

 **Marshall**
Motor Holdings plc

Annual Report & Accounts 2019

PUTTING OUR CUSTOMERS ABOVE ALL ELSE SINCE 1909

**PUTTING OUR CUSTOMERS
ABOVE ALL ELSE SINCE 1909**

**24 BRAND PARTNERS
132 OPERATING UNITS
28 COUNTIES NATIONWIDE**



Peoria, Volkswagen Milton Keynes Dealership

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Parent Company Financial Statements

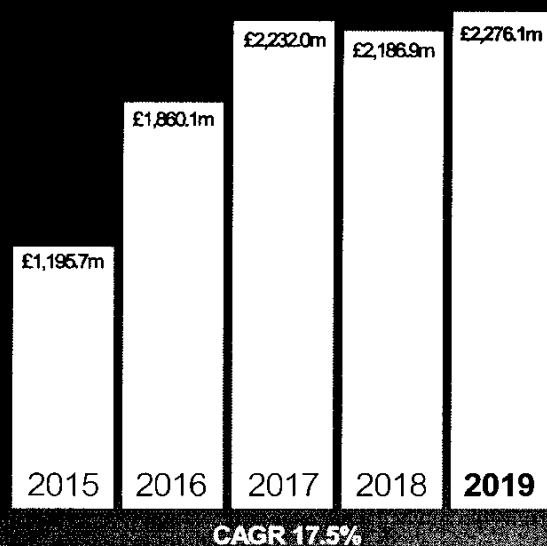
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Historical Financial Trends

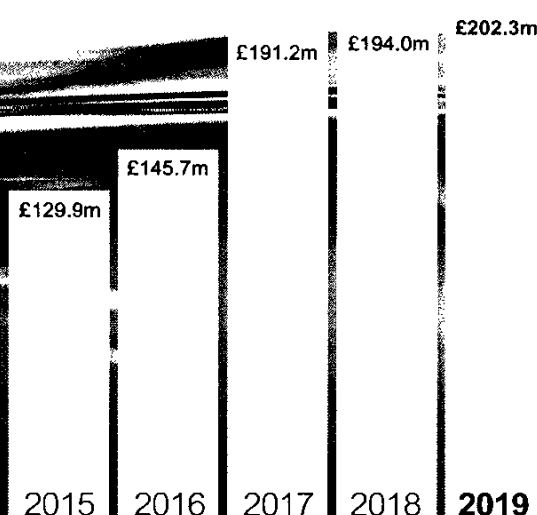
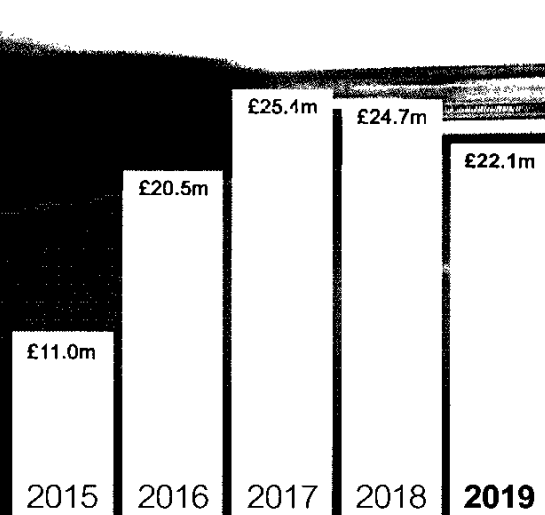
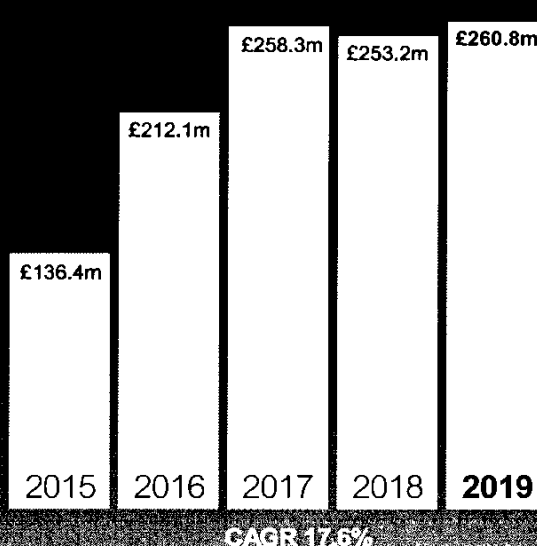
Revenue £m

excluding discontinued leasing segment



Gross Profit £m

excluding discontinued leasing segment



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

** 2018 has been restated following the adoption of IFRS 16 "Leases" (see Note 3)

2019 Quick Overview

£2.3bn

Revenue

£22.1m

Underlying Profit Before Tax

94,277

New and Used Units Sold



£202.3m

Net Assets

£32.0m

Underlying Operating Profit

132

Operating Units



4,228

Colleagues
at 31 December 2019



No.1

Great
Place
To
Work

Ranked 5 years running by our
colleagues in the best UK workplaces

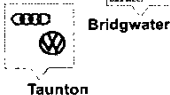


Largest Automotive Retailer

Brand Partners

Operating Units

Counties Nationwide



Honda e

Retail Franchised Dealerships

										Beckenham & Bromley, Bexley, Coulsdon, Exeter, Newbury, Oxford, Plymouth, Taunton and Wimbledon
										Bournemouth, Grimsby (with Motorrad), Hook, Salisbury and Scunthorpe
										Bury St Edmunds, Cambridge and Kings Lynn
										Harrogate, Hull, South Leicester, Newbury, Peterborough, Reading, Scarborough and York
										Cambridge
										Cambridge, Ipswich, Lincoln, Newbury, Oxford and Peterborough
										Ipswich, Scunthorpe
										Bedford, Cambridge, Ipswich, Lincoln, Melton Mowbray, Newbury Oxford and Peterborough
										Peterborough
										Blackburn, Blackpool, Bolton, Chichester, Portsmouth, Preston, Southampton, South Lakes and Winchester
										Bournemouth, Grimsby, Hook and Salisbury
										Grantham and Lincoln
										Cambridge, Peterborough and St. Neots
										Braintree, Cambridge and Leicester
										Barnstaple, Bedford, Croydon, Harlow, Leicester, Letchworth, Milton Keynes, Newbury, Northampton, Nottingham and Oxford
										Bolton and Portsmouth
										Ipswich, Knebworth and Peterborough
										Barnstaple, Grimsby, Harlow, Letchworth, Loughton, Milton Keynes, Newbury, North Oxford, South Oxford, St. Albans, Reading, Scunthorpe and Taunton
										Bishops Cleeve, Cambridge, Derby, Grantham, Leeds, Milton Keynes, Nottingham, Peterborough and Welwyn Garden City

Commercial Vehicle Dealerships

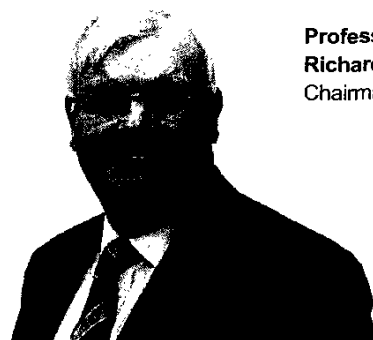
	Cambridge
	Andover, Fareham, Poole and Southampton
	Bridgwater, Lincoln, Loughton, Oxford, Reading and Scunthorpe

Other Stand-Alone Operating Units

	Cambridge, Exeter, Mitcham, Old Kent Road / Dartford, Oxford and Swindon
	Cambridge, Greenham Prep Centre, Grimsby, Loughton, New Forest and Peterborough
	Audi Sydenham and Cambridge Used Cars
	Croydon Service Centre
	Nottingham
	Cambridge

Chairman's Statement

"We are now the largest retail partner for Volkswagen Group in the UK."



**Professor
Richard Parry-Jones CBE**
Chairman

Introduction

I am delighted to present our annual results for the year ended 31 December 2019 (the "Year").

Whilst market conditions in 2019 continued to be challenging with further declines in the new car market, the Group continued its track record of market out-performance in new and used car sales and further growth in aftersales revenues.

I am also pleased to welcome Nicky Dulieu to the Board. Nicky joined the Board in January 2020 as a Non-Executive Director and Chair of the Remuneration Committee following Sarah Dickens' retirement from the Board in June 2019. I would like to once again thank Sarah for her contribution to the Group since its IPO in 2015.

Strategy

The Group's strategy of close partnership with major global automotive brands has served it well over many years. We are delighted to have extended and strengthened those partnerships during the Year with the acquisition of an additional 20 business. These included the addition of seven ŠKODA, six Volkswagen passenger car, two Volkswagen commercial vehicles, two Honda and a Volvo business. As a result, in the UK we are now the largest partner for Volkswagen Group, the largest partner for Volvo and the second largest partner for Honda.

The automotive sector is undergoing a period of evolution, driven by a combination of environmental, technological and social change factors. The progression towards battery electric vehicles over the coming years, for example, presents both challenges and opportunities for automotive retailers. Along with our manufacturer partners, we continue to believe that a strong retail franchise network will be a crucial component of that development. We also believe that those automotive retailers with both scale and a diverse portfolio will be best placed to succeed in a changing market.

Results

The Group has delivered a strong financial performance in what was a very challenging year for the sector. The Group achieved record reported revenue of £2.3 billion with a fifth consecutive year of like-for-like** revenue growth since IPO, up 2.2% to £2.2 billion. This revenue growth helped to mitigate the impact of significant margin pressure across all main revenue streams (new, used and aftersales) and the impact of loss-making businesses acquired during the

Year. Given these factors, the Board considers underlying PBT* during the Year of £22.1m (2018 restated: 24.7m) to be a strong result.

The Group's balance sheet also remains strong, underpinned by £124.9m of freehold, land and buildings.

Dividend

The Group's revised dividend policy adopted last year is that, subject to the Group's trading prospects being satisfactory and taking into account potential investments, dividends will be covered by between 2.5 to 3.5 times underlying earnings and paid in an approximate one-third (interim dividend) and two-thirds (final dividend) split. The Board believes this policy is appropriate and sustainable, balancing the Group's strong financial position and cash generation with its stated strategy of further investment and growth in its business.

The Board is therefore recommending a final dividend for 2019 of 5.69p per share which, if approved by shareholders at our AGM on 21 May 2020, will be paid on 22 May 2020 to shareholders who are on the Company's register at close of business on 24 April 2020. If approved, this will result in a full year dividend of 8.54p per share (2018: 8.54p) and dividend cover of 2.7x (2018: 3.2x).

AGM

Our annual general meeting will be held on 21 May 2020 and I look forward to meeting all shareholders who are able to attend.

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

** See Note 2 to the financial statements

Outlook

The Board notes the latest forecast by the Society of Motor Manufacturers and Traders ('SMMT') for a further decline in the UK new car market in 2020 of 2.6%. It is also cognisant of the potential impact that uncertainty over the outcome of future trade agreement negotiations between the UK and the European Union may have on the automotive sector. Although we have not seen an impact to date, the Board is monitoring the potential impact of COVID-19 and is considering contingency plans in the event it starts to impact our dealerships. The Board therefore remains cautious but our order book for the important March plate-change period is encouraging and our outlook for the full year is unchanged.

The UK motor retail landscape may change over the years and decades ahead. The Group's long standing strategy of partnering with the right brands in the right locations has positioned it well to remain a relevant and important part of that future landscape.

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

I would also like to thank all of our customers throughout the UK who choose Marshall for their mobility products and services. We continue to put our customers at the heart of everything we do and recognise that our success as a business is dependent on meeting and exceeding their expectations.

Professor Richard Parry-Jones CBE

Chairman

9 March 2020



Operating Review

"I am pleased to announce a strong performance against the backdrop of another challenging year for the UK automotive retail sector."



Daksh Gupta
Chief Executive
Officer

Overview

I am pleased to announce a strong performance against the backdrop of another challenging year for the UK automotive sector, with a third year of both new and used car market decline.

The Society of Motor Manufacturers and Traders ("SMMT") reported a total market of 2.31m registrations in 2019, a decline of 2.4% versus 2018. This included a 3.2% decline in registrations to new retail customers and a 1.7% decline in registrations to fleet customers. The used car market also declined by 0.1%.

Despite these continued challenging market conditions, the Group continued to grow its market share both organically and by acquisition. The Group's like-for-like vehicle unit sales outperformed the market in all of its key vehicle segments: total new unit sales, new retail sales, new fleet sales and used vehicle sales. Aftersales revenue also continued to grow on a like-for-like basis, despite the further reduction in the UK vehicle parc as a result of falling new vehicle sales since 2016.

Reflecting the difficult market, underlying profit before tax ("PBT") of £22.1m (which included the impact of loss-making acquisitions and the first time adoption of IFRS16)

was down by 10.8% (2018 restated: £24.7m). The Board considers this to be a strong result in the context of the challenging market conditions described above.

I am also pleased that the Group completed a number of strategic acquisitions in the Year, adding 20 new businesses through 8 transactions or start-ups, demonstrating the Group's commitment to grow scale with our existing brand partners in new geographical territories. Whilst these acquisitions will be earnings dilutive in the short-term, we are confident in their medium to long-term potential as we work to improve their operational performance. The Group has a track-record of acquiring underperforming business and creating long term value for its shareholders through its well-established business model and scalable platform. We therefore believe these acquisitions will be excellent additions to the Group.

Like-for-like revenue

£2.2bn
(2018: £2.2bn)

Underlying PBT

£22.1m
(2018: £24.7m)

Full year dividend

8.54p
(2018: 8.54p)

 **Marshall**
Motor Holdings plc

Financial highlights of the year

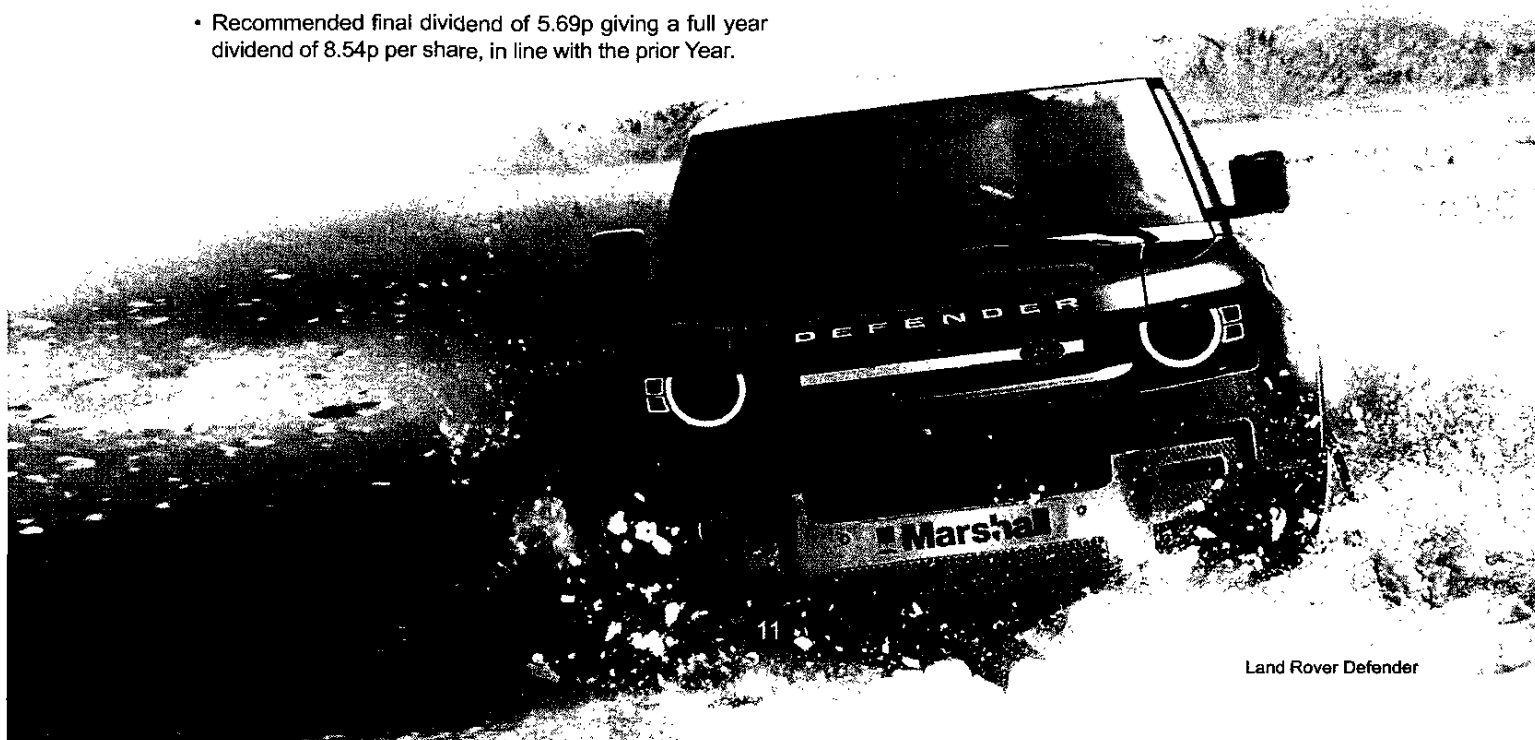
- Record reported revenue of £2.3bn (2018: £2.2bn) with a fifth consecutive year of like-for-like revenue growth since IPO of 2.2% to £2.2bn;
- Despite market challenges, like-for-like operating profit of £33.1m, down only 4.1% against last year's record result;
- Total new vehicle sales up 2.4% with like-for-like total new vehicle unit sales up 0.3%, a strong outperformance against a UK market registration decline of -2.4% (including the impact of dealer self-registrations);
 - Total new vehicle sales to retail customers up 1.3% with like-for-like down 2.2%, an outperformance against retail market registration decline of 3.2% (including the impact of dealer self-registrations);
 - Total new vehicle sales to fleet customers up 4.1% with like-for-like up 4.5%, an outperformance against fleet market registration decline of -1.7% (including the impact of dealer self-registrations);
- Excellent used car performance against strong prior year comparisons: total unit sales up by 8.5% with like-for-like volumes up 6.1%, significantly outperforming the wider UK market which saw volumes decline by -0.1%;
- Further growth in aftersales like-for-like revenue, up 3.2%;
- Continued disciplined cost management, like-for-like operating expense increase contained to 1.5%;
- Continued investment in the Group's property portfolio, £15.2m, invested in upgrading facilities and acquiring freehold sites, (excluding freehold property purchased in connection with acquisitions);
- Property portfolio revaluation as at 31 December 2019 confirmed a c£15m surplus to net book value (not recognised in the accounts);
- Adjusted net debt at 31 December 2019 of £30.6m up £25.5m from 31 December 2018 as a result of acquisitions made through the Year and strong fleet volumes in December 2019;
- Recommended final dividend of 5.69p giving a full year dividend of 8.54p per share, in line with the prior Year.

Strategic and operational highlights of the year

- The Group became the largest partner for Volkswagen Group in the UK, adding six Volkswagen passenger car franchises, two Volkswagen commercial franchises and seven ŠKODA franchises. The Group is also now the largest partner for each of these brands by number of locations;
- The acquisition of two Honda franchises in Reading and Newbury, taking our representation to eight locations and reinforcing our No. 2 position with the Honda brand in the UK;
- Extending our relationship with Volvo by adding our ninth Volvo franchise, confirming our No. 1 position with the Volvo brand in the UK;
- Tenth consecutive year of Great Place to Work status and fifth consecutive year ranked in the best UK work places, recognised with a laureate award;
- Further technological advancements in the Group's bespoke management information system, 'Phoenix 2', including unique third party data integration of vehicle market pricing; and
- First national TV marketing promoting the Marshall brand.

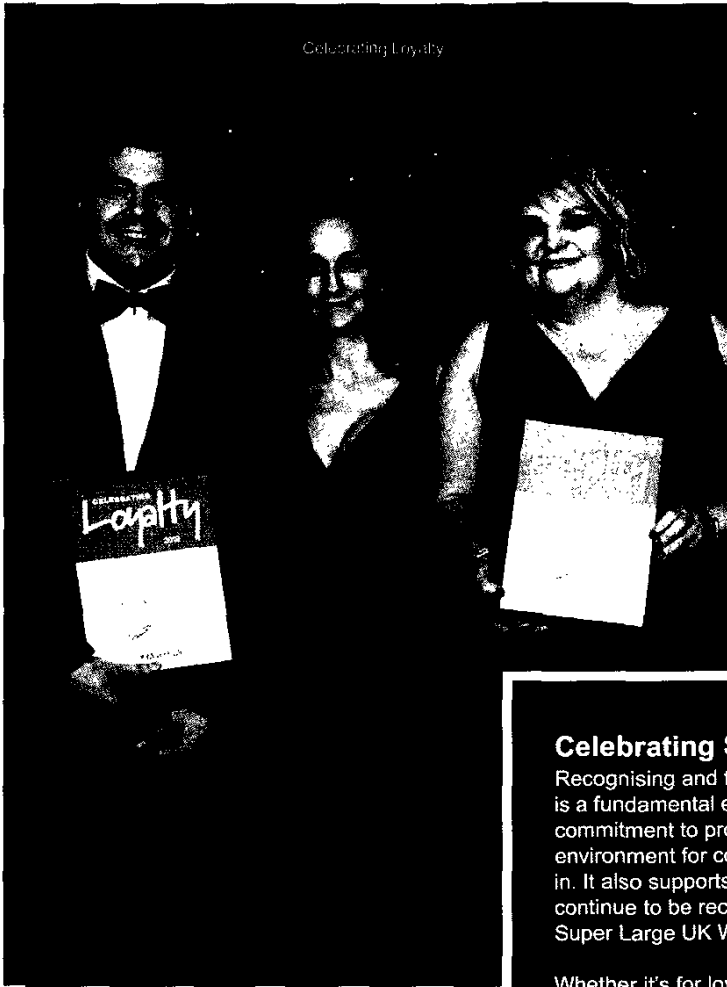


England vs Kosovo football match sponsorship

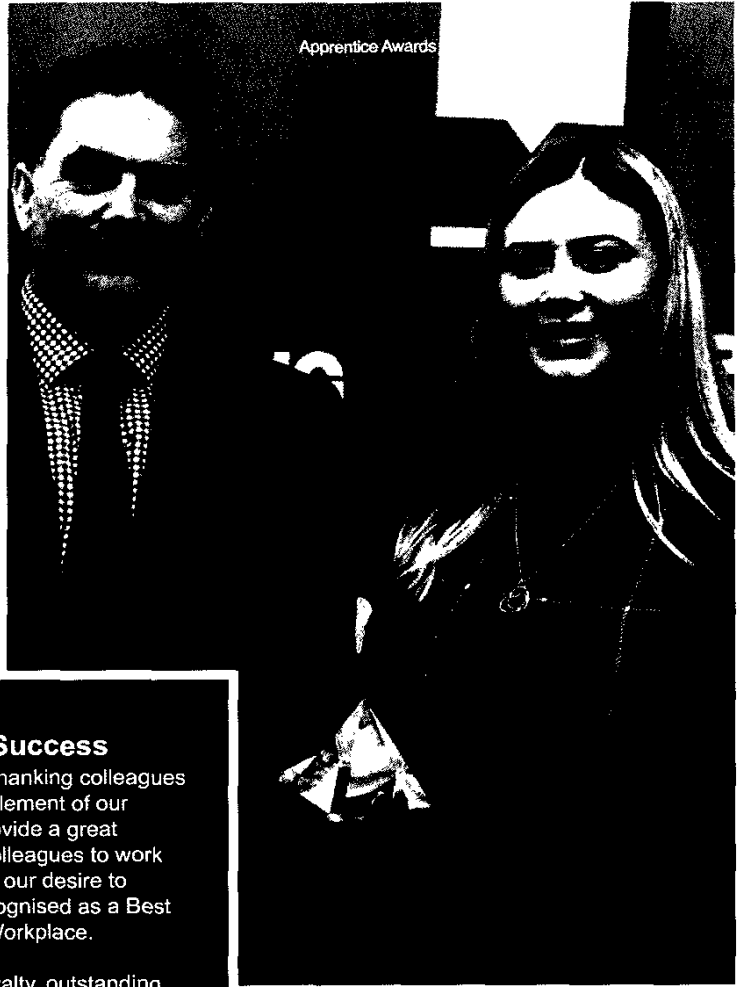


Land Rover Defender

Celebrating Loyalty



Apprentice Awards



Celebrating 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 Super 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 colleagues' success with everyone and reinforce how important these programmes are.



Our vision

To be the UK's premier automotive retail group

Class leading returns



The Group aims to deliver benchmarked class leading returns for its shareholders.

Customer first



Customer service is at the core of the Group as it drives repeat car sales and the purchase of higher margin aftersales products.

Retailing excellence



The Group maintains its competitive edge by investing in the best people supported by cutting-edge technology in the sector.

People centric



The Group is committed to recruiting, training, and retaining the best talent in the industry.



Underpinned by five strategic pillars

Strategy

The Group's strategic vision to be the UK's premier automotive group, remains central to everything we do. The five strategic pillars, of equal importance, 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.

This strategy has enabled a transformation of the Group since its IPO in 2015. Selective, value enhancing acquisitions, combined with strategic portfolio management and organic growth, have led to annual revenues more than doubling to £2.3bn with continuing underlying profit before tax growing at a faster rate to £22.1m. Since IPO, we have invested more than £100m in our property portfolio and, with the final dividend for 2019 announced today, will have returned nearly £25m to shareholders through dividends. This has been achieved with a constant focus on our customers, excellent relationships with our business partners and, as demonstrated by our consistent ranking as one of the UK's Best Workplaces, our colleagues.

The Group's strong track record of delivery against its strategy since IPO has provided a solid platform for further future growth.





Class leading returns

The Group continues to focus on organic growth through market outperformance, demonstrated by our strong volume performance in the Year. In addition, the Group continues to drive sales of used vehicles and aftersales, thereby mitigating the effects of a decline in the new vehicle market. This resulted in a 6.1% like-for-like increase in used unit sales and a 3.2% like-for-like increase in aftersales revenue whilst also containing like-for-like expense increase to 1.5% despite continued cost headwinds. In recognition of our market leading performance in the first half of the Year, the Group was awarded the Outstanding Achievement Award by Car Dealer Magazine. In addition, the Group was runner up for the Best Dealer Group Award at the 2020 Automotive Management Awards.

The Group's strategy of building a balanced brand portfolio with the right brand partners in attractive geographic locations, allows for the cyclical nature of individual brands as well as regional variations in performance resulting from local economic issues.

Continued growth with our brand partners will enable the Group to access additional benefits of scale across a number of areas of the business, supported by the use of the Marshall brand across the entire portfolio. The Group has a robust platform which is scalable for further future growth and is well placed to take advantage of a consolidating market. The Board anticipates further rationalisation of manufacturer dealer networks over the coming years and given the Group's strong balance sheet and manufacturer relationships, is confident of continued future acquisitive growth.

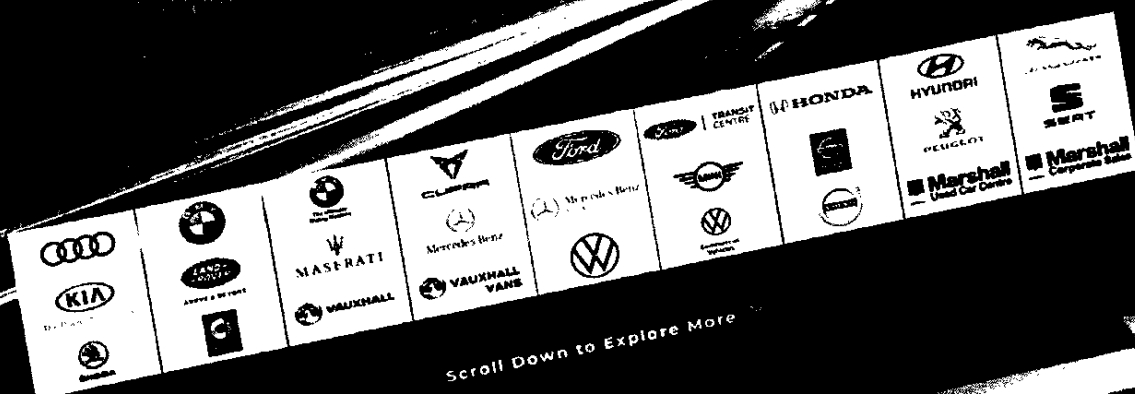
The Group aims to deliver benchmarked class leading returns for its shareholders.

Marshall

Find your perfect car with Marshall Motor Group

With over 100 years of experience, we have a proven track record of delivering exceptional returns for our shareholders.

Search stock



Scroll Down to Explore More



Customer first

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

In 2019, 45.2% (2018: 45.6%) of the 72,530 customers surveyed who visited our showrooms indicated that they were either previous customers or were recommended to us. We believe this to be strong for the sector.

Our in-house developed management information system (Phoenix 2) provides daily customer satisfaction information by dealership which allows management to proactively respond to customer needs.

The Group centrally monitors customer satisfaction for both sales and aftersales across all locations and brand partners on a weekly basis. This ensures we remain focused on delivering on our brand partners' key measures whilst ensuring consistency of internal performance monitoring.

The Group's continued expansion and scale provides customers with a wider choice of location, stock and products, increasing both customer satisfaction and sales.

Compliance

The Group operates in a regulated environment and takes its commitment to compliance, and the benefit it brings our customers, seriously. The Group recognises that compliance is an ongoing process and adopts a culture of continual improvement focused on training and awareness, system and process development, compliance monitoring and internal audit. Key compliance areas for the Group include environmental, health and safety, data protection and financial services. The Group has established compliance committees attended by cross functional colleagues from both compliance and internal audit and from operations and members of the senior management team.

In April 2019, the Financial Conduct Authority ('FCA') published the findings of its thematic review of general insurance distributions chains and in October 2019 it published its final findings following its review of the motor finance sector. As part of its findings, the FCA has proposed a number of changes, including to commission arrangements between finance and insurance providers and credit brokers and insurance intermediaries such as the Group. The Group is supportive of the changes proposed by the FCA and the benefits they will bring to our customers and is working with its finance and insurance provider partners to implement them.

Customer service is at the core of the Group as it drives repeat car sales and the purchase of higher margin aftersales products.



45%

of customers surveyed are repeat customers or had the Group recommended to them



Retailing excellence

The Group's use of the 'Marshall' brand consistently across all of its franchises is unique amongst the large UK multi-brand motor retail groups. As the Group grows and leverages its existing platform, new businesses are re-branded and quickly benefit from wider recognition of the Marshall brand.

The Group believes there are a number of benefits of this consistent brand:

- The Marshall brand is synonymous with good customer service;
- The Group's website, marshall.co.uk accommodates all of the Group's brand partners and stock, allowing for much wider customer choice in one place;
- One Marshall brand gives the ability to market nationwide in single campaigns, for example, recent marketing campaigns on Sky Sports during the cricket world cup in December 2019 and ITV1 during the England v Kosovo football match in November 2019. These two campaigns reached a combined audience of c20 million viewers and were the first time the Group has carried out any form of national TV marketing.

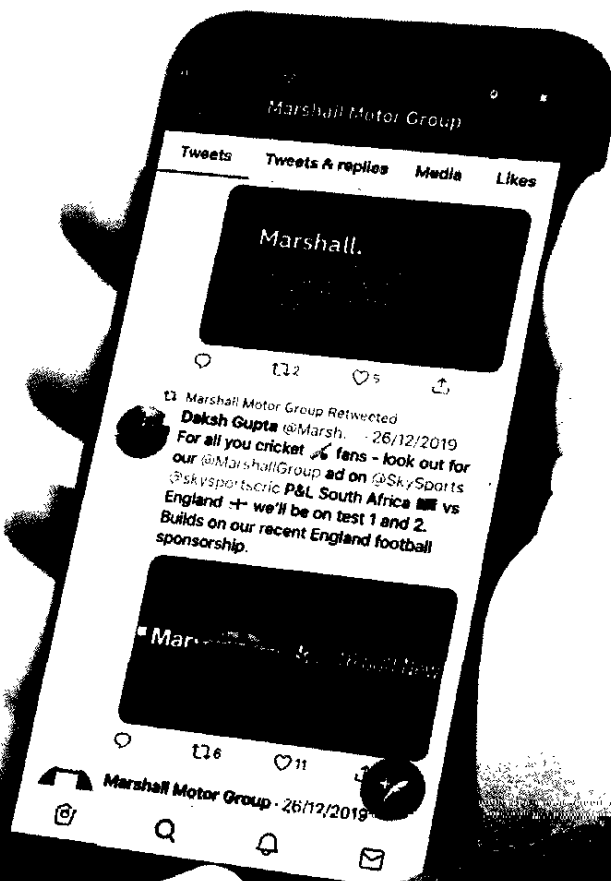
As the Group grows, we intend to continue national marketing, where economic, in order to leverage the reputation and recognition of the Marshall brand on a national scale as part of our omni-channel marketing strategy.

Another key differentiator for the Group in achieving retailing excellence is a focus on technology and data to drive performance. Phoenix 2, the Group's bespoke MI system supports local decision making combined with central oversight to ensure consistency of performance and a focus on what makes a difference. One of the key benefits of Phoenix 2 is the integration of third party external used car pricing and transaction data. This enables visibility of pricing comparison to the market, including regional and market desirability variations, all of which leads to greater customer transparency and optimal pricing. The Group continues to see Phoenix 2 as one of the key drivers behind its market outperformance.

Targeted use of online channels and social media continue to be utilised to increase lead conversion, Marshall is viewed as an industry leader in this area as evidenced by two further awards in the Year; "Best Use of Social Media", Automotive Management Awards and winner of the Social Media category at the Motor Trader Awards.

During 2019, the Group began development work on a new website which will contain a number of new customer-centric features including being fully transactional. The new website will go live in the first half of 2020. The Group believes it is well-placed to grow market share further given its unique investment in its online platform, unique use of data through Phoenix 2 and ability to leverage the Marshall brand through its national marketing and social media channels.

