Marshall Motor Holdings plc

Annual Report & Accounts 2018

PUTTING OUR CUSTOMERS ABOVE ALL ELSE SINCE 1909



BMW


Ford



PM
JAGUAR

KIA

LAND
ROVER



MINI

NISSAN
brembo







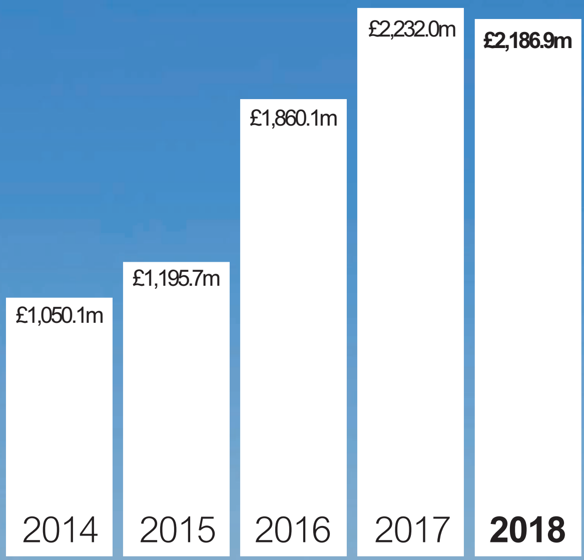
VOLVO

Contents

Marshall
Motor Holdings plc

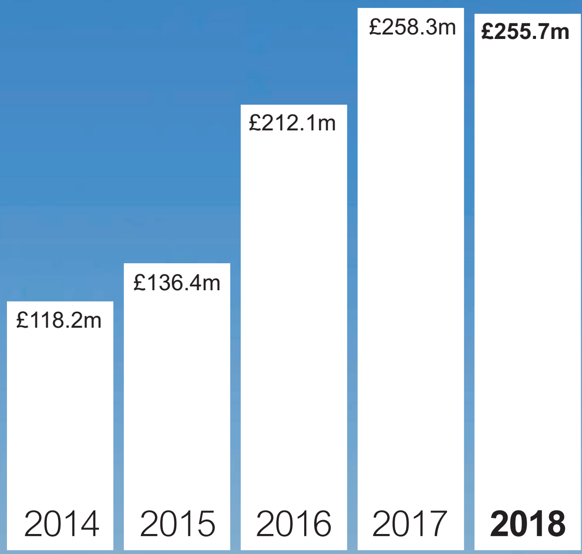
Historical Financial Trends

Revenue £m
excluding discontinued leasing segment



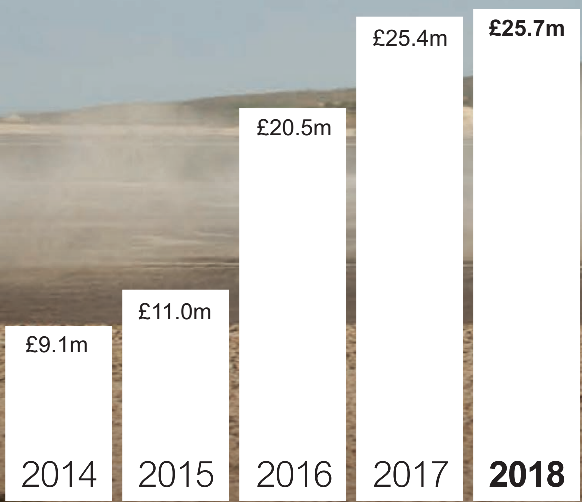
CAGR 20.1%

Gross Profit £m
excluding discontinued leasing segment



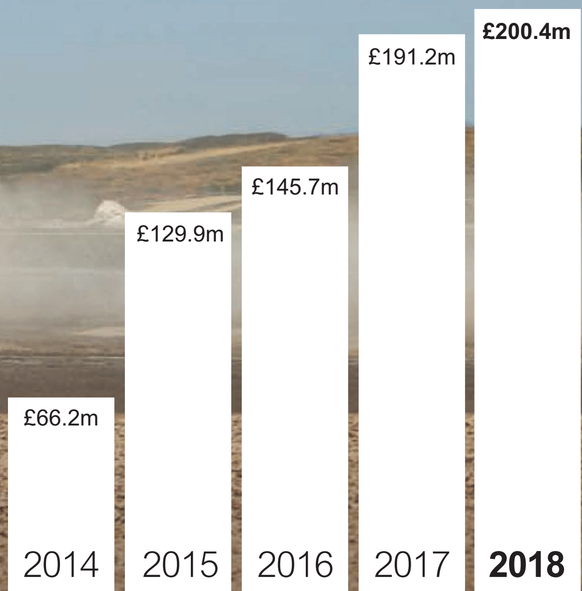
CAGR 21.3%

Underlying Profit Before Tax* £m



CAGR 29.6%

Net Assets £m



CAGR 31.8%

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

2018 Quick Overview

£2.2bn
Revenue

£25.7m
Underlying Profit Before Tax

89,515
New and Used Units Sold

£200.4m
Net Assets

120
Operating Units

3,749
Colleagues
at 31 December 2018

No.1
AUTOMOTIVE RETAIL EMPLOYER
As Voted by our Colleagues

Great Place To Work®

Range Rover Sport SVR

Marshall Motor Holdings plc

Putting our customers above all else since 1909.

7th
Largest Automotive Retailer

23
Brand Partners

120
Operating Units

27
Counties Nationwide

81.4%
Brand Coverage

Audi all-electric PB18 e-tron

% 2018 Manufacturer Market Share

Retail Franchised Dealerships

% 2018 Manufacturer Market Share	Locations
6.1	Beckenham & Bromley, Bexley, Coulsdon, Exeter, Newbury, Oxford, Plymouth, Taunton and Wimbledon
7.3	Bournemouth, Grimsby (with Motorrad), Hook, Salisbury and Scunthorpe
10.7	Bury St Edmunds, Cambridge and Kings Lynn
2.2	Harrogate, Hull, South Leicester, Peterborough, Scarborough and York
3.8	Cambridge
1.6	Cambridge, Ipswich, Lincoln, Newbury, Oxford and Peterborough
4.1	Ipswich, Scunthorpe
3.3	Bedford, Cambridge, Ipswich, Lincoln, Melton Mowbray, Newbury Oxford and Peterborough
0.1	Peterborough
7.3	Blackburn, Blackpool, Bolton, Chichester, Portsmouth, Preston, Southampton, South Lakes and Winchester
2.8	Bournemouth, Grimsby, Hook and Salisbury
4.3	Grantham and Lincoln
3.4	Cambridge, Peterborough and St Neots
2.7	Braintree, Cambridge and Leicester
3.2	Barnstaple, Bedford**, Croydon, Harlow**, Leicester*, Letchworth**, Newbury, Northampton**, Nottingham*, Oxford
0.3	Blackpool, Bolton, Portsmouth and Southampton
7.5	Ipswich, Knebworth, and Peterborough
8.6	Barnstaple, Grimsby, Newbury, North Oxford, South Oxford, Reading, Scunthorpe and Taunton
2.1	Bishops Stortford, Cambridge, Grantham, Leeds, Milton Keynes, Nottingham, Peterborough, and Welwyn Garden City

Commercial Vehicle Dealerships

Vans	Cambridge
Commercial Vehicles	Andover, Fareham, Poole and Southampton
Commercial Vehicles	Bridgwater, Oxford, Reading and Scunthorpe

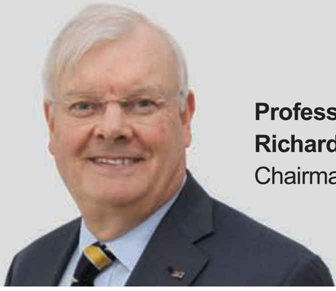
Other Stand-Alone Operating Units

Trade Parts Specialist	Exeter, Mitcham, Old Kent Road / Dartford, Oxford and Swindon
Marshall Paint & Body Repair Centre	Cambridge, Greenham Prep Centre, Grimsby, New Forest and Peterborough
Approved Centre; Marshall Used Car Centre	Audi Sydenham, Cambridge Used Cars and Halesworth Jaguar Land Rover
Commercial Vehicles	Croydon Service Centre

*acquired January 2019
**acquired February 2019

Chairman's Statement

"The Group performed strongly in a challenging market"



Professor Richard Parry-Jones CBE
Chairman

Introduction

I am delighted to present our Annual Report and Accounts ("Annual Report") for the year ended 31 December 2018 (the "Year"), my first since becoming Chairman of the Group on 1 January 2019.

Whilst the market backdrop in 2018 remained challenging, the Group performed strongly. We are pleased to report a record continuing underlying profit before tax* ("PBT") performance for the Year.

I am excited to have joined the Group at this time in its development. The global automotive industry is undergoing unprecedented change, driven in large part by exciting new technologies, some of which I have been heavily involved with during my career.

I have visited a number of our dealerships and met with many of our colleagues since I joined the Group and I have been very impressed with how the Group operates.

Strategy

The Group's strategy of close partnership with major global automotive brands has served it well over many years, enabling it to grow significantly and become a leading UK automotive retailer. This strategy has positioned the Group well to continue its success and I very much look forward to being part of the leadership team to help deliver its future potential. We remain committed to our strategy of growing the Group further, both organically and through targeted acquisitions. We continue to 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 enjoyed another record year, delivering like-for-like** revenue growth of 1.2% and continuing underlying PBT growth of 1.2% to £25.7m. The Group's balance sheet also remains strong, underpinned by £125.3m of freehold/long leasehold property.

Dividend

The Group's stated dividend policy since 2015 has been to maintain a progressive dividend policy where dividends were covered between 4 to 5 times by underlying earnings. The Board has recently reviewed its dividend policy and, in light of the Group's strong financial position and confidence in its long-term prospects, is pleased to announce a change to this policy.

The Group's revised dividend policy 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 the revised dividend 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 2018 of 6.39p per share which, if approved by shareholders at our AGM on 21 May 2019, will be paid on 24 May 2019 to shareholders who are on the Company's register at close of business on 26 April 2019. If approved, this will result in a full year dividend of 8.54p per share, an increase of 33.4% on the prior year (2017: 6.40p) and dividend cover of 3.2x (2017: 4.2x).

AGM

Our annual general meeting will be held on 21 May 2019 and I look forward to meeting all shareholders who are able to attend.

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 2019 of 2.3%. The Board is also cognisant of the potential impact that Brexit may have on both the UK economy generally and the automotive sector in particular. At the date of this Annual Report, the terms of the UK's departure from the European Union are not certain and the Board therefore remains cautious about the economic outlook for 2019. We are, however, confident in our brand partners' commitment to the UK automotive retail market (the second largest in Europe) and their collective ability to respond effectively to the potential challenges that Brexit may bring.

Our order book for the important March plate-change period is, however, encouraging and our outlook for the full year remains unchanged.

The Group has the benefit of a strong balance sheet with a low level of net debt. This, together with an exceptional management team, leaves it well placed to respond to market changes and challenges and to take advantage of opportunities when they arise.

On behalf of the Board, I would once again like to thank Peter Johnson who retired as Chairman on 31 December 2018. His leadership since the Group's IPO in 2015 oversaw its transformation, including through the acquisitions of SG Smith in 2015, Ridgeway in 2016 and the disposal of Marshall Leasing in 2017. I would also like to thank Mark Raban, who stepped down from his position as Chief Financial Officer on 2 January 2019, for his valuable contribution to the Group over the same period. I am very pleased to welcome Richard Blumberger to the Board as our new Chief Financial Officer.

I would also 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.

Finally, I would like to thank all of our customers throughout the UK who choose Marshall as their preferred source of mobility products and services – delighting and satisfying you is the ultimate goal of everything we do.

Professor Richard Parry-Jones CBE
Chairman
12 March 2019

* underlying profit before tax is presented excluding non-underlying items (see Note 7 to the financial statements)
** See Note 2 to the financial statements

Our Vision

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

Marshall Motor Holdings plc

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.

Strategic growth

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

Underpinned by five strategic pillars

Operating Review

"Despite a challenging new and used car market, the Group performed robustly, exceeding last year's record result at continuing underlying PBT level"

"Overall like-for-like revenue growth in the face of a decline in the new and used vehicle market"

Daksh Gupta
Chief Executive Officer

Overview

For the fourth consecutive year since our IPO, I am pleased to announce another record result at continuing underlying PBT level. Despite the well-publicised decline in our markets, the Group delivered continuing underlying PBT of £25.7m, ahead of last year's record result.

2018 was another successful year for the Group:

- Total revenue of £2.2 billion with like-for-like revenue growth of 1.2% to £2.1 billion;
- Continuing underlying PBT up 1.2% to £25.7m, ahead of last year's record result;
- Strong used car performance: like-for-like volumes up 2.3% combined with a 32bps margin improvement;
- Aftersales like-for-like revenue continued to grow, up 2.3%;
- Like-for-like total new vehicle unit sales down 8.2% due to impact of WLTP and diesel challenges;
- Disciplined cost management despite significant costs headwinds with like-for-like operating expenses as a percentage of turnover marginally down at 10.1%;
- Net debt at 31 December 2018 of £5.1m after continued investment in capital expenditure of £23.8m, including a new freehold at Lincoln Jaguar Land Rover and a long leasehold development at Cambridge Ford;
- Extinguished residual liability for historic defined benefit pension arrangements;
- Revised dividend cover policy of 2.5 to 3.5 underlying earnings with recommended final dividend of 6.39p per share, giving a full year dividend of 8.54p per share, an increase of 33.4% versus last year;
- Ninth year of Great Place to Work status with four consecutive years achieving ranked status; and
- Further technological advancements in the Group's bespoke management information system, 'Phoenix 2'.

Like-for-Like Revenue

£2,134.6m (up 1.2%)
(2017: £2,108.9m)

Continuing Underlying PBT

£25.7m (up 1.2%)
(2017: £25.4m)

Full Year Dividend

8.54p (up 33.4%)
(2017: 6.40p)

Ninth Year of
'Great Place to Work' Status

Celebrating Loyalty


Recognising Achievement

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 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.

MAVTA Awards

Apprentice Award

Our strategy

The Group's strategic vision, which is unchanged, is to become the UK's premier automotive Group and this 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.

Class leading returns

The Group's strategy of building a balanced brand portfolio in attractive geographic locations, has assisted the continuation of our strong track record in the face of a more challenging market. In spite of an overall market decline during the Year, with the new car market declining by 6.8% and the used car market declining by 2.1%, our like-for-like revenue grew by 1.2% and our continuing underlying PBT grew by 1.2% versus last year's record result. In the face of increasing pressures, our costs were tightly controlled and our margins continued to be strong.

In light of the Group's strong financial position and confidence in its long-term prospects, we are pleased that we have been able to amend our dividend policy which has resulted in a 33.4% increase in our full year dividend.

Continuing to grow with our brand partners will enable the Group to access further benefits of scale across a number of areas of the business, including improved commercial terms with suppliers and vehicle stock management. The recent ŠKODA acquisitions also highlight the strength of our relationships with our brand partners. We continue to actively pursue acquisition opportunities which are in-line with our strategy and meet our investment criteria.

Customer first

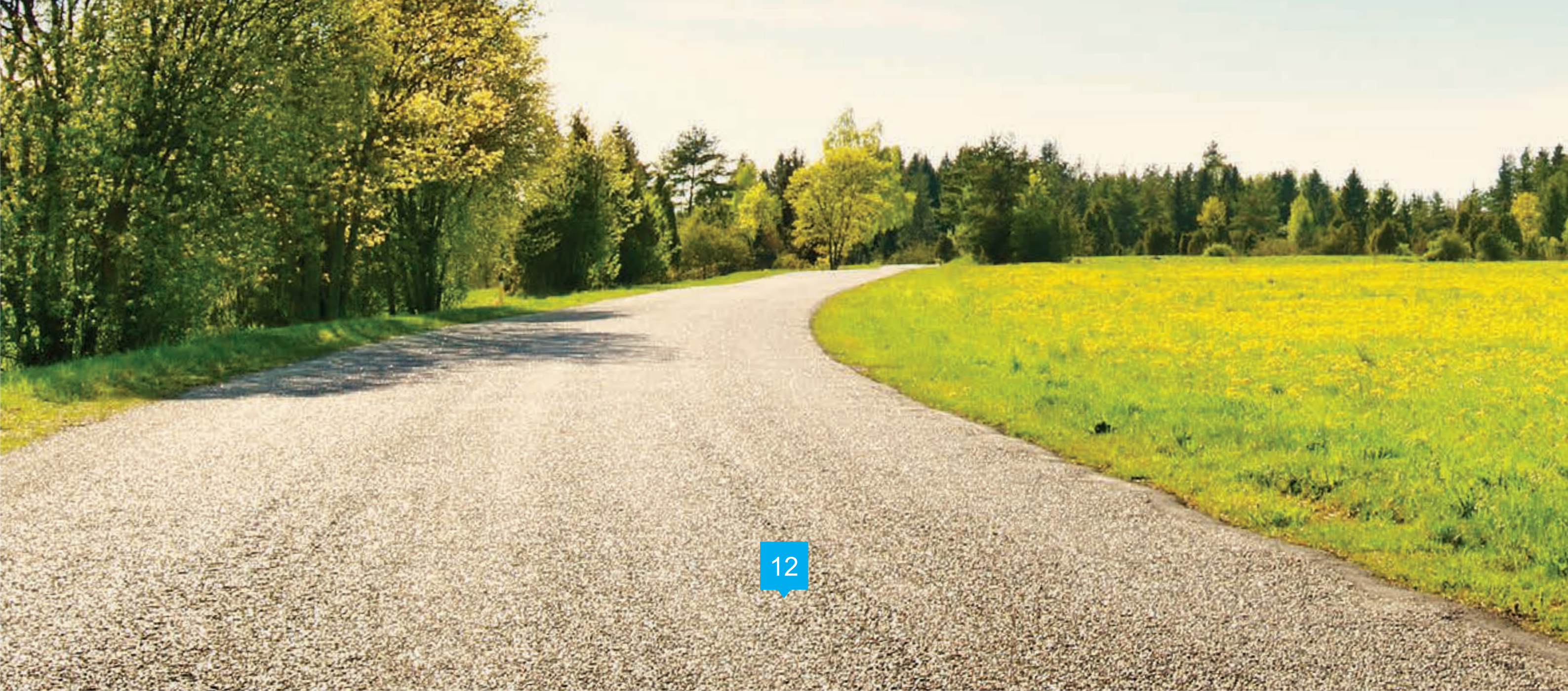
Customer satisfaction is an important element of the Group's strategy, driving repeat business and loyalty to the Marshall brand.

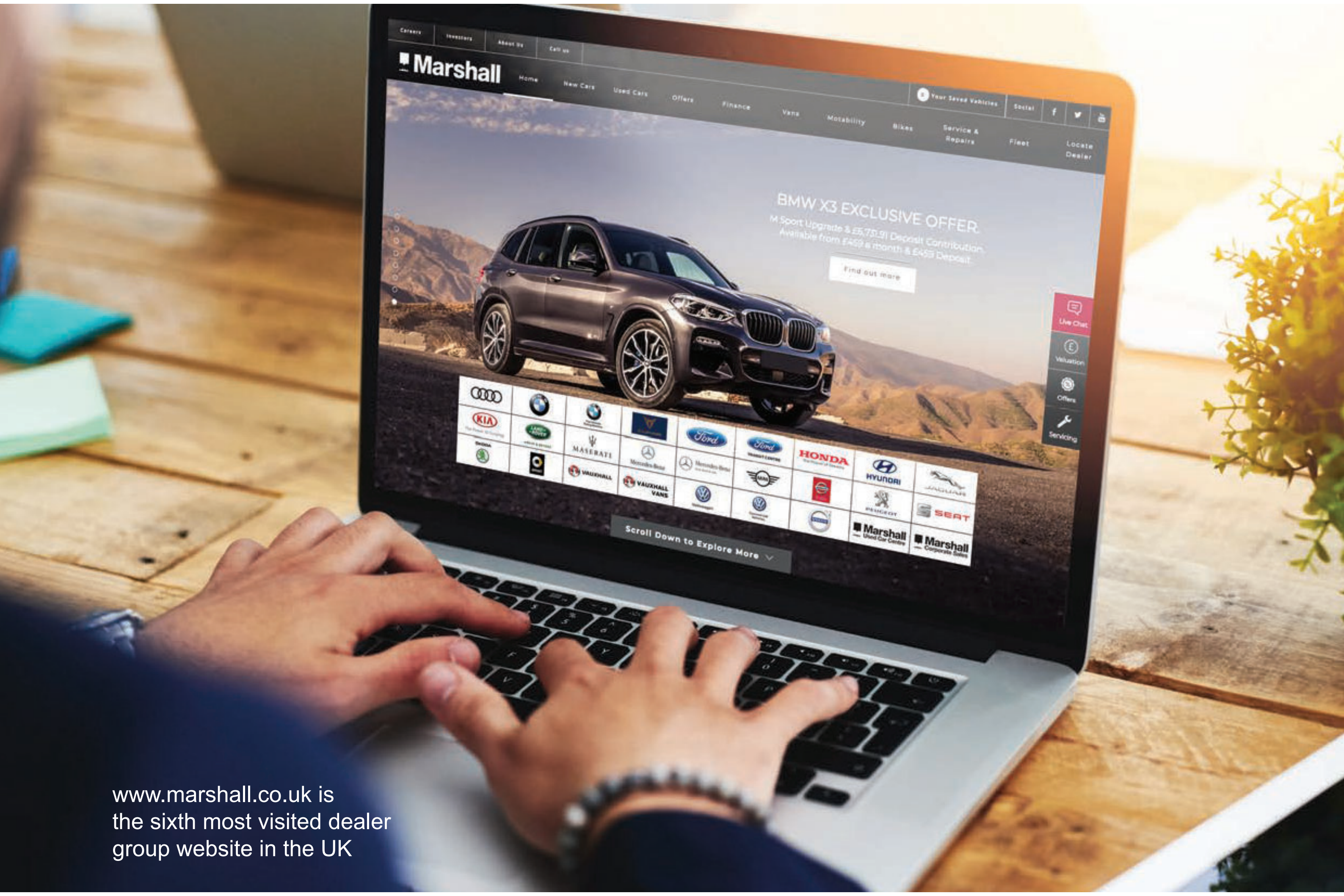
It is therefore pleasing that during the Year, 45.6% of the 40,471 customers surveyed who visited our showrooms indicated that they were either previous customers or were recommended to us, up from 42% in the prior year.

