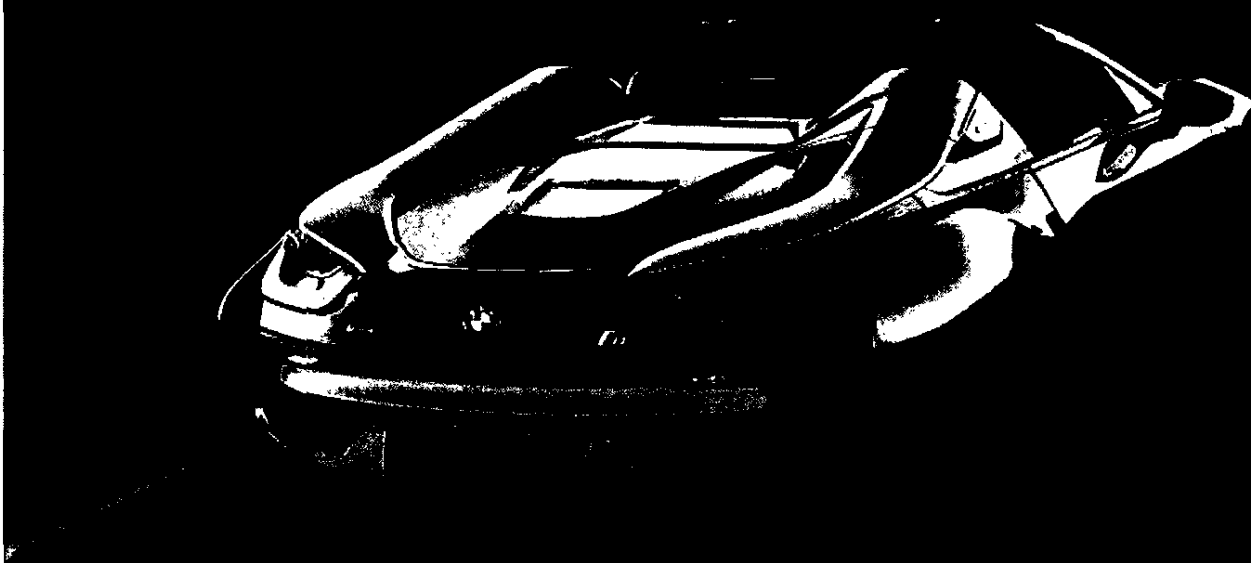


Vauxhall Insignia

97,545



vehicles sold



BMW 5



SKODA Kodiaq Sportline

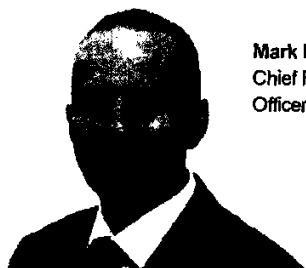


MINI Cooper D Countryman



SKODA BRABUS

Financial Review



Mark Raban
Chief Financial
Officer

"Net assets 247p per share, up 31%"

"Net debt £2.2m, reduced by £116.8m"

Group results

Revenue	£2.3bn	£1.9bn 2016
---------	---------------	-----------------------

Group revenue increased by 19.5% to £2,268.9m (2016: £1,899.4m) benefiting from the first full year contribution from Ridgeway which was acquired in May 2016. In addition to contributions from acquisitions, I am delighted to report that like-for-like retail revenue also showed growth of 3.5%. Like-for-like revenues in new vehicle sales to retail customers, used vehicle sales and aftersales all recorded growth during the Year.

Total gross margin at 11.7% was 8 basis points above the same period last year (2016: 11.6%). The Group experienced underlying margin pressure in the discontinued leasing segment but this was more than offset by margin growth in the continuing retail segment. Against the background of a more challenging market, I am pleased to report further margin growth in both new vehicles and aftersales.

Total operating expenses of £240.7m were 25.8% higher than the same period last year, primarily driven by the impact of acquisitions and non-underlying items. As anticipated, our retail segment operating overheads on a like-for-like basis grew by 5.4% as the Group faced incremental structural cost pressures in a number of areas such as business rates and transaction processing costs.

Total underlying PBT at £29.1m (2016: £25.4m) was 14.4% ahead of the previous year.

The Group's continuing operations showed an underlying PBT growth of 23.7% which represented another record year. The discontinued leasing segment delivered a PBT of £3.7m in the 11 month period to completion of the disposal in November 2017 (full year 2016: £4.9m).

The unallocated segment consists principally of administrative and asset management functions. Underlying central operating costs of £9.6m (including

interest) were, as expected, £1.1m higher than in 2016. This was largely driven by additional infrastructure investment and the full year impact of increased finance/interest costs following the acquisition of Ridgeway (see finance costs section below).

Non underlying items

Non underlying items	£24.1m	(£3.2m) 2016
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The disposal of the leasing segment generated a one-off gain of £36.9m after all transaction costs and provision for the settlement of certain historic pension liabilities.

In addition, the Group incurred net non-underlying costs of £12.8m (2016: £3.2m). These included a £6.8m charge related to the closure of five franchised dealerships and one used car centre announced in November 2017 (including £2.1m non-cash asset impairment charges). Also included in non-underlying items is a £6.0m post-retirement benefits charge, representing an estimate of the Group's costs to cease participation in a defined benefit pension scheme; one of several outcomes being considered by the Group as part of a wider strategic review of pension arrangements in the light of the disposal of Marshall Leasing. See Note 34 'Pensions' for further details.

These non-underlying items are presented separately on the face of the income statement and are excluded from underlying PBT.

Finance costs

Finance costs	£8.1m	£6.9m 2016
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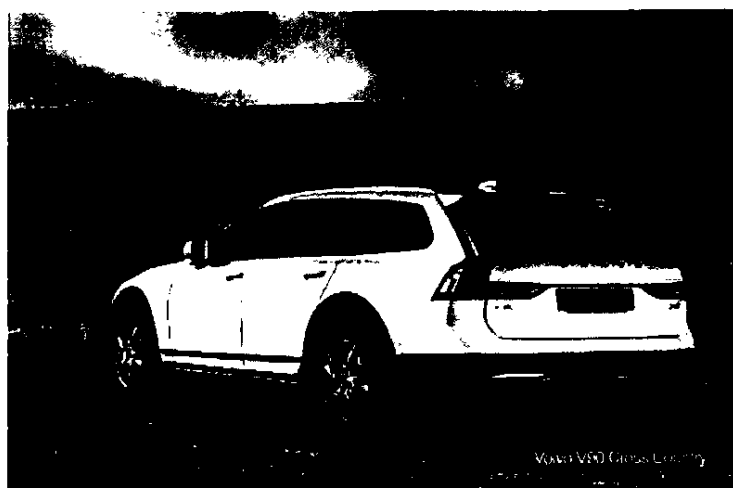
Finance costs of £8.1m were, as expected, £1.2m higher than in 2016, driven by increased full year costs associated with drawings under the Group's revolving credit facility (in connection with the Ridgeway acquisition) and increased stock funding charges. These additional costs include amortisation of arrangement fees and non-utilisation charges. We expect finance costs to reduce in 2018 following the disposal of Marshall Leasing.

Taxation

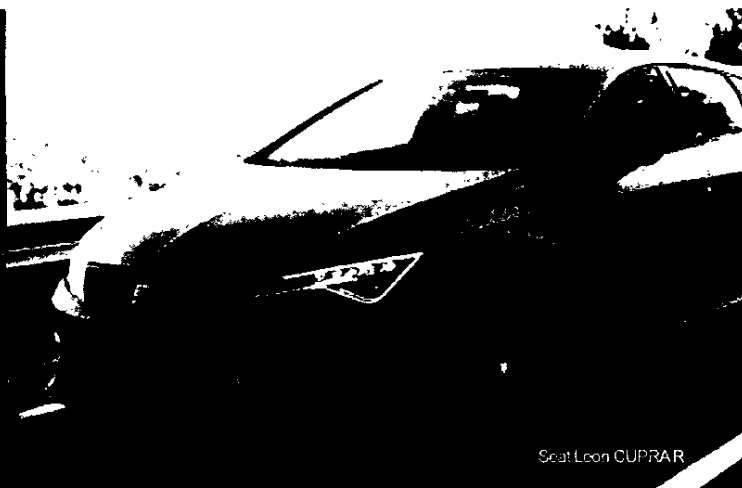
Underlying ETR	18.1%	20.3% 2016
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Being sensitive to the impact of gains and charges associated with acquisitions, disposals and restructuring, at 7.1% (2016: 19.9%), the effective tax rate (ETR) on total reported earnings benefited materially from the one-off, non-taxable gain relating to the disposal of Marshall Leasing.

The underlying ETR was 18.1% (2016: 20.3%). The rate benefited from non-recurring, prior year adjustments. In 2018 in the underlying ETR is expected to return to historical levels.



Volvo V90 Cross Country



Seat Leon CUPRA R



247p

net assets per share



STRATEGIC REPORT

Full details of the Group's tax governance framework can be found in the Group's tax strategy which is available on the Group's website at:
<http://www.mmhplc.com/investors/corporate-governance>.

Acquisitions

Total spend **£0.1m** 2016: £0.1m

Continuing the Group's strategy of expansion with existing brand partners in new geographic territories, during the Year the Group completed the acquisition of Leeds Volvo for £0.1m, further strengthening its position as the largest franchise partner of Volvo Car UK by number of sites.

Disposal of discontinued operation

Gross proceeds **£42.5m** 2016: £42.5m

On 21 September 2017 the Group announced the strategic disposal of Marshall Leasing to N.I.I.B. Group Limited (which trades as Northridge Finance), a wholly owned subsidiary of Bank of Ireland (UK) plc. Following regulatory approval from the Financial Conduct Authority, the transaction completed on 24 November 2017.

As well as further strengthening the Group's balance sheet, the disposal allows the Group to focus on its core motor retail business and to continue the Group's successful strategy of driving both organic growth and increasing its UK geographic footprint through targeted acquisitions with existing brand partners.

The gross cash consideration for the disposal was £42.5m before costs and expenses which has been used initially to reduce levels of indebtedness. The net assets of Marshall Leasing on disposal were £2.3m.

The Group incurred £1.8m of transaction costs in relation to the disposal, including the settlement of long term management incentives for certain senior employees of Marshall Leasing.

Net debt

Net debt **£2.2m** 2016: £119.0m

The Group's balance sheet is strong and has significant capacity to support continued growth. The Group had total net assets of £191.2m (2016: £145.7m) which equates to 247p per share as at 31 December 2017 (2016: 188p per share).

The Group incurred £24.4m of retail capital expenditure during the Year (2016: £28.8m). I am pleased to report that two major freehold/long leasehold developments opened on time and on budget during the second half of the Year. These were Audi Exeter and a new Jaguar Land Rover

dealership at a new franchise point in Newbury. 2018 will be the final year of our three-year £75m retail capital expenditure programme.

Total inventory at 31 December 2017 was £401.3m (2016: £380.0m) of which £380.6m was subject to vehicle funding arrangements (2016: £364.7m).

At 31 December 2017, the Group had net debt of £2.2m (2016: £119.0m). In addition to the significant positive cash flow from the disposal of Marshall Leasing, the Group continued to focus on all aspects of working capital control, driving a positive cash flow from reduced levels of working capital during the Year. The significant reduction in net debt leaves the Group well positioned to pursue further growth opportunities and to respond appropriately to more challenging market conditions.

Importantly, the disposal of Marshall Leasing has materially reduced the Group's exposure to vehicle residual value risks during a period of more challenging market conditions.

Our £120m three year banking facility was put in place during May 2016 for general corporate purposes including acquisitions and working capital requirements. This facility was undrawn at 31 December 2017. During the Year, the Group exercised an option to extend the facility for a further year to 2020. The Group has a further option in May 2018 to extend the facility for a further twelve months.

Dividends

Dividends per share **6.40p** 2016: 5.50p

The Board is delighted to recommend a final dividend of 4.25p (2016: 3.70p) per share which, together with the interim dividend of 2.15p (2016: 1.80p) per share, gives a total dividend for the Year of 6.40p (2016: 5.50p).

If approved by shareholders, the dividend will be paid on 25 May 2018 to shareholders who are on the Company's register at close of business on 27 April 2018.

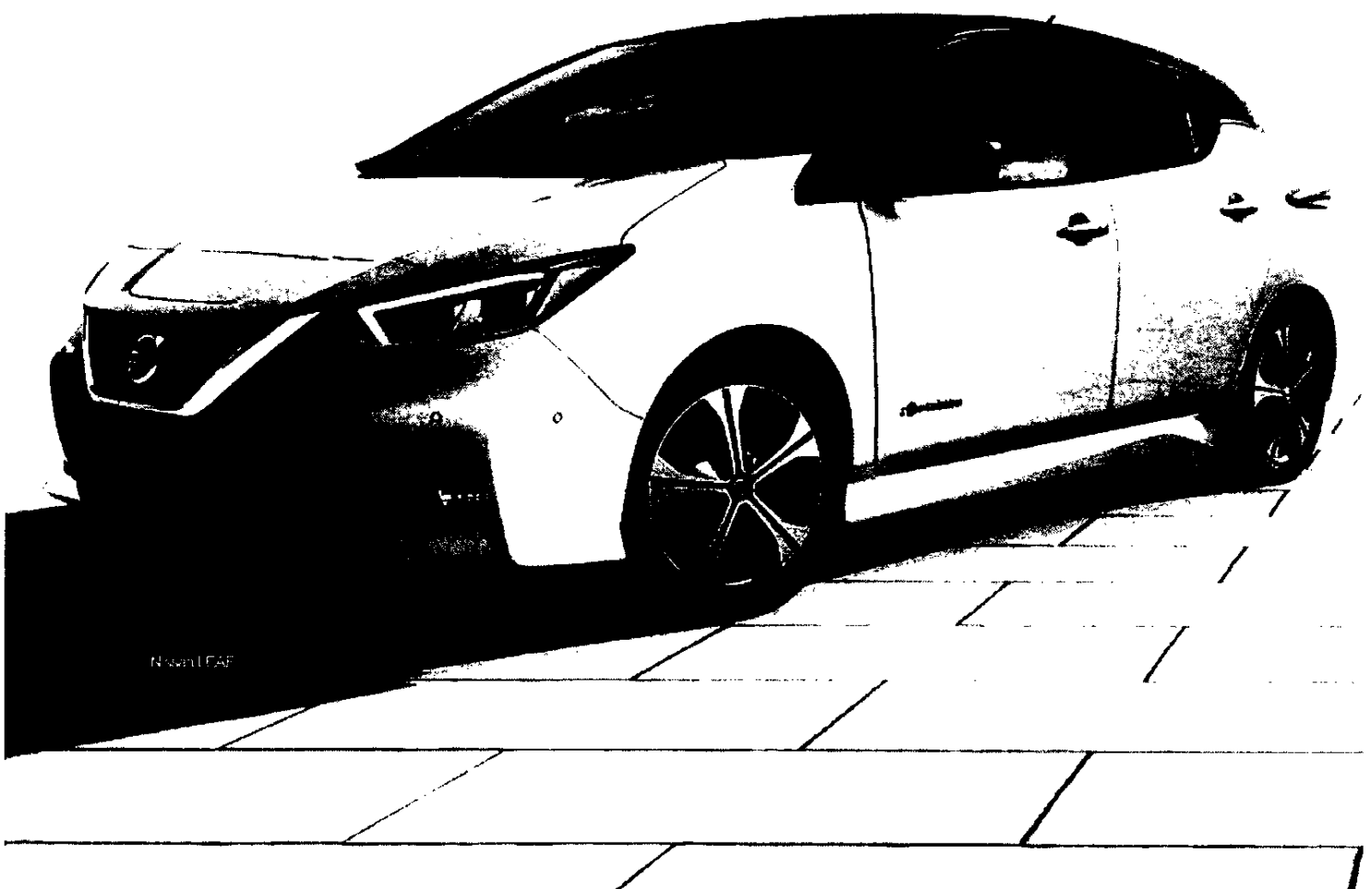
The Board intends to maintain a progressive dividend policy whereby dividends are covered between 4 to 5 times underlying earnings and paid in an approximate one-third (interim dividend) and two-thirds (final dividend) split. The retained earnings of the Company at 31 December 2017 of £70.1m (2016: £19.7m) are considered sufficient for the payment of future dividends in line with the Group's dividend policy.

Mark Raban
Chief Financial Officer
13 March 2018

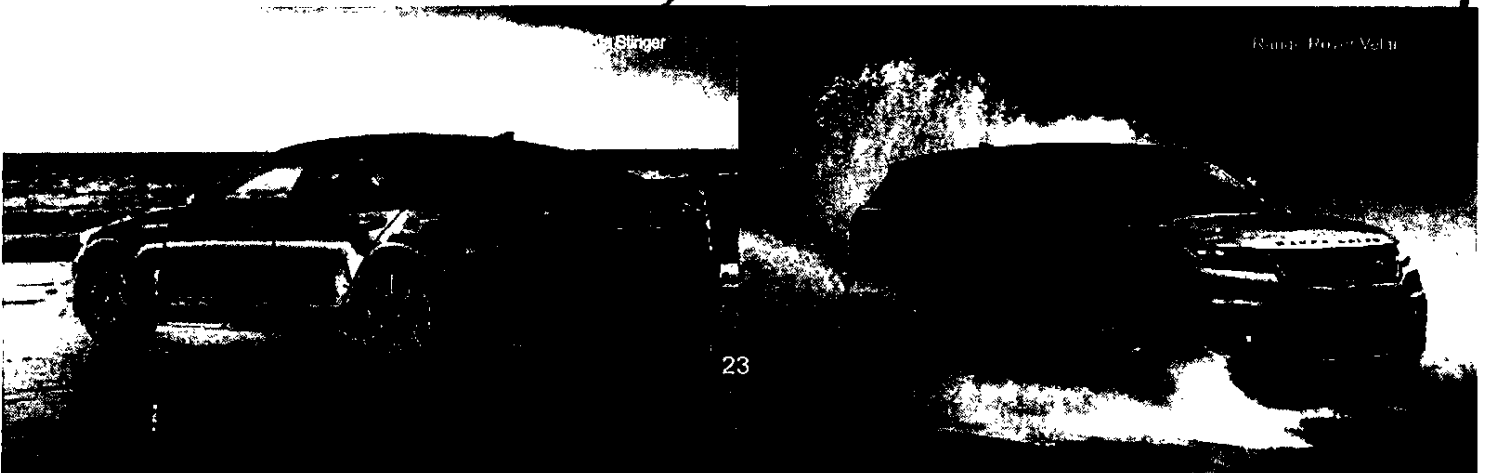
M. D. R.

£116.8m

increase in net debt



Nissan LEAF



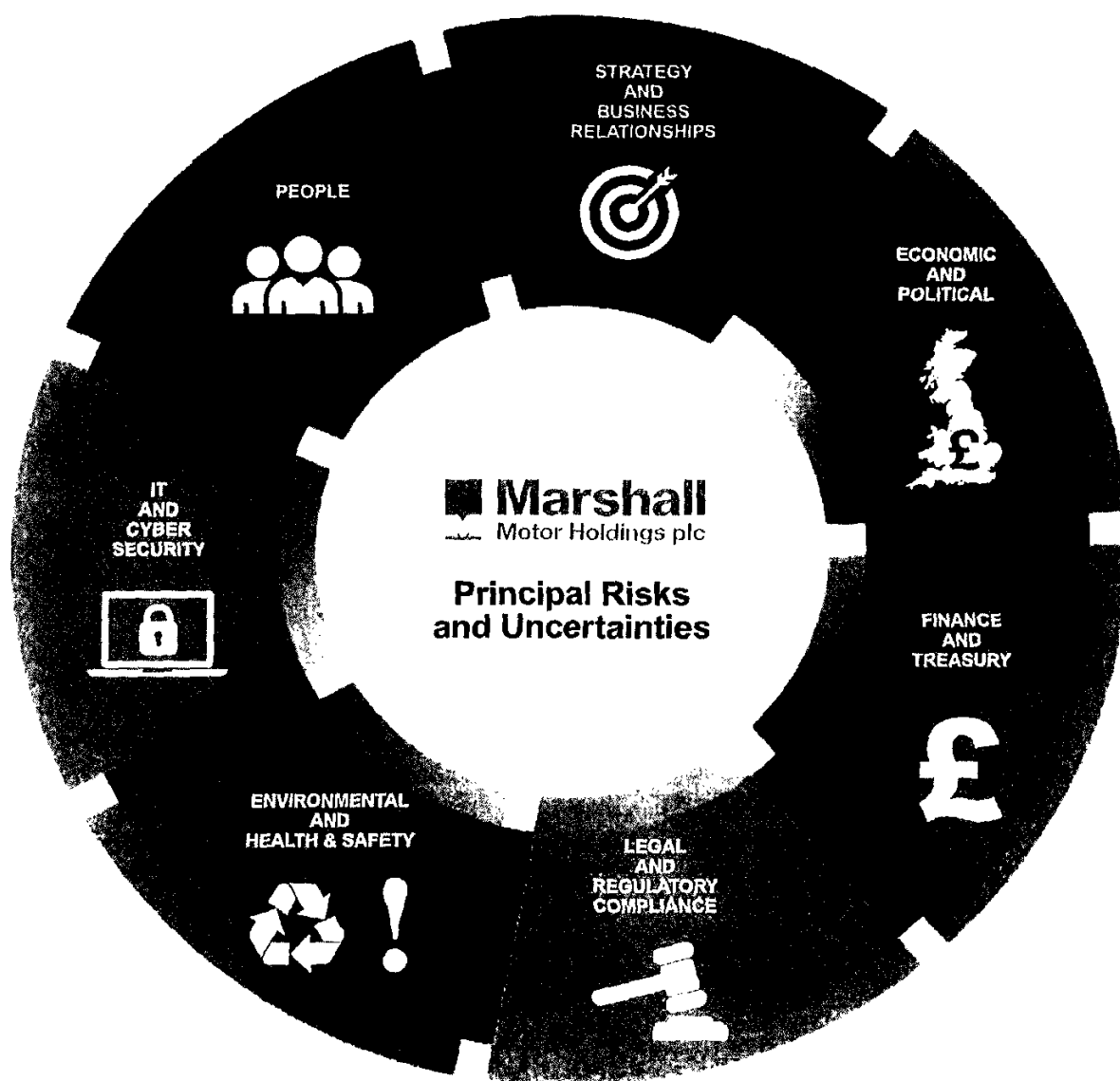
Volvo Stinger







Range Rover Velar

Principal Risks and Uncertainties

The Group faces a range of risks and uncertainties. The processes that the Board has established to safeguard both shareholder value and the assets of the Group are described in the Corporate Governance report.





Set out below are the principal risks and uncertainties the Directors believe could have the most significant adverse impact on the Group's business, together with the principal controls in place to mitigate those risks. The risk trend column indicates the Board's view on whether, from a Group perspective taking into account mitigating actions, these risks have increased, remained relatively stable or decreased over the past 12 months. The risks and uncertainties described below are not intended to be an exhaustive list.



Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
STRATEGY AND BUSINESS RELATIONSHIPS			
Failure to adopt the right business strategy and/or failure to implement strategy successfully	<p>The Group misses its financial targets or is unable to invest in its businesses</p> <p>Reduction in confidence of key stakeholders (shareholders, brand partners, lenders, employees)</p> <p>Poor investment decisions/failure to achieve targeted investment returns</p>	<p>Annual strategy review by the Board</p> <p>Monthly reporting and monitoring of key financial information and performance</p> <p>Detailed business planning and due diligence prior to potential acquisitions</p> <p>Review of capital expenditure plans to ensure our return on capital objectives are achievable</p> <p>Capital investment appraisal process with Board review of major investments</p> <p>Diversity of franchises mitigates the cyclical nature of, and an over reliance on individual vehicle brands</p> <p>Focus on efficient use of working capital</p>	 
Manufacturer Relationships	<p>Failure, or downturn in performance, of manufacturer partners impacting vehicle sales and profitability of those franchises</p> <p>Failure to maintain good relations with manufacturers impacting revenue and profitability</p> <p>Loss of a franchise leading to a reduction in revenue and profitability and the risk of vacant properties and/or onerous leases</p> <p>Poor manufacturer relationships impacting acquisition and/or growth opportunities</p>	<p>Ongoing portfolio management focused on strengthening key franchise relationships/divestment of non-core businesses</p> <p>Diverse franchise representation avoids over reliance on any single manufacturer</p> <p>Close contact and regular review with manufacturers (through CEO, Operations, Commercial and Franchise Directors) to ensure our respective goals are communicated, understood and aligned</p>	 
Failure to integrate acquisitions successfully	<p>Loss of key personnel/customers</p> <p>Brand partner relationship damage</p> <p>Reduced financial performance of acquired businesses</p> <p>Failure to achieve targeted synergies</p> <p>Damage to manufacturer and/or customer relationships</p>	<p>Detailed business planning and due diligence on potential acquisitions</p> <p>Integration plan developed prior to acquisition and implemented in a timely manner thereafter</p> <p>Group-wide single dealer management platform and Phoenix management system implemented immediately after acquisition</p> <p>Implementation of Group policies and procedures.</p> <p>Internal Audit verification of successful implementation of Group processes post-acquisition</p>	
Disruption to franchise business model	<p>Alternative business models impacting franchised dealer model</p> <p>Direct sales channels circumventing franchised dealers</p> <p>Revenues and profits may fall due to competitor action</p> <p>'Mobility as a service' leading to reduced private vehicle ownership</p> <p>Electric and alternative fuel vehicles leading to a decline in sales for traditional vehicle manufacturers and/or reduced demand for aftersales services</p>	<p>Ongoing development of customer experience to ensure the Group maintains a competitive advantage</p> <p>IT developments to maintain competitive advantage (e.g. development of website/Phoenix management system)</p> <p>Maintaining close relationships with manufacturer partners to ensure each party's mutual aims are achieved</p> <p>Partnering with brands who are responding effectively to the cleaner technology agenda</p> <p>Connected car technology reinforces link between customers and manufacturers through franchised dealers</p> <p>Annual strategy review</p>	

STRATEGIC REPORT

Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
ECONOMIC AND POLITICAL			
Deterioration in economic conditions/ consumer confidence (including deterioration driven by UK decision to leave the EU)	<p>Increased inflation and falling consumer confidence leading to lower vehicle sales/margins and a reduction in revenue and profitability</p> <p>Reduction in used vehicle values impacting stock values</p> <p>Weakening sterling impacting new vehicle prices and sales</p> <p>Manufacturers' focus on the UK automotive retail market may decline leading to reduced output and sales</p>	<p>Monitoring of economic conditions with appropriate actions</p> <p>Stock management & monitoring (56 day stocking policy) with appropriately prudent financial provisions</p> <p>Maintaining close relationships with manufacturers</p>	↑
Rise in interest rates	<p>Interest rate rises impacting availability and affordability of vehicle finance leading to reduced vehicle sales</p> <p>Increased costs of servicing the Group's borrowings</p>	<p>Monitoring of interest rates</p> <p>Material reduction in Group's debt following sale of Marshall Leasing</p> <p>Stock control and working capital policy</p>	↑
Increased Operating Costs	<p>Increased operating and non-controllable costs (e.g. employment costs, Apprentice Levy, business rate changes, IT and marketing costs) impacting profitability</p>	<p>Increased costs monitored and forecast in budgets.</p> <p>Cost reduction initiatives to offset structural cost increases</p>	↑
FINANCE AND TREASURY			
Liquidity & credit	<p>Credit availability/withdrawal of financing facilities impacting trading ability</p> <p>Breach of covenants or inability to meet debt obligations</p> <p>Increased stock funding costs</p>	<p>Working capital management & cash flow monitoring</p> <p>Committed RCF and vehicle stocking facilities</p> <p>Maintaining strong relationships with funders</p> <p>Disposal of Marshall Leasing reduced Group indebtedness</p>	↓
Vehicle residual values volatility	<p>Fluctuations in used vehicle values adversely impacting the value of the Group's vehicle inventory</p>	<p>Stock management & monitoring (56 day stocking policy)</p> <p>Risk reduced following disposal of Marshall Leasing</p>	↓
LEGAL AND REGULATORY			
Legal & Regulatory Changes and Compliance	<p>Non-compliance with key legal and regulatory codes (FCA, VOSA, ICO, etc.) leading to fines, litigation, authorisation suspension and/or reputational damage</p> <p>Regulatory intervention into the market (e.g. FCA motor finance review) may impact operations</p> <p>Regulatory changes following the UK's departure from the EU which may adversely impact the retail automotive market</p>	<p>Group policies and procedures to minimise risk of non-compliance</p> <p>Training and development of employees</p> <p>FCA retail and oversight committees to monitor compliance</p> <p>New Head of Compliance appointed</p> <p>Internal Audit department strengthened</p> <p>Monitoring of regulatory announcements/market studies to assess potential changes and modifying operations to adapt to any implemented changes</p> <p>Maintaining close relationships with manufacturer partners to assess indicators of change to their operating methods and/or UK market focus</p>	==

Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
ENVIRONMENTAL AND HEALTH & SAFETY			
Environmental and Health & Safety	<p>Failure to ensure colleagues and customers safe places of work leading to accidents, litigation, fines and regulatory intervention</p> <p>Non-compliance with environmental laws & regulations leading to fines, penalties and compensation and clean-up costs and disruption to operations</p>	<p>Group health & safety policies and procedures to promote safe places of work</p> <p>EH&S audit programme across Group.</p> <p>Regular inspection of plant and equipment</p> <p>New and expanded Health & Safety team monitors compliance and promotes a health and safety helps culture</p> <p>Waste management procedures and employee training</p> <p>Environmental due diligence for new site acquisitions with appropriate environmental insurance in place for higher risk sites</p>	
IT AND CYBER SECURITY			
Failure of key IT systems	Loss of key information systems, downtime and business interruption	<p>In-house IT team monitors systems and implements upgrade programmes</p> <p>Contingency and disaster recovery plans in place</p> <p>IT steering committee and IT risk register maintained to monitor risk</p> <p>Ongoing investment in IT infrastructure maintenance and upgrade</p>	
Cyber Security	Potential to corrupt, affect or destroy key systems and data (email, DMS & customer records), denial of service attacks and business interruption leading to lost revenue	<p>Unified threat management - Firewall installed</p> <p>Clear protocols/policies in place regarding use and access to the Group's IT systems</p> <p>Anti-virus software installed on all computers to reduce risk of viral infections</p>	
PEOPLE			
Failure to attract, develop, motivate and retain key employees	Loss of key personnel and skilled workers (e.g. technicians) impacting operational performance, and relationships with key brand partners and suppliers	<p>Appropriate remuneration packages which reward performance and long term incentive plans for senior employees</p> <p>Guaranteed earnings scheme for new sales staff to assist recruitment and retention</p> <p>Promotion of "Great Place to Work" culture</p>	

GOVERNANCE



Board of Directors

1. Daksh Gupta | Chief Executive Officer

Daksh has over 25 years' experience in the automotive retail sector and joined the Company in 2008 as its Chief Executive Officer. Daksh was a franchise director for Inchcape for seven years where he was responsible for the Volkswagen, Audi and Mercedes-Benz brands. Daksh also served as Chief Operating Officer of Accident Exchange Group plc and prior to joining the Group was Group Managing Director for Ridgeway Group. Daksh was a director of Marshall of Cambridge (Holdings) Limited until 2 April 2015 and is vice chairman of the UK automotive industry charity, BEN.