The Group maintains its competitive edge by investing in the best people supported by cutting-edge technology in the sector.



TV campaign viewers

"Best Use of Social Media" at Automotive Management Awards



People centric



For the tenth consecutive year, the Group has been recognised by the Great Place to Work Institute as a 'great place to work' based on colleagues surveyed during 2019. We are particularly pleased that the proportion of colleagues stating that Marshall is a 'great place to work' has increased for the tenth consecutive year. At 80%, this is significantly ahead of the UK average score of 52% and well ahead of the 65% score required to be considered a Great Place to Work. We also enjoyed an exceptionally high participation rate of 84%, which compares to 70% nationally, and demonstrates the high degree of trust and engagement in the organisation. This result is also particularly pleasing given the number of new businesses the Group has integrated over recent years.

Based on the results of the 2019 survey, the Group was ranked 11th in the super large category in the UK which included employers such as Admiral, Cisco, Deloitte, EY, Hilton, and Mars. 2019 was the fifth year running that the Group was ranked amongst the best employers in the UK, as a result of which the Group received a Laureate award which has only been awarded to a handful of companies in the history of the Great Place to Work Institute.

The Group continues to be committed to diversity both in Marshall and the wider industry. The Group is a member of the Automotive 30% Club, the aim of which is to work towards having women in at least 30% of management positions in the sector by 2030. The Group has made great strides towards this target with over 24% of our management positions in our like-for-like businesses filled by females. This is up from 15% in 2015. In recognition of this commitment, I am proud to have been asked to become a patron of the Automotive 30% Club.

The Group announced a number of new strategic people initiatives during the Year and we are pleased to report we have seen significant progress in these areas:

- **Future leaders programme:** This programme is for high potential colleagues to prepare for their first line management position. The Group is now in the third year of the programme with 25 colleagues currently participating in the programme.
- **In-house recruitment team:** Our new in-house recruitment team gives us more control over recruitment quality and cost. Since its inception in September 2019 the team, has recruited over 300 colleagues saving both significant cost and time in the recruitment process and also providing recruiting managers far more control over the process leading to better and quicker recruitment decisions.
- **Learning management system:** over 4,000 employees have been through on-line training since the release of the system in October 2019.

The Group is proud of its longstanding commitment to offering apprenticeship programmes. In 2020, the Group celebrates 100 years of offering apprenticeship programmes and we currently employ 115 apprentices in the Group. The Group also partners with Drive My Career, a platform which connects prospective apprentices with career opportunities. During the Year, the Group took part in the Drive My Career Apprentice Takeover which was run throughout National Apprentice Week. Drive My Career members were encouraged to promote across their social media channels the most successful stories about their apprentices or hand over their social media accounts directly to their apprentices. We were delighted that one of our second year apprentice technicians was the overall winner of the event.

In keeping with our social agenda and aim to support local communities, we have also implemented a new work experience programme to attract new talent for the future alongside our current apprentice programme.

Finally, the Group is pleased that during the year it also announced the appointment of Jo Moxon as Human Resources Director. Jo has extensive experience across a diverse range of industries including, financial services, property, online and retail. More latterly, Jo was Group Human Resources Director for Pendragon PLC. Her experience in these sectors will be invaluable to the Group as we continue with our current growth strategy. I would also like to take this opportunity to thank Helen Burrows for her contribution to the success of the Group since 2013. We wish her well for the future.

The Group is committed to recruiting, training, and retaining the best talent in the industry.

Consecutive years as a 'great place to work'

Great Place to Work
2019/2020

Promoting our fantastic industry and attracting young talent in to our business whilst building relationships with local schools and colleges in the communities we serve

Great Place to Work
2020/2021

Employees recruited by recruitment team since September 2019

OPERATING REVIEW



- +1 Ford Parts Plus
- +2 Honda
- +1 LEVC
- +7 Skoda
- +8 Volkswagen
- +1 Volvo

Operating Units
(120 in 2018)

Brand Partners
(23 in 2018)

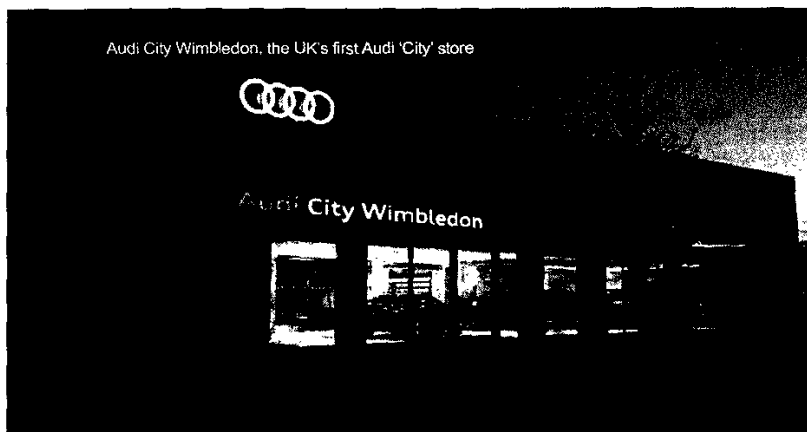
The Group aims to grow both organically and through acquisitions, building scale with its existing brand partners and extending its geographic footprint.



Strategic growth

As demonstrated since IPO, the Group's strategy is to grow scale with existing brand partners in new geographical territories. There continues to be considerable consolidation in the UK motor retail market, and the Group, with its scalable platform, is very well positioned to take advantage of the opportunities arising given its strong balance sheet and excellent manufacturer relationships. The Group continually seeks to maximise return on capital employed and closely monitors and reviews its portfolio to ensure optimal returns.

OPERATING REVIEW



Acquisitions and disposals

During the Year, 20 new business units were added to our portfolio through eight acquisitions or start-ups. We are pleased that, in line with our historical practice, all of these transactions were off-market and completed with the full support of our brand partners.

The Group completed five trade and asset acquisitions during the Year as follows:

- In March 2019 the Group announced two transactions which further extended its relationship with ŠKODA from 5 locations to 11, making it the largest retailer in the UK for the brand. The Group acquired Leicester and Nottingham ŠKODA from Sandiclife Limited and subsequently acquired the Bedford, Harlow, Letchworth and Northampton ŠKODA businesses from Progress Bedford Limited. We are very pleased with the progress of integrating these businesses which are already showing strong signs of improvement and are benefiting from the Group's scale and operating model.
- In September 2019, the Group acquired two Honda businesses in Reading and Newbury from Jardine Motor Group UK Limited, reinforcing the Group's position as the second largest Honda partner in the UK. The acquisitions were completed with the full support of Honda UK and the Group now represents the Honda brand in eight excellent locations in the UK. Again, the early signs are encouraging in terms of the integration of these businesses.

- In December 2019, the Group was delighted to announce the acquisition of the business and assets of a portfolio of Volkswagen and ŠKODA passenger and commercial vehicle franchises from Jardine Motor Group UK Limited. The businesses acquired comprise six Volkswagen passenger car franchises in Aylesbury, Harlow, Letchworth, Loughton, Milton Keynes and St Albans, making the Group Volkswagen Passenger Car's biggest partner in the UK, together with a Volkswagen commercial vehicle franchise and bodyshop in Loughton and a ŠKODA passenger car franchise in Milton Keynes.

Aggregate revenue for these businesses was £196.1m in the year ended 31 December 2017 and £212.8m for the year ended 31 December 2018 with a loss before tax in these years of £3.3m and £2.8m respectively. As a result, the acquisition is expected to be earnings dilutive in 2020 and 2021 while the Group improves the operational performance of the businesses. We expect the acquisition to be earnings enhancing from 2022 onwards. Completion of Aylesbury Volkswagen has been deferred pending completion of the legal process to sub-divide the site. It is expected that this process and the transfer of the Aylesbury Volkswagen business will be completed in 2020.

- We are proud of the development of our relationship with Volkswagen Group, from acquiring our first Volkswagen Group franchise in 2012 to now becoming its largest partner in the UK with 53 operations. The Volkswagen

Group is one of the world's leading automobile manufacturers and the largest carmaker in Europe. The Group partners with all of the Volkswagen Group's core brands: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA and Volkswagen Commercial Vehicles. Volkswagen Group's core passenger car brands account for around 20% of all new vehicles sold in the UK and 11.5% for commercial vehicles. It is also investing €60bn in e-mobility, hybridisation and digitisation between 2020 and 2024, with the much anticipated Volkswagen ID.3 model scheduled for release in the UK in 2020.

- Finally, in December 2019, the Group completed the acquisition of Volvo Derby from Vertu Motors plc. The franchise was relocated to a new freehold facility in Derby which was also acquired during December 2019. This addition takes the Group's Volvo representation to nine sites, the largest representation in the UK for the brand.

During 2019 the Group also announced the following portfolio additions:

- Volkswagen Commercial Vehicles in Lincoln. The Group was awarded an open point and commenced trading in October 2019, occupying one of the Group's existing freehold facilities. This addition, along with the operation in Loughton, made the Group Volkswagen Commercial Vehicle's largest partner in the UK;
- Commencement of a new partnership with LEVC, the manufacturer of electric London taxis owned by Geely Automotive Holdings, which also owns the Volvo brand. The Group now represents the LEVC brand in Nottingham, sharing facilities with the Group's Volvo franchise;
- The Group now also represents Ford in the Cambridge region for the supply of genuine Ford parts to third party repairers through its Ford Parts Plus franchise.

Following a review of the Group's portfolio, the Board took the decision to close its Halesworth Land Rover used car centre. During 2016 the Group relocated the Halesworth Land Rover franchise to a state of the art 'dual arch' site in Ipswich. The Board has also, with the agreement of the brand partner, taken the decision to exit the Maserati franchise in Peterborough. The business will continue trading until June 2020 to ensure a smooth transition.

The Group now consists of 117 franchises representing 24 brand partners trading in 28 counties nationwide.

In addition, the Group operates six trade parts specialists, two used car centres, six standalone body shops and a pre-delivery inspection (PDI) centre. The Group operates a balanced portfolio of volume, premium and alternate premium brands including all of the top five premium brands.

The Group's scale and diversified spread of representation helps mitigate the effect of the cyclical nature of individual brand performance. The Group's strategy is to develop strong relationships with our brand partners, targeting a 5% share or more of UK sales for each brand partner. We now exceed that threshold with nine of our key brand partners and our strategy is to grow that scale further.

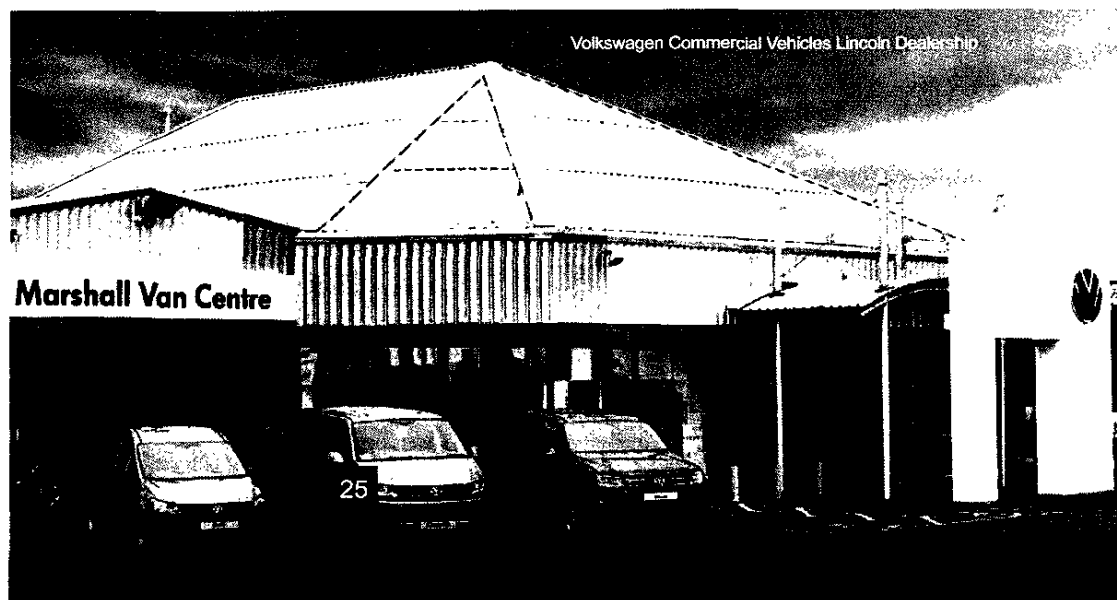
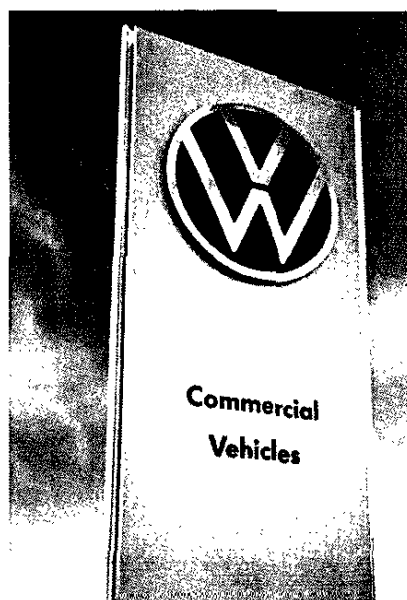
Investment in new retail locations and major developments

The Group continues to invest in its retail sites and has invested a total of £19.4m into its asset base during the Year. Investment in relocations and major rebuilds included:

- Nursling Mercedes Benz Commercial Vehicles** – Substantial new build of aftersales and used vehicle facility;
- Wimbledon Audi** – major refurbishment of leasehold Audi site in-line with new manufacturer "city concept", first of its type in the UK;
- Completion of the relocation of **Lincoln Jaguar Land Rover**, historically two separate leasehold sites into one purpose built freehold site;
- Relocation of **Lincoln Nissan** to larger premises (utilising ex-Lincoln Land Rover leasehold facility) compliant with Nissan brand standards;
- Purchase of freehold land to extend **Grimsby BMW** used vehicle display space.
- Acquire the freehold land of **Northampton ŠKODA**;
- Purchase of freehold land and buildings to accommodate recently acquired **Derby Volvo** franchise;

In addition to large scale redevelopments, the Group continues to invest in upgrading existing businesses to enhance the customer experience, satisfy brand requirements, electrification and increase sales and aftersales capacities.

Since IPO in 2015, the Group has invested over £100m in to its estate including corporate identity upgrades, freehold and long-leasehold acquisitions and ongoing maintenance capital expenditure. Following this unprecedented level of investment the Group expects to see its free cashflow benefit from 2021.



Market and business update

New vehicles

	2019	2018	Growth	
			Total	LFL
Retail units	29,249	28,871	1.3%	(2.2%)
Fleet units	18,054	17,342	4.1%	4.5%
Total units	47,303	46,213	2.4%	0.3%

2019 proved to be a challenging year for new vehicle sales in the UK. The SMMT reported a third year of decline in 2019 with the market down 14.2% from its peak in 2016.

Total new vehicle registrations of 2.31m in the Year represented a decline of 2.4% versus 2018. Registrations of new vehicles to retail customers continued to be impacted by general economic uncertainty, weaker sterling and the negative impact of Brexit and were down 3.2%. Fleet registrations were more encouraging with the decline contained to 1.7%. Purchasing decisions continue to be influenced by the lack of clarity on the future tax implications of diesel vehicles. Fleet registrations also benefitted from a pull forward of demand towards the end of 2019 as OEMs incentivised the sales of higher Co2 emitting vehicles as a result of the introduction of the new Clean Air For Europe programme ("CAFE") which came into effect on the 1 of January 2020.

Against this challenging market backdrop, during the Year, the Group sold a total of 47,303 new vehicles, an increase of 2.4% versus 2018. Despite the market decline, the Group's like-for-like new unit sales increased by 0.3%.

Total sales of new vehicles to retail customers increased by 1.3% in the Year with like-for-like sales outperforming the market with a decline of 2.2%.

Total sales of new vehicles to fleet customers increased by 4.1% in the Year with like-for-like sales also outperforming the market with an increase of 4.5%.

Overall new vehicle margins improved versus 2018, up 32bps to 7.4%. Margins declined in the second half of the year reflecting a combination of reduced manufacturer support for vehicles affected by changes introduced by the Worldwide Light Vehicle Test Procedure ("WLTP") in 2018 and an increased proportion of lower margin fleet sales.



Ford Mustang MACH-E



Volvo XC10 Recharge



Vauxhall Combo



smart EQ fortwo



Renault Twizy

Used vehicles

	2019	2018	Growth	
			Total	LFL
Total units	46,974	43,302	8.5%	6.1%

The SMMT reported further used vehicle market decline of 0.1% in 2019. The Group is therefore pleased that with its continued focus on sales of used vehicles, we are able to report an increase in used unit sales of 8.5%, with like-for-like sales increasing by 6.1%.

The Group's strategy on used car sales is to utilise capacity within the current Group portfolio to maximise throughput on its existing footprint, therefore mitigating the associated investment in additional sites and resource. We believe this approach reinforces the resilience of the franchise model. As the Group continues to grow, the combination of increased used vehicle stock availability, the ability to market that stock on our unified Marshall.co.uk website and the overall awareness of the Marshall brand, assists all franchises to leverage the benefits of our group scale.

The Group continually looks for opportunities to increase the number of used vehicles sold including through:

- increased on-site space, as demonstrated by the purchase of freehold land adjacent to our Grimsby BMW site;

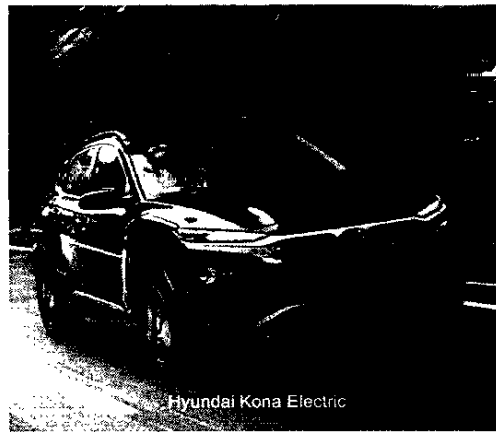
- operational controls, for example our strict 56-day stocking policy which encourages accelerated stock turn;
- the use of technology, including further enhancements to Phoenix 2, our in-house management information system, which integrates third party information on sales volumes and pricing
- increased brand recognition, including the first time utilisation of national television advertising.

There was further growth in the number of used cars purchased from the Group using PCP products which have now become a key feature of the 3-6 year old used car market in which the Group primarily operates. 63% of the Group's used vehicles which were purchased on finance were purchased using a PCP (2018: 63%). As in the new car market, PCPs create a defined point of renewal/purchase/replacement and we actively manage the renewal process to ensure, where possible, customers are retained by the Group.

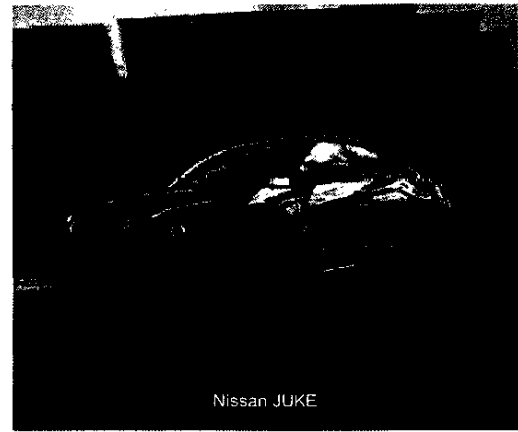
We believe the recent popularity of used car PCPs presents the Group with future opportunities for the sale of older used cars given the event-driven nature of a PCP.



Ford Transit



Hyundai Kona Electric



Nissan JUKE



SKODA KODIQ



Mercedes-Benz GLC SUV

OPERATING REVIEW

Aftersales

	2019	2018	Growth	
			Total	LFL
Revenue (£m)	258.2	246.1	4.9%	3.2%

Aftersales remains a key strategic focus of the Group, providing future revenue and profit assurance during periods of a more challenging economic environment. In addition to our retail centre based aftersales facilities, the Group operates six standalone bodyshops, six trade parts centres and one PDI centre.

Aftersales contributed 43.9% of total retail gross profit during the Year and therefore makes a significant financial contribution to the Group which is important in the context of a more cyclical new car market.

Our strong aftersales performance in recent years continued during the Year, with total revenue growth of 4.9% (3.2% like-for-like) partially offsetting margin pressure (down 127bps) due to an increased proportion

of parts sales compared to servicing revenue. Overall like-for-like gross profit from aftersales during the Year increased by £0.4m.

In order to drive customer retention, we offer service plans to customers of both new and used vehicles which allow customers to plan and budget for service costs. These plans are often included in the monthly payment of a vehicle and are therefore very convenient for customers.

As most new and used cars purchased with PCPs also come with service plans, this has helped to increase our segment 2 and segment 3 penetration, an area of the market that's historically been dominated by the independent sector.



Industry strategic landscape

The automotive sector is undergoing an exciting period of evolution, driven by a combination of technology, environmental and social change factors. The Group's strategy anticipates the impact that these macro factors will have for automotive retailers in the future.

Macro change factors

Climate change and the response of international governments to these issues, in combination with technological developments by vehicle manufacturers, will have a significant impact on the automotive sector over the coming years.

The global response to the issue of climate change, including the Paris Agreement target for carbon neutrality by 2050, has instigated a shift from traditional internal combustion engines ('ICE') to battery electric vehicles ('BEVs'). That process is already well underway, driven by regulatory interventions such as the Clean Air for Europe programme ('CAFE'). Under the CAFE regulations, punitive financial penalties will be imposed from 2020 on vehicles manufacturers which do not achieve significantly reduced average Co2 emissions. In addition, national governments, including the UK, are setting their own targets for the cessation of sales of new ICE vehicles (including hybrids) over the next 15-20 years.

As a result, all major vehicle manufacturers are investing heavily in the development and launch of hybrids and BEVs. The substantial investment requirements of these developments has already led to significant collaboration and consolidation between vehicle manufacturers, including the acquisition of Vauxhall Opel by Groupe PSA, the merger of Fiat Chrysler Automobiles and Groupe PSA and the alliance between Renault, Nissan and Mitsubishi.

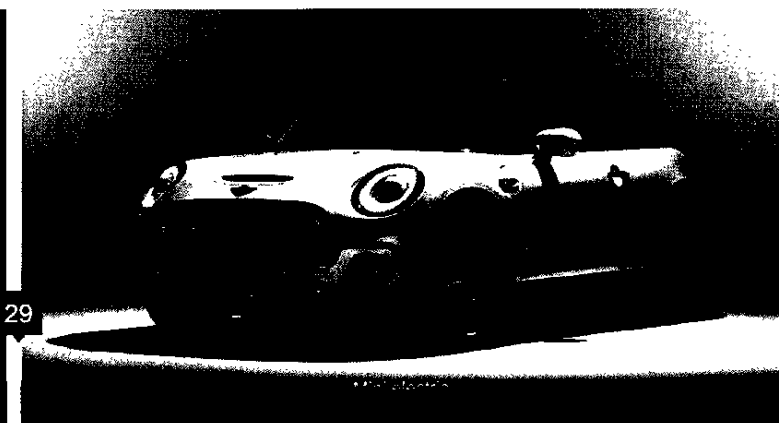
Other technological developments will also have an increasing influence on the automotive sector in the future. Connected car capabilities have existed for a number of years and have facilitated a variety of new sharing and subscription models of vehicle use. In addition, autonomous technologies, whilst still many years away in terms of the potential for fully autonomous vehicles, have introduced a range of comfort and safety features to modern motor vehicles.



Audi e-tron 50 quattro S line



CUPRA Formentor concept



Aston Martin DB11

OPERATING REVIEW

Impact and opportunities automotive retailers

The macro change factors outlined above present a number of potential challenges and opportunities for motor retailers in the future.

The increasing proportion of BEVs in the vehicle parc is likely to impact traditional aftersales activities, including the sale of parts and oil products. However, these new technologies, and the associated expertise and facilities required to service them, can also offer opportunities for certain franchised dealers. Close partnerships with vehicle manufacturers and the ability to invest in infrastructure required to service BEVs, differentiates their franchised dealers' expertise and service capabilities from those of the independent aftersales sector.

Connected car technology will provide further opportunities for manufacturers, through their franchised dealer networks, to improve retention rates for older vehicles within their aftersales networks.

Ancillary revenue streams including digital services, the sale of charging points and tyres (given increased replacement cycles for BEVs) are also areas of opportunity for certain retailers able and willing to invest.

Finally, further consolidation of vehicle manufacturers and the anticipated reduction of retail networks by up to c25% over the coming years should assist in higher throughput and profitability per retail location.

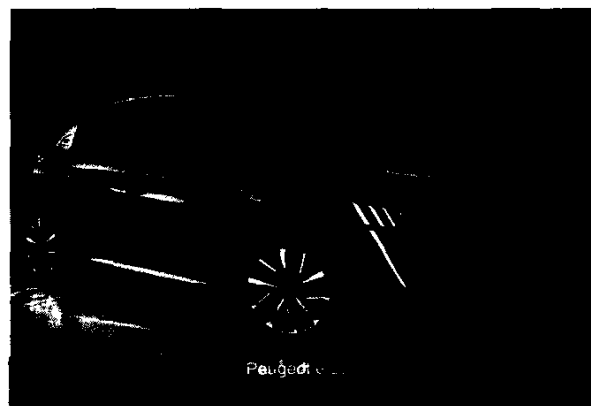
Marshall strategy

The Board believes that the Group's long standing strategy of partnering with the rights brands in the right locations has positioned it well to benefit from the changes ahead.

The Group's key manufacturer partners are strong and are taking leading positions in the development of future mobility technologies and the Group will benefit from the continued success of their brands.

The Board also believes that the Group's portfolio of dealerships are in the right locations and markets to benefit from the expected rationalisation and consolidation of dealer networks in the UK.

Finally, and importantly, the Group's growing scale and depth of relationships with its manufacturer partners will help to ensure it remains a relevant and important part of their future retail strategies.



Market outlook

As reported above, 2019 was a challenging year for the new vehicle market with registrations down 2.4% from 2018 and down 14.2% from the market peak of 2.69m registrations in 2016.

The current SMMT forecast for 2020 predicts a further new car market decline of 2.6% to 2.25m. Further declines are expected in diesel market share, with growth in registrations of alternative fuel vehicle registrations expected to continue.

The Board is also cognisant of the potential impact that uncertainty over the outcome of future trade agreement negotiations between the UK and the European Union may have on the automotive sector. We are, however, confident in our brand partners' commitment to the UK automotive retail market (the second largest in Europe).

Although we have not seen an impact to date, we are also monitoring the potential impact of COVID-19 and are considering contingency plans in the event that it starts to impact our dealerships.

Summary

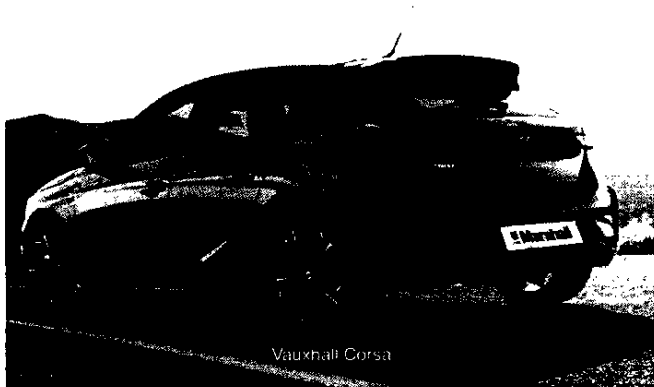
The Group continues to perform well despite a sustained period of market decline. Despite a declining market, the Group has grown market share by outperforming in all of its key segments and carefully managing both margins and costs.

We are particularly pleased with our used vehicle performance and growth in aftersales revenues. These revenue streams provide resilience to the business during more challenging periods of the cyclical new car market.

The Group has demonstrated the benefits of its strong balance sheet and has taken advantage of continued market consolidation in the Year. We are pleased to welcome 20 new business and over 400 new colleagues to the Marshall family, demonstrating our confidence and belief in both the industry and our brand partners.

Finally, on behalf of the Board I would like to thank our colleagues, and our brand and business partners for their hard work and support during 2019. I look forward to continuing to work together in 2020.

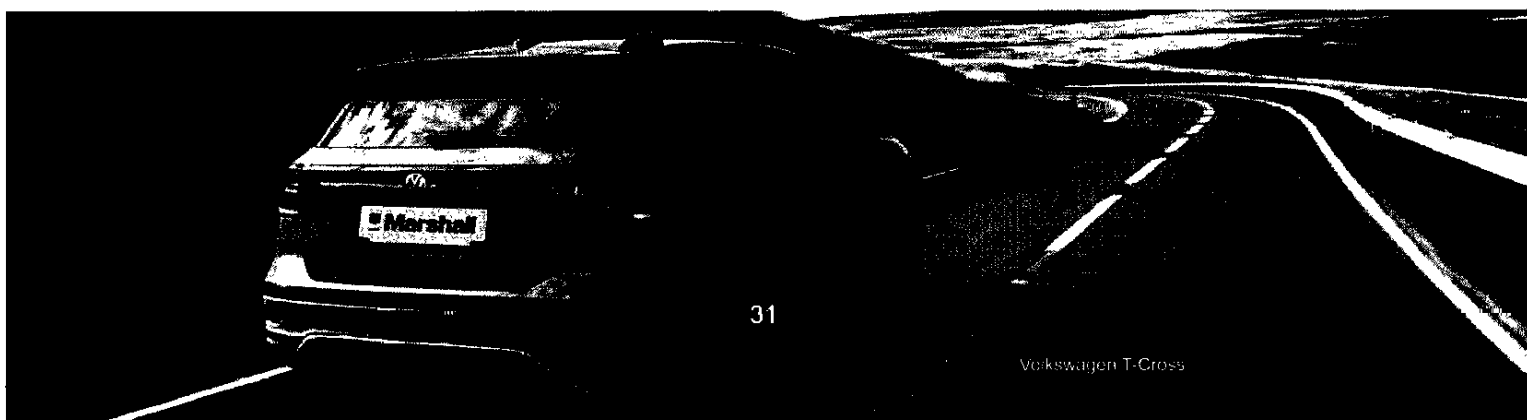
Daksh Gupta
Chief Executive Officer
9 March 2020



Vauxhall Corsa



Kia Niro



Volkswagen T-Cross

Financial Review

“Strong asset base provides a platform for further growth”



Richard Blumberger
Chief Financial
Officer

Overview

I am pleased to present the Group's 2019 annual results.

2019 has been a year of exciting growth. Despite the ongoing economic uncertainty, we continued to outperform the new and used car markets with continued growth of like-for-like unit sales of both new and used vehicles, with a particularly strong performance from our fleet business. In line with our strategy of partnering with the right brands and in the right markets, we acquired a number of underperforming businesses in the Year. Whilst these acquisitions were earnings dilutive in 2019 and are expected to be earnings dilutive in 2020 and 2021, we are confident in their medium and long term potential. Losses from the acquired businesses are reflected in our 2019 results which are presented below.

As I stated last year, we were in a strong position to capitalise on acquisition opportunities as they arose. Including freehold property associated with acquired businesses, we invested over £30m in the Year on acquisition activity which included 6 Volkswagen, 7 SKODA, 2 Honda, 1 Volvo and 1 LEVC franchise. As a result of this exciting year of acquisitive growth, we have seen our number of sites increase by almost 20%. We also continued to invest in the business and spent £15.2m on capital expenditure, excluding freehold property acquired as part of business acquisitions. This also included the exciting upgrade of Audi Wimbledon, the first virtual reality showroom of its kind in the UK and which opened in February 2020. We also completed the development of our new multi-million-pound Mercedes-Benz Commercial Vehicles site in Nursling, Southampton.

We continued to delight our customers and grow market share and, with the benefit of our industry leading software, we are able to continue to go from strength to strength. This is in a large part thanks to our dedicated team of people who go about their day to day activities, challenging everything they can and delivering strong customer outcomes. All this is done whilst controlling our cost base, demonstrated by the fact that our like-for-like expenses were up only 1.5% despite ongoing cost headwinds, or 1.8% excluding the impact of a lease disposal.

The Group achieved revenue growth during the Year on both reported and like-for-like basis. We did experience margin pressure as a result of the market decline and we saw strong headwinds in our cost base, both of which were highlighted in our annual report last year. When combined with the impact of loss making acquisitions referred to above, these have led to an overall decline in the Group's underlying continuing PBT.

Despite the continued investment in our existing portfolio and the number of acquisitions we made, along with the working capital increase from a growing business, especially around fleet, I am pleased to report that we continue to optimise our working capital and Adjusted Net Debt (pre IFRS16) at the end of the Year was £30.6m (2018: £5.1m), giving a healthy leverage of less than 1x EBITDA. Our balance sheet continues to strengthen with Net Assets of £202.3m (2018 restated: £194.0m) and is underpinned by our strong freehold and long leasehold property portfolio.

Notwithstanding the SMMT forecast for further new car market decline in 2020, our platform leaves us in an excellent position to continue our outperformance.



The all-new BMW M8 Competition Coupe

Reported Financial Performance

The Group adopted IFRS 16 Leases effective 1 January 2019, using the full retrospective approach. Further details of this can be found in note 3 to the financial statements.

	2019	2018	Var %
Revenue	2,276.1	2,186.9	4.1%
Gross profit	260.8	253.2	3.0%
Operating expenses	(228.8)	(218.9)	(4.5%)
Operating Profit	32.0	34.3	(6.7%)
Net finance costs	(9.9)	(9.6)	(3.9%)
PBT underlying	22.1	24.7	(10.8%)
Non-underlying items	(2.4)	(6.7)	63.6%
PBT reported	19.6	18.0	8.9%
Tax	(4.1)	(4.7)	12.9%
PAT reported	15.6	13.4	16.5%
Discontinued operations	-	0.6	-
Profit for the year	15.6	14.0	11.6%

Despite the site closures effected in November 2018, reported revenue increased by 4.1% during the Year to £2,276.1m. This strong performance was achieved as a result of both organic growth and acquisitions made during 2019.