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 and follow up on potential areas of concern.

In addition, on a weekly basis, the Group centrally monitors customer satisfaction for both sales and aftersales across all locations and brand partners. This alignment ensures we focus on our brand partners' key measures whilst also ensuring consistency of internal performance monitoring.

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





www.marshall.co.uk is
the sixth most visited dealer
group website in the UK

P H O E N I X
Business Intelligence Platform

Retailing excellence

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

The Group is focused on engaging and attracting new and existing customers with its online presence both through our website and social media. During the Year, the Group has focused on maximising its marketing return on investment through its online channels which has seen an increase in lead conversion. The Group is widely regarded as being at the forefront of social media in the sector, winning 14 awards in the last two years and two further awards so far in 2019.

During the Year, the Group partnered with one of the UK's leading suppliers of used car pricing and transaction data. This data has been uniquely integrated into Phoenix 2, our bespoke, in-house management information system, to create a separate module to support management in vehicle valuations. 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. In addition, central oversight of stock management and market pricing has been improved. We believe this gives us a competitive advantage in the market place.

People centric

For the ninth 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 2018. Our 2018 scores were excellent with 78% of colleagues stating that Marshall was a 'great place to work'. This compares to an average UK score of 55%.

Based on the results of the 2017 survey, the Group was ranked 21st of the Top 30 large employers in the UK which included employers such as Cisco, Admiral Group Plc, SAP and MBNA. 2018 was the fourth year running that the Group was ranked. Given the further improvements of colleague engagement in 2018, we are confident of being ranked for a fifth year running which only 11 companies in the Great Place to Work Institute have achieved.

The Group is committed to diversity in both Marshall and the wider industry. This is demonstrated by the Group recently becoming a member of the Automotive 30 Club, the aim of which is to work towards having women in 30% of key leadership positions by 2030. Currently, 14.3% of the Group's management positions are undertaken by female colleagues and we continue to work towards growing this proportion.

Our Gender Pay Gap Report, which is published on our website, sets out the actions we are taking to address the gender pay gap which exists both in our business and the wider sector. We have made improvements in this area and are committed to do more.

As previously reported, the Group continues to make a significant investment in its sales executive offering with the objective of increasing diversity and retention in these key customer interfacing roles. Since launch, the Group has seen a significant decrease in sales executive turnover although there remains more to do in this area. In addition, the proportion of female sales executives in the Group has grown by 60%. This is encouraging for succession, talent development and gender diversity for the future.

Recognising that people are at the heart of our success, further strategic initiatives have been launched during the Year in the following areas:

- Future leaders programme to identify and develop our future management teams – this programme is for high potential colleagues to ready themselves for their first line management position. Encouragingly, we have already seen a number of the first cohort achieve promotion to their first line management role.
- Management development programme aimed at supporting and upskilling existing managers to help better equip them to get the best out of their teams and improve business performance.
- New in-house recruitment team giving more control over recruitment quality and cost. This initiative also sees the implementation of a new applicant tracking system which will provide greater control over our employment brand and candidate experience, whilst also saving time and cost.
- New learning management system Our new Group wide e-learning platform will help us to deliver more learning and development opportunities to all colleagues.

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 which currently has 122 participants.

Strategic growth

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

Industry leading on social media

The Group is committed to diversity

UK's largest ŠKODA retailer

Development at Lincoln Jaguar Land Rover

Step 1

Site search & acquisition

In March 2016, we started searching for alternate premises to accommodate our Land Rover and Jaguar businesses in Lincoln. Various options were considered and in November 2016, JLR approved our proposed relocation to a greenfield site identified at Teal Park. Heads of terms for the land purchase were negotiated and agreed in December 2016 and solicitors instructed to prepare the contracts. Further negotiations were conducted to ensure delivery of services to the site during the first half of 2017 and contracts were exchanged for the conditional purchase of the site in July 2017.

Step 2

Planning application and detailed design

The design process began in June 2016 when the site was first identified. The design development proceeded through various iterations culminating in brand approval to our preferred designs in February 2017 and a detailed planning application submitted in July with full planning consent received in October 2017. Detailed design process then commenced in readiness for tender.

Step 3

Procurement and build phase

A full design team was appointed and each component price for the building contract was negotiated with BDB Design & Build. This process commenced in July 2017 whilst waiting for planning consent and letter of intent was placed in December 2017 followed by a start on site in February 2018. Construction programme was overseen for the 52 week build phase and all fit out items were costed and ordered during this period culminating in formal handover was accepted on 1st February 2019, approximately 3 weeks ahead of schedule.

Overall therefore, it was almost 3 years from deciding to start looking for relocation options through to receiving the keys.

Cambridge FordStore Dealership

Acquisitions and disposals

The Group continually seeks to maximise return on capital employed and closely monitors and reviews its portfolio to ensure optimal returns. As a result, in November 2017 the Group closed six sub-scale, loss-making businesses. These businesses lost, in aggregate, £1.3m in 2017, with the resultant financial benefits of their closure being realised during the Year. The Group also successfully disposed of its property interests and liabilities in each of these closed sites by the end of the Year. Management took further proactive steps during the Year, closing two used car centres and one franchised site, Vauxhall Leicester, as part of a wider network reorganisation announced by the brand in 2018.

Consistent with our strategic growth pillar, during early 2019 the Group announced two acquisitions which have further extended our relationship with ŠKODA and the Volkswagen Group as a whole, growing our ŠKODA partnership from 5 locations to 11.

Our growth with ŠKODA is in-line with the Group's strategy to grow scale with key brand partners and extend our geographic footprint. The Group joined the ŠKODA network in 2013 with the acquisition of Silver Street Automotive which included Barnstaple ŠKODA. We added Croydon ŠKODA as part of the acquisition of S.G. Smith in 2015, followed by the addition of our Newbury, Oxford and Reading ŠKODA businesses as a part of the acquisition of Ridgeway in 2016.

In January 2019, the Group acquired Leicester and Nottingham ŠKODA from Sandicliffe Limited and in February 2019 acquired the Bedford, Harlow, Letchworth and Northampton ŠKODA businesses from Progress Bedford Limited. These dealerships are in excellent locations, fully compliant with the latest ŠKODA brand standards and are contiguous to our existing ŠKODA sites. We believe they have potential for growth and improvement in their operating performance as part of a scaled and focused division.

Each acquisition was completed in consultation with, and the support of, ŠKODA UK, making Marshall the largest ŠKODA retailer in the UK. The ŠKODA brand has enjoyed strong growth in recent years. In 2018 the brand achieved 74,512 registrations which represented a UK market share of 3.2% and has enjoyed a 13.1% growth in the last five years. This has been driven by significant product development, particularly across the SUV segment, and this is expected to increase further with the introduction of two new models in 2019. The brand is part of the Volkswagen Group which has announced it will invest almost €44 billion in electrification and new mobility services. We are very proud to represent the ŠKODA brand and wish to thank the ŠKODA UK management team for their support over the years and look forward to building on our excellent relationship. We would also like to take this opportunity to welcome all colleagues of the acquired businesses to the Group.

Following these additions, the Group now consists of 106 franchises representing 23 brand partners trading in 27 counties nationwide. In addition, the Group operates five trade parts specialists, three used car centres, five 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 diverse portfolio means it represents manufacturer brands accounting for 81.4% of all new vehicle sales in the UK. This scale and diversified spread of representation helps mitigate the effect of the cyclical nature of individual brand performance.

Investment in new retail locations and major developments

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

- **Lincoln Jaguar Land Rover** this development brings together Lincoln Jaguar and Lincoln Land Rover, previously two separate leasehold sites, on one purpose-built freehold site providing a significant increase in capacity for both vehicle and aftermarket sales.
- **Cambridge Ford** this relocated our existing leasehold showroom on Newmarket Road to a state-of-the-art Ford Store on long leasehold property and provides a significantly improved customer experience.
- Completion of a redevelopment of **Bedford Land Rover**, an existing freehold site. This investment brings the site up to Jaguar Land Rover 'arch' concept standard.

Investment in existing businesses

In addition to large scale redevelopments, the Group continues to invest in upgrading existing businesses to enhance the customer experience, satisfy brand requirements and increase sales and aftersales capacities. In recent years, the Group has invested significantly in its portfolio, with 84% of the Group's facilities having benefited from investment in the latest corporate identity or relocation. We expect this to materially reduce after 2019. Significant corporate identity upgrades were completed at the following locations:

- **Audi** – Sydenham and Taunton
- **Volkswagen Commercial Vehicles** – Bridgwater and Reading
- **ŠKODA** – Newbury and Reading
- **SEAT** – Cambridge, Leicester and Newbury
- **Mercedes-Benz Commercial Vehicles** – Croydon
- **Honda** – Harrogate, Hull, Leicester and Peterborough
- **BMW** – Salisbury and Scunthorpe
- **Volvo** – Grantham and Leeds

Market and Business Update

New Vehicles

	2018	2017	Variance Total	Variance LFL
Retail units	28,871	31,801	**(9.2%)**	(8.4%)
Fleet units	17,342	21,507	**(19.4%)**	(7.7%)
Total units	46,213	53,308	**(13.3%)**	(8.2%)

As has been widely reported, 2018 was challenging for the new vehicle market. The SMMT recorded new vehicle registrations of 2.37m in the Year, a decline of 6.8% versus 2017 (2.54m). A number of factors impacted the market:

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

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

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

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

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

Sales of new vehicles utilising personal contract purchase ("PCP") have stabilised at 81% during the Year (2017: 83%). At 31 December 2018, the Group had 69,429 active PCPs which create a defined point of renewal/purchase/replacement and we actively manage the renewal process to ensure, where possible, customers are retained with the Group.

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

Used Vehicles

	2018	2017	Growth Total	Growth LFL
Total Units	43,302	44,237	**(2.1%)**	2.3%

The SMMT reported further used vehicle market decline of 2.1% in 2018 despite the used car market benefiting from WLTP-related supply shortages in the new vehicle market. In the context of an overall market decline, we are therefore particularly pleased to report continued like-for-like growth in used vehicle unit sales. In addition to increased unit sales, we also delivered a total gross margin improvement of 36bps which we consider to be an excellent performance.

The Group's strategy on used car sales is to utilise existing 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 highlights the resilience of the franchise model even during a time of declining new vehicle sales.

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

The continued improvement in used volumes and margins has been driven by the addition of our recently enhanced in-house management information system, Phoenix 2 as described earlier. This, along with a continuation of our 56 day stocking policy which encourages accelerated stock turn, leading to higher sales volumes and reduced residual value risk, contributed to the strong volume and margin performance during the Year.

There was further growth in the number of used vehicles purchased 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 (2017: 58%). 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.

MINI Clubman City


Peugeot 508


Vauxhall GT X Experimental brand concept


BMW X7


Ford Transit Connect

Aftersales

	2018	2017	Growth Total	Growth LFL
Revenue (£m)	246.1	243.1	**1.3%**	2.3%

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

In addition to our retail centre based aftersales facilities, the Group operates five standalone bodyshops, five trade parts centres and one PDI centre. Aftersales contributes 44.0% of total retail gross profit and therefore makes a significant financial contribution to the Group which is important in the context of a more cyclical new car market.

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. At 31 December 2018, the Group had over 75,000 live service plans (2017: 77,000).

Market Outlook

In 2018 the SMMT reported new vehicle registrations of 2.37m, down 6.8% versus 2017 and down 13.1% from the peak year of 2016. The current SMMT forecast for 2019 predicts a further new car market decline of 2.3% to 2.31m. Further declines are expected in diesel market share, with growth in registrations of alternative fuel vehicle registrations expected to continue.

The new vehicle market in 2019 may also be affected by the implementation of WLTP for commercial vehicles and changes to the Real Driving Emissions Test in September.

Finally, we are cognisant of the potential impact that Brexit may have on both the wider UK economy and the automotive sector. At the date of this report, the terms of the UK's departure from the European Union are not certain. However, we remain confident in our brand partners' commitment to the UK automotive retail market (the second largest in Europe) and their collective ability to respond effectively to the potential challenges that this situation may bring.

Summary

In a challenging economic environment and reduced new and used vehicle market, the Group has delivered a record continuing underlying PBT performance.

I am particularly pleased with our used vehicle performance and continued growth in aftersales revenues. These revenue streams provide resilience to the business during more challenging periods of the cyclical new car market, as demonstrated during the Year.

The Group has the benefit of a strong balance sheet with a low level of net debt which leaves it well placed to respond to market changes and take advantage of opportunities when they arise.

I am pleased that Richard Parry-Jones, as Chairman, and Richard Blumberger, as Chief Financial Officer, have joined the Group and Board. I would also like to thank Peter Johnson and Mark Raban for their significant contributions to the Group since its IPO.

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 what is now my 10th full year with the Group. I look forward to continuing to work together in 2019.

Daksh Gupta
Chief Executive Officer
12 March 2019

Honda E Prototype

Maserati Ghibli Ribelle

The new Mercedes-Benz EQC

SEAT Arona

BMW S 1000 RR

KIA Proceed

Financial Review

Richard Blumberger
Chief Financial Officer

"A resilient and cash generative business"

Overview

I am delighted to present the Group's 2018 annual results, my first since appointment as Chief Financial Officer in January 2019.

The Group is focused on delivering long-term value for our shareholders, our customers and our people. This year's financial results show continued underlying PBT growth, strong margin, growth in earnings per share ("EPS") and solid cash generation. The Group is in a strong financial position with low leverage, a strong balance sheet and long-term committed financing facilities. As a result of this, and our confidence in the Group's long-term prospects, we have been able to amend our dividend policy and increase our dividend.

This was another good year for the Group which again demonstrated the strategic importance and resilience of our business in a toughening market.

Following four years of strong growth since IPO, we anticipated a challenging market in 2018. As such, our focus for the Year was on our cost base and portfolio management. In-line with this strategy, we closed a number of sub-scale, loss-making sites in both 2017 and 2018.

We are, nevertheless, committed to targeting further growth and in early 2019 we have further expanded our portfolio in-line with our strategy to grow with existing brand partners and extend our geographic footprint, and we recently announced two acquisitions, adding 6 ŠKODA dealerships.

Our balance sheet remains robust, with minimal net debt and we continue to invest in our asset base, with a particular focus on freehold and long leasehold property. Total capital expense of £23.8m was invested during the Year, including £19.6m relating to investments in freehold and long leasehold properties.

Notwithstanding that the year ahead may be uncertain and we expect the difficult market backdrop to continue, the Group is in a strong position to continue its strategic growth and market penetration.

Reported Financial Performance

	2018	2017	Var %
Revenue	2,186.9	2,232.0	(2.0%)
Gross profit	255.7	258.3	(1.0%)
Operating Expenses	(223.6)	(225.4)	0.8%
Operating Profit	**32.0**	**32.9**	**(2.6%)**
Net finance costs	(6.4)	(7.5)	15.4%
PBT underlying	**25.7**	**25.4**	**1.2%**
Non-underlying items	(7.0)	(12.8)	45.6%
PBT reported	**18.7**	**12.6**	**48.9%**
Tax	(4.8)	(3.1)	(54.0%)
PAT reported	**13.9**	**9.5**	**47.2%**
Discontinued operations	0.6	39.8	(98.5%)
Profit for the year	**14.5**	**49.3**	**(70.5%)**

Due to 2017 site closures, reported revenue from continuing operations was £2,186.9m compared with £2,232.0m for 2017. The Group's operating profit, on a continuing basis, before non-underlying items, was £32.0m compared to £32.9m in 2017. Continuing underlying PBT in the Year was £25.7m compared to £25.4m in 2017.

Our reported PBT of £18.7m (2017: £12.6m) included one-off non-underlying items of £7.0m (2017: £12.8m) as set out on page 23 of this report.

Analysis of Reported Revenue and Gross Profit

The segmental mix on a reported basis is shown in the table below. Whilst the like-for-like analysis is covered later in the report, the reported basis demonstrates the decline in the new car market in 2018 and our strong performance in the used car market despite the overall market decline.

Twelve months ended 31 December 2018

	Revenue		Gross Profit	
	£m	mix*	£m	mix
New Car	1,064.8	47.7%	76.3	29.9%
Used Car	920.2	41.2%	66.8	26.1%
Aftersales	246.1	11.0%	112.3	44.0%
Internal/Other	(44.3)	–	0.3	–
Total	**2,186.9**	**100.0%**	**255.7**	**100.0%**

Twelve months ended 31 December 2017

	Revenue		Gross Profit	
	£m	**mix***	**£m**	**mix**
New Car	1,166.5	51.2%	84.1	32.6%
Used Car	869.7	38.2%	59.9	23.2%
Aftersales	243.1	10.6%	114.0	44.2%
Internal/Other	(47.3)	–	0.3	–
Total	**2,232.0**	**100.0%**	**258.3**	**100.0%**

* mix calculation excludes Internal / Other Sales

Finance Costs

Net finance costs decreased in the Year to £6.4m (2017: £7.5m), reflecting the ongoing strengthening of the balance sheet and focus on vehicle stock management.

Generating Sustainable Shareholder Value

Underlying profit before tax was £25.7m (2017: £25.4m). The total reported effective tax rate was 24.8%, (17.1% on a continuing underlying basis). Profit from continuing operations after tax was £21.3m (2017: £20.8m), giving a basic continuing earnings per share of 27.4p, an increase of 2% on the prior year.

Non-Underlying Items

Non-underlying items are presented separately in the income statement to provide an effective comparison of performance. Non-underlying items in the Year are summarised below:

	2018	**2017**
2017 closure provision	3,282	(6,783)
Impairment of goodwill	(9,302)	–
2018 closure provisions/ other restructuring costs	(943)	–
Pension	–	(6,000)
Total	**(6,963)**	**(12,783)**

Profit on disposal of discontinued business	589	36,851

We are pleased to report that all outstanding property issues in relation to dealership closures announced in November 2017 were resolved during 2018, ahead of our initial timing and cost expectations, leading to a net non-underlying profit of £3.3m in the Year.

Following our annual impairment test, a charge of £9.3m has been taken against our BMW/MINI and Nissan goodwill values, which is detailed in the balance sheet review section of this report.

Other restructuring costs of £0.9m are detailed in note 7 to the financial statements.

In addition, the Group recognised a further profit on the disposal of our discontinued leasing segment of £0.6m which related to the settlement of certain historic pension liabilities at a reduced cost to that originally provided.

Like-for-Like Financial Performance

Basis of Comparatives

To enable effective comparison of our 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.

Like-for-like	**2018**	**2017**	**Var%**
Revenue	2,134.6	2,108.9	1.2%
Gross Profit	250.5	251.1	(0.3%)
GP%	*11.7%*	*11.9%*	*(17 bps)*
Expenses	(216.4)	(216.6)	0.1%
Operating Profit	**34.1**	**34.6**	**(1.4%)**

Like-for-Like Segmental Analysis

Twelve months ended 31 December 2018

	Revenue		Gross Profit	
	£m	**mix***	**£m**	**mix**
New Car	1,045.4	48.0%	75.0	30.0%
Used Car	893.1	41.0%	65.4	26.1%
Aftersales	240.5	11.0%	109.8	43.9%
Internal/Other	(44.3)	–	0.3	–
Total	**2,134.6**	**100.0%**	**250.5**	**100.0%**

Twelve months ended 31 December 2017

	Revenue		Gross Profit	
	£m	**mix***	**£m**	**mix**
New Car	1,094.8	50.8%	82.3	32.8%
Used Car	826.5	38.3%	57.9	23.1%
Aftersales	234.9	10.9%	110.7	44.1%
Internal/Other	(47.3)	–	0.3	–
Total	**2,108.9**	**100.0%**	**251.1**	**100.0%**

Life-for-like Revenue

£2,134.6m (up 1.2%)

(2017: £2,108.9m)

Like-for-like revenue was £2,134.6m (2017: £2,108.9m), a 1.2% growth in a year which saw the new car market declining by 6.8% and the used car market declining by 2.1%.

Like-for-like new retail units, one of our Key Performance Indicators (KPI), declined 8.4% in a year in which the new retail market declined 6.4%. Like-for-like fleet units declined by 7.7% against a market decline of 7.2%. As expected, these were impacted by WLTP and issues surrounding diesel-fuelled engines which had a disproportionate effect on our portfolio. As a result of an increase in the average revenue per unit, like-for-like new revenue only declined by 4.5%.

Our used car business performed very well with like-for-like unit sales up 2.3% year on year against a used car market decline of 2.1%. Used unit sales is a KPI and continued to be a key area of focus. Strong focus on margin and mix meant the 2.3% unit increase translated into an 8.1% revenue increase.

Aftersales revenue had another strong year with like-for-like revenues up 2.3%, the fourth consecutive year of growth.

Life-for-like Gross Profit

£250.5m (down 0.3%)

(2017: £251.1m)

Like-for-like gross profit at £250.5m (2017: £251.1m) was consistent year on year, with margins remaining strong at 11.7% compared to 11.9% in 2017.