2. Francesca Ecsery | Non-Executive Director

Francesca has over 20 years' directorship experience in both blue chip companies and start-ups in the digital, retail, fast-moving consumer goods (FMCG) and leisure industries. She is a Harvard MBA, fluent in five languages and has special expertise in multi-platform consumer marketing, branding and commercial strategies. Francesca is also non-executive director of listed companies Foreign & Colonial Investment Trust plc and Share plc and also of Logistik Holdings Limited. She was a non-executive director of Good Energy Group Plc until December 2017. Her previous executive experience includes McKinsey, Pepsi Co, ThornEMI, Thomas Cook, STA Travel and many other consumer brands. Francesca was appointed to the Board in March 2015.

3. Christopher Sawyer | Non-Executive Director

From 1991 to 2006, Christopher led Delltron Electronics plc which was quoted in 1996 and sold to ABACUS Electronics Plc in 2006. In 2007, Christopher became chairman of the Lorien Limited group. Between 2006 and 2013, he was chairman of the parent of Beamach Limited, a global distributor of Land Rover parts. Christopher has been a non-executive director of Marshall of Cambridge (Holdings) Limited since 2008 and currently chairs its audit committee. Christopher was appointed to the Board on 2 April 2015 as a nominated director of Marshall of Cambridge (Holdings) Limited.

4. Stephen Jones | Company Secretary

Stephen is a practising Solicitor and spent eight years as a corporate lawyer at Eversheds LLP. He also spent eight years as Group Counsel and Company Secretary at Automotive and Insurance Solutions Group Plc. Stephen joined the Company in March 2015.

5. Peter Johnson | Non-Executive Chairman and Chair of the Nominations Committee

Peter has over 40 years' experience in the automotive sector, spending 30 years in senior roles in retail and distribution with the Rover Group, Marshall and Inchcape plc where he was Chief Executive between 1999 and 2005. Peter served on the Bunzl plc board from 2006 to 2015 as its senior independent director and Chairman of its Remuneration Committee. He also chaired Rank



plc from 2007 to 2012 and served on the Wates Group Limited board from 2003 to 2013. Peter was a non-executive Director of Marshall of Cambridge (Holdings) Limited until 2 April 2015. Peter is the current Chairman of the Retail Motor Industry Federation and president of the UK automotive industry charity, BEN.

6. Alan Ferguson | Senior Independent Director and Chair of the Audit Committee

Alan is a non-executive director of Johnson Matthey PLC, Croda International Plc and, until April 2018 when he will retire from the Board, The Weir Group Plc. He chairs the audit committees of each of these companies and is the Senior Independent Director of Johnson Matthey. Alan was chief financial officer and a director of Lonmin Plc until December 2010, prior to which he was group finance director of the BOC Group plc. Alan spent 22 years in a variety of roles at Inchcape plc, including six years as its group finance director from 1999. Alan is a chartered accountant and sits on the Business Policy Panel of the Institute of Chartered Accountants of Scotland. Alan was appointed to the Board in March 2015.

7. Mark Raban | Chief Financial Officer

Mark has 25 years' of general retail experience, including three as the finance director of Inchcape Retail Limited. He spent three years as Chief Financial Officer for the UK and Ireland at Borders Group and was the interim financial director at Selfridges Retail Limited. Mark has also held senior finance roles at public companies such as Safeway and Burton. Mark was appointed as Chief Financial Officer of the Company on 2 April 2015.

8. Christopher Walkinshaw | Non-Executive Director

Christopher joined Marshall of Cambridge (Holdings) Limited in 1983 and has worked in all of the principal Marshall businesses, including Marshall Aerospace, Marshall Land Systems and, from 1994 to 2011, Marshall Motor Holdings. Christopher joined the senior team in Marshall of Cambridge (Holdings) Ltd in 2011 and has responsibility for external relations and communications. Christopher is Chairman of the Regional Employers Engagement Group for the East Anglian Reserve Forces' and Cadets' Association, Chairman of No. 104 (City of Cambridge) Squadron Air Cadets, a director of the Cambridgeshire Chambers of Commerce, a Trustee of the Addenbrooke's Charitable Trust and a Member of Anglian Learning. Christopher was appointed to the Board on 12 July 2016 as a nominated director of Marshall of Cambridge (Holdings) Limited.

9. Sarah Dickins | Non-Executive Director and Chair of the Remuneration Committee

Sarah has over 20 years' HR experience across a broad range of sectors including retail, utilities and financial services. She spent 16 years at Asda, five of those years as an operating board member responsible for people operations and customer service for 150,000 colleagues. Sarah joined Provident Financial Group in 2012 as Executive People Director before becoming Group People Director at Bourne Leisure Limited in 2015. Sarah was appointed to the Board in March 2015.

GOVERNANCE

Directors' Report

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's report, for the year ended 31 December 2017 (the "Year").

Principal Activities

The principal activity of the Company is that of a holding company. The principal activity of its subsidiary undertakings is the sale and servicing of passenger cars and commercial vehicle and associated activities. Until the disposal of Marshall Leasing Limited in November 2017, the Group was also engaged in the business of leasing vehicles.

Results and Dividends

The results for the Year are set out in the Group income statement. The Directors recommend the payment of a final dividend of 4.25p per ordinary share to be paid on 25 May 2018 to shareholders who are on the Company's register at close of business on 27 April 2018.

Business Review and Future Developments

The review of the business and likely future developments is included within the Strategic Report. This also includes details of acquisitions, disposals and growth plans for the future.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least one year from the date of these financial statements. For these reasons, they continue to adopt the going concern basis in the preparation of these financial statements.

Directors

Details of the current directors are set out on pages 28 to 29. The directors who served during the Year and subsequently are detailed below.

Current Directors – Non-Executive Directors

Peter Johnson
Alan Ferguson
Sarah Dickens
Francesca Ecsery
Christopher Sawyer
Christopher Walkinshaw

Executive Directors

Daksh Gupta
Mark Raban

In accordance with the Articles of Association of the Company adopted on 12 March 2015 (the "Articles"), Daksh Gupta will retire by rotation and offer himself for reappointment at the annual general meeting to be held on 22 May 2018 (the "AGM").

The interests of the Directors and their immediate families in the share capital of the Company, along with details of Directors share options and awards, are contained in the Directors' Remuneration Report on pages 44 to 50.

Share Capital

The authorised and issued share capital of the Company, together with the details of shares issued during the Year are shown in Note 30 to the financial statements. The issued share capital of the Company at 31 December 2017 was 77,392,862 ordinary shares of 64p each.

Substantial Shareholdings

As at 9 March 2018, the Company had been notified of interests in excess of 3 per cent in the Company's share capital by the following shareholders:

Name	Number of Ordinary Shares	Percentage of Existing Ordinary Shares Held
Marshall of Cambridge (Holdings) Limited	50,390,625	65.11%
Union Investments and Development Limited	7,005,839	9.05%
Schroders plc	3,907,275	5.05%
Polar Capital LLP	3,087,900	3.99%

Share Option Schemes

Details of employee share option schemes are set out in the Remuneration Committee Report and in Note 31 to the consolidated financial statements.

Charitable and Political Donations

During the Year, the Group made the following charitable donations during the year: £14,000 (2016: £51,000).

No political contributions were made during the Year (2016: £nil).

Disabled Employees

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitude and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee Involvement

During the Year the policy of providing employees with information about the Group has been continued through the newsletters 'Marshall Matters' and 'Compliance Matters', team briefings and through our global email network. Regular meetings are held between local management and employees to allow a free flow of information and ideas. We also participate in the Great Place to Work Institute's employee engagement programme. Further details are set out in the Corporate Social Responsibility Section of this Annual Report.

Anti-Bribery and Corruption

The Group has in place an anti-bribery and corruption policy, the aim of which is to ensure that colleagues understand their obligations under anti-bribery legislation and includes authorisation and disclosure procedures around the provision and receipt of corporate hospitality and gifts.

Disclosure of Information to Auditor

In so far as each of the persons who were Directors at the date of approving these financial statements is aware:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that.

Auditor

A resolution to appoint Ernst & Young LLP as auditor will be put to the members at the AGM.

AGM

Notice of the AGM to be held on 22 May 2018 is set out at the end of this Annual Report. The resolutions proposed at the AGM are summarised as follows:

Resolution 1 – Receiving the annual report and accounts for the year ending 31 December 2017

All quoted companies are required by law to lay their annual accounts before a general meeting of the Company, together with the directors' reports and auditors' report on the accounts. At the AGM, the directors will present these documents to the shareholders for the financial year ended 31 December 2017.

Resolution 2 – Declaration of dividend

This resolution concerns the Company's final dividend payment. The directors are recommending a final dividend of 4.25p per ordinary share in respect of the year ended 31 December 2017 which, if approved, will be payable on 25 May 2018 to the shareholders on the register of members on 27 April 2018.

Resolution 3 – Re-appointment of Director

Daksh Gupta will retire by rotation and offer himself for reappointment at the AGM in accordance with the Articles.

Resolution 4 – Re-appointment of the Auditor

This resolution concerns the re-appointment of Ernst & Young LLP as auditor until the conclusion of the next general meeting at which accounts are laid.

Resolution 5 – Auditor's remuneration

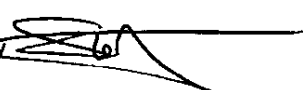
This resolution authorises the Directors to fix the auditor's remuneration.

By order of the Board

Stephen Jones

Company Secretary

13 March 2018



Corporate and Social Responsibility



Community

Striving to have a positive impact on the communities in which we serve

MARSHALL MAKING A DIFFERENCE

Our values are incredibly important to us as they determine how we should all behave. We encourage colleagues to help us make a difference and stand out from the crowd.

Whilst our focus is creating an environment where colleagues enjoy coming to work and help us to meet our business objectives, we also believe it is important to give back to our communities and the environment in which we live.

Group Giving

We have been actively involved in supporting and raising awareness for the Motor and Allied Trades Benevolent Fund ('BEN') – since 1984. BEN is the UK's dedicated charity for those who work, or have worked, in the automotive and related industries, as well as their dependants. In that time, we have raised around £800,000 which includes the generous donations our colleagues make via payroll giving. In 2017 we raised £54,398 for BEN.

Our Chairman, Peter Johnson, has been president of BEN since October 2016 and CEO, Daksh Gupta, became a trustee and Vice Chairman in October 2012.

For the second year running we have run 'BEN Week' which coincides with BEN's Industry Leaders Challenge. This year, one of our Franchise Directors joined a team of Jaguar Land Rover colleagues to swim the English Channel which raised £214,000. To support this, during the week leading up to the challenge every Marshall business did something to raise money. Colleagues dressed up, took part in sporting challenges and other fun activities to help raise money for BEN. This was a tremendous teambuilding opportunity for colleagues and was also a way of connecting with our customers.

Whilst supporting BEN remains close to our hearts, giving colleagues the opportunity to get involved with other good causes is equally important.

We have supported the Macmillan Coffee Mornings for many years which enables our businesses to get involved at a local level, bringing colleagues and customers together. We have raised over £111,000 for Macmillan over this period.

We also support national initiatives such as Red Nose Day, Children in Need, Wear it Pink for Breast Cancer and Christmas Jumper Day for Save the Children. Each dealership determines how they are going to support these events. This generally involves having a lot of fun and getting customers involved. For example, coming to work in fancy dress or taking part in a sporting challenge.

Local Giving

We encourage our colleagues to get involved with local causes which support the communities in which they work. By way of example, our Jaguar Land Rover Ipswich dealership is supporting a local project called Huddi which supports local people facing challenges with parenting.

'Services in the Community' is one of the categories recognised as part of our Marshall Achievement, Values and Teamwork Awards.

People



Recognising that people are at the heart of our success

Our people are the heart of our success. We recognise that people are at the heart of our success and we are committed to supporting them in their personal and professional lives.

Integrity



Doing the right thing, every time

Customers



Putting our customers above all else



Recognising
that people
are at the
heart of
our success.





Colleagues

Committed to attracting, developing and retaining the best talent to help drive our business forward in line with our values

MARSHALL PEOPLE

Our Values

We seek to ensure our values are at the forefront of everything we do. We encourage colleagues to uphold these values and behave in a way that brings them to life and supports our culture of being a great place to work, delivering first class customer service.

Recruiting, retaining and developing our people

We have a clear Colleague Value Proposition to attract the best talent and support our strategy to be an employment destination. We use a range of tools and assessment methods to ensure we recruit people who can deliver their objectives in line with our values and business strategy.

Every new colleague experiences a thorough induction programme which incorporates our history, values, aims and objectives as well as a structured programme of training and coaching relevant to their role, the brand and the team.

Our dedicated team of HR professionals support the business, aided by policies and practices to ensure we provide the best support, benefits and career opportunities to our colleagues.

Our bespoke Marshall Learning & Development Academy provides opportunities for our colleagues to realise their potential and support their development to ensure they have a fulfilling career with us.

Our Management Assessment Centres explore whether applicants are not only competent to do the role but also demonstrate the right behaviours to lead their people and uphold our values. Since introducing this process in 2014 management turnover has fallen.

In addition, all new Sales Executives attend our residential Sales Orientation Programme before starting in their dealership. This is a rounded programme which not only includes the technicalities of the role but culturally what our customers should experience when they interact with us. This programme has significantly reduced our sales executive turnover since launching in June 2016.

Recognising our people

Our recognition programmes are designed to support our colleague engagement agenda. These programmes include overseas incentive trips, long service awards and awards for demonstrating our values.

Our MAVTA programme (Marshall Achievement, Values and Teamwork Awards) recognises colleagues who

demonstrate outstanding achievements in Customer Service, Teamwork, Innovation, Leadership, Services in the Community, Business Excellence and Environmental.

Communicating with our people

We believe communication is the key to maintaining colleague engagement and our employment brand. We have an ethos of transparency and sharing news on a regular basis including CEO communications, weekly bulletins, our Colleague magazine, intranet and regular team meetings.

Diversity and our people

We are committed to encouraging diversity and ensuring that discrimination has no place in our business. We want every colleague to feel respected and able to perform to the best of their ability. We do not make assumptions about a person's ability to carry out his or her duties based on ethnic origin, gender, sexual orientation, marital status, religion or other philosophical beliefs, age or disability.

We expect all our colleagues to act with integrity and behave ethically in everything they do. To reinforce this, we have the Marshall Code of Conduct which is supported by an online programme which forms part of every new colleague's induction.

Engaging our people

Our employment policies and practices are consistent with our values and culture, helping us to achieve our business objectives through engaged people.

Since 2008 we have worked with the Great Place to Work Institute's Best Workplaces programme. This has given us the opportunity to seek feedback from our colleagues each year to measure levels of engagement and drive continuous improvement.

Since 2010 we have achieved survey scores ahead of the 70% UK benchmark which determines a great place to work. In 2017 we achieved an overall score of 78% which included over 1,200 colleagues from the recently acquired former Ridgeway businesses. In May 2017 we were proud to be ranked as a Best Large UK Workplace for the third year in succession.



Category: Large
2017
Best Workplaces™

United Kingdom



Recognising
that people
are at the
heart of
our success.


4,956



Academy training
days delivered



GOVERNANCE



Health & Safety
Making Health & Safety an
integral part of Marshall's day
to day operation

MARSHALL EMBRACING SAFETY

In 2017, we have increased the visibility of our Health, Safety & Environmental (HSE) team across the business. Targeted communications and visits to sites enable us to adopt a consistent approach to health and safety for all activities across our business.

Our HSE team aims to provide support and direction to all sites by continually reviewing and improving our policies and procedures, supporting and advising managers to assist them in fulfilling their H&S responsibilities.

The team also provide access to first aider, fire warden and risk assessor training.

Our first aiders and fire wardens are all volunteers who undertake these roles in addition to their usual duties. Monthly checks of first aid boxes, firefighting equipment and emergency lighting, as well as weekly fire alarm tests are just some of the additional tasks these colleagues undertake on our behalf.

In addition, each of our sites has a trained risk assessor who is responsible for ensuring that the site specific risk assessments remain relevant and up to date for their site.

The HSE team also monitor, report and investigate all incidents and where trends are identified an HSE Alert is created and shared with all colleagues.

Planned preventive maintenance is organised by the HSE team working with our approved contractors to ensure all relevant inspections and any identified remedial work is undertaken on time and certificated evidence is available.

Finally, having listened to feedback from our colleagues, the HSE team has worked with our partner company, Defib Machines, to install and maintain Automated Defibrillator Machines at 122 sites across our portfolio.

We also track our Accident Frequency Rate (AFR) on a monthly and annual basis. The AFR is the measure of the number of accidents per 1m hours worked. The Motor Industry AFR is currently 14.2 (taken from HSE document 'injury frequency rates'). Our AFR for 2017 was 4.55.



Environmental
Embracing our environmental
responsibilities

MARSHALL GOING GREEN

The Marshall LEAF (Lowering Energy to Aid the Future) aims to lower the impact we have on the environment.

This initiative complements our obligations to report under Energy Savings Opportunity Scheme (ESOS) which is designed to lead to greater energy efficiency, cost savings and carbon reduction.

We use the information from the ESOS surveys when developing our new dealerships as well as refurbishments of existing sites.

All of our new-build dealerships have been built to BREEAM "Very Good" rating. BREEAM is the world's leading environmental assessment method for buildings and sets the standard for best practice in sustainable building design, construction and operation and has become one of the most comprehensive and widely recognised measures of a building's environmental performance.

At Marshall we take our duty of care responsibilities very seriously and as such work closely with our approved waste contractor to provide a comprehensive collection and processing service of our hazardous and non-hazardous recyclable materials.


In 2017 96.2% of our hazardous waste materials, such as engine oil, lead acid batteries, rags and absorbents were recycled and recovered. This equates to over 1.2m kg of waste which didn't go to landfill.

In 2017, 68.2% of our dry mixed recycling waste materials, such as paper, plastics, metals and cardboard, were recycled and recovered. This equates to over 1.4m kg of waste which didn't go to landfill.

We also work with our Brand partners to ensure compliance with The Producer Responsibility Obligations (Packaging Waste) Regulations the aim of which is to reduce the amount of packaging waste that ends up in landfill.

Additionally, we work closely with water retailers and local water authorities to ensure that where our operations involve the discharge of waste water (e.g. valeting), we have obtained the correct level of consent and that our actions do not cause pollution via surface water drainage and other water courses.


Finally, we work with the Environmental Protection Teams at various councils across England to ensure we have the relevant permits in place, under the Environmental Permitting (England & Wales Regulations 2007) at those of our dealerships which have a Bodyshop, or where we have independent Bodyshop operations. This includes undertaking regular monitoring to ensure we remain compliant with the limits set within the permits.



Health and Safety Summary 2017

Total number of incidents	178
Of which RIDDOR reportable incidents	20
Fatalities	0
Over 3 day absence	9
Non workers (contractors, visitors, third parties)	5
Occupational disease	1
Dangerous occurrences reported under RIDDOR*	4
Number of enforcement notices issued by HSE	0
Number of prohibition notices issued by HSE	0

*Reporting of Injuries, Dangerous Occurrences Regulations 2013



HeartSine samaritan® PAD
Resuscitator

Our products are designed for use in the field. For more information, contact our customer support team on **0800 0852 733**.

Defib Machines



Marshall LEAF
Lowering Energy to Aid the Future



GOVERNANCE

Corporate Governance

PRINCIPLES OF CORPORATE GOVERNANCE

The Board recognises that applying sound governance principles in the running of the Group is essential. The Company is listed on AIM and is therefore not required to comply with the UK Corporate Governance Code. However, in recognising the value and importance of high standards of corporate governance the Company has, since its admission to AIM in April 2015, adopted the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies so far as it is practicable having regard for the size and nature of the Group.

An explanation of how these principles have been applied during the Year is set out below.

THE BOARD

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 twelve board meetings during the Year. There are separate attendance statements in respect of the Audit and Remuneration Committees on pages 41 and 44.

Director	Date appointed	Role	Committees (C = current chair)	Board attendance
Peter Johnson	27 June 2014	Non-Executive Chairman	Nomination Committee (C)	12/12
Alan Ferguson	11 March 2015	Senior Independent Director	Audit Committee (C) Remuneration Committee Nomination Committee	12/12
Francesca Ecsery	25 March 2015	Independent Non-Executive	Audit Committee Remuneration Committee Nomination Committee	12/12
Sarah Dickins	11 March 2015	Independent Non-Executive	Audit Committee Remuneration Committee (C) Nominations Committee	11/12
Christopher Sawyer*	2 April 2015	Non-Executive	Audit Committee Remuneration Committee Nomination Committee	12/12
Christopher Walkinshaw*	12 July 2016	Non-Executive	n/a	12/12
Daksh Gupta	1 October 2008	Chief Executive Officer	n/a	12/12
Mark Raban	2 April 2015	Chief Financial Officer	n/a	12/12

* Christopher Sawyer and Christopher Walkinshaw are nominated directors of Marshall of Cambridge (Holdings) Limited.

Board decisions are generally on matters of strategy (including acquisitions and disposals), policy, people, performance, budgets and significant capital expenditure. Each director receives information on matters to be discussed (including Board reports from the Chief Executive, Chief Financial Officer and Company Secretary) in advance of each Board meeting to ensure that there is a full debate at Board level and in particular so that the non-executive directors can contribute fully.

The Board has formally reserved specific matters for its determination and has approved terms of reference for all Board Committees.

All directors have access to independent professional advice, if they have the need to seek it. There is an induction process for new directors and training is available when required.

Chairman, Chief Executive Officer and Senior Independent Director

Peter Johnson is Non-Executive Chairman and the Chief Executive Officer is Daksh Gupta. There is a formal division of responsibilities between the Chairman and the Chief Executive Officer. The Senior Independent Director is Alan Ferguson.

Board Balance

The Company currently has eight directors, of which three are independent non-executives.

Under the terms of a Relationship Agreement ("Relationship Agreement") with Marshall of Cambridge (Holdings) Limited ("MCHL") (details of which are set out below), MCHL is entitled to appoint two nominated directors to the Board, so long as it holds 30% or more of the Company's ordinary shares. MCHL appointed Christopher Sawyer as one of its nominated directors on 2 April 2015 and appointed Christopher Walkinshaw as its second nominated director on 12 July 2016.

Performance Evaluation

The non-executive directors have met without the presence of the executive directors, during which the performance of executive directors was assessed and without the presence of the Chairman (to assess the performance of the Chairman).

Re-election

In accordance with the Company's Articles, Daksh Gupta will retire by rotation and offer himself for reappointment at the AGM.

BOARD COMMITTEES

Nomination Committee

The Company has established a Nomination Committee which comprises Peter Johnson (Chair of the Committee), Alan Ferguson, Sarah Dickins, Francesca Ecsery and Christopher Sawyer.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise. It has not been considered necessary for the Nomination Committee to meet during the Year.

Audit Committee

The Company has established an Audit Committee, which comprises Alan Ferguson (Chair of the Committee), Sarah Dickins, Francesca Ecsery and Christopher Sawyer.

Further information on the Audit Committee is set out on pages 41 to 42.

Remuneration Committee

The Company has established a Remuneration Committee which comprises Sarah Dickins (Chair of the Committee) Alan Ferguson, Francesca Ecsery and Christopher Sawyer.

Further information on the Remuneration Committee is set out on pages 43 to 50.