The Group's operating profit, on a continuing underlying basis was £32.0m compared to £34.3m in 2018. Continuing underlying PBT in the Year was £22.1m compared to £24.7m in 2018. This decline was driven by a combination of anticipated margin pressure, cost headwinds and the impact of loss-making acquisitions made during the Year.

Our reported PBT of £19.6m (2018: £18.0m) included one-off non-underlying items of £2.4m (2018: £6.7m) as set out in note 7 to the financial statements.

Analysis of Reported Revenue and Gross Profit

The segmental mix on a reported basis is shown in the table below, with like-for-like analysis covered later in this report. The table below shows a broadly similar mix versus 2018.

Twelve months ended 31 December 2019

	Revenue		Gross Profit	
	£m	mix	£m	mix
New Vehicles	1,079.5	46.4%	80.1	30.8%
Used Vehicles	986.7	42.5%	65.5	25.2%
Aftersales	258.1	11.1%	114.6	44.0%
Internal/Other	(48.2)	-	0.6	-
Total	2,276.1	100.0%	260.8	100.0%

Twelve months ended 31 December 2018

	Revenue		Gross Profit	
	£m	mix	£m	mix
New Vehicles	1,064.8	47.7%	75.7	29.9%
Used Vehicles	920.2	41.2%	65.4	25.9%
Aftersales	246.1	11.0%	111.9	44.2%
Internal/Other	(44.3)	-	0.2	-
Total	2,186.9	100.0%	253.2	100.0%

* mix calculation excludes Internal/Other Sales

Finance Costs

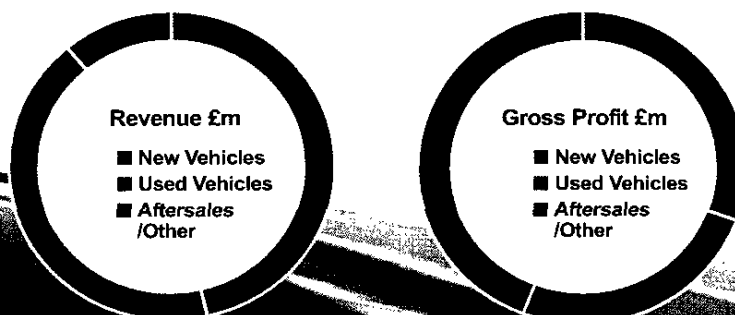
Net finance costs increased by £0.3m in the Year to £9.9m (2018 restated: £9.6m) reflecting the costs of financing higher average stock levels as a result of the growth in the business during the Year.

Generating Sustainable Shareholder Value

Profit from continuing operations before tax and non-underlying items was £22.1m (2018 restated: £24.7m), £19.6m after non underlying (2018 restated: £18.0m). The total reported effective tax rate was 20.7% (18.9% on a continuing underlying basis). Profit from continuing operations after tax was £15.6m (2018 restated: £13.4m), resulting in a reported basic continuing earnings per share of 19.9p, an increase of 15.7% on the prior year.

The Group's strategy of organic growth incorporating cost control and sound working capital management, combined with strategic acquisitions, provides a platform for improving shareholder returns.

Segmental mix analysis overview FY 2019 >



FINANCIAL REVIEW

Non-Underlying Items

The Income Statement includes a separate presentation of non-underlying items to assist a consistent understanding of the performance of the Group year on year.

Non-underlying items in the Year comprise the following:

£m	2019	2018
Acquisition costs	0.8	-
Restructuring costs – recognition / (release)	2.1	(3.5)
Gain on revaluation of investment properties	(0.6)	-
Loss on disposal of investment property	-	1.2
Goodwill impairment	-	9.3
Other	0.1	(0.3)
Total – Continuing operations	2.4	6.7
Profit on disposal of subsidiary	-	(0.6)
Total	2.4	6.1

Acquisition costs include professional advisory costs and initial integration costs for the new dealerships added to the Group during the Year.

Following a review of the Group's dealerships, a decision was made to close one site, with a further site scheduled for closure during the year ended 31 December 2020. The costs, included in restructuring costs in non-underlying items, represent redundancy costs, asset impairment, and unavoidable costs associated with contracts which relate to these sites.

An independent valuation of the Group's properties was obtained during the Year, which indicated an increase in value of the investment properties held of £0.6m, the benefit of which is taken through non underlying items. Whilst non-investment properties also had a substantial gain, no accounting adjustment is made for these.

Like-for-Like Financial Performance

Basis of Comparatives

To enable effective comparison of the Group's year-on-year performance, underlying operating profit is shown on a like-for-like basis. The full definition of an Alternative Performance Measure can be found in Note 2 to the financial statements and the appendix at the end of the Annual Report and Accounts.

Like-for-like	2019	2018	Var%
Revenue	2,209.6	2,161.5	2.2%
Gross Profit	252.3	250.4	0.8%
GP%	11.4%	11.6%	(17 bps)
Expenses	(219.3)	(215.9)	1.5%
Operating Profit	33.1	34.5	(4.1%)

Like-for-Like Segmental Analysis

Twelve months ended 31 December 2019

	Revenue		Gross Profit	
	£m	mix*	£m	mix
New Vehicles	1,056.7	46.8%	78.0	31.0%
Used Vehicles	951.0	42.1%	63.3	25.2%
Aftersales	250.1	11.1%	110.8	43.8%
Internal/Other	(48.2)	–	0.3	–
Total	2,209.6	100.0%	252.3	100.0%

Twelve months ended 31 December 2018

	Revenue		Gross Profit	
	£m	mix*	£m	mix
New Vehicles	1,060.2	48.1%	75.4	30.1%
Used Vehicles	903.4	40.9%	64.4	25.8%
Aftersales	242.3	11.0%	110.4	44.1%
Internal/Other	(44.3)	–	0.3	–
Total	2,161.5	100.0%	250.4	100.0%

* mix calculation excludes Internal Other Sales



Like-for-like Revenue**£2,209.6m** (up 2.2%)

(2018: £2,161.5m)

Like-for-like revenue in the Year was £2,209.6m (2018: £2,161.5m), an increase of 2.2% and a continuation of our track record of like-for-like revenue growth since IPO. This result is particularly pleasing in a year which saw the new car market decline by 2.4% and the used car market decline by 0.1%.

This year-on-year improvement was driven by a strong used vehicle performance with unit sales up by 6.1% and associated revenues, at £951.0m (2018: £903.4m), up by 5.3%. This increase was against the backdrop of a total used car market which declined by 0.1%.

Aftersales revenue increased by 3.2% to £250.1m (2018: £242.3m) with both service and parts revenue increasing in the year and parts mix of aftersales increasing to 51.6% (2018: 50.7%).

Revenue relating to the sales of new vehicles was marginally down (0.3%) in the Year at £1,056.7m (2018: £1,060.2m), on a unit sales increase of 0.3%, reflecting a decline in the turnover per unit largely due to an increased mix of fleet sales. This performance is particularly pleasing when compared to an overall market decline of 2.4% in unit sales.

During periods of cyclical market decline, a strong used and aftersales revenue growth demonstrates the resilience of the business model. It is, therefore, pleasing that our focus on these areas has allowed the business to continue to drive revenue growth in the Year.

Like-for-like Gross Profit**£252.3m** (up 0.8%)

(2018: £250.4m)

As anticipated, the Group was impacted by margin pressure during the Year. At 11.4%, gross margin percentage was slightly down (17bps) from the prior Year (2018: 11.6%). Despite this margin decline, absolute like-for-like gross profit increased 0.8% to £252.3m (2018: £250.4m) as a result of the strong revenue growth referred to above.

New vehicle margins at 7.4% were up versus 2018 by 27bps (2018: 7.1%), a recovery following the well documented challenges experienced in 2018 relating to Worldwide Harmonised Light Vehicle Test Procedure ("WLTP") and the availability of petrol vehicle alternatives.

Our used vehicle margin at 6.7% was down by 47bps versus 2018 (2018: 7.1%), a trend which was highlighted at the half year caused by market residual value declines experienced in Q2 2019. These pressures eased in the second half of the Year, but not to an extent to offset the declines experienced in the first half of the Year.

Like-for-like aftersales margin was 44.0% compared to 45.6% last year. This was as a result of an increased proportion of lower margin parts sales referred to above, combined with an increase in aftersales operating costs.

Like-for-like Operating Expenses**£219.3m** (up 1.5%)

(2018: £215.9m)

Although cost pressures continue to impact the overall sector, our like-for-like expenses, at £219.3m, were contained to 1.5%, or 1.8% excluding the benefit of a lease disposal. This was an excellent performance given the significant cost headwinds experienced, in particular employee and property related costs. The Group continued to place focus on all discretionary costs, particularly in relation to marketing effectiveness, use of temporary labour and costs relating to vehicle stockholding.

Like-for-like Operating Profit**£33.1m** (down 4.1%)

(2018: £34.5m)

Given the factors referred to above in relation to margin pressures and cost headwinds, our like-for-like operating profit declined by £1.4m to £33.1m a solid result given the challenges the sector is facing. Overall operating margin, at 1.5%, was down 10bps versus last Year (2018: 1.6%).

Shareholder Returns

Full year dividend per share

8.54p (maintained)

(2018: 8.54p)

In March 2019, the Group announced a revised dividend policy whereby dividends would be covered between 2.5x to 3.5x underlying earnings per share. The Board believes this policy is appropriate and sustainable, balancing the Group's strong financial position and cash generation with its stated strategy of further investment and growth in its business. The Board is recommending a final dividend for 2019 of 5.69p which would give a full year dividend of 8.54p, flat versus last year (2018: 8.54p) and cover of 2.7x.

During the Year, total dividends of £7.2m were paid to shareholders, an increase of £2.2m versus last year (2018: 5.0m).

ROCE

Return on capital employed (ROCE) for the Year was 10.9% (2018: 12.8%). ROCE is calculated as underlying profit before tax divided by total equity.

This movement is a reflection of the decline in continuing underlying PBT which was, in part, impacted by loss making acquisitions which management expect to show significant improvement in the medium term.

Reported Balance Sheet

£m	2019	2018 Restated
Goodwill and intangibles	119.3	112.2
Freehold land and buildings	124.9	117.7
Right-of-use assets	108.0	85.4
Other	39.5	34.5
Fixed assets	391.6	349.8
Inventory	470.7	384.0
Trade / other receivables	87.5	79.0
Cash & equivalents	0.1	1.2
Assets held for sale	0.8	0.8
Current assets	559.1	464.9
Vehicle funding	(443.7)	(370.8)
Trade / other payables	(140.6)	(127.2)
Lease liabilities	(108.1)	(87.6)
Bank / other debt	(30.7)	(6.3)
Other liabilities	(25.2)	(28.7)
Total liabilities	(748.4)	(620.6)
Net assets	202.3	194.0
Adjusted net debt (£m)	(30.6)	(5.1)

Goodwill and other intangible assets

Following the completion of a number of acquisitions during the Year, additions to goodwill and other intangible assets total £7.5m; of this, £5.0m represents the assessment of the value of the acquired dealership franchise agreement with the vehicle manufacturer. These franchise agreement intangible assets are deemed to have an indefinite life and so no amortisation is charged to the income statement.

Consistent with the requirements of accounting standards, the Group has carried out an assessment of the carrying value of goodwill and other intangible assets. This assessment, which is based upon the Group's annual budget and medium-term plan, has not indicated any impairment of these assets see note 14.

Acquisitions

Including the purchase of freehold property relating to Northampton ŠKODA and Derby Volvo, the Group invested £31.6m (2018: Nil) acquiring businesses during the Year. Although the majority of these businesses were loss making at the point of acquisition, the Group views them as having strong potential for the future, further growing representation with a number of our key brand partners.

As a result of these acquisitions, the Group has added £6.6m of intangible assets, £5.0m relating to franchise agreements and £1.5m for goodwill. The remaining £25m related to property plant and equipment, right of use assets and the associated lease liabilities along with inventory and other working capital related items.

These acquisitions were funded through existing resources, utilising our unsecured £120m revolving credit facility with all relevant inventory placed onto our current stock funding lines.

Freehold Land & Buildings

The Group invested a total of £15.2m (excluding the freehold property acquired in relation to business acquisitions) in capital expenditure during the Year. This amount included major redevelopments in Nursling Mercedes Benz Commercial Vehicles, Wimbledon Audi, Lincoln Jaguar Land Rover, Lincoln Nissan and Grimsby BMW.

This investment brings the net book value of the Group's property, plant and equipment at 31 December 2019 to £159.3m (2018 restated: £148.2m), of which £123.2m related to freehold land and buildings (2018 restated: £108.2m).

Since IPO in 2015, the Group has invested over £100m in to its estate including corporate identity upgrades, freehold and long-leasehold acquisition and ongoing maintenance capital expenditure. Following this unprecedented level of investment, the Group expects to see its free cashflow benefit from 2021.

During the Year, the Group instructed external property advisors, BNP Paribas, to conduct a revaluation exercise of its freehold properties. I am pleased to report that this showed our freehold estate (excluding investment properties) has been market valued at c£15m above book value. This difference, in-line with our accounting policies, has not been recognised in our balance sheet.

Strong Working Capital Management

A disciplined approach to working capital remains a key focus for the Group. In the Year, excluding the settlement of the defined benefit pension scheme, the Group generated a cash inflow of £7.5m from working capital. Of this amount c£15m

related to stock funding on vehicles acquired as part of the acquisitions referred to above. The remaining increase in working capital related to increased levels of fleet debt at the year end following strong fleet deliveries at the end of the Year.

Inventory, net of provisions, at £470.7m increased by 22.6% versus 2018, largely due to acquisitions with the like-for-like inventory increasing 9.3%. £443.7m (94.2%) of this inventory was covered by vehicle financing arrangements which is a marginal decline from 2018 (96.6%) mainly due to timings of year end deliveries and increased fleet orders.

An increase in trade and other receivables reflected the increased scale of the Group following acquisitions and start-ups as well as the increased level of fleet debt referred to above.

Overall, the Group's reported net assets at 31 December 2019 were £202.3m (2018 restated: £194.0m), which equates to £2.59 per share (2018 restated: £2.50).

Good Cash Conversion

The Group remains cash generative with cash flow from operations during the Year of £53.3m. This enabled us to maintain our investment programme supporting both organic growth and facilitate the acquisition of new dealerships when appropriate opportunities arose. Operating cash flow conversion (being total cash flow generated by operations divided by operating profit from continuing operations before interest, tax, depreciation, amortisation and depreciation on right-of-use assets) is a key metric for managing operational performance.

During the Year, total cash inflows from operations of £53.3m (2018 restated: £47.3m) represented a cash conversion of 108% (2018 restated: 86%).

The Group's cash conversion remains strong and is supported by a focus on the management of working capital, appropriate stock holding policies and the utilisation of stock funding facilities.

Net Debt and Facilities (excluding IFRS16)

At 31 December 2019, the Group's adjusted net debt was £30.6m (2018: £5.1m).

The Group's current finance facilities include a £120m revolving credit facility which is committed until May 2021.

The interest rate on this facility is LIBOR plus 120bps to 200bps dependent upon the ratio of Net Debt (excluding IFRS16) to EBITDA. The Group is at an advanced stage of discussions with its lenders to enter into a new RCF.

Net debt including IFRS 16 lease liabilities at 31 December 2019 was £138.6m (2018 restated: £92.8m).

Tax

The Group manages all taxes in line with its published Tax Strategy. This focuses on ensuring that tax compliance risks are managed and therefore the Group pays the appropriate amount of tax. The Group's Tax Strategy is reviewed at least annually and is approved by the Board.

The Group's tax charge before non-underlying items for the Year was £4.2m (2018 restated: £4.3m), an effective tax rate of 18.9% (2018 restated: 17.3%). The effective tax rate for 2018 was reduced by the benefit of retrospective capital allowance claims, excluding the impact of these would result in an effective tax rate for 2018 of 21.6%.

The Group's effective tax rate including non-underlying items was 20.7% (2018 restated: 25.9%).

IFRS16

The Group adopted IFRS 16 Leases effective 1 January 2019 using the full retrospective approach under which the standard is applied as though it had been in place at the start date of the Group's current lease portfolio. The comparative results for the year ended 31 December 2018 are therefore restated. Further details can be found in note 3 to the Consolidated Financial Statements.

The Group balance sheet at 31 December 2019 includes additional assets of £98.6m (being principally right of use assets) and additional liabilities of £105.6m (being principally lease liabilities). Further detail can be found in note 3 to the financial statements

Due to the profile of the Group's lease portfolio, the adoption of the standard is marginally earnings diluting in the early years.

While this standard is a substantial change for the presentation of the balance sheet and the income statement, it has no impact on the underlying cash flows and therefore economic performance of the Group.

Pensions

As previously reported, during the year ended 31 December 2018, the Group ceased to be a participating employer in the Marshall Group Executive Plan (a defined benefit pension scheme). A provision for the Group's residual liability of £5.6m as at 31 December 2018 and was paid to the scheme in February 2019.

The Group has no further commitments to defined benefit pension schemes, with all remaining Group pension plans being on a defined contribution basis.

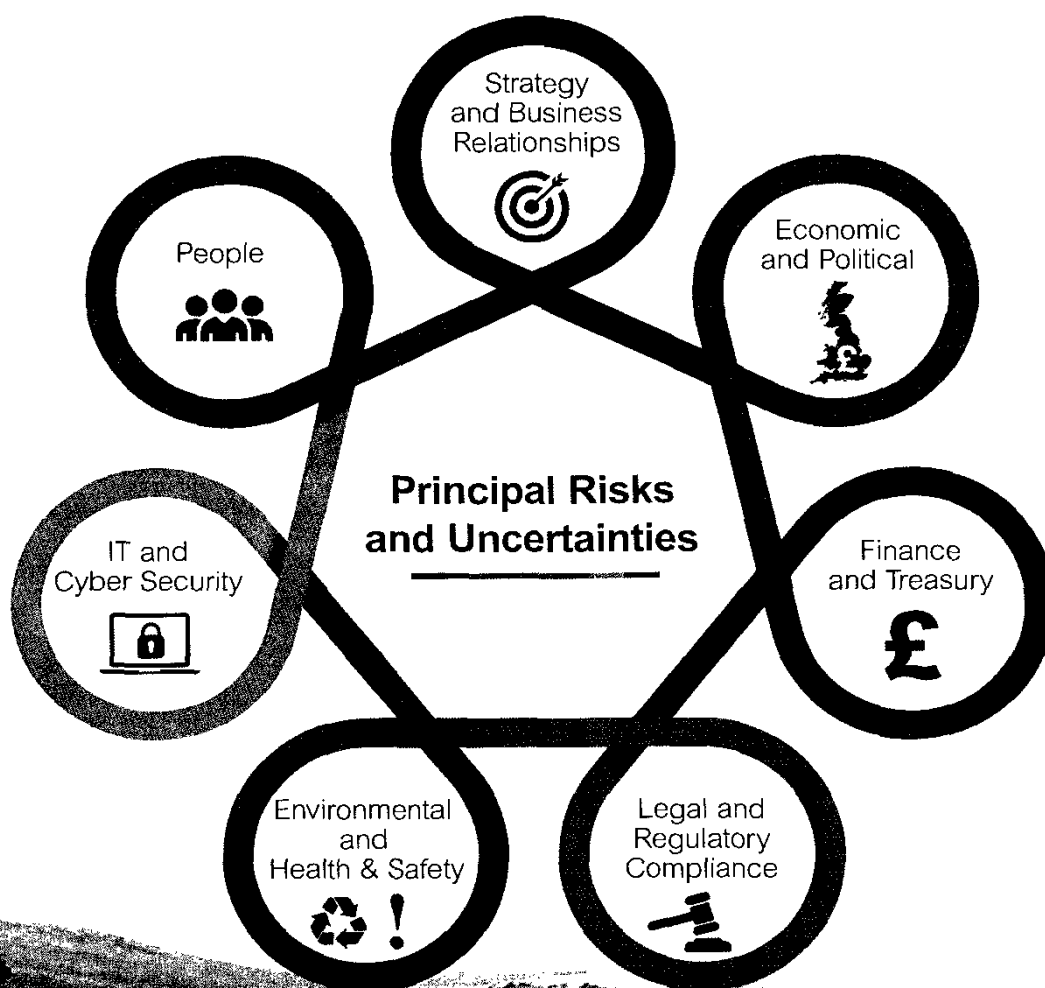
Richard Blumberger
Chief Financial Officer
9 March 2020







Principal Risks and Uncertainties

The Group faces a range of risks and uncertainties which variously arise from the Group's operations, are specific to the sector, or are due to wider macro-economic circumstances. The processes that the Board has established to monitor business risks and put in place mitigating actions in order to safeguard both shareholder value and the assets of the Group are described in the Corporate Governance report.






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 are set out below. The risk trend column indicates the Board's view on whether, from a Group perspective taking into account mitigating actions, the potential for each risk to have a material impact upon the Group has 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 and is likely to evolve over time due to the dynamic nature of the Group's business, the sector, and the political and economic circumstances of the UK.



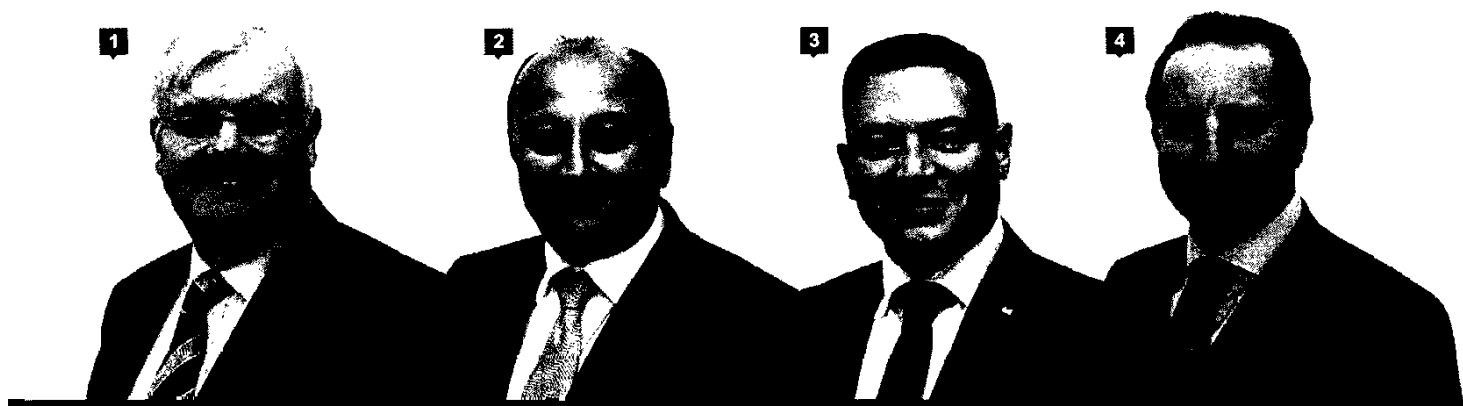
Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
Strategy and Business Relationships			
Failure to adopt the right business strategy and/or failure to implement strategy successfully	<p>The Group misses its financial targets or is unable to invest in its businesses</p> <p>Reduction in confidence of key stakeholders (shareholders, brand partners, lenders, and employees)</p> <p>Poor investment decisions/failure to achieve targeted investment returns</p>	<p>Annual strategy review by the Board to guide business planning and investment decisions</p> <p>Monthly reporting and monitoring of key financial information and performance with prompt investigation of significant variances</p> <p>Detailed business planning and due diligence prior to potential acquisitions</p> <p>Review of capital expenditure plans to ensure that the Group's 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 supported by bank credit lines and stock financing facilities</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> <p>Continued track record of achieving brand targets, being a partner whom the brands can trust</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>Prompt 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>Close working relationship and partnership with brands who are responding effectively to the cleaner technology, automation and 'mobility as a service' potential disruptive factors</p> <p>Connected car technology reinforces link between customers and manufacturers through franchised dealers</p> <p>Annual strategy review by the Board considers market and technology trends and applies this information to guide business planning and investment decisions</p> <p>The Group scale and financial position leaves it in a good position to benefit from market changes as technology and customer requirements evolve</p> <p>The Group strategy of partnering with key brands ensures we have a strategic relationship with those brands</p>	

PRINCIPAL RISKS AND UNCERTAINTIES

Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
Economic and Political			
Deterioration in economic conditions/ consumer confidence	<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>Interest rate rises impacting availability and affordability of vehicle finance</p> <p>Increased costs of servicing the Group's borrowings</p> <p>Economic disruption, including changes in UK consumer behaviours and/or disruption to supply chains, caused a pandemic, such as COVID-19, or other environment impacts</p>	<p>Board monitoring of economic conditions and forecasts with appropriate actions being developed and implemented to reduce adverse impact upon the Group as whole</p> <p>Detailed stock management & reporting provided through the Group's bespoke Phoenix information system. Stock level information is used to enforce the Group's prudent stock policies (including a maximum stock holding period of 56 days for used vehicles)</p> <p>Maintaining close relationships with manufacturers enables the Group to assess the level of commitment to the UK market and seek to support and reinforce this commitment</p> <p>Managing the day to day working capital of the Group and the acquisition strategy to maintain, on average, a low level of net debt with substantial facility headroom</p> <p>Monitoring of UK government and World Health Organisation information regarding epidemics and pandemics and following guidance and best practice for responding to any such events, including providing clear guidance and support to colleagues. Close communication with manufacturers to understand and respond to any identified supply chain impacts</p>	
UK's withdrawal from the European Union ('Brexit')	<p>Negative impact on UK economy: 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>Potential regulatory changes may impact franchising model in the UK (including potential changes to EU Block Exemptions)</p> <p>A 'No Trade Deal' Brexit or a trade deal which imposes tariffs or other barriers to free trade would be significantly more negative for automotive retail sector than a managed exit with a UK-EU tariff free trade deal</p>	<p>Board monitoring of economic conditions and forecasts with appropriate actions being developed and implemented to reduce adverse impact upon the Group as whole</p> <p>Impact of a deterioration in consumer confidence mitigated by PCP renewal cycle (primarily in the new car market)</p> <p>Stock management and monitoring with appropriately prudent policies, including a maximum stock holding period of 56 days for used vehicles, to mitigate impact of falling vehicle values</p> <p>Maintaining close relationship with manufacturers and monitoring of manufacturers' Brexit preparations</p> <p>The Group is not a direct importer of vehicles and parts from the EU; Extent of supply disruptions to the Group and its customers in a 'No Trade Deal' Brexit scenario will depend on manufacturers' ability to manage import challenges</p> <p>Diversity of the Group's portfolio of brand partners which includes UK, EU and non-European manufacturers</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>Operating and non-controllable costs are monitored through monthly management reporting and the weekly operational forecasts against expectations set in the annual budget</p> <p>Cost reduction and efficiency 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>The Group has committed RCF and vehicle stocking facilities and maintains strong relationships with funders</p> <p>Managing the day to day working capital of the Group and the acquisition strategy to maintain, on average, a low level of net debt with substantial facility headroom</p> <p>The Group's track record and current financial position leave it well placed to secure funding; however, market factors and the macro-economic situation are leading to increased funding costs.</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 (including a maximum stock holding period of 56 days for used vehicles,</p>	

Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
Legal and Regulatory			
Legal & Regulatory Changes and Compliance	<p>Non-compliance with key legal and regulatory codes (Financial Conduct Authority ("FCA"), Driver & Vehicle Standards Agency, Information Commissioner's Office, etc.) leading to fines, litigation, authorisation suspension and/or reputational damage</p> <p>Regulatory intervention into the market (for example the FCA motor finance review and the FCA Thematic Review of General Insurance Distribution Chains) may impact operations</p>	<p>Monitoring of regulatory announcements/market studies to identify potential changes in regulatory requirements and implementation of any changes necessary to meet new requirements</p> <p>Group compliance team tasked with developing policies / procedures, training, and monitoring compliance</p> <p>Internal Audit team, deliver an annual programme of reviews to a scope approved by the Audit Committee</p> <p>On-going programme of systems and software development to support the sale process providing consistency and enhanced monitoring capability</p> <p>A programme of training has been delivered across the Group to meet the requirements of the FCA's Senior Managers & Certification Regime. This training has also been incorporated into the induction procedures for new employees</p>	
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>The Group Environment, Health & Safety team develop and support sites in implementing policies and procedures to promote safe places of work. These procedures include:</p> <ul style="list-style-type: none"> • A programme of audits across Group • Regular inspection of plant and equipment • Waste management procedures and employee training <p>The Group Environment, Health & Safety team monitors compliance and promotes a health and safety helps culture</p> <p>Compliance with policies and incident response is a standing agenda item for the Board and the operational management meetings</p> <p>Environmental due diligence is carried out for new site acquisitions with appropriate environmental and remediation works being carried and insurance being put 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>The Group IT strategy is set by the Board with delivery being monitored by an IT steering committee</p> <p>The Group IT team monitors systems and implements upgrade programmes as required following approval by the IT steering committee</p> <p>IT system contingency and disaster recovery plans are in place</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>The Group has clear protocols/policies in place regarding use and access to the Group's IT systems</p> <p>Cyber security defences are in place and include:</p> <ul style="list-style-type: none"> • Network unified threat management / Firewall • Anti-virus software • Inbound and outbound email scanning and filtering 	
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 include long-term incentive plans for senior employees which are aligned with the interests of shareholders</p> <p>Guaranteed earnings scheme for new sales staff to assist recruitment and retention</p> <p>Promotion of "Great Place to Work" culture</p> <p>Training and career development programmes in place to provide opportunities for promotion within the Group</p>	

Board of Directors



**1. Professor Richard Parry-Jones CBE
Non-Executive Chairman
and Chair of the Nominations Committee**

Richard has had a long and distinguished career in the automotive industry. He spent over 30 years in senior executive positions at Ford Motor Company, including Group Vice President of Global Product Development and served as its Chief Technical Officer for 10 years.

Richard's non-executive career has included positions working with the Government as Co-Chair of the UK Automotive Council and in infrastructure sectors as Chairman of Network Rail and Chairman of Kelda Group Holdings and Yorkshire Water. He also served for 10 years as a non-executive director of GKN plc, a global leader in automotive and aerospace systems, including the role of senior independent director. Richard's other current roles include Visiting Professor at Loughborough University and Chairman of the Faraday Challenge Advisory Board.

Richard joined the Board as Non-Executive Chairman in January 2019.

**2. Daksh Gupta
Chief Executive Officer**

Daksh has over 27 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 president of the UK automotive industry charity, BEN.

**3. Richard Blumberger FCMA
Chief Financial Officer**

Richard has a wealth of experience gained from senior finance roles with major UK public companies. Before joining Marshall, Richard was Director of Group Finance at Mitie Group plc and previously held senior finance roles at Engie (formerly GDF Suez) and Balfour Beatty plc. He has a strong understanding of multi-site businesses and a track record of strategic planning, profit enhancement and extensive M&A experience.

Richard was appointed to the Board as Chief Financial Officer in January 2019.

**4. 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 AngloGold Ashanti Limited. He chairs the audit committees and is the senior independent director of both Johnson Matthey Plc and Croda International plc. 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.



5. Nicky Dulieu

Non-Executive Director and Chair of the Remuneration Committee

Nicky is an experienced Non-Executive Director with a wealth of retail industry experience. She trained as an accountant with Marks & Spencer Plc and undertook numerous strategic and financial roles in the company over a 23 year period, including as Finance Director of the Food Division. Nicky joined Hobbs Limited as its Finance Director in 2006 before becoming its Chief Operating Officer and subsequently Chief Executive between 2008 and 2014.

Nicky is currently a Non-Executive Director at Huntsworth Plc, Adnams Plc and Redrow Plc.

Nicky was appointed to the Board on 1 January 2020.

6. Kathy Jenkins

Non-Executive Director

Kathy joined Marshall of Cambridge (Holdings) Limited in April 2017 as Group HR Director. Kathy was appointed as Chief Operating Officer in October 2019. Before joining Marshall, Kathy spent 14 years at Thales plc where she held a number of senior executive positions. She has also worked with Marconi plc.

Kathy was appointed to the Board in May 2018 as a nominated director of Marshall of Cambridge (Holdings) Limited.

7. 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 Trustee of the Addenbrooke's Charitable Trust and a Member of Anglian Learning.

Christopher was appointed to the Board in July 2016 as a nominated director of Marshall of Cambridge (Holdings) Limited.

8. 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 currently a non-executive director of listed companies F&C Investment Trust plc and Share plc and was appointed as a non-executive director of Air France in May 2018. She was previously 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.

9. 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.

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 2019 (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.

Results and Dividends

The results for the Year are set out in the Consolidated Statement of Comprehensive Income. The Directors recommend the payment of a final dividend of 5.69p per ordinary share to be paid on 22 May 2020 to shareholders who are on the Company's register at close of business on 24 April 2020.

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 42 to 43. The Directors who served during the Year and subsequently are detailed below.

Current Directors

Non-Executive Directors

Richard Parry-Jones (*Appointed 1 January 2019*)

Alan Ferguson

Francesca Ecsery

Nicky Dulieu (*1 January 2020*)

Kathy Jenkins

Christopher Walkinshaw

Executive Directors

Daksh Gupta

Richard Blumberger (*Appointed 2 January 2019*)

Other Directors who held office during the Year

Sarah Dickins (*Resigned 30 June 2019*)

Mark Raban (*Resigned 2 January 2019*)

In accordance with the Articles of Association of the Company adopted on 12 March 2015 (the "Articles"), having been appointed since the date of the last annual general meeting of the Company, Nicky Dulieu will retire by rotation and offer herself for reappointment at the annual general meeting to be held on 21 May 2020 (the "AGM"). In addition, Christopher Walkinshaw, having last been elected at the 2017 annual general meeting, will retire by rotation in accordance with the Articles of Association of the Company and offer himself for reappointment at 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 69 to 75.

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 28 to the financial statements. The issued share capital of the Company at 31 December 2019 was 78,232,237 ordinary shares of 64p each.