New vehicle margins were slightly down in the year at 7.2% (2017: 7.5%) which we consider a good result in a challenging market.

Our used vehicle margin at 7.3% was up by 32bps driven by our technology-led approach in our used car sales process and further reflects our strategic focus on the used car market. The combination of revenue and volume growth led to a total gross profit improvement of £7.5m on used vehicles.

Like-for-like aftersales margin was 45.7% compared to 47.1% last year. This was as a result of reduced pre-delivery inspection revenue caused by fewer new vehicle sales and an increased proportion of lower margin parts sales.

Life-for-like Operating Expenses

£216.4m (down 0.1%)

(2017: £216.6m)

Despite cost pressures continuing to impact the overall sector, like-for-like expenses were marginally down £216.4m (2017: £216.6m). This was strong performance given the significant cost headwinds experienced. The Group placed particular focus on discretionary costs both in our central cost base as well as at dealership level, including marketing effectiveness, demonstrator vehicle costs and stocking costs.

Life-for-like Operating Profit

£34.1m (down 1.4%)

(2017: £34.6m)

Given the factors referred to above, like-for-like operating profit at £34.1m (2017: £34.6m), whilst slightly down on 2017, is a good example of the resilience shown in a difficult market, allowing our operating margins to be consistent at 1.6% year on year.

Shareholder Returns

Full year dividend per share

8.54p (up 33.4%)

(2017: 6.40p)

The Group has a strong track record of delivering growth in our financial results and growing returns to our shareholders as a result is an important part of our strategy. As mentioned earlier, we have amended our dividend policy and as such, the final dividend recommended by the Board is 6.39p per share, giving a full year dividend of 8.54p and cover of 3.2x underlying earnings per share (2017: 4.2x). This year's dividend to shareholders and change in dividend policy, demonstrates the Group's strong financial position and our confidence in its long-term prospects and represents growth of 33.4%.

During the Year, total dividends of £5.0m were paid to shareholders.

ROCE

Return on capital employed (ROCE) for the Year was 12.8% (2017: 13.3%). ROCE is calculated as underlying profit before tax divided by total equity.

The Group has ongoing capital expenditure requirements and will continue to pursue organic and acquisitive growth opportunities. This may also include further freehold investments in preference to leasehold liabilities which can have a short-term impact on ROCE as it did in 2018 with our capital programme.

Balance Sheet

There is no material difference between the reported and the like-for-like balance sheet so unless otherwise stated, the remainder of the financial review is on an as reported basis.

£m	**2018**	**2017**
Intangible	112.2	121.6
Freehold/long leasehold	125.3	116.3
Other retail assets	30.5	26.1
Other	2.6	2.6
Fixed assets	**270.5**	**266.7**
Inventory	384.0	401.3
Trade / other receivables	79.7	92.1
Cash & equivalents	1.2	4.9
Assets held for sale	0.8	0.8
Current assets	**465.7**	**499.0**
Vehicle funding	(370.8)	(380.6)
Trade / other payables	(128.6)	(151.3)
Bank / other debt	(6.3)	(7.1)
Other liabilities	(30.1)	(35.5)
Total liabilities	**(535.8)**	**(574.5)**
Net assets	**200.4**	**191.2**
Reported net debt (£m)	(5.1)	(2.2)

Intangibles

Each year we test the carrying value of goodwill and other intangible assets for impairment. For the year ended 31 December 2018, we have applied a more cautious assessment on the market outlook for our BMW and Nissan CGUs and as a result, recognised an impairment of £9.3m of goodwill. Further details are set out in Note 15 to the financial statements.

There were no additions to goodwill and intangibles in the Year with the only movement being the amortisation of previous acquisitions.

Freehold / Long Leasehold

The Group's property portfolio is a key strength of the business. Our capital programme continues, with a further £23.8m of capital expenditure invested in the Year including the new builds of Lincoln Jaguar Land Rover and Cambridge Ford Store, the major redevelopment of Bedford Land Rover and further investment across a number of our brands. This brings our cumulative expenditure to £76.4m over the last three years, of which £63.1m has been invested in freehold and long leasehold properties. The net book value of the Group's property, plant and equipment at 31 December 2018 was £155.8m, of which £125.3m (80.4%) related to freehold and long leasehold property.

Strong Working Capital Management

Working capital management is a key focus for the Group with a strong result in inventory and debtor management in the Year.

Inventory, net of provisions, at £384.0m reduced year on year by 4.3% with a strong focus on stock profiling. As at 31 December 2018, the value of vehicles held under vehicle financing arrangements was £370.8m (2017: £380.6m).

A reduction of 13.5% in our trade and other receivables was reflective of the strong focus placed on working capital management at all levels of the business.

Overall the Group had reported net assets as at 31 December 2018 of £200.4m (2017: £191.8m), which equates to £2.57 per share (2017: £2.47).

Good Cash Conversion

Operating cash flow conversion (defined as cash flow generated by operations divided by continuing operations operating profit before interest, tax, depreciation and amortisation), is key to allowing us to maintain our investment programme. During the Year, cash inflows from operations were £36.5m (2017: £69.6m), representing a cash conversion of 88.2% (2017: 150.0%). Our cash conversion has been consistently strong, reflecting our focus on working capital management over recent years.

Net Debt and Facilities

As at 31 December 2018, net debt was £5.1m (2017: £2.2m). Our current facilities include a £120m revolving credit facility which is in place until June 2021. Our interest rate is LIBOR plus 1.2% to 2.0%, dependant on the leverage level. We remain comfortably within each of our banking covenants.

Tax

The Group manages all taxes, both direct and indirect to ensure that it pays the appropriate amount of tax. Our tax strategy is reviewed regularly and approved by the Board.

The Group's tax charge for the Year (before non-underlying items) was £4.4m (2017: £5.3m) giving an effective tax rate of 17.1% (2017: 18.1%). The effective tax rate was positively impacted by a review of historic capital allowance claims. Excluding the impact of these, the underlying effective tax rate would have been 21.6%. After adjusting for non-underlying items, the total tax charge was £4.8m (2017: £3.8m) giving an effective tax rate of 24.8% (2017: 7.1%).

Full details of the Group's tax governance framework can be found in the Group's tax strategy which is available on the Group's website.

IFRS16

The Group is finalising its impact assessment of the accounting standard IFRS16 which is mandatory for accounting periods starting 1 January 2019. The standard has no economic impact on the Group or on our cash flows. It does, however, have an impact on the way the assets, liabilities and the income statement of the Group are presented, as well as the classification of cash flows relating to lease contracts.

Due to the profile of our current operating lease portfolio, it is anticipated that the impact of IFRS16 is likely to be marginally earnings dilutive in the early years of adoption, with an initial 1%-2% impact on profit before tax. In addition, if the balance sheet at 31 December 2018 had been restated, we estimate c£86.0m of right-of-use assets and c£92.5m of associated liabilities, would have been recognised in the Group's balance sheet, resulting in a c£6.5m decline in net assets.

Pensions

During the year, the Group ceased to be a participating employer in the Marshall Group Executive Plan ('Plan') following a strategic decision taken in 2017 to crystallise and pay the Group's residual liability to this historic defined benefit pension scheme. The aggregate amount paid by the Group to exit the Plan was in-line with the provision of £6.0m taken in last year's accounts and was paid to the Trustees in February 2019. As a result, the Group no longer has any further obligations in relation to any defined benefit pension schemes.

Richard Blumberger
Chief Financial Officer
12 March 2019

Jaguar E-PACE

Volkswagen I.D. VIZZION

Volvo XC40

ŠKODA VISION RS

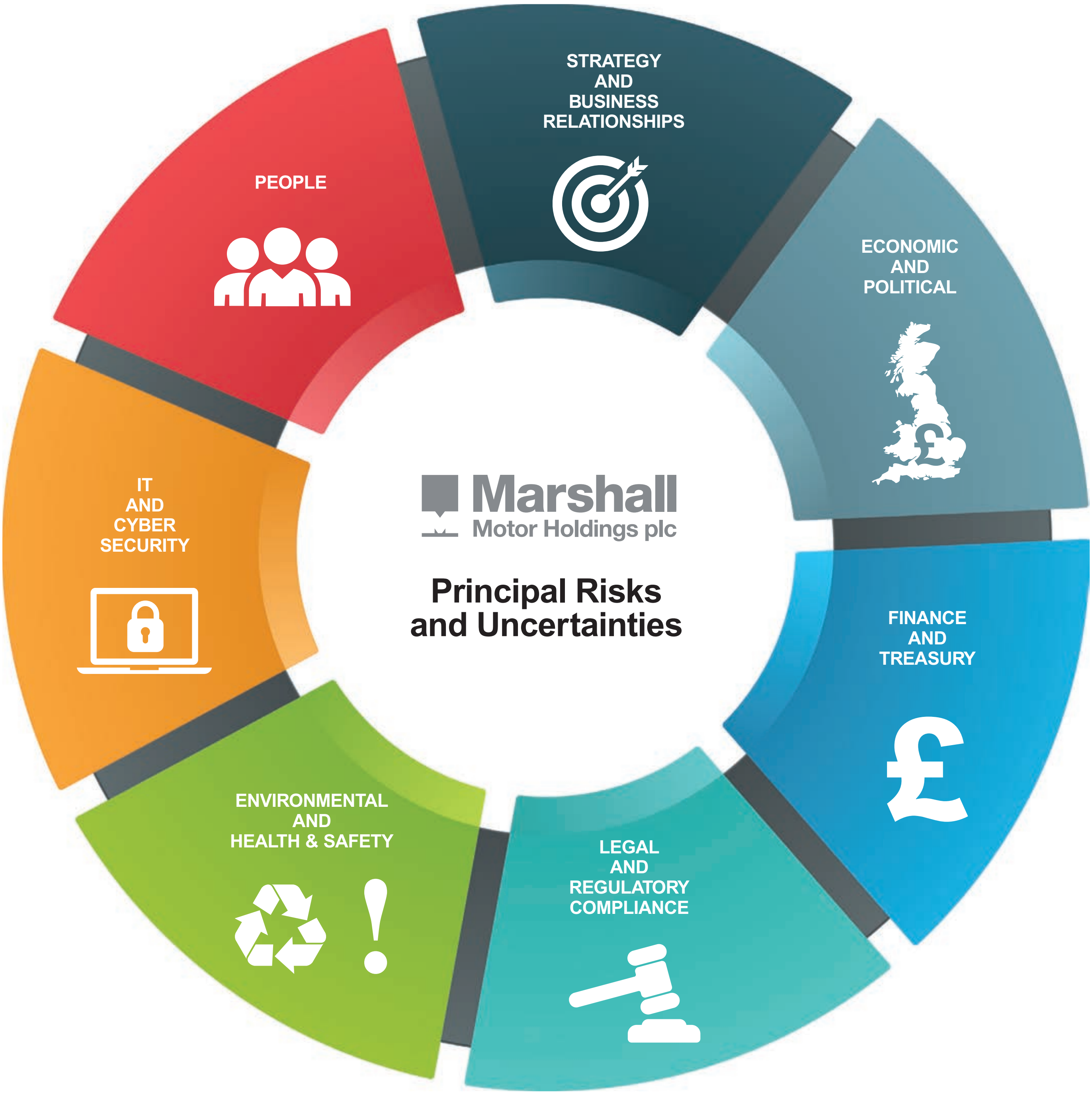
Mercedes-Benz X-Class

Ford Focus

Principal Risks and Uncertainties

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

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

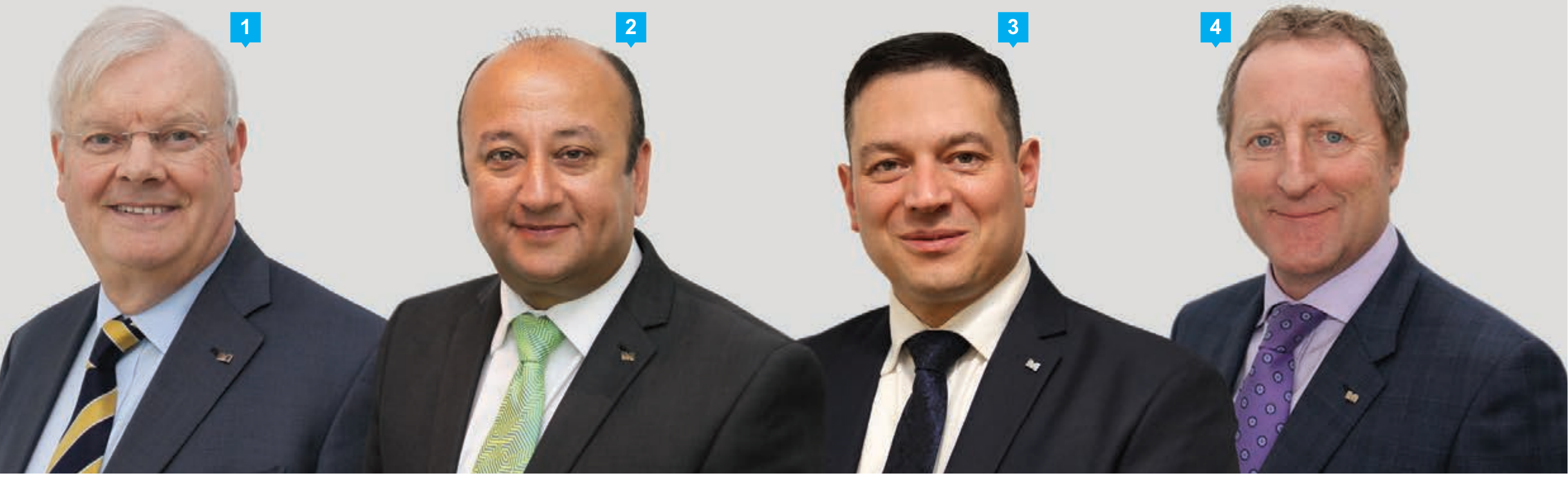


Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
STRATEGY AND BUSINESS RELATIONSHIPS			
Failure to adopt the right business strategy and/or failure to implement strategy successfully	The Group misses its financial targets or is unable to invest in its businesses Reduction in confidence of key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

Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
ECONOMIC AND POLITICAL			
Deterioration in economic conditions/ consumer confidence	Increased inflation and falling consumer confidence leading to lower vehicle sales/margins and a reduction in revenue and profitability Reduction in used vehicle values impacting stock values Weakening Sterling impacting new vehicle prices and sales Manufacturers' focus on the UK automotive retail market may decline leading to reduced output and sales Interest rate rises impacting availability and affordability of vehicle finance Increased costs of servicing the Group's borrowings	Monitoring of economic conditions with appropriate actions Stock management & monitoring (56 day stocking policy) with appropriately prudent financial provisions Maintaining close relationships with manufacturers Low level of net debt with facility headroom	=
UK's withdrawal from the European Union ('Brexit')	Negative impact on UK economy: increased inflation and falling consumer confidence leading to lower vehicle sales/margins and a reduction in revenue and profitability Reduction in used vehicle values impacting stock values Weakening Sterling impacting new vehicle prices and sales Manufacturers' focus on the UK automotive retail market may decline leading to reduced output and sales Potential regulatory changes may impact franchising model in the UK (including potential changes to EU Block Exemptions) 'No Deal' Brexit significantly more negative for automotive retail sector than a managed exit with a UK-EU free trade deal	Monitoring of economic conditions with appropriate actions taken Impact of a deterioration in consumer confidence mitigated by PCP renewal cycle (primarily in new car market) Stock management and monitoring (56 day stocking policy) with appropriately prudent financial provisions to mitigate impact of falling vehicle values Maintaining close relationship with manufacturers and monitoring of manufacturers' Brexit preparations 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 Deal' Brexit scenario will depend on manufacturers' ability to manage import challenges Diversity of the Group's portfolio of brand partners which includes UK, EU and ROW manufacturers	↑
Increased Operating Costs	Increased operating and non-controllable costs (e.g. employment costs, Apprentice Levy, business rate changes, IT and marketing costs) impacting profitability	Increased costs monitored and forecast in budgets. Cost reduction and efficiency initiatives to offset structural cost increases	↑
FINANCE AND TREASURY			
Liquidity & credit	Credit availability/withdrawal of financing facilities impacting trading ability Breach of covenants or inability to meet debt obligations Increased stock funding costs	Working capital management & cash flow monitoring Committed RCF and vehicle stocking facilities Maintaining strong relationships with funders Low level of net debt	=
Vehicle residual values volatility	Fluctuations in used vehicle values adversely impacting the value of the Group's vehicle inventory	Stock management & monitoring (56 day stocking policy) Risk reduced following disposal of Marshall Leasing	=

Risk Area	Potential Impact	Mitigation/Controls	Risk Trend
LEGAL AND REGULATORY			
Legal & Regulatory Changes and Compliance	Non-compliance with key legal and regulatory codes (FCA, VOSA, ICO, etc.) leading to fines, litigation, authorisation suspension and/or reputational damage Regulatory intervention into the market (e.g. FCA motor finance review) may impact operations	Group policies and procedures to minimise risk of non-compliance Training and development of employees Compliance committees to monitor compliance Compliance Team strengthened Internal Audit department strengthened Monitoring of regulatory announcements/market studies to assess potential changes and modifying operations to adapt to any implemented changes	=
ENVIRONMENTAL AND HEALTH & SAFETY			
Environmental and Health & Safety	Failure to ensure colleagues and customers safe places of work leading to accidents, litigation, fines and regulatory intervention Non-compliance with environmental laws & regulations leading to fines, penalties and compensation and clean-up costs and disruption to operations	Group health & safety policies and procedures to promote safe places of work EH&S audit programme across Group Regular inspection of plant and equipment Health & Safety team monitors compliance and promotes a health and safety helps culture Standing agenda item on main board and operational board Waste management procedures and employee training Environmental due diligence for new site acquisitions with appropriate environmental insurance in place for higher risk sites	=
IT AND CYBER SECURITY			
Failure of key IT systems	Loss of key information systems, downtime and business interruption	In-house IT team monitors systems and implements upgrade programmes Contingency and disaster recovery plans in place IT steering committee and IT risk register maintained to monitor risk Ongoing investment in IT infrastructure maintenance and upgrade	=
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	Unified threat management - Firewall installed Clear protocols/policies in place regarding use and access to the Group's IT systems Anti-virus software installed on all computers to reduce risk of viral infections Further investment in cyber security and systems resilience	↑
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	Appropriate remuneration packages which reward performance and long term incentive plans for senior employees Guaranteed earnings scheme for new sales staff to assist recruitment and retention Promotion of "Great Place to Work" culture	↑

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 26 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 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.

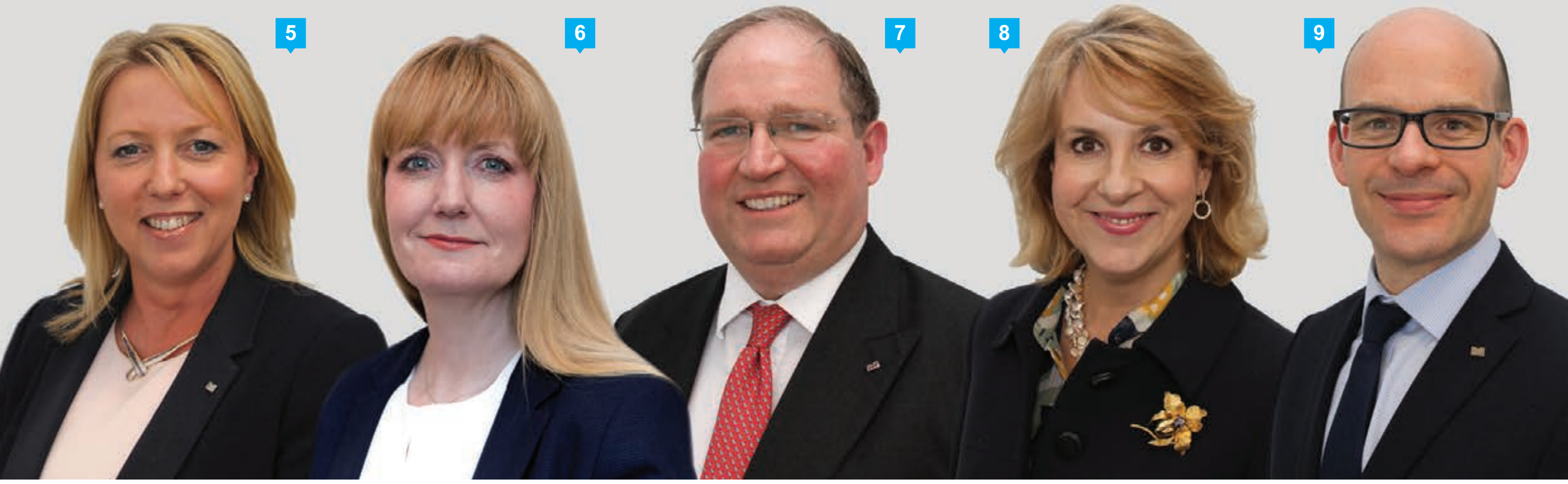
Richard was appointed to the Board as Chief Financial Officer in January 2019.

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. Sarah Dickins

Non-Executive Director and Chair of the Remuneration Committee

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

Sarah was appointed to the Board in March 2015.

6. Kathy Jenkins

Non-Executive Director

Kathy joined Marshall of Cambridge (Holdings) Limited in April 2017 as Group HR Director. 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 director of the Cambridgeshire Chambers of Commerce, a Trustee of the Addenbrooke's Charitable Trust and a Member of Anglian Learning.

Christopher was appointed to the Board 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 2018 (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 6.39p per ordinary share to be paid on 24 May 2019 to shareholders who are on the Company's register at close of business on 26 April 2019.