RELATIONS WITH SHAREHOLDERS

The Group is committed to maintaining good relations with all its shareholders through the provision of Interim and Annual Reports, other trading statements and the Annual General Meeting. The Company also meets with its institutional shareholders regularly.

In light of MCHL's aggregate shareholding in the Company, on Admission the Company entered into the Relationship Agreement with MCHL in order to regulate the relationship between MCHL and the Company and enable the Company to act independently of MCHL and its affiliates. Under the terms of this agreement MCHL has the right, for so long as it owns 30% or more of the Ordinary Shares in the capital of the Company, to appoint two directors to the Board and one director to each of the committees of the Board, including the Audit, Remuneration and Nomination Committee. The Relationship Agreement will terminate in the event that MCHL ceases to own 30% or more of the ordinary shares in the capital of the Company.

Further details of the Relationship Agreement can be found in the Company's AIM Admission Document which is available on the Company's website at www.mmhplc.com.

GOVERNANCE

ANNUAL GENERAL MEETING

The Annual General Meeting provides an opportunity for all shareholders to be updated on the Group's progress and ask questions of the Board.

FINANCIAL REPORTING

The Board has ultimate responsibility for both the preparation of accounts and the monitoring of systems of internal financial control. The Board seeks to present a fair, balanced and understandable assessment of the Group's position and its prospects and present price-sensitive information in an appropriate way.

INTERNAL CONTROL

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

The principal elements of the Group's internal control system include:

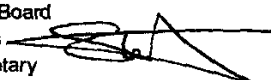
- management of the day to day activities of the Group by the executive Directors; aided by the Group's bespoke management information system, Phoenix 2;
- an organisational structure with defined levels of responsibility;
- a forecasting process at each quarter end;
- an annual budgeting process which is approved by the Board;
- detailed weekly and monthly reporting of performance against budget and the prior year using Cognos;
- central control over key areas such as capital expenditure authorisation, contracts and financing facilities;
- formal accounting policies and procedures which are regularly reviewed and publicised in the business;
- an internal audit department which monitors compliance of Company processes and procedures and whose programme of work is overseen by the Audit Committee;
- a newly created role of Head of Compliance to assess and monitor the Company's compliance with its regulatory responsibilities with a particular focus on compliance with FCA requirements.

The Group continues to review its system of internal control to ensure compliance with best practice, whilst also having regard to its size and the resources available.

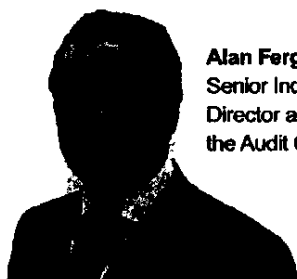
The principal risks and uncertainties identified by the Board are set out on pages 24 to 27.

By order of the Board

Stephen Jones
Company Secretary
13 March 2018



Audit Committee Report



Alan Ferguson
Senior Independent
Director and Chair of
the Audit Committee

Audit Committee Members

The Company's Audit Committee was established on Admission and comprises myself, Sarah Dickens, Francesca Ecsery and Christopher Sawyer.

With the exception of Christopher Sawyer (given his position as a nominated director of MCHL), all members of the Audit Committee are considered to be independent.

It is considered that the Audit Committee possesses the necessary skills and experience to fulfil its responsibilities effectively with its members, through their other business activities, having a wide range of financial and commercial expertise. In particular, as set out on page 29, my background was as an experienced Finance Director serving on the boards of a number of large companies throughout my executive career. I am the current chair of the audit committees of Johnson Matthey Plc and Croda International Plc and, until my retirement in April 2018, The Weir Group Plc.

Audit Committee Responsibilities

The Audit Committee's principal responsibilities are to:

- monitor the integrity of the Company's financial statements (including its annual and interim reports, interim management statements results' announcements and any other formal announcement relating to its financial performance);
- review significant financial reporting issues and judgements as described in Note 4 of the financial statements;
- keep under review the effectiveness of internal controls and risk management systems;
- review arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- monitor and review the effectiveness of the internal audit function, review and approve the internal audit function's planned work and meet privately with the head of internal audit without the presence of management; and

- make recommendations to the Board in relation to the appointment of the external auditor and oversee the relationship with the external auditor including approving the annual audit plan, assessing audit quality, effectiveness and approving the audit fee.

The Audit Committee's responsibilities, its procedures and its authority are set out in formal terms of reference approved by the Board.

Audit Committee Meetings

The Audit Committee has an annual agenda of matters to be considered and is scheduled to meet three times each year and at any other time when it is appropriate to consider and discuss audit and accounting related issues.

Audit Committee meetings are attended by all Committee Members (see below). At the discretion and invitation of the Committee Chair other Executive and Non-Executive Directors, the Head of Internal Audit and representatives of the Company's external auditor may also attend.

During the Year, the Audit Committee met formally three times, each member's attendance at those meetings being set out below:

Committee Member	Role	Attendance record
Alan Ferguson	Chair of the Committee	3/3
Sarah Dickens	Non-Executive Director	3/3
Francesca Ecsery	Non-Executive Director	3/3
Christopher Sawyer	Non-Executive Director	3/3

Between the end of the Year and the date of this report there was a further meeting of the Audit Committee which was attended by all members.

Activities During the Period

During the period since the last annual report to the date of this report, the Audit Committee has:

- reviewed and made some minor amendments to its terms of reference and operated in accordance with an annual agenda of matters to be considered by it;
- reviewed the public announcements relating to its financial position including the accounting issues, key accounting judgements and going concern assessment in connection with the full year and interim results announcements;

GOVERNANCE

- reviewed and after challenge, approved the external auditor's audit plan for 2017, including their proposed fee and statement of independence. The Audit Committee also reviewed the quality of the external audit and recommended the re-appointment of the external auditor;
- reviewed non audit fees paid to the external auditor in the Year. These fees totalled £36k and related solely to the review of the Group's interim results;
- considered the accounting issues arising as a result of the disposal of Marshall Leasing Limited;
- considered the potential impact of future changes to accounting standards, including IFRS 15 and IFRS 16;
- considered and subsequently recommended the taking of an exemption from an audit pursuant to S.479A Companies Act 2006 in respect of the year ending 31 December 2017 for certain subsidiary companies as set out on page 69;
- approved the programme of work for the internal audit function in 2017 and considered the output of that work. In addition, it approved the internal audit plan for 2018;
- considered the Group's risk management process and its effectiveness;
- discussed the Company's arrangements to enable employees to raise concerns about possible improprieties confidentially including the use of an independent organisation to provide a confidential 'whistleblowers' hotline; and
- received a presentation from the Head of Retail Finance covering the structure of the finance function, key financial controls and planned future development.

The Committee receives reports from executive directors and also receives reports from, and periodically meets with the external auditor and the head of internal audit in the absence of management. In addition, as chair of the Audit Committee, I also meet with the external and internal auditor outside of the formal meetings.

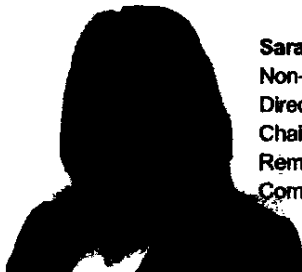
Audit issues considered by the Committee

The Audit Committee considered areas of significant judgment and estimation applied in the preparation of the Group's 2017 financial statements. It received a papers from the Chief Financial Officer and the external auditor, which covered amongst other matters Goodwill and Intangible asset impairment reviews, taxation, inventory, closure costs and provisions and the disposal of Marshall Leasing. The Committee discussed these issues with management and took comfort from the work of the external auditor. The Committee concluded that these matters had been dealt with appropriately in the 2017 financial statements. The Committee reviewed the potential impact of new standards, IFRS 15 and 16, and concurred with the disclosures made in this regard. The Committee also reviewed a paper on going concern and agreed with the conclusion that the financial statements be prepared on the going concern basis.

Alan Ferguson
Chair of the Audit Committee
13 March 2018



Remuneration Committee Report



Sarah Dickins
Non-Executive
Director and
Chair of the
Remuneration
Committee

I am pleased to present, on behalf of the Board, the Remuneration Committee's (the "Committee") Remuneration Report providing details of the remuneration of the Directors for the financial year ending 31 December 2017 and of our remuneration policy and principles.

Remuneration policy

The Committee regularly reviews its remuneration policy to ensure it supports achievement of the Company's short-term financial goals and longer term strategic objectives, including transformational activity such as the acquisition of SG Smith, and Ridgeway in 2016, and disposal of Marshall Leasing Limited during the year. Although not bound by the same regulation as main market listed companies, including the requirement to put remuneration policy to shareholder vote at least every three years, the Committee continues to monitor developments in regulation, governance and best practice and considers the current remuneration policy appropriate to the Company's circumstances.

Remuneration outcomes for the period to 31 December 2017

As outlined in the operating review the Company has continued its excellent track record of performance in 2017. Financial highlights include like-for-like revenue growth of 3.5% and underlying PBT of £29.1m representing an increase of 14.4% versus 2016. In addition, the disposal of Marshall Leasing has further strengthened the balance sheet.

As set out in the remuneration report last year for the year under review base salaries, annual bonus opportunity and Performance Share Plan ("PSP") opportunities for both Daksh Gupta and Mark Raban remained the same as the previous year.

Annual bonus opportunity during 2017 was based on the achievement of underlying PBT targets with bonuses of 96% of maximum awarded to the Chief Executive and Chief Financial Officer respectively in respect of performance in the year ended 31 December 2017.

The Executive Directors also received a PSP Award under the Company's PSP which is subject to demanding three year EPS targets set post the announcement of the sale of Marshall Leasing Limited. Subject to the performance condition being met PSP awards will vest on the third anniversary of grant with any vested shares required to be held for a further 12 months post vesting.

Key remuneration decisions for the year to 31 December 2018

The Committee believes that the remuneration policy remains appropriate and having reviewed base salaries for the Chief Executive Officer and Chief Financial Officer in the context of increases for the wider workforce the Committee have approved increases of 2.2%. The maximum annual bonus potential for 2018 will be 125% of salary for the CEO and 100% of salary for the CFO based on PBT in line with the stretching business plan.

The Committee intends to make awards in 2018 under the PSP subject to a maximum of 125% of salary in respect of the Chief Executive Officer and 100% of salary in respect of the Chief Financial Officer. Vesting will be subject to the achievement of demanding three year EPS targets. Any shares awarded this year to Executive Directors that vest under the PSP must be retained for a further year before they can be sold.

Conclusion

The Directors' remuneration policy which follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of remuneration for the period ended 31 December 2017. The Committee will continue to be mindful of shareholder views and interests, and we believe that the Directors' remuneration policy is aligned with the achievement of the Company's business objectives.

Sarah Dickins
Chair of Remuneration Committee
13 March 2018

GOVERNANCE

Directors' Remuneration Report

REMUNERATION GOVERNANCE

Throughout the period 1 January 2017 to 31 December 2017, the Committee comprised three independent Non-Executive Directors: Sarah Dickins (Chair of the Committee), Alan Ferguson, Francesca Ecsery alongside Christopher Sawyer who is an appointed representative of MCHL.

The table below sets out each member's attendance record at Committee meetings during the financial year.

Committee member	Role	Attendance record
Sarah Dickins	Chair of the Committee	5/5
Alan Ferguson	Non-Executive Director	5/5
Francesca Ecsery	Non-Executive Director	4/5
Christopher Sawyer	Non-Executive Director	4/5

The Chair, members of the management team, as well as the Committee's advisers, are invited to attend meetings as appropriate, unless there is any potential conflict of interest.

The Remuneration Committee: Responsibilities

The terms of reference of the Committee cover such issues as: committee membership; frequency of meetings; quorum requirements; and the right to attend meetings. In addition, the Committee has responsibility for, amongst other things:

- making recommendations to the Board on the Company's policy on remuneration for the Group;
- determining and monitoring specific remuneration packages for the Chairman, each of the Executive Directors and certain senior management in the Group, including pension rights and any compensation payments;
- recommending and monitoring the level and structure of remuneration for senior management;
- recommending and overseeing the implementation of share related schemes, including scheme grants;
- ensuring the Committee has access to independent remuneration advice including responsibility for appointing a suitably qualified adviser

The Board remains responsible for the approval and implementation of any recommendations made by the Committee. The remuneration of Non-Executive Directors other than the Chairman is determined by the Chairman of the Board and the Executive Directors.

The Committee's Advisers

- The Committee engages external advisers to assist it in meeting its responsibilities and retained Willis Towers Watson to provide independent remuneration advice to the Committee. Willis Towers Watson are a signatory to the Remuneration Consultants' Code of Conduct, and the Committee is satisfied that the advice that it receives is objective and independent.

REMUNERATION POLICY

The overall aim of our remuneration policy is to provide appropriate incentives that reflect the Group's performance culture and values, through a number of specific remuneration components (detailed in the table on the following pages). In summary, we aim to:

- attract, retain and motivate high calibre, senior management and to focus them on the delivery of the Group's strategic and business objectives;
- set base pay having had due regard to the competitive talent market in which the Company operates with incentive pay structured so that top quartile pay can be achieved for top quartile performance;
- be simple and understandable, both externally and to colleagues; and
- achieve consistency of approach across the senior management population to the extent appropriate.

In determining the practical application of the policy, the Committee considers a range of internal and external factors, including pay and conditions for employees generally, shareholder feedback, and appropriate market comparisons with remuneration practices in FTSE-listed, AIM-listed and other automotive-based companies.

The Committee is satisfied that this policy successfully aligns the interests of Executive Directors, senior managers, and other employees with the long-term interests of shareholders, by ensuring that an appropriate proportion of total remuneration is directly linked to the Group's performance over both the short and the long term.

GOVERNANCE

REMUNERATION POLICY (continued)

Future Policy Table

The main elements of the remuneration package of Executive Directors are set out below:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
BASIC SALARY			
Attract and retain high calibre Executive Directors to deliver strategy.	Paid in 12 equal monthly instalments during the year.	Reviewed annually to reflect role, responsibility and performance of the individual and the Group, and to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the Committee has regard to, inter alia, the Group's revenue, profitability, market worth and business sector. There is no prescribed maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year.	None
ANNUAL BONUS			
Incentivises achievement of business objectives by providing reward for performance against annual financial targets.	Paid in cash after the end of the financial year to which it relates. Recovery and withholding provisions apply.	It is the policy of the committee to cap maximum annual bonuses. The levels of such caps are reviewed annually and are set at an appropriate percentage of annual salary. Currently the maximum bonus is 125% of base salary in respect of the Chief Executive Officer and 100% in respect of the Chief Financial Officer.	Performance is normally measured over one year, based solely on financial targets (e.g. profit before tax). The Committee sets threshold and maximum targets on an annual basis. A sliding scale operates between threshold and maximum performance. No bonus is payable where performance is below the threshold. Payment of any bonus is subject to the overriding discretion of the Committee.
LONG-TERM INCENTIVES – MMH PERFORMANCE SHARE PLAN			
Alignment of interests with shareholders by providing long-term incentives designed to incentivise and recognise execution of the business strategy over the longer-term.	Grant of Enil cost options under the PSP. Options normally vest 3 years from grant subject to the achievement of performance conditions and continued employment. A 12 months post-vesting holding period applies for awards made from 2016.	150% of base salary (up to 200% of base salary in exceptional circumstances) in any financial year. Current award levels are set out in the Annual Report on Remuneration.	Vesting is subject to continuous employment and targets linked to the strategy of the business. Current targets are based on achievement of growth in earnings per share, but the Committee may vary the targets. 25% vests for achieving threshold performance, 100% vests for achieving maximum performance.

REMUNERATION POLICY (continued)

Future Policy Table (continued)

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
LONG-TERM INCENTIVES – MMH PERFORMANCE SHARE PLAN (CONTINUED)			
	A dividend equivalent applies. Recovery and withholding provisions apply at the discretion of the Committee within three years of vesting		
BENEFITS			
Provide benefits consistent with role and in support of the personal health and wellbeing of employees.	Currently these consist of holiday entitlement, health insurance, life assurance premiums and income protection insurance. The Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Group.	The cost of providing benefits is borne by the Company and varies from time to time.	None.
PENSION			
Attract and retain Executive Directors for the long term by providing funding for retirement.	All Executive Directors are entitled to participate in the Company's defined contribution pension scheme or to receive a cash allowance in lieu of pension contributions. Only base salary is pensionable.	The Chief Executive receives a 16% of base salary contribution. The Chief Financial Officer participates in the Company's defined contribution pension scheme whereby the Company makes an 8% of base salary contribution, conditional upon the Chief Financial Officer making a matched contribution of 8%.	None.
SHARE OWNERSHIP GUIDELINES			
Increase alignment between the Executive Directors and shareholders.	Executive Directors are expected to retain 50% of the net of tax vested PSP shares until the guideline level is met.	At least 100% of base salary for Executive Directors.	None.
NON-EXECUTIVE DIRECTOR FEES ("NED")			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy and provide strong performance stewardship.	NED fees are determined by the Board (excluding NEDs) within the limits set out in the Articles of Association and are paid in 12 equal monthly instalments during the year.	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase.	None.

GOVERNANCE

REMUNERATION POLICY (continued)

Directors' Service Contracts, Notice Periods and Termination Payments

Provision	Details
Notice periods in Executive Directors' service contracts	Maximum of 12 months by Company or Executive Director. Executive Directors may be required to work during the notice period.
Compensation for loss of office	In the event of termination, service contracts provide for payments of base salary, pension and benefits only over the notice period.
Treatment of annual bonus on termination	There is no contractual right to any bonus payment in the event of termination although in certain "good leaver" circumstances the Remuneration Committee may exercise its discretion to pay a bonus for the period of employment and based on performance assessed after the end of the financial year.
Treatment of unvested PSP awards	The default treatment for any Ordinary Share-based entitlements under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, or at the discretion of the Committee "good leaver" status can be applied. In these circumstances a participant's awards vest subject to the satisfaction of the relevant performance criteria and, ordinarily, on a time pro-rata basis, with the balance of the awards lapsing.
Outside appointments	Other directorships are permitted with prior agreement: <ul style="list-style-type: none"> - Daksh Gupta is a director of BEN – Motor and Allied Trades Benevolent Fund. - Mark Raban is a director of Precise Finance Limited. Precise Finance Limited is the company owned by Mr Raban and used to provide consultancy services prior to his appointment to Marshall Motor Holdings plc.
Non-executive directors	All Non-Executives are subject to re-election every three years. No compensation payable if required to stand down.

In the event of the negotiation of a compromise or settlement agreement between the Company and a departing Director, the Committee may make payments it considers reasonable in settlement of potential legal claims. Such payments may also include reasonable reimbursement of professional fees in connection with such agreements.

The Committee may also include the reimbursement of fees for professional or outplacement advice in the termination package, if it considers it reasonable to do so. It may also allow the continuation of benefits for a limited period.

Dates of appointment

Director	Date of appointment
P Johnson	27 June 2014
D Gupta	1 October 2008
MD Raban	2 April 2015
A Ferguson	11 March 2015
S Dickins	11 March 2015
F Ecsery	25 March 2015
C Sawyer	2 April 2015
C Walkinshaw	12 July 2016

Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

Annual Report on Remuneration

Single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Director in respect of the 12 month period ending 31 December 2017.

	Basic salary £'000	Fees £'000	Benefits £'000	Pension £'000	Annual bonuses £'000	Long term incentives £'000	Total £'000
Executive Directors							
D Gupta	408	-	18	65	491	223	1,205
MD Raban	255	-	4	22	246	37	564
Total	663	-	22	87	737	260	1,769
Non-Executive Directors							
PW Johnson	-	133	-	-	-	-	133
AM Ferguson	-	58	-	-	-	-	58
DSM Dickins	-	48	-	-	-	-	48
FE Ecsery	-	40	-	-	-	-	40
CJ Sawyer	-	40	-	-	-	-	40
CMH Walkinshaw ¹	-	40	-	-	-	-	40
Total	-	359	-	-	-	-	359
Aggregate directors emoluments	663	359	22	87	737	260	2,128

The benefits above include items such as medical cover, life assurance premiums and income protection insurance.

¹ Christopher Walkinshaw is a nominated director of Marshall of Cambridge (Holdings) Ltd with the fee payable in respect of his undertakings as a Non-Executive Director payable to Marshall of Cambridge (Holdings) Ltd.

LTIP awards

Details of LTIP Awards granted during the year are as follows:

	Scheme	Date of grant	Earliest exercise date	Exercise price (pence)	Market value on date of grant (pence)	Number of options granted
D Gupta	2017 LTIP award ¹	29-Sept-17	29-Sept-20	£Nil	167.0	305,389
MD Raban	2017 LTIP award ¹	29-Sept-17	29-Sept-20	£Nil	167.0	152,695

¹ Awards vest for achieving growth in EPS from 2017 to 2019; 25% vest for achieving growth of CPI plus 1% per annum increasing to 100% vesting for achieving EPS growth of CPI plus 5% per annum.

The movement in directors' LTIP Awards during the year are as follows:

	Number at 1 January 2017	Number lapsed during the year	Number granted during the year	Number exercised during the year	Number at 31 December 2017
D Gupta	1,182,314	-	305,389	-	1,487,703
MD Raban	434,558	-	152,695	-	587,253

GOVERNANCE

REMUNERATION POLICY (continued)

Statement of Directors' Shareholding

Our Executive Directors are expected to build up and maintain a 100% of salary shareholding in the Company and are expected to retain 50% of the net of tax vested PSP shares until the guideline level is met. The Directors who held office at 31 December 2017 and their connected persons had interests in the issued share capital of the Company as at 31 December 2017 as follows:

	Number of ordinary shares	Options	Market		Number of ordinary shares	LTIP Interests				
	beneficially held as at	exercised during the	purchases during the	Disposals during the	beneficially held as at	With performance conditions	Without performance conditions			Total
	31/12/16	year	year	year	31/12/17	Unvested ¹	Vested but unexercised	Unvested ²	Vested but unexercised ²	interest in shares
P Johnson	175,328	-	-	-	175,328	-	-	-	-	175,328
D. Gupta	843,138	-	-	-	843,138	1,219,247 ¹	-	134,228	134,228	2,330,841
MD Raban	61,726	-	-	-	61,726	542,510 ¹	-	22,372	22,371	648,979
A Ferguson	58,557	-	-	-	58,557	-	-	-	-	58,557
S Dickens	6,711	-	-	-	6,711	-	-	-	-	6,711
F Ecsery	2,013	-	-	-	2,013	-	-	-	-	2,013
C Sawyer	214,498	-	-	-	214,498	-	-	-	-	214,498

The middle market price of the shares as at 29 December 2017 was 167.5p and the range in respect of the 12 month period ending 31 December 2017 was 134.0p to 178.5p.

1 These include the 2017 and 2016 LTIP Awards along with the IPO Performance Awards which vest subject to growth in the Company's underlying basic Earnings Per Share (EPS). 25% of the award vests for achieving growth in underlying basic EPS of CPI plus 1%, 3% and 4% p.a. respectively increasing to 100% vesting for achieving growth of CPI plus 5%, 8% and 10% p.a. respectively over a three year performance period. 50% of the IPO Performance Awards vest on the third anniversary of Admission and the remaining 50% on the fourth anniversary subject to continued employment. A 12 month holding period applies to the 2016 and 2017 LTIP Awards.

2 These include the vested and unvested IPO Restricted Share Awards which are subject only to employment at the relevant vesting date. These options vest and become exercisable in three equal tranches on the first, second and third anniversaries of the date of grant. The final tranche of options is due to vest on the 2 April 2018.

The Committee has discretion to adjust the aforementioned performance targets to reflect the impact of events which occur after the date of grant in order to take into account the impact of events such as material acquisitions and disposals made by the Group and to ensure that the adjusted targets are no more difficult or easier to satisfy than they would have otherwise been.

Implementation of remuneration policy for the year ending 31 December 2018

The annual salaries and fees to be paid to directors in the year ending 31 December 2018 are set out below, together with any increase expressed as a percentage.

	31 December 2018	31 December 2017	Increase
	£'000	£'000	%
PW Johnson	135.5	132.6	2.2
D Gupta	416.9	408.0	2.2
MD Raban	260.6	255.0	2.2
AM Ferguson	59.5	57.5	3.5
DSM Dickens	49.5	47.5	4.2
FE Ecsery	42.0	40.0	5.0
CJ Sawyer	42.0	40.0	5.0
CMH Walkinshaw ¹	42.0	40.0	5.0

1 Christopher Walkinshaw is a nominated director of Marshall of Cambridge (Holdings) Ltd with the fee payable in respect of his undertakings as a Non-Executive Director payable to Marshall of Cambridge (Holdings) Ltd.

The maximum potential annual bonus for the year ending 31 December 2018 will be 125% of salary for the CEO and 100% of salary for the CFO. Awards are determined based on PBT targets. Recovery and withholding provisions will apply.

The Committee intends to grant options under the PSP in 2018. These options will be £nil cost options over a value of shares subject to a maximum of 125% of salary in respect of the Chief Executive Officer and 100% of salary in respect of the Chief Financial Officer where the vesting is subject to targets based on the achievement of earnings per share targets.

By order of the Board

Sarah Dickens

Chair of the Remuneration Committee

13 March 2018



Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Directors are required to prepare Consolidated financial statements for each financial year in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the Group and Company and of the profit and loss of the Group for that period. In preparing those Consolidated financial statements, the Directors are required to:

- select and apply accounting policies in accordance with IAS 8;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

In preparing the Company financial statements, the Directors are required to:

- select suitable accounting policies and 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
- prepared the financial statements on a going concern basis unless it is inappropriate to presume that the company will not continue in business.

The Directors are responsible for keeping adequate accounting records which are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

FINANCIAL STATEMENTS

Independent Auditor's Report to the members of Marshall Motor Holdings plc

What we Have Audited

We have audited the financial statements of Marshall Motor Holdings plc for the year ended 31 December 2017 which comprise:

Group	Parent Company
Consolidated Statement of Comprehensive Income	
Consolidated Statement of Changes in Equity	Company Statement of Changes in Equity
Consolidated Statement of Financial Position	Company Statement of Financial Position
Consolidated Cash Flow Statement	
Related notes 1 to 36 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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).

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 as applied to listed entities, 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.

Overview of our Audit Approach

Materiality	<ul style="list-style-type: none"> Overall group materiality of £1.45m (2016: £1.27m) which represents approximately 5% (2016: 5%) of Underlying Profit Before Tax. Any audit differences in excess of £73k (2016: £64k) are reported to the audit committee.
Audit scope	<ul style="list-style-type: none"> We performed an audit of the complete financial information of 14 (2016: 15) full scope components and performed audit procedures for a further 22 (2016: 21) review scope components. The full scope components accounted for 92% (2016: 95%) of Underlying Profit Before Tax, 92% (2016: 93%) of External Revenue and 97% (2016: 95%) of Total Net Assets.
Key audit matters	<ul style="list-style-type: none"> Valuation of inventory Assessment of the carrying value of goodwill and other intangible assets Misstatement of central provisions Revenue recognition, including manufacturer's rebates and bonuses

Our Application of Materiality

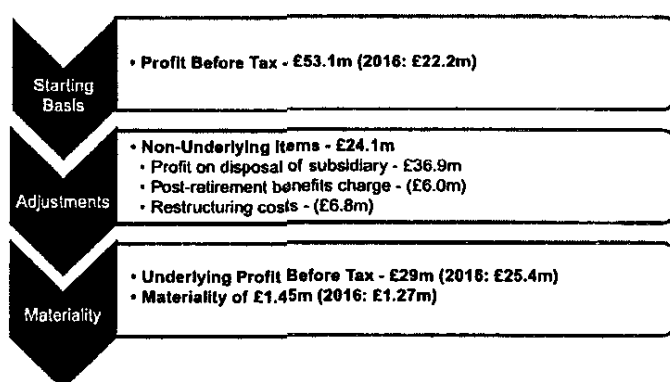
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.45m (2016: £1.27m), which is approximately 5% (2016: 5%) of Underlying Profit Before tax. The rationale for using Underlying Profit Before Tax as our basis for materiality is that it provides a consistent year on year approach, excluding gains and losses from transactions which are considered one off in nature and that are unlikely to reoccur, which can be significant compared to underlying trading. There were no changes in the approach year on year.