Substantial Shareholdings

As at 9 March 2020, 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	64.41
Union Investments & Development Limited	7,105,839	9.08
Janus Henderson Investors	3,749,271	4.79
Schroder Investment Management	3,037,402	3.88
Polar Capital Limited	2,516,420	3.22

Share Option Schemes

Details of employee share option schemes are set out in the Remuneration Committee Report and in Note 29 to the consolidated financial statements.

Charitable and Political Donations

During the Year, the Group made the following charitable donations during the year: £44,803 (2018: £8,000).

No political contributions were made during the Year (2018: £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 Group has continued to provide employees with information about the Group through the newsletters 'Marshall Matters' and 'Compliance Matters', team briefings and through the Group wide email distribution. 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. For the 2019 survey the participation rate remained high at 84% and the Group was included in the "Best UK Super Large Workplace" rankings for the fifth year in succession. Further details are set out in the Corporate Social Responsibility Section of this Annual Report.

Board decision making (s172 statement)

When making decisions, the Directors consider what is most likely to lead to the success of the Group and to be of benefit to the members as a whole over the long term. When making such decisions, the Directors also consider the interests of other key stakeholder groups and seek to arrive at conclusions which do not adversely impact those groups as a whole.

For the purposes of decision making, the Directors have identified key stakeholder groups, have evaluated their interests, and describe in the table overleaf how they have engaged with and responded to the interests of those stakeholders during the Year.

DIRECTORS' REPORT

Stakeholder Group	Interests	How does the Group engage and respond
Customers	<ul style="list-style-type: none"> • Dealing with a trusted and transparent organisation. • Maintaining a relationship over the long term. • Receiving balanced advice when purchasing a vehicle or having a vehicle serviced or repaired. • Having clarity as to the pricing of vehicles as well as the additional products and services. • Achieving good value for money. 	<ul style="list-style-type: none"> • A "Sales Orientation Programme", which all new Sales Executives attend, to ensure that they deliver a consistent and high-quality customer experience. • A customer focused culture, supported by clearly defined sales processes. • Effective governance supported by an independent compliance team, a detailed understanding of the regulatory environment, coupled with monitoring and training to drive continuous improvement. • The Group's scale of operations, strong manufacturer and other supplier relationships support the delivery of value-for-money for the customer. • Frequent customer satisfaction surveys. • Monitoring of customer complaints to identify any themes with appropriate actions taken to address identified issues.
Employees	<ul style="list-style-type: none"> • Seeing an alignment between personal and corporate values. • Knowing that the organisation has a strong commitment to ethical practices and compliance. • Being part of a successful and secure organisation. • A safe working environment. • Knowing that their views are heard and acted upon. 	<ul style="list-style-type: none"> • Regular CEO communications, weekly bulletins, the Colleague magazine, intranet, regular team meetings and engaging social media channels. • Annual employee survey, through Great Place to Work, followed by line manager briefings and the development of action plans to drive improvement. • Group "whistle blowing" hotline provided by a third party to allow employees to raise concerns in confidence. • Recognising colleagues who demonstrate outstanding achievements through the MAVTA programme (Marshall Achievement, Values and Teamwork Awards). • Promoting diversity in the workplace; for example through membership of the Automotive 30% Club. • Group values and policies on work place conduct to develop a supportive, respectful, and friendly working environment. • Investment in learning & development to ensure that staff are equipped with the skills they need to do their roles. • Group Health, Safety and Environment Team who work with all sites to promote safe working practices as well as monitoring trends and making changes to procedures in response to those trends.

Stakeholder Group	Interests	How does the Group engage and respond
Suppliers	<ul style="list-style-type: none"> • A collaborative, open and supportive relationship. • Prompt, clear, and responsive communications. 	<ul style="list-style-type: none"> • Strong relationships with vehicle manufacturers, developed through regular meetings with the Group's senior management. • Long term partnership agreements with key strategic suppliers which deliver value for money for the Group and certainty of business for the supplier.
Communities	<ul style="list-style-type: none"> • Responsible investment, development, and operations. • Delivery of employment opportunities. • Support for local communities and national causes. 	<ul style="list-style-type: none"> • Investing in the Dealership portfolio to ensure that all the sites are well maintained, optimise energy use & environmental impact, as well as being an asset to the local area. • Providing direct employment to over 4,000 people. • Supporting and raising awareness for the Motor and Allied Trades Benevolent Fund. • Supporting local and national charities, as well as encouraging employees to become involved in the communities in which they work.
Funders	<ul style="list-style-type: none"> • Open and honest relationship with clarity as to business performance. • Financial discipline backed by strong internal controls which enables delivery of commitments. 	<ul style="list-style-type: none"> • Clear and transparent annual and interim reporting. • Relationships with all funders at a senior level within the Group. • Strong day to day working relationships between Group and funder operational staff.
Shareholders	<ul style="list-style-type: none"> • A business with a clear strategy which is well executed. • Financial discipline backed by strong internal controls. • Strong return on investment throughout the economic cycle. 	<ul style="list-style-type: none"> • Clear and transparent annual and interim reporting. • Access to senior management through results presentations, and the Annual General Meeting. • The Chairman meet regularly with key shareholders and the Senior Independent Director is available to meet with shareholders if requested. • Track record of successful growth through acquisitions which have been appropriately integrated into the Group.

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.

AGM

Notice of the AGM to be held on 21 May 2020 will be sent to shareholders in due course and will be made available on the Group's website at www.mmhplc.com.

By order of the Board

Stephen Jones
Company Secretary
9 March 2020

Corporate and Social Responsibility



Community

Marshall Making a Difference

Our values underpin what we stand for as a business and give clear definition on how we should all behave. We encourage colleagues to help us make a difference to each other and our customers which we believe is what makes Marshall special. 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 dependents. In that time, we have raised over £900,000 which includes the generous donations our colleagues make via payroll giving. In 2018 we raised £96,392 for this very important charity. CEO, Daksh Gupta, became a trustee and Vice Chairman in October 2012 and remains committed to these roles.

For the fourth year running we have run 'Ben Week' which involves each business getting involved with fundraising activities to raise money and awareness for Ben. Colleagues dress up, take part in sporting challenges and other fun activities. This remains a tremendous teambuilding opportunity and generates great camaraderie among colleagues and customers. Whilst supporting Ben remains close to our hearts, giving colleagues the opportunity to get involved with other good causes is equally important to us.

We have supported the Macmillan Coffee Mornings for 22 years enabling our businesses to get involved at a local level, again bringing colleagues and customers together. We have raised over £121,000 for Macmillan during 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 always involves having a lot of fun and getting customers involved. All of these events give rich and inspirational content for our social media channels to showcase our people and the personality of the business.

Local Giving

Colleagues are encouraged to get involved with local causes which support the communities in which they work. We have so many examples of the incredible efforts made by colleagues here are just a small sample:

- Supporting a local school by holding open events for students to give them a taster for careers in automotive.
- Recycling AdBlue containers and donating to a local zoo to use as elephant feed buckets.
- Providing a chauffeur driven car for a customer's daughter to take her to her school prom following open heart surgery.
- Going into local schools and running mock interview sessions for students.
- Sleeping rough to raise money for Centrepont – this has now taken place for the past three years.
- Collecting food, clothing, pet goods and toys for local charities at Christmas.
- Numerous sporting challenges from running to skydiving to cycling to wing walking and even an Ironman!

'Services in the Community' is one of the categories recognised as part of our Marshall Achievement, Values and Teamwork Awards (MAVTAs) and also supports our Great Place to Work © ethos.



Pictured: Marshall Colleagues sleep rough for the night to raise money for the homeless charity Centrepont
Photo by: Richard Marham / Cambridge Independent

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

GOVERNANCE

centre
point *gives homeless
young people
a future*



© Marshall

Our values

People



Recognising that
people are at the
heart of our success

Innovation



Maintaining competitive
edge through innovation
and creativity

Customers



Putting our customers
above all else

Integrity



Upholding the
highest standards of
integrity and fairness

£21,200

Raised since 2018 for
the homeless charity
Centrepont

£121,000

We have supported the
Macmillan Coffee Mornings
for 22 years

£900,000

Raised since 1984 for the
Motor and Allied Trades
Benevolent Fund ('BEN')

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

RECOGNISING TALENT AT THE HEART OF OUR SUCCESS

Best UK Super
Large Workplace

Training days
delivered

Different Marshall
colleagues trained

Pictured: Marshall Apprentice
of the Year Award Winner -
Nathan Crook



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.

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 long service recognition, awards for demonstrating our values and creative local recognition to thank and celebrate achievement.

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, regular team meetings and engaging social media channels.

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® UK'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 2019 we were ranked as the eleventh Best UK Super Large Workplace. As this was the fifth year running of being ranked we were the proud recipients of the prestigious Laureate Award. We believe the success of this programme is down to high participation levels driven by our ability to listen, take action and care.

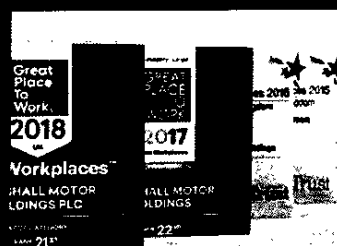


Marshall Motor Holdings plc



Best Workplaces™
Marshall Motor Holdings plc

Super Large category
Rank: 11th

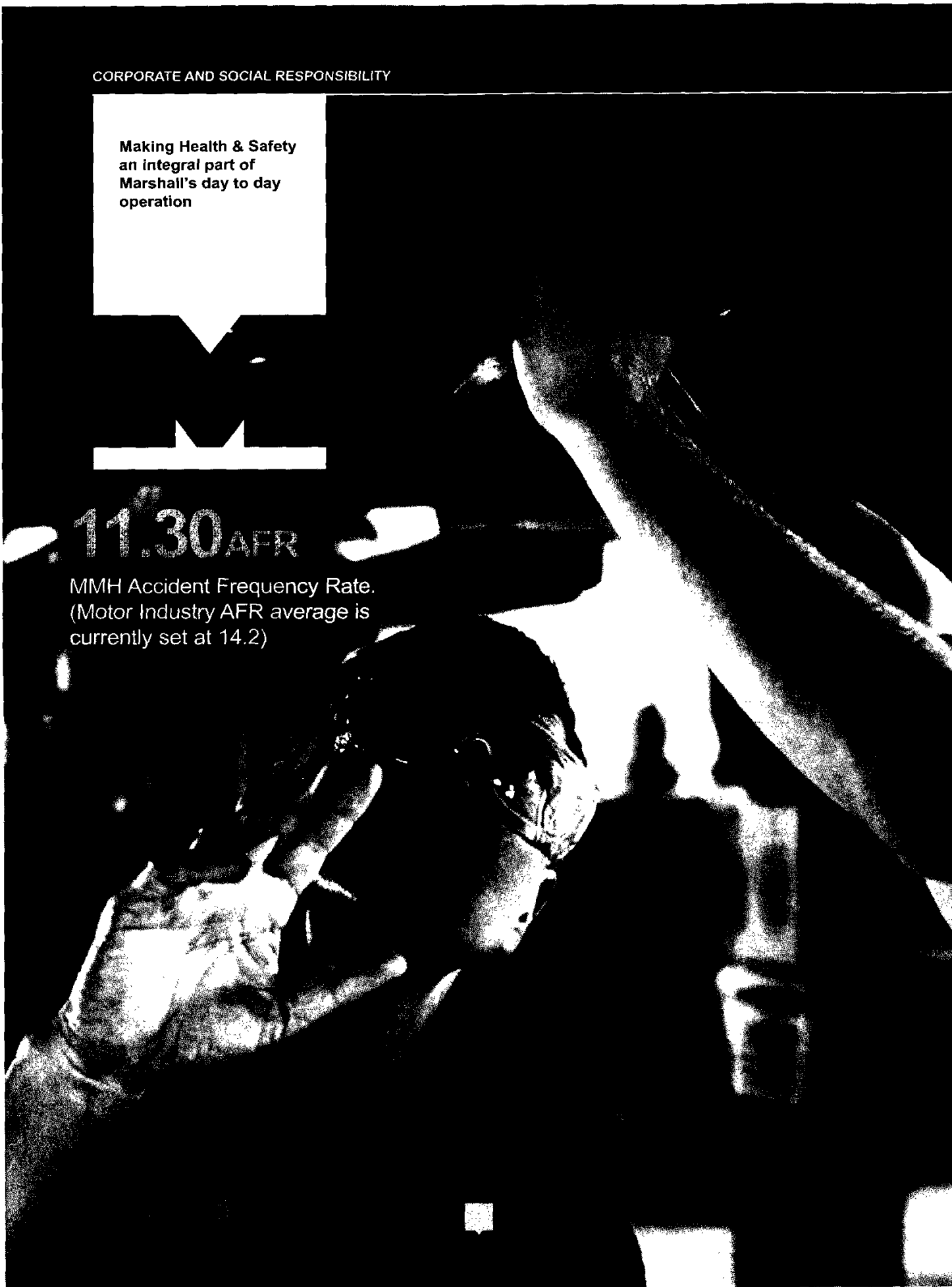


CORPORATE AND SOCIAL RESPONSIBILITY

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

11.30 AFR

MMH Accident Frequency Rate.
(Motor Industry AFR average is
currently set at 14.2)





Marshall Embracing Safety

Health & Safety is led from the top and is the number one item on any Board Agenda. 2019, has seen continued investment into the Health, Safety and Environment Team with additional resource in order to provide greater on-site presence, support and guidance.

Our regular communications enable us to continue to adopt a consistent approach to health and safety for all activities across our business. This has also seen an increase in engagement across the business.

Whilst our Advisors are providing on-site guidance and assistance, our support team in Cambridge also provide support and direction to all sites by continually reviewing and improving our policies and procedures in line with our activities, as well as supporting and advising managers to assist them in fulfilling their H&S responsibilities.

We continue to support the business by reviewing and making available training courses for first aiders, fire wardens and risk assessors. Following a suggestion from the business all of this training, with the exception of First Aid, can be completed on-line.

All of the first aiders and fire wardens are 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 actions from various risk assessments (fire and legionella for example) are completed effectively and within the time period specified and that the site specific risk assessments remain relevant and up to date for their site.

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.

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.

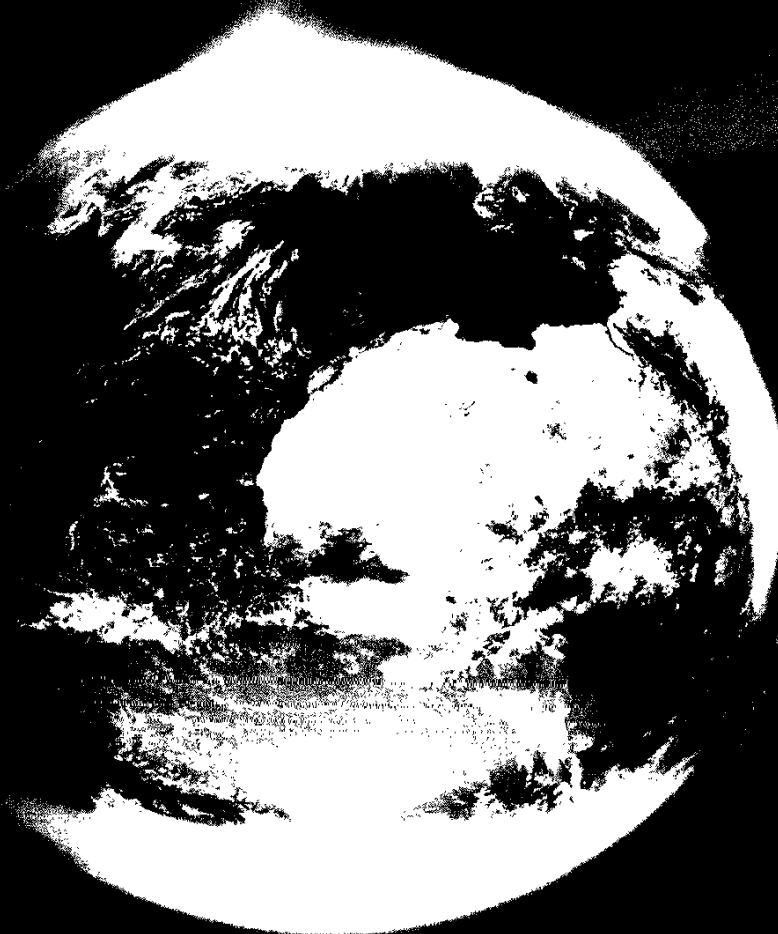
We track our Accident Frequency Rate (AFR) on a monthly and annual basis. The AFR is the measure of the number of accidents per 1m hours worked. The Motor Industry AFR average is currently set at 14.2 (taken from HSE document 'Injury frequency rates'). Our AFR for 2019 was 11.30.

Health and safety statistics 2019

	2018	2019
Total number of incidents	180	221
Of which RIDDOR* reportable incidents	20	13
• Fatalities	0	0
• Specified Injuries	3	6
• Over 7 day absence	10	3
• Non workers (contractors, visitors, third parties)	2	1
• Occupational Disease	1	0
• Dangerous occurrences reported under RIDDOR*	1	3
Number of enforcement notices issued by HSE	0	0
Number of prohibition notices issued by HSE	1	0

* Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013

Embracing our
environmental
responsibilities



Of waste diverted
from landfill



SUBSTANCES
Control of Substances
Hazardous to
Health (COSHH)

ENERGY
Reducing
energy
consumption

RECYCLING
Waste
and
recycling

Phase 2 of the Energy
Savings Opportunity
Scheme complete

**Continually minimising the impact of our
operational activities on the environment**

 **Marshall**



Marshall Going Green

In 2019, our environmental focus has continued to develop and we have continued to work on increasing awareness across the business.

Last year, we engaged with our colleagues to reinvigorate Marshall LEAF (Lowering Energy to Aid the Future) which aims to lower the impact we have on the environment, by holding a competition for children related to our colleagues to create posters on saving energy and designing a new logo or slogan.

As a result of this, we have used the winning designs in a number of our communications and will continue to use them as we move forward in our environmental agenda.

5th December 2019 was the deadline for Phase 2 of the Energy Savings Opportunity Scheme (ESOS) which is designed to lead to greater energy efficiency, cost savings and carbon reduction.

In order to ensure compliance to these regulations, we engaged with a consultant, who conducted a number of energy audits to identify and make recommendations which we will continue to use 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 2019 98% of our hazardous waste materials, such as engine oil, lead acid batteries, rags and absorbents were recycled and recovered which is a 1.8% increase in hazardous waste materials recycled. This equates to over 1.3m kg of waste which didn't go to landfill.

Also in 2019, 64.5% 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 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.

Corporate Governance

PRINCIPLES OF CORPORATE GOVERNANCE

The Board recognises that applying sound governance principles in the running of the Group is essential in meeting the needs and protecting the interests of all stakeholder groups. The Group has, since its admission to AIM in April 2015, adopted the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies.

An explanation of how these principles are applied by the Group are set out in the table below and the remainder of this corporate governance report.

APPLICATION OF THE QCA CORPORATE GOVERNANCE CODE

QCA Principle	Application by the Group
1. Establish a strategy and business model which promote long-term value for shareholders	<p>The Group's vision is to be the UK's premier automotive retail group. This vision is underpinned by five strategic pillars set by the Board: class leading returns; customer first; retailing excellence; people-centric; and strategic growth.</p> <p>The Group's business model and strategy are set out both in its AIM Admission document (which can be found on the Group's website at www.mmhplc.com) and the Strategic Report section of this Annual Report.</p> <p>In addition, the principal risks and uncertainties identified by the Board to the successful delivery of the Group's strategy, together with the principal controls in place to mitigate those risks, are set out on pages 38 to 41 of this Annual Report. The Board reviews the Group's risk register at least twice a year as part of the annual and interim accounts processes.</p>
2. Seek to understand and meet shareholder needs and expectations	<p>The Group is committed to maintaining good relations with all its shareholders through the provision of interim and annual reports, other trading statements and its AGM.</p> <p>The Chief Executive Officer and Chief Financial Officer also meet with the Group's institutional shareholders regularly to discuss the Group's performance and business model and strategy and feedback from these meetings is reported to the Board. The Chairman also meets with key shareholders and the Senior Independent Director is also available to meet with shareholders if requested.</p> <p>Each Board member attends the AGM where investors are invited to formally and informally field questions and discuss their views with the Board.</p> <p>In light of Marshall of Cambridge (Holdings) Limited's ("MCHL") aggregate shareholding in the Group, on Admission the Group entered into a Relationship Agreement ("Relationship Agreement") with MCHL in order to regulate the relationship between MCHL and the Group and enable the Group 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.</p> <p>Further details of the Relationship Agreement can be found on page 13 of the Group's AIM Admission Document.</p>

QCA Principle	Application by the Group
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	<p>The Group recognises that its long-term success relies on maintaining and building strong relationships with its various stakeholders, including in particular, its customers, shareholders, brand partners, suppliers and employees.</p> <p>In making decisions which are for the benefit of the members as a whole over the long term the Board also consider the interests of key stakeholder groups and seek to arrive at conclusions, which do not adversely impact those groups.</p> <p>As a franchise partner to global automotive manufacturers, the Group is focused on building and maintaining excellent brand partner relationships. The Group's recent success and growth has been based on strong and growing relationships with its brand partners. The Group has also invested in long-term strategic partnerships with other key suppliers, many of whom have worked with the Group over many years.</p> <p>The Group is committed to maintaining good employee relationships and employs a range of recruitment, communication and employee engagement initiatives designed to attract, recruit and retain employees. Further details of the Group's employee engagement programme are set out in the Corporate and Social Responsibility section of this Annual Report.</p> <p>The Group's participation in the Great Place to Work Institute's Best Workplaces programme provides an effective means to seek feedback from colleagues each year and to measure levels of engagement and drive continuous improvement.</p> <p>The Group also recognises the potential impact of its operations on the environment and examples of how the Group seeks to minimise that impact are set out under Corporate and Social Responsibility on pages 48 to 55.</p>
4. Embed effective risk management considering both opportunities and threats, throughout the organisation	<p>The principal elements of the Group's system of internal control are set out on page 61.</p> <p>In addition, the principal risks and uncertainties the Board believes could have the most significant adverse impact on the Group's business, together with the principal controls in place to mitigate those risks, are set out on pages 38 to 41.</p>
5. Maintain a well-functioning, balanced team led by the Chair	<p>The Chair is responsible for leading the Board and its governance arrangements.</p> <p>The Group currently has eight directors, of which four are independent non-executives (being Richard Parry-Jones, Alan Ferguson, Nicky Dulieu and Francesca Ecsery). Details of the directors, including their roles, committee memberships, skills and experience and are set out on pages 42 to 43 and their attendance record in the last financial year is set out on page 59.</p>
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	<p>Details of the Group's Board Committees, being the Audit Committee, Remuneration Committee and Nominations Committee, are set out below.</p> <p>As stated above, under the terms of the Relationship Agreement, 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. Christopher Walkinshaw and Kathy Jenkins are the two nominated directors of MCHL.</p> <p>The Board is satisfied that it has a suitable balance between independence and knowledge of the Group to enable it to discharge its duties and responsibilities effectively. The Nomination Committee is responsible for reviewing the Board's balance and membership.</p>

GOVERNANCE

QCA Principle	Application by the Group
7. Evaluation of Board performance	<p>Details of each Board member's experience, skills and qualifications are set out on pages 42 and 43 of this Annual Report.</p> <p>All Directors are able to take independent professional advice, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary, a qualified solicitor.</p> <p>The Non-Executive Directors meet each financial year without the presence of the Executive Directors, during which the performance of Executive Directors is assessed and without the presence of the Chairman (to assess the performance of the Chairman).</p> <p><i>The Board commenced a Board evaluation process in 2019 which will include a review of development and mentoring needs of the Group's management team.</i></p>
8. Promote a culture based on ethical values and behaviours	<p>The Group has clear and defined values based on people, innovation, integrity and customers.</p> <p>These values are embedded in the Group's internal systems and controls (including its whistleblowing, anti-corruption and modern slavery policies) and in its HR policies.</p> <p>Further details of our approach to embedding these values are set out in the Corporate and Social Responsibility section of this Annual Report.</p>
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	<p>Details of the Group's principal governance structures, including the Board and its committees are set out below. In addition, pages 62 to 68 contain reports from the Audit and Remuneration Committees which set out their key areas of responsibility and activities.</p> <p>The Board considers that the Group's governance structures and processes are fit for purpose and support good decision making by the Board.</p>
10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	<p>The Group communicates with shareholders through its Annual Report and Accounts, annual and interim announcements, the AGM and individual meetings with shareholders. Key corporate information (including all Group announcements and presentations) is available on the Group's website at www.mmhplc.com.</p> <p>The Board receives regular updates on shareholders' views through briefings from the Chief Executive Officer, Chief Financial Officer and the Group's brokers. In addition, both the Chairman and the Senior Independent Director are available to meet on an ad hoc basis with the Group's principal shareholders.</p> <p>The Group communicates with its institutional investors through briefings with management at least twice a year, coinciding with the Group's annual and interim results and at other times during the year. In addition, analysts' notes and brokers' briefings are reviewed to provide insight into investors' views of the Group, its strategy and performance.</p>

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 ten board meetings held during the Year. There are separate attendance statements in respect of the Audit and Remuneration Committees on pages 63 and 69.

Director	Date appointed	Role	Committees (C = current chair)	2019 Board attendance
Richard Parry-Jones	1 January 2019	Non-Executive Chairman	Nomination Committee (C)	10/10
Alan Ferguson	11 March 2015	Senior Independent Director	Audit Committee (C) Remuneration Committee Nomination Committee	10/10
Francesca Ecsery	25 March 2015	Independent Non-Executive	Audit Committee Remuneration Committee Nomination Committee	10/10
Sarah Dickens*	11 March 2015	Independent Non-Executive	Audit Committee Remuneration Committee** Nomination Committee	4/4*
Christopher Walkinshaw***	12 July 2016	Non-Executive	Audit Committee Nomination Committee	10/10
Kathy Jenkins***	23 May 2018	Non-Executive	Remuneration Committee Nomination Committee	10/10
Daksh Gupta	1 October 2008	Chief Executive Officer	n/a	10/10
Richard Blumberger	2 January 2019	Chief Financial Officer	n/a	10/10
Mark Raban****	2 April 2015	Chief Financial Officer	n/a	—****

* Resigned from the Board on 30 June 2019.

** Chair of the Remuneration Committee until her resignation from the Board on 30 June 2019.

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

**** Mark Raban resigned from the Board on 2 January 2019.

Richard Parry-Jones was appointed to the Board as Chairman on 1 January 2019. Mark Raban resigned from the Board on 2 January 2019. Richard Blumberger was appointed to the Board on 2 January 2019.

Sarah Dickens resigned from the Board on 30 June 2019. Subsequent to the year end, Nicky Dulieu was appointed to the Board as a Non-Executive Director and Chair of the Remuneration Committee on 1 January 2020.

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 Officer, 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.

GOVERNANCE

Chairman, Chief Executive Officer and Senior Independent Director

Richard Parry-Jones 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 four 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. The current MCHL-nominated directors are Christopher Walkinshaw and Kathy Jenkins.

Performance Evaluation

The Non-Executive Directors have met without the presence of the Executive Directors, during which the performance of executive directors was assessed. The Board commenced a formal evaluation of its performance during the Year with this process expected to conclude during 2020.

Re-appointment of Directors

In accordance with the Articles, having been appointed since the date of the last annual general meeting of the Company, Nicky Dulieu will retire by rotation and offer herself for reappointment at the AGM to be held on 21 May 2020. In addition, Christopher Walkinshaw, having last been elected at the 2017 annual general meeting, will retire by rotation in accordance with the Articles of Association of the Company and offer himself for reappointment at the AGM.

BOARD COMMITTEES

Nomination Committee

The Company has established a Nomination Committee which comprises Richard Parry-Jones (Chair of the Committee), Alan Ferguson, Nicky Dulieu, Francesca Ecsery, Christopher Walkinshaw and Kathy Jenkins.

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. The Nomination Committee met on a number of occasions during the Year to discuss the appointment of the new Chair of the Remuneration Committee following the announcement Sarah Dickens planned to step down from the Board.

Audit Committee

The Company has established an Audit Committee, which comprises Alan Ferguson (Chair of the Committee), Nicky Dulieu, Francesca Ecsery and Christopher Walkinshaw. Sarah Dickens was a member of the Audit Committee until her resignation from the Board on 30 June 2019. Further information on the Audit Committee is set out on pages 62 to 65.

Remuneration Committee

The Company has established a Remuneration Committee which comprises Nicky Dulieu (member and Chair of the Committee from 1 January 2020), Alan Ferguson, Francesca Ecsery and Kathy Jenkins. Sarah Dickens was Chair of the Remuneration Committee until her resignation from the Board on 30 June 2019. Further information on the Remuneration Committee is set out on pages 67 to 75.

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 Group also meets with its institutional shareholders regularly.

In light of MCHL's aggregate shareholding in the Group, on Admission the Group entered into the Relationship Agreement with MCHL in order to regulate the relationship between MCHL and the Group and enable the Group 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 Group's AIM Admission Document which is available on the Group's website at www.mmhplc.com.

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;
- 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 Group processes and procedures and whose programme of work is overseen by the Audit Committee;
- a Compliance team to assess and monitor the Group's compliance with its regulatory responsibilities with a particular focus on compliance with FCA and data protection 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 38 to 41.

By order of the Board

Stephen Jones

Company Secretary

9 March 2020

Audit Committee Report

Alan Ferguson

Senior Independent Director and
Chair of the Audit Committee



I am pleased to present my annual report to shareholders as Chair of the Audit Committee.

Key purpose of the Audit Committee

The Audit Committee provides effective governance of the appropriateness of the Group's financial reporting and the performance of both the internal audit function and the external auditor. The Audit Committee also supports the Board in meeting its responsibilities in respect of overseeing the Group's internal control systems, business risk management, and related compliance activities.

Audit Committee Responsibilities

The main responsibilities of the Audit Committee are:

- Monitoring the integrity of the financial statements of the Group, including the Interim Report & Accounts and the Annual Report & Accounts, and other formal announcements relating to the Group's financial performance;
- Considering whether the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy.
- Reviewing and reporting to the Board on significant financial reporting issues, estimates, and judgements, having regard to matters communicated to it by management and by the external auditor. Details of the significant accounting judgements, estimates and assumptions are set out below and in note 4 to the consolidated finance statements;
- Reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems;
- Monitoring and reviewing the effectiveness of the internal audit function and approving the annual plan of work to be conducted by internal audit function;
- Reviewing the external auditor's audit plan, nature and scope of work and overall summary of key issues and judgements;
- Assessing the effectiveness of the external auditor including the appropriateness and skills of its audit team and the quality of its services;

- Making recommendations to the Board in relation to the appointment of the external auditor, including verifying the independence of the external auditor, putting the audit out to tender and approving any non-audit services to be provided by the external auditor;
- Reviewing arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Audit Committee Members and Meetings

The Audit Committee comprises myself, Francesca Ecsery, Christopher Walkinshaw and Nicky Dulieu (from 1 January 2020). Nicky brings a wealth of knowledge of the retail sector from her previous executive and current non-executive roles. With the exception of Christopher Walkinshaw, due to his position as a nominated director of Marshall of Cambridge (Holdings) Limited, all members of the Audit Committee are considered to be independent. Sarah Dickens was a member of the Audit Committee until 30 June 2019 when she stepped down from the Board; I would like to thank Sarah very much for her contribution to the work of the Audit Committee.

The members of the Audit Committee, through their other business activities, have gained a wide range of commercial, financial, and internal control expertise. The biographies of each member of the Audit Committee is set out on pages 42 to 43. In particular, I am a Chartered Accountant with many years' experience working in finance. I was the Group Finance Director at Inchcape plc for 12 years, and have served on the boards of a number of other large companies throughout my career. I am currently the chair of the Audit Committees of Johnson Matthey Plc and Croda International Plc.

It is therefore considered that the Audit Committee has the necessary skills and experience to effectively fulfil its responsibilities.

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 the circumstances require. The scheduled meetings coincide with the key events in the Group's financial reporting calendar.

During the year ended 31 December 2019 the Audit Committee met 4 times. Each member's attendance at those meetings is set out below:

Committee Member	Role	Attendance record
Alan Ferguson	Chair of the Audit Committee	4/4
Sarah Dickens*	Non-Executive Director	2/2
Francesca Ecsery	Non-Executive Director	4/4
Christopher Walkinshaw	Non-Executive Director	4/4

* Sarah Dickens resigned from the Committee on 30 June 2019.

Following the year end and up to the date of this report there has been one meeting of the Audit Committee which was attended by all members of the Audit Committee.

Audit Committee meetings are also attended, at the discretion and invitation of the chair of the Audit Committee, by the Chairman, a Non-Executive Director (not on the Committee), Executive Directors, the Head of Internal Audit, Head of Group Finance, and representatives of the Company's external auditor.

Activities During the Period

During the period between the last Annual Report & Accounts and the date of this report, the Audit Committee has:

- reviewed the key accounting judgements and estimates and going concern assessment in connection with the Annual Report & Accounts and the Interim Report & Accounts;
- reviewed the adoption of IFRS 16 'Leases' and the impact upon and disclosures made in the Annual Report & Accounts and the Interim Report & Accounts;
- reviewed and, approved the external auditor's audit plan, including the proposed fee and statement of independence;
- reviewed non-audit fees paid to the external auditor in the year ended 31 December 2019;
- reviewed and approved the proposal that certain of the Group subsidiary companies be exempt from audit under the provisions of S479A of the Companies Act 2006;

- approved the programme of work for internal audit and considered the findings and recommendations arising from the internal audits conducted during the year ended 31 December 2019 and up to the date of this report;
- considered the Group's risk management process and its effectiveness;
- reviewed the Company's arrangements to enable employees to raise confidentially concerns about possible improprieties. These include the use of an independent organisation to provide a confidential 'whistle-blowers' hotline.
- Reviewed the published Payment and Practices Report and discussed some action plans identified to improve some of the statistics
- Reviewed and agreed the Tax Strategy, which can be found at <https://www.mmhplc.com/investors/corporate-governance>

In addition to receiving written reports from the auditor and from management, the Audit Committee has also had private meetings with the external auditor. These meetings provide the opportunity for open discussion and feedback on the audit process, the responsiveness of management, and the effectiveness of both internal and external audit teams.