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 32 to 33. 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
Sarah Dickins
Francesca Ecsery
Kathy Jenkins (*Appointed 23 May 2018*)
Christopher Walkinshaw

Executive Directors
Daksh Gupta
Richard Blumberger (*Appointed 2 January 2019*)

Other Directors who held office during the Year
Peter Johnson (*Resigned 31 December 2018*)
Christopher Sawyer (*Resigned 23 May 2018*)
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, Richard Parry-Jones, Kathy Jenkins and Richard Blumberger will each retire by rotation and each offers themselves for reappointment at the annual general meeting to be held on 21 May 2019 (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 53 to 60.

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 2018 was 77,865,653 ordinary shares of 64p each.

Substantial Shareholdings

As at 11 March 2019, 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	64.72%
Union Investments and Development Limited	7,005,839	9.00%
Polar Capital LLP	3,087,900	3.97%

Share Option Schemes

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

Charitable and Political Donations

During the Year, the Group made the following charitable donations during the year: £8,000 (2017: £14,000).

No political contributions were made during the Year (2017: £nil).

Disabled Employees

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

Employee Involvement

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

Anti-Bribery and Corruption

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

Disclosure of Information to Auditor

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

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

Auditor

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

AGM

Notice of the AGM to be held on 21 May 2019 will be sent to shareholders with a copy of this Annual Report and will be made available on the Group's website at www.mmhplc.com.

By order of the Board

Stephen Jones
Company Secretary
12 March 2019

Corporate and Social Responsibility

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

Create Camaraderie

MARSHALL MAKING A DIFFERENCE

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

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

Group Giving

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

CEO, Daksh Gupta, became a trustee and Vice President of BEN in October 2012.

For the third year running we have run 'BEN Week' where every Marshall business did something to raise money and awareness for this charity. Colleagues dressed up, took part in sporting challenges and other fun activities during this awareness week. This was a tremendous team building opportunity for colleagues, creating camaraderie among each other as well as with our customers.

We have also supported Hats on 4 Mental Health for the past two years. BEN launched this initiative to help raise awareness of the mental health issues which people face every day. We are committed to helping our colleagues understand the importance of looking after their mental health and provide various sources of support should they need it.

We have supported the Macmillan Coffee Mornings for many years which enables our businesses to get involved at a local level, bringing colleagues and customers together. We have raised over £116,000 for Macmillan over this period.

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

Local Giving

We encourage our colleagues to get involved with local causes which support the communities in which they work. By way of example, a small team of colleagues from head office slept rough for a night to raise money and awareness for the homeless charity Centrepoint raising over £12,000.

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

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

Hats on for World Mental Health Day
Marshall Senior Management Conference

Marshall sleepout for Centrepoint

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

MARSHALL PEOPLE

Our Values

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

Recruiting, retaining and developing our people

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

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

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

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

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 Apprentice of the Year Awards, Long Service Events and awards for demonstrating our values.

Our MAVTA programme (Marshall Achievement, Values and Teamwork Awards) recognises colleagues who demonstrate outstanding achievements in Customer Service, Teamwork, Innovation, Leadership, Services in the Community, Business Excellence and Environmental.

Communicating with our people

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

Diversity and our people

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

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

Engaging our people

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

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

Since 2010 we have achieved survey scores ahead of the 70% UK benchmark which determines a great place to work. In 2017 we achieved an overall score of 79% with a participation rate of 80%. In April 2018 we were proud to be ranked as a Best Large UK Workplace for the fourth year in succession.


hello


People
Innovation

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

MARSHALL EMBRACING SAFETY

In 2018, we continued to increase the visibility of our Health, Safety & Environmental (HSE) team across the business. Targeted communications and visits to sites enable us to adopt a consistent approach to health and safety for all activities across our business.

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

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

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

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

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

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

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 14.2 (taken from HSE document 'Injury frequency rates'). Our AFR for 2018 was 8.67.

Environmental
Embracing our environmental responsibilities

MARSHALL GOING GREEN

In 2018, our environmental focus has sharpened following the arrival of our new Environmental Co-ordinator, who has been working on increasing awareness across the business.

We have 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.

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

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

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

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

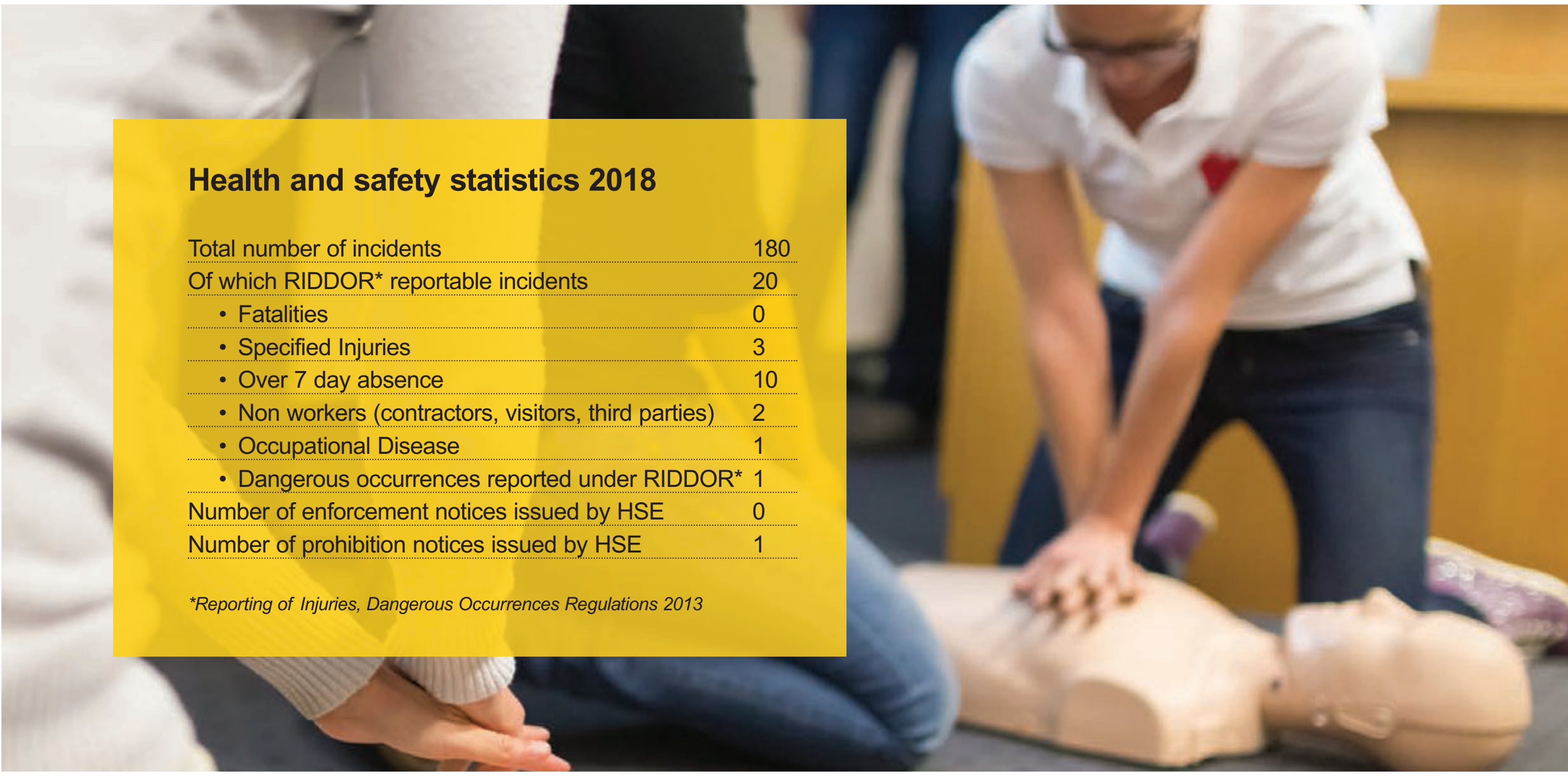
In 2018 96.2% of our hazardous waste materials, such as engine oil, lead acid batteries, rags and absorbents were recycled and recovered. This equates to over 1.2m kg of waste which didn't go to landfill.

Also in 2018, 68.2% of our dry mixed recycling waste materials, such as paper, plastics, metals and cardboard, were recycled and recovered. This equates to over 1.4m kg of waste which didn't go to landfill.

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

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

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



Health and safety statistics 2018

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

**Reporting of Injuries, Dangerous Occurrences Regulations 2013*

SUBSTANCES
Control of Substances Hazardous to Health (COSHH)

ENERGY
Reducing energy consumption

RECYCLING
Waste and recycling

Continually minimising the impact of our operational activities on the environment

Marshall

Corporate Governance

PRINCIPLES OF CORPORATE GOVERNANCE

The Board recognises that applying sound governance principles in the running of the Group is essential. 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	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. 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. 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 28 to 31 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.
2. Seek to understand and meet shareholder needs and expectations	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. 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. Each Board member attends the AGM where investors are invited to formally and informally field questions and discuss their views with the Board. 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. Further details of the Relationship Agreement can be found on page 13 of the Group's AIM Admission Document.

QCA Principle	Application by the Group
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	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, suppliers and employees. 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 achieved as a result of 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. 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. 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. 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 in the Corporate and Social Responsibility section of this Annual Report.
4. Embed effective risk management considering both opportunities and threats, throughout the organisation	The principal elements of the Group's system of internal control are set out on page 47. 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 28 to 31.
5. Maintain a well-functioning, balanced team led by the Chair	The Chairman is responsible for leading the Board and its governance arrangements. The Group currently has eight directors, of which four are independent non-executives (being Richard Parry-Jones, Alan Ferguson, Sarah Dickins and Francesca Ecsery). Details of the directors, including their roles, committee memberships, skills and experience and are set out on pages 32 to 33 and their attendance record in the last financial year is set out on page 45. Details of the Group's Board Committees, being the Audit Committee, Remuneration Committee and Nominations Committee, are set out below. 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. 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.
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Details of each Board member's experience, skills and qualifications are set out on pages 32 and 33 of this Annual Report. 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. The Board considers that collectively, it has the necessary experience, skills and capabilities to discharge its duties effectively.

QCA Principle	Application by the Group
7. Evaluation of Board performance	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). The Board intends to commence a formal Board evaluation process in 2019 which will include a review of development and mentoring needs of the Group's management team.
8. Promote a culture based on ethical values and behaviours	The Group has clear and defined values based on people, innovation, integrity and customers. 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 which, collectively define how it behaves as a Group. Further details of our approach to embedding these values are set out in the Corporate and Social Responsibility section of this Annual Report.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Details of the Group's principal governance structures, including the Board and its committees are set out below. In addition, pages 48 to 60 contain reports from the Audit and Remuneration Committees which set out their key areas of responsibility and activities. The Board considers that the Group's governance structures and processes are fit for purpose and support good decision making by the Board.
10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	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. 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. 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.

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 48 and 53.

Director	Date appointed	Role	Committees (C = current chair)	2018 Board attendance
Peter Johnson	27 June 2014	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 Dickins	11 March 2015	Independent Non-Executive	Audit Committee Remuneration Committee (C) Nominations Committee	10/10
Christopher Sawyer*	2 April 2015	Non-Executive	Audit Committee Remuneration Committee Nomination Committee	**4/10
Christopher Walkinshaw*	12 July 2016	Non-Executive	Audit Committee (*from May 2018*) Nomination Committee	10/10
Kathy Jenkins*	23 May 2018	Non-Executive	Remuneration Committee (*from May 2018*) Nomination Committee (*from May 2018*)	**5/10
Daksh Gupta	1 October 2008	Chief Executive Officer	n/a	10/10
Mark Raban	2 April 2015	Chief Financial Officer	n/a	10/10

* *Christopher Walkinshaw and Kathy Jenkins are nominated directors of Marshall of Cambridge (Holdings) Limited. Christopher Sawyer was also a nominated director of Marshall of Cambridge (Holdings) Limited until his retirement from the Board on 23 May 2018.*

** *Christopher Sawyer retired from the Board and Kathy Jenkins was appointed to the Board, on 23 May 2018.*

Peter Johnson resigned from the Board on 31 December 2018. Subsequent to the year end, Richard Parry-Jones was appointed to the Board as Non-Executive Chairman on 1 January 2019. Mark Raban resigned from the Board on 2 January 2019 and Richard Blumberger was appointed to the Board as Chief Financial Officer on the same date.

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.

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 intends to conduct a formal evaluation of its performance in the coming year.

Re-appointment of Directors

In accordance with the Articles, having been appointed since the date of the last annual general meeting of the Company, Richard Parry-Jones, Kathy Jenkins and Richard Blumberger will each retire by rotation and each offers themselves for reappointment at the AGM to be held on 21 May 2019. In addition, the Notice of AGM sets out those directors who are retiring by rotation in accordance with the Articles and are offering themselves for re-election 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, Sarah Dickins, 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 Chairman following the announcement that Peter Johnson planned to retire and the appointment of the new Chief Financial Officer, following the resignation of Mark Raban.

Audit Committee

The Company has established an Audit Committee, which comprises Alan Ferguson (Chair of the Committee), Sarah Dickins, Francesca Ecsery and Christopher Walkinshaw. Further information on the Audit Committee is set out on pages 48 to 50.

Remuneration Committee

The Company has established a Remuneration Committee which comprises Sarah Dickins (Chair of the Committee) Alan Ferguson, Francesca Ecsery and Kathy Jenkins. Further information on the Remuneration Committee is set out on pages 51 to 60.

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 using Cognos;
- central control over key areas such as capital expenditure authorisation, contracts and financing facilities;
- formal accounting policies and procedures which are regularly reviewed and publicised in the business;
- an Internal Audit department which monitors compliance of 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 28 to 31.

By order of the Board
Stephen Jones
Company Secretary
12 March 2019

Audit Committee Report

Alan Ferguson
Senior Independent Director and
Chair of the Audit Committee

Audit Committee Members

The Group's Audit Committee currently comprises myself, Sarah Dickins, Francesca Ecsery and Christopher Walkinshaw, who joined the Committee on 23 May 2018 following the retirement of Christopher Sawyer from the Board and the Committee.

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

It is considered that the Audit Committee possesses the necessary skills and experience to fulfil its responsibilities effectively with its members, through their other business activities, having a wide range of financial and commercial expertise. In particular, as set out on page 32, my background was as an experienced Finance Director serving on the boards of a number of large companies throughout my executive career. I am the current chair of the audit committees of Johnson Matthey Plc and Croda International Plc and was the chair of the audit committee of The Weir Group Plc until April 2018.

Audit Committee Responsibilities

The Audit Committee's principal responsibilities are to:

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

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

Audit Committee Meetings

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

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

Committee Member	Role	Attendance record whilst a Committee Member
Alan Ferguson	Chair of the Committee	3/3
Sarah Dickins	Non-Executive Director	3/3
Francesca Ecsery	Non-Executive Director	3/3
Christopher Sawyer	Non-Executive Director	*1/1
Christopher Walkinshaw	Non-Executive Director	**2/2

* *Retired on 23 May 2018*
** *Appointed on 23 May 2018*

Audit Committee meetings are also attended (at the discretion and invitation of the Committee Chair) by the Chairman, Non-Executive and Executive Directors, the Head of Internal Audit and representatives of the Company's external auditor.

Between the end of the Year and the date of this report, there were two further meetings of the Audit Committee which were attended by all members.

Activities During the Period

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

- reviewed its terms of reference and operated in accordance with an annual agenda of matters to be considered by it;
- reviewed the key accounting judgements and estimates and going concern assessment in connection with the full year and interim results announcements;
- reviewed and after challenge, approved the external auditor's audit plan for 2018, including their proposed fee and statement of independence. The Audit Committee also reviewed the quality of the external audit and recommended the re-appointment of the external auditor;
- reviewed non audit fees paid to the external auditor in the Year. These fees totalled £36,000 and related solely to the review of the Group's interim results;
- considered the potential impact of future changes to accounting standards, in particular IFRS 9 and IFRS 16;
- considered the recommendations of the Financial Reporting Council following its thematic review of the Group's 2017 financial statements and in particular implemented its recommendations regarding the disclosure of the allocation of goodwill and intangible assets by CGU in these financial statements. It is noted that the FRC's review only covered specific disclosures relating to its thematic review;
- considered and subsequently recommended the taking of an exemption from an audit pursuant to S.479A Companies Act 2006 in respect of the year ending 31 December 2018 for certain subsidiary companies as set out in Note 2 to the consolidated financial statements.
- approved the programme of work for internal audit in 2018 and considered the output of that work. In addition, it approved the internal audit plan for 2019;
- considered the Group's risk management process and its effectiveness; and
- reviewed the Company's arrangements to enable employees to raise concerns about possible improprieties confidentially including the use of an independent organisation to provide a confidential 'whistleblowers' hotline.

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

Audit issues considered by the Committee

The Audit Committee has considered areas of significant complexity, management judgement and estimation applied in the preparation of the Group's financial statements for the year ended 31 December 2018. In addition, the Audit Committee discussed with the Company's external auditors those areas of audit focus described in the Independent Auditor's Report on pages 62 to 71.

Set out below are the key audit risks and judgements considered by the Audit Committee together with the Committee's conclusions:

Audit Risks Considered	Audit Committee's Review and Conclusions
Valuation of inventory The Group recognises a provision for its vehicle inventory. When determining an appropriate provision, management judgement is required to assess and make reasonable assumptions to determine the net realisable value of the Group's vehicle inventory.	The Audit Committee reviewed the Group's inventory provision in the light of external industry data, the inventory profile and the movement in the provision in the period. The Audit Committee discussed this analysis with management and with the external auditor. **Conclusion:** The Committee concluded that the judgements and assumptions applied to assess inventory valuation and calculate the net realisable value of the Group's vehicle inventory were appropriate. The Audit Committee also noted that, overall, the assumptions used were consistent with those applied in previous years.

Audit Risks Considered	Audit Committee's Review and Conclusions
Valuation and possible impairment of goodwill and other intangible assets As disclosed in Note 15 'Goodwill and Other Intangible Assets' to the financial statements, the Group has goodwill and indefinite-life intangible assets arising from acquisitions of businesses totaling £112.2m. These assets are assessed for impairment every six months. Assessment for impairment 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). Value-in-use is determined with reference to projected future cash flows discounted at an appropriate rate. 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.	The Audit Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment. The Audit Committee also considered the adequacy of the disclosures in the Group's financial statements in respect of the allocation of goodwill and intangible assets to CGUs, as well as in relation to key assumptions and sensitivities. The external auditor also independently reviewed management's estimate of value-in-use, including challenging management's underlying cash flow projections, long-term growth assumptions and discount rates. **Conclusion:** The Audit Committee concluded that the judgements and assumptions applied when determining the £9.3m impairment were appropriate and reasonable.
Recognition and valuation of provisions As disclosed in Note 24 'Provisions' to the financial statements, the Group has provisions totalling £7.9m consisting largely of property provisions and a provision for the costs of exiting the defined benefit pension scheme. Provisions are, by their nature, judgemental and involve estimates of likely outcomes and an assessment of the likelihood of future events occurring. When determining the recognition and quantification of a provision, management are required to make assumptions and estimates which may materially influence the financial statements.	The Audit Committee pays particular attention to management's estimates and judgements in this area. Based on detailed reports and through discussion with both management and the Group's external auditor, the Audit Committee reviewed and assessed the basis and level of provisions. **Conclusion:** The Audit Committee concluded that the judgements and assumptions applied to assess whether to recognise a provision and to estimate the amounts to be recognised, were reasonable and appropriate. The Audit Committee also noted that, where relevant, the assumptions used were consistent with those applied in previous years.
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. 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.	The Audit Committee has reviewed the work of the external and internal auditors in this area and noted any deviation from the Group's revenue recognition policy. **Conclusion:** Sales are individually immaterial, and the Audit Committee and based on the review work undertaken, did not consider revenue recognition to be a material fraud risk for the Group.

Alan Ferguson
Chair of the Audit Committee
12 March 2019

Remuneration Committee Report

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

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

Remuneration policy

The Committee regularly reviews its remuneration policy to ensure it supports achievement of the Company's short-term financial goals and longer-term strategic objectives, including transformational activity such as the acquisition of SG Smith in 2015, Ridgeway in 2016 and the disposal of Marshall Leasing Limited in 2017. Although not bound by the same regulation as main market listed companies, including the requirement to put remuneration policy to shareholder vote at least every three years, the Committee continues to monitor developments in regulation, governance and best practice, including the recently updated UK Corporate Governance Code and considers the current remuneration policy appropriate to the Company's circumstances.

Key Committee decisions and remuneration outcomes for the period to 31 December 2018

As outlined in the Operating Review, the Company has continued its excellent track record of performance in 2018. Financial highlights include like-for-like revenue growth of 1.2% and continuing underlying PBT of £25.7m representing an increase of 1.2% versus 2017.

Annual bonus opportunity and Performance Share Plan ("PSP") opportunities for both Daksh Gupta and Mark Raban remained the same as the previous year.

Annual bonus opportunity during 2018 was based on the achievement of underlying PBT targets with bonuses of 96.3% of maximum awarded to the Chief Executive and Chief Financial Officer respectively in respect of performance in the year ended 31 December 2018.

The Executive Directors also received an award under the Company's Performance Share Plan ('PSP') which is subject to demanding three year EPS targets. Subject to the performance condition being met, PSP awards will vest on the third anniversary of grant with any vested shares required to be held for a further 12 months post vesting.