See breakdown below for details of adjustments made



As part of our audit planning, we reported to the Audit Committee on 13 October 2017, an initial materiality calculation of £1.4m. This amount was based on the estimated annualised Profit Before Tax.

During the course of our audit, we reassessed initial materiality and calculated an uplift from £1.4m to a final figure of £1.45m. This was primarily the result of estimation used when annualising the materiality base during the planning phase of the audit when compared to the actual full year results observed.

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Performance Materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be set at 50% (2016: 50%) of our planning materiality, namely £725k (2016: £635k).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was 30% to 100% (2016: 30% to 100%) of total performance materiality or £218k to £725k (2016: £190k to £635k).

Reporting Threshold

An amount below which identified misstatements are considered as being clearly trivial. (ISA 400)

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £73k (2016: £64k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An Overview of the Scope of our Audit

Tailoring the Scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the group, the effectiveness of group-wide controls, and changes in the business environment when assessing the level of work to be performed at each component.

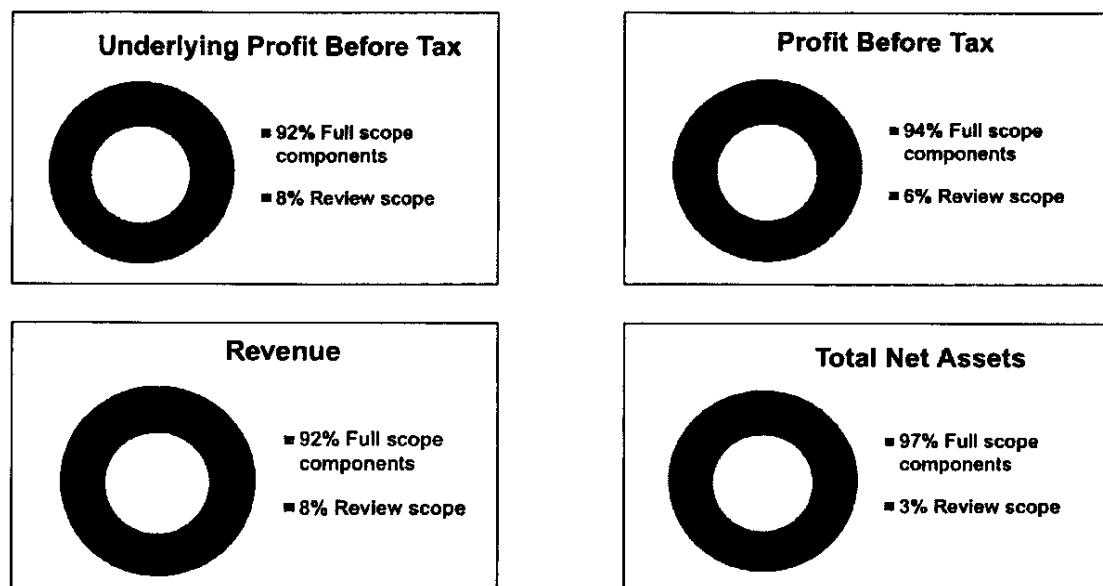
After assessing the risk of material misstatement to the Group financial statements we ensured we had adequate quantitative coverage of significant accounts in the financial statements. Of the 36 reporting components of the Group, we selected 14 components all within the UK, which represent the principal business units within the Group.

We performed an audit of the complete financial information of all 14 components ("full scope components") of which 8 were selected based on their size or risk characteristics and the remaining 6 components on the basis that these entities are required to file statutory accounts in accordance with the Companies Act 2006.

The full scope accounted for 92% (2016: 95%) of the Underlying Profit before Tax, 92% (2016: 93%) of External Revenue and 97% (2016: 95%) of Total Net Assets.

Of the remaining 22 components that together represent 8% of the Group's Underlying Profit Before Tax, none are individually greater than 2% of Underlying Profit Before Tax. For these components, we performed overall analytical review to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Changes from the Prior Year

There were no changes in the approach and no significant changes in terms of coverage year on year.

Involvement with Component Teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team

Our Assessment of the Risks of Material Misstatement

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in expressing our opinion thereon, and we do not provide a separate opinion on these matters.

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Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of Inventory (Gross Inventory – £410.4 million, 2016: £389.4 million; Inventory provision – £9.2 million, 2016: £9.4 million)</p> <p>The group has a significant value of new and used vehicle inventory.</p> <p>Vehicles have the potential to experience significant value declines in short time periods.</p> <p>Value volatility is a response to market conditions impacting demand and is deemed a higher risk in relation to used, demonstration and pre-reg vehicle inventory.</p> <p>The valuation of vehicle inventory is therefore subject to significant judgement. Given this judgement, there is a risk that inventory is misstated.</p> <p><i>Refer to Accounting policies (page 67); Significant accounting judgements and estimates (page 82) and Note 20 of the Consolidated Financial Statements (page 102).</i></p>	<p>We understood the method applied by management in performing its inventory provisioning calculation and walked through the controls over the process.</p> <p>We recalculated management's provision and agreed vehicle prices included through to sales invoices where sold post year end and to third party CAP values for all other vehicles.</p> <p>We performed Analytical Review of the level of provision held to identify any significant provisions on a particular vehicle type or brand in the portfolio. A particular focus was given in this area to used, demonstration and pre-reg vehicles for any significant indicators of value decline.</p> <p>We evaluated the accuracy of previous period's provision to assess management's long term forecasting ability.</p> <p>We performed full scope audit procedures over this risk area in 10 statutory locations, which covered 93% of the risk amount. Further, we performed extensive procedures in relation to the inventory provision in place for all statutory entities, to address the significant accounting judgement used in its calculation.</p>	<p>Our audit procedures indicate that the provision is consistent with prior years and that it is based on reasonable assumptions regarding the underlying exposures in the UK used car market.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Assessment of the carrying value of goodwill and other intangible assets (£121.6 million, 2016: £122 million)</p> <p>The group has a significant value of goodwill that has arisen from acquisitions as well as other intangible assets in the form of franchise agreements.</p> <p>Goodwill is allocated to cash generating units ('CGUs') based on groups of dealerships connected by manufacturer brand.</p> <p>A number of brands have experienced challenging trading conditions driving poor financial performance.</p> <p>There is a risk that these cash generating units ('CGUs') may not achieve the anticipated financial performance to support their carrying value, leading to an impairment charge that has not been recognised by management.</p> <p>Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted.</p> <p><i>Refer to Accounting policies (page 69); Significant accounting judgements and estimates (page 81) and Note 15 of the Consolidated Financial Statements (page 93).</i></p>	<p>We understood the method applied by management in performing its impairment test for each of the relevant CGUs and walked through the controls over the process.</p> <p>For all CGUs we calculated the degree to which the key inputs and assumptions would need to change before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the group's forecasts and determined whether adequate headroom remained.</p> <p>For CGUs where there were indicators of impairment or low levels of headroom we performed detailed testing to critically assess and corroborate the key inputs to the valuations, including:</p> <ul style="list-style-type: none"> Analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience; Corroborating the discount rate by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations; and Validating the growth rates assumed by comparing them to economic and industry forecasts. <p>We assessed the disclosures in Note 15 against the requirements of IAS 36 Impairment of Assets, in particular in respect of the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment.</p> <p>We have performed full scope audit procedures over this risk area in all relevant statutory locations, covering 100% of the risk amount. We have performed specified procedures to identify any indicators of potential impairment of intangible assets, and determined the impact of these indicators where such circumstances arise.</p>	<p>We concur that group goodwill and intangible assets have been appropriately assessed for impairment and no impairment charge in the year is necessary.</p> <p>Of the group's assets, there are no CGU's which are particularly sensitive to reasonably possible changes to key assumptions. Management describes these sensitivities appropriately in the goodwill and intangibles note to the group financial statements, in accordance with IAS 36.</p>

FINANCIAL STATEMENTS

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Misstatement of central provisions (£6.8 million, 2016: £6.7 million)</p> <p>The nature of the group's system architecture and individual site accounting functions results in the requirement for central group provisions primarily in relation to its property sites.</p> <p>Management applies judgement in assessing provisions held in respect of individual sites or for the group as a whole. Given this judgement, there is a risk that provisions are misstated.</p> <p><i>Refer to Accounting policies (page 73) and Note 26 of the Consolidated Financial Statements (page 106).</i></p>	<p>We understood the group's process for determining the completeness and measurement of provisions along with management's controls associated to the process.</p> <p>We assessed the level of provisions and challenged management's judgments in relation to the recognition requirements of IAS 37. We referred to pre and post year end third party evidence where appropriate to validate existence and valuation.</p> <p>As part of our procedures specifically designed to address the risk of management override of controls we reviewed journal postings related to central provisions to identify unusual patterns, significant releases and postings around the year end which may be indicative of management override.</p> <p>The use of the audit team's industry knowledge was utilised to identify any new provisions that in our professional judgement would be considered unusual.</p> <p>We have performed full scope audit procedures over this risk area in all relevant statutory locations, which covered 99% of the risk amount.</p>	<p>We consider the central provisions to be within an appropriate range.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue recognition, including manufacturer's rebates and bonuses (£2,269 million, 2016: £1,899 million)</p> <p>There continues to be pressure on the group to meet expectations and targets.</p> <p>Employee reward and incentive schemes based on achieving revenue targets may also place pressure to manipulate revenue recognition.</p> <p>The majority of the group's sales arrangements are generally straightforward, being on a point of sale basis where vehicles are handed over to customers or servicing takes place at an agreed point in time, requiring little judgement to be exercised.</p> <p>There is a risk that management may override controls to intentionally misstate revenue transactions, either through the judgements made in estimating manufacturer rebates and bonuses or by recording fictitious revenue transactions across the business.</p> <p><i>Refer to Accounting policies (page 74) and Note 5 of the Consolidated Financial Statements (page 83).</i></p>	<p>We understood the business's revenue recognition policy and how this was applied including the relevant controls.</p> <p>As part of our overall revenue recognition testing we used data analysis tools on 100% of revenue from continuing operations in the year to test the correlation of revenue to cash receipts to verify the occurrence of revenue. This provided us with a high level of assurance over £2.22 billion (99.7%) of revenue recognised from continuing operations.</p> <p>We performed high level Analytical Review of revenue by dealership. We considered margins in comparison to prior year and similar dealerships in order to identify unusual changes in performance.</p> <p>We performed cut-off testing for a sample of revenue transactions around the period end date, to check that they were recognised in the appropriate period.</p> <p>Other audit procedures designed to address the risk of management override of controls included journal entry testing, applying particular focus to the manual entries associated to revenue accounts.</p> <p>We discussed key contractual arrangements with management and obtained relevant documentation, including in respect of manufacturer rebate and bonus arrangements.</p> <p>Where rebate arrangements existed we reviewed contracts, recalculated rebates and agreed values to post year end credit notes and cash receipts. We performed analysis over changes to prior period rebate estimates to challenge assumptions made, including assessing estimates for evidence of management bias.</p> <p>We assessed the disclosures against the requirements of IAS 18, in particular in respect of the requirement to disclose rebate and bonus arrangements.</p> <p>We performed full scope audit procedures over revenue for the 92% of revenue within full scope components and our review procedures obtained a further 6% coverage over revenue recognised in relation to review scope components.</p>	<p>Based on the procedures performed, including those in respect of manufacturer rebates and bonuses, we are satisfied that the revenue was appropriately recognised during the year.</p>

FINANCIAL STATEMENTS

Our Opinion on Other Matters Prescribed by the Companies Act 2006

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

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

Matters on Which we are Required to Report by Exception

ISAs (UK and Ireland) reporting	We are required to report to you if we identify material misstatements in the Strategic Report or Directors' Report in light of the knowledge and understanding of the group and its environment obtained in the course of the audit.	We have no exceptions to report.
Companies Act 2006 reporting	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none">• adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or• the parent company financial statements are not in agreement with the accounting records and returns; or• certain disclosures of directors' remuneration specified by law are not made; or• we have not received all the information and explanations we require for our audit.	We have no exceptions to report.

Other Information

The other information comprises the information included in the annual report set out on pages 8 to 51, 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.

Responsibilities of Directors

As explained more fully in the statement of directors' responsibilities set out on page 51, 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.

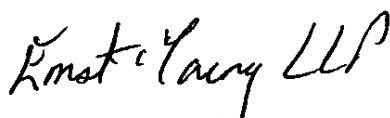
In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate 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.

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.

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.



Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
13th March 2018

Notes:

*1. The maintenance and integrity of the **Marshall Motor Holdings PLC** web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.*

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income For the year ended 31 December 2017

		Continuing operations 2017 £'000	Discontinued operations 2017 £'000	Total 2017 £'000	Continuing operations 2016 £'000	Discontinued operations 2016 £'000	Total 2016 £'000
Note							
Revenue	5	2,231,979	36,969	2,268,948	1,860,056	39,349	1,899,405
Cost of sales		(1,973,678)	(30,159)	(2,003,837)	(1,647,957)	(30,992)	(1,678,949)
Gross profit		258,301	6,810	265,111	212,099	8,357	220,456
Net operating expenses	6	(238,204)	(2,524)	(240,728)	(188,698)	(2,704)	(191,402)
Group operating profit		20,097	4,286	24,383	23,401	5,653	29,054
Other income – gain on disposal of subsidiary	7/8	-	36,851	36,851	-	-	-
Net finance costs	11	(7,519)	(580)	(8,099)	(6,154)	(749)	(6,903)
Profit before taxation		12,578	40,557	53,135	17,247	4,904	22,151
Analysed as:							
Underlying profit before tax		25,361	3,706	29,067	20,496	4,904	25,400
Non-underlying items	7	(12,783)	36,851	24,068	(3,249)	-	(3,249)
Taxation	12	(3,080)	(716)	(3,796)	(3,214)	(1,183)	(4,397)
Profit for the year		9,498	39,841	49,339	14,033	3,721	17,754
Attributable to:							
Owners of the parent		9,519	39,841	49,360	14,041	3,721	17,762
Non-controlling interests		(21)	-	(21)	(8)	-	(8)
		9,498	39,841	49,339	14,033	3,721	17,754
Total comprehensive income for the year net of tax							
		9,498	39,841	49,339	14,033	3,721	17,754
Attributable to:							
Owners of the parent		9,519	39,841	49,360	14,041	3,721	17,762
Non-controlling interests		(21)	-	(21)	(8)	-	(8)
		9,498	39,841	49,339	14,033	3,721	17,754
Earnings per share (expressed in pence per share)							
Basic earnings per share	13	12.3	51.5	63.8	18.1	4.9	23.0
Diluted earnings per share	13	11.9	49.8	61.7	17.6	4.7	22.3

Consolidated Statement of Changes in Equity

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Equity attributable to owners of the parent £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2016		49,431	19,672	60,781	129,884	29	129,913
Profit for the year		-	-	17,762	17,762	(8)	17,754
Total comprehensive income		-	-	17,762	17,762	(8)	17,754
Transactions with owners							
Dividends paid		-	-	(3,251)	(3,251)	-	(3,251)
Issue of share capital	30	100	-	(100)	-	-	-
Share-based payments charge	31	-	-	1,313	1,313	-	1,313
Deferred tax on share based payments	27	-	-	(70)	(70)	-	(70)
Balance at 31 December 2016		49,531	19,672	76,435	145,638	21	145,659
Profit for the year		-	-	49,360	49,360	(21)	49,339
Total comprehensive income		-	-	49,360	49,360	(21)	49,339
Transactions with owners							
Dividends paid	14	-	-	(4,527)	(4,527)	-	(4,527)
Share-based payments charge	31	-	-	739	739	-	739
Balance at 31 December 2017		49,531	19,672	122,007	191,210	-	191,210

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position At 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Goodwill and other intangible assets	15	121,596	122,033
Property, plant and equipment	16	142,428	201,811
Investment property	17	2,590	2,590
Investments		-	10
Deferred tax asset	27	39	36
Total non-current assets		266,653	326,480
Current assets			
Inventories	20	401,260	380,016
Trade and other receivables	21	92,141	95,073
Cash and cash equivalents	22	4,867	83
Assets classified as held for sale	23	750	-
Total current assets		499,018	475,172
Total assets		765,671	801,652
Shareholders' equity			
Share capital	30	49,531	49,531
Share premium	30	19,672	19,672
Retained earnings		122,007	76,435
Equity attributable to owners of the parent		191,210	145,638
Share of equity attributable to non-controlling interests		-	21
Total equity		191,210	145,659
Non-current liabilities			
Loans and borrowings	25	6,466	41,364
Trade and other payables	24	4,281	7,462
Provisions	26	4,015	1,450
Deferred tax liabilities	27	20,448	20,803
Total non-current liabilities		35,210	71,079
Current liabilities			
Loans and borrowings	25	642	77,730
Trade and other payables	24	527,614	497,340
Provisions	26	8,815	5,242
Current tax liabilities		2,180	4,602
Total current liabilities		539,251	584,914
Total liabilities		574,461	655,993
Total equity and liabilities		765,671	801,652

The consolidated financial statements on pages 62 to 124 were approved for issue by the Board of Directors on 13 March 2018.

Daksh Gupta
Chief Executive Officer

Mark Raban
Chief Financial Officer

M. D. R.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before taxation		53,135	22,151
Adjustments for:			
Depreciation and amortisation	15/16	25,183	24,233
Finance costs	11	8,099	6,903
Share-based payments charge	31	739	1,313
Loss/(profit) on disposal of property, plant and equipment	6	1,085	(38)
Impairment of property, plant and equipment	6	945	-
Impairment of investment		10	-
Profit on disposal of dealerships	6/7	-	(285)
Profit on disposal of subsidiary	8	(38,664)	-
Increase in fair value of investment properties	7/17	-	(670)
		<u>50,532</u>	<u>53,607</u>
Changes in working capital:			
Increase in inventories		(21,223)	(14,814)
Decrease/(increase) in trade and other receivables		450	(271)
Increase in trade and other payables		33,703	56,299
Increase/(decrease) in provisions	26	6,138	(2,940)
		<u>19,068</u>	<u>38,274</u>
Tax paid		(7,443)	(4,669)
Interest paid		(8,099)	(6,903)
Net cash inflow from operating activities		<u>54,058</u>	<u>80,309</u>
Cash flows from investing activities			
Purchase of property, plant, equipment, leased vehicles and software	15/16	(57,549)	(61,927)
Acquisition of businesses, net of cash acquired	15	(77)	(94,495)
Net cash flow from sale of businesses		-	3,145
Net cash flow from sale of discontinued operation	8	44,695	-
Proceeds from disposal of property, plant and equipment and leased vehicles		11,985	11,418
Net cash outflow from investing activities		<u>(946)</u>	<u>(141,859)</u>
Cash flows from financing activities			
Proceeds from borrowings		41,778	85,444
Repayment of borrowings		(85,579)	(44,690)
Dividends paid	14	(4,527)	(3,251)
Net cash (outflow)/inflow from financing activities		<u>(48,328)</u>	<u>37,503</u>
Net increase/(decrease) in cash and cash equivalents		<u>4,784</u>	<u>(24,047)</u>
Cash and cash equivalents at 1 January		83	24,130
Cash and cash equivalents at year end	22	<u>4,867</u>	<u>83</u>

FINANCIAL STATEMENTS

Net Debt Reconciliation

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Reconciliation of net cash flow to movement in net debt			
Net increase / (decrease) in net cash and cash equivalents		4,784	(24,047)
Proceeds from drawdown of RCF	25	(10,000)	(35,000)
Repayment of drawdown of RCF	25	45,000	-
Proceeds of asset backed borrowings	25	(31,778)	(50,444)
Repayment of asset backed borrowings	25	68,185	37,308
Repayment of other borrowings		2,791	7,382
Repayment of bank overdraft	25	10,825	-
Repayment of / (acquired) debt with acquisitions		25,705	(25,705)
Repayment of / (acquired) derivatives with acquisitions		1,258	(1,258)
Decrease / (increase) in net debt		116,770	(91,764)
Opening net debt		(119,011)	(27,247)
Net debt at year end		(2,241)	(119,011)
Net debt at year end consists of:			
Cash and cash equivalents	22	4,867	83
Loans and borrowings	25	(7,108)	(119,094)
		(2,241)	(119,011)

Notes to the Consolidated Financial Statements

1. Presentation of the financial statements

General information

Marshall Motor Holdings Plc (the Company) is incorporated and domiciled in the United Kingdom. The Company is a public limited company, limited by shares, whose shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The Company is registered in England under the Companies Act 2006 (registration number 02051461) with the address of the registered office being: Airport House, The Airport, Cambridge, CB5 8RY, United Kingdom. The financial statements of Marshall Motor Holdings Plc were authorised for issue by the Board of Directors on 13 March 2018.

Basis of preparation

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the requirements of the Companies Act 2006 applicable to entities reporting under IFRS.

The consolidated financial statements include the results of the Company and its subsidiaries (together "the Group"); a schedule of all subsidiaries is contained in Note 6 'Investments in Subsidiaries' of the Company financial statements (page 130). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and assets held for sale.

The consolidated financial statements are prepared in Sterling which is both the functional and presentational currency of the Group and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

Like-for-like businesses are defined as those which traded under the Group's ownership throughout both the period under review and the whole of the comparative period.

Going concern

The consolidated financial statements are prepared on the going concern basis. After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least one year from the date that these consolidated financial statements are signed. For these reasons they continue to adopt the going concern basis in preparing the consolidated financial statements.

2. Accounting policies

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has: a) power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee); b) exposure, or rights, to variable returns from its involvement with the investee; and c) the ability to use its power over the investee to affect its returns.

In assessing control potential voting rights that presently are exercisable or convertible are taken into account. Generally, there is a presumption that a majority of voting rights results in control. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control detailed above.

The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Basis of consolidation (continued)

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 IAS 39 *Financial Instruments: Recognition and Measurement* in the Income Statement. Contingent consideration that is classified as equity is not re-measured and its subsequent settlement is accounted for within equity.

Acquisition related costs are expensed as incurred and are excluded from underlying profit before tax.

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 IFRS 3 *Business Combinations* are measured initially at their fair values at the acquisition date.

Measurement period adjustments

The Group assesses the fair value of assets acquired and finalises purchase price allocation within the measurement period following acquisition and in accordance with IFRS 3 *Business Combinations*. This includes an exercise to evaluate other material separately identifiable intangible assets such as franchise agreements, favourable leases and order backlog.

The finalisation of purchase price allocations may result in a change in the fair value of assets acquired. In accordance with IFRS 3 *Business Combinations* measurement period adjustments are reflected in the financial statements as if the final purchase price allocation had been completed at the acquisition date.

Transactions eliminated on consolidation

Intragroup balances and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information. Losses are eliminated in the same way as gains but only to the extent that there is no evidence of impairment.

Non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Subsidiary audit exemption

The consolidated financial statements include the results of all subsidiary undertakings owned by the Company as listed in Note 6 'Investments in Subsidiaries' on page 130 of the Annual Report.

Certain of the Group's subsidiaries, listed below, have taken the exemption from an audit for the year ended 31 December 2017 by virtue of s479A of the Companies Act 2006. In order to allow these subsidiaries to take the audit exemption, the parent company, Marshall Motor Holdings plc, has given a statutory guarantee of all the outstanding liabilities as at 31 December 2017 of the subsidiaries listed below.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Basis of consolidation (continued)

Subsidiary audit exemption (continued)

The subsidiaries which have taken an exemption from audit for the year ended 31 December 2017 by virtue of s479A of the Companies Act 2006 are:

Tim Brinton Cars Limited (reg no. 01041301)	S.G. Smith (Motors) Limited (reg no. 00287379)
Marshall of Scunthorpe Limited (reg no. 01174004)	S.G. Smith (Motors) Beckenham Limited (reg no. 00648395)
CMG 2007 Limited (reg no. 06275636)	S.G. Smith (Motors) Forest Hill Limited (reg no. 00581710)
S.G. Smith Automotive Limited (reg no. 00622112)	S.G. Smith (Motors) Crown Point Limited (reg no. 00581711)
Exeter Trade Parts Specialists LLP (reg no. OC329331)	S.G. Smith (Motors) Sydenham Limited (reg no. 00660066)
Astle Limited (reg no. 01114983)	Prep-Point Limited (reg no. 00660067)
Crystal Motor Group Limited (reg no. 04813767)	S.G. Smith Trade Parts Limited (reg no. 01794317)

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of; the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Where the fair value of the consideration received is less than the fair value of the acquired net assets, the deficit is recognised immediately in the income statement as a bargain purchase. Goodwill is capitalised and subject to an impairment review at least annually and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed in subsequent periods.

Intangible assets

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

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 its fair value can be measured reliably on initial recognition. Such assets are stated at fair value less accumulated amortisation.

Amortisation is charged on a straight-line basis over the following periods:

- Favourable leases – 3 years
- Order backlog – as the orders are fulfilled
- Franchise agreements – indefinite life, are not amortised.

Intangible assets with an indefinite useful economic life are tested annually for impairment. Amortisation is included within net operating expenses in the Consolidated Statement of Comprehensive Income.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and less any recognised impairment loss. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives those components are accounted for as separate items of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is charged to write assets down to their residual values over their estimated useful economic lives. Depreciation is charged on a straight-line basis over the following periods:

- Leasehold improvements – shorter of the lease term or 10 years
- Fixture and fittings – 5 years
- Computer equipment – 2-5 years
- Freehold and long-leasehold buildings – 50 years
- Land – indefinite life, is not depreciated
- Assets under construction are not depreciated.

The residual values and useful economic lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. The gains and losses on disposal of assets are determined by comparing sales proceeds with the carrying amount of the asset and are recognised in the Consolidated Statement of Comprehensive Income.

Investment property

Land and buildings are shown at fair value based on formal valuations by external independent valuers performed at least every three years and updated each year for the Directors' estimate of value. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Investment property is not depreciated. Any surplus or deficit on revaluation is taken to the Consolidated Statement of Comprehensive Income and is not included within underlying profit before tax.