In addition, as chair of the Audit Committee, I also meet with the external and internal auditors separately to the formal meetings.

Significant issues considered by the Audit Committee during the year

The Audit Committee considered the significant matters set out below during the course of the financial year and as part of the finalisation of the Annual Report & Accounts. In all cases, papers were presented to the Audit Committee by management, setting out the relevant facts, material accounting estimates, and the judgements associated with each item. The external auditor also provided a paper setting out its analysis and conclusions on each area of judgement amongst other matters.

The Audit Committee discussed the papers with management and sought the views of the external auditor on each matter. For each area of judgement, the Audit Committee concurred with the treatment adopted and any relevant disclosure presented in the Annual Report & Accounts.

GOVERNANCE

Issue Considered	Audit Committee's Review and Conclusions
<p>Assessment of the carrying value of goodwill and intangible assets and the carrying value of investments</p> <p>As disclosed in Note 14 'Goodwill and Other Intangible Assets' to the financial statements, the Group has goodwill and indefinite-life intangible assets arising from acquisitions of businesses totalling £118.0m.</p> <p>These assets are assessed for impairment at least annually or more frequently where there are indicators of impairment.</p> <p>The valuation and impairment review of goodwill and acquisition intangible assets is assessed for each individual cash-generating unit (CGU) and involves comparing the carrying value of the asset with its recoverable amount (the higher of value-in-use and fair value less costs to sell).</p> <p>Value-in-use is determined with reference to projected future cash flows, discounted at an appropriate rate.</p> <p>Both the cash flows and the discount rate involve a significant degree of estimation, uncertainty, as well as judgemental assessments of the future brand performance of individual vehicle manufacturers.</p>	<p>The Audit Committee has considered papers prepared by management detailing the assumptions and methodology applied to assess the carrying value of goodwill.</p> <p>The assumptions underpinning the review of the carrying value of goodwill were considered by the Audit Committee, in particular those relating to the BMW franchise where there were indicators of impairment.</p> <p>The cash flow forecasts used in the review were derived from the most recent budgets which have been reviewed and approved by the Board and the long-term business plans of the Group.</p> <p>The Audit Committee concurs with the assessment made by management in respect of this matter and with the associated additional disclosures around the BMW franchise.</p> <p>Furthermore the Audit Committee concurs with the assessment made by management in respect of the carrying value of investments in subsidiaries within the company accounts of Marshall Motor Holdings plc.</p>
<p>Valuation of inventory</p> <p>As disclosed in Note 18 the Group holds inventory totalling £470.7m.</p> <p>At each reporting period the Group assesses the value of the inventory. This assessment requires the application of judgement and experience to assess and make reasonable assumptions to determine the net realisable value of the inventory held by the Group.</p>	<p>The Audit Committee has considered papers prepared by management detailing the basis of valuation of the Group inventory, in the context of external industry data, the age and composition of the inventory, the Group's experience of the realisable value of such inventory, and the consistency of the assumptions applied.</p> <p>The Audit Committee concurs with the assessment made by management in respect of this matter.</p>
<p>Estimates and judgement related to business combinations</p> <p>During the year, as set out in Note 14, the Group has completed the acquisition of a number of Dealerships.</p> <p>As required by IFRS 3 'Business Combinations', the Group has assessed the fair value of the consideration paid and the assets and liabilities acquired. Such an assessment includes the evaluation of intangible assets which were not previously recognised by the acquired entities.</p>	<p>The Audit Committee has considered papers prepared by management detailing the process, assumptions, and methodology applied to assess the fair value of the assets acquired. It also reviewed these matters with the auditors.</p> <p>The Audit Committee concurs with the assessment made by management in respect of these matters.</p>

Issue Considered	Audit Committee's Review and Conclusions
<p>Presentation of Alternative Performance Measures ("APMs") The Company's performance measures include some measures which are not defined or specified under IFRS, but which management consider are necessary for a user of the financial statements to obtain a full understanding of the performance of the Group.</p> <p>A reconciliation of the APMs to the IFRS measures is provided in the Appendix – Alternative Performance Measures, on pages 156 to 157.</p>	<p>The Audit Committee has considered presentation of these additional measures in the context of the guidance issued by the FRC in relation to the use of APMs, challenge from the external auditor, and the requirement that such measures provide meaningful insight for shareholders into the results and financial position of the Group.</p> <p>The Audit Committee concurs with the judgements made by management in respect of the presentation of the APMs.</p> <p>Furthermore, the Audit Committee is comfortable that clear and meaningful descriptions have been provided for the APMs used, that the relationship between these measures and the IFRS measures is clearly explained, that the IFRS measures are afforded equal prominence to the APMs, and that the APMs support a user's understanding of the financial statements.</p>
<p>Revenue recognition The Group's core revenue streams are new and used car sales, parts sales and servicing. The Group also derives income from volume incentive arrangements with suppliers. An analysis of the Group's revenue is presented in Note 5 'Segmental Information'.</p> <p>Given the business focus on sales targets and incentives and the complexity and varied nature of the supplier incentive schemes, together with the materiality of these revenues for the Group, revenue recognition represents an area of focus for the Audit Committee.</p>	<p>The Audit Committee has considered the work of the external and internal auditors in this area, with particular regard to sales cut-off and the value of volume rebates.</p> <p>The Audit Committee concurs with the assessment made by management that the Group's revenue as presented is materially correct.</p>
<p>Recognition and valuation of provisions As disclosed in Note 24 'Provisions' to the financial statements, the Group has provisions totalling £3.4m.</p> <p>Provisions are, by their nature, judgemental and involve estimates of likely outcome and timing of future events.</p>	<p>The Audit Committee has considered papers prepared by management setting out the basis of the provisions included in the Annual Report & Accounts.</p> <p>Having regard to these reports and the findings of the external auditor the Audit Committee concurs with the judgements and estimates made by management in arriving at the provision amounts included in the Annual Report & Accounts.</p>

GOVERNANCE

External audit

Each year the Audit Committee reviews the performance of the external auditor in respect of audit related services and non-audit services and is committed to ensuring the independence, effectiveness and objectivity of the external auditor.

The fees paid to the external auditor for non-audit services during the year ended 31 December 2019 totalled £36,000 and related solely to the review of the Group's Interim Report and Accounts.

The Audit Committee has monitored the conduct and effectiveness of the external auditor through its assessment of:

- The experience, expertise, and perceptiveness of the auditor;
- The planning and execution of the agreed audit plan and the quality of audit reports presented; and
- The conduct of the auditor including the Audit Committee's experience of interaction with the auditor.

Nigel Meredith is the lead partner on the audit for the year ended 31 December 2019 and was the lead partner in the previous year.

Following this review the Committee concluded that the audit was effective.

External audit tender

EY have been the Group's auditor for over 30 years, and whilst MMH is not subject to mandatory rotation rules, the Committee felt that there were benefits to putting the audit out to tender. As a result, the Group has commenced a competitive tender process for the provision of external audit services to the Group. The tender process is being led by myself, supported by the Committee and management. After discussion, three firms have been asked to tender and the Audit Committee expect to be in a position to recommend a preferred firm to the Board during April 2020, for ratification by shareholders at the May Annual General Meeting.

Internal audit

At each meeting the Committee receives a report from the Head of Internal Audit covering the work carried out during the period detailing the audit scores and noting the actions being taken to rectify weaknesses identified. The report also covers other work carried out such as investigations, reviews of new software programmes implemented and any deep dives into areas such as warranty work.

During the year it was recognised that given the increased size and complexity of the business that a new role be created and as a result a Head of Internal Audit and Risk was recruited and she starts in March. This will allow for my focus on risk areas across the business. The Committee was pleased that the current Head of Internal Audit has agreed to stay in role.

I will be available at the Annual General Meeting to respond to any questions shareholders may raise on the Committee's activities in the year.

Alan Ferguson

Chair of the Audit Committee

9 March 2020

Remuneration Committee Report

Nicky Dulieu

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 Year and an overview of our remuneration policy.

I joined the Board and was appointed as Chair of the Committee on 1 January 2020. I would like to thank Sarah Dickins and, following her retirement from the Board on 30 June 2019, Richard Parry-Jones, for their stewardship of the Committee during the Year.

Remuneration policy

The remuneration policy and the Company's Performance Share Plan ("PSP") has been in place since the Company's Admission in 2015. Accordingly, we have not included the current remuneration policy in this Directors' Remuneration Report, however, a copy is available in our 2018 Directors' Remuneration Report on our website.

During the course of 2020, the Committee intends to undertake a comprehensive review of the remuneration policy to ensure it supports the achievement of the Company's short-term financial goals and longer-term strategic objectives, including transformational corporate activity. The aim of this review is to ensure our remuneration policy and incentive arrangements:

- are competitive and as such helps us to recruit, motivate and retain senior leaders of the high calibre required to run the business successfully;
- align the interests of the Executive Directors, senior management and employees with those of shareholders and wider stakeholders, and to ensure appropriate alignment with the Company's values and strategic goals; and
- adhere to the principles of good corporate governance, support good risk management practice and promote long term sustainable Company performance.

As an interim step, ahead of a full policy review, the Committee has reviewed and simplified the operation of the PSP for awards granted in 2019. A consistent approach is being adopted for the 2017 and 2018 PSP awards as well as the PSP awards to be granted in 2020. Further details are set out below.

In determining remuneration packages and arrangements the Committee adopts the principles set out in the QCA Corporate Governance Code and evolving best practice. Notwithstanding this, and whilst the UK Corporate Governance Code (the "UK Code") does not apply to the Company, the Committee recognise the changes to the UK Code and during 2020 will reflect on how these changes may be applied to the Company approach to remuneration.

Key Committee decisions and remuneration outcomes for the period to 31 December 2019

As outlined in the Operating Review, the Company has continued its excellent track record of performance in 2019. Financial highlights include a fifth consecutive year of like-for-like revenue growth since IPO of 2.2% to £2.2 billion and continued out-performance of the market in new and used cars sales. Given the challenging market conditions, the Board considers underlying PBT of £22.1m for the Year (2018 (restated): £24.7m) to be a strong result.

Annual bonus opportunity for the Executive Directors during 2019 was based on the achievement of underlying PBT targets with bonuses of 71.17% of maximum awarded to both the Chief Executive and Chief Financial Officer in respect of performance in the year ended 31 December 2019.

During the Year, the Committee determined the vesting level for PSP awards granted in 2016 ("2016 Awards") taking into account a range of factors including:

- the impact of the Ridgeway acquisition in 2016 and the disposal of Marshall Leasing in 2017 which fundamentally changed the size and shape of the business and required the Committee to make difficult judgments in order to adjust the performance conditions attached to the 2016 Awards;
- the Company's strong financial performance over the performance period compared to that of its competitors, many of which had issued profit warnings and/or performance downgrades in that period, it being also noted that the SMMT forecasts set in 2016 for the new car market in 2017 and 2018 were missed by the industry as the market declined faster than expected; and
- that the effectiveness of the Company's overall remuneration policy to attract, retain and motivate high calibre senior management focused on the delivery of the Company's strategic and business objectives was, in

large part, dependent on the successful operation on the PSP and the ultimate vesting levels in light of the financial performance of the Company.

Accordingly, the Committee recommended an overall vesting level of 85.5% of the maximum award. This comprised a 31.09% vesting of the maximum 2016 Award and an additional discretionary award equal to 54.41% of the maximum 2016 Award. The discretionary award was satisfied by the transfer of market-purchased shares by the Company's Employee Benefit Trust with those further shares being subject to the same 12 month holding period as the shares vesting under the 2016 Awards.

As reported last year, Mark Raban, who stepped down as Chief Financial Officer in January 2019, received a pro rata entitlement of the 2016 Awards. He did not participate in the discretionary award. Mark's 2016 Awards were exercised in December 2019 and were subsequently cash-settled based on the Company's share price on 31 December 2019.

As outlined above, the Committee has reviewed and simplified the operation of the PSP for awards granted in 2019 recognising the challenge of setting robust long term targets against the backdrop of a cyclical new car market and the need to ensure that awards under the PSP are motivational and support the retention of key members of the management team. The Committee also took into account best remuneration practice with regard to the award of restricted stock and that long term incentives should reward positive Company performance and be aligned to long term share price growth and shareholder value creation.

In November 2019, the Executive Directors received awards ("2019 Awards") under the PSP. The vesting date of the 2019 Awards will be 28 November 2022, being the third anniversary of the award date. Shares acquired will then be subject to a holding period until the announcement by the Company of its 2022 annual results.

The 2019 Awards are subject to the rules of the PSP and will vest dependent upon continued employment and subject to the Committee being satisfied that there has been no material deterioration in the Company's performance which significantly departs from any market deterioration. The level of awards granted in 2019 reflect the fact that they are not subject to specific financial performance conditions. Awards were granted at levels equal to 50% of 150% of salary for the Chief Executive Officer and 50% of 112.5% of salary for the Chief Financial Officer.

A consistent approach is being adopted for the 2017 and 2018 PSP awards as well as the PSP awards to be granted in 2020. Therefore, subject to there being no material deterioration in the Company's performance which significantly departs from

any market deterioration, the Committee's current intention is to recommend further additional discretionary awards for the 2017 and 2018 PSP awards on the same basis as that made for the 2016 Awards, such that the overall vesting levels are at least 50% of maximum award.

Key remuneration decisions for the year to 31 December 2020

Having reviewed the base salary for the Chief Executive Officer and the Chief Financial Officer in the context of increases for the wider workforce, the Committee has approved an increase of 2% with effect from 1 January 2020. The maximum annual bonus potential for 2020 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 2020 under the PSP. In line with the approach adopted in 2019, the 2020 PSP awards will vest dependent upon continued employment and subject to the Committee being satisfied that there has been no material deterioration in the Company's performance which significantly departs from any market deterioration. For 2020, the maximum PSP award will be 75% of salary for the Chief Executive Officer and 56.25% of salary for the Chief Financial Officer. This equates to 50% of 150% of salary for the Chief Executive Officer and 50% of 112.5% of salary for the Chief Financial Officer and reflects the fact that these awards are not subject to specific financial performance conditions. Any shares awarded to Executive Directors that vest under the 2020 PSP Award must be retained for a further year before they can be sold.

Conclusion

We remain committed to a responsible approach to executive pay. Overall, given the Company's performance over the Year and over the three-year period ended 31 December 2019 we believe that the remuneration of the executive directors and wider workforce in respect of 2019 continues to reflect our success in the delivery of our strategy and the drive for profitable and sustainable long-term growth for our shareholders.

Nicky Dulieu

Chair of Remuneration Committee
9 March 2020

Directors' Remuneration Report

REMUNERATION GOVERNANCE

Throughout the Year, the Committee comprised three independent Non-Executive Directors, alongside Kathy Jenkins who is an appointed representative of MCHL. Sarah Dickins chaired the Committee until her retirement from the Board on 30 June 2019. Thereafter, Richard Parry-Jones chaired the Committee until 31 December 2019 on an interim basis pending the appointment of Nicky Dulieu on 1 January 2020.

The table below sets out each member's attendance record at Committee meetings during the Year:

Committee Member	Role	Attendance record
Sarah Dickins	Chair of the Committee (resigned on 30 June 2019)	3/3
Richard Parry Jones	Chair of the Committee (from 30 June 2019)	2/2
Alan Ferguson	Non-Executive Director	5/5
Francesca Ecsery	Non-Executive Director	5/5
Kathy Jenkins	Non-Executive Director	5/5

The Chair of the Board, 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 and each of the Executive Directors including pension rights and any compensation payments;
- oversight of the remuneration packages for certain senior management in the Group;
- reviewing wider workforce remuneration and related policies;
- recommending and overseeing the implementation of share related schemes, including scheme grants; and

- 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. During the Year, the Committee appointed Deloitte LLP ("Deloitte") to provide independent remuneration advice to the Committee in place of Willis Towers Watson. Deloitte is a founder member of the Remuneration Consultants' Code of Conduct, and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration matters in the UK.

The Committee is satisfied that the advice that it receives is objective and independent.

REMUNERATION POLICY

Our remuneration policy has been in place since the Company's Admission in 2015 and is set out in full on pages 54 to 57 of the 2018 Annual Report and Accounts which are available on the Company's website at www.mmhplc.com/investors/results-centre.

GOVERNANCE

REMUNERATION POLICY (continued)

We have set out below those parts of the remuneration policy which we believe shareholders will find most helpful together with a summary of how the remuneration policy will be implemented in 2020.

Element	Operation	Maximum opportunity	Performance metrics												
Basic Salary.	Normally 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, <i>inter alia</i> , 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.	Having reviewed the base salary for the Chief Executive Officer and the Chief Financial Officer in the context of increases for the wider workforce, the Committee has approved an increase of 2% with effect from 1 January 2020. <table><tr><td></td><td>2019 salary</td><td>2020 salary</td></tr><tr><td></td><td>(£k)</td><td>(£k)</td></tr><tr><td>D Gupta</td><td>425.3</td><td>433.8</td></tr><tr><td>R Blumberger</td><td>260.6</td><td>265.8</td></tr></table>		2019 salary	2020 salary		(£k)	(£k)	D Gupta	425.3	433.8	R Blumberger	260.6	265.8
	2019 salary	2020 salary													
	(£k)	(£k)													
D Gupta	425.3	433.8													
R Blumberger	260.6	265.8													
Annual Bonus	<p>Performance is normally measured over one year, based on financial targets.</p> <p>The Committee sets threshold and maximum targets on an annual basis. No bonus is payable where performance is below the threshold.</p> <p>Paid in cash after the end of the financial year to which it relates.</p> <p>Payment of any bonus is subject to the overriding discretion of the Committee.</p> <p>Recovery and withholding provisions apply.</p>	The maximum bonus is 125% of base salary in respect of the Chief Executive Officer and 100% in respect of the Chief Financial Officer.	The maximum annual bonus potential for 2020 will be 125% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer based on PBT in line with the stretching business plan.												

REMUNERATION POLICY (continued)
Future Policy Table (continued)

Element	Operation	Maximum opportunity	Performance metrics
Long term incentives	<p>Grant of £nil cost options under the PSP. Options normally vest 3 years from grant subject to the achievement of performance conditions and continued employment.</p> <p>A 12 months post-vesting holding period applies for awards made from 2016.</p> <p>A dividend equivalent applies.</p> <p>Recovery and withholding provisions apply.</p>	150% of base salary (up to 200% of base salary in exceptional circumstances) in any financial year.	<p>The 2020 PSP awards will vest dependent upon continued employment and subject to the Remuneration Committee being satisfied that there has been no material deterioration in the Company's performance which significantly departs from any market deterioration.</p> <p>The level of awards to be granted in 2020 reflect the fact that they are not subject to specific financial performance conditions.</p> <p>For 2020, the maximum PSP award will be 75% of salary for the Chief Executive Officer and 56.25% of salary for the Chief Financial Officer. This equates to 50% of 150% of salary for the Chief Executive Officer and 50% of 112.5% of salary for the Chief Financial Officer.</p>
Share ownership guidelines	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.	No changes proposed for 2020.

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 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 have been permitted with prior agreement: – Daksh Gupta is a director of BEN – Motor and Allied Trades Benevolent Fund.
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	Date of resignation as a director
D Gupta	1 January 2009	–
M Raban	2 April 2015	2 January 2019
A Ferguson	11 March 2015	–
S Dickins	11 March 2015	30 June 2019
F Ecsery	25 March 2015	–
C Walkinshaw	12 July 2016	–
K Jenkins	23 May 2018	–
R Parry-Jones	1 January 2019	–
R Blumberger	2 January 2019	–
N Dulieu	1 January 2020	–

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 2019.

	Basic salary £'000	Fees £'000	Benefits £'000	Pension £'000	Annual bonuses £'000	Long term incentives ³ £'000	Total £'000
Executive Directors							
D Gupta	425.3	-	18.7	68.0	378.4	983.9	1,874.3
R Blumberger	260.6	-	4.4	39.2	185.5	-	489.7
Total	685.9	-	23.1	107.2	563.9	983.9	2,364.0
Non-Executive Directors							
R Parry-Jones	-	135.5	-	-	-	-	135.5
A Ferguson	-	60.3	-	-	-	-	60.3
S Dickins ¹	-	25.2	-	-	-	-	25.2
F Ecsery	-	42.8	-	-	-	-	42.8
C Walkinshaw ²	-	40.0	-	-	-	-	40.0
K Jenkins ²	-	40.0	-	-	-	-	40.0
Total	-	343.8	-	-	-	-	343.8
Aggregate directors emoluments	685.9	343.8	23.1	107.2	563.9	983.9	2,707.8

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

- Sarah Dickins resigned from the Board on 30 June 2019.*
- Christopher Walkinshaw and Kathy Jenkins are nominated directors of Marshall of Cambridge (Holdings) Ltd with the fee payable in respect of their undertakings as a Non-Executive Director payable to Marshall of Cambridge (Holdings) Ltd.*
- Market value of share options exercised during the Year (based on the Company's share price on the date of exercise) plus the value of dividend equivalents on those options (which were settled in cash).*

Payments to past directors

Mark Raban resigned as a Director on 2 January 2019 but remained employed by the Company until 2 July 2019 whilst serving his notice period. Salary (£134k), pension (£11k) and benefits (£1.7k) were paid in the ordinary manner during this notice period. As reported last year, taking into account Mark's contribution during his tenure, the Committee exercised its discretion to permit the final tranche of his 2015 IPO Performance Awards to vest on 2 April 2019. In addition, and subject to pro-rating for time, his 2016 PSP award vested at 31.09% of maximum, was exercised on 31 December 2019 and was cash-settled by the Company based on the Company's share price on the date of exercise. The value at exercise was £307.5k. All other PSP awards made to Mark have lapsed.

LTIP awards

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

	Scheme	Date of grant	Earliest exercise date	Exercise price	Market value on date of grant (pence)	Number of options grants
D Gupta	2019 LTIP Award	28 Nov 19	28 Nov 22	£Nil	142.5p	223,842
R Blumberger	2019 LTIP Award	28 Nov 19	28 Nov 22	£Nil	142.5p	102,632

Awards vest dependent upon continued employment and subject to the Remuneration Committee being satisfied that there has been no material deterioration in the Company's performance which significantly departs from any market deterioration.

GOVERNANCE

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

	Number at 1 January 2019	Number granted during the year	Number exercised during the year	Number lapsed during the year	Number at 31 December 2019
D Gupta	1,212,522	223,842	411,031	167,257	858,076
R Blumberger	–	102,632	–	–	102,632
M Raban ¹	237,633	–	166,376	71,257	–

1 Mark Raban resigned as a director on 2 January 2019.

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 2019 and their connected persons had interests in the issued share capital of the Company as at 31 December 2019 as follows:

	Number of ordinary shares held beneficially as at 31/12/18	Number of ordinary shares acquired on exercise of options	Market Purchases during the year	Disposals during the year	Number of ordinary shares beneficially held at 31/12/19	LTIP Interests ¹		Total Interest in shares	Shareholding as a percentage of base salary ²	Guideline met?
						Unvested	Vested but unexercised			
R Parry-Jones	–	–	–	–	–	–	–	–	n/a	n/a
D. Gupta	1,163,272	267,839	–	–	1,451,111	858,076	–	2,309,187	534%	Yes
R Blumberger	–	–	–	–	–	102,632	–	102,632	0%	in progress
A Ferguson	58,557	–	–	–	58,557	–	–	58,557	n/a	n/a
F Ecsery	2,013	–	–	–	2,013	–	–	2,013	n/a	n/a
K Jenkins	–	–	–	–	–	–	–	–	n/a	n/a
C Walkinshaw	–	–	–	–	–	–	–	–	n/a	n/a

1 These include the 2017, 2018 and 2019 LTIP Awards.

The 2017 and 2018 LTIP Awards 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, in the case of the 2017 LTIP Awards, CPI plus 1.0% per annum and in the case of the 2018 LTIP Awards, 1.3% per annum, increasing to 100% vesting for achieving growth of CPI plus 5.0% and 6.0% per annum respectively over a three year performance period. As set out in the annual statement from the Remuneration Committee Chair, subject to there being no material deterioration in the Company's performance which significantly departs from any market deterioration, the Committee's current intention is to recommend discretionary awards for the 2017 and 2018 PSP awards on the same basis as that made for the 2016 Awards, such that the overall vesting levels are at least 50% of maximum award.

The 2019 LTIP Awards vest dependent upon continued employment and subject to the Remuneration Committee being satisfied that there has been no material deterioration in the Company's performance over the 3 year vesting period which significantly departs from any market deterioration.

A holding period applies to each of the 2017, 2018 and 2019 LTIP Awards.

2 Shareholding as a percentage of salary is calculated using the number of shares beneficially held, base salary and the Company's share price, all as at 31 December 2019.

The middle market price of the shares as at 31 December 2019 was 156.5p and the range in respect of the 12 month period ending 31 December 2019 was 135.0p to 176.0p.

Implementation of remuneration policy for the year ending 31 December 2020

The annual salaries and fees to be paid to directors in the year ending 31 December 2020 are set out below, together with any increase expressed as a percentage.

	31 December 2020	31 December 2019	Increase
Executive Directors	£'000	£'000	%
D Gupta	433.8	425.3	2.0
R Blumberger	265.8	260.6	2.0
Non-executive Directors	£'000	£'000	%
R Parry-Jones	138.2	135.5	2.0
A Ferguson	63.7	60.3	5.6
N Dulieu ¹	53.7	-	-
F Ecsery	43.7	42.8	2.0
C Walkinshaw ²	40.0	40.0	-
K Jenkins ²	40.0	40.0	-

1 Nicky Dulieu was appointed on 1 January 2020.

2 Christopher Walkinshaw and Kathryn Jenkins are nominated directors of Marshall of Cambridge (Holdings) Ltd with the fee payable in respect of their undertakings as a Non-Executive Director payable to Marshall of Cambridge (Holdings) Ltd.

The maximum potential annual bonus for the year ending 31 December 2020 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 2020. In line with the approach adopted in 2019, the 2020 PSP awards will vest dependent upon continued employment and subject to the Committee being satisfied that there has been no material deterioration in the Company's performance which significantly departs from any market deterioration. For 2020, the maximum PSP award will be 75% of salary for the Chief Executive Officer and 56.25% of salary for the Chief Financial Officer. This equates to 50% of 150% of salary for the Chief Executive Officer and 50% of 112.5% of salary for the Chief Financial Officer and reflects the fact that these awards are not subject to specific financial performance conditions. Any shares awarded to Executive Directors that vest under the 2020 PSP Award must be retained for a further year before they can be sold.

By order of the Board

Nicky Dulieu

Chair of Remuneration Committee
9 March 2020

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.

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 2019 which comprise:

Group	Parent company
Consolidated Statement of Comprehensive Income	
Consolidated Statement of Changes in Equity	Parent Company Statement of Changes in Equity
Consolidated Statement of Financial Position	Parent Company Statement of Financial Position
Consolidated Cash Flow Statement	
Related notes 1 to 33 to the consolidated financial statements, including a summary of significant accounting policies	Related notes 1 to 15 to the Company 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 2019 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 described further 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.

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Overview of our audit approach

Materiality	<ul style="list-style-type: none">• Overall group materiality of £1.10m (2018: £1.28m) which represents approximately 5% (2018: 5%) of Underlying Profit before Tax.• Any audit differences in excess of £55k (2018: £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 the Group utilising consolidated records which include all component transactions and balances with no scoping required.
Key audit matters	<ul style="list-style-type: none">• Valuation of inventory• Assessment of the carrying value of goodwill and other intangible assets• 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.

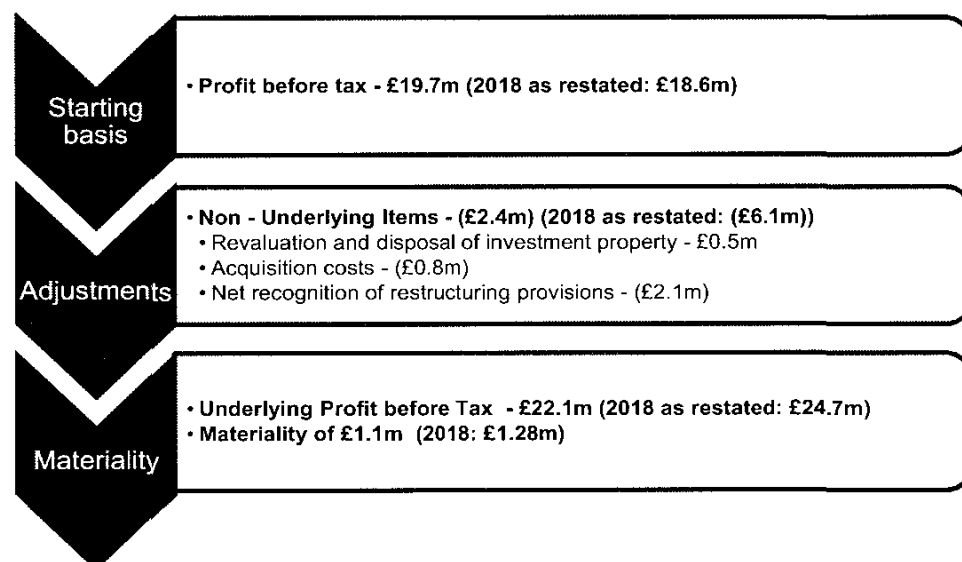
Materiality

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 £1.1 million (2018: £1.28 million), which is approximately 5% (2018: 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 by management and that are unlikely to reoccur, which can be significant compared to underlying trading.* We review the assessment of these items before inclusion in our materiality calculation. There were no changes in the approach year on year.

We determined materiality for the Parent Company to be £1.1 million. This is capped at group materiality.

See breakdown below for details of adjustments made.



As part of our audit planning, we reported to the audit committee on 25 November 2019, an initial materiality calculation of £1.1m. This amount was based on the estimated annualised profit before tax.

There was no change to our initial assessment during the course of the audit.

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% (2018: 50%) of our planning materiality, namely £550k (2018: £641k).

In the prior year audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts was undertaken based on a percentage of total performance materiality. The performance materiality set for each component was 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, all component transactions and balances were included in consolidated records for each significant account. Therefore, there was no need to allocate performance materiality to components in 2019 as all transactions and balances for all components were subject to testing using consolidated Group records. In 2018 the range allocated to components was 30% to 100% of total performance materiality or £192k to £641k.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £55k (2018: £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 determines our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated 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.

In assessing the risk of material misstatement to the Group financial statements, we performed an audit of the complete financial information of the Group, using consolidated accounting records that incorporated all the transactions and balances of all components for the purposes of our audit sampling. In 2018 we performed scoping of entities due to the requirement for statutory audits of the trading subsidiaries. A parental guarantee has been applied over most of these statutory entities in the current year, and as such the Group has been audited to Group materiality using the consolidated accounting records with no scoping required. In 2019 the Group had 35 components at the year-end whose transactions and balances were included in the consolidated accounting records. Each component's financial information could be selected for the purpose of representative sampling and key item testing.

In 2018 the group had 35 components. Of these 14 components, which contributed 94% of the Underlying Profit before Tax, 92% of External Revenue and 97% of Total Net Assets, were subject to full scope audits. The remaining 21 components that together represented 6% of the Group's Underlying Profit before Tax, none individually greater than 2% of Underlying Profit before tax were identified as review scope components. For these components, we performed analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

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Changes from the prior year

All significant account reconciliations are performed at a consolidated level, this allows for audit testing to be performed on complete records incorporating the transactions of all Group components. We have utilised these listings in 2019 and no scoping was required for the purpose of the audit of the consolidated financial statements.

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 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. We do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of inventory: Gross inventory – £480.1 million, (2018: £393.7 million); Inventory provision – £9.4 million, (2018: £9.7 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 subject to significant judgement. Therefore, there is a risk that inventory is misstated.</p> <p><i>Refer to Accounting policies (page 91); Significant accounting judgements and estimates (page 109) and Note 18 of the Consolidated Financial Statements (page 126).</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 third party independent market values (CAP). This provides a base value for all vehicles at the year end date. This is compared to the current carrying value of the vehicles in order to calculate an estimated provision figure for used vehicles. Higher provisions are made against demonstration and pre-reg vehicles using historic experience adjusted for current market conditions.</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.</p> <p>We evaluated the accuracy of the provision in prior periods to assess management's long term forecasting ability and compared the post year end utilisation of the provision in the current year to the comparable period in the prior year.</p> <p>We performed audit procedures over this risk area in all accounts, which covered 100% of the risk amount.</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> <p>We consider the provision to be within an appropriate range.</p>

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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: £119.3 million, (2018: £112.2 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') grouped 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 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 due to the current conditions in the automotive market, together with the rate at which they are discounted.</p> <p><i>Refer to Accounting policies (page 91); Significant accounting judgements and estimates (page 109) and Note 14 of the Consolidated Financial Statements (page 117).</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>We have reviewed the rationale in respect of <i>the allocation of goodwill to identified CGU's</i>.</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 or where the currently calculated impairment would be materially adjusted, 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 was evidence of indicators of impairment or low levels of headroom exist 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; Validating the growth rates assumed by comparing them to either economic and industry forecasts or detailed management action plans; and Applying sensitivities to assumptions and recalculating headroom. <p>We assessed the disclosures in Note 14 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 procedures over this risk area in all relevant accounts, 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 arose.</p>	<p>We are satisfied that group goodwill and intangible assets have been correctly assessed for impairment, based on an appropriate allocation to CGU's.</p> <p>The projected cash flows appear reasonable and no impairment charge has been recorded.</p> <p>Management has performed their own sensitivities which are described appropriately in the goodwill and intangibles note to the group financial statements, in accordance with IAS 36.</p> <p>We note specific reference in Note 14 to the headroom on the goodwill and franchise agreements balance of £9.8m associated with the BMW/Mini brand. The value in use of these intangibles is heavily dependent on the future actions of the manufacturer to ensure improved market conditions in terms of supply, as well as delivery on performance objectives by the MMH BMW franchise team.</p> <p>We have performed sensitivities over these future projections and note that if the profit contribution at the end of the forecast period was to be 6.5% lower than forecast, this headroom would be extinguished.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue recognition: £2,276 million, (2018: £2,187 million), including manufacturer's rebates and bonuses: £139.8 million (2018: £122.9 million)</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 natural pressure on the group to meet expectations and targets. Employee reward and incentive schemes based on achieving revenue targets may also create pressure to manipulate revenue transactions.</p> <p>There is a risk that management may override controls to intentionally misstate revenue transactions and bonuses within cost of sales. This could be 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 85) and Note 5 of the Consolidated Financial Statements (page 98)</i></p>	<p>We understood the business's revenue recognition policy and how this was applied including the relevant controls operating in respect of the recognition of revenue and the allocation of manufacturer bonuses and rebates.</p> <p>As part of our overall revenue recognition testing we used data analysis tools on £2.26 billion (99.3%) of revenue from continuing operations in the year to test the correlation of revenue to cash receipts to verify the occurrence of revenue.</p> <p>We reviewed revenue by dealership and considered margins in comparison to prior year and similar dealerships in order to identify unusual changes in performance, material increases in revenue recognised or increased margins which may indicate an overstatement of manufacturer rebates or bonuses.</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. We also performed reconciliations of manufacturer consignment inventory statements to the inventory ledger and to the associated payable balances to provide additional assurance over new vehicle sales year end cut-off.</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 to ensure the accuracy of accrued rebates and bonuses at the year end.</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 performed audit procedures over revenue for 100% of revenue within the Group.</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>

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In the prior year, our auditor's report included a key audit matter in relation to misstatement of provisions and head office accruals. In the current year, we no longer consider this to represent a key audit matter. This is as a result of a significant reduction in restructuring activity and the settlement of a £5.6m pension liability in the year. We consider the level of management judgement required relating to provisions is now lower than in prior years.