On 3 July 2018, we announced that Mark Raban intended to step down as Chief Financial Officer. In role since 2014, Mark played a pivotal role in the Group's IPO in 2015, the successful acquisitions of SG Smith in 2015, Ridgeway in 2016, and the disposal of Marshall Leasing Limited in 2017. Despite Mark notifying his intention to step down in July, he remained committed to the business throughout 2018 whilst a successor was appointed and has remained available to support the business if and when required. The Committee therefore considered him eligible to participate in the 2018 annual bonus.

Further, taking into account Mark's contribution during his tenure, the Committee has exercised its discretion to permit the final tranche of his 2015 IPO Performance Awards to vest on 2 April 2019 and that subject to pro-rating for time and achievement of the attaching EPS performance target, his 2016 PSP award will continue to its ordinary vesting date of 13 June 2019. All other PSP awards made to Mark have lapsed. On behalf of the Committee, we thank Mark for his valuable contribution to the business and wish him well in the future.

We welcomed Richard Blumberger as our new Chief Financial Officer on 2 January 2019. Richard joins on the same base salary as the outgoing Chief Financial Officer and will be eligible to participate in the 2019 annual bonus plan and receive a PSP award in 2019 as per the terms of current remuneration policy.

As we announced in December 2018, Professor Richard Parry-Jones CBE was appointed Non-Executive Chairman effective 1 January 2019 following the retirement of Peter Johnson on 31 December 2018. Richard was appointed on the same fee as the outgoing Chairman of £135,500 per annum.

Key remuneration decisions for the year to 31 December 2019

The Committee continues to believe that the remuneration policy remains appropriate and having reviewed the base salary for the Chief Executive Officer in the context of increases for the wider workforce, the Committee has approved an increase of 2%. The new Chief Financial Officer will not be receiving an increase due to having only recently been appointed. The maximum annual bonus potential for 2019 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 2019 under the PSP subject to a maximum of 125% of salary in respect of the Chief Executive Officer. The Chief Financial Officer will receive 100% of salary on the same basis as his predecessor. Any shares awarded this year to Executive Directors that vest under the PSP must be retained for a further year before they can be sold.

Conclusion

The directors' remuneration policy which follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of remuneration for the period ended 31 December 2018. The Committee will continue to be mindful of shareholder views and interests, and we believe that the Directors' remuneration policy is aligned with the achievement of the Company's business objectives.

Sarah Dickins
Chair of Remuneration Committee
12 March 2019

Directors' Remuneration Report

REMUNERATION GOVERNANCE

Throughout the period 1 January 2018 to 31 December 2018, the Committee comprised three independent Non-Executive Directors: Sarah Dickins (Chair of the Committee), Alan Ferguson and Francesca Ecsery alongside Christopher Sawyer who was an appointed representative of MCHL until 23 May 2018 when he was replaced by Kathy Jenkins.

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

Committee Member	Role	Attendance record
Sarah Dickins	Chair of the Committee	4/4
Alan Ferguson	Non-Executive Director	4/4
Francesca Ecsery	Non-Executive Director	3/4
Christopher Sawyer	Non-Executive Director (*resigned 24 May 2018*)	2/2
Kathy Jenkins	Non-Executive Director (*appointed 24 May 2018*)	2/2

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

The Remuneration Committee: Responsibilities

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

- making recommendations to the Board on the Company's policy on remuneration for the Group;
- determining and monitoring specific remuneration packages for the Chairman, each of the Executive Directors and certain senior management in the Group, including pension rights and any compensation payments;
- recommending and monitoring the level and structure of remuneration for senior management;
- recommending and overseeing the implementation of share related schemes, including scheme grants; 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 and has retained Willis Towers Watson to provide independent remuneration advice to the Committee. Willis Towers Watson are a signatory to the Remuneration Consultants' Code of Conduct, and the Committee is satisfied that the advice that it receives is objective and independent.

REMUNERATION POLICY

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

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

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

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

REMUNERATION POLICY (continued)

Future Policy Table

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
BASIC SALARY			
Attract and retain high calibre Executive Directors to deliver strategy.	Paid in 12 equal monthly instalments during the year.	Reviewed annually to reflect role, responsibility and performance of the individual and the Group, and to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the Committee has regard to, inter alia, the Group's revenue, profitability, market worth and business sector. There is no prescribed maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year.	None.
ANNUAL BONUS			
Incentivises achievement of business objectives by providing reward for performance against annual financial targets.	Paid in cash after the end of the financial year to which it relates. Recovery and withholding provisions apply.	It is the policy of the committee to cap maximum annual bonuses. The levels of such caps are reviewed annually and are set at an appropriate percentage of annual salary. Currently the maximum bonus is 125% of base salary in respect of the Chief Executive Officer and 100% in respect of the Chief Financial Officer.	Performance is normally measured over one year, based solely on financial targets (e.g. profit before tax). The Committee sets threshold and maximum targets on an annual basis. A sliding scale operates between threshold and maximum performance. No bonus is payable where performance is below the threshold. Payment of any bonus is subject to the overriding discretion of the Committee

REMUNERATION POLICY (continued)
Future Policy Table (continued)

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
LONG-TERM INCENTIVES – MMH PERFORMANCE SHARE PLAN			
Alignment of interests with shareholders by providing long-term incentives designed to incentivise and recognise execution of the business strategy over the longer-term.	Grant of £nil cost options under the PSP. Options normally vest 3 years from grant subject to the achievement of performance conditions and continued employment. A 12 months post-vesting holding period applies for awards made from 2016. A dividend equivalent applies. Recovery and withholding provisions apply at the discretion of the Committee within three years of vesting.	150% of base salary (up to 200% of base salary in exceptional circumstances) in any financial year. Current award levels are set out in the Annual Report on Remuneration.	Vesting is subject to continuous employment and targets linked to the strategy of the business. Current targets are based on achievement of growth in earnings per share, but the Committee may vary the targets. 25% vests for achieving threshold performance,100% vests for achieving maximum performance.
BENEFITS			
Provide benefits consistent with role and in support of the personal health and well-being of employees.	Currently these consist of holiday entitlement, health insurance, life assurance premiums and income protection insurance. The Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Group.	The cost of providing benefits is borne by the Company and varies from time to time.	None.
PENSION			
Attract and retain Executive Directors for the long term by providing funding for retirement.	All Executive Directors are entitled to participate in the Company's defined contribution pension scheme or to receive a cash allowance in lieu of pension contributions. Only base salary is pensionable.	The Chief Executive receives a 16% of base salary contribution. The Chief Financial Officer participates in the Company's defined contribution pension scheme whereby the Company makes an 8% of base salary contribution, conditional upon the Chief Financial Officer making a matched contribution of 8%.	None.

REMUNERATION POLICY (continued)
Future Policy Table (continued)

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
SHARE OWNERSHIP GUIDELINES			
Increase alignment between the Executive Directors and shareholders.	Executive Directors are expected to retain 50% of the net of tax vested PSP shares until the guideline level is met.	At least 100% of base salary for Executive Directors.	None.
NON-EXECUTIVE DIRECTOR FEES (“NED”)			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy and provide strong performance stewardship	NED fees are determined by the Board (excluding NEDs) within the limits set out in the Articles of Association and are paid in 12 equal monthly instalments during the year.	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase.	None.

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. – Mark Raban is a director of Precise Finance Limited. Precise Finance Limited is the company owned by Mr Raban and used to provide consultancy services prior to his appointment to Marshall Motor Holdings plc.
Non-executive directors	All Non-Executives are subject to re-election every three years. No compensation payable if required to stand down.

REMUNERATION POLICY (continued)
Directors' Service Contracts, Notice Periods and Termination Payments (continued)

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 October 2008	–
P Johnson	27 June 2014	31 December 2018
M Raban	2 April 2015	2 January 2019
A Ferguson	11 March 2015	–
S Dickins	11 March 2015	–
F Ecsery	25 March 2015	–
C Sawyer	2 April 2015	23 May 2018
C Walkinshaw	12 July 2016	–
K Jenkins	23 May 2018	–

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 2018.

	Basic salary £'000	Fees £'000	Benefits £'000	Pension £'000	Annual bonuses £'000	Long term incentives[3] £'000	Total £'000
Executive Directors							
D Gupta	416.9	–	18.0	67.0	**501.7**	1,021.6	**2,025.5**
M Raban[1]	260.6	–	3.0	21.0	**250.9**	302.7	**838.2**
Total	**677.5**	**–**	**21.0**	**88.0**	**752.6**	**1,324.3**	**2,863.4**
Non-Executive Directors							
P Johnson	–	135.5	–	–	–	–	135.5
A Ferguson	–	59.5	–	–	–	–	59.5
S Dickins	–	49.5	–	–	–	–	49.5
F Ecsery	–	42.0	–	–	–	–	42.0
C Sawyer[2]	–	17.5	–	–	–	–	17.5
C Walkinshaw[1]	–	40.0	–	–	–	–	40.0
K Jenkins[1]		25.8					25.8
Total	**–**	**369.8**	**–**	**–**	**–**	**–**	**369.8**
Aggregate directors emoluments	**677.5**	**369.8**	**21.0**	**88.0**	**752.6**	**1,324.3**	**3,233.2**

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

1 *Mark Raban has a 12 month notice period and although he served notice on 3 July 2018, he continued to fulfil the position of CFO for the remainder of 2018 until a successor was appointed. Mark has agreed to be available to support the new CFO for the remainder of his notice period. Salary, pension and benefits will be paid in the ordinary manner during the 12 month notice period (subject to mitigation should he take up alternative employment during his remaining notice period) and the Committee exercised its discretion to consider him eligible to receive an annual bonus in respect of 2018.*

2 *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.*

3. *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). Included within the figures quoted for long term incentives in the prior year was an amount of £260k which was the market value of share options on the date of their vesting, not their exercise. These options were exercised in the current year and are correctly included within the totals presented above.*

LTIP awards

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

	Scheme	Date of grant	Earliest exercise date	Exercise price (pence)	Market value on date of grant (pence)	Number of options grants
D Gupta	2018 LTIP award	17-Apr-18	17-Apr-21	£Nil	155p	328,845
M Raban[1]	2018 LTIP award	17-Apr-18	17-Apr-21	£Nil	155p	164,423

1 *Mark Raban's 2018 LTIP awards lapsed during the Year.*

Awards vest for achieving growth in EPS from 2018 to 2020; 25% vest for achieving EPS growth of 1.3% per annum increasing to 100% vesting for achieving EPS growth of 6.0% per annum.

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

	Number at 1 January 2018	Number granted during the year	Number exercised during the year	Number lapsed during the year	Number at 31 December 2018
D Gupta	1,487,703	328,845	604,026	–	1,212,522
M Raban	587,253	164,423	178,971	335,072	237,633

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 2018 and their connected persons had interests in the issued share capital of the Company as at 31 December 2018 as follows:

	Number of ordinary shares held beneficially as at 31/12/17	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 31/12/18	LTIP Interests[1] Unvested	LTIP Interests[1] Vested but unexercised	Total interest in shares
P Johnson	175,328	–	–	–	175,328	–	–	175,328
D. Gupta	843,138	320,134	–	–	1,163,272	1,212,522	–	2,375,794
M Raban[2]	61,726	94,855	–	–	156,581	237,633	–	394,214
A Ferguson	58,557	–	–	–	58,557	–	–	58,557
S Dickins	6,711	–	–	–	6,711	–	–	6,711
F Ecsery	2,013	–	–	–	2,013	–	–	2,013

The middle market price of the shares as at 31 December 2018 was 156p and the range in respect of the 12 month period ending 31 December 2018 was 122.5p to 175.5p.

1 *These include the 2018, 2017 and 2016 LTIP Awards along with the IPO Performance Awards which vest subject to growth in the Company's underlying basic Earnings Per Share (EPS). 25% of the award vests for achieving growth in underlying basic EPS of 1.3%, CPI plus 1.0%, CPI plus 3.0% and CPI plus 4.0% per annum respectively, increasing to 100% vesting for achieving growth of 6.0%, CPI plus 5.0%, CPI plus 8.0% and CPI plus 10.0% per annum respectively over a three year performance period. 50% of the IPO Performance Awards vested on the third anniversary of Admission and the remaining 50% will vest on the fourth anniversary subject to continued employment. A 12 month holding period applies to the 2016, 2017 and 2018 LTIP Awards.*

2 *Taking into account Mark's contribution during his tenure, the Committee has exercised its discretion to permit the final tranche' of his 2015 IPO Performance Awards to vest on 2 April 2019 and that subject to pro-rating for time and achievement of the attaching EPS performance target, his 2016 PSP award will continue to its ordinary vesting date of 13 June 2019. All other PSP awards made to Mark have lapsed.*

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

Implementation of remuneration policy for the year ending 31 December 2019

The annual salaries and fees to be paid to directors in the year ending 31 December 2019 are set out below, together with any increase expressed as a percentage.

	31 December 2019	31 December 2018	Increase
Executive Directors	**£'000**	**£'000**	%
D Gupta	425.3	416.9	2
R Blumberger[1]	260.0	–	n/a
Non-executive Directors	**£'000**	**£'000**	%
R Parry-Jones[1]	135.5	–	n/a
A Ferguson	60.3	59.5	2
S Dickins	50.3	49.5	2
F Ecsery	42.8	42.0	2
C Walkinshaw[2]	40.0	40.0	0
K Jenkins[2]	40.0	40.0	0

1 *Richard Parry-Jones was appointed on 1 January 2019. Richard Blumberger was appointed on 2 January 2019.*

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 2019 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 2019. These options will be £nil cost options over a value of shares subject to a maximum of 125% of salary in respect of the Chief Executive Officer and 100% of salary in respect of the Chief Financial Officer where the vesting is subject to performance targets.

By order of the Board

Sarah Dickins
Chair of Remuneration Committee
12 March 2019

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 2018 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 34 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 2018 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.

Overview of our audit approach

Materiality	• Overall group materiality of £1.28m (2017: £1.45m) which represents approximately 5% (2017: 5%) of Underlying Profit before Tax. • Any audit differences in excess of £64k (2017: £73k) are reported to the audit committee.
Audit scope	• We performed an audit of the complete financial information of 14 (2017:14) full scope components and performed audit procedures for a further 21 (2017:22) review scope components. • The full scope components accounted for 94% (2017: 92%) of Underlying Profit before Tax, 92% (2017: 92%) of External Revenue and 97% (2017: 97%) of Total Net Assets.
Key audit matters	• Valuation of inventory • Assessment of the carrying value of goodwill and other intangible assets • Misstatement of provisions and head office accruals • 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.

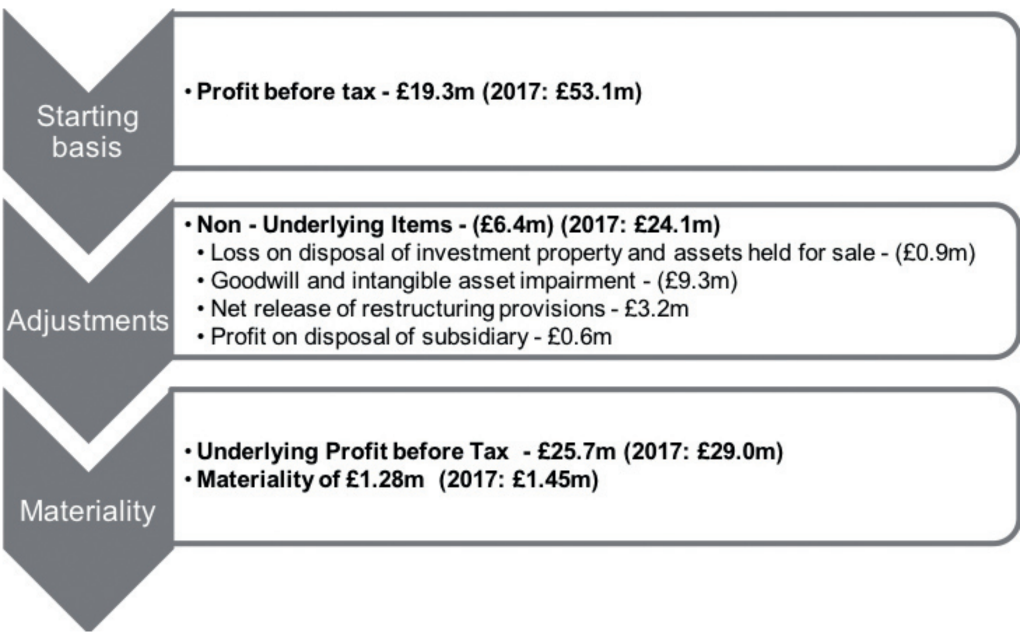
Materiality

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 £1.28 million (2017: £1.45 million), which is approximately 5% (2017: 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 £1.28 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 3 August 2018, an initial materiality calculation of £1.30m. This amount was based on the estimated annualised profit before tax.

During the course of our audit, we reassessed initial materiality and calculated a reduction from £1.30m to a final figure of £1.28m. This was primarily the result of estimation used when annualising the materiality base during the planning phase of the audit when compared to the actual full year results observed.

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% (2017: 50%) of our planning materiality, namely £641k (2017: £725k).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was 30% to 100% (2017: 30% to 100%) of total performance materiality or £192k to £641k (2017: £218k to £725k).

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 £64k (2017: £73k), 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 financial statements. We take into account size, risk profile, the organisation of the group, the effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each component.

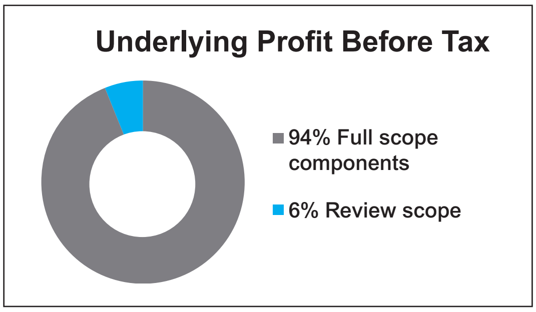
After assessing the risk of material misstatement to the Group financial statements we ensured we had adequate quantitative coverage of significant accounts in the financial statements. Of the 35 reporting components of the Group, we selected 14 components all within the UK, which represent the principal business units within the Group.

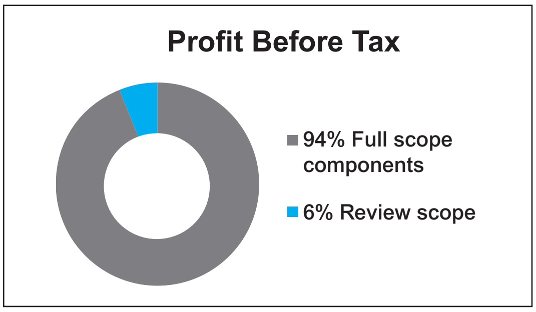
We performed an audit of the complete financial information of all 14 components ("full scope components") of which 9 were selected based on their size or risk characteristics and the remaining 5 components on the basis that these entities are required to file statutory accounts in accordance with the Companies Act 2006.

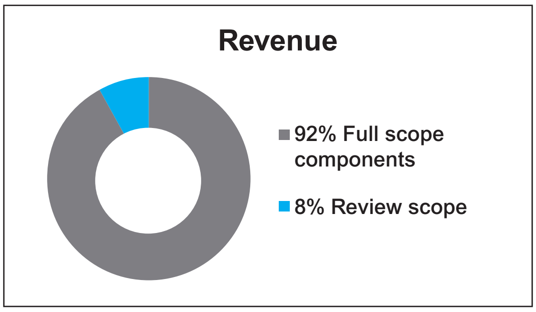
The full scope components contributed 94% (2017: 92%) of the Underlying Profit before Tax, 92% (2017: 92%) of External Revenue and 97% (2017: 97%) of Total Net Assets.