Impairment of non-financial assets

Assets not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and franchise agreements are not subject to amortisation but are assessed for impairment. 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 entity at which the goodwill is monitored for internal management purposes.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are included and cost is based on price including delivery costs less specific trade discounts. Net realisable value is based on estimated selling price less further costs to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Inventories held on consignment are recognised in the Consolidated Statement of Financial Position with a corresponding liability when the terms of a consignment agreement and industry practice indicate that the principal benefit of owning the inventory (the ability to sell it) and principal risks of ownership (stock financing charges, responsibility for safekeeping and some risk of obsolescence) rest with the Group. Stock financing charges from manufacturers and other vehicle funding facilities are presented within finance costs. These charges are expensed over this period that vehicles are funded.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Inventories (continued)

The Group finances the purchase of new and used vehicle inventories using vehicle funding facilities provided by various lenders including the captive finance companies associated with brand partners. These finance arrangements 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 reported within cash flows from operating activities within the Consolidated Statement of Cash Flows. Vehicle financing facilities are subject to LIBOR-based (or similar) interest rates. The interest incurred under these arrangements is included within finance costs and classified as stock holding interest.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or for services performed by the Group in the ordinary course of business. Credit terms are less than one year, as such they are recognised as current assets. Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost, less provision for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. When a trade receivable is considered uncollectable, it is written off. Subsequent recoveries of amounts previously written off are credited to the Consolidated Statement of Comprehensive Income. Changes in the carrying amount of receivables are recognised in the Consolidated Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and credit card payments receivable in clearing accounts.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification is used where a sale is considered highly probable. Assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. Any subsequent increase in the fair value less costs to sell of an asset is recognised where it is not in excess of any cumulative impairment loss which has been previously recognised. Non-current assets are not depreciated while they are classified as held for sale.

Assets classified as held for sale are presented separately from other asset classes in the current assets section of the Consolidated Statement of Financial Position.

Financial instruments

The Group classifies its financial assets as loans and receivables and has financial liabilities measured at amortised cost. The classification of financial instruments is determined at initial recognition in accordance with the substance of the contractual arrangement into which the Group has entered.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to customers. They are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. They are included in current assets except for maturities greater than 12 months after the end of the reporting period. Loans and receivables comprise mainly cash and cash equivalents and trade and other receivables (see above for the separate accounting policies for each specific financial asset).

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Financial instruments *(continued)*

Impairment of financial assets

Impairment of financial assets are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty, or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable. The amount of such a provision is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired financial asset.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include non-derivative financial liabilities which are held at original cost, less amortisation. Financial liabilities measured at amortised cost comprise mainly trade and other payables and borrowings (see below for the separate accounting policies for each specific financial liability).

Fair value measurement

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties and assets held for sale. At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Valuation Committee, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the Valuation Committee and the Group's external valuers present the valuation results to the Audit Committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Fair value measurement *(continued)*

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in Note 29 'Fair Value Measurement'.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

Dividend distribution

Final dividends to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. Interim dividends are recognised when they are paid.

Dividend income

Income is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend. All of the Company's income is generated in the UK.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. These are classified as current liabilities if payment is due in one year or less. If payment is due at a later date they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Trade payables include the liability for vehicles held on consignment with the corresponding asset included within inventories.

Borrowings

Borrowings comprise asset backed finance, mortgages 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 Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Bank overdrafts, which form an integral part of the Group's cash management, are included as a component of loans and borrowings for the purpose of presentation in the Consolidated Statement of Cash Flows. Bank overdrafts are presented within borrowings in current liabilities in the Consolidated Statement of Financial Position.

Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has; a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of 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 the passage of time is recognised in finance costs.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Provisions (continued)

Dilapidation provision

The Group operates from a number of leasehold premises and is typically required by the terms of the lease to restore leased premises to their original condition on vacation of the premises at the end of the lease term. Estimates of dilapidation costs are calculated in accordance with the specific remediation requirements stipulated in each lease contract. At the point at which these remediation costs can be reliably estimated, a provision is recognised.

Restructuring provision

Provisions for restructuring costs are recognised at the point when a detailed restructuring plan is in place and the Group has either started to implement the plan or has announced the main features of the plan to those affected. Restructuring provisions include only direct expenditures necessarily entailed by the restructuring.

Vacant property provision

The Group recognises provisions for all vacant leasehold property which the Group has substantially ceased to use for the purpose of its business and where subletting is unlikely, or would be at a reduced rental compared to that being paid under the head lease. The provision recognised represents the estimated future unavoidable costs of meeting the obligations under the leases during the remaining lease term.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Group's activities, as described below.

Revenue comprises sales and charges for vehicles sold and services rendered during the year including sales to other Marshall of Cambridge (Holdings) Limited group companies but excluding inter-company sales within the Group. Revenue from the sale of new and used vehicles is recognised at the point at which a customer takes possession of a vehicle. Revenue in respect of other services is recognised once the service has been provided. Income received in respect of warranty policies sold and administered by the Group is recognised over the period of the policy on a straight line basis.

Where the Group acts as an agent on behalf of a principal, the associated income is recognised within revenue in the period in which the product is sold and receipt of payment is certain. Revenue also comprises commissions receivable for arranging vehicle financing and related insurance products. Commissions are based on agreed rates and the income is recognised when the vehicle is recognised as sold.

Rental income

Vehicles leased out under finance leases, which are leases where substantially all the risks and rewards of ownership of the assets are passed to the lessee and hire purchase contracts, are shown as debtors in the Consolidated Statement of Financial Position at the amount of the net investment in the lease. The interest elements of the rental obligations are credited to the Consolidated Statement of Comprehensive Income over the period of the lease and are apportioned based on a pattern reflecting a constant periodic rate of return. Finance lease income is presented in revenue.

Rental income arising from operating leases on vehicles and investment properties is recognised in revenue on a straight line basis over the period of the lease. Vehicles leased out under operating leases are held within property, plant and equipment at their cost to the Group and are depreciated to their residual values over the terms of the leases. The vehicle assets held for contract rental are transferred into inventory at their carrying amount when they cease to be leased out and become available for sale in the Group's ordinary course of business.

Deferred income

Where the Group receives an amount in advance of future income streams the value of the receipt is amortised over the period of the contract as the services are delivered. The unexpired element is disclosed in other liabilities as deferred income.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Supplier income

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

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

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of and that either represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or geographical area of operations or is a subsidiary which was acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Consolidated Statement of Comprehensive Income.

Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use a specific asset for an agreed period of time. Leases under which the Group assumes substantially all the risks and rewards of ownership of the underlying asset are classified as finance leases. All other leases are classified as operating leases.

Group as lessee

Rental charges payable under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

Group as lessor

Where the Group is a lessor under an operating lease, the asset is capitalised within property, plant and equipment and depreciated over its useful economic life or is capitalised within investment property. Payments received under operating leases are recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Where the Group is a lessor under a finance lease, the amount due from the lessee is recognised as a receivable at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the lease.

Share-based payments

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

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Share-based payments *(continued)*

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.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

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

Net finance costs

The Group has no borrowing costs with respect to the acquisition or construction of qualifying assets, therefore, no borrowing costs are capitalised. Qualifying items of property, plant and equipment are considered to be those which take a substantial period of time to get ready for their intended use. These would include assets which are under construction for periods in excess of a year; the Group's dealership development programmes are not considered to qualify.

Finance costs

Finance costs comprise interest payable on borrowings, stock financing charges and other interest.

Finance income

Finance income comprises interest receivable on funds invested. Interest income is recognised in the Consolidated Statement of Comprehensive Income as it accrues using the effective interest method.

Taxation

The taxation charge comprises corporation tax payable, deferred tax and any adjustments to tax payable in respect of previous years.

Current taxation

The current tax payable is based on the Group's taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expenditure that are taxable or deductible in other years and items of income or expenditure that are never taxable income or tax deductible expenditure. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and their tax bases used in the computation of taxable profit. Deferred taxation is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Taxation (continued)

Deferred taxation (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group's deferred tax balances are calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

Defined contribution pension plans

A defined contribution plan is a pension plan under which the employer/employee pays contributions into a separate fund managed and administered by a third party. The employer has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to their service and contributions in current and prior periods.

The Group operates the Marshall Motor Holdings Defined Contribution Pension Scheme.

The Group also participates in the defined contribution section of the Marshall Group Executive Pension Plan ("the Plan") which is operated by Marshall of Cambridge (Holdings) Limited acting as principal employer. The Plan also has a defined benefit section.

Where the Group makes contributions, the Group's contributions to both sections of the Plan are charged to the Consolidated Statement of Comprehensive Income as they become payable.

Defined benefit pension plan

A defined benefit plan is a pension plan which defines the amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age, years of service and remuneration.

By virtue of historic employment relationships, the Group is a participating employer in the defined benefit section of the Plan. The Plan is non-sectionalised, therefore, the assets of the Plan are not allocated to or directly associated with individual participating employers of the Plan.

As there is no contractual agreement or stated policy for charging the net defined benefit cost between the participating employers in the Plan, the Group accounts for its contributions as if it were a defined contribution scheme.

Details of the latest actuarial valuations of the Plan are disclosed in the financial statements of the principal employer, Marshall of Cambridge (Holdings) Limited an extract of which is shown in Note 34 'Pensions'.

Alternative performance measures

Certain items recognised in reported profit or loss before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. The Directors believe that the 'underlying profit before tax' and 'underlying basic earnings per share' measures presented provide a clear and consistent presentation of the underlying performance of the Group's on-going business for shareholders. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies.

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Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Alternative performance measures (continued)

Non-underlying items are defined as follows:

- Acquisition costs
- Profit/losses arising on closure or disposal of businesses
- Restructuring and reorganisation costs – these are one-off in nature and do not relate to the Group's underlying performance.
- Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date.
- One-off tax items and pensions
- Asset impairments.

3. Changes in accounting policies and disclosures

Except where disclosed otherwise in this note, the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied when preparing the consolidated financial statements for the year ended 31 December 2016.

New standards, amendments and interpretations adopted by the Group

The following new amendments have been adopted in the consolidated financial statements for the first time during the year ended 31 December 2017. These have been assessed as having no financial or disclosure impact on the numbers presented.

IAS 7 *Cash Flow Statements* (disclosure initiative – amendments to IAS 7)

New standards, amendments and interpretations not yet adopted by the Group

The following standards, amendments and interpretations were in issue, but were not yet effective at the balance sheet date. These standards have not been applied when preparing the consolidated financial statements for the year ended 31 December 2017.

	Date issued	Effective for accounting periods beginning on or after
IAS 40 <i>Transfers to Investment Property</i> (amendments to IAS 40)	December 2016	1 January 2018
IFRS 2 <i>Classification and Measurements of Share-based Payment Transactions</i> (amendments to IFRS 2)	June 2016	1 January 2018
IFRS 9 <i>Financial Instruments</i>	July 2014	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	May 2014	1 January 2018
IFRS 16 <i>Leases</i>	January 2016	1 January 2019

Impact on future periods of the adoption of new standards, amendments and interpretations

IFRS 9 *Financial Instruments*

The IASB issued IFRS 9 *Financial Instruments* in July 2014 to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. IFRS 9 is effective for accounting periods commencing on or after 1 January 2018. The Group will apply IFRS 9 for the first time in the interim report for the six months ending 30 June 2018 and the annual report for the year ending 31 December 2018. The Group will apply the new rules retrospectively from 1 January 2018, by applying the practical expedients permitted by the standard, and therefore comparatives for 2017 will not be restated.

Notes to the Consolidated Financial Statements

3. Changes in accounting policies and disclosures *(continued)*

Impact on future periods of the adoption of new standards, amendments and interpretations *(continued)*

IFRS 9 Financial Instruments *(continued)*

Financial assets

The Group expects that its financial assets will qualify for classification at amortised cost under IFRS 9 and therefore no impact on retained earnings as a result of the reclassification is expected. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under IAS 39. Based on an initial assessment using the 30 September 2017 receivables ledger and taking into account the short-term nature of the Group's trade receivables, the impairment losses estimated under the new methodology are expected to increase by an immaterial amount, such that an immaterial transition adjustment will be recognised in opening retained earnings as at 1 January 2018. The full impact and transition adjustment required is dependent on the receivables balance at the transition date.

Financial liabilities

Due to the classification of the Group's financial liabilities, the adoption of IFRS 9 will have no impact on the Group's accounting for financial liabilities.

The Group has reviewed its financial assets and financial liabilities and is not expecting any material impacts from the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

In May 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard covering the measurement and timing of revenue recognition; which replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*. IFRS 15 requires revenue to be recognised in accordance with the timing of when control of a good or service transfers to a customer at an amount which represents the consideration to which the Group is expected to be entitled to receive in exchange for the goods or services transferred. IFRS 15 also requires additional disclosures.

IFRS 15 is effective for accounting periods commencing on or after 1 January 2018. The Group will apply IFRS 15 for the first time in the interim report for the six months ending 30 June 2018 and the annual report for the year ending 31 December 2018. The Group intends to adopt the standard using the cumulative effect method; therefore, the cumulative impact on transition will be recognised in retained earnings as of 1 January 2018 and comparatives for 2017 will not be restated.

An impact assessment has been carried out during which sales agreements and contractual documents from each of the Group's core revenue streams have been reviewed. The five-step model in IFRS 15 has been assessed, including identifying when a contract exists, identifying distinct performance obligations and determining and allocating the transaction price.

The Group has reviewed its revenue from contracts with customers and is not expecting any material impacts from the adoption of IFRS 15.

IFRS 16 Leases

IFRS 16 *Leases* was issued by the IASB in January 2016 and will replace IAS 17 *Leases*. IFRS 16 is due to take effect for accounting periods commencing on or after 1 January 2019. The Group will adopt the new standard in 2019 and will apply IFRS 16 for the first time in the interim report for the six months ending 30 June 2019 and the annual report for the year ending 31 December 2019.

Lessee accounting

IFRS 16 removes the current distinction between operating leases and finance leases and requires that, for all leases, a right-of-use asset and a financial liability are recognised in the Consolidated Statement of Financial Position – with certain optional exemptions available for short-term leases and leases for low-value items. The asset represents the right to use the leased asset and the financial liability represents the commitments payable under the lease.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

3. Changes in accounting policies and disclosures *(continued)*

Impact on future periods of the adoption of new standards, amendments and interpretations *(continued)*

IFRS 16 Leases (continued)

Lessee accounting (continued)

Operating lease rental charges in the Consolidated Statement of Comprehensive Income will be replaced by interest charges and depreciation expenses. The timing of the recognition of these lease costs will also change on adoption of IFRS 16, with increased costs being recognised in the earlier years of the lease due to interest being recognised at a constant rate on the carrying value of the lease liability. The transition method chosen influences the magnitude and timing of the charges recognised in the Income Statement subsequent to adoption, for leases in place at the transition date.

The classification of lease payments in the Consolidated Statement of Cash Flows changes from being exclusively operating cash flows to a combination of operating cash flows (reflecting the interest portion of lease payments) and financing cash flows (reflecting the principal portion of the lease liability).

The Group is currently finalising a detailed impact assessment to determine the impact and transition adjustments that the adoption of IFRS 16 will have on the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Consolidated Statement of Financial Position. Based on analysis of the Group's current lease portfolio, initial assessments indicate that the adoption of IFRS 16 will have a significant impact on key metrics and profitability measures used by the Group.

The transition adjustments required will be dependent on the transition method adopted by the Group and the lease portfolio in existence at the transition date. As a result of initial assessments, the Group currently expects to adopt the standard using the retrospective method. Therefore, the cumulative impact of adoption will be recognised in retained earnings as of 1 January 2018 and comparatives for 2018 will be restated. Based on analysis of the Group's current lease portfolio, and the size of the Group's commitments under non-cancellable operating leases (£124m as at 31 December 2017 (see Note 32 'Commitments and Contingencies')), the Group expects an adjustment to reserves as well as the recognition of significant right-of-use assets in non-current assets and significant lease liabilities in financial liabilities.

Lessor accounting

With the exception of where the Group is an intermediate lessor, the adoption of IFRS 16 Leases does not significantly change the Group's lessor accounting. On adoption of IFRS 16, in situations where the Group is an intermediate lessor, the Group will account for its interests in head leases and sub-leases separately.

Based on initial impact assessments completed to date, the Group anticipates that the majority of properties for which the Group is an intermediate lessor (i.e. sublets property in which it has an interest as lessee in a head lease) will meet the definition of a finance lease and will be accounted for and disclosed as such on adoption of IFRS 16. As a result, new finance lease receivables will be recognised on adoption of IFRS 16.

4. Significant accounting judgements, estimates and assumptions

The Directors are required to make judgements, estimates and assumptions about the future when applying the Group's accounting policies (as detailed in Note 2 'Accounting Policies') to determine the amounts of assets, liabilities, revenue and expenses reported in the consolidated financial statements. Actual amounts may differ from these estimates.

The Directors regularly review these judgements, estimates and assumptions and any resulting revisions to accounting estimates are recognised in the period in which the estimate is revised. If the change in estimation impacts future accounting periods, the revision is recognised in the current and future periods.

Critical accounting judgements

The accounting judgements and assumptions (excluding those which also involve estimates which are covered in the key sources of estimation uncertainty section below) included in the consolidated financial statements which have a material impact on amounts reported are as detailed below.

Notes to the Consolidated Financial Statements

4. Significant accounting judgements, estimates and assumptions *(continued)*

Critical accounting judgements *(continued)*

Allocation of goodwill and other indefinite life assets

The Group reviews the goodwill and intangible assets arising on the acquisition of subsidiaries or businesses and values each identifiable asset separately. Intangible assets are then allocated to cash generating units (CGUs); this allocation exercise requires a high level of judgement and the Group consults with independent experts as required.

Determination of indefinite useful economic life

Goodwill and franchise agreements are intangible assets acquired through business combinations. An asset is considered to have an indefinite useful economic life if there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Each franchise agreement is different; each contract being for varying durations, with varying renewal or termination options. Previous franchise agreements acquired have historically either been renewed without substantial cost or not had termination options exercised. This past experience, coupled with the strength of the Group's relationships with brand partners, determines that these assets have indefinite useful economic lives.

Key sources of estimation uncertainty

The accounting estimates included in the consolidated financial statements which have a material impact on amounts reported are as detailed below.

Goodwill and other intangible asset impairment

Goodwill is deemed to have an indefinite useful economic life and is, therefore, not amortised. As a result, the Group reviews goodwill for impairment on at least an annual basis and more frequently where there are indicators of potential impairment. The impairment review requires the value-in-use of each CGU to be estimated; these calculations are based on a number of assumptions. Areas of significant judgement include:

- the estimation of future cash flows
- the selection of risk and the estimation of risk adjustment factors to be applied to cash flows
- the selection of an appropriate discount rate to calculate present value
- the selection of an appropriate terminal growth rate.

The assumptions used in the impairment test are detailed in Note 15(c) 'Goodwill and Other Intangible Assets'. The value-in-use estimated for each CGU indicates that the Group has sufficient headroom to support the carrying amounts reported and the sensitivity analysis supports that an impairment is unlikely to be triggered by a range of reasonably possible changes to the key assumptions. The assumptions relating to future cash flows, estimated useful economic lives and discount rates are based on forecasts and are, therefore, inherently judgemental. Future events could result in the assumptions used needing to be revised, changing the outcome of the impairment test and resulting in impairment charges being recognised.

Pension provision valuation

As described in Note 2 'Accounting Policies', the Group is a participating employer in the defined benefit section of the Marshall Group Executive Pension Plan ("the Plan") of which Marshall of Cambridge (Holdings) Limited is the principal employer. The last actuarial valuation for this section of the Plan was undertaken as at 31 December 2016 and the Group has settled in full all obligations payable under the associated recovery plan.

As described in Note 34 'Pensions', the Group is currently undertaking a strategic pension review which may result in the Group ceasing to be a participant in the defined benefit section of the Plan. Based on the status of discussions to date, current expectations are that it is reasonably probable that this review will result in the Group ceasing participation in this pension scheme. Therefore, a provision has been recognised for the estimated amount which would become payable in accordance with Section 75 of the Pensions Act 1995 were the Group to cease to participate in this scheme (the "Employer Debt").

The Employer Debt has been estimated using assumptions determined with independent actuarial advice. The liability is sensitive to the market value of the assets held by the scheme, the discount rate used in assessing liabilities, the actuarial assumptions (which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions) and to the level of contributions. The provision recognised is based on scheme data, actuarial assumptions and interest rates as at 31 December 2017.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

4. Significant accounting judgements, estimates and assumptions *(continued)*

Key sources of estimation uncertainty *(continued)*

In the event that an Employer Debt is triggered, the final amount payable will be determined by reference to equivalent information at the date the Group ceased to participate in the defined benefit section of the Plan. As such, the assumptions used in the current estimate may need to be revised, changing the amount ultimately payable by the Group.

Inventory valuation

Inventories are stated at the lower of their cost and their net realisable value (being the fair value of the motor vehicles 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 the current value of vehicles held in inventory it is possible that the price at which the vehicles are actually sold will differ from the vehicles' industry valuations. Where this is the case, adjustments arise in the Consolidated Statement of Comprehensive Income on the sale of vehicles held in inventory.

Industry valuations are sensitive to rapid changes in regulatory and market conditions which are difficult to anticipate. In light of the materiality of the inventory balance in the Consolidated Statement of Financial Position, this uncertainty is considered to represent a key source of estimation uncertainty. The inventory provision as at 31 December 2017 represents 2.1% of the gross inventory balance (2016: 2.4%). A 100bps change in this ratio in 2017 would have changed the charge to the Income Statement by approximately £4 million.

Taxation

The Group is subject to both direct and indirect taxes in the ordinary course of its business. Significant judgement is employed to determine the income tax provision.

Where the final tax treatment applied on finalisation of the Group's corporation tax returns differs to the assumptions used when calculating the amounts currently recognised, these differences impact the current and/or deferred tax provisions in the period in which the final tax treatment is determined. No single item is expected to give rise to a material adjustment in subsequent years, however, individual differences when taken in aggregate could have a material impact on the Group's taxation charge in the next accounting period.

Current tax is provided at the amounts that are expected to be paid. Deferred tax is provided at the rates that have been enacted or substantively enacted by the balance sheet date and is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts. Factors affecting the tax charge in future years are set out in Note 12(c) 'Taxation'. A 100bps change in the Group's effective tax rate in 2017 would have changed the total tax charge for the year by approximately £0.5 million.

The recognition of deferred tax assets is determined by reference to expected levels of future taxable profits as estimated in forecasts. If actual profitability levels differ significantly from those forecast, this could impact the level of taxable profit against which future tax benefits could be relieved, therefore, requiring the impairment of previously recognised deferred tax assets.

The Group has open tax issues with the tax authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the issue can be made, a provision is recognised based on the best estimate of the liability. These estimates take into account the specific circumstances of each issue and relevant advice from external experts. These estimates are inherently judgemental and could change substantially over time as new facts emerge and discussions progress. Where open issues exist the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities.

Reassessment of previous areas of estimation uncertainty

Following a review of the Group's sources of estimation uncertainty, it has been concluded that the following are no longer key areas of estimation which have a significant risk of resulting in a material adjustment in the next financial year to the amounts currently reported.

Assets held for contract hire

Following the disposal of Marshall Leasing Limited, the Group no longer owns assets held for contract hire; therefore, there is no future estimation uncertainty.

Notes to the Consolidated Financial Statements

4. Significant accounting judgements, estimates and assumptions *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated useful economic life of intangible assets and property, plant and equipment

In accordance with IAS 38 *Intangible Assets* and IAS 16 *Property, Plant & Equipment*, the Group reviews the estimates of the useful economic life and the residual value of *intangible assets* and property, plant and equipment at the end of each accounting period. Due to the lack of revisions required in prior periods following these reviews, past experience suggests that estimates of the useful economic lives of assets do not represent a key source of estimation uncertainty. As such, this area is no longer considered to represent a significant risk of a material adjustment being required to the carrying amount of these assets within the next accounting period.

5. Segmental information

a) Operating segments

Operating segments are reported in a manner consistent with the internal management reporting provided to the Chief Operating Decision Makers who are responsible for allocating resources and assessing the performance of the operating segments. Management have identified the Chief Executive Officer as being the Chief Operating Decision Maker in accordance with the requirements of IFRS 8 *Operating Segments*.

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 accounting policies consistent with those used in the consolidated financial statements.

The Group's business is split into two main revenue-generating operating segments and a third support segment. No significant judgements have been made in determining the reporting segments.

Retail

This segment includes sales of new and used vehicles, together with the associated ancillary aftersales services of; servicing, body shop repairs and parts sales.

Leasing

This segment includes the leasing of vehicles to end consumers and fleet customers.

Unallocated

This segment includes the Group's head office and central management functions including; the Board, group finance functions, the human resources department and all governance and compliance related functions in support of the wider business. Also included is rental income arising from investment properties.

From 1 January 2018, the Group is organised into one business segment being the retail segment. The leasing segment was discontinued on the sale of Marshall Leasing Limited on 24 November 2017 (see Note 8 'Discontinued Operations').

Depreciation presented in the segmental note is restricted to assets other than assets held for contract rental, on the basis that depreciation on our leasing fleet is presented within cost of sales.

All segment revenue, profit before taxation, assets and liabilities are attributable to the principal activity of the Group being the provision of car and commercial vehicle sales, leasing, vehicle service and other related services.

Geographical information

Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination. All of the Group's revenue is generated in the UK.

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Notes to the Consolidated Financial Statements

5. Segmental information (continued)

a) Operating segments (continued)

For the year ended 31 December 2017	Retail (note 5b) £'000	Leasing (Discontinued) £'000	Unallocated £'000	Total £'000
Total revenue from external customers	2,231,696	36,969	283	2,268,948
Depreciation and amortisation	(9,190)	(4)	(27)	(9,221)
Segment operating profit/(loss)	34,714	4,286	(14,617)	24,383
Other income – gain on disposal of subsidiary	-	36,851	-	36,851
Net finance costs	(6,586)	(580)	(933)	(8,099)
Underlying profit/(loss) before tax	34,911	3,706	(9,550)	29,067
Non-underlying items	(6,783)	36,851	(6,000)	24,068
Profit/(loss) before taxation	28,128	40,557	(15,550)	53,135
Total assets	762,304	-	3,367	765,671
Total liabilities	537,064	-	37,397	574,461
Additions in the period				
Property, plant, equipment and software assets	24,365	34,700	-	59,065
For the year ended 31 December 2016	Retail (note 5b) £'000	Leasing (Discontinued) £'000	Unallocated £'000	Total £'000
Total revenue from external customers	1,859,734	39,349	322	1,899,405
Depreciation and amortisation	(6,862)	(6)	(22)	(6,890)
Segment operating profit/(loss)	32,637	5,653	(9,236)	29,054
Net finance costs	(5,319)	(749)	(835)	(6,903)
Underlying profit/(loss) before tax	28,900	4,904	(8,404)	25,400
Non-underlying items	(1,582)	-	(1,667)	(3,249)
Profit/(loss) before taxation	27,318	4,904	(10,071)	22,151
Total assets	620,365	91,512	89,775	801,652
Total liabilities	417,622	73,454	164,917	655,993
Additions in the period				
Property, plant, equipment and software assets	94,344	35,537	-	129,881

Notes to the Consolidated Financial Statements

5. Segmental information *(continued)*

b) Retail segment revenue

Retail revenue is derived from a number of service lines, principally being new vehicle sales and aftersales, as set out below.