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:

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

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 parent company and its environment obtained in the course of the audit.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: <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 4 to 76, 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 76, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Nigel Meredith (Senior statutory auditor)

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

Birmingham

10 March 2020

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 auditor 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 2019

	Note	Underlying items 2019 £'000	Non- underlying items 2019 £'000	Total 2019 £'000	Underlying items 2018 Restated £'000	Non- underlying items 2018 Restated £'000	Total 2018 Restated £'000
Continuing operations							
Revenue	5	2,276,129	-	2,276,129	2,186,887	-	2,186,887
Cost of sales		(2,015,328)	-	(2,015,328)	(1,933,640)	-	(1,933,640)
Gross profit		260,801	-	260,801	253,247	-	253,247
Net operating expenses		(228,772)	(2,443)	(231,215)	(218,931)	(6,714)	(225,645)
Operating profit		32,029	(2,443)	29,586	34,316	(6,714)	27,602
Net finance costs	10	(9,943)	-	(9,943)	(9,568)	-	(9,568)
Profit before taxation	6	22,086	(2,443)	19,643	24,748	(6,714)	18,034
Taxation	11	(4,177)	112	(4,065)	(4,286)	(380)	(4,666)
Profit from continuing operations after tax		17,909	(2,331)	15,578	20,462	(7,094)	13,368
Discontinued operations							
Profit from discontinued operations after tax	7	-	-	-	-	589	589
Profit for the year		17,909	(2,331)	15,578	20,462	(6,505)	13,957
Total comprehensive income for the year net of tax		17,909	(2,331)	15,578	20,462	(6,505)	13,957
Earnings per share (EPS) attributable to equity shareholders of the parent (pence per share)							
From continuing operations:							
Basic	12	22.9	-	19.9	26.3	-	17.2
Diluted	12	22.6	-	19.7	25.5	-	16.6
From continuing and discontinued operations:							
Basic	12	22.9	-	19.9	26.3	-	18.0
Diluted	12	22.6	-	19.7	25.5	-	17.4

The comparative figures have been restated on adoption of IFRS 16 *Leases*. Full details of the impact of adoption are included in Note 3 'Changes in Accounting Policies and Disclosures'.

Consolidated Balance Sheet

At 31 December 2019

		2019	2018	As at 1 January 2018
	Note	£'000	Restated £'000	Restated £'000
Non-current assets				
Goodwill and other intangible assets	14	119,260	112,177	121,514
Property, plant and equipment	15	159,293	148,159	135,023
Right-of-use assets	16	107,967	85,427	91,969
Investment property	17	3,638	2,590	2,590
Non-current financial assets	16	1,442	1,405	1,684
Deferred tax asset		-	-	39
Total non-current assets		391,600	349,758	352,819
Current assets				
Inventories	18	470,700	384,005	401,260
Trade and other receivables	19	87,462	78,950	91,324
Cash and cash equivalents	20	110	1,174	4,867
Assets classified as held for sale	21	797	797	750
Total current assets		559,069	464,926	498,201
Total assets		950,669	814,684	851,020
Non-current liabilities				
Loans and borrowings	23	5,024	5,665	6,466
Lease liabilities	16	97,396	80,228	91,642
Trade and other payables	22	6,371	5,596	4,281
Provisions	24	299	-	3,258
Deferred tax liabilities	25	20,134	19,574	19,343
Total non-current liabilities		129,224	111,063	124,990
Current liabilities				
Loans and borrowings	23	25,641	641	642
Lease liabilities	16	10,689	7,414	6,078
Trade and other payables	22	578,010	492,387	525,987
Provisions	24	3,085	7,795	5,798
Current tax liabilities		1,704	1,346	2,180
Total current liabilities		619,129	509,583	540,685
Total liabilities		748,353	620,646	665,675
Net assets		202,316	194,038	185,345
Shareholders' equity				
Share capital	28	50,068	49,834	49,531
Share premium	28	19,672	19,672	19,672
Share-based payments reserve	29	1,025	1,570	2,608
Own shares reserve	29	(12)	-	-
Retained earnings		131,563	122,962	113,534
Total equity		202,316	194,038	185,345

The consolidated financial statements of Marshall Motor Holdings plc were approved for issue by the Board of Directors on 9 March 2020.

Daksh Gupta
Chief Executive Officer

Richard Blumberger
Chief Financial Officer

FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity For the year ended 31 December 2019

	Note	Share capital £'000	Share premium £'000	Share-based payments reserve £'000	Own shares reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2017 as originally presented		49,531	19,672	2,608	-	119,323	191,134
Impact of change in accounting policies	3	-	-	-	-	(5,789)	(5,789)
Restated balance at 1 January 2018		49,531	19,672	2,608	-	113,534	185,345
Profit for the year		-	-	-	-	13,957	13,957
Total comprehensive income		-	-	-	-	13,957	13,957
Transactions with owners							
Dividends paid	13	-	-	-	-	(4,983)	(4,983)
Issue of share capital	28	303	-	-	(303)	-	-
Exercise of share options	29	-	-	(1,567)	303	504	(760)
Share-based payments charge	29	-	-	529	-	-	529
Acquisition of non-controlling interest in subsidiaries	14	-	-	-	-	(50)	(50)
Balance at 31 December 2018		49,834	19,672	1,570	-	122,962	194,038
Profit for the year		-	-	-	-	15,578	15,578
Total comprehensive income		-	-	-	-	15,578	15,578
Transactions with owners							
Dividends paid	13	-	-	-	-	(7,223)	(7,223)
Issue of share capital	28	234	-	-	(234)	-	-
Exercise of share options	29	-	-	(1,675)	385	246	(1,044)
Acquisition of own shares	29	-	-	-	(163)	-	(163)
Share-based payments charge	29	-	-	1,130	-	-	1,130
Balance at 31 December 2019		50,068	19,672	1,025	(12)	131,563	202,316

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 £'000	2018 Restated £'000
Operating profit			
– continuing operations		29,586	27,602
– discontinued operations		-	589
Adjustments for:			
Depreciation and amortisation	6	19,995	17,960
Share-based payments charge		1,282	732
Profit on disposal of assets classified as held for sale	6	-	(268)
Loss on disposal of property plant and equipment	6	411	67
Profit on disposal and remeasurement of right-of-use assets and lease liabilities	6/7	(403)	(3,460)
Loss on impairment of goodwill and other intangible assets	6	-	9,302
Loss on impairment of right-of use assets	6	1,081	132
Loss on impairment of property, plant and equipment	6	708	87
Loss on disposal of investment property	6	72	1,146
Loss on disposal of finance lease receivable	6	-	183
Increase in fair value of investment properties	7/17	(610)	-
Profit on disposal of subsidiary	7	-	(589)
Cash flows from operating activities before working capital		52,122	53,483
(Increase)/decrease in inventories		(69,893)	17,255
(Increase)/decrease in trade and other receivables		(7,677)	12,269
Increase/(decrease) in trade and other payables		83,946	(33,543)
Increase/(decrease) in provisions		379	(2,157)
Settlement of defined benefit pension scheme		(5,567)	-
Total cash flows generated by operations		53,310	47,307
Tax paid		(4,698)	(5,231)
Interest paid on lease liabilities		(3,068)	(3,273)
Other net finance costs		(6,875)	(6,362)
Net cash inflow from operating activities		38,669	32,441
Investing activities			
Purchase of property, plant, equipment and software	14/15	(19,433)	(22,242)
Net purchase of investment property		(72)	(1,146)
Acquisition of businesses, net of cash acquired	14	(27,397)	-
Acquisition of non-controlling interest in subsidiaries	14	-	(50)
Lease payments received under finance lease		201	268
Interest received under finance leases		63	67
Net cash flow from sale of discontinued operation	7	-	589
Proceeds from disposal of property, plant and equipment		420	274
Proceeds from disposal of assets classified as held for sale		-	1,018
Net cash outflow from investing activities		(46,218)	(21,222)
Financing activities			
Proceeds from borrowings		70,000	30,000
Repayment of borrowings		(45,641)	(30,802)
Repayment of lease liabilities		(9,780)	(8,159)
Dividends paid	13	(7,223)	(4,983)
Purchase of own shares	29	(163)	-
Settlement of exercised share awards	29	(708)	(968)
Net cash inflow/(outflow) from financing activities		6,485	(14,912)
Net decrease in cash and cash equivalents		(1,064)	(3,693)
Cash and cash equivalents at 1 January	30	1,174	4,867
Cash and cash equivalents at year end	30	110	1,174

FINANCIAL STATEMENTS

Net Debt Reconciliation

For the year ended 31 December 2019

	Note	2019 £'000	2018 Restated £'000
Reconciliation of cash flow to movement in net debt			
Net decrease in net cash and cash equivalents		(1,064)	(3,693)
Proceeds from drawdown of RCF	23	(70,000)	(30,000)
Repayment of drawdown of RCF	23	45,000	30,000
Repayment of other borrowings	23	641	802
Change in lease liability commitments	30	(33,228)	(1,354)
Repayment of lease liabilities	30	12,785	11,432
(Increase)/decrease in net debt		(45,866)	7,187
Opening net debt	30	(92,774)	(99,961)
Net debt at year end	30	(138,640)	(92,774)
Lease liabilities	16	(108,085)	(87,642)
Adjusted net debt at year end (non GAAP measure)		(30,555)	(5,132)
Net debt at year end consists of:			
Cash and cash equivalents	20	110	1,174
Loans and borrowings	23	(30,665)	(6,306)
Lease liabilities	16	(108,085)	(87,642)
Closing net debt	30	(138,640)	(92,774)

Notes to the Consolidated Financial Statements

1. Presentation of the financial statements

General information

Marshall Motor Holdings plc (the Company) is incorporated and resident 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 9 March 2020.

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 153). 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.

During the year the Group has adopted the amendments to IFRS 3 Business Combinations, IAS 12 Income Taxes and IAS 23 *Borrowing Costs* as well as IFRIC *Interpretation 23 Uncertainty over Income Tax Treatment*. The Group has also adopted the following new standard, IFRS 16 *Leases*. Full details of the impact of adoption are set out in Note 3 'Changes in Accounting Policies and Disclosures'.

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

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.

The Directors have considered the future prospects and performance of the Group including: business plans, impact of acquisitions, future cash flows and availability of core and auxiliary financing facilities.

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.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Basis of consolidation (continued)

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.

When the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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.

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 153 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 2019 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 2019 of the subsidiaries listed below.

The subsidiaries which have taken an exemption from audit for the year ended 31 December 2019 by virtue of s479A of the Companies Act 2006 are:

Astle Limited (reg no. 01114983)	Ridgeway Bavarian Limited (reg no. 07930214)
Crystal Motor Group Limited (reg no. 04813767)	Ridgeway TPS Limited (reg no. 06112651)
Exeter Trade Parts Specialists LLP (reg no. OC329331)	S.G. Smith Automotive Limited (reg no. 00622112)
Marshall North West Limited (reg no. 00322817)	S.G. Smith Holdings Limited (reg no. 09416021)
Marshall of Cambridge (Garage Properties) Limited (reg no. 02051459)	S.G. Smith (Motors) Beckenham Limited (reg no. 00648395)
Marshall of Ipswich Limited (reg no. 04447940)	S.G. Smith (Motors) Crown Point Limited (reg no. 00581711)
Marshall of Peterborough Limited (reg no. 04861074)	S.G. Smith (Motors) Forest Hill Limited (reg no. 00581710)
Marshall of Scunthorpe Limited (reg no. 01174004)	S.G. Smith Trade Parts Limited (reg no. 01794317)
Marshall of Stevenage Limited (reg no. 06450140)	Silver Street Automotive Limited (reg no. 00716748)
Pentagon Limited (reg no. 01862751)	Tim Brinton Cars Limited (reg no. 01041301)
Prep-Point Limited (reg no. 00660067)	

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 *Financial Instruments* in the Consolidated Statement of Comprehensive Income. 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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Business combinations *(continued)*

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.

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.

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 and order backlogs.

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.

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 Consolidated Statement of Comprehensive Income 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. These items are capitalised separately from goodwill if the asset is separable or if the benefit of the intangible asset is obtained through contractual or other legal rights and if its fair value can be measured reliably on initial recognition. Such assets are stated at fair value. Franchise agreements have an indefinite useful life, therefore 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.

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
- Fixtures and fittings – 5 years
- Computer equipment – 2-5 years
- Freehold buildings – 50 years
- Land – indefinite life, not depreciated
- Assets under construction – 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

Initial recognition

Investment properties are measured initially at cost, including transaction costs. Investment properties include properties that are held as right-of-use assets, as well as properties that are owned by the Group.

Subsequent measurement

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.

Derecognition

Investment properties are derecognised either when they have been disposed of (i.e. at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Consolidated Statement of Comprehensive Income in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price under IFRS 15 *Revenue from Contracts with Customers*.

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 inflows (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 acquired in a business combination are allocated to each of the cash generating units. 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 and franchise agreements are allocated (being groups of dealerships connected by manufacturer brand) represents the lowest level within the entity at which the goodwill and franchise agreements are monitored for internal management purposes.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

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 Balance Sheet (excluding value added taxes), with a corresponding liability (including value added taxes) 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 the period that vehicles are funded.

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. 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash in hand.

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 Balance Sheet.

Financial instruments

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they originated. 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.

All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for a financial asset not at fair value reported in profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement

A financial asset is classified either as being; measured subsequently at fair value (either through other comprehensive income or through profit or loss), or measured at amortised cost. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

All financial assets of the Group are classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value reported in profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Impairment of financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Loss allowances for finance lease receivables are measured by reference to default events that are possible within 12 months of the reporting date on the basis that the credit risk since initial recognition has not been subject to significant increase.

Loss allowances for trade receivables are measured using a simplified approach based on the lifetime ECLs at each reporting date. An assessment of the lifetime ECLs is calculated using a provision matrix model to estimate the loss rates to be applied to each trade receivable category.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Financial instruments *(continued)*

Financial liabilities

The Group classifies its financial liabilities as 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.

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).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Balance Sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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 Directors consider 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 Directors consider the major inputs applied in the latest valuation by reviewing the information in the valuation computation to valuation reports and other relevant documents.

The Directors, in conjunction with the Group's external valuers, also compare the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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.

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 27 'Fair Value Measurement'.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

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.

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 (inclusive of value added taxes) held on consignment with the corresponding asset included within inventories (exclusive of value added taxes).

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 Balance Sheet.

Provisions

A provision is recognised in the Consolidated Balance Sheet when the Group has; a present legal or constructive obligation as a result of a past event, 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.

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 (closed sites) 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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Revenue recognition

Revenue is measured based on the consideration received or receivable as specified in a contract with a customer and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. Revenue excludes amounts collected on behalf of third parties. Revenue comprises sales and charges for vehicles sold and services rendered during the period, including sales to other Marshall of Cambridge (Holdings) Limited group companies but excluding inter-company sales within the Group.

The Group recognises revenue when it transfers control over a product or service to a customer, as described below.

Sale of motor vehicles, parts and aftersales services

services in the form of vehicle servicing, maintenance and repairs. The Group recognises revenue from the sale of new and used motor vehicles when a customer takes possession of the vehicle, at which point they have an obligation to pay in full and as such control is considered to transfer at this point. The Group typically receives cash equal to the invoice amount for most direct retail sales to consumers at the time the consumer takes possession of the vehicle. When the consumer has taken out a finance (PCP) agreement to purchase the vehicle, the Group receives payment from the finance company at the time the consumer takes possession of the vehicle. Payment terms on sales to corporate customers typically range from 7 to 60 days. The Group recognises revenue from the provision of aftersales services when the service has been completed, at which point customers have an obligation to pay in full. The Group typically receives cash equal to the invoice amount for most direct retail sales to consumers at the time the service has been completed. Payment terms on sales to corporate customers typically range from 30 to 60 days.

Sale of warranty products

Income received in respect of warranty policies sold and administered by the Group is recognised over the period during which a customer can exercise their rights under the warranty; as such, revenue is recognised over the period of the policy on a straight line basis. This is not a material revenue stream for the Group.

Commission income

The Group receives commissions when it arranges vehicle financing and related insurance products for its customers to purchase its products and services, acting as agent on behalf of various finance and insurance companies. Commissions are based on agreed rates.

Where the Group acts as an agent on behalf of a principal, the associated income is recognised within revenue on completion of the arranging of the various products (i.e. at the point at which control passes to the customer).

Certain commissions are received in advance of the customer buying the associated finance or insurance products from the Group as agent. The advance commissions are paid upfront and typically relate to periods of two to three years, depending on the arrangement. The advance commissions are recognised in revenue when sales of finance or insurance products are made. This can be over a year after the receipt of the advance.

There is not deemed to be a financing component because, being an agency arrangement, the timing of the recognition of the commission income varies on the basis of the occurrence of future events that are not substantially within the control of the customer or the Group. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Rental income

Rental income arising from operating leases on investment properties is recognised in revenue on a straight line basis over the period of the lease. Rental income is not disclosed separately from revenue from contracts with customers in the Consolidated Statement of Comprehensive Income due to the immateriality of this income stream.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Revenue recognition *(continued)*

Contract liabilities

Where the Group receives an amount of consideration in advance of completion of performance obligations under a contract with a customer, the value of the advance consideration is initially recognised as a contract liability in liabilities. Revenue is subsequently recognised as the performance obligations are completed over the period of the contract (i.e. as control is passed to the customer). Contract liabilities are presented within trade and other payables in the Consolidated Balance Sheet and disclosed in Note 22 'Trade and Other Payables'.

Contract costs

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Transaction price allocation to remaining performance obligations

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Disaggregation of revenue

Revenue recognised from contracts with customers has been disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This disclosure, as well as the reconciliation between the disaggregated revenue disclosures and the revenue figures disclosed for each of the Group's reportable segments, is made in Note 5 'Segmental Information'.

Supplier income

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 other 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

Group as lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Leases *(continued)*

Right-of-use asset (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liability

The lease liability is initially measured at the present value of the lease payments to be made over the lease term that have not been paid at the lease commencement date. When calculating the present value, the lease liability is discounted using the Group's incremental borrowing rate as the interest rate implicit in the lease cannot be readily determined.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the lease commencement date; and
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. Short-term leases are those that do not contain a purchase option and have a lease term of 12 months or less. Low value assets are those with a value below £5,000. The Group recognises on a straight-line basis over the lease term the lease payments associated with these leases in net operating expenses in the Consolidated Statement of Comprehensive Income.

Group as lessor

The Group only acts as a lessor in the context of sub-lease arrangements. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease as being either a finance lease or an operating lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. To classify each sub-lease, an overall assessment is made as to whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the right-of-use asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset. If a head lease is a short-term lease to which the Group applies the short-term lease exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 Revenue from Contracts with Customers to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of revenue in the Consolidated Statement of Comprehensive Income.

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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Share-based payments *(continued)*

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.

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

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

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

Where shares options are forfeited, effective from the date of the forfeiture, any share-based payment charge previously recognised in both the current and prior periods in relation to these options is reversed 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, lease liabilities, stock financing charges and other interest.

Finance income

Finance income comprises interest receivable on funds invested and finance lease receivables. 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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Taxation *(continued)*

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.

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.

Where the Group makes employer pension 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 plans

Until 31 December 2018, the Group also participated 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 had a defined benefit section.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Alternative performance measures

Non-underlying items

Certain items recognised in reported profit or loss before tax can vary significantly from year to year, therefore, these 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 under IFRS, therefore, it may not be directly comparable with the 'adjusted' profit measures of other companies.

Non-underlying items are defined as follows:

- Acquisition costs;
- Profits/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 pension charges; and
- Asset impairments.

Like-for-like

Similarly, the Directors believe that the impact of acquisitions and disposals distorts the value of comparative information provided. Therefore, the measure of 'like-for-like' financial performance is used to present consistent, comparative information. Results on a 'like-for-like' basis include only the Group's businesses that have been active and trading for a period of 12 consecutive months.

Businesses that are excluded from the definition of 'like-for-like' are those sites that have recently commenced operation, therefore do not have a 12-month trading history, as well as any businesses that were closed and market segments or activities that were ceased during the current or previous year. See the Appendix on page 156 for full details.

Adjusted net debt

The Directors believe that the impact of the adoption of IFRS 16 *Leases* distorts the value of reported net debt. Therefore, the measure of 'adjusted net debt' is presented.

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 2018.

New standards, amendments and interpretations adopted by the Group

The following new standards and amendments to existing standards became effective on 1 January 2019 and have been adopted in the consolidated financial statements for the first time during the year ended 31 December 2019. These have been assessed as having no financial or disclosure impact on the numbers presented.

- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
- IFRS 3 *Business Combinations*
- IAS 12 *Income Taxes*
- IAS 23 *Borrowing Costs*

Notes to the Consolidated Financial Statements

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

New standards, amendments and interpretations adopted by the Group *(continued)*

The following new standard became effective on 1 January 2019 for the current reporting period. The Group had to change its accounting policies and make adjustments as a result of adopting the following new standard:

- IFRS 16 *Leases*

The impact of the adoption of this standard is disclosed below. The accounting policies above have been updated to include the new accounting policies.

Three other standards, amendments and interpretations apply for the first time with effect from 1 January 2019; however, they do not have an impact on the consolidated financial statements of the Group.

Impact on current period of the adoption of new standards, amendments and interpretations

IFRS 16 *Leases*

The Group has applied IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Lease Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group has applied IFRS 16 using the full retrospective approach, therefore, the Group applied IFRS 16 at the date of initial application as if the standard had already been effective at the commencement date of the Group's existing lease contracts. As a result, the comparative information in these consolidated financial statements has been restated. The nature and effects of the key changes to the Group's accounting policies resulting from the adoption of IFRS 16 are summarised below.

Definition of a lease

Previously the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group has applied the definition of a lease under IFRS 16 to contracts that have been entered into, or changed, on or after 1 January 2019.

Group as lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises in the Consolidated Balance Sheet right-of-use assets and lease liabilities for most leases.

The Group has elected to apply the recognition exemptions for lease contracts that do not contain a purchase option and have a lease term of 12 months or less and/or are for underlying assets with a low value.

For leases not covered by these recognition exemptions, the Group recognised right-of-use assets and lease liabilities on adoption of IFRS 16. The Group also tested these right-of-use assets for impairment and recognised an impairment loss against some right-of-use assets on transition and when restating the comparative 2018 period.

Group as lessor

Under IFRS 16, lessor accounting continues to require lessors to classify leases as either operating leases or finance leases using similar principles as were used under IAS 17. As a result, with the exception of sub-lease arrangements, the Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of sub-lease contracts previously classified as an operating lease under IAS 17. The Group concluded that two sub-leases are finance leases under IFRS 16, and accounted for these subleases as new finance leases entered into at the date of initial application.

Notes to the Consolidated Financial Statements

3. Changes in accounting policies and disclosures (continued)

Impact on current period of the adoption of new standards, amendments and interpretations (continued)

IFRS 16 Leases (continued)

Impacts on financial statements

As described above, December 2018 comparatives have been restated following the adoption of IFRS 16. The following tables on pages 104 to 106 summarise the restatements arising on adoption of IFRS 16 in the Group's consolidated financial statements.

Taxation

A deferred tax liability arises on the right-of-use asset and a deferred tax asset arises on the corresponding lease liabilities. These meet the conditions for offsetting and are presented net on the Consolidated Balance Sheet. The net effect is a deferred tax asset which has been recognised as it is probable that future taxable profits will be available against which the deferred tax asset can be offset.

Consolidated statement of comprehensive income

The adoption of IFRS 16 results in an increased depreciation charge, the elimination of operating lease rental charges and increased finance costs. Depreciation is recognised on right-of-use assets and interest is recognised on lease liabilities. These charges are recognised instead of operating lease rental payments and income.

	31 December 2019 Pre IFRS 16 £'000	IFRS 16 Transition £'000	31 December 2019 As presented £'000	31 December 2018 As originally presented £'000	IFRS 16 Transition £'000	31 December 2018 Restated £'000
Revenue	2,276,129	-	2,276,129	2,186,887	-	2,186,887
Cost of sales	(2,015,328)	-	(2,015,328)	(1,933,640)	-	(1,933,640)
Gross profit	260,801	-	260,801	253,247	-	253,247
Net operating expenses	(233,528)	2,313	(231,215)	(228,181)	2,536	(225,645)
Operating profit	27,273	2,313	29,586	25,066	2,536	27,602
Net finance costs	(6,938)	(3,005)	(9,943)	(6,362)	(3,206)	(9,568)
Profit before taxation	20,335	(692)	19,643	18,704	(670)	18,034
Taxation	(4,134)	69	(4,065)	(4,775)	109	(4,666)
Profit from continuing operations after tax	16,201	(623)	15,578	13,929	(561)	13,368
Profit from discontinued operations after tax	-	-	-	589	-	589
Profit for the year	16,201	(623)	15,578	14,518	(561)	13,957
Continuing underlying profit	18,485	(576)	17,909	21,272	(810)	20,462
Non-underlying profit	(2,284)	(47)	(2,331)	(6,754)	249	(6,505)
Profit for the year	16,201	(623)	15,578	14,518	(561)	13,957

There is no material impact on other comprehensive income or on basic and diluted earnings per share.

Notes to the Consolidated Financial Statements

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

Impact on current period of the adoption of new standards, amendments and interpretations *(continued)*

IFRS 16 Leases *(continued)*

Consolidated balance sheet

Right-of-use assets and corresponding lease liabilities have been recognised and presented separately in the Consolidated Balance Sheet. Long leasehold assets previously included under property, plant and equipment have been derecognised as well as any rent prepayments and accruals relating to leases previously classified as operating leases. In addition, the portion of vacant property provisions relating to operating lease rents has been derecognised and replaced with impairments of right-of-use assets in respect of leases of vacant premises.

Dilapidation provisions recognised against goodwill at acquisition have been reclassified to right-of-use assets. Favourable lease intangible assets have been derecognised on adoption of IFRS 16. Finance lease receivables in respect of sub-leases have been recognised in non-current finance assets. The net effect of all these adjustments has been recognised in retained earnings.

Consolidated balance sheet (extract)

	31 December 2019 Pre IFRS 16 £'000	IFRS 16 Transition £'000	31 December 2019 As presented £'000
Goodwill and other intangible assets	119,191	69	119,260
Property, plant and equipment	169,144	(9,851)	159,293
Right-of-use assets	-	107,967	107,967
Investment property	3,638	-	3,638
Financial assets	-	1,544	1,544
Other current assets	560,115	(1,148)	558,967
Total assets	852,088	98,581	950,669
Loans and borrowings	30,665	-	30,665
Lease liabilities	-	108,085	108,085
Provisions	3,484	(100)	3,384
Trade and other payables	586,451	(2,070)	584,381
Deferred tax liabilities	20,495	(361)	20,134
Current tax liabilities	1,704	-	1,704
Total liabilities	642,799	105,554	748,353
Net assets	209,289	(6,973)	202,316
Retained earnings	138,536	(6,973)	131,563
Other reserves	70,753	-	70,753
Total equity	209,289	(6,973)	202,316

Notes to the Consolidated Financial Statements

3. Changes in accounting policies and disclosures (continued)

Impact on current period of the adoption of new standards, amendments and interpretations (continued)

IFRS 16 Leases (continued)

Consolidated balance sheet (extract)

	31 December 2018 As originally presented £'000	IFRS 16 Transition £'000	31 December 2018 Restated £'000	1 January 2018 As originally presented £'000	IFRS 16 Transition £'000	1 January 2018 Restated £'000
Goodwill and other intangible assets	112,202	(25)	112,177	121,596	(82)	121,514
Property, plant and equipment	155,758	(7,599)	148,159	142,428	(7,405)	135,023
Right-of-use assets	-	85,427	85,427	-	91,969	91,969
Investment property	2,590	-	2,590	2,590	-	2,590
Financial assets	-	1,500	1,500	-	1,884	1,884
Other current assets	465,658	(827)	464,831	498,981	(941)	498,040
Total assets	736,208	78,476	814,684	765,595	85,425	851,020
Loans and borrowings	6,306	-	6,306	7,108	-	7,108
Lease liabilities	-	87,642	87,642	-	97,720	97,720
Provisions	7,926	(131)	7,795	12,830	(3,774)	9,056
Trade and other payables	499,455	(1,472)	497,983	531,895	(1,627)	530,268
Deferred tax liabilities	20,787	(1,213)	19,574	20,448	(1,105)	19,343
Current tax liabilities	1,346	-	1,346	2,180	-	2,180
Total liabilities	535,820	84,826	620,646	574,461	91,214	665,675
Net assets	200,388	(6,350)	194,038	191,134	(5,789)	185,345
Retained earnings	129,312	(6,350)	122,962	119,323	(5,789)	113,534
Other reserves	71,076	-	71,076	71,811	-	71,811
Total equity	200,388	(6,350)	194,038	191,134	(5,789)	185,345

Consolidated cash flow statement

The adoption of IFRS 16 changes neither the timing nor amount of the Group's cash flows. The only changes are presentational. The classification of lease payments changes from being shown exclusively as an operating cash flow. Lease payments become 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 following table shows the reclassification between categories of cash flows.

	2019 £'000	2018 £'000
Increase in net cash inflows from operating activities	9,516	7,540
Decrease in net cash outflows from investing activities	264	619
Increase in net cash outflows from financing activities	(9,780)	(8,159)
Net impact on decrease in cash and cash equivalent	-	-

Notes to the Consolidated Financial Statements

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.

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. The useful economic life of goodwill and franchise agreements is determined at the point of initial recognition. 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 by the Group. 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 14(b) 'Goodwill and Other Intangible Assets'. 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.

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.

Notes to the Consolidated Financial Statements

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

Key sources of estimation uncertainty *(continued)*

Inventory valuation (continued)

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 Balance Sheet, this uncertainty is considered to represent a key source of estimation uncertainty. The inventory provision as at 31 December 2019 represents 1.9% of the gross inventory balance (2018: 2.5%). A 100bps change in this ratio in 2019 would change the provision in the Consolidated Balance Sheet by approximately £4.5 million (2018: £3.9 million).

5. Segmental information

IFRS 8 *Operating Segments* requires operating segments to be 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. The Group considers the Chief Executive Officer to be the Chief Operating Decision Maker.

The Group has identified its key product and service lines as being its operating segments because both performance and strategic decisions are analysed at this level. The IFRS 8 aggregation criteria have been met as a result of the Group's key product and service lines sharing common characteristics such as; similar types of customer for the products and services, similar nature of the product and service offerings, similar methods used to distribute the products and provide the services and similar regulatory and economic environment. As a result of these criteria being satisfied, the Group's operating segments constitute one reportable segment (retail) and all segmental information has been disclosed as such. The retail segment includes sales of new and used vehicles, together with the associated ancillary aftersales services of; servicing, body shop repairs and parts sales.

The Group has concluded that rental income arising from investment properties does not meet the quantitative thresholds required to constitute a reportable segment as defined in IFRS 8. Due to the non-material nature of these amounts, they are combined with the retail segment rather than being disclosed separately. As a result, all of the Group's activities are disclosed within the one reportable segment – the retail segment.

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 United Kingdom.

Information about reportable segment

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, vehicle service and other related services.