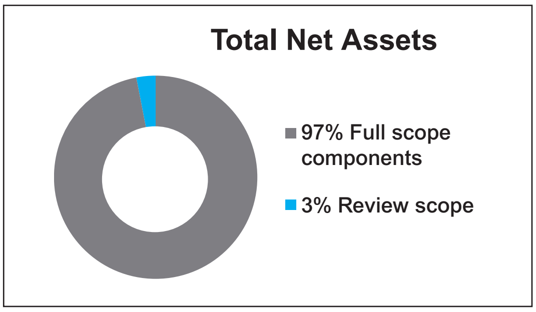
Of the remaining 20 components that together represent 6% of the Group's Underlying Profit before Tax, none are individually greater than 2% of Underlying Profit before tax. For these components, we performed analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

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









Changes from the prior year

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

Involvement with component teams

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

Our assessment of the risks of material misstatement

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of inventory: Gross inventory – £393.7 million, (2017: £410.4 million); Inventory provision – £9.7 million, (2017: £9.2 million) The group has a significant value of new and used vehicle inventory. Vehicles have the potential to experience significant value declines in short time periods. 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. The valuation of vehicle inventory is subject to significant judgement. Therefore, there is a risk that inventory is misstated. *Refer to Accounting policies (page 81); Significant accounting judgements and estimates (page 97) and Note 18 of the Consolidated Financial Statements (page 113)*	We understood the method applied by management in performing its inventory provisioning calculation and walked through the controls over the process. We recalculated management's provision and agreed all 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. 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. 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. We performed full scope audit procedures over this risk area in 14 full scope locations, which covered 87.1% of the risk amount. Further, as the inventory provision is a single calculation based on inventory across all locations our procedures covered the inventory provision for all components.	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. We consider the provision to be within an appropriate range.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Assessment of the carrying value of goodwill and other intangible assets: £112.2 million, (2017: £121.6 million) 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. Goodwill is allocated to cash generating units ('CGUs') grouped by manufacturer brand. A number of brands have experienced challenging trading conditions driving poor financial performance. Management have recorded an impairment charge of £9.3 million in the year in relation to BMW/Mini (£8.4m) and Nissan (£0.9m). 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. 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. *Refer to Accounting policies (page 79); Significant accounting judgements and estimates (page 96) and Note 15 of the Consolidated Financial Statements (page 108)*	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. We have reviewed the rationale in respect of the allocation of goodwill to identified CGU's. 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. For CGUs where management identified impairment, 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: • Analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience; • Corroborating the discount rate by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations; and • Validating the growth rates assumed by comparing them to either economic and industry forecasts or detailed management action plans; and • Applying sensitivities to assumptions and recalculating headroom. We assessed the disclosures in Note 15 against the requirements of IAS 36 Impairment of Assets, in particular in respect of the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment. We have performed full scope audit procedures over this risk area in all relevant statutory locations, covering 100% of the risk amount. We have performed specified procedures to identify any indicators of potential impairment of intangible assets, and determined the impact of these indicators where such circumstances arose.	We are satisfied that group goodwill and intangible assets have been correctly assessed for impairment, based on appropriate allocation to CGU's and the impairment charge in the year is appropriate. Management describes these sensitivities appropriately in the goodwill and intangibles note to the group financial statements, in accordance with IAS 36.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Misstatement of provisions and head office accruals: £33 million, (2017: £43.7 million) The nature of the group's system architecture and individual site accounting functions results in the requirement for provisions and certain accruals to be maintained in entities accounted for by the head office function, primarily in relation to property and in respect of the participation in a defined benefit pension scheme. Management has to apply judgement in assessing provisions and demonstrate diligence in identifying required accruals held in respect of individual sites and for the group as a whole. Given this judgement and complicated system architecture, there is a risk that provisions and head office accruals are misstated. *Refer to Accounting policies (page 85) and Note 24 of the Consolidated Financial Statements (page 116)*	We understood the group's process for determining the completeness and measurement of provisions along with management's controls associated to the process. We assessed the level of provisions and challenged management's judgments in relation to the recognition requirements of IAS 37. We referred to pre and post year end third party evidence where appropriate to validate the existence and valuation of provisions and head office accruals. As part of our procedures designed to address the risk of management override of controls we reviewed journal postings related to provisions and head office accruals to identify significant releases and postings around the year end, which may be indicative of management override. Knowledge of the sector and the company's operations was utilised to identify any new provisions that in our professional judgement would be considered unusual. We have performed full scope audit procedures over this risk area in all relevant statutory locations, which covered 100% of the risk amount.	We consider the provisions and head office accruals to be within an appropriate range. The balance in respect of property provisions has fallen in the year from £6.4m to £1m and pension liability of £5.6m was settled post year end. As a result, we consider the level of management judgement required relating to provisions is now lower than in prior years.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition: £2,187 million, (2017: £2,269 million), including manufacturer's rebates and bonuses: £122.9 million (2017: £121.2 million) 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. 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. 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. *Refer to Accounting policies (page 85) and Note 5 of the Consolidated Financial Statements (page 98)*	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. As part of our overall revenue recognition testing we used data analysis tools on £2.16 billion (98.7%) of revenue from continuing operations in the year to test the correlation of revenue to cash receipts to verify the occurrence of revenue. 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. 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. 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. 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. 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. We reviewed management's assessment of the impact of IFRS 15 on revenue recognition, including the recognition criteria under the five-step model. In addition, we assessed the disclosures against the requirements of IFRS 15 and benchmarked against disclosures issued by competitors. We performed full scope audit procedures over revenue for the 92% of revenue within full scope components and our review procedures obtained a further 8% coverage over revenue recognised in relation to review scope components.	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.

There have been no changes to key audit matters in the current year.

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 period 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: • 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 61, 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 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
12 March 2019

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.*

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	Underlying items 2018 £'000	Non-underlying items 2018 £'000	Total 2018 £'000	Underlying items 2017 £'000	Non-underlying items 2017 £'000	Total 2017 £'000
Continuing operations							
Revenue	5	2,186,887	-	2,186,887	2,231,979	-	2,231,979
Cost of sales		(1,931,210)	-	(1,931,210)	(1,973,678)	-	(1,973,678)
Gross profit		**255,677**	**-**	**255,677**	**258,301**	**-**	**258,301**
Net operating expenses		(223,648)	(6,963)	(230,611)	(225,421)	(12,783)	(238,204)
Operating profit		**32,029**	**(6,963)**	**25,066**	**32,880**	**(12,783)**	**20,097**
Net finance costs	11	(6,362)	-	(6,362)	(7,519)	-	(7,519)
Profit before taxation	6	**25,667**	**(6,963)**	**18,704**	**25,361**	**(12,783)**	**12,578**
Taxation	12	(4,395)	(380)	(4,775)	(4,554)	1,474	(3,080)
Profit from continuing operations after tax		**21,272**	**(7,343)**	**13,929**	**20,807**	**(11,309)**	**9,498**
Discontinued operations							
Profit from discontinued operations after tax	8	-	589	589	2,990	36,851	39,841
Profit for the year		**21,272**	**(6,754)**	**14,518**	**23,797**	**25,542**	**49,339**
Attributable to:							
Owners of the parent		21,272	(6,754)	14,518	23,818	25,542	49,360
Non-controlling interests		-	-	-	(21)	-	(21)
		21,272	**(6,754)**	**14,518**	**23,797**	**25,542**	**49,339**
Total comprehensive income for the year net of tax		**21,272**	**(6,754)**	**14,518**	**23,797**	**25,542**	**49,339**
Attributable to:							
Owners of the parent		21,272	(6,754)	14,518	23,818	25,542	49,360
Non-controlling interests		-	-	-	(21)	-	(21)
		21,272	**(6,754)**	**14,518**	**23,797**	**25,542**	**49,339**
Earnings per share (EPS) attributable to equity shareholders of the parent							
From continuing operations:							
Basic	13	27.4	-	17.9	26.9	-	12.3
Diluted	13	26.5	-	17.3	26.0	-	11.9
From continuing and discontinued operations:							
Basic	13	27.4	-	18.7	30.8	-	63.8
Diluted	13	26.5	-	18.1	29.8	-	61.7

Consolidated Balance Sheet
At 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Goodwill and other intangible assets	15	112,202	121,596
Property, plant and equipment	16	155,758	142,428
Investment property	17	2,590	2,590
Deferred tax asset	25	-	39
Total non-current assets		**270,550**	**266,653**
Current assets			
Inventories	18	384,005	401,260
Trade and other receivables	19	79,682	92,141
Cash and cash equivalents	20	1,174	4,867
Assets classified as held for sale	21	797	750
Total current assets		**465,658**	**499,018**
Total assets		**736,208**	**765,671**
Non-current liabilities			
Loans and borrowings	23	5,665	6,466
Trade and other payables	22	5,596	4,281
Provisions	24	-	4,015
Deferred tax liabilities	25	20,787	20,448
Total non-current liabilities		**32,048**	**35,210**
Current liabilities			
Loans and borrowings	23	641	642
Trade and other payables	22	493,859	527,614
Provisions	24	7,926	8,815
Current tax liabilities		1,346	2,180
Total current liabilities		**503,772**	**539,251**
Total liabilities		**535,820**	**574,461**
Net assets		**200,388**	**191,210**
Shareholders' equity			
Share capital	28	49,834	49,531
Share premium	28	19,672	19,672
Share-based payments reserve	28	1,570	2,608
Own shares reserve	28	-	-
Retained earnings		129,312	119,399
Equity attributable to owners of the parent		**200,388**	**191,210**
Share of equity attributable to non-controlling interests		-	-
Total equity		**200,388**	**191,210**

The consolidated financial statements of Marshall Motor Holdings plc were approved for issue by the Board of Directors on 12 March 2019.

Daksh Gupta
Chief Executive Officer

Richard Blumberger
Chief Financial Officer

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Share-based payments reserve £'000	Own shares reserve £'000	Retained earnings £'000	Equity attributable to owners of the parent £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2017		**49,531**	**19,672**	**1,869**	**-**	**74,566**	**145,638**	**21**	**145,659**
Profit for the year		-	-	-	-	49,360	49,360	(21)	49,339
Total comprehensive income		**-**	**-**	**-**	**-**	**49,360**	**49,360**	**(21)**	**49,339**
Transactions with owners									
Dividends paid	14	-	-	-	-	(4,527)	(4,527)	-	(4,527)
Share-based payments charge	29	-	-	739	-	-	739	-	739
Balance at 31 December 2017		**49,531**	**19,672**	**2,608**	**-**	**119,399**	**191,210**	**-**	**191,210**
Change in accounting policy	3	-	-	-	-	(76)	(76)	-	(76)
Restated balance at 1 January 2018		**49,531**	**19,672**	**2,608**	**-**	**119,323**	**191,134**	**-**	**191,134**
Profit for the year		-	-	-	-	14,518	14,518	-	14,518
Total comprehensive income		**-**	**-**	**-**	**-**	**14,518**	**14,518**	**-**	**14,518**
Transactions with owners									
Dividends paid	14	-	-	-	-	(4,983)	(4,983)	-	(4,983)
Issue of share capital	28	303	-	-	(303)	-	-	-	-
Exercise of share options	29	-	-	(1,567)	303	504	(760)	-	(760)
Share-based payments charge	29	-	-	529	-	-	529	-	529
Acquisition of non-controlling interest in subsidiaries	33	-	-	-	-	(50)	(50)	-	(50)
Balance at 31 December 2018		**49,834**	**19,672**	**1,570**	**-**	**129,312**	**200,388**	**-**	**200,388**

Consolidated Cash Flow Statement
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Operating profit			
– continuing operations		25,066	20,097
– discontinued operations	8	589	41,137
Adjustments for:			
Depreciation and amortisation	15/16	9,327	25,183
Share-based payments charge	29	732	739
Profit on disposal of assets classified as held for sale	7	(268)	-
Loss on disposal of property plant and equipment	6	67	1,085
Loss on impairment of goodwill and other intangible assets	15	9,302	-
Loss on impairment of property, plant and equipment	16	87	945
Loss on disposal of investment property	6	1,146	-
Impairment of investment		-	10
Profit on disposal of subsidiary	8	(589)	(38,664)
Cash flows from operating activities		**45,459**	**50,532**
Decrease/(increase) in inventories		17,255	(21,223)
Decrease in trade and other receivables		12,383	450
(Decrease)/increase in trade and other payables		(33,699)	33,703
(Decrease)/increase in provisions	24	(4,904)	6,138
Total cash flows generated by operations		**36,494**	**69,600**
Tax paid		(5,231)	(7,443)
Interest paid	11	(6,362)	(8,099)
Net cash inflow from operating activities		**24,901**	**54,058**
Investing activities			
Purchase of property, plant, equipment, leased vehicles and software	15/16	(22,526)	(57,549)
Net purchase of investment property		(1,146)	-
Acquisition of businesses, net of cash acquired		-	(77)
Acquisition of non-controlling interest in subsidiaries		(50)	-
Net cash flow from sale of discontinued operation	8	589	44,695
Proceeds from disposal of property, plant and equipment and leased vehicles		274	11,985
Proceeds from disposal of assets classified as held for sale		1,018	-
Net cash outflow from investing activities		**(21,841)**	**(946)**
Financing activities			
Proceeds from borrowings		30,000	41,778
Repayment of borrowings		(30,802)	(85,579)
Dividends paid	14	(4,983)	(4,527)
Settlement of exercised share awards		(968)	-
Net cash outflow from financing activities		**(6,753)**	**(48,328)**
Net (decrease)/increase in cash and cash equivalents		(3,693)	4,784
Cash and cash equivalents at 1 January		4,867	83
Cash and cash equivalents at year end	**20**	**1,174**	**4,867**

Net Debt Reconciliation
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Reconciliation of cash flow to movement in net debt			
Net (decrease)/increase in cash and cash equivalents		(3,693)	4,784
Proceeds from drawdown of RCF	23	(30,000)	(10,000)
Repayment of drawdown of RCF	23	30,000	45,000
Proceeds of asset backed borrowings *(Discontinued)*	23	-	(31,778)
Repayment of asset backed borrowings *(Discontinued)*	23	-	68,185
Repayment of other borrowings		802	2,791
Repayment of bank overdraft		-	10,825
Repayment of debt with acquisitions		-	25,705
Repayment of derivatives with acquisitions		-	1,258
(Increase)/decrease in net debt		**(2,891)**	**116,770**
Opening net debt		(2,241)	(119,011)
Net debt at year end		**(5,132)**	**(2,241)**
Net debt at year end consists of:			
Cash and cash equivalents	20	1,174	4,867
Loans and borrowings	23	(6,306)	(7,108)
Closing net debt		**(5,132)**	**(2,241)**

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 and Wales 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 12 March 2019.

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 139). 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 IAS 40 *Investment Properties*, the amendments to IFRS 2 *Share Based Payment Transactions* as well as the following new standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. 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 a 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 losses 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 139 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 2018 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 2018 of the subsidiaries listed below.

The subsidiaries which have taken an exemption from audit for the year ended 31 December 2018 by virtue of s479A of the Companies Act 2006 are:

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

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.

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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Business combinations *(continued)*

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, favourable leases and order backlog.

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

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. Licenses are amortised over the length of the licence and software is amortised between 3-5 years.

Intangible assets acquired as part of a business combination include franchise agreements, favourable leases and order backlog. These items are capitalised separately from goodwill if the asset is separable 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 less accumulated amortisation.

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

- Favourable leases - 3 years
- Order backlog - as the orders are fulfilled
- Franchise agreements - indefinite life, 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 and long-leasehold 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.

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 flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

The Group recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. ECL 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). An assessment of the ECL is calculated using a provision matrix model to estimate the loss rates to be applied to each trade receivable category. ECL 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.

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.

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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Financial liabilities *(continued)*

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.

Comparative period financial instruments accounting policy under IAS 39 *Financial Instruments: Recognition and Measurement.*

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

Loans and receivables

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

Impairment of financial assets

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

Financial liabilities measured at amortised cost

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

Fair value measurement

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

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

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Fair value measurement *(continued)*

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'.

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 held on consignment with the corresponding asset included within inventories.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

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.

Vacant property provision

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

Revenue recognition

The Group has applied IFRS 15 *Revenue from Contracts with Customers* using the cumulative effect method; therefore, the comparative information has not been restated in accordance with the transition exemptions available under IFRS 15. The following reflects the new revenue recognition policy adopted for the current reporting period onwards.

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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Revenue recognition *(continued)*

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

The Group generates revenue through the sale of new and used motor vehicles and through the provision of aftersales 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).

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.

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 contact 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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Revenue recognition *(continued)*

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'.

Comparative period revenue recognition accounting policy under IAS 18 *Revenue*

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

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

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

Rental income

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

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

Deferred income

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

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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Discontinued operations

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

Leases

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

Group as lessee

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

Group as lessor

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

Where the Group is a lessor under a finance lease, the amount due from the lessee is recognised as a receivable at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the lease. The Group's finance lease as lessor activates were discontinued in the prior period following the disposal of Marshall Leasing Limited.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans through which the Group allows employees to receive shares in the Company.

Equity-settled share-based payments are measured at fair value (calculated excluding the effect of service and non-market based performance vesting conditions) at the date of grant. The share-based payment charge to be expensed is determined by reference to the fair value of share options granted and is recognised as an employee expense within underlying earnings, with a corresponding increase in equity.

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

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

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.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Share-based payments *(continued)*

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

Net finance costs

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

Finance costs

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

Finance income

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

Taxation

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

Current taxation

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

Deferred taxation

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

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

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

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Taxation *(continued)*

Deferred taxation (continued)

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

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

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

Pensions

Defined contribution pension plans

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

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

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 has a defined benefit section

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

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

By virtue of historic employment relationships, the Group was, until 31 December 2018, a participating employer in the defined benefit pension section of the Marshall Group Executive Pension Plan ("the Plan"). The Plan is non-sectionalised, therefore, the assets of the Plan are not allocated to or directly associated with individual participating employers of the Plan. There is no contractual agreement or stated policy for charging the net defined benefit cost between participating employers in the Plan, therefore, any contributions would be accounted for as if they were being made to a defined contribution scheme.

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 into 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. The Employer debt was utilised against the provision of £6,000,000 recognised in the financial statements for the year ended 31 December 2017.

Details of the latest actuarial valuation of the Plan are disclosed in the financial statements of the principal employer, Marshall of Cambridge (Holdings) Limited.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Alternative performance measures

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.

Similarly, the Directors believe that the impact of acquisitions and disposals distort 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.

Business 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 Appendix on page 143 for full details.

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 2017.

New standards, amendments and interpretations adopted by the Group

The following amendments to existing standards became effective on 1 January 2018 and have been adopted in the consolidated financial statements for the first time during the year ended 31 December 2018. These have been assessed as having no financial or disclosure impact on the numbers presented.

- IAS 40 *Transfers to Investment Property* (amendments to IAS 40)
- IFRS 2 *Classification and Measurements of Share-based Payment Transactions* (amendments to IFRS 2)

IFRS 2 *Classification and Measurements of Share-based Payment Transactions* (amendments to IFRS 2)

The IASB issued amendments to IFRS 2 *Share-Based Payment* that address three main areas. These are: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

These amendments are adopted prospectively. Therefore, application of the amendments does not require the restating of prior periods.

The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments.

Notes to the Consolidated Financial Statements

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

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

IFRS 2 *Classification and Measurements of Share-based Payment Transactions* (amendments to IFRS 2) *(continued)*

The Group's equity-settled share-based payment transactions have net settlement modification features to allow for withholding tax obligations. The amendment permits the entire transaction to continue to be treated as equity-settled with a debit to equity at the point of settlement to set up the liability. Any incremental fair value is charged to the Consolidated Statement of Comprehensive Income. The Group applied the amendment to the exercises of share awards which took place in April 2018. This was the first time the Group had utilised the option for net settlement of awards.

The following new standards became effective on 1 January 2018 for the current reporting period. The Group had to change its accounting policies and make adjustments as a result of adopting these standards:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*

The impact of the adoption of these standards are disclosed below. The accounting policies above have been updated to include the new accounting policies.

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

a) IFRS 9 *Financial Instruments*

The Group has adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.* The nature and effects of the key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Additionally, the Group adopted consequential amendments to IFRS 9 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but generally have not been applied to comparative information in compliance with IFRS 9.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value reported in other comprehensive income (FVOCI) and fair value reported in profit and loss (FVPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed based on its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see the 'Financial Assets' accounting policy.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Hedge accounting

IFRS 9 introduces a new general hedge accounting model. The Group has not previously applied hedge accounting under IAS 39, and has not commenced hedge accounting under IFRS 9; therefore, this change has had no impact on the Group's financial statements.

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)*

a) IFRS 9 *Financial Instruments* *(continued)*

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative figures have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 have been recognised in opening retained earnings and reserves as at 1 January 2018 in accordance with IFRS 9. Accordingly, the information presented for the year ended 31 December 2017 does not generally reflect the requirements of IFRS 9 and is not comparable to the information presented for the year ended 31 December 2018 under IFRS 9.
- The assessment of the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018, the date of initial application.

The following table summarises the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings at 1 January 2018.

	£'000
Closing balance as at 31 December 2017 - IAS 39	**119,399**
Recognition of expected credit losses from adoption of IFRS 9 on 1 January 2018	(91)
Deferred tax credit on transition adjustment	15
Opening balance as at 1 January 2018 - IFRS 9	**119,323**

Classification and measurement of financial assets and financial liabilities on the date of initial application of IFRS9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39 £'000**	**New carrying amount under IFRS 9 £'000**
Trade and other receivables	Loans and receivables	Amortised cost	92,141	92,050
Cash and cash equivalents	Loans and receivables	Amortised cost	4,867	4,867

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified as at amortised cost. An increase of £91,000 in the allowance for impairment was recognised in opening retained earnings as at 1 January 2018 on transition to IFRS 9.

There has been no change in the classification and measurement of financial liabilities on the transition to IFRS 9.

b) IFRS 15 *Revenue from Contracts with Customers*

The Group has adopted IFRS 15 Revenue from Contracts with Customers issued in May 2014 with a date of initial application of 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the modified retrospective approach (i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at 1 January 2018). Therefore, the comparative information has not been restated in accordance with the transition exemptions available under IFRS 15.

No changes to the timing and measurement of revenue across the Group's revenue streams have been identified on transition to IFRS 15.

Notes to the Consolidated Financial Statements

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

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

The following standards, amendments and interpretations were in issue, but were not yet effective at the balance sheet date. These standards have not been applied when preparing the consolidated financial statements for the year ended 31 December 2018.

	Date issued	Effective for accounting periods beginning on or after
IFRS 16 *Leases* (see below)	January 2016	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	June 2017	1 January 2019

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

IFRS 16 *Leases*

Overview

IFRS 16 Leases was issued by the IASB in January 2016 and will replace IAS 17 Leases, IFRIC 4 *Determining whether an arrangement contains a Lease,* SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 is due to take effect for accounting periods commencing on or after 1 January 2019. The Group will adopt the new standard in 2019 and will apply IFRS 16 for the first time in the interim report for the six months ending 30 June 2019 and the annual report for the year ending 31 December 2019.

Lessee accounting

IFRS 16 removes the current distinction between operating leases and finance leases and requires that, for all leases, a right-of-use asset and a financial liability are recognised in the Consolidated Balance Sheet. The asset represents the right to use the leased asset and the financial liability represents the commitments payable under the lease and is substantively different to the existing accounting.

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

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

Lessor accounting

With the exception of where the Group is an intermediate lessor, the adoption of IFRS 16 Leases does not significantly change the Group's lessor accounting. Lessors will continue to classify leases using the same classification principle as in IAS 17 and will continue to distinguish between two types of leases: operating leases and finance leases. On adoption of IFRS 16, in situations where the Group is an intermediate lessor, the Group will account for its interests in head leases and sub-leases separately.