For the year ended 31 December 2017	Revenue		Gross Profit	
	£'000	mix*	£'000	mix
New Car	1,166,471	51.2%	84,086	32.6%
Used Car	869,733	38.2%	59,918	23.2%
Aftersales	243,064	10.6%	113,975	44.2%
Internal	(47,572)	-	-	-
Total	2,231,696	100%	257,979	100%

For the year ended 31 December 2016	Revenue		Gross Profit	
	£'000	mix*	£'000	mix
New Car	983,314	51.6%	68,885	32.5%
Used Car	718,329	37.7%	50,667	23.9%
Aftersales	202,568	10.7%	92,294	43.6%
Internal	(44,477)	-	-	-
Total	1,859,734	100%	211,846	100%

*mix calculation excludes internal sales

6. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2017 £'000	2016 £'000
Depreciation of assets held for contract rental (note 16)	15,962	17,343
Depreciation of property, plant and equipment (note 16)	8,917	5,838
Amortisation of other intangibles (note 15)	304	1,052
Profit on disposal of business units	-	(285)
Loss/(profit) on disposal of property, plant and equipment	1,085	(38)
Impairment of property, plant and equipment (note 16)	945	-
Operating lease rentals – property	11,698	10,324

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7. Non-underlying items

	2017 £'000	2016 £'000
Profit on disposal of subsidiary	(36,851)	-
Post-retirement benefits charge	6,000	-
Acquisition costs	-	2,163
Profit on disposal of business units	-	(285)
Amortisation of acquired order book	-	769
Gain on interest rate swap termination	-	(294)
Restructuring costs	6,783	1,566
Investment property fair value movements	-	(670)
Non-underlying Items	(24,068)	3,249

Profit on disposal of subsidiary

See Note 8 'Discontinued Operations' for further details of the transaction giving rise to the profit on disposal of subsidiary.

Post-retirement benefits charge

See Note 34 'Pensions' for further details of the transaction giving rise to this post-retirement benefits charge.

Acquisition costs

Acquisition costs were incurred in connection with the acquisition of Ridgeway Garages (Newbury) Limited in 2016. See Note 15 'Goodwill and Other Intangibles' for further details of the transaction.

Profit on disposal of business units

During 2016, the Group disposed of two Toyota dealerships and one Nissan dealership realising a profit of £285,000.

Amortisation of acquired order book

Amortisation of acquired order book is considered exceptional by virtue of its nature, having been recognised as an intangible asset on acquisition and realised immediately afterwards as the orders were fulfilled.

Gain on interest rate swap termination

At the point of the acquisition, Ridgeway had a claim in progress in respect of the mis-selling of certain historic interest rate swap products. These claims, settled in 2016, gave rise to a gain on termination of £294,000.

Restructuring costs

Restructuring costs during the current year represent the costs incurred as a result of the closure of five franchised dealerships and one used car centre. Three of the franchised dealerships impacted were in relatively small markets and within close proximity of other existing Group dealerships of the same franchise. Two of the impacted businesses shared a subscale site in Oxford with a high fixed cost base which was not sustainable in the longer term. The final closure was the Citroën Cambridge new car sales franchise which was the last remaining representation point with this particular brand partner. Restructuring costs include vacant property related costs of £4,309,000, redundancy costs of £344,000 and £2,130,000 of tangible and intangible asset impairment losses and write offs.

Restructuring and reorganisation costs in the prior period relate to one-off costs of integration and reorganisation (following the acquisitions of Ridgeway and SG Smith).

Investment property fair value movements

See Note 17 'Investment properties' for further detail of these movements.

Notes to the Consolidated Financial Statements

8. Discontinued operations

On 24 November 2017 the Group disposed of Marshall Leasing Limited and its subsidiary (Gates Contract Hire Limited). Marshall Leasing Limited operated the Group's leasing segment.

A profit after tax of £36,851,000 on the sale, being the difference between sale proceeds and the carrying value of the net assets, less settlement of pension liability, transaction costs and taxation. This profit is disclosed within non-underlying items (Note 7 'Non-Underlying Items'). The results of the discontinued operation are disclosed in the Consolidated Statement of Comprehensive Income.

a) Details of the sale of the subsidiary

The carrying value of the assets and net cash generated on disposal are detailed below.

	2017 £'000
Gross disposal consideration in cash	42,500
Pension retention	(1,500)
Net disposal consideration in cash	41,000
Less carrying value of net assets sold at 24 November 2017:	
– Property, plant and equipment	78,959
– Deferred tax	1,547
– Trade and other receivables	2,510
– Bank overdraft	(3,695)
– Trade and other payables	(8,120)
– Asset backed borrowings	(68,185)
– Corporation tax	(680)
	2,336
Gain on sale of subsidiary before income tax	38,664
Transaction costs	(1,813)
Net gain on sale of subsidiary before income tax	36,851
Income tax expense on gain	-
Gain on sale of subsidiary after income tax	36,851
Cash inflow on disposal of subsidiary:	
Net disposal consideration in cash	41,000
Disposal of bank overdraft	3,695
Net cash flow from sale of discontinued operation	44,695

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

8. Discontinued operations *(continued)*

b) Discontinued cash flow information

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

	2017 £'000	2016 £'000
Net cash inflow from operating activities	16,027	20,555
Purchase of property, plant, equipment and software	(34,700)	(35,540)
Proceeds from disposal of property, plant and equipment	9,474	10,970
Net cash outflow from investing activities	(25,226)	(24,570)
Proceeds from borrowings	31,778	50,444
Repayment of borrowings	(28,106)	(37,307)
Dividends paid	(18,712)	-
Net cash (outflow)/inflow from financing activities	(15,040)	13,137
Net (decrease)/increase in cash generated by the subsidiary	(24,239)	9,122

9. Auditor's remuneration

During the year the Group obtained the following services from the Group's auditors:

	2017 £'000	2016 £'000
Audit services:		
– fees payable to the Company's auditors for the audit of the parent Company and consolidated financial statements	251	251
– audit of Group's subsidiaries	78	79
Fees payable to the Company's auditors for other services:		
– review of interim financial statements	36	36
Total auditor's remuneration	365	366

Notes to the Consolidated Financial Statements

10. Employees and directors

a) Employee costs for the Group during the year

The aggregate remuneration of employees and directors was:

	2017 £'000	2016 £'000
Wages and salaries	115,905	101,678
Social security costs	13,553	10,613
Other pension costs	8,059	1,714
Share based payments	1,005	1,313
	138,522	115,318

Employee costs are included in:

	2017 £'000	2016 £'000
Cost of sales	13,750	12,835
Net operating expenses	124,772	102,483
	138,522	115,318

The average number of employees (including Executive Directors) was:

	2017	2016
Retail	3,616	3,193
Leasing (<i>Discontinued</i>)	43	43
Unallocated	264	259
	3,923	3,495

The average number of Group employees excludes temporary and contract staff.

b) Directors' emoluments

Details of the remuneration of the Directors, their share incentives and pension entitlements are set out in the Directors' Remuneration Report on pages 44 and 50.

c) Key management compensation

The following table details the aggregate compensation paid in respect of key management personnel – which comprises both senior management who sit on the enlarged operational board and statutory directors.

	2017 £'000	2016 £'000
Wages and salaries	4,805	3,600
Post-employment benefits	273	175
Compensation for loss of office	52	83
Share-based payments	1,005	1,313
	6,135	5,171

Details of the share option schemes are provided in Note 31 'Share-Based Payments'.

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Notes to the Consolidated Financial Statements

11. Net finance costs

	2017 £'000	2016 £'000
Interest income on short term bank deposits	(11)	(40)
Net interest payable on asset backed finance (<i>Discontinued</i>)	580	749
Stock financing charges and other interest	5,385	3,958
Interest payable on bank borrowings	2,145	2,236
Net finance costs	8,099	6,903

12. Taxation

a) Taxation charge

	2017 £'000	2016 £'000
Current tax		
Current tax on profits for the year	5,651	5,598
Adjustments in respect of prior years	50	316
Total current tax charge	5,701	5,914
Deferred tax		
Origination and reversal of temporary differences	(2,015)	(18)
Impact of change in tax rates	-	(1,334)
Adjustments in respect of prior years	110	(165)
Total deferred tax credit (note 27)	(1,905)	(1,517)
Total taxation charge	3,796	4,397
 Income tax expense is attributable to:		
Profit from continuing operations	3,080	3,214
Profit from discontinued operation	716	1,183
Total taxation charge	3,796	4,397

The tax charge on discontinued operations amounting to £716,000 (2016: £1,183,000) all relates to tax payable on profit from operations.

Notes to the Consolidated Financial Statements

12. Taxation (continued)

b) Reconciliation of tax charge

The taxation charge for the year reconciles to the profit per the Consolidated Statement of Comprehensive Income as follows:

	2017 £'000	2017 %	2016 £'000	2016 %
Profit before taxation	53,135		22,151	
Notional taxation charge at corporation tax rate of 19.25% (2016: 20.00%)	10,228	19.25%	4,430	20.00%
Effects of:				
Tax effect of items not deductible for tax purposes ¹	630	1.19%	1,122	5.07%
Acquisition costs	-	-	433	1.95%
Non-taxable gain on sale of subsidiary	(7,094)	(13.36%)	-	-
Profit on disposal of non-qualifying assets	(145)	(0.27%)	(341)	(1.54%)
Recognition of deferred tax previously unrecognised	-	-	(64)	(0.29%)
Adjustments in respect of prior years	160	0.30%	151	0.68%
Utilisation of brought forward losses previously unrecognised	(31)	(0.06%)	-	-
Deferred tax credit relating to reduction in tax rates	-	-	(1,385)	(6.25%)
Effect of difference between closing deferred tax rate and current tax rate	48	0.09%	51	0.23%
Taxation charge and effective tax rate	3,796	7.14%	4,397	19.85%

¹ Expenses not deductible predominantly consist of depreciation charges on non-qualifying assets.

The applicable corporation tax rate is calculated at 19.25% (2016: 20.00%) of the estimated taxable profit for the year. The standard rate of corporation tax reduced from 20.00% to 19.00% on 1 April 2017.

The analysis of the Group's effective tax rate between underlying and non-underlying activities is as follows:

	2017 Underlying £'000	2017 Non- underlying £'000	2017 Total £'000	2016 Underlying £'000	2016 Non- underlying £'000	2016 Total £'000
Profit before taxation	29,067	24,068	53,135	25,400	(3,249)	22,151
Taxation	5,270	(1,474)	3,796	5,153	(756)	4,397
Effective tax rate	18.13%	(6.12%)	7.14%	20.29%	23.27%	19.85%

Non-recurring items

The Group's total effective tax rate for 2017 of 7.14% was influenced by the significant non-taxable gain on disposal of a subsidiary, due to the chargeable gain falling within the substantial shareholding exemption. Excluding this item, the total effective tax rate for the year would have been 23.31%.

The prior year total effective tax rate of 19.85% was impacted by the change in future tax rates enacted during 2016, reducing the rate by 6.25%. This reduction was partially offset by a 1.95% increase in the rate resulting from non-deductible acquisition costs.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

12. Taxation (continued)

c) Factors affecting the taxation charge of future years

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 2017.

In the budget of 16 March 2016, the Chancellor of the Exchequer announced a further 1% reduction to the standard rate of corporation tax which will be applicable in the financial year beginning 1 April 2020. The Finance Act 2016, which was substantively enacted when it received Royal Assent on 15 September 2016, reduced the corporation tax rate to 19.00% with effect from 1 April 2017 decreasing to 17.00% with effect from 1 April 2020. These changes to the rate of corporation tax will impact the amount of future cash tax payments for which the Group will be responsible. These changes also impacted the valuation of deferred tax assets and liabilities, altering the deferred tax charge and closing deferred tax position for 2016.

13. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the year and the diluted weighted average number of ordinary shares in issue in the year after taking account of the dilutive impact of shares under option of 2,866,231 at 31 December 2017 (2016: 2,380,040).

Underlying earnings per share are based on basic earnings per share adjusted for the impact of non-underlying items.

	2017 Continuing operations £'000	2017 Discontinued operations £'000	2017 Total £'000	2016 Continuing operations £'000	2016 Discontinued operations £'000	2016 Total £'000
Profit for the year	9,519	39,841	49,360	14,041	3,721	17,762
Non-controlling interests	(21)	-	(21)	(8)	-	(8)
Basic earnings	9,498	39,841	49,339	14,033	3,721	17,754
Weighted average number of ordinary shares in issue for the basic earnings per share	77,392,862	77,392,862	77,392,862	77,326,970	77,326,970	77,326,970
Diluted weighted average number of shares in issue for diluted earnings per share	79,929,238	79,929,238	79,929,238	79,500,548	79,500,548	79,500,548
Basic earnings per share (in pence per share)	12.3	51.5	63.8	18.1	4.9	23.0
Diluted earnings per share (in pence per share)	11.9	49.8	61.7	17.6	4.7	22.3
Underlying earnings per share (non GAAP measure)	26.9	3.9	30.8	21.3	4.9	26.2

Notes to the Consolidated Financial Statements

14. Dividends

A final dividend of £2,864,000 for the year ended 31 December 2016 was paid in May 2017. This represented a payment of 3.70p per ordinary share in issue at that time.

An interim dividend in respect of the year ended 31 December 2017 of £1,663,000 (2016: £1,393,000), representing a payment of 2.15p per ordinary share in issue at that time, was paid in September 2017.

A final dividend of 4.25p per share in respect of the year ended 31 December 2017 is to be proposed at the annual general meeting on 22 May 2018. The ex-dividend date will be 26 April 2018 and the associated record date will be 27 April 2018. This dividend will be paid subject to shareholder approval on 25 May 2018 and these financial statements do not reflect this final dividend payable.

15. Goodwill and other intangible assets

	Goodwill £'000	Franchise agreements £'000	Software £'000	Favourable leases £'000	Order backlog £'000	Total £'000
<i>Cost</i>						
At 1 January 2016	26,782	13,552	623	-	-	40,957
Additions	-	-	506	-	-	506
Additions on acquisition	23,516	58,563	-	172	769	83,020
Disposals	(1,222)	-	(50)	-	-	(1,272)
At 31 December 2016	49,076	72,115	1,079	172	769	123,211
Additions	-	-	235	-	-	235
Additions on acquisition	-	22	-	-	-	22
Write-offs	(447)	-	-	-	(769)	(1,216)
Transfers from Property, plant and equipment	-	-	57	-	-	57
At 31 December 2017	48,629	72,137	1,371	172	-	122,309
<i>Accumulated amortisation</i>						
At 1 January 2016	-	-	170	-	-	170
Charge for the year	-	-	250	33	769	1,052
Disposals	-	-	(44)	-	-	(44)
At 31 December 2016	-	-	376	33	769	1,178
Charge for the year	-	-	247	57	-	304
Disposals	-	-	-	-	(769)	(769)
At 31 December 2017	-	-	623	90	-	713
<i>Net book value</i>						
At 31 December 2016	49,076	72,115	703	139	-	122,033
At 31 December 2017	48,629	72,137	748	82	-	121,596

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Notes to the Consolidated Financial Statements

15. Goodwill and other intangible assets (continued)

a) Acquisitions and disposals – 2017

Acquisitions

On 2 June 2017 the Group acquired the trade and assets of a Volvo dealership which operates in Leeds.

The estimated net assets at the date of the acquisition are stated at their provisional fair value as set out below.

	NBV at 2 June 2017 £'000
Intangible assets	22
Property, plant & equipment	32
Inventories	21
Trade and other receivables	28
Trade and other payables	(26)
Net assets acquired	77
Total cash consideration	77

The results of the Volvo dealership were consolidated into the Group's results from 2 June 2017. For the period from acquisition to 31 December 2017, revenues of the Volvo dealership were immaterial in the context of the Group's revenues, as was its loss before tax.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2017), on a pro forma basis, the change in revenue of the combined Group for 2017 would have been immaterial in the context of the Group, as would have been the change in profit before tax. This pro forma information does not purport to represent the results of the combined Group that actually would have occurred had the acquisition taken place on 1 January 2017 and should not be taken to be representative of future results.

Acquisition costs arising on acquisitions in 2017 were immaterial.

Measurement period adjustments

On 25 May 2016 the Company acquired the entire share capital of Ridgeway Garages (Newbury) Limited ("Ridgeway"). Ridgeway itself is the parent company of six wholly owned subsidiary companies, Pentagon Limited, Pentagon South West Limited, Ridgeway TPS Limited, Ridgeway Bavarian Limited, Wood in Hampshire Limited and Wood of Salisbury Limited.

In accordance with IFRS 3 *Business Combinations*, the measurement period adjustment has been reflected in these financial statements as if the final purchase price allocation had been completed at the acquisition date. The acquisition accounting has been finalised in the period and the net assets at the date of acquisition are stated at their fair values as set out in section b) below.

There has been no significant movement in the value of net assets acquired and goodwill between 31 December 2016 and 31 December 2017. The only movements being reclassifications between property, plant and equipment (£133,000 increase), trade and other receivables (£279,000 decrease) and trade and other payables (£146,000 decrease).

Write-offs

In November 2017, the decision was made to close five franchised dealerships and one used car centre. Three of the franchised dealerships closed were in relatively small markets and within close proximity of other, existing Group dealerships of the same franchise. Two of the impacted businesses shared a subscale site in Oxford with a high fixed cost base which was not sustainable in the longer term. The final dealership closure was the closure of the last remaining representation point with a particular brand partner.

Notes to the Consolidated Financial Statements

15. Goodwill and other intangible assets (continued)

a) Acquisitions and disposals – 2017 (continued)

Write-offs (continued)

As a result of these closures, there were the following write-offs of goodwill: £22,000 associated with the Honda CGU, £5,000 associated with the Vauxhall CGU and £420,000 associated with the Nissan CGU.

The order backlog was fulfilled and fully amortised in 2016, and subsequently written off during the current year.

b) Acquisitions and disposals – 2016

Acquisitions

Ridgeway Group

On 25 May 2016 the Company acquired the entire share capital of Ridgeway Garages (Newbury) Limited ("Ridgeway"). Ridgeway itself is the parent company of six wholly owned subsidiary companies, Pentagon Limited, Pentagon South West Limited, Ridgeway TPS Limited, Ridgeway Bavarian Limited, Wood in Hampshire Limited and Wood of Salisbury Limited.

Separately identifiable intangible assets totalling £59,504,000 were acquired as part of the acquisition of Ridgeway. A valuation of these intangible assets has been performed by Globalview Advisors, an independent external specialist. These intangible assets have been assigned indefinite lives on the basis that these arrangements are expected to be renewed for the foreseeable future. The goodwill arising on the acquisition of the above company is attributable to the anticipated profitability of the distribution of the Group's products in new markets and the anticipated operating synergies derived from the combination.

The fair value of the net assets at the date of acquisition are set out below:

	NBV at 31 May 2016 £'000	Fair value adjustment £'000	Ridgeway Garages (Newbury) Limited Acquisition balance sheet at 31 December 2017 £'000
Goodwill	2,600	(2,600)	-
Intangible assets	-	59,504	59,504
Deferred tax on acquired intangible assets	-	(10,728)	(10,728)
Property, plant & equipment	65,414	(303)	65,111
Inventories	124,124	(724)	123,400
Trade and other receivables	51,627	(279)	51,348
Cash and cash equivalents	12,664	-	12,664
Trade and other payables	(175,041)	(3,103)	(178,144)
Debt	(25,705)	-	(25,705)
Provisions	-	(5,026)	(5,026)
Deferred tax	(954)	(6,645)	(7,599)
Derivatives	(1,258)	-	(1,258)
Net assets acquired	53,471	30,096	83,567
Goodwill			23,380
Total cash consideration			106,947

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Notes to the Consolidated Financial Statements

15. Goodwill and other intangible assets (continued)

b) Acquisitions and disposals – 2016 (continued)

Acquisitions (continued)

Ridgeway Group (continued)

As disclosed at the time of acquisition, Ridgeway's consolidated statutory accounts for the year ended 2015 included a contingent liability note in respect of various firm tax planning initiatives. Settlement of this liability was agreed subsequent to the year ended 31 December 2016 and the liability of £4.2m is included as a fair value adjustment in the preceding table and was carried within provisions at 31 December 2016. Fair value adjustments also include provisional adjustments for property related matters, inventory valuations, deferred tax, intangible assets and goodwill.

Acquisition costs of £2,163,000 have been charged to the consolidated statement of comprehensive income for the year ended 31 December 2016.

The table below summarises the amount of revenue and profit of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the period from acquisition to the year ended 31 December 2016.

	Revenue £'000	Profit before tax £'000
Ridgeway Garages (Newbury) Limited	414,643	5,557

Scratch Match Accident Repair Centre

On 2 November 2016 Marshall Motor Group Limited acquired the trade and assets of Scratch Match Accident Repair Centre from RLMO Limited. The fair value of the net assets at the date of acquisition are set out below.

	Scratch Match Accident Repair Centre £'000
Property, plant & equipment	76
Net assets acquired	76
Goodwill	136
Total cash consideration	212

The results of the Scratch Match Accident Repair Centre were consolidated into the Group's results from 2 November 2016. For the period from acquisition to 31 December 2016, revenues of the Scratch Match Accident Repair Centre were immaterial in the context of the Group's revenues, as was its loss before tax.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2016), on a pro forma basis, the change in revenue of the combined Group for 2016 would have been immaterial in the context of the Group, as would have been the change in profit before tax. This pro forma information does not purport to represent the results of the combined Group that actually would have occurred had the acquisition taken place on 1 January 2016 and should not be taken to be representative of future results.

Notes to the Consolidated Financial Statements

15. Goodwill and other intangible assets *(continued)*

b) Acquisitions and disposals – 2016 *(continued)*

Measurement period adjustments

On 16 November 2015 the Company acquired the entire share capital of SG Smith Holdings Limited ("SGS"). SGS itself is the holding company of 9 wholly owned subsidiary companies, SG Smith Automotive Limited, SG Smith (Motors) Limited, SG Smith (Motors) Beckenham Limited, SG Smith (Motors) Forest Hill Limited, SG Smith (Motors) Crown Point Limited, SG Smith (Motors) Sydenham Limited, SG Smith (Motors) Croydon Limited, SG Smith Trade Parts Limited and Prep-Point Limited. Within the measurement period following acquisition of SGS, and in accordance with IFRS 3 *Business Combinations*, the purchase price allocation was finalised. The resulting adjustments consisted of; a reclassification of £13,522,000 from goodwill to franchise agreements, and an increase in goodwill of £2,543,000, an increase in trade payables of £314,000 and an increase in deferred tax liabilities of £2,439,000. These adjustments were made within 12 months from the date of acquisition by restating the 1 January 2016 balances.

Disposals

During 2016, the Group disposed of two Toyota dealerships and one Nissan dealership (resulting in the disposal of goodwill of £1,222,000 associated with the Nissan CGU).

c) Impairment testing

For the purpose of impairment testing, goodwill and franchise agreements are allocated to a cash generating unit ("CGU"), or to the smallest group of CGUs where it is not possible to apportion the goodwill or intangible assets at the individual CGU level. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for management purposes. Goodwill and intangible assets arising on business combinations are allocated to CGUs by determining which CGU is expected to benefit from the synergies of the business combination.

The Group's CGUs are groups of dealerships connected by manufacturer brand.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable and a potential impairment may be required. Impairment reviews have been performed for all groups of CGUs for the years ended 31 December 2017 and 2016.

Valuation basis

The recoverable amount of the Group's CGUs is determined by reference to their value-in-use to perpetuity calculated using a discounted cash flow approach, with a pre-tax discount rate applied to the projected, risk-adjusted pre-tax cash flows and terminal value.

Period of specific projected cash flows

The value-in-use of each CGU is calculated using cash flow projections for a five-year period; from 1 January 2018 to 31 December 2022. These projections are based on the most recent budget which has been approved by the Board; the budget for the year ending 31 December 2018. The key assumptions in the most recent annual budget on which the cash flow projections are based relate to expectations of sales volumes and margins and expectations around changes in the operating cost base. The assumptions made are based on past experience, adjusted for expected changes, and external sources of information. The cash flows include ongoing capital expenditure required to maintain the Group's dealership network, but exclude any growth capital expenditure projects to which the Group was not committed at the reporting date.

A flat, long-term growth rate of 5% (2016: 5%) has been used to extrapolate cash flows for a further four years beyond budget, through to 31 December 2022. This growth rate reflects the products and markets in which the relevant CGU, or groups of CGUs, operate. Growth rates are internal forecasts based on both internal and external market information.

Notes to the Consolidated Financial Statements

15. Goodwill and other intangible assets *(continued)*

c) Impairment testing *(continued)*

Discount rate

The cash flow projections have been discounted using a rate derived from the Group's pre-tax weighted average cost of capital adjusted for industry and market risk. The discount rate used is 10.4% (2016: 10.0%).

Terminal growth rate

The cash flows after the forecast period are extrapolated into the future over the useful economic life of the group of CGUs using a steady or declining growth rate that is consistent with that of the product and industry. These cash flows form the basis of what is referred to as the terminal value. The growth rate to perpetuity beyond the initial budgeted cash flows applied in the value-in-use calculations to arrive at a terminal value is 2% (2016: 2%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

On completion of the value-in-use calculations and on comparison to their carrying amount, each of the Group's CGUs had significant headroom under the annual impairment review; no impairments are considered to be required.

Sensitivity to changes in key assumptions

Impairment testing is dependent on estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates.

The Group has performed a sensitivity analysis on the impairment tests using two scenarios; firstly, where the discount rate increases by 200bps and, secondly, where EBITDA decreases by 50%. These scenarios represent the upper limit of what is considered reasonably possible. Neither scenario resulted in the need to recognise an impairment.

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16. Property, plant and equipment

	Freehold and long leasehold land and buildings £'000	Leasehold improvement £'000	Plant and equipment £'000	Assets held for contract rental £'000	Assets under construction £'000	Total £'000
<i>Cost</i>						
At 1 January 2016	37,381	12,372	27,177	96,890	-	173,820
Additions at cost	1,370	236	3,545	35,537	23,633	64,321
Additions on acquisition	53,276	2,872	5,007	-	3,899	65,054
Disposals	(1,397)	(278)	(3,443)	(30,483)	-	(35,601)
Transfers	17,857	(187)	2,840	-	(20,510)	-
At 31 December 2016	108,487	15,015	35,126	101,944	7,022	267,594
Additions at cost	47	829	5,206	34,700	18,016	58,798
Additions on acquisition	-	-	32	-	-	32
Disposals	(2,485)	(673)	(2,734)	(23,148)	-	(29,040)
Disposal of subsidiary	-	(42)	(45)	(113,496)	-	(113,583)
Transfers	16,052	2,555	1,308	-	(19,915)	-
Transfers to Software	-	-	(349)	-	-	(349)
Transfers to Assets held for sale	(750)	-	-	-	-	(750)
At 31 December 2017	121,351	17,684	38,544	-	5,123	182,702
<i>Accumulated depreciation</i>						
At 1 January 2016	9,121	2,540	20,445	34,429	-	66,535
Charges for the year	934	1,146	3,758	17,343	-	23,181
Disposals	(1,103)	(259)	(3,057)	(19,514)	-	(23,933)
Transfers	44	(44)	-	-	-	-
At 31 December 2016	8,996	3,383	21,146	32,258	-	65,783
Charges for the year	1,434	1,913	5,570	15,962	-	24,879
Disposals	(53)	(608)	(2,083)	(13,673)	-	(16,417)
Disposal of subsidiary	-	(42)	(35)	(34,547)	-	(34,624)
Impairment	194	332	419	-	-	945
Transfers	(405)	138	267	-	-	-
Transfers to Software	-	-	(292)	-	-	(292)
At 31 December 2017	10,166	5,116	24,992	-	-	40,274
<i>Net book value</i>						
At 31 December 2016	99,491	11,632	13,980	69,686	7,022	201,811
At 31 December 2017	111,185	12,568	13,552	-	5,123	142,428

As at 31 December 2017, the Group had capital commitments totalling £7.7m (2016: £11.7m) relating to ongoing construction projects.