The following tables show the disaggregation of revenue by major product/service lines for continuing operations:

	Revenue		Gross Profit	
	£'000	mix	£'000	mix
For the year ended 31 December 2019				
New Vehicles	1,079,474	46.4%	80,148	30.8%
Used Vehicles	986,718	42.5%	65,456	25.2%
Aftersales	258,087	11.1%	114,572	44.0%
Internal / Other	(48,150)	-	625	-
Total	2,276,129	100%	260,801	100%
	Revenue		Gross Profit	
	£'000	mix	£'000	mix
For the year ended 31 December 2018				
New Vehicles	1,064,830	47.7%	75,669	29.9%
Used Vehicles	920,237	41.2%	65,441	25.9%
Aftersales	246,116	11.1%	111,862	44.2%
Internal / Other	(44,296)	-	275	-
Total	2,186,887	100%	253,247	100%

Notes to the Consolidated Financial Statements

6. Profit before taxation

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

	2019 £'000	2018 Restated £'000
Depreciation of property, plant and equipment (note 15)	10,217	8,885
Amortisation of other intangibles (note 14)	421	295
Profit on disposal of assets classified as held for sale (note 7)	-	(268)
Loss on disposal of property plant and equipment	411	67
Impairment of property, plant and equipment (note 15)	708	87
Loss on disposal of investment property (note 7)	72	1,146
Intangible assets impairment (note 14)	-	9,302
Depreciation of right-of-use assets (note 16)	9,357	8,780
Profit on disposal and remeasurement of right-of-use assets and lease liabilities (note 7/16)	(403)	(3,460)
Impairment loss on right-of-use assets (note 16)	1,081	132
Loss on disposal of finance lease receivable (note 16)	-	183
Income received from subleasing right-of-use assets (note 16)	(201)	(268)

7. Non-underlying items

	2019 £'000	2018 Restated £'000
Continuing operations		
Post-retirement benefits charge	(23)	-
Acquisition costs	(835)	-
(Recognition) / net release of restructuring costs	(2,123)	3,466
Profit on disposal of assets classified as held for sale	-	268
Loss on disposal of investment property	(72)	(1,146)
Loss on impairment of goodwill and other intangible assets	-	(9,302)
Gain on revaluation of investment properties	610	-
	(2,443)	(6,714)
Discontinued operations		
Profit on disposal of subsidiary	-	589
Non-underlying items	(2,443)	(6,125)

Post-retirement benefits charge

See Note 32 'Pensions' for further details of the transaction giving rise to the post-retirement benefits charge.

Acquisition costs

See Note 14(a) 'Goodwill and Other Intangible Assets' for further details of transactions giving rise to the acquisition costs.

Notes to the Consolidated Financial Statements

7. Non-underlying items *(continued)*

(Recognition) / net release of restructuring costs

Restructuring costs during the current year include costs incurred as a result of the closure of two of the Group's franchised dealerships. Restructuring costs include closed site related costs of £323,000 (2018: profit of £1,128,000), redundancy costs of £303,000 (2018: £280,000), tangible asset impairments of £708,000 (2018: £252,000), right-of-use asset impairments and remeasurements of £268,000 (2018: profit of £3,127,000 – see Note 6 'Profit before taxation' and Note 16 'Leases'). Restructuring costs also include other redundancy costs in the year of £521,000 (2018: £257,000).

Profit on disposal of assets classified as held for sale

In May 2018 the Group sold the freehold property classified as held for sale for a profit of £268,000.

Loss on disposal of investment property

In December 2018 the Group disposed of the investment property acquired in the year for proceeds of £4,654,000; resulting in a loss on disposal of £1,146,000. The acquisition and the immediate disposal of the investment property provided the Group with a better than expected exit from the lease commitment. During the current year additional legal fees of £72,000 were incurred in relation to this disposal.

Loss on impairment of goodwill and other intangible assets

See Note 14(b) 'Goodwill and Other Intangible Assets' for further details of the transaction giving rise to the loss on impairment of goodwill and other intangible assets.

Gain on revaluation of investment properties

See Note 17 'Investment property' for further details of the transaction giving rise to the gain on revaluation of investment properties.

Profit on disposal of subsidiary

In November 2017 the Group disposed of Marshall Leasing Limited and its subsidiary (Gates Contract Hire Limited). A retention of £1,500,000 was withheld in respect of anticipated settlement of legacy defined benefit pension obligations triggered by the change in ownership of Marshall Leasing Limited. In April 2018, the surplus retention withheld was calculated and returned to the Group, generating an additional £589,000 profit on disposal of Marshall Leasing Limited and its subsidiary.

8. Auditor's remuneration

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

	2019 £'000	2018 £'000
Audit services:		
– fees payable to the Company's auditor for the audit of the parent Company and consolidated financial statements	314	200
– audit of Group's subsidiaries	48	78
Fees payable to the Company's auditor for other services:		
– review of interim condensed consolidated financial statements	36	36
Total auditor's remuneration	398	314

Notes to the Consolidated Financial Statements

9. Employees and directors

a) Employee costs for the Group during the year

The aggregate remuneration of employees and directors was:

	2019 £'000	2018 £'000
Wages and salaries	118,653	114,367
Social security costs	13,956	13,383
Other pension costs	2,732	1,999
Share based payments	1,282	732
	136,623	130,481

Employee costs are included in:

	2019 £'000	2018 £'000
Cost of sales	13,802	13,505
Net operating expenses	122,821	116,976
	136,623	130,481

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

	2019	2018
Retail	3,887	3,749
	3,887	3,749

The average number of Group employees excludes temporary and contract staff. As at 31 December 2019 the Group had 4,228 employees (2018: 3,745).

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 69 to 75.

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.

	2019 £'000	2018 £'000
Wages and salaries	5,325	5,249
Post-employment benefits	222	179
Compensation for loss of office	87	-
Share-based payments	1,282	732
	6,916	6,160

Details of the share option schemes are provided in Note 29 'Share-Based Payments'.

Notes to the Consolidated Financial Statements

10. Net finance costs

	2019 £'000	2018 Restated £'000
Interest income on short term bank deposits	-	(13)
Finance lease interest receivable	(63)	(67)
Stock financing charges and other interest	5,944	5,395
Interest payable on lease liabilities	3,068	3,273
Interest payable on bank borrowings	994	980
Net finance costs	9,943	9,568

11. Taxation

a) Taxation charge

	2019 £'000	2018 Restated £'000
Current tax		
Current tax on profits for the year	4,201	5,106
Adjustments in respect of prior years	31	(724)
Total current tax charge	4,232	4,382
Deferred tax		
Origination and reversal of temporary differences	23	541
Adjustments in respect of prior years	(190)	(257)
Total deferred tax (credit)/charge (note 25)	(167)	284
Total taxation charge	4,065	4,666

The income tax charge in both the current and prior year is attributable to profit from continuing operations.

Notes to the Consolidated Financial Statements

11. Taxation (continued)

b) Reconciliation of tax charge

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2019 £'000	2019 %	2018 Restated £'000	2018 Restated %
Profit before taxation	19,643		18,034	
Notional taxation charge at corporation tax rate of 19.00% (2018: 19.00%)	3,732	19.00%	3,426	19.00%
Effects of:				
Tax effect of items not deductible for tax purposes ¹	519	2.64%	2,320	12.86%
Non-taxable gain on sale of subsidiary	-	-	(111)	(0.62%)
Loss on disposal of non-qualifying assets	39	0.20%	100	0.55%
Recognition of deferred tax previously unrecognised	(3)	(0.02%)	-	-
Adjustments in respect of prior years	(159)	(0.81%)	(981)	(5.44%)
Derecognition of brought forward losses previously recognised	-	-	43	0.24%
Utilisation of brought forward losses previously unrecognised	(38)	(0.19%)	-	-
Effect of difference between closing deferred tax rate and current tax rate	(25)	(0.13%)	(131)	(0.72%)
Taxation charge and effective tax rate	4,065	20.69%	4,666	25.87%

¹ Expenses not deductible predominantly consist of depreciation charges on non-qualifying assets and the creation of capital losses.

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

	2019 Underlying £'000	2019 Non- underlying £'000	2019 Total £'000	2018 Underlying Restated £'000	2018 Non- underlying Restated £'000	2018 Total Restated £'000
Profit before taxation	22,086	(2,443)	19,643	24,748	(6,714)	18,034
Taxation	4,177	(112)	4,065	4,286	380	4,666
Effective tax rate	18.91%	4.58%	20.69%	17.32%	(5.66%)	25.87%

Non-recurring items

The Group's total effective tax rate for 2019 of 20.69% was influenced by non-deductible acquisition costs and the impact of adjustments in respect of prior years in relation to assets held for sale in 2018. Excluding the impact of these, the total effective tax rate for 2019 would have been 18.75%. This is consistent with the Group's underlying effective tax rate of 18.91%.

The prior year total effective tax rate of 25.87% was influenced by the impairment of goodwill as well as by the non-taxable gain on disposal of Marshall Leasing Limited in the prior year and profit on disposal of freehold properties shielded from chargeable gains. The underlying effective tax rate of 17.32% is lower than the Group's expected underlying effective tax rate due to the impact of substantial credits in respect of adjustments in respect of prior years resulting from the filing in the prior year of retrospective capital allowance claims on the Group's historic capital expenditure. Excluding the impact of these, the underlying effective tax rate would have been 21.60%.

Notes to the Consolidated Financial Statements

11. 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 either 2019 or 2018.

In the budget of 16 March 2016, the Chancellor of the Exchequer announced a further 1.00% 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.

12. 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 2,002,304 at 31 December 2019 (2018: 2,423,249).

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

	2019 £'000	2018 Restated £'000
From continuing operations		
Underlying net profit attributable to equity holders of the parent	17,909	20,462
Non-underlying items after tax	(2,331)	(7,094)
Net profit attributable to equity holders of the parent	15,578	13,368
	2019 £'000	2018 Restated £'000
From continuing and discontinued operations		
Underlying net profit attributable to equity holders of the parent	17,909	20,462
Non-underlying items after tax	(2,331)	(6,505)
Net profit attributable to equity holders of the parent	15,578	13,957
	2019 Thousands	2018 Thousands
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	78,097	77,736
Effect of dilutive potential ordinary shares: share options	1,178	2,584
Weighted average number of ordinary shares for the purpose of diluted EPS	79,275	80,320
	2019 pence	2018 pence
From continuing operations		
Basic underlying earnings per share	22.9	26.3
Basic earnings per share	19.9	17.2
Diluted underlying earnings per share	22.6	25.5
Diluted earnings per share	19.7	16.6
From continuing and discontinued operations		
Basic underlying earnings per share	22.9	26.3
Basic earnings per share	19.9	18.0
Diluted underlying earnings per share	22.6	25.5
Diluted earnings per share	19.7	17.4

Notes to the Consolidated Financial Statements

13. Dividends

A final dividend of £4,995,000 for the year ended 31 December 2018 was paid in May 2019. This represented a payment of 6.39p per ordinary share in issue at that time.

An interim dividend in respect of the year ended 31 December 2019 of £2,228,000 (2018: £1,674,000), representing a payment of 2.85p per ordinary share in issue at that time, was paid in September 2019.

A final dividend of 5.69p per share in respect of the year ended 31 December 2019 is to be proposed at the Annual General Meeting on 21 May 2020. The ex-dividend date will be 23 April 2020 and the associated record date will be 24 April 2020. This dividend will be paid subject to shareholder approval on 22 May 2020 and these financial statements do not reflect this final dividend payable.

14. Goodwill and other intangible assets

	Goodwill	Franchise agreements	Software	Total Restated*
	£'000	£'000	£'000	£'000
<i>Cost</i>				
Balance at 1 January 2018	48,629	72,137	1,371	122,137
Additions	-	-	260	260
At 31 December 2018	48,629	72,137	1,631	122,397
Additions	-	-	982	982
Additions on acquisition	1,525	5,036	-	6,561
Disposals	-	-	(82)	(82)
At 31 December 2019	50,154	77,173	2,531	129,858
<i>Accumulated amortisation</i>				
Balance at 1 January 2018	-	-	623	623
Charge for the year	-	-	295	295
Impairment	9,302	-	-	9,302
At 31 December 2018	9,302	-	918	10,220
Charge for the year	-	-	421	421
Disposals	-	-	(43)	(43)
At 31 December 2019	9,302	-	1,296	10,598
<i>Net book value</i>				
At 31 December 2018	39,327	72,137	713	112,177
At 31 December 2019	40,852	77,173	1,235	119,260

* Favourable leases with a net book value at 31 December 2018 of £25,000 (2017: £82,000) have been de-recognised on adoption of IFRS 16 Leases.

a) Acquisitions – current period

On 31 January 2019 the Group acquired the trade and assets of two ŠKODA dealerships located in Leicester and Nottingham.

On 28 February 2019 the Group acquired the trade and assets of four ŠKODA dealerships in Northampton, Bedford, Letchworth and Harlow. These acquisitions are part of the Group's stated strategy to grow with existing brand partners in new geographic territories by adding further sites in excellent locations that are contiguous to the Group's existing ŠKODA sites.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*a) Acquisitions – current period *(continued)*

On 2 September 2019, the Group acquired the trade and assets of two Honda dealerships in Reading and Newbury. This acquisition is part of the Group's stated strategy to grow with existing brand partners in new geographic territories by reinforcing the Group's position as the second largest Honda partner in the UK.

On 20 December 2019, the Group acquired the trade and assets of a Volvo dealership in Derby. This acquisition is part of the Group's stated strategy to grow with existing brand partners in new geographic territories.

The estimated combined identifiable assets and liabilities at the dates of these acquisitions are stated at their provisional fair value as set out below. The goodwill arising on acquisition is attributed to the expected synergies and benefits associated with the increased brand representation which has resulted in the Group becoming the UK's largest ŠKODA retailer.

	Fair value of net assets acquired
	£'000
Intangible assets	1,985
Property, plant and equipment	907
Right-of-use assets	6,020
Inventories	3,886
Trade and other receivables	12
Trade and other payables	(460)
Lease liabilities	(5,870)
Provisions	(552)
Deferred tax liabilities	(7)
Net assets acquired	5,921
Goodwill	1,244
Total cash consideration	7,165

The results of the acquired ŠKODA, Honda and Volvo dealerships were consolidated into the Group's results from the relevant date of acquisition. For the period from acquisition to 31 December 2019, the revenues and the loss before tax generated by these dealerships were immaterial in the context of the Group's revenues and profit before tax.

If the acquisitions had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2019), on a pro forma basis, revenue of the combined Group for the year ended 31 December 2019 would have been increased by £40,857,000 and profit before tax would have been reduced by £266,000.

On 17 December 2019, the Group acquired the trade and assets of five Volkswagen dealerships, a Volkswagen commercial vehicle franchise and body shop and one ŠKODA dealership. This acquisition is part of the Group's stated strategy to grow with existing brand partners in new geographic territories by adding further sites in excellent locations. The estimated identifiable assets and liabilities at the date of acquisition are stated at their provisional fair value as set out below. The goodwill arising on acquisition is attributed to the expected synergies and benefits associated with the increased brand representation which has resulted in the Group becoming Volkswagen Group UK's largest partner by number of locations.

Notes to the Consolidated Financial Statements

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

a) Acquisitions – current period *(continued)*

	Fair value of net assets acquired £'000
Intangible assets	3,051
Property, plant and equipment	3,681
Right-of-use assets	20,388
Inventories	12,916
Cash and cash equivalents	2
Trade and other payables	(655)
Lease liabilities	(18,487)
Provisions	(225)
Deferred tax liabilities	(720)
Net assets acquired	19,951
Goodwill	281
Total cash consideration	20,232

The results of the acquired dealerships were consolidated into the Group's results from 18 December 2019. For the period from acquisition to 31 December 2019, the revenues and the loss before tax generated by these dealerships were immaterial in the context of the Group's revenues and profit before tax.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2019), on a pro forma basis, revenue of the combined Group for the year ended 31 December 2019 would have been increased by £167,749,000 and profit before tax would have been reduced by £1,657,000.

Transaction costs arising on acquisitions in 2019 totalled £835,000. These costs have been recognised in net operating expenses in the Consolidated Statement of Comprehensive Income and are part of operating cash flows in the Consolidated Cash Flow Statement.

Acquisitions – prior period purchase of non-controlling interests

On 22 February 2018, the Group acquired the remaining 1% of the share capital of the following subsidiary undertakings; Marshall of Peterborough limited, Marshall of Ipswich Limited and Marshall of Stevenage Limited, taking the Group's shareholdings in these entities up to 100%. Total consideration for these shares amounted to £50,000; the value of consideration in excess of the carrying value of the non-controlling interests acquired has been recognised in retained earnings.

b) 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.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets (continued)

b) Impairment testing (continued)

The Group's CGUs are groups of dealerships connected by manufacturer brand. The allocation of goodwill and indefinite lived intangible assets to the CGU groups is as follows:

	Goodwill	Franchise Agreements
	£'000	£'000
Volkswagen Group*	17,042	35,247
BMW/MINI	1,461	8,345
Jaguar/Land Rover	8,003	14,358
Mercedes-Benz/Smart	11,182	19,201
Other	3,164	22
Total	40,852	77,173

*Volkswagen Group includes Volkswagen, Audi, Skoda and Seat brands

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 2019 and 2018.

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. Where higher, the fair value of groups of CGUs, less costs of disposal, is taken as the recoverable amount.

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 2020 to 31 December 2024. These projections are based on the Board approved budget for the year ending 31 December 2020 forming the basis for the Group's five year strategic plan. 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.

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 8.0% (2018: 10.5%). The prior year discount rate has not been restated as transition to IFRS 16 Leases does not trigger a revised impairment outcome.

The discount rate is lower than in previous years due to the adoption of IFRS 16 Leases.

Headroom

The Group's CGUs all have significant headroom in respect of the carrying value of goodwill and intangible assets with the exception of the BMW/MINI CGU, to which goodwill of £1,461,000 and indefinite life franchise agreement intangible assets of £8,345,000 are assigned.

The Group's BMW/MINI franchises have faced a number of challenges in the last two years brought about largely due to brand challenges around oversupply of vehicles and vehicle recalls. As a result, BMW was impaired by £8,388,000 during the year ended 31 December 2018.

During 2019 the business did not show the improvement forecast and as a result the assumptions relating to future profitability and growth rates have been revised. The Board has approved this revised forecast which supports the carrying value of the BMW/MINI goodwill as at 31 December 2019. Inherent in this are a number of assumptions related to the successful delivery of actions already started by the manufacturer within the network to support profitable trading by each franchised dealership. In addition to these market assumptions the forecast assumes delivery of a number of local management initiatives. The result of which will lead to a significant performance improvement on the 2019 trading.

Notes to the Consolidated Financial Statements

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

b) Impairment testing *(continued)*

Headroom *(continued)*

The approved forecast and therefore the value-in-use of the CGU is sensitive to changes in the delivery of the actions and initiatives. Any delay in achieving these improvements during 2020 will put pressure on the carrying value of the associated goodwill and intangible assets and consequently an impairment trigger event is likely to be realised.

An underperformance resulting in the EBITDA generated by the CGU being £0.5m below the forecast would lead to a non-cash impairment of £4.5m. An underperformance of c6% would not result in an impairment, being the approximate breakeven point. An overperformance to the forecast of 5% would increase the headroom by £3.7m.

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% (2018: 2%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

At 31 December 2019 the Group recorded impairment charges of £nil (2018: £9,302,000 of which £8,388,000 was in respect of BMW/MINI and £914,000 in respect of other brands). The impairments recorded in the prior year were as a consequence of the deterioration in market conditions resulting in revised assumptions around future profitability and growth rates. The impairment charge was recorded within net operating expenses in non-underlying items in the Consolidated Statement of Comprehensive Income.

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 100 basis points, secondly, where cash flows in 2020 are based on a 100 basis point decline in current year performance. The first scenario would result in an impairment of £1,100,000 of the BMW/MINI CGU. The second scenario would result in no recognition of an impairment against any CGU.

In order to assess the possibility of future impairments, the Group has performed additional sensitivity analysis (in addition to those outlined above) based on any 'worse case' estimate. Firstly, where the discount rate increases by a further 100 basis points, an additional impairment of £4,100,000 would be recognised against the BMW/MINI CGU. Impairments of £3,100,000 and £200,000 would be recognised against the Volkswagen Group and the Other CGUs respectively. Secondly, where cash flows in 2020 are based on a further 200 basis points decline in current year performance, no impairment would be recognised.

Notes to the Consolidated Financial Statements

15. Property, plant and equipment

	Freehold land and buildings Restated £'000	Leasehold improvement £'000	Plant and equipment £'000	Assets under construction Restated £'000	Total Restated £'000
<i>Cost</i>					
Balance at 1 January 2018	112,953	17,684	38,544	5,123	174,304
Additions at cost	1,687	523	3,410	17,626	23,246
Disposals	(205)	(1,040)	(5,277)	-	(6,522)
Transfers	5,143	4,873	3,232	(13,248)	-
Transfers to assets held for sale	(797)	-	-	-	(797)
At 31 December 2018	118,781	22,040	39,909	9,501	190,231
Additions at cost	4,937	418	4,519	8,827	18,701
Additions on acquisition	1,991	734	1,863	-	4,588
Disposals	-	(595)	(3,042)	-	(3,637)
Transfers to investment property	(441)	-	-	-	(441)
Transfers	10,353	4,372	1,918	(16,643)	-
At 31 December 2019	135,621	26,969	45,167	1,685	209,442
<i>Accumulated depreciation and impairment</i>					
Balance at 1 January 2018	9,173	5,116	24,992	-	39,281
Charge for the year	1,628	1,802	5,455	-	8,885
Disposals	(205)	(1,076)	(4,900)	-	(6,181)
Impairment	-	-	87	-	87
Transfers	-	324	(324)	-	-
At 31 December 2018	10,596	6,166	25,310	-	42,072
Charge for the year	1,850	2,137	6,230	-	10,217
Disposals	-	(184)	(2,661)	-	(2,845)
Impairment	-	502	206	-	708
Transfers to investment property	(3)	-	-	-	(3)
At 31 December 2019	12,443	8,621	29,085	-	50,149
<i>Net book value</i>					
At 31 December 2018	108,185	15,874	14,599	9,501	148,159
At 31 December 2019	123,178	18,348	16,082	1,685	159,293

As at 31 December 2019, the Group had capital commitments totalling £6.9m (2018: £20.8m) relating to ongoing construction projects.

2019

Impairments

The impairment loss of £708,000 represents the impairment of leasehold improvements and plant and equipment in the franchised dealership which closed in October 2019 and the franchised dealership due to close in 2020. On closure of these dealerships these assets ceased to have any value. This loss was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

Notes to the Consolidated Financial Statements

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

2018

Transfers to assets held for sale

In October 2018, 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 actively being marketed for sale, the asset has been transferred to assets classified as held for sale (see Note 21 'Assets Classified as Held for Sale').

Impairments

The impairment loss of £87,000 represents the net of £101,000 impairment of plant and equipment in the franchised dealership that closed in October 2018 and £14,000 impairment reversal of plant and equipment in a franchised dealership that closed in December 2017. These assets all had no residual value. This loss was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

16. Leases

a) Group as lessee

The Group has lease contracts for land and buildings and vehicles. Leases of land and buildings have an average term of between 20 and 25 years. Leases of vehicles have an average term of 3 years.

The following are amounts recognised in the Consolidated Statement of Comprehensive Income:

	2019	2018
	£'000	Restated £'000
Depreciation of right-of-use assets	9,357	8,780
Profit on disposal and remeasurement of right-of-use assets and lease liabilities	(403)	(3,460)
Impairment loss on right-of-use assets	1,081	132
Expenses relating to short-term leases	209	109
Expenses relating to leases of low-value assets	847	1,164
Interest payable on lease liabilities	3,068	3,273
Total amount recognised in profit or loss	14,159	9,998

The Group had total cash outflows in respect of leases in the year of £12,785,000 (2018: £11,432,000). The Group also had non-cash additions to right-of-use assets and lease liabilities of £28,778,000 (2018: £1,773,000).

Notes to the Consolidated Financial Statements

16. Leases (continued)

a) Group as lessee (continued)

Set out below are the carrying amounts of the right-of-use assets recognised and the movements in the year:

	Land and buildings Restated £'000	Vehicles Restated £'000	Total Restated £'000
<i>Cost</i>			
At 1 January 2018	131,870	608	132,478
Additions	1,292	481	1,773
Disposals	(7,687)	(233)	(7,920)
Remeasurement	597	-	597
At 31 December 2018	126,072	856	126,928
Additions	2,248	122	2,370
Additions on acquisition	26,408	-	26,408
Disposals	(1,206)	(234)	(1,440)
Remeasurement	5,324	-	5,324
At 31 December 2019	158,846	744	159,590
<i>Accumulated depreciation and impairment</i>			
At 1 January 2018	40,289	220	40,509
Charge for the year	8,367	413	8,780
Disposals	(7,687)	(233)	(7,920)
Impairment	132	-	132
At 31 December 2018	41,101	400	41,501
Charge for the year	8,991	366	9,357
Disposals	(82)	(234)	(316)
Impairment	1,081	-	1,081
At 31 December 2019	51,091	532	51,623
<i>Net book value</i>			
At 31 December 2018	84,971	456	85,427
At 31 December 2019	107,755	212	107,967

2019

Impairments

The premises used by the franchised dealership closed in October 2019 became vacant on cessation of trade. The right-of-use asset has therefore been fully impaired. This impairment loss of £1,081,000 was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

2018

Impairments

The premises used by a franchised dealership were temporarily vacant due to the relocation of the franchise. The right-of-use asset has therefore been partially impaired. This impairment loss of £132,000 was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

Notes to the Consolidated Financial Statements

16. Leases (continued)

a) Group as lessee (continued)

	2019 £'000	2018 Restated £'000
Within 1 year	10,689	7,414
Between 1 and 5 years	40,215	29,532
After 5 years	57,181	50,696
Total lease liabilities	108,085	87,642

b) Group as lessor – finance leases

The Group has non-cancellable leases, as intermediate lessor, of leases for properties. The terms of these leases vary. The following are amounts recognised in the Consolidated Statement of Comprehensive Income:

	2019 £'000	2018 Restated £'000
Loss on disposal of finance lease receivable	-	183
Income received from subleasing right-of-use assets	(201)	(268)
Finance income on net investment in leases	(63)	(67)
Total amount recognised in profit or loss	(264)	(152)

Future minimum lease payments receivable for property under non-cancellable finance leases are set out below:

	2019 £'000	2018 Restated £'000
Within 1 year	185	155
Between 1 and 2 years	185	155
Between 2 and 3 years	185	155
Between 3 and 4 years	185	155
Between 4 and 5 years	185	155
After 5 years	1,154	1,141
Total undiscounted lease payments receivable	2,079	1,916
Unearned finance income	(535)	(416)
Net investment in the lease	1,544	1,500

	2019 £'000	2018 Restated £'000
Current (note 19)	102	95
Non-current	1,442	1,405
Total finance lease receivable	1,544	1,500

Notes to the Consolidated Financial Statements

16. Leases (continued)

c) Group as lessor – operating leases

The Group has entered into non-cancellable operating leases, as lessor on property included in investment property and as an intermediate lessor on head leases of property assets. The terms of these leases vary. Future minimum lease payments receivable for property under non-cancellable operating leases are as set out below.

	2019 £'000	2018 Restated £'000
Within 1 year	326	223
Between 1 and 2 years	246	200
Between 2 and 3 years	208	200
Between 3 and 4 years	154	169
Between 4 and 5 years	154	125
After 5 years	602	615
	1,690	1,532

17. Investment property

	Freehold land and buildings £'000	Right-of-use asset £'000	Total £'000
Restated fair value at 1 January	2,000	590	2,590
Additions	5,800	-	5,800
Disposals	(5,800)	-	(5,800)
Fair value at 31 December 2018	2,000	590	2,590
Transfer from freehold land and buildings	438	-	438
Change in fair value	140	470	610
Fair value at 31 December 2019	2,578	1,060	3,638

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. A full valuation of investment properties was carried out as at 31 December 2019 by BNP Paribas Real Estate. A revaluation surplus of £610,000 was taken to the Consolidated Statement of Comprehensive Income in 2019.

The properties are rented out to third parties. Rental income of £383,000 was recognised in 2019 (2018: £266,000). 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.

18. Inventories

	2019 £'000	2018 £'000
Inventories held for resale	480,087	393,667
Less: provisions	(9,387)	(9,662)
Inventories	470,700	384,005

Inventories held for resale include new and used vehicles held for resale, vehicle parts and other inventory. As at 31 December 2019 £443,749,000 (2018: £370,823,000) of inventories held for resale are held under vehicle financing arrangements (see Note 22 'Trade and Other Payables').

Inventory recognised in cost of sales during the year as an expense was £1,979 million (2018: £1,895 million).

Notes to the Consolidated Financial Statements

19. Trade and other receivables

	2019 £'000	2018 Restated £'000
Amounts falling due within one year:		
Trade receivables	50,269	42,644
Other receivables	28,879	29,235
Amounts due from related undertakings (note 31)	3	26
Prepayments	8,209	6,950
Finance lease receivable (note 16)	102	95
Trade and other receivables	87,462	78,950

Other receivables include accrued supplier income of £17,385,000 (2018: £11,940,000). More information in respect of principal risk management is provided in Note 26 'Financial Instruments – Risk Management'.

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

20. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	110	1,174

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.

21. Assets classified as held for sale

	2019 £'000	2018 £'000
Non-current assets held for sale		
Freehold land and buildings		
At 1 January	797	750
Transfers from property, plant and equipment	-	797
Disposals	-	(750)
At 31 December	797	797

Following the closure of one of the Group's dealerships in October 2018, the decision was taken to sell the freehold property owned by the Group and used by the dealership. Due to commercial property market conditions, the property remains available for sale. The property continues to be actively marketed and, in light of revised macro economic conditions, sale is expected to be completed within one year from the balance sheet date and there has been no change in the valuation.

The freehold property was reclassified as held for sale and transferred from property, plant and equipment into current assets. On reclassification, the freehold property was measured at its carrying value, which was the lower of its carrying value and fair value less costs to sell at the date of reclassification (fair value as determined by a desktop valuation from Chartered Surveyors). No impairment was required as fair value less costs to sell exceed the asset's carrying value.

Profits on disposal of assets classified as held for sale are included in Note 7 'Non-Underlying Items'.

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Notes to the Consolidated Financial Statements

22. Trade and other payables

	2019 £'000	2018 Restated £'000
Current - trade and other payables		
Trade payables:		
- vehicle financing arrangements	443,749	370,823
- other trade payables	102,170	81,749
Contract liabilities	10,502	18,755
Amounts owed to related undertakings (note 31)	42	37
Other tax and social security payable	4,803	4,443
Other payables	1,893	1,658
Accruals	14,851	14,922
Total current trade and other payables	578,010	492,387
Non-current – other payables		
Contract liabilities	6,371	5,596
Total non-current other payables	6,371	5,596

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

Vehicle financing arrangements

The Group finances the purchases 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.

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.

Contract liabilities

	2019 £'000	2018 £'000
OEM contributions	949	590
Commission income	10,238	18,165
Service packages	5,686	5,596
	16,873	24,351

Notes to the Consolidated Financial Statements

22. Trade and other payables (continued)

Contract liabilities (continued)

Contract liabilities include OEM contributions received in advance from manufacturer's for which the Group acts as principal.

	2019 £'000	2018 £'000
At 1 January	590	561
Deferred during the year	517	161
Recognised as revenue during the year	(158)	(132)
At 31 December	949	590

Contract liabilities include commission income received in advance from the various finance and insurance companies for which the Group acts as agent.

	2019 £'000	2018 £'000
At 1 January	18,165	21,478
Deferred during the year	4,408	8,215
Recognised as revenue during the year	(12,335)	(11,528)
At 31 December	10,238	18,165

Contract liabilities include service packages received in advance from customers for which the Group acts as principal.

	2019 £'000	2018 £'000
At 1 January	5,596	4,281
Deferred during the year	21,001	20,907
Recognised as revenue during the year	(20,911)	(19,592)
At 31 December	5,686	5,596

23. Loans and borrowings

	2019 Nominal and book value £'000	2018 Nominal and book value £'000
Current loans and borrowings		
Mortgages	641	641
Bank loan	25,000	-
	25,641	641
Non-current loans and borrowings		
Mortgages	5,024	5,665
	5,024	5,665
Total loans and borrowings	30,665	6,306

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

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

23. Loans and borrowings (continued)

Committed facilities

The Group has a revolving credit facility of £120,000,000 of which £25,000,000 was drawn at 31 December 2019 (2018: £nil). This facility includes access to an overdraft facility of £25,000,000. This facility is available for general corporate purposes including acquisitions or working capital requirements. The facility is held in a cash pooling arrangement and balances have been offset in the Consolidated Balance Sheet.

The facility is secured by cross guarantees granted by the certain members of the Group. The facility is available until May 2021.

More information in respect of principal risk management is provided in Note 26 'Financial Instruments – Risk Management'.

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

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	2019 Fair value £'000	Carrying amount £'000	2018 Fair value £'000
Mortgages	5,024	3,951	5,665	4,478

a) Interest rate profile of borrowings

	2019 Debt £'000	2019 Average effective interest rate £'000	2018 Debt £'000	2018 Average effective interest rate £'000
Mortgages	5,665	2.40	6,306	2.40
Bank loan	25,000	1.92	-	-
Weighted average cost of drawn borrowings	30,665	2.01	6,306	2.40

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:

	2019 £'000	2018 £'000
Within 1 year	25,641	641
Between 1 and 5 years	2,565	2,565
After 5 years	2,459	3,100
Total loans and borrowings	30,665	6,306

All loans and borrowings are subject to floating rates of interest which are determined by reference to official market rates such as LIBOR.

Notes to the Consolidated Financial Statements

24. Provisions

	Dilapidations	Closed sites Restated	Pension	Other	Total Restated
	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	643	204	5,580	1,368	7,795
On acquisition	687	-	-	90	777
Charged to income statement in the year	290	357	23	313	983
Reversed and credited to income statement in the year	(368)	(9)	-	-	(377)
Utilised during the year	(54)	(137)	(5,603)	-	(5,794)
As at 31 December 2019	1,198	415	-	1,771	3,384
				2019	2018
				£'000	£'000
Current				3,085	7,795
Non-current				299	-
Total provisions				3,384	7,795

Dilapidations and closed sites

The Group manages its portfolio carefully and either closes or sells sites which no longer fit with the Group's strategy. When sites are closed or sold, provisions are made for any residual costs or commitments.

The Group 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.

Pension

See Note 32 'Pensions' for full details of the circumstances giving rise to the recognition of this provision. The provision has been fully utilised within the year.

Other

Other provisions include a total amount of £1,167,000 (2018: £1,115,000) in respect of the Group's estimated financial exposure under open insurance claims and for potential output VAT payable arising from uncertain VAT treatment of specific vehicle purchases. Conclusion of these open positions is expected in the forthcoming year.