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

Notes to the Consolidated Financial Statements

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

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

IFRS 16 *Leases* *(continued)*

Transition

The Group is currently finalising a detailed impact assessment to determine the impact and transition adjustments that the adoption of IFRS 16 will have on the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Consolidated Balance Sheet.

As a result of these assessments, the Group currently expects to adopt the standard using the retrospective method. Therefore, the cumulative impact of adoption will be recognised in retained earnings as of 1 January 2018 and comparatives for 2018 will be restated.

The Group intends to apply the recognition exemptions available for short-term leases and leases for low-value assets, both of which exist in the Group's lease portfolio. The Group also intends to elect to apply the practical expedient permitting IFRS 16 to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Therefore, the Group will not apply IFRS 16 to contracts that were not previously identified under IAS 17 and IFRIC 4 as containing a lease. At this stage, the Group is not aware of any leases where the definition may differ between IFRS 16 and IAS 17/IFRIC 4.

Estimated financial impact of adoption

Based on analysis of the Group's lease portfolio at the transition date, the Group's assets are expected to increase in the region of £86,000,000 being the net impact of the recognition of right-of-use assets, derecognition of long leasehold property costs and the recognition of finance lease receivables on subleases. There is expected to be a corresponding approximate £92,500,000 increase in liabilities resulting from the net effect of recognising lease liabilities and derecognising vacant property provisions. The adoption of IFRS 16 is anticipated to result in a reduction of the Group's net assets in the region of £6,500,000.

On restatement, an immaterial reduction to the Group's profit before tax for the year ended 31 December 2018 is expected.

The Group continues to finalise procedures and accounting policy choices required to apply the new requirements of IFRS 16. As a result, revisions to the estimated impact of adoption may arise prior to the issue of the 30 June 2019 Interim Report and Accounts. However, at this time, any such revisions are not expected to be significant.

4. Significant accounting judgements, estimates and assumptions

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

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

Critical accounting judgements

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

Notes to the Consolidated Financial Statements

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

Critical accounting judgements *(continued)*

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. This past experience, coupled with the strength of the Group's relationships with brand partners, determines that these assets have indefinite useful economic lives.

Significant financing components when determining transaction prices

The nature of the Group's activities is such that, with the exception of certain commission arrangements, the Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Certain commissions are received in advance of the Group selling the associated finance or insurance products (as an 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.

Nevertheless, 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.

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

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

The assumptions used in the impairment test are detailed in Note 15(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 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.

Notes to the Consolidated Financial Statements

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

Key sources of estimation uncertainty *(continued)*

Inventory valuation

Inventories are stated at the lower of their cost and their net realisable value (being the fair value of the motor vehicles less costs to sell). Fair values are assessed using reputable industry valuation data which is based upon recent industry activity and forecasts. Whilst this data is deemed representative of the current value of vehicles held in inventory it is possible that the price at which the vehicles are actually sold will differ from the vehicles' industry valuations. Where this is the case, adjustments arise in the Consolidated Statement of Comprehensive Income on the sale of vehicles held in inventory.

Industry valuations are sensitive to rapid changes in regulatory and market conditions which are difficult to anticipate. In light of the materiality of the inventory balance in the Consolidated Balance Sheet, this uncertainty is considered to represent a key source of estimation uncertainty. The inventory provision as at 31 December 2018 represents 2.5% of the gross inventory balance (2017: 2.2%). A 100bps change in this ratio in 2018 would have changed the charge to the Consolidated Statement of Comprehensive Income by approximately £4.1 million (2017: £4.0 million).

Reassessment of previous areas of estimation uncertainty

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

Taxation

Following the payment of the settlement in respect of a tax issue inherited on acquisition (see Note 24 'Provisions'), the Group currently has no material open income tax issues with the tax authorities. Therefore, estimation uncertainty inherent in the Group's provisions for uncertain income tax treatments is no longer considered to represent a significant risk of a material adjustment being required to the carrying amount of either current or deferred tax provisions in subsequent accounting periods.

Where the final tax treatment applied on finalisation of the Group's corporation tax returns differs to the assumptions used when calculating the amounts currently recognised, these differences impact the current and/or deferred tax provisions in the period in which the final tax treatment is determined. No single item is expected to give rise to a material adjustment in subsequent years, neither are individual differences when taken in aggregate.

Pension provision valuation

As described in Note 32 'Pensions', the Group undertook a strategic pension review in the prior year which resulted in the Group ceasing to be a participant in the defined benefit section of the Plan in December 2018. Based on the status of discussions as at 31 December 2017, it was reasonably probable that this review would result in the Group ceasing participation in this pension scheme. Therefore, a provision was recognised for the estimated amount which would become payable in accordance with Section 75 of the Pensions Act 1995 were the Group to cease to participate in the Plan (the "Employer Debt").

As a result of ceasing to participate in the defined benefit section of the Plan in December 2018, the Employer Debt was crystallised triggering a formal actuarial valuation. Per this valuation the Employer Debt is £5,541,000, such that there is no future estimation uncertainty.

Notes to the Consolidated Financial Statements

5. Segmental information

a) Operating segments – 2018 onwards

IFRS 8 *Operating Segments* requires operating segments to be consistent with the internal management reporting provided to the Chief Operating Decision Maker who is 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	
For the year ended 31 December 2018	**£'000**	**mix***	**£'000**	**mix**
New Car	1,064,830	47.7%	76,349	29.9%
Used Car	920,237	41.2%	66,753	26.1%
Aftersales	246,116	11.1%	112,300	44.0%
Internal / Other	(44,296)	-	275	-
Total	**2,186,887**	**100%**	**255,677**	**100%**

	Revenue		Gross Profit	
For the year ended 31 December 2017	**£'000**	**mix***	**£'000**	**mix**
New Car	1,166,471	51.2%	84,086	32.6%
Used Car	869,733	38.2%	59,918	23.2%
Aftersales	243,064	10.6%	113,975	44.2%
Internal / Other	(47,289)	-	322	-
Total	**2,231,979**	**100%**	**258,301**	**100%**

*mix calculation excludes Internal / Other Sales

Prior to the disposal of Marshall Leasing Limited, the Group's business was split into two main revenue-generating operating segments and a third support segment. No significant judgments were made in determining the reporting segments.

Notes to the Consolidated Financial Statements

5. Segmental information *(continued)*

b) Operating segments – prior periods

Retail

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

Leasing

The leasing segment included the leasing of vehicles to end consumers and fleet customers.

Unallocated

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

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

Geographical information

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

Information about reportable segments

Information related to each reportable segment is set out below.

For the year ended 31 December 2017	**Retail £'000**	**Leasing** *(Discontinued)* **£'000**	**Unallocated £'000**	**Total £'000**
Revenue				
Total revenue	2,231,696	36,969	283	2,268,948
Total revenue from external customers	**2,231,696**	**36,969**	**283**	**2,268,948**
Depreciation and amortisation	(9,190)	(4)	(27)	(9,221)
Segment operating profit/(loss)	34,714	4,286	(14,617)	24,383
Other income - profit on disposal of subsidiary	-	36,851	-	36,851
Net finance costs	(6,586)	(580)	(933)	(8,099)
Underlying profit/(loss) before tax	34,911	3,706	(9,550)	29,067
Non-underlying items	(6,783)	36,851	(6,000)	24,068
Profit/(loss) before taxation	**28,128**	**40,557**	**(15,550)**	**53,135**
Total assets	**762,304**	**-**	**3,367**	**765,671**
Total liabilities	**537,064**	**-**	**37,397**	**574,461**
Additions in the period (including acquisitions)				
Property, plant, equipment and software assets	24,365	34,700	-	59,065

Notes to the Consolidated Financial Statements

6. Profit before taxation

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

	2018 £'000	2017 £'000
Depreciation of assets held for contract rental (note 16) *(Discontinued)*	-	15,962
Depreciation of property, plant and equipment (note 16)	8,975	8,917
Amortisation of other intangibles (note 15)	352	304
Profit on disposal of assets classified as held for sale (note 7)	(268)	-
Loss on disposal of property plant and equipment	67	1,085
Loss on impairment of property, plant and equipment (note 16)	87	945
Loss on disposal of investment property	1,146	-
Operating lease rentals - property	11,363	11,698
Operating lease rentals - vehicles and equipment	1,340	824
Intangible assets impairment	9,302	-

7. Non-underlying items

	2018 £'000	2017 £'000
Continuing operations		
Post-retirement benefits charge	-	(6,000)
Profit on disposal of assets classified as held for sale	268	-
Net release/(recognition) of restructuring costs and provisions	3,217	(6,783)
Loss on disposal of investment property	(1,146)	-
Loss on impairment of goodwill and other intangible assets	(9,302)	-
	(6,963)	**(12,783)**
Discontinued operations		
Profit on disposal of subsidiary	589	36,851
Non-underlying items	**(6,374)**	**24,068**

Post-retirement benefits charge

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

Profit on disposal of assets classified as held for sale

In May 2018, the Group sold the freehold property classified as held for sale as at 31 December 2017 for a profit of £268,000.

Net release/(recognition) of restructuring costs and provisions

Restructuring costs during the current year include costs incurred as a result of the closure of one of the Group's franchised dealerships. The closure arose in the context of the UK wide franchise network review carried out by Vauxhall. Restructuring costs include vacant property related costs of £154,000, redundancy costs of £280,000 and £252,000 of tangible asset impairment losses and write offs. Also included in the current year is a £4,160,000 release of vacant property and dilapidation provisions following the better than expected exit from lease commitments noted above on premises no longer used by the Group. £3,234,000 of the release relates to the exiting of a lease through the acquisition and immediate disposal of an investment property.

Restructuring and reorganisation costs in the prior period represent the costs incurred as a result of the closure of five franchised dealerships and one used car centre.

Notes to the Consolidated Financial Statements

7. Non-underlying items *(continued)*

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 immediate disposal of the investment property provided the Group with a better than expected exit from the lease commitment.

Loss on impairment of goodwill and other intangible assets

See Note 15 'Goodwill and Other Intangible Assets' for further details of the transaction giving rise to the loss on impairment of goodwill and other intangible assets.

Profit on disposal of subsidiary

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

8. Discontinued operations

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.

a) Details of the sale of subsidiary

	2018 £'000	2017 £'000
Gross disposal consideration in cash	**1,500**	**42,500**
Pension retention	(911)	(1,500)
Net disposal consideration in cash	**589**	**41,000**
Less carrying value of net assets sold at 24 November 2017:		
– Property, plant and equipment	-	78,959
– Deferred tax	-	1,547
– Trade and other receivables	-	2,510
– Bank overdraft	-	(3,695)
– Trade and other payables	-	(8,120)
– Asset backed borrowings	-	(68,185)
– Corporation tax	-	(680)
	-	**2,336**
Gain on sale of subsidiary before income tax	**589**	**38,664**
Transaction costs	-	(1,813)
Net gain on sale of subsidiary before income tax	**589**	**36,851**
Income tax expense on gain	-	-
Gain on sale of subsidiary after income tax	**589**	**36,851**
Cash inflow on disposal of subsidiary:		
Net disposal consideration in cash	589	41,000
Disposal of bank overdraft	-	3,695
Net cash flow from sale of discontinued operation	**589**	**44,695**

Notes to the Consolidated Financial Statements

8. Discontinued operations *(continued)*

b) Discontinued cash flow information

	2018 £'000	2017 £'000
Net cash inflow from operating activities	**-**	**16,027**
Purchase of property, plant, equipment and software	-	(34,700)
Proceeds from disposal of property, plant and equipment	-	9,474
Net cash outflow from investing activities	**-**	**(25,226)**
Proceeds from borrowings	-	31,778
Repayment of borrowings	-	(28,106)
Dividends paid	-	(18,712)
Net cash outflow from financing activities	**-**	**(15,040)**
Net decrease in cash generated by the subsidiary	**-**	**(24,239)**

c) Discontinued profit before taxation information

	2018 £'000	2017 £'000
Revenue	-	36,969
Cost of sales	-	(30,159)
Gross profit	**-**	**6,810**
Net operating expenses	-	(2,524)
Operating profit	**-**	**4,286**
Other income - gain on disposal of subsidiary	589	36,851
Net finance costs	-	(580)
Profit before taxation	**589**	**40,557**

9. Auditor's remuneration

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

	2018 £'000	2017 £'000
Audit services:		
– fees payable to the Company's auditors for the audit of the parent		
Company and consolidated financial statements	200	215
– audit of Group's subsidiaries	78	78
Fees payable to the Company's auditors for other services:		
– review of interim condensed consolidated financial statements	36	36
Total auditor's remuneration	**314**	**329**

Notes to the Consolidated Financial Statements

10. Employees and directors

a) Employee costs for the Group during the year

The aggregate remuneration of employees and directors was:

	2018 £'000	2017 £'000
Wages and salaries	114,367	115,905
Social security costs	13,383	13,553
Other pension costs	1,999	8,059
Share based payments	732	1,005
	130,481	**138,522**

Employee costs are included in:

	2018 £'000	2017 £'000
Cost of sales	13,505	13,750
Net operating expenses	116,976	124,772
	130,481	**138,522**

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

	2018	2017
Retail	3,749	3,616
Leasing *(Discontinued)*	-	43
Unallocated *(Discontinued)*	-	264
	3,749	**3,923**

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

b) Directors' emoluments

Details of the remuneration of the Directors, their share incentives and pension entitlements are set out in the Directors' Remuneration Report on pages 53 to 60.

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.

	2018 £'000	2017 £'000
Wages and salaries	5,249	4,805
Post-employment benefits	179	273
Compensation for loss of office	-	52
Share-based payments	732	1,005
	6,160	**6,135**

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

Notes to the Consolidated Financial Statements

11. Net finance costs

	2018 £'000	2017 £'000
Interest income on short term bank deposits	(13)	(11)
Net interest payable on asset backed finance *(Discontinued)*	-	580
Stock financing charges and other interest	5,395	5,385
Interest payable on bank borrowings	980	2,145
Net finance costs	**6,362**	**8,099**

12. Taxation

a) Taxation charge

	2018 £'000	2017 £'000
Current tax		
Current tax on profits for the year	5,106	5,651
Adjustments in respect of prior years	(724)	50
Total current tax charge	**4,382**	**5,701**
Deferred tax		
Origination and reversal of temporary differences	650	(2,015)
Adjustments in respect of prior years	(257)	110
Total deferred tax charge / (credit) (note 25)	**393**	**(1,905)**
Total taxation charge	**4,775**	**3,796**
Income tax expense is attributable to:		
Profit from continuing operations	4,775	3,080
Profit from discontinued operation	-	716
Total taxation charge	**4,775**	**3,796**

The tax charge on discontinued operations amounting to £nil (2017: £716,000) all relates to tax payable on profit from operations.

Notes to the Consolidated Financial Statements

12. Taxation *(continued)*

b) Reconciliation of tax charge

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

	2018 £'000	2018 %	2017 £'000	2017 %
Profit before taxation	19,293		53,135	
Notional taxation charge at corporation tax rate of 19.00% (2017: 19.25%)	**3,666**	**19.00%**	**10,228**	**19.25%**
Effects of:				
Tax effect of items not deductible for tax purposes[1]	2,189	11.35%	630	1.19%
Non-taxable gain on sale of subsidiary	(111)	(0.58%)	(7,094)	(13.36%)
Loss/(profit) on disposal of non-qualifying assets	100	0.52%	(145)	(0.27%)
Adjustments in respect of prior years	(981)	(5.08%)	160	0.30%
Derecognition of brought forward losses previously recognised	43	0.22%	-	-
Utilisation of brought forward losses previously unrecognised	-	-	(31)	(0.06%)
Effect of difference between closing deferred tax rate and current tax rate	(131)	(0.68%)	48	0.09%
Taxation charge and effective tax rate	**4,775**	**24.75%**	**3,796**	**7.14%**

[1] Expenses not deductible for tax purposes predominantly consist of depreciation charges on non-qualifying assets, the creation of capital losses, and non-deductible amortisation.

The applicable corporation tax rate is calculated at 19% (2017: 19.25%) of the estimated taxable profit for the year. The standard rate of corporation tax reduced from 20% to 19% on 1 April 2017 and will reduce to 17% on 1 April 2020.

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

	2018 Underlying £'000	2018 Non-underlying £'000	2018 Total £'000	2017 Underlying £'000	2017 Non-underlying £'000	2017 Total £'000
Profit before taxation	25,667	(6,374)	19,293	29,067	24,068	53,135
Taxation	4,395	380	4,775	5,270	(1,474)	3,796
Effective tax rate	**17.12%**	**(5.96%)**	**24.75%**	**18.13%**	**(6.12%)**	**7.14%**

Notes to the Consolidated Financial Statements

12. Taxation *(continued)*

b) Reconciliation of tax charge *(continued)*

Non-recurring items

The Group's total effective tax rate for 2018 of 24.75% 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 2018 underlying effective tax rate of 17.12% is lower than the Group's expected underlying effective tax rate due to the impact of substantial credits in respect of return to provision true-ups resulting from the filing in 2018 of retrospective capital allowances claims on the Group's historic capital expenditure. Excluding the impact of these, the underlying effective tax rate would have been 21.6%.

The prior year total effective tax rate of 7.14% was influenced by the significant non-taxable gain on disposal of a subsidiary, due to the chargeable gain falling within the substantial shareholding exemption. Excluding this item, the total effective tax rate for the year would have been 18.13%.

c) Factors affecting the taxation charge of future years

Future tax charges, and 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 2018 or 2017.

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.

Notes to the Consolidated Financial Statements

13. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the year and the diluted weighted average number of ordinary shares in issue in the year after taking account of the dilutive impact of shares under option of 2,423,249 at 31 December 2018 (2017: 2,866,231).

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

	2018 £'000	2017 £'000
From continuing operations		
Underlying net profit attributable to equity holders of the parent	21,272	20,807
Non-underlying items after tax	(7,343)	(11,309)
Net profit attributable to equity holders of the parent	**13,929**	**9,498**

	2018 £'000	2017 £'000
From continuing and discontinued operations		
Underlying net profit attributable to equity holders of the parent	21,272	23,797
Non-underlying items after tax	(6,754)	25,542
Net profit attributable to equity holders of the parent	**14,518**	**49,339**

	2018 Thousands	2017 Thousands
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	77,736	77,393
Effect of dilutive potential ordinary shares: share options	2,584	2,536
Weighted average number of ordinary shares for the purpose of diluted EPS	80,320	79,929

From continuing operations	2018 pence	2017 pence
Basic underlying earnings per share	**27.4**	**26.9**
Basic earnings per share	**17.9**	**12.3**
Diluted underlying earnings per share	**26.5**	**26.0**
Diluted earnings per share	**17.3**	**11.9**
From continuing and discontinued operations		
Basic underlying earnings per share	**27.4**	**30.8**
Basic earnings per share	**18.7**	**63.8**
Diluted underlying earnings per share	**26.5**	**29.8**
Diluted earnings per share	**18.1**	**61.7**

Notes to the Consolidated Financial Statements

14. Dividends

A final dividend of £3,309,000 (2016: £2,864,000) for the year ended 31 December 2017 was paid in May 2018. This represented a payment of 4.25p per ordinary share in issue at that time.

An interim dividend in respect of the year ended 31 December 2018 of £1,674,000 (2017: £1,663,000), representing a payment of 2.15p per ordinary share in issue at that time, was paid in September 2018.

A final dividend of 6.39p per share in respect of the year ended 31 December 2018 is to be proposed at the Annual General Meeting on 21 May 2019. The ex-dividend date will be 25 April 2019 and the associated record date will be 26 April 2019. This dividend will be paid subject to shareholder approval on 21 May 2019 and these financial statements do not reflect this final dividend payable.

15. Goodwill and other intangible assets

	Goodwill £'000	Franchise agreements £'000	Software £'000	Favourable leases £'000	Order backlog £'000	Total £'000
Cost						
At 1 January 2017	49,076	72,115	1,079	172	769	123,211
Additions	-	-	235	-	-	235
Additions on acquisition	-	22	-	-	-	22
Write-offs	(447)	-	-	-	(769)	(1,216)
Transfers from property, plant and equipment	-	-	57		-	57
At 31 December 2017	**48,629**	**72,137**	**1,371**	**172**	**-**	**122,309**
Additions	-	-	260	-	-	260
At 31 December 2018	**48,629**	**72,137**	**1,631**	**172**	**-**	**122,569**
Accumulated amortisation						
At 1 January 2017	-	-	376	33	769	1,178
Charge for the year	-	-	247	57	-	304
Disposals	-	-	-	-	(769)	(769)
At 31 December 2017	**-**	**-**	**623**	**90**	**-**	**713**
Charge for the year	-	-	295	57	-	352
Impairment	9,302	-	-	-	-	9,302
At 31 December 2018	**9,302**	**-**	**918**	**147**	**-**	**10,367**
Net book value						
At 31 December 2017	48,629	72,137	748	82	-	121,596
At 31 December 2018	**39,327**	**72,137**	**713**	**25**	**-**	**112,202**

Notes to the Consolidated Financial Statements

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

a) Disposals

There were no disposals in 2018.

In November 2017, the decision was made to close five franchised dealerships and one used car centre, which resulted in goodwill of £447,000 being written off.

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.

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

	Goodwill	Franchise Agreements
	£'000	**£'000**
VW Audi Group	15,523	30,211
BMW/MINI	1,461	8,345
Jaguar/Land Rover	8,003	14,358
Mercedes-Benz/Smart	11,182	19,201
Other	3,158	22
Total	**39,327**	**72,137**

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 2018 and 2017.

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. The fair value amount is calculated by adding the net assets of each CGU to the estimated goodwill per CGU (budgeted EBITDA multiplied by a goodwill premium factor). The goodwill premium factor is estimated based on brand premiums paid by our market peers in recent acquisitions.

Notes to the Consolidated Financial Statements

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

b) Impairment testing *(continued)*

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 2019 to 31 December 2023. These projections are based on the most recent budget which has been approved by the Board; the budget for the year ending 31 December 2019. 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.

Growth rates, ranging from -2% to 5% (2017: 5%) have been used to extrapolate cash flows for a further four years beyond budget, through to 31 December 2023. Growth rates for the BMW/Mini CGU have been used to extrapolate budgeted cash flows from 2021 onwards. These growth rates reflect the products and markets in which the relevant CGU, or groups of CGUs, operate. Growth rates are internal forecasts based on both internal and external market information.

Discount rate

The cash flow projections have been discounted using a rate derived from the Group's pre-tax weighted average cost of capital adjusted for industry and market risk. The discount rate used is 10.5% (2017: 10.4%).

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% (2017: 2%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

At 31 December 2018 the Group recorded impairment charges totalling £9,302,000; of which £8,388,000 is in respect of BMW/MINI and £914,000 is in respect of Nissan. The impairments recorded are a consequence of the continuing deterioration in market conditions in these brands, resulting in revised assumptions around future profitability and growth rates. The impairment charge is 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 200 basis points, secondly, where cash flows in 2019 are based on a 1% decline in current year performance. Under both scenarios, all groups of CGUs not currently subject to impairment continue to have adequate headroom to support the carrying value of associated goodwill and other intangible assets. Both scenarios would increase impairment of the BMW/MINI CGU by 53% and 8% respectively. However, only the second scenario affects the recoverable value of the Other CGU, increasing the impairment by 46%.

Notes to the Consolidated Financial Statements

16. Property, plant and equipment

	Freehold and long leasehold land and buildings £'000	Leasehold improvement £'000	Plant and equipment £'000	Assets held for contract rental £'000	Assets under construction £'000	Total £'000
Cost						
At 1 January 2017	108,487	15,015	35,126	101,944	7,022	267,594
Additions at cost	47	829	5,206	34,700	18,016	58,798
Additions on acquisition	-	-	32	-	-	32
Disposals	(2,485)	(673)	(2,734)	(23,148)	-	(29,040)
Disposal of subsidiary	-	(42)	(45)	(113,496)	-	(113,583)
Transfers	16,052	2,555	1,308	-	(19,915)	-
Transfers to software	-	-	(349)	-	-	(349)
Transfers to assets held for sale	(750)	-	-	-	-	(750)
At 31 December 2017	**121,351**	**17,684**	**38,544**	**-**	**5,123**	**182,702**
Additions at cost	1,687	523	3,410	-	17,910	23,530
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	**127,179**	**22,040**	**39,909**	**-**	**9,785**	**198,913**
Accumulated depreciation and impairment						
At 1 January 2017	8,996	3,383	21,146	32,258	-	65,783
Charge for the year	1,434	1,913	5,570	15,962	-	24,879
Disposals	(53)	(608)	(2,083)	(13,673)	-	(16,417)
Disposal of subsidiary	-	(42)	(35)	(34,547)	-	(34,624)
Impairment	194	332	419	-	-	945
Transfers	(405)	138	267	-	-	-
Transfers to software	-	-	(292)	-	-	(292)
At 31 December 2017	**10,166**	**5,116**	**24,992**	**-**	**-**	**40,274**
Charge for the year	1,718	1,802	5,455	-	-	8,975
Disposals	(205)	(1,076)	(4,900)	-	-	(6,181)
Impairment	-	-	87	-	-	87
Transfers	-	324	(324)	-	-	-
At 31 December 2018	**11,679**	**6,166**	**25,310**	**-**	**-**	**43,155**
Net book value						
At 31 December 2017	111,185	12,568	13,552	-	5,123	142,428
At 31 December 2018	**115,500**	**15,874**	**14,599**	**-**	**9,785**	**155,758**

As at 31 December 2018, the Group had capital commitments totalling £20.8m (2017: £7.7m) relating to ongoing construction projects.

Notes to the Consolidated Financial Statements

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

2018

Transfers to assets held for sale

In October 2018, the Group ceased commercial activities at one if 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 write-down of certain property, plant and equipment in the franchised dealership that closed in October 2018 and £14,000 impairment reversal of certain property, plant and equipment in a franchised dealership that closed in December 2017. This loss was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

2017

Transfers to software

On integration of the Ridgeway businesses into the Group, certain items of software were identified in the tangible fixed assets records of the recently acquired businesses. These software assets have been reclassified from property, plant and equipment to intangible assets (see Note 15 'Goodwill and Other Intangible Assets') consistent with the Group's accounting policies.

Transfers to assets held for sale

In December 2017, the Group ceased commercial activities at one if its freehold properties. As the property was no longer used for the commercial activity of the business and is being marketed for sale, the asset has been written down to its fair value and transferred to assets classified as held for sale (see Note 21 'Assets Classified as Held for Sale').

Impairments

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

17. Investment property

	2018 £'000	2017 £'000
Fair value at 1 January	2,590	2,590
Additions	5,800	-
Disposals	(5,800)	-
Fair value at 31 December	**2,590**	**2,590**

See Note 7 'Non-underlying items' for details of additions and disposals in the year.

Investment properties are stated at fair value; a formal valuation is carried out at least every three years by a Chartered Surveyor on an open market value basis. The most recent full valuation of investment properties was carried out as at 31 December 2016 by Rapleys, Chartered Surveyors. The Group's leasehold investment property was valued on a fair value basis as at 31 December 2016 at £590,000 and the Group's freehold investment property on a fair value basis as at 31 December 2016 at £2,000,000. A revaluation surplus of £670,000 was taken to the Consolidated Statement of Comprehensive Income in 2016.

No formal valuation was required as at 31 December 2018. The Directors assessed the valuation of property based on a desktop review which was carried out by Rapleys, Chartered Surveyors as at 13 November 2017; no indicators were identified which signalled a material change in the fair value of investment properties, and as such, investment properties continue to be held at their 31 December 2016 value.

The properties are rented out to third parties. Rental income of £266,000 was recognised in 2018 (2017: £283,000). 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.

Notes to the Consolidated Financial Statements

18. Inventories

	2018 £'000	2017 £'000
Stock held for resale	393,667	410,423
Less: Provisions	(9,662)	(9,163)
Inventories	**384,005**	**401,260**

Stock held for resale include new and used vehicles held for resale, vehicle parts and other inventory. As at 31 December 2018 £370,823,000 (2017: £380,641,000) of finished goods 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 £1,895 million (2017: £1,943 million).

19. Trade and other receivables

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade receivables	42,644	51,669
Other receivables	29,235	31,613
Amounts due from related undertakings (note 31)	26	-
Prepayments	7,777	8,859
Trade and other receivables	**79,682**	**92,141**

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.

Other receivables include accrued supplier income of £11,940,000 (2017: £17,102,000).

20. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	1,174	4,867

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

	2018 £'000	2017 £'000
Non-current assets held for sale		
Freehold land and buildings		
At 1 January	750	-
Transfers from property, plant and equipment	797	750
Disposals	(750)	-
At 31 December	**797**	**750**

Notes to the Consolidated Financial Statements

21. Assets classified as held for sale *(continued)*

2018

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. Based on current market conditions, the sale is expected to be completed within one year from the balance sheet date. As a result, the freehold property has been reclassified as held for sale and transferred from property, plant and equipment into current assets. On reclassification, the freehold property was measured at the lower of its carrying amount and fair value less costs to sell at the date of reclassification (fair value as determined by a desktop valuation from Chartered Surveyors). 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'.

2017

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

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

22. Trade and other payables

	2018 £'000	2017 £'000
Current – trade and other payables		
Trade payables:		
– vehicle financing arrangements	370,823	380,641
– other trade payables	81,749	89,281
Contract liabilities	18,165	21,478
Amounts owed to related undertakings (note 31)	37	149
Other tax and social security payable	4,443	4,500
Other payables	1,658	8,205
Accruals	16,984	23,360
Total current trade and other payables	**493,859**	**527,614**
Non-current – other payables		
Accruals	5,596	4,281
Total non-current other payables	**5,596**	**4,281**

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.

Notes to the Consolidated Financial Statements

22. Trade and other payables *(continued)*

Vehicle financing arrangements *(continued)*

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

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

In 2018 the Group recognised revenue of £9,863,000 (2017: £11,528,000) that was held in contract liabilities as at 1 January 2018.

23. Loans and borrowings

	2018 Nominal and book value £'000	2017 Nominal and book value £'000
Current loans and borrowings		
Mortgages	641	642
	641	642
Non-current loans and borrowings		
Mortgages	5,665	6,466
	5,665	6,466
Total loans and borrowings	**6,306**	**7,108**

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

Committed facilities

The Group has a revolving credit facility of £120,000,000 of which £nil was drawn at 31 December 2018 (2017: £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	2018 Fair value £'000	Carrying amount £'000	2017 Fair value £'000
Mortgages	5,665	4,478	6,466	4,917

Notes to the Consolidated Financial Statements

23. Loans and borrowings *(continued)*

a) Interest rate profile of borrowings

	2018 Debt £'000	2018 Average effective interest rate	2017 Debt £'000	2017 Average effective interest rate
Mortgages	6,306	2.40	7,108	1.63
Weighted average cost of drawn borrowings	**6,306**	**2.40**	**7,108**	**1.63**

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:

	2018 £'000	2017 £'000
6 months or less	321	321
6 – 12 months	321	321
1 – 5 years	2,565	2,565
Over 5 years	3,099	3,901
Total loans and borrowings	**6,306**	**7,108**

24. Provisions

	Other £'000	Pension £'000	Tax £'000	Closed sites £'000	Dilapidations £'000	Vacant property £'000	Total £'000
At 1 January 2018	200	6,000	237	527	1,053	4,813	12,830
Transfer from accruals	390	-	-	-	140	-	530
Charged to income statement in the year	778	-	-	35	385	147	1,345
Reversed and credited to income statement in the year	-	-	-	(135)	(818)	(3,581)	(4,534)
Utilised during the year	-	(420)	(237)	(328)	(117)	(1,143)	(2,245)
As at 31 December 2018	**1,368**	**5,580**	**-**	**99**	**643**	**236**	**7,926**

The reversed and credited to income statement in the year total includes £4,160,000 of non-underlying items included in Note 7 'Non-underlying items'.

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

	2018 £'000	2017 £'000
Current	7,926	8,815
Non-current	-	4,015
Total provisions	**7,926**	**12,830**

Notes to the Consolidated Financial Statements

24. Provisions *(continued)*

Tax

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

Closed sites, dilapidations and vacant property

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

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

Where property commitments exist at sites which are closed or closing the Group provides for the unavoidable cost of those leases post closure. The £4,534,0000 release of unutilised provision in the year resulted from the better than expected exit from lease commitments on premises no longer used by the Group.

Pension

See Note 32 'Pensions' for full details of the circumstances giving rise to the recognition of this provision. The provision was utilised on 25 February 2019.

Other

Other provisions include an amount of £301,000 in respect of the Group's estimated financial exposure under open insurance claims. The claims are generally expected to be concluded within the next year.

Other provisions also include an allowance of £814,000 for potential output VAT payable arising from uncertain VAT treatment of specific vehicle purchases. The conclusion of this open position is not expected in the forthcoming year.

25. Deferred tax assets and liabilities

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

	2018 £'000	**2017 £'000**
Deferred tax assets:		
– Deferred tax asset	-	39
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months (note 25a)	(22,202)	(22,234)
– Deferred tax assets to be offset against liabilities (note 25b)	1,415	1,786
	(20,787)	(20,448)
Net Deferred tax liabilities	**(20,787)**	**(20,409)**

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

	2018 £'000	**2017 £'000**
At 1 January	(20,409)	(20,767)
Transitional adjustment on adoption of IFRS 9	15	-
Disposal of subsidiaries	-	(1,547)
Income statement charge (note 12)	(393)	1,905
At 31 December	**(20,787)**	**(20,409)**

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 £'000	Goodwill £'000	Total £'000
Deferred tax liabilities								
At 1 January 2017	**-**	**6,800**	**1,206**	**303**	**164**	**12,283**	**1,564**	**22,320**
Charged/(credited) to the income statement – current year	80	(710)	(3)	(81)	(8)	(8)	179	(551)
Charged/(credited) to the income statement – prior year	5	235	-	-	(71)	-	(367)	(198)
Transfers to deferred tax asset	**720**	**-**	**-**	**-**	**(57)**	**-**	**-**	**663**
At 31 December 2017	**805**	**6,325**	**1,203**	**222**	**28**	**12,275**	**1,376**	**22,234**
Charged/(credited) to the income statement – current year	609	(189)	-	(26)	-	(11)	177	560
Charged/(credited) to the income statement – prior year	(172)	(482)	51	-	-	4	7	(592)
At 31 December 2018	**1,242**	**5,654**	**1,254**	**196**	**28**	**12,268**	**1,560**	**22,202**

b) Deferred tax assets

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

	Accelerated tax depreciation £'000	Tax losses £'000	Share-based payments £'000	Investment properties £'000	Capital losses £'000	Disposals on a sale basis £'000	Other temporary differences £'000	Total £'000
Deferred tax assets								
At 1 January 2017	**887**	**36**	**268**	**57**	**116**	**-**	**189**	**1,553**
(Charged)/credited to the income statement – current year	41	2	-	-	3	42	1,376	1,464
(Charged)/credited to the income statement – prior year	(103)	1	(268)	-	44	-	18	(308)
Transfers from deferred tax liability	720	-	-	(57)	-	-	-	663
Disposal of subsidiaries	(1,545)	-	-	-	-	-	(2)	(1,547)
At 31 December 2017	**-**	**39**	**-**	**-**	**163**	**42**	**1,581**	**1,825**
Transitional adjustment IFRS 9	-	-	-	-	-	-	15	15
(Charged)/credited to the income statement – current year	-	(43)	-	-	207	167	(421)	(90)
(Charged)/credited to the income statement – prior year	-	4	-	-	(2)	-	(337)	(335)
At 31 December 2018	**-**	**-**	**-**	**-**	**368**	**209**	**838**	**1,415**

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.

	2018 Tax losses £'000	2018 Unrecognised deferred tax asset £'000	2017 Tax losses £'000	2017 Unrecognised deferred tax asset £'000
Trading losses				
Available indefinitely	1,387	236	1,133	192
At 31 December	**1,387**	**236**	**1,133**	**192**

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 type. In 2018, all financial assets are carried at amortised cost (2017: loans and receivables (amortised cost). All financial liabilities are carried at amortised cost in both 2018 and 2017. For all financial assets and liabilities, fair value equals carrying value except for long-term borrowings as disclosed in Note 23.

	2018 £'000	2017 £'000
Assets as per the Consolidated Balance Sheet		
Trade and other receivables excluding prepayments (note 19)	71,905	83,282
Cash and cash equivalents (note 20)	1,174	4,867
Total financial assets	**73,079**	**88,149**
Liabilities as per the Consolidated Balance Sheet		
Loans and borrowings (note 23)	6,306	7,108
Trade and other payables excluding non-financial liabilities (note 22)	495,012	527,395
Total financial liabilities	**501,318**	**534,503**

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.

Notes to the Consolidated Financial Statements

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

b) Risk management *(continued)*

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

Market risk

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

Interest rate risk is the risk that a change in interest rates adversely effects 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 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 2018, 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.

Notes to the Consolidated Financial Statements

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

b) Risk management *(continued)*

Credit risk *(continued)*

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:

	2018 £'000 Not credit-impaired	2018 £'000 Credit-impaired	2017 £'000
Counterparties without external credit rating:			
Group 1	1,338	-	1,587
Group 2	41,983	-	51,026
Total gross carrying amount	**43,321**	**-**	**52,613**
Loss allowance	(677)	-	(944)
Net carrying amount of trade receivables	**42,644**	**-**	**51,669**
Counterparties with external credit rating:			
A \ AA- (stable)*	1,174	-	4,867
Loss allowance	-	-	-
Cash at bank	**1,174**	**-**	**4,867**

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)

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.

Credit quality of trade receivables – expected credit loss assessment at 1 January 2018 and 31 December 2018

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.

Notes to the Consolidated Financial Statements

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

b) Risk management *(continued)*

Credit risk *(continued)*

Credit quality of trade receivables – expected credit loss assessment at 1 January 2018 and 31 December 2018 *(continued)*

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

	2018 £'000	2017 £'000
Balance at 1 January per IAS 39	**1,542**	**1,944**
Adjustment on initial application of IFRS 9	91	-
Balance at 1 January per IFRS 9 (2018)/IAS 39 (2017)	**1,633**	**1,944**
Amounts written off	(736)	(214)
Net remeasurement of loss allowances	(220)	(188)
Balance at 31 December per IFRS 9 (2018)/IAS 39 (2017)	**677**	**1,542**

Cash and cash equivalents

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

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

Liquidity risk

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

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

Liquidity risk is managed by maintaining adequate levels of easily accessible cash reserves and committed banking facilities. To assess the adequacy of resources, available headroom is continuously monitored through review of forecast and actual cash flows and through matching the maturity profiles of financial assets and liabilities. The Group has access to undrawn banking facilities in order to further reduce liquidity risk. The Group does not anticipate any issues drawing on the committed, undrawn banking facilities should this be necessary. Full details of the Group's borrowing facilities are given in Note 23 'Loans and Borrowings'.

Notes to the Consolidated Financial Statements

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

b) Risk management *(continued)*

Liquidity risk *(continued)*

The table below analyses the contractual undiscounted cash flows relating to the Group's financial liabilities at the balance sheet date. The cash flows are grouped based on the remaining period to the contractual maturity date. The Group 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	379	376	741	2,150	3,396	7,042
Trade and other payables (excluding other taxes and social security)	489,416	-	5,596	-	-	495,012
At 31 December 2018	**489,795**	**376**	**6,337**	**2,150**	**3,396**	**502,054**

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

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

Capital risk management

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

Notes to the Consolidated Financial Statements

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

b) Risk management *(continued)*

Capital risk management *(continued)*

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 76, the Group had net debt of £5,131,000 as at 31 December 2018 (2017: £2,241,000).

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 3) £'000
Assets measured at fair value:					
Investment properties (note 17)	31 December 2018	2,590	-	2,590	-
Assets held for sale (note 21)	31 December 2018	797	-	797	-
Liabilities for which fair values are disclosed:					
Mortgages (note 23)	31 December 2018	4,478	-	4,478	-
Assets measured at fair value:					
Investment properties (note 17)	31 December 2017	2,590	-	2,590	-
Assets held for sale (note 21)	31 December 2017	750	-	750	-
Liabilities for which fair values are disclosed:					
Mortgages (note 23)	31 December 2017	4,917	-	4,917	-

There were no transfers between Level 1 and 2 during 2018 or 2017.

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 2017	**77,392,862**	**49,531**	**19,672**	**69,203**
At 31 December 2017	**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**

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. There were no shares issued in 2017.

All shares issued are fully paid.

Details of Directors' interests in shares are shown in the Directors' Remuneration Report on pages 53 to 60.

Share repurchases

In April 2018 the Employee Benefit Trust (controlled by the Company) subscribed to 472,791 ordinary shares of the Company as part of the aforementioned exercise of share options. The Trust subscribed to the shares at nominal value. No ordinary shares were repurchased by the Company in 2017.

Shares held by subsidiaries

No shares in the Company were held by subsidiaries in 2018 (2017: 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'.

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 2018, five share grants have been awarded under the scheme being (a) IPO Restricted Awards (vesting in three tranches), (b) IPO Performance Awards (vesting in two tranches), (c) 2016 Performance Awards, (d) 2017 Performance Awards and (e) 2018 Performance Awards. Awards are made annually to eligible employees at the discretion of the Remuneration Committee; employees receive shares at the end of the performance period, subject to the achievement of the specified underlying basic earnings per share ("EPS") performance conditions. Performance conditions are designed to incentivise senior managers and executive directors to maximise long-term shareholder returns. Each option grant under the scheme is disclosed separately below.

The total share-based payment charge recognised during the year ended 31 December 2018 was £732,000 (2017: £1,005,000). This is split as £203,000 (2017: £266,000) in accruals and £529,000 (2017: £739,000) in share-based payment 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 2018 is 8.1 years (2017: 8.2 years).

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

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

Options are 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 2017. Incentive outcomes on the IPO Performance Awards and the 2016 Performance Awards were adjusted for the impact of the disposal of Marshall Leasing Limited.

In April 2018, the third tranche of the IPO Restricted Share Awards as well as the first tranche of the IPO Performance Awards vested and became exercisable. On 11 April 2018, all option holders exercised these options as well as the second tranche of the IPO Restricted Awards which had previously vested and become exercisable in 2017. As such, 472,791 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 £968,000.

As at 31 December 2018 outstanding share options were as follows:

Award	Award date	No of shares over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
IPO Performance Awards – Tranche 2	2 April 2015	578,856	Nil	2 April 2019	2 April 2025
2016 Performance Awards	13 June 2016	493,575	Nil	13 June 2019	13 June 2026
2017 Performance Awards	29 September 2017	619,763	Nil	29 September 2020	29 September 2027
2018 Performance Awards	17 April 2018	731,054	Nil	17 April 2021	17 April 2028

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

a) IPO Restricted Awards

The IPO Restricted Share Awards were not subject to any performance conditions; vesting was purely subject to the service condition of continuous employment.

These options vested in three equal tranches and became exercisable on the first, second and third anniversaries of the date on which the Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange (2 April 2015).

	2018 No.	2018 WAEP	2017 No.	2017 WAEP
IPO Restricted Share Awards				