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Notes to the Consolidated Financial Statements

16. Property, plant and equipment *(continued)*

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 15 'Goodwill and Other Intangible Assets') consistent with the Group's accounting policies.

Transfers to assets held for sale

In December 2017, the Group ceased commercial activities at one of its freehold properties; as the property was no longer used for the commercial activity of the business and is being marketed for sale, the asset has been written down to its fair value and transferred to assets classified as held for sale (see Note 23 'Assets Classified as Held for Sale').

Impairments

The impairment loss of £787,000 represented the write-down of certain property, plant and equipment in the five franchised dealerships and one used car centre which were announced as closing in November 2017. This loss was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

17. Investment property

	2017 £'000	2016 £'000
Fair value at 1 January	2,590	1,920
Change in fair value	-	670
Fair value at 31 December	2,590	2,590

Investment properties are stated at fair value; a formal valuation is carried out at least every three years by a Chartered Surveyor on an open market value basis. The most recent full valuation of investment properties was carried out as at 31 December 2016 by Rapleys, Chartered Surveyors. The Group's leasehold investment property was valued on a fair value basis as at 31 December 2016 at £590,000 and the Group's freehold investment property on a fair value basis as at 31 December 2016 at £2,000,000. A revaluation surplus of £670,000 was taken to the consolidated statement of comprehensive income in 2016 and is included in non-underlying items in Note 7 'Non-Underlying Items'.

No formal valuation was required as at 31 December 2017. A desktop review of the properties was carried out by Rapleys, Chartered Surveyors as at 13 November 2017; no indicators were identified which signalled a material change in the fair value of investment properties and as such, investment properties continue to be held at their 31 December 2016 value.

The properties are rented out to third parties. Rental income of £283,000 was recognised in 2017 (2016: £322,000), cost of any repairs and maintenance were incurred and made by the lessees. There are no restrictions on the Group's ability to dispose of the investment properties or use any funds arising on disposal. There are no contractual commitments for further development of the investment properties.

Notes to the Consolidated Financial Statements

18. Finance leases – Group as lessor

Lease agreements in which the other party, as lessee, is regarded as the economic owner of the leased assets give rise to accounts receivable determined by reference to the discounted future lease payments.

The Group leased out vehicles under finance leases through one of its subsidiaries Marshall Leasing Limited. This subsidiary was disposed of on 24 November 2017 (Note 8 'Discontinued Operations') and finance leases as a lessor activities were discontinued from this date.

At 31 December 2017 these receivables amounted to £nil (2016: £494,000).

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

The majority of the leases typically ran for a non-cancellable period of one to five years. Under the contracts, title either passed to the lessee at the conclusion of the lease period, or the arrangements included an option to purchase the leased equipment after that period.

19. Operating leases – Group as lessor

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

The Group leased out vehicles under operating leases through one of its subsidiaries Marshall Leasing Limited, which was disposed of on 24 November 2017 (Note 8 'Discontinued Operations'). Operating leases as lessor activities (assets held for contract rental under non-cancellable operating leases) were discontinued from this date.

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

	2017 £'000	2016 £'000
Within 1 year	-	26,408
Between 1 and 5 years	-	71,891
	-	98,299

Future minimum lease payments receivable for property under non-cancellable operating leases are as set out below.

	2017 £'000	2016 £'000
Within 1 year	593	275
Between 1 and 5 years	1,520	813
After 5 years	2,057	908
	4,170	1,996

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20. Inventories

	2017 £'000	2016 £'000
Finished goods	410,423	389,372
Less: Provisions	(9,163)	(9,356)
Inventories	401,260	380,016

Finished goods include new and used vehicles held for resale, vehicle parts and other inventory. As at 31 December 2017 £380,641,000 (2016: £364,695,000) of finished goods are held under vehicle financing arrangements (see Note 24 'Trade and Other Payables').

Inventory recognised in cost of sales during the year as an expense was £1,943 million (2016: £1,630 million).

21. Trade and other receivables

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Trade receivables due but not past due	51,542	54,509
Trade receivables past due	21,508	18,441
Trade receivables past due but impaired	(1,542)	(1,944)
Trade receivables – net	71,508	71,006
Other receivables	11,774	13,648
Amounts due from related undertakings (note 33)	-	7
Prepayments	8,859	10,412
Trade and other receivables	92,141	95,073

The creation and the release of the provision for impaired receivables have been included in net operating expenses. More information in respect of principal risk management is provided in Note 28 'Financial Instruments – Risk Management'.

All financial assets included within trade and other receivables are held at amortised costs. The carrying amount of trade and other receivables approximates fair value.

Trade receivables include supplier income receivables of £17,700,000 (2016: £17,164,000).

Other receivables include finance lease and hire purchase receivables (discontinued – see Note 18 'Finance Leases – Group as Lessor') of £nil (2016: £494,000). Of these £nil (2016: £263,000) are amounts due in more than one year.

22. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	4,867	83

Cash and cash equivalents are held at amortised cost. Fair value approximates carrying value.

Cash at bank earns interest at floating interest rates determined by reference to short-term benchmark rates.

Notes to the Consolidated Financial Statements

23. Assets classified as held for sale

	2017 £'000	2016 £'000
Non-current assets held for sale		
Freehold land and building	750	-

Following the closure of the one of the Group's dealerships in December 2017, the decision was taken to sell the freehold property owned by the Group and used by the dealership. Based on current market conditions, the sale is expected to be completed within one year from the balance sheet date. As a result, the freehold property has been reclassified as held for sale and transferred from property, plant and equipment into current assets. On reclassification, the freehold property was measured at the lower of its carrying amount and fair value less costs to sell at the date of reclassification (fair value as determined by a desktop valuation from Chartered Surveyors). This remeasurement resulted in an impairment loss of £194,000 being recognised in the Consolidated Statement of Comprehensive Income.

The asset is presented within total assets of the Retail segment in Note 5 'Segmental Information'.

24. Trade and other payables

	2017 £'000	2016 £'000
Current – trade and other payables		
Trade payables:		
– vehicle financing arrangements	380,641	364,695
– other trade payables	89,281	85,206
Amounts owed to related undertakings (note 33)	149	102
Other tax and social security payable	4,500	3,601
Other payables	8,205	10,634
Accruals and deferred income	44,838	33,102
Total current trade and other payables	527,614	497,340
Non-current – other payables		
Accruals and deferred income	4,281	7,462
Total non-current other payables	4,281	7,462

All financial liabilities included within current trade and other payables are held at amortised costs; carrying value is a reasonable approximation of fair value.

The Group finances the purchases of new and use vehicle inventories using vehicle funding facilities' provided by various lenders including the captive finance companies associated with brand partners. These finance arrangements 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 financing facilities are subject to LIBOR-based (or similar) interest rates. The interest incurred under these agreements is included within finance costs and classified as stock holding interest.

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25. Loans and borrowings

	2017 Nominal and book value £'000	2016 Nominal and book value £'000
Current loans and borrowings		
Asset backed financing (leasing – discontinued)	-	30,680
Mortgages	642	1,225
Bank loan	-	35,000
Bank overdraft	-	10,825
	642	77,730
Non-current loans and borrowings		
Asset backed financing (leasing – discontinued)	-	33,833
Mortgages	6,466	7,531
	6,466	41,364
Total loans and borrowings	7,108	119,094

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.

Asset backed financing was secured by a fixed charge over specific vehicles held for leasing. The related finance comprises chattel mortgages.

Committed facilities

The Group has a revolving credit facility of £95,000,000 of which £nil was drawn at 31 December 2017 (2016: £35,000,000). The Group also has access to an overdraft facility of £25,000,000 of which £nil was drawn at 31 December 2017 (2016: £10,825,000). 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 Financial Position.

The facilities are secured by cross guarantees granted by the certain members of the Group. The facilities are available until May 2020. The Group is also able to extend the term of the facilities by up to 12 months.

More information in respect of principal risk management is provided in Note 28 'Financial Instruments – Risk Management'.

The carrying amount of current loans and borrowings approximate fair value.

Notes to the Consolidated Financial Statements

25. Loans and borrowings (continued)

The carrying amounts and fair value of the non-current loans and borrowings are as below. The fair values are based on cash flows discounted using the prevailing rates.

	Carrying amount £'000	2017 Fair value £'000	Carrying amount £'000	2016 Fair value £'000
Asset backed financing (leasing – discontinued)	-	-	33,833	32,032
Mortgages	6,466	4,917	7,531	5,254

a) Interest rate profile of borrowings

	2017 Debt £'000	2017 Average effective interest rate	2016 Debt £'000	2016 Average effective interest rate
Asset backed financing (leasing – discontinued)	-	-	64,513	1.94
Mortgages	7,108	1.63	8,756	1.75
Bank loan and overdraft	-	-	45,825	1.75
Weighted average cost of drawn borrowings	7,108	1.63	119,094	1.85

All loans and borrowings are subject to floating rates of interest which are determined by reference to official market rates such as LIBOR or the Finance House Base Rate.

b) Maturity profile of borrowings

The Group's borrowings have the following maturity profile:

	2017 £'000	2016 £'000
6 months or less	321	57,484
6 – 12 months	321	20,246
1 – 5 years	2,565	36,340
Over 5 years	3,901	5,024
Total bank borrowings	7,108	119,094

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26. Provisions

	Other £'000	Pension £'000	Tax £'000	Closed sites £'000	Dilapidations £'000	Vacant property £'000	Total £'000
At 1 January 2017	-	-	4,242	195	1,094	1,161	6,692
Transfer from accruals and deferred income	200	-	-	-	-	-	200
Charged to income statement in the year	-	6,000	-	428	660	4,442	11,530
Reversed and credited to income statement in the year	-	-	-	-	(701)	(46)	(747)
Utilised during the year	-	-	(4,005)	(96)	-	(744)	(4,845)
As at 31 December 2017	200	6,000	237	527	1,053	4,813	12,830

Provisions have been allocated between current and non-current as below.

	2017 £'000	2016 £'000
Current	8,815	5,242
Non-current	4,015	1,450
Total provisions	12,830	6,692

Tax

On acquisition of Pentagon Limited and Ridgeway Garages (Newbury) Limited during the year ended 31 December 2016, the Group inherited a potential settlement in respect of various film tax planning initiatives previously entered into pre-acquisition. The estimated settlement was provided for as at 31 December 2016. In February 2017 a settlement with HMRC was agreed with most instalments paid during the year; the final instalment was paid subsequent to the year-end in January 2018.

Closed sites, dilapidations and vacant property

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 operates from a number of leasehold premises under full repairing leases. The provision recognises that repairs are required to put the buildings back into the state of repair required under the leases.

Where property commitments exist at sites which are closed or closing the Group provides for the unavoidable cost of those leases post closure.

Pension

See Note 34 'Pensions' for full details of the circumstances giving rise to the recognition of this provision. The provision is expected to be fully utilised within 12 months of the balance sheet date.

Notes to the Consolidated Financial Statements

27. Deferred tax assets and liabilities

The analysis of deferred tax assets and deferred tax liabilities is as below.

	2017 £'000	2016 £'000
Deferred tax assets:		
– Deferred tax asset	39	36
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	(20,448)	(20,803)
Net deferred tax liabilities	(20,409)	(20,767)

The gross movement on the deferred tax account is as follows:

	2017 £'000	2016 £'000
At 1 January	(20,767)	(4,266)
Deferred tax arising on acquisition (note 15)	-	(17,373)
Deferred tax acquired	-	(563)
Deferred tax disposed (note 8)	(1,547)	-
Income statement charge (note 12)	1,905	1,517
Credited directly to equity	-	(82)
At 31 December	(20,409)	(20,767)

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Notes to the Consolidated Financial Statements

27. Deferred tax assets and liabilities (continued)

a) Deferred tax liabilities

The movement in deferred tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation £'000	Fixed assets acquired on a business combination £'000	Roll over relief £'000	Assets previously qualifying for IBAs £'000	Investment properties £'000	Intangible assets £'000	Goodwill £'000	Total £'000
At 1 January 2016	-	1,773	1,424	362	-	2,437	544	6,540
Acquisition of subsidiaries	-	5,715	-	-	-	10,728	930	17,373
Charged/(credited) to the income statement – current year	-	(117)	(139)	(21)	104	(160)	151	(182)
Charged/(credited) to the income statement – prior year	-	-	-	-	60	-	-	60
Impact of corporation tax rate reduction	-	(571)	(79)	(38)	-	(722)	(61)	(1,471)
At 31 December 2016	-	6,800	1,206	303	164	12,283	1,564	22,320
Charged/(credited) to the income statement – current year	80	(710)	(3)	(81)	(8)	(8)	179	(551)
Charged/(credited) to the income statement – prior year	5	235	-	-	(71)	-	(367)	(198)
Transfers to deferred tax asset	720	-	-	-	(57)	-	-	663
At 31 December 2017	805	6,325	1,203	222	28	12,275	1,376	22,234

Notes to the Consolidated Financial Statements

27. Deferred tax assets and liabilities (continued)

b) Deferred tax assets

The movement in deferred tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation £'000	Tax losses £'000	Share-based payments £'000	Investment properties £'000	Capital losses £'000	Disposals on a sale basis £'000	Other temporary differences £'000	Total £'000
At 1 January 2016	1,510	58	189	71	71	245	130	2,274
Acquisition of subsidiaries	(852)	-	-	-	-	-	289	(563)
(Charged)/credited to the income statement								
– current year	222	-	161	(10)	(122)	(245)	(169)	(163)
(Charged)/credited to the income statement								
– prior year	119	(16)	-	-	168	-	(47)	224
Impact of corporation tax rate reduction	(112)	(6)	-	(4)	(1)	-	(14)	(137)
Charged directly to equity	-	-	(82)	-	-	-	-	(82)
At 31 December 2016	887	36	268	57	116	-	189	1,553
Credited to the income statement								
– current year	41	2	-	-	3	42	1,376	1,464
(Charged)/credited to the income statement								
– prior year	(103)	1	(268)	-	44	-	18	(308)
Transfers from deferred tax liability	720	-	-	(57)	-	-	-	663
Disposal of subsidiaries (note 8)	(1,545)	-	-	-	-	-	(2)	(1,547)
At 31 December 2017	-	39	-	-	163	42	1,581	1,825

Unrecognised deferred tax assets

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.

	2017 Tax losses £'000	2017 Unrecognised deferred tax asset £'000	2016 Tax losses £'000	2016 Unrecognised deferred tax asset £'000
Trading losses				
Available indefinitely	1,133	192	1,549	263
At 31 December	1,133	192	1,549	263

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Notes to the Consolidated Financial Statements

28. Financial instruments – risk management

The Group's principal financial instruments consist of: cash and cash equivalents, bank overdrafts and loans and borrowings. The main purpose of these financial instruments is to manage the Group's funding and liquidity requirements. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group's activities expose it to the following financial risks:

- Market risk;
- Credit risk; and
- Liquidity risk.

Each of these risks are managed in accordance with Board-approved policies. Risk management policies and systems have been established and are reviewed regularly to reflect changes in market conditions and the Group's activities. These policies are set out below.

The Group's financial risk management processes seek to enable the early identification, evaluation and effective management of the significant risks facing the business.

The Group does not use financial derivatives and does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

Market risk is the risk of movements in the fair value of future cash flows of a financial instrument or forecast transaction as underlying market prices change. The only market risk to which the Group is exposed is changes in interest rates. The Group's business activities neither expose it to commodity price risk nor foreign currency risk.

Interest rate risk is the risk that a change in interest rates adversely affects the Group's performance or ability to settle financial obligations and comprises two elements.

Interest price risk

This risk results from financial instruments bearing fixed interest rates; changes in floating interest rates therefore affect the fair value of these fixed rate financial instruments.

The Group has no debt subject to fixed interest rates and is, therefore, not exposed to interest price risk.

Interest cash flow risk

This risk results from financial instruments bearing floating interest rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

The Group is exposed to interest rate risk on its floating rate debt, namely all loans and borrowings. The interest rate exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. Due to the low value of the Group's loans and borrowings as at 31 December 2017, the Group does not have significant sensitivities to the impact of future changes in interest rates on floating rate debt.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Notes to the Consolidated Financial Statements

28. Financial instruments – risk management (continued)

Credit risk (continued)

The Group is exposed to credit risk on its financial assets which consist of cash balances with banks and trade and other receivables to the extent that settlement is cash-related. The Group does not have a significant exposure to this type of financial risk due to the nature of its customer base and the types of transaction that are undertaken.

The maximum exposure to credit risk on the Group's financial assets is represented by the assets' carrying amount.

The table below analyses the Group's assets by credit exposure (excluding prepayments and cash in hand):

	2017 £'000	2016 £'000
Counterparties without external credit rating:		
Group 1	1,587	701
Group 2	81,695	83,960
Total unimpaired trade receivables	83,282	84,661
Counterparties with external credit rating:		
A/AA- (stable)*	4,867	83
Cash at bank	4,867	83

* Standard & Poor's rating (long term)

Group 1 – new customers/related parties (less than 6 months).

Group 2 – existing customers/related parties (more than 6 months) with no defaults in the past.

Trade and other receivables

The Group has a high volume of transactions spread across a large customer base, therefore, does not have a significant exposure to the credit worthiness of any single counterparty.

The group has an established credit policy applied by each business under which the credit status of each new customer is reviewed (by reference to external credit evaluations, where possible) before credit is advanced. Credit limits are established for all significant or high-risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of management. These limits are based on external credit reference agency ratings and the utilisation of approved credit limits is regularly monitored. Outstanding debts are continually monitored by each business unit.

Trade receivables are considered to be past due once they have passed their contractual due date and are reviewed for impairment if they are past due beyond 30 days. Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables that are not past due. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable. When the debt is deemed irrecoverable, the allowance account is written off against the underlying receivable.

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28. Financial instruments – risk management *(continued)*

Credit risk (continued)

Trade and other receivables (continued)

The ageing of trade receivables at the reporting date was:

	2017 £'000	2016 £'000
Not past due	51,542	54,509
0 – 30 days past due	18,113	14,603
31 – 60 days past due	1,924	1,970
61 – 90 days past due	578	650
Over 90 days past due	893	1,218
Trade receivables – gross	73,050	72,950

Trade receivables are stated net of the following provision for irrecoverable amounts:

	2017 £'000	2016 £'000
At 1 January	1,944	839
(Decrease)/increase in provision for receivables impairment	(188)	1,915
Receivables written off during the year as uncollectable	(214)	(810)
At 31 December	1,542	1,944

Cash and cash equivalents

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuing basis.

The Group has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting its obligations associated with its financial liabilities as they fall due.

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

Liquidity risk is managed by maintaining adequate levels of easily accessible cash reserves and committed banking facilities. To assess the adequacy of resources, available headroom is continuously monitored through review of forecast and actual cash flows and through matching the maturity profiles of financial assets and liabilities. The Group has access to undrawn banking facilities in order to further reduce liquidity risk. The Group does not anticipate any issues drawing on the committed, undrawn banking facilities should this be necessary. Full details of the Group's borrowing facilities are given in Note 25 'Loans and Borrowings'.

Notes to the Consolidated Financial Statements

28. Financial instruments – risk management (continued)

Liquidity risk (continued)

The table below analyses the contractual undiscounted cash flows relating to the Group's financial liabilities at the balance sheet date. The cash flows are grouped based on the remaining period to the contractual maturity date. The Group has sufficient funds to meet these commitments as they fall due.

	Due within 6 months £'000	Due between 6 months and 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 5 years £'000	Due after 5 years £'000	Total £'000
Mortgages	385	382	753	2,187	4,099	7,806
Trade and other payables (excluding other taxes and social security)	523,114	-	4,281	-	-	527,395
At 31 December 2017	523,499	382	5,034	2,187	4,099	535,201

	Due within 6 months £'000	Due between 6 months and 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 5 years £'000	Due after 5 years £'000	Total £'000
Bank loan and overdraft	46,491	-	-	-	-	46,491
Mortgages	254	1,139	1,349	1,295	5,158	9,195
Asset backed financing (leasing – discontinued)	11,499	19,181	22,242	11,591	-	64,513
Trade and other payables (excluding other taxes and social security)	493,739	-	7,462	-	-	501,201
At 31 December 2016	551,983	20,320	31,053	12,886	5,158	621,400

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted as at the balance sheet date.

Capital risk management

The capital structure of the Group consists of cash and cash equivalents, loans and borrowings and shareholders' equity. The consolidated statement of changes in equity provides details on equity, Note 22 provides details of cash and cash equivalents and Note 25 provides details of loans and borrowings.

The Group manages its capital structure with the following objectives:

- to safeguard the Group's ability to continue as a going concern and maintain sufficient available resources as protection for unforeseen events;
- to ensure that sufficient capital resources are available for working capital requirements and meeting principal and interest payment obligations as they fall due;
- to provide flexibility of resource for strategic growth and investment where opportunities arise; and
- to provide reasonable returns to shareholders and benefits for other stakeholders whilst maintaining a limited level of risk.

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28. Financial instruments – risk management (continued)

Capital risk management (continued)

There were no changes to the Group's approach to capital management during the year.

By virtue of the Group's retail mediation activities, the Group is subject to the capital requirements imposed by the Financial Conduct Authority on all non-investment insurance intermediaries. The Group's capital adequacy is monitored on a quarterly basis and its capital resources have been consistently in excess of these requirements.

The Directors monitor the Group's capital structure and determine the level of dividends payable to shareholders at least twice a year prior to the announcement of results, taking into account the Group's ability to continue as a going concern and the capital requirements of its strategic business plans. Consistent with others in the industry, the Directors monitor levels of leverage by reference to the ratio of net debt to total shareholders' equity. Net debt is calculated as total borrowings (including both current and non-current borrowings) less cash and cash equivalents. As disclosed in the Net Debt Reconciliation on page 69, the Group had net debt of £2,241,000 as at 31 December 2017 (2016: £119,011,000).

29. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

		Fair value measurement using:			
		Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	Date of valuation	Total £'000	(Level 1) £'000	(Level 2) £'000	(Level 3) £'000
Assets measured at fair value:					
Investment properties (note 17)	31 December 2017	2,590	-	2,590	-
Assets held for sale (note 23)	31 December 2017	750	-	750	-
Liabilities for which fair values are disclosed:					
Mortgages (note 25)	31 December 2017	4,917	-	4,917	-
Assets measured at fair value:					
Investment properties (note 17)	31 December 2016	2,590	-	2,590	-
Liabilities for which fair values are disclosed:					
Asset backed financing (leasing – discontinued) (note 25)	31 December 2016	32,032	-	32,032	-
Mortgages (note 25)	31 December 2016	5,254	-	5,254	-

There were no transfers between Level 1 and 2 during 2017 or 2016.

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30. Share capital and reserves

Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 January 2016	77,236,263	49,431	19,672	69,103
Issued 27 May 2016	156,599	100	-	100
At 31 December 2016	77,392,862	49,531	19,672	69,203
At 31 December 2017	77,392,862	49,531	19,672	69,203

On 27 May 2016 156,599 ordinary shares of 64p each were issued as part of the IPO Restricted share option scheme. There were no shares issued in 2017.

All shares issued are fully paid.

Details of Directors' interests in shares are shown in the Directors' Remuneration Report on pages 44 to 50.

Share repurchases

No ordinary shares were repurchased by the Company in 2017 (2016: nil).

Shares held by subsidiaries

No shares in the Company were held by subsidiaries in any year.

Retained earnings

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiaries; undistributed profits of prior years are, in the main, permanently employed in the businesses of these companies.

Included in retained earnings as at 31 December 2017 is a share-based payment reserve of £2,608,000 (2016: £1,869,000) representing the cumulative charge for all equity-settled share-based payment arrangements.

31. Share-based payments

The Group 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 2017, four share grants have been awarded under the scheme being (a) IPO Restricted Awards (vesting in three tranches) (b) IPO Performance Awards (vesting in two tranches) (c) 2016 Performance Awards and (d) 2017 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.

The total share-based payment charge recognised during the year ended 31 December 2017 was £1,005,000 (2016: £1,313,000). This is split as £266,000 in accruals and deferred income and £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 2017 is 8.2 years (2016: 8.6 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 2017 is £1.65 (2016: £1.65). The fair value of options granted during the year was £1.69 (2016: £2.06). The fair value of equity settled share options granted was based on market value on 29 September 2017 when the share options were granted.

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31. Share-based payments (continued)

Options are forfeited if the employee leaves the Group 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 the Group. As a result, in accordance with the discretion afforded to them under the Group's remuneration policy, the Remuneration Committee regularly reviews any impact of Group 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 Group.

The 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.

As at 31 December 2017 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 Restricted Share Awards – Tranche 2	2 April 2015	156,599	Nil	2 April 2017	2 April 2025
IPO Restricted Share Awards – Tranche 3	2 April 2015	156,600	Nil	2 April 2018	2 April 2025
IPO Performance Awards – Tranche 1	2 April 2015	604,028	Nil	2 April 2018	2 April 2025
IPO Performance Awards – Tranche 2	2 April 2015	604,028	Nil	2 April 2019	2 April 2025
2016 Performance Awards	13 June 2016	538,835	Nil	13 June 2020	13 June 2026
2017 Performance Awards	29 September 2017	806,141	Nil	29 September 2020	29 September 2027

a) IPO Restricted 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 Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange (2 April 2015).

	2017 No.	2017 WAEP	2016 No.	2016 WAEP
IPO Restricted Share Awards				
Outstanding as at 1 January	313,199	-	469,798	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised	-	-	(156,599)	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	313,199	-	313,199	-
Exercisable as at 31 December	156,599	-	-	-

Notes to the Consolidated Financial Statements

31. Share-based payments *(continued)*

b) 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 the Company'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.

	2017 No.	2017 WAEP	2016 No.	2016 WAEP
IPO Performance Awards				
Outstanding as at 1 January	1,406,040	-	1,459,730	-
Granted during the year	-	-	-	-
Forfeited during the year	(197,984)	-	(53,690)	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	1,208,056	-	1,406,040	-
Exercisable as at 31 December	-	-	-	-

c) 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.

	2017 No.	2017 WAEP	2016 No.	2016 WAEP
2016 Performance Awards				
Outstanding as at 1 January	660,801	-	-	-
Granted during the year	-	-	675,364	-
Forfeited during the year	(121,966)	-	(14,563)	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	538,835	-	660,801	-
Exercisable as at 31 December	-	-	-	-

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31. Share-based payments *(continued)*

d) 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 2018 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.

	2017 No.	2017 WAEP	2016 No.	2016 WAEP
2017 Performance Awards				
Outstanding as at 1 January	-	-	-	-
Granted during the year	806,141	-	-	-
Forfeited during the year	-	-	-	-
Outstanding as at 31 December	806,141	-	-	-
Exercisable as at 31 December	-	-	-	-

32. Commitments and contingencies

Operating lease commitments – Group as lessee

The Group, as lessee, has non-cancellable operating lease agreements. The lease terms vary and the majority of lease agreements are renewable at the end of the lease period at market rate.

The lease expenditure charged to the income statement during the year is disclosed in Note 6 'Profit Before Taxation'.

The future aggregate minimum lease payments under non-cancellable operating leases are set out below.

	2017 £'000	2016 £'000
Within 1 year	11,922	11,494
Later than 1 year and less than 5 years	41,777	40,909
After 5 years	69,906	72,578
	123,605	124,981

Notes to the Consolidated Financial Statements

33. Related party transactions

Key management compensation is given in Note 10 'Employees and Directors'.

During 2016 and 2017 the Directors were members of an employee car ownership scheme under which the following transactions were made in the year. The Directors purchased 15 cars in 2017 (2016: 14) at a price of £1,170,000 (2016: £983,000) and sold back 12 (2016: 14) at a price of £938,000 (2016: £994,000).

The following table shows the aggregate transactions with companies within Marshall of Cambridge (Holdings) Limited other than those which are subsidiaries of Marshall Motor Holdings plc.

2017	Sales £'000	Purchases £'000	Year-end balance £'000
<i>Ultimate parent undertaking</i>			
Marshall of Cambridge (Holdings) Limited	278	332	2
<i>Other related parties</i>			
Marshall of Cambridge Aerospace Limited	62	303	(37)
Marshall Thermo King Limited	327	3	254
Marshall Fleet Solutions Limited	3	8	-
Marshall Group Properties Limited	100	1,335	(368)
Aeropeople Limited	2	-	-
Marshall Land Systems Limited	3	-	-
	775	1,981	(149)
 2016	 Sales £'000	 Purchases £'000	 Year-end balance £'000
<i>Ultimate parent undertaking</i>			
Marshall of Cambridge (Holdings) Limited	83	337	(24)
<i>Other related parties</i>			
Marshall of Cambridge Aerospace Limited	106	315	(78)
Marshall Thermo King Limited	695	28	7
Marshall Fleet Solutions Limited	-	13	-
Marshall Group Properties Limited	134	1,312	-
Aeropeople Limited	7	-	-
Marshall Land Systems Limited	31	-	-
	1,056	2,005	(95)

Outstanding balances with group entities are unsecured, interest free and are expected to be settled in cash. During the year ended 31 December 2017, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2016: £nil).

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34. Pensions

a) Defined contribution pension schemes

The Group makes contributions to defined contribution pension schemes; contributions paid are calculated by reference to a percentage of each employee's salary. All defined contribution schemes into which the Group makes contributions are managed by third party providers. The only obligation of the Group with respect to these schemes is to make the specified contributions. The total income statement charge for contributions for the year ended 31 December 2017 was £2,059,000 (2016: £1,714,000).

b) Defined benefit pension schemes

The defined benefit section of the Marshall Group Executive Pension Plan ("the Plan") has multiple participating entities which are under common control. There is no contractual agreement or stated policy for charging the net defined benefit pension cost for the Plan as a whole to the various participating employers of the Plan. Therefore, in line with the disclosure requirements of IAS 19 *Employee Benefits*, the net defined benefit cost is recognised in the financial statements of the principal employer (Marshall of Cambridge (Holdings) Limited) and the other participating employers (including the Group) recognise a cost equal to their contributions payable for the year. Consequently, the Group accounts for all of its pension contributions as if the contributions were made to a defined contribution pension scheme (see Note 2 'Accounting Policies').

The Group made no contributions to the defined benefit section of the Plan during either the current or prior year.

The most recent triennial actuarial valuation of the defined benefit section of the Plan is as at 31 December 2016. The valuation was agreed by the Trustees after the Group's year end and revealed a global, scheme-wide deficit on a technical provisions basis of £8.1 million.

Provision for Section 75 Employer Debt

As a result of the sale of Marshall Leasing Limited during the year, the Group no longer has any current employees who are members of the defined benefit section of the Plan although employees do still participate in the defined contribution section of the Plan. This fact, combined with the current triennial valuation process, led the Group to commence a strategic review of its existing pension arrangements. Based on the status of discussions to date, current expectations are that it is probable that this review will result in the Group ceasing participation in this pension scheme.

Ceasing to participate in the defined benefit section of the Plan would trigger a debt for the Group under Section 75 of the Pensions Act 1995 ("Employer Debt"). Based on initial actuarial estimates, the estimated Employer Debt would be approximately £6 million. In light of the current status of the Group's discussions with the Trustees of the Plan and the principal employer, it is considered appropriate to recognise a provision for this estimated Employer Debt.

If the Group were to cease to participate in the defined benefit section of the Plan and on settlement of the Employer Debt, the Group would have no further commitments or participation in any defined benefit pension plans.

Extract from Principal Employer's IAS 19 Disclosures

The details below are disclosure items only and do not correspond to amounts reflected in either the Consolidated Statement of Financial Position or Consolidated Statement of Comprehensive Income of Marshall Motor Holdings plc.

The information presented below is an extract of the IAS 19 valuation as prepared by the Actuary for the principal employer of the defined benefit section of the Marshall Group Executive Pension Plan and, therefore, covers the entire defined benefit section of that pension scheme. The information does not reflect an apportionment of the scheme between the multiple participating employers, such an apportionment not being possible due to the scheme's structure. Details of the full scheme are included in the Annual Report of Marshall of Cambridge (Holdings) Limited which can be obtained from: Airport House, The Airport, Cambridge CB6 8RY.

Notes to the Consolidated Financial Statements

34. Pensions (continued)

b) Defined benefit pension schemes (continued)

Extract from Principal Employer's IAS 19 Disclosures (continued)

	2017 £'000	2016 £'000	2015 £'000	2014 £'000
<i>Balance sheet obligations</i>				
– Fair value of assets at end of year	40,417	36,975	34,546	34,119
– Present value of obligations at end of year	(51,096)	(54,485)	(46,062)	(46,968)
– Deficit at 31 December 2016	(10,679)	(17,510)	(11,516)	(12,849)
– Related deferred tax asset	2,097	2,977	2,073	2,570
<i>Liability in the balance sheet</i>	(8,582)	(14,533)	(9,443)	(10,279)
<i>Income statement charge included in operating profit</i>				
– For defined pension benefits	(718)	(947)	(858)	(741)
	(718)	(947)	(858)	(741)

Marshall of Cambridge (Holdings) Limited operates the Plan which has a section which provides defined benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the Plan, pensions in payment are generally updated in line with the retail price index. The Board of Trustees must be composed of representatives of Marshall of Cambridge (Holdings) Limited and plan participants in accordance with the Trust Deed and Rules and legislation.

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Notes to the Consolidated Financial Statements

34. Pensions (continued)

b) Defined benefit pension schemes (continued)

Extract from Principal Employer's IAS 19 Disclosures (continued)

The significant actuarial assumptions were as set out below.

	2017	2016
Discount Rate	2.50%	2.54%
RPI Inflation	3.24%	3.31%
CPI Inflation	2.24%	2.31%
Salary Growth Rate	2.87%	3.06%
Pension Growth Rate – RPI min 0%, max 5%	3.24%	3.31%
Pension Growth Rate – RPI min 3%	3.35%	3.36%
Pension Growth Rate – RPI min 2.7%, max 5%	3.26%	3.31%
Pension Growth Rate – RPI min 0%, max 8.5%	3.24%	3.31%
Post retirement mortality	82%S2PMAI78%S2PFA	73%S1PXA
Post retirement improvements	CMI 2016 table with 1.5% p.a. and 1.25% p.a. long term improvement trend for males and females respectively (rebased to 2008)	CMI 2013 table with 1.25% p.a. and 1.0% p.a. long term improvement trend for males and females respectively (rebased to 2008)
	2015	2014
Discount Rate	3.60%	3.50%
RPI Inflation	3.00%	3.16%
CPI Inflation	2.00%	1.96%
Salary Growth Rate	2.60%	2.90%
Pension Growth Rate – RPI min 0%, max 5%	3.00%	3.16%
Pension Growth Rate – RPI min 3%	3.35%	3.29%
Pension Growth Rate – RPI min 2.7%, max 5%	3.21%	3.21%
Pension Growth Rate – RPI min 0%, max 8.5%	3.00%	3.16%
Post retirement mortality	73%S1PXA	73%S1PXA
Post retirement improvements	CMI 2013 table with 1.25% p.a. and 1.0% p.a. long term improvement trend for males and females respectively (rebased to 2008)	CMI 2013 table with 1.25% p.a. and 1.0% p.a. long term improvement trend for males and females respectively (rebased to 2008)

Notes to the Consolidated Financial Statements

34. Pensions (continued)

b) Defined benefit pension schemes (continued)

Extract from Principal Employer's IAS 19 Disclosures (continued)

Plan assets are comprised as follows:

2017	Quoted £'000	Unquoted £'000	Total £'000	%
UK Equities	5,834	-	5,834	14%
Overseas Equities	14,388	-	14,388	36%
Property	7,076	-	7,076	18%
Liability Driven Investments	3,602	-	3,602	9%
Dynamic Asset Allocation	6,421	-	6,421	16%
Cash and Net Current Assets	1,128	-	1,128	3%
Insured Pensions	-	1,969	1,969	4%
Total	38,449	1,969	40,418	100%
2016	Quoted £'000	Unquoted £'000	Total £'000	%
UK Equities	5,320	-	5,320	14%
Overseas Equities	12,216	-	12,216	33%
Property	6,850	-	6,850	19%
Liability Driven Investments	4,311	-	4,311	12%
Dynamic Asset Allocation	5,860	-	5,860	16%
Cash and Net Current Assets	120	-	120	-
Insured Pensions	-	2,298	2,298	6%
Total	34,677	2,298	36,975	100%
2015	Quoted £'000	Unquoted £'000	Total £'000	%
UK Equities	4,737	-	4,737	14%
Overseas Equities	10,165	-	10,165	30%
Property	7,159	-	7,159	21%
Liability Driven Investments	4,280	-	4,280	12%
Dynamic Asset Allocation	5,895	-	5,895	17%
Cash and Net Current Assets	129	-	129	-
Insured Pensions	-	2,181	2,181	6%
Total	32,365	2,181	34,546	100%

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Notes to the Consolidated Financial Statements

34. Pensions (continued)

b) Defined benefit pension schemes (continued)

Extract from Principal Employer's IAS 19 Disclosures (continued)

2014	Quoted £'000	Unquoted £'000	Total £'000	%
UK Equities	9,871	-	9,871	29%
Overseas Equities	5,041	-	5,041	15%
Property	6,543	-	6,543	19%
Liability Driven Investments	4,223	-	4,223	12%
Dynamic Asset Allocation	5,997	-	5,997	18%
Cash and Net Current Assets	155	-	155	-
Insured Pensions	-	2,289	2,289	7%
Total	31,830	2,289	34,119	100%

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 holds 80% growth assets and these will not provide a hedge to the movement in the discount rate. Consequently, the difference in the values of the assets and liabilities will be quite volatile. Similarly returns on scheme assets will be affected by changes in gilt yields.
- Inflation risk** The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation).
- Life expectancy** Increases in life expectancy will increase plan liabilities, the inflation linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

35. Events after the reporting period

In February 2018, the Group acquired the remaining 1% of the share capital of the following subsidiary undertakings, taking the Group's shareholdings in these entities up to 100%. Total consideration paid was; Marshall of Peterborough Limited £11,000, Marshall of Ipswich Limited £13,300 and Marshall of Stevenage Limited £25,253.

36. Ultimate parent company

The parent undertaking of the largest group of undertakings for which consolidated financial statements are drawn up and of which the Company is a member is Marshall of Cambridge (Holdings) Limited. This is both the immediate parent undertaking and the ultimate parent undertaking. In light of its aggregate shareholding in the capital of the Company, Marshall of Cambridge (Holdings) Limited has entered into a relationship agreement in order to regulate the relationship between it and the Company and enable the Company to act independently of Marshall of Cambridge (Holdings) Limited and its affiliates.

Copies of the consolidated financial statements for Marshall of Cambridge (Holdings) Limited can be obtained from Airport House, The Airport, Cambridge CB5 8RY.

Company Financial Statements
Statement of Financial Position
As at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Investments	6	163,528	163,194
Current assets			
Debtors	7	6,265	7,104
Cash at bank and in hand		-	1,329
		<u>6,265</u>	<u>8,433</u>
Creditors: Amounts falling due within one year	9	<u>(30,499)</u>	<u>(82,753)</u>
Net current liabilities		<u>(24,234)</u>	<u>(74,320)</u>
Net assets		<u>139,294</u>	<u>88,874</u>
Capital and reserves			
Called-up share capital	10	49,531	49,531
Share premium		19,672	19,672
Profit and loss account		70,091	19,671
Shareholders' funds		<u>139,294</u>	<u>88,874</u>

The total comprehensive income of the Company for the year ended 31 December 2017 was £54,208,000 (2016: £6,539,000).

The Company financial statements were approved for issue by the Board of Directors and authorised for issue on 13 March 2018.

Mark Raban
Chief Financial Officer

M. D. Raban

FINANCIAL STATEMENTS

Company Financial Statements Statement of Changes in Equity

	Note	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 1 January 2016		49,431	19,672	15,170	84,273
Loss for the financial year		-	-	(5,961)	(5,961)
Dividends received		-	-	12,500	12,500
Total comprehensive income for the year		-	-	6,539	6,539
Equity dividends paid		-	-	(3,251)	(3,251)
New shares issued		100	-	(100)	-
Share-based payment charge		-	-	1,313	1,313
At 31 December 2016		49,531	19,672	19,671	88,874
 Profit for the financial year		 -	 -	 54,208	 54,208
Total comprehensive income for the year		-	-	54,208	54,208
Equity dividends paid	12	-	-	(4,527)	(4,527)
Share-based payment charge		-	-	739	739
At 31 December 2017		49,531	19,672	70,091	139,294

Notes to the Company Financial Statements

1. Statement of compliance

Marshall Motor Holdings Plc (the Company) is incorporated and domiciled in the United Kingdom. The Company is a public limited company, limited by shares, whose shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The Company is registered in England under the Companies Act 2006 (registration number 02051461) with the address of the registered office being: Airport House, The Airport, Cambridge, CB5 8RY, United Kingdom.

The parent company financial statements have been prepared in compliance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and in accordance with the Companies Act 2006.

2. Basis of preparation

The financial statements are prepared in Sterling which is both the functional and presentational currency of the Company and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated. The financial information has been prepared on the going concern and historical cost basis.

The Company is part of the consolidated financial statements of Marshall Motor Holdings Plc.

Exemptions adopted

The following disclosure exemptions have been adopted as permitted by FRS 102:

- Presentation of a cash-flow statement and related notes
- Financial instrument-related disclosures
- Key management personnel compensation disclosures
- Share-based payments disclosures

Company profit

As permitted under section 408 of the Companies Act 2006, the Company has elected to neither present a Company Profit and Loss Account nor Company Statement of Comprehensive Income.

3. Accounting policies

Except where disclosed otherwise in this note, the accounting policies adopted in the preparation of the Company financial statements are consistent with those applied when preparing the Company financial statements for the year ended 31 December 2016.

Investments in subsidiaries

Investments in subsidiaries are recognised at cost less any impairment. Impairments are recognised directly through the Income Statement.

Taxation

Current taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred taxation

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. There are the following exceptions.

Where, in a business combination, there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised in the financial statements for those assets and liabilities, a deferred tax liability or asset is recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised.

FINANCIAL STATEMENTS

Notes to the Company Financial Statements

3. Accounting policies (*continued*)

Taxation (*continued*)

Deferred taxation (continued)

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is considered 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 that 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.

With the exception of changes arising on the initial recognition of a business combination, the taxation charge or credit is presented either in the income statement or the statement of other comprehensive income depending on the transaction that resulted in the taxation charge or credit.

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the company has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Financial instruments

The Company has non-derivative financial instruments comprising trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

The Company has no financial instruments measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and which are receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the present value of cash payable to the bank (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in the income statement.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans through which the Company 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.

Notes to the Company Financial Statements

3. Accounting policies (continued)

Share-based payments (continued)

The share-based payment charge is based on the Company's estimate of the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest based on the non-market performance vesting conditions and service conditions. The Company's remuneration policy gives the 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.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

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 through the Income Statement with a corresponding adjustment to equity.

Dividend distribution

Final dividends to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid.

Dividend income

Income is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend. All of the Company's income is generated in the UK.

4. Auditor's remuneration

The auditor's remuneration for audit and other services was £3,000 (2016: £3,000).

5. Employees and directors

Employee costs for the Company during the year:

	2017 £'000	2016 £'000
Wages and salaries	2,098	1,904
Social security costs	454	326
Other pension costs	115	110
Share-based payments	633	1,313
	3,300	3,653

The average number of employees (including Executive Directors) was:

	2017 No.	2016 No.
Management	3	3

Details of the remuneration of the Directors, their share incentives and pension entitlements are set out in the Directors' Remuneration Report on pages 44 and 50.

FINANCIAL STATEMENTS

Notes to the Company Financial Statements

6. Investments in subsidiaries

	2017 £'000
Cost	
At 1 January 2017	163,194
Share-based payment awards to employees of subsidiaries	334
At 31 December 2017	163,528

On 24 November 2017 the Company disposed of its investment of £127 in Marshall Leasing Limited and its subsidiary Gates Contract Hire Limited.

The Company owns directly or indirectly the whole of the issued and fully paid ordinary share capital of the following subsidiary undertakings. All subsidiaries are incorporated in England and Wales and are 100% owned except where referenced.

The registered office for all subsidiary companies listed above is Airport House, The Airport, Cambridge, CB5 8RY, United Kingdom. All subsidiaries listed below are included within the consolidated financial statements on pages 62 to 124.

Name of Undertaking	Principal activity at period end
Marshall Motor Group Limited	Franchised motor dealership
Marshall of Cambridge (Garage Properties) Limited	Property holding
Tim Brinton Cars Limited* (reg no. 01041301)	Property holding
Marshall of Ipswich Limited**	Franchised motor dealership
Marshall of Peterborough Limited**	Franchised motor dealership
S.G. Smith Holdings Limited	Holding company
S.G. Smith Automotive Limited* (reg no. 00622112)	Holding company
S.G. Smith (Motors) Limited* (reg no. 00287379)	Property holding
S.G. Smith (Motors) Beckenham Limited* (reg no. 00648395)	Franchised motor dealership
S.G. Smith (Motors) Forest Hill Limited* (reg no. 00581710)	Franchised motor dealership
S.G. Smith (Motors) Crown Point Limited* (reg no. 00581711)	Franchised motor dealership
S.G. Smith (Motors) Sydenham Limited* (reg no. 00660066)	Franchised motor dealership
S.G. Smith (Motors) Croydon Limited	Dormant
S.G. Smith Trade Parts Limited* (reg no. 01794317)	Motor parts sales
Prep-Point Limited* (reg no. 00660067)	Maintenance and repair of motor vehicles
Marshall of Stevenage Limited**	Franchised motor dealership
Marshall Commercial Vehicles Limited	Dormant
Marshall North West Limited	Franchised motor dealership
Marshall of Scunthorpe Limited* (reg no. 01174004)	Franchised motor dealership
Silver Street Automotive Limited	Franchised motor dealership
Exeter Trade Parts Specialists LLP* (reg no. OC329331)	Motor parts sales
Audi South West Limited	Dormant
Hanjo Russell Limited	Dormant
CMG 2007 Limited* (reg no. 06275636)	Holding company
Astle Limited* (reg no. 01114983)	Franchised motor dealership
Crystal Motor Group Limited* (reg no. 04813767)	Franchised motor dealership
Ridgeway Garages (Newbury) Limited	Franchised motor dealership
Pentagon Limited	Franchised motor dealership
Pentagon South West Limited	Dormant
Ridgeway TPS Limited	Motor parts sales
Ridgeway Bavarian Limited	Franchised motor dealership
Wood in Hampshire Limited	Dormant
Wood of Salisbury Limited	Dormant

* subsidiaries for which exemption from audit by virtue of s479A of the Companies Act 2006 has been taken for the year ended 31 December 2017.

** these subsidiaries are 99% owned by the Group.

Notes to the Company Financial Statements

7. Trade and other receivables

	2017 £'000	2016 £'000
Trade debtors	-	1
Amounts owed by Group undertakings	5,371	6,219
Other debtors	186	252
VAT	56	10
Prepayments and accrued income	552	310
Deferred tax asset (note 8)	100	312
	6,265	7,104

Amounts owed by group undertakings are unsecured, bear no interest and have no fixed repayment date.

8. Deferred tax assets

The analysis and movements in deferred tax assets during the year are as follows:

Deferred tax assets	Share-based payments £'000	Other temporary differences £'000	Total £'000
At 1 January 2016	107	15	122
Credited to the income statement – current year	212	-	212
Charged to the income statement – prior year	(1)	(8)	(9)
Impact of corporation tax rate reduction	(11)	(2)	(13)
At 31 December 2016	307	5	312
Credited to the income statement – current year	-	66	66
(Charged)/credited to the income statement – prior year	(307)	29	(278)
At 31 December 2017	-	100	100

The Directors believe that all dividends paid by the Company's subsidiaries will meet the exemption conditions set out in tax legislation and are, therefore, non-taxable income.

9. Trade and other payables

	2017 £'000	2016 £'000
Bank loans	-	35,000
Bank overdraft	6,390	-
Trade creditors	77	56
Amounts owed to Group undertakings	20,561	45,224
Corporation tax	1,554	1,765
Other taxes and social security	60	59
Other creditors	-	6
Accruals and deferred income	1,857	643
	30,499	82,753

The bank loan relates to a drawdown of the revolving credit facility as described in Note 25 'Loans and Borrowings' of the consolidated financial statements.

FINANCIAL STATEMENTS

Notes to the Company Financial Statements

10. Share capital

	2017 £'000	2016 £'000
77,392,862 (2016: 77,392,862) ordinary shares of 64p each	49,531	49,531
<i>Ordinary shares</i>	2017 £'000	2016 £'000
At 1 January	49,531	49,431
Issued on 27 May 2016	-	100
	49,531	49,531

On 27 May 2016 156,599 ordinary shares of 64p each were issued as part of the IPO Restricted share option scheme.

11. Share-based payments

The Company operates a share-based payment scheme; having adopted the disclosure exemptions permitted by FRS 102, full details of the scheme are included in Note 31 'Share-Based Payments' of the consolidated financial statements and are not duplicated here.

The share-based payment expense recognised by the Company is calculated by reference to the number of options awarded to the employees of the Company.

12. Dividends

	2017 £'000	2016 £'000
<i>Paid during the year</i>		
Final dividend for 2015	-	1,858
Interim dividend for 2016	-	1,393
Final dividend for 2016	2,864	-
Interim dividend for 2017	1,663	-
	4,527	3,251

A final dividend of £1,858,000 for the year ended 31 December 2015 was paid in March 2016. This represented a payment of 2.40p per ordinary share in issue at that time. A final dividend of £2,864,000 for the year ended 31 December 2016 was paid in May 2017. This represented a payment of 3.70p per ordinary share in issue at that time.

An interim dividend in respect of the year ended 31 December 2016 of £1,393,000 representing a payment of 1.80p per ordinary share in issue at that time was paid in September 2016. An interim dividend in respect of the year ended 31 December 2017 of £1,663,000 representing a payment of 2.15p per ordinary share in issue at that time was paid in September 2017.

A final dividend of 4.25p per share in respect of the year ended 31 December 2017 is to be proposed at the annual general meeting on 22 May 2018. The ex-dividend date will be 26 April 2018 and the associated record date will be 27 April 2018. This dividend will be paid subject to shareholder approval on 25 May 2018 and these financial statements do not reflect this final dividend payable.

Notes to the Consolidated Financial Statements

13. Pensions

Details of the pension schemes are included in Note 34 'Pensions' of the consolidated financial statements and are not duplicated here.

14. Related party transactions

Company transactions with subsidiaries

The Company has taken advantage of exemption, under the terms of Section 33 of FRS 102, not to disclose related party transactions with subsidiaries within the Group.

Transactions with Directors

Details of transactions with Directors are included in Note 33 'Related Party Transactions' of the consolidated financial statements.

15. Events after the reporting period

In February 2018, the Group acquired the remaining 1% of the share capital of the following subsidiary undertakings, taking the Group's shareholdings in these entities up to 100%. Total consideration paid was; Marshall of Peterborough Limited £11,000, Marshall of Ipswich Limited £13,300 and Marshall of Stevenage Limited £25,253.

16. Ultimate parent company

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is Marshall of Cambridge (Holdings) Limited and is therefore considered to be the ultimate parent company.

Copies of the group financial statements for Marshall of Cambridge (Holdings) Limited can be obtained from Airport House, The Airport, Cambridge CB5 8RY.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (the "AGM") of Marshall Motor Holdings plc (the "Company") will be held at Airport House, the Airport, Cambridge CB5 8RY on 22 May 2018 at 11.00 a.m. for the following purposes of considering and, if thought fit, passing the following resolutions which will all be proposed as ordinary resolutions:

1. Report and accounts

To receive the audited annual accounts of the Company for the year ended 31 December 2017 together with the directors' reports and the auditors' report on those annual accounts.

2. Declaration of dividend

To declare a final dividend of 4.25p per ordinary share for the year ended 31 December 2017 payable on 25 May 2018 to shareholders who are on the register of members of the Company on 27 April 2018.

3. Re-appointment of director

To re-appoint Daksh Gupta as a director, who retires by rotation in accordance with the Company's articles of association and offers himself for reappointment.

4. Re-appointment of auditors

To re-appoint Ernst & Young LLP as auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

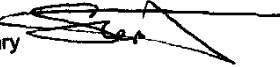
5. Auditors' remuneration

To authorise the directors to determine the remuneration of the auditors.

Dated 19 March 2018

By Order of the Board

Stephen Jones
Company Secretary



Registered Office:
Airport House
The Airport
Cambridge
CB5 8RY

Notice of Annual General Meeting *(continued)*

Notes

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at close of business on 18 May 2018 (or if the AGM is adjourned at close of business, two working days before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.
2. If you wish to attend the AGM in person, you should make sure that you arrive at the venue for the AGM in good time before the commencement of the meeting. You may be asked to prove your identity in order to gain admission.
3. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
4. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: Either by the appointment of a proxy (described in Note 6 below) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.
5. Copies of the executive directors' service contracts with the Company and any of its subsidiary undertakings are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the AGM and will also be available for inspection at the place of the AGM from 9 a.m. on the day of the AGM until its conclusion.
6. CREST members who wish to appoint a proxy or proxies through the CREST proxy appointment service may do so for the Meeting (and any adjournment thereof) by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message (regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by Link Asset Services (ID RA10), by 11.00 a.m. on 18 May 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Link Market Services is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members (and, where applicable, their CREST sponsors or voting service providers) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual (available at www.euroclear.com/CREST) concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

SHAREHOLDERS INFORMATION

Company Information

Registered Office:	Airport House The Airport Cambridge CB5 8RY
Company websites:	www.mmhplc.com www.marshall.co.uk
Nominated Adviser and Broker:	Investec Bank plc 2 Gresham Street London EC2V 7QP
Auditors:	Ernst & Young LLP One Cambridge Business Park Cambridge CB4 0WZ
Joint Bankers:	Barclays Bank plc 1 Churchill Place London E14 5HP HSBC Bank plc 8 Canada Square London E14 5HQ
Legal Advisers to the Company:	Dentons UKMEA LLP One Fleet Place London EC4M 7WS
Registrar:	Link Market Services Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU





23 BRANDS
101 FRANCHISES
26 COUNTIES

www.mmhplc.com

Marshall Motor Holdings plc
Airport House, The Airport, Carbridge, CB5 8RY

Audi
BMW
BMW Motorrad
Ford
Ford Vans
Honda
Hyundai
Jaguar
Kia
Land Rover
Maserati
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Used Car Centres