25. Deferred tax assets and liabilities

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

	2019	2018 Restated
	£'000	£'000
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months (note 25a)	(39,227)	(35,504)
– Deferred tax assets to be offset against liabilities (note 25b)	19,093	15,930
Net deferred tax liabilities	(20,134)	(19,574)

The movement on deferred tax balances is as follows:

	2019	2018 Restated
	£'000	£'000
At 1 January	(19,574)	(20,409)
Transitional adjustment on adoption of IFRS 9 and IFRS 16	-	1,119
Deferred tax acquired	(727)	-
Income statement credit / (charge) (note 11)	167	(284)
Net deferred tax liabilities	(20,134)	(19,574)

Notes to the Consolidated Financial Statements

25. 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 and goodwill £'000	Right-of- use asset Restated £'000	Total Restated £'000
Balance at 31 December								
2017 as originally presented	805	6,325	1,203	222	28	13,651	-	22,234
Impact of change in accounting policies	-	(533)	-	-	-	-	14,977	14,444
Restated balance at 1 January 2018	805	5,792	1,203	222	28	13,651	14,977	36,678
Charged/(credited) to the income statement								
- current year	609	(179)	-	(26)	-	166	(1,152)	(582)
Charged/(credited) to the income statement								
- prior year	(172)	(482)	51	-	-	11	-	(592)
At 31 December 2018	1,242	5,131	1,254	196	28	13,828	13,825	35,504
Acquisitions	-	328	-	-	-	-	4,489	4,817
Charged/(credited) to the income statement								
- current year	(148)	(177)	-	(25)	80	172	(682)	(780)
Charged/(credited) to the income statement								
- prior year	(317)	3	-	-	-	-	-	(314)
At 31 December 2019	777	5,285	1,254	171	108	14,000	17,632	39,227

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:

	Tax losses £'000	Capital losses £'000	Disposals on a sale basis £'000	Lease liabilities Restated £'000	Other temporary differences £'000	Total Restated £'000
Balance at 31 December 2017						
as originally presented	39	163	42	-	1,581	1,825
Impact of change in accounting policies				15,548	15	15,563
Restated balance at 1 January 2018	39	163	42	15,548	1,596	17,388
(Charged)/credited to the income statement - current year	(43)	207	167	(1,033)	(421)	(1,123)
(Charged)/credited to the income statement - prior year	4	(2)	-	-	(337)	(335)
At 31 December 2018	-	368	209	14,515	838	15,930
Acquisitions	-	-	-	4,090	-	4,090
(Charged)/credited to the income statement						
- current year	-	12	-	(603)	(212)	(803)
(Charged)/credited to the income statement						
- prior year	-	30	(209)	-	55	(124)
At 31 December 2019	-	410	-	18,002	681	19,093

Notes to the Consolidated Financial Statements

25. Deferred tax assets and liabilities *(continued)*

b) Deferred tax assets *(continued)*

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.

	2019 Tax losses £'000	2019 Unrecognised deferred tax asset £'000	2018 Tax losses £'000	2018 Unrecognised deferred tax asset £'000
Trading losses				
Available indefinitely	211	36	1,387	236
At 31 December	211	36	1,387	236

26. Financial instruments – risk management

a) Financial instruments by category

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 table below analyses financial instruments by assets type. All financial liabilities are carried at amortised cost in both 2019 and 2018. For all financial assets and liabilities, fair value equals carrying value except for long-term borrowings as disclosed in Note 23.

	2019 £'000	2018 Restated £'000
Assets as per the Consolidated Balance Sheet		
Finance lease receivables	1,544	1,500
Trade and other receivables excluding prepayments (note 19)	79,253	72,000
Cash and cash equivalents (note 20)	110	1,174
Total financial assets	80,907	74,674
Liabilities as per the Consolidated Balance Sheet		
Loans and borrowings (note 23)	30,665	6,306
Lease liabilities (note 16)	108,085	87,642
Trade and other payables excluding non-financial liabilities (note 22)	579,578	493,540
Total financial liabilities	718,328	587,488

b) Risk management

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.

Notes to the Consolidated Financial Statements

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

b) Risk management *(continued)*

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 2019, 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.

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.

Finance lease receivables

The Group has one finance lease receivable which is a sub-leased property. There have been no instances of rent default by the lessee in the past, and none are expected in the future, hence the credit risk is deemed to be low. No impairment loss allowance has been recognised in the current or prior year.

Trade 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. At each reporting date, the Group uses a provision matrix to measure expected credit losses on trade receivables. When the debt is deemed irrecoverable, the allowance account is written off against the underlying receivable.

Notes to the Consolidated Financial Statements

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

b) Risk management *(continued)*

Credit risk *(continued)*

Credit quality of trade receivables

The Group uses a provision matrix to measure the expected credit losses on trade receivables. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Loss rates are based on actual credit loss experience over the past two years.

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2019 £'000	2018 £'000
Balance at 1 January per IFRS 9 (2018) / IAS 39 (2017)	677	1,542
Adjustment on initial application of IFRS 9	-	91
Balance at 1 January per IFRS 9	677	1,633
Amounts written off	-	(736)
Net remeasurement of loss allowances	(217)	(220)
Balance at 31 December per IFRS 9	460	677

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.

Exposure to credit risk

A summary of the Group's exposure to credit risk for trade receivables and cash and cash equivalents is as follows:

	2019 £'000 Not credit- impaired	2019 £'000 Credit- impaired	2018 £'000 Not credit- impaired	2018 £'000 Credit- impaired
Counterparties without external credit rating:				
Group 1	1,893	-	1,338	-
	48,836	-	41,983	-
Total gross carrying amount	50,729	-	43,321	-
Loss allowance	(460)	-	(677)	-
Net carrying amount of trade receivables	50,269	-	42,644	-
Gross carrying amount	1,544	-	1,500	-
Loss allowance	-	-	-	-
Finance lease receivable	1,544	-	1,500	-
Counterparties with external credit rating:				
A \ AA- (stable)*	110	-	1,174	-
Loss allowance	-	-	-	-
Cash at bank	110	-	1,174	-

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

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

* Standard & Poor's rating (long term)

Notes to the Consolidated Financial Statements

26. Financial instruments – risk management (continued)

b) Risk management (continued)

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 23 'Loans and Borrowings'.

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 holds 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	386	382	752	2,164	3,367	7,051
Bank loan*	25,000	-	-	-	-	25,000
Lease liabilities	7,081	7,313	14,536	40,381	113,005	182,316
Trade and other payables (excluding other taxes and social security)	573,207	-	6,371	-	-	579,578
At 31 December 2019	605,674	7,695	21,659	42,545	116,372	793,945

	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	379	376	741	2,150	3,396	7,042
Lease liabilities	5,583	5,659	11,561	33,247	73,078	129,128
Trade and other payables (excluding other taxes and social security)	487,944	-	5,596	-	-	493,540
At 31 December 2018	493,906	6,035	17,898	35,397	76,474	629,710

*Bank loans include short-term borrowings under the revolving credit facility, which in accordance with the terms and conditions of the committed facility are due for repayment within 30 days.

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.

Notes to the Consolidated Financial Statements

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

c) 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 20 provides details of cash and cash equivalents and Note 23 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.

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 the 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 88, the Group had net debt of £138,640,000 as at 31 December 2019 (2018: £92,774,000).

27. Fair value measurement

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

		Fair value measurement using:			
	Date of valuation	Total £'000	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 2) £'000
Assets measured at fair value:					
Investment properties (note 17)	31 December 2019	3,638	-	3,638	-
Liabilities for which fair values are disclosed:					
Mortgages (note 23)	31 December 2019	3,951	-	3,951	-
Assets measured at fair value:					
Investment properties (note 17)	31 December 2018	2,590	-	2,590	-
Liabilities for which fair values are disclosed:					
Mortgages (note 23)	31 December 2018	4,478	-	4,478	-

There were no transfers between Level 1 and 2 during 2019 or 2018.

Notes to the Consolidated Financial Statements

28. Share capital and reserves

Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 January 2018	77,392,862	49,531	19,672	69,203
Issued 11 April 2018	472,791	303	-	303
At 31 December 2018	77,865,653	49,834	19,672	69,506
Issued 2 April 2019	306,795	196	-	196
Issued 23 December 2019	59,789	38	-	38
At 31 December 2019	78,232,237	50,068	19,672	69,740

On 2 April 2019 306,795 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the IPO Performance share option scheme.

On 23 December 2019 59,789 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the 2016 Performance share option scheme.

On 11 April 2018 472,791 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the IPO Restricted and IPO Performance share option schemes.

All shares issued are fully paid. Details of Directors' interests in shares are shown in the Directors' Remuneration Report on pages 69 to 75.

Share repurchases

In April 2019 the Employee Benefit Trust (controlled by the Company) subscribed to 306,795 ordinary shares of the Company as part of the exercise of the IPO Performance share option scheme. The Trust subscribed to the shares at nominal value.

In December 2019 the Employee Benefit Trust (controlled by the Company) subscribed to 164,427 ordinary shares of the Company as part of the exercise of the 2016 Performance share option scheme. 104,638 of these ordinary shares were acquired from the market at market value, while the Trust subscribed to the remaining 59,789 ordinary shares at nominal value.

In April 2018 the Employee Benefit Trust (controlled by the Company) subscribed to 472,791 ordinary shares of the Company as part of the exercise of the IPO Restricted and IPO Performance share option scheme. The Trust subscribed to the shares at nominal value.

Shares held by subsidiaries

No shares in the Company were held by subsidiaries in 2019 (2018: nil).

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments granted to employees, including key management personnel, and Directors of the Group as part of their remuneration. Refer to Note 29 'Share-Based Payments' for further details of these plans.

Own shares reserve

Represents shares in the Company held by the Marshall Motor Holdings Employee Benefit Trust. These shares are held in order to satisfy options exercised under the Group's Performance Share Plan. Further details of which are set out in Note 29 'Share-Based Payments'.

Notes to the Consolidated Financial Statements

29. 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 2019, five share grants have been awarded under the scheme being (a) IPO Performance Awards (vesting in two tranches), (b) 2016 Performance Awards, (c) 2017 Performance Awards, (d) 2018 Performance Awards and (e) 2019 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 2019 was £1,282,000 (2018: £732,000). This is split as £152,000 in accruals (2018: £203,000) and £1,130,000 (2018: £529,000) in the share-based payments reserve.

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 2019 is 8.7 years (2018: 8.1 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 2019 is £1.56 (2018: £1.68). The fair value of options granted during the year was £1.43 (2018: £1.59). The fair value of equity settled share options granted was based on market value on 28 November 2019 when the share options were granted.

Options are ordinarily 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 2019. See the Directors' Remuneration Report on pages 69 to 75 for further details.

In June 2019, the 2016 Performance Awards became exercisable. On 23 and 31 December 2019, all option holders exercised these options. As such 164,427 ordinary shares of 64p were issued to satisfy the exercise of options. On exercise, the Remuneration Committee exercised its discretion to settle a proportion of the share options equal to the option holders' tax liability arising on exercise in cash rather than being cash settled. The total value of cash-settled transactions to be paid in 2020 is £517,000.

In April 2019, the second tranche of the IPO Performance Awards became exercisable. On 2 April 2019, all option holders exercised these options. As such 306,795 ordinary shares of 64p were issued to satisfy the exercise of options. On exercise, the Remuneration Committee exercised its discretion to settle a proportion of the share options equal to the option holders' tax liability arising on exercise in cash rather than being cash settled. The total value of cash-settled transactions was £708,000.

As at 31 December 2019 outstanding share options were as follows:

Award	Award date	No of shares over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
2017 Performance Awards	29 September 2017	611,373	Nil	29 September 2020	29 September 2027
2018 Performance Awards	11 April 2018	680,249	Nil	11 April 2021	11 April 2028
2019 Awards	28 November 2019	710,682	Nil	28 November 2022	28 November 2029

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

a) 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.

	2019 No.	2019 WAEP	2018 No.	2018 WAEP
<i>IPO Performance Awards</i>				
Outstanding as at 1 January	578,856	-	1,208,056	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(50,341)	-
Exercised	(578,856)	-	(578,859)	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	-	-	578,856	-
Exercisable as at 31 December	-	-	-	-

b) 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.

	2019 No.	2019 WAEP	2018 No.	2018 WAEP
<i>2016 Performance Awards</i>				
Outstanding as at 1 January	493,575	-	538,835	-
Granted during the year	-	-	-	-
Forfeited during the year*	(340,126)	-	(45,260)	-
Exercised during the year	(153,449)	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	-	-	493,575	-
Exercisable as at 31 December	-	-	-	-

*Of the 340,126 options that lapsed during the year, 212,288 relate to options that were then ended on a discretionary basis.

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

c) 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.

	2019 No.	2019 WAEP	2018 No.	2018 WAEP
<i>2017 Performance Awards</i>				
Outstanding as at 1 January	619,763	-	806,141	-
Granted during the year	-	-	-	-
Forfeited during the year	(8,390)	-	(186,378)	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	611,373	-	619,763	-
Exercisable as at 31 December	-	-	-	-

d) 2018 Performance Awards

The 2018 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in underlying, basic EPS from 2017 to 2020; 25% vest for achieving growth of 1.3% per annum and the percentage of options which vests increases on a straight line basis up to 100% vesting for achieving growth of 6% or more per annum.

These options all become exercisable on the third anniversary of the grant date.

The 2018 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2019 No.	2019 WAEP	2018 No.	2018 WAEP
<i>2018 Performance Awards</i>				
Outstanding as at 1 January	731,054	-	-	-
Granted during the year	-	-	930,966	-
Forfeited during the year	(50,805)	-	(199,912)	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	680,249	-	731,054	-
Exercisable as at 31 December	-	-	-	-

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

e) 2019 Awards

The 2019 Awards are subject to the service condition of continuous employment.

These options all become exercisable on the third anniversary of the grant date.

The 2019 Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2019 No.	2019 WAEP	2018 No.	2018 WAEP
<i>2019 Awards</i>				
Outstanding as at 1 January	-	-	-	-
Granted during the year	710,682	-	-	-
Forfeited during the year	-	-	-	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	710,682	-	-	-
Exercisable as at 31 December	-	-	-	-

30. Analysis of net debt

	At 1 January 2019 Restated £'000	Cash flows £'000	New leases £'000	Non-cash items* £'000	At 31 December 2019 £'000
Cash and cash equivalents	1,174	(1,064)	-	-	110
Liabilities arising from financing activities					
Loans and borrowings	(6,306)	(24,359)	-	-	(30,665)
Lease liabilities	(87,642)	12,785	(25,238)	(7,990)	(108,085)
	(93,948)	(11,574)	(25,238)	(7,990)	(138,750)
Net debt	(92,774)	(12,638)	(25,238)	(7,990)	(138,640)
Lease liabilities	87,642	(12,785)	25,238	7,990	108,085
Adjusted net debt at year end (non GAAP measure)	(5,132)	(25,423)	-	-	(30,555)

*Non-cash items include remeasurements to existing lease liabilities as well as the unwinding of the discount on lease liabilities.

Notes to the Consolidated Financial Statements

30. Analysis of net debt (continued)

	At 1 January 2018 Restated £'000	Cash flows Restated £'000	New leases Restated £'000	Non-cash items* Restated £'000	At 31 December 2018 Restated £'000
Cash and cash equivalents	4,867	(3,693)	-	-	1,174
Liabilities arising from financing activities					
Loans and borrowings	(7,108)	802	-	-	(6,306)
Lease liabilities	(97,720)	11,432	(1,773)	419	(87,642)
	(104,828)	12,234	(1,773)	419	(93,948)
Net debt	(99,961)	8,541	(1,773)	419	(92,774)
Lease liabilities	97,720	(11,432)	1,773	(419)	87,642
Adjusted net debt at year end (non GAAP measure)	(2,241)	(2,891)	-	-	(5,132)

*Non-cash items include remeasurements to existing lease liabilities as well as the unwinding of the discount on lease liabilities.

31. Related party transactions

Key management compensation is given in Note 9 'Employees and Directors'.

During 2019 and 2018 the Directors were members of an employee car ownership scheme under which the following transactions were made in the year. The Directors purchased 24 cars in 2019 (2018:19) at a price of £1,725,000 (2018: £1,338,000) and sold back 23 (2018:22) at a price of £1,577,000 (2018: £1,532,000). The Directors did not make a profit on these transactions.

All companies within Marshall of Cambridge (Holdings) Limited other than those which are subsidiaries of Marshall Motor Holdings plc are related parties.

2019	Sales £'000	Purchases £'000	Year-end balance £'000
<i>Ultimate parent undertaking</i>			
Marshall of Cambridge (Holdings) Limited	2	-	3
<i>Other group entities</i>			
Marshall of Cambridge Aerospace Limited	-	91	(39)
Marshall Fleet Solutions Limited	-	1	-
<i>Other related parties</i>			
RPJ Consulting Services Limited*	-	10	(3)
	2	102	(39)

* The Group purchases administrative support services from RPJ Consultancy Services Limited, a company whose sole director is also Marshall Motor Holdings plc's Non-Executive Chairman.

Notes to the Consolidated Financial Statements

31. Related party transactions (continued)

	Sales £'000	Purchases £'000	Year-end balance £'000
2018			
<i>Ultimate parent undertaking</i>			
Marshall of Cambridge (Holdings) Limited	52	606	1
<i>Other group entities</i>			
Marshall of Cambridge Aerospace Limited	16	254	(39)
Marshall Thermo King Limited	296	3	27
Marshall Group Properties Limited	(89)	1,112	-
	275	1,975	(11)

Outstanding balances with group entities are unsecured, interest free and are expected to be settled in cash.

During the year ended 31 December 2019, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2018: £nil).

32. 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 2019 was £2,732,000 (2018: £1,999,000).

The total unpaid pension contributions outstanding at the year end were £526,000 (2018: £313,000).

b) Defined benefit pension schemes

Cessation of Participation in the Plan and Provision for Section 75 Employer Debt

Following the sale of Marshall Leasing Limited in 2017, the Group no longer had any current employees who were members of the defined benefit section of the Plan. As a result of the Group's strategic review of its existing pension arrangements on 31 December 2018, the Group ceased to be a participating employer in the Plan as a result of it no longer employing any active members of the defined contribution section of the Plan. Accordingly, on 31 December 2018, a debt was triggered under Section 75 of the Pension Act 1995 on the Group ("Employer Debt").

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

On 25 February 2019 the Group paid the Employer Debt (together with Trustee expenses of £25,000) to the Trustees of the Plan and entered in to a Deed of De-Adherence with the Trustees and Marshall of Cambridge (Holdings) Limited confirming the discharge of the Group from the trusts of the Plan and from any further obligations in relation to the Plan with effect from that date. Accordingly, with effect from that date, the Group has no further commitments or participation in any defined benefit pension plans.

Principal Employer's IAS 19 Disclosures

Details of the full scheme are included in the Annual Report and Accounts of Marshall of Cambridge (Holdings) Limited which can be obtained from: Airport House, The Airport, Cambridge CB5 8RY.

Notes to the Consolidated Financial Statements

33. 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.

FINANCIAL STATEMENTS

Company Financial Statements

Balance Sheet

At 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	6	156,622	161,886
Current assets			
Debtors	7	5,060	6,317
Cash at bank and in hand		5,465	-
		<u>10,525</u>	<u>6,317</u>
Creditors: Amounts falling due within one year	9	<u>(54,343)</u>	<u>(38,880)</u>
Net current liabilities		<u>(43,818)</u>	<u>(32,563)</u>
Net assets		<u>112,804</u>	<u>129,323</u>
Capital and reserves			
Called-up share capital	10	50,068	49,834
Share premium		19,672	19,672
Share-based payments reserve		1,025	1,570
Own shares reserve		(12)	-
Profit and loss account		<u>42,051</u>	<u>58,247</u>
Shareholders' funds		<u>112,804</u>	<u>129,323</u>

The total comprehensive loss of the Company for the year ended 31 December 2019 was £9,219,000 (2018: £4,757,000)

The Company financial statements were approved for issue by the Board of Directors and authorised for issue on 9 March 2020.

Richard Blumberger
Chief Financial Officer

Company Financial Statements

Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Called-up share Capital £'000	Share Premium £'000	Share- based payments reserve £'000	Own shares reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2018		49,531	19,672	2,608	-	67,483	139,294
Loss for the financial year		-	-	-	-	(4,757)	(4,757)
Total comprehensive loss for the year		-	-	-	-	(4,757)	(4,757)
Equity dividends paid	12	-	-	-	-	(4,983)	(4,983)
New shares issued	10	303	-	-	(303)	-	-
Exercise of share options	10	-	-	(1,567)	303	504	(760)
Share-based payments charge	11	-	-	529	-	-	529
At 31 December 2018		49,834	19,672	1,570	-	58,247	129,323
Loss for the financial year		-	-	-	-	(9,219)	(9,219)
Total comprehensive loss for the year		-	-	-	-	(9,219)	(9,219)
Equity dividends paid	12	-	-	-	-	(7,223)	(7,223)
New shares issued	10	234	-	-	(234)	-	-
Exercise of share options	10	-	-	(1,675)	385	246	(1,044)
Acquisition of own shares		-	-	-	(163)	-	(163)
Share-based payments charge	11	-	-	1,130	-	-	1,130
At 31 December 2019		50,068	19,672	1,025	(12)	42,051	112,804

Notes to the Company Financial Statements

1. Statement of compliance

Marshall Motor Holdings plc (the Company) is incorporated and resident 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 Income Statement 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 2018.

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.

Notes to the Company Financial Statements

3. Accounting policies *(continued)*

Taxation *(continued)*

Deferred taxation *(continued)*

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.

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.

Notes to the Company Financial Statements

3. Accounting policies *(continued)*

Share-based payments *(continued)*

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 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. Cash-settled share-based payments transactions are measured at fair value at the settlement date, with changes in fair value recognised directly in equity in retained earnings.

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

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

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

The cost of awards granted to employees of the Company's subsidiaries is recognised as an addition to the cost of its investment in the employing subsidiary, with a corresponding increase in the Share-Based Payments Reserve in the Statement of Changes in Equity.

Pensions

The Company participates in a defined contribution scheme for its employees. Contributions are charged to the Income Statement as they become payable in accordance with the rules of the scheme.

Dividend distribution

Final dividends to the Company's shareholders are recognised as a liability in the 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.

Notes to the Company Financial Statements

4. Auditor's remuneration

The auditor's remuneration for audit and other services was £3,000 (2018: £3,000).

5. Employees and directors

Employee costs for the Company during the year:

	2019 £'000	2018 £'000
Wages and salaries	1,944	1,337
Social security costs	293	412
Other pension costs	113	101
Share based payments	756	583
	3,106	2,433
	2019 No.	2018 No.
Management	3	3
	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 69 to 75.

6. Investments in subsidiaries

	2019 £'000
<i>Cost</i>	
At 1 January 2019	161,886
Share-based payment awards to employees of subsidiaries	452
Impairment	(5,716)
At 31 December 2019	156,622

Management has recognised an impairment charge of £5,716,000 (2018: £1,776,000) against investments in subsidiaries with a carrying amount of £19,786,000 as at 31 December 2019 (2018: £12,946,000). The impairment charge is recorded within administrative expenses in the Income Statement. The impairments recorded are a consequence of an improvement in process to allocate central income and expense to relevant statutory entities, consistent with the allocation to CGUs in the Group accounts.

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 86 to 145.

FINANCIAL STATEMENTS

Notes to the Company Financial Statements

6. Investments in subsidiaries *(continued)*

Name of Undertaking	Principal activity at year end
Marshall Motor Group Limited	Franchised motor dealership
Marshall of Cambridge (Garage Properties) Limited* (reg no. 02051459)	Property holding
Tim Brinton Cars Limited* (reg no. 01041301)	Property holding
Marshall of Ipswich Limited* (reg no. 04447940)	Franchised motor dealership
Marshall of Peterborough Limited* (reg no. 04861074)	Franchised motor dealership
S.G. Smith Holdings Limited* (reg no. 09416021)	Holding company
S.G. Smith Automotive Limited* (reg no. 00622112)	Holding company
S.G. Smith (Motors) Limited	Dormant
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	Dormant
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* (reg no. 06450140)	Franchised motor dealership
Marshall Commercial Vehicles Limited	Dormant
Marshall North West Limited* (reg no. 00322817)	Franchised motor dealership
Marshall of Scunthorpe Limited* (reg no. 01174004)	Franchised motor dealership
Silver Street Automotive Limited* (reg no. 00716748)	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	Dormant
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* (reg no. 01862751)	Franchised motor dealership
Pentagon South West Limited	Dormant
Ridgeway TPS Limited* (reg no. 06112651)	Motor parts sales
Ridgeway Bavarian Limited* (reg no. 07930214)	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 2019.

7. Debtors

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	5,025	5,567
Other debtors	28	603
VAT	-	21
Prepayments	-	113
Deferred tax asset (note 8)	7	13
	5,060	6,317

Amounts owed by group undertakings are unsecured, bear no interest and have no fixed repayment date.

Notes to the Company Financial Statements

8. Deferred tax assets

The analysis and movements in deferred tax assets during the year are as follows:

	Temporary differences £'000
At 1 January 2018	100
Charged to the income statement - current year	(82)
Charged to the income statement - prior year	(5)
At 31 December 2018	13
Charged to the income statement - current year	(6)
At 31 December 2019	7

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. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loans	25,000	-
Bank overdraft	-	4,274
Trade creditors	743	735
Amounts owed to Group undertakings	24,792	30,775
Corporation tax	1,848	1,490
Other taxes and social security	63	63
Other creditors	42	354
Accruals and deferred income	1,855	1,189
	54,343	38,880

Amounts owed to group undertakings are unsecured, bear no interest and have no fixed repayment date.

10. Called-up share capital and other reserves

Share capital and share premium

	2019 £'000	2018 £'000
78,232,237 (2018: 77,865,653) ordinary shares of 64p each	50,068	49,834
Ordinary shares	2019 £'000	2018 £'000
At 1 January	49,834	49,531
Issued on 11 April 2018	-	303
Issued on 2 April 2019	196	-
Issued on 23 December 2019	38	-
	50,068	49,834

On 2 April 2019 306,795 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the IPO Performance share option scheme.

Notes to the Consolidated Financial Statements

10. Called-up share capital and other reserves *(continued)*

On 23 December 2019 59,789 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the 2016 Performance share option scheme.

On 11 April 2018 472,791 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the IPO Restricted and IPO Performance share option scheme.

All shares issued are fully paid. Details of Directors' interests in shares are shown in the Directors' Remuneration Report on pages 69 to 75.

Share repurchases

In April 2019 the Employee Benefit Trust (controlled by the Company) subscribed to 306,795 ordinary shares of the Company as part of the exercise of the IPO Performance share option scheme. The Trust subscribed to the shares at nominal value.

In December 2019 the Employee Benefit Trust (controlled by the Company) subscribed to 164,427 ordinary shares of the Company as part of the exercise of the 2016 Performance share option scheme. 104,638 of these ordinary shares were acquired from the market at market value, while the Trust subscribed to the remaining 59,789 ordinary shares at nominal value.

In April 2018 the Employee Benefit Trust (controlled by the Company) subscribed to 472,791 ordinary shares of the Company as part of the exercise of the IPO Restricted and IPO Performance share option scheme. The Trust subscribed to the shares at nominal value.

Shares held by subsidiaries

No shares in the Company were held by subsidiaries in 2019 (2018: nil).

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments granted to employees, including key management personnel, and Directors of the Group as part of their remuneration. Refer to Note 29 'Share-Based Payments' for further details of these plans.

Own shares reserve

Represents shares in the Company held by the Marshall Motor Holdings Employee Benefit Trust. These shares are held in order to satisfy options exercised under the Group's Performance Share Plan. Further details of which are set out in Note 29 'Share-Based Payments'.

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 29 '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.

Notes to the Consolidated Financial Statements

12. Dividends

	2019 £'000	2018 £'000
<i>Paid during the year</i>		
Final dividend for 2017	-	3,309
Interim dividend for 2018	-	1,674
Final dividend for 2018	4,995	-
Interim dividend for 2019	2,228	-
	7,223	4,983

A final dividend of £4,995,000 for the year ended 31 December 2018 was paid in May 2019. This represented a payment of 6.39p per ordinary share in issue at that time.

An interim dividend in respect of the year ended 31 December 2019 of £2,228,000 (2018: £1,674,000), representing a payment of 2.85p per ordinary share in issue at that time, was paid in September 2019.

A final dividend of 5.69p per share in respect of the year ended 31 December 2019 is to be proposed at the annual general meeting on 21 May 2020. The ex-dividend date will be 23 April 2020 and the associated record date will be 24 April 2020. This dividend will be paid subject to shareholder approval on 22 May 2020 and these financial statements do not reflect this final dividend payable.

13. Pensions

As described in Note 3 'Accounting Policies', the Company participates in a pension scheme for the benefits of its employees which is a defined contribution scheme. The scheme is funded by the payment of contributions to a trustee administered fund which is kept independently from the assets of the participating employers.

The total pension cost for the year was £113,000 (2018: £101,000).

The total unpaid pension contributions outstanding at the year ended were £7,000 (2018: £3,000).

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 31 'Related Party Transactions' of the consolidated financial statements.

15. 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. This 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.

Appendix – Alternative Performance Measures (APMs)

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. The APMs are measures which disclose the adjusted performance of the Group excluding specific items which are regarded as non-recurring. See Note 7 'Non-Underlying Items' for full details of the nature of items excluded from non-underlying performance measures.

The following tables show the reconciliation between the Group's performance as reported in accordance with International Financial Reporting Standards (IFRS) and the Group's underlying performance and like-for-like results.

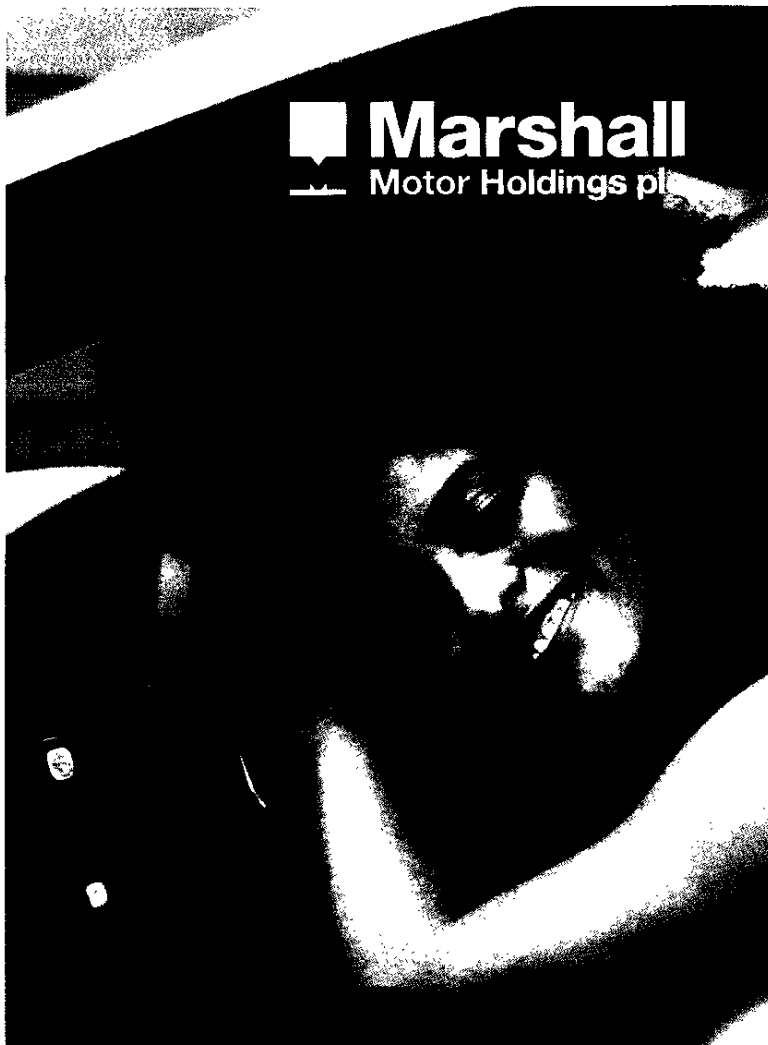
	2019 £'000	2018 Restated £'000
Continuing operating profit		
Total continuing operating profit as reported	29,586	27,602
Impact of non-underlying items		
Post-retirement benefits charge	23	-
Acquisition costs	835	-
Net release / (recognition) of restructuring costs and provisions	2,123	(3,466)
Profit on disposal of assets classified as held for sale	-	(268)
Loss on disposal of investment property	72	1,146
Loss on impairment of goodwill and other intangible assets	-	9,302
Gain on revaluation of investment properties	(610)	-
	2,443	6,714
Continuing underlying operating profit	32,029	34,316
	2019 £'000	2018 £'000
Continuing revenue		
Total continuing revenue as reported	2,276,129	2,186,887
Impact of non like-for-like activities		
New dealerships acquired or opened in the year	(59,281)	-
Dealerships closed in the year	(7,201)	(25,339)
	(66,482)	(25,339)
Continuing like-for-like revenue	2,209,647	2,161,548
	2019 £'000	2018 £'000
Continuing gross profit		
Total continuing gross profit as reported	260,801	253,247
Impact of non like-for-like activities		
New dealerships acquired or opened in the year	(7,671)	-
Dealerships closed in the year	(806)	(2,825)
	(8,477)	(2,825)
Continuing like-for-like gross profit	252,324	250,422

Appendix – Alternative Performance Measures (APMs) *(continued)*

	2019 £'000	2018 Restated £'000
Net debt consists of:		
Cash and cash equivalents	110	1,174
Loans and borrowings	(30,665)	(6,306)
Lease liabilities	(108,085)	(87,642)
Closing net debt	(138,640)	(92,774)
Lease liabilities	(108,085)	(87,642)
Adjusted net debt	(30,555)	(5,132)

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 30 Gresham Street London EC2V 7QP
Auditor:	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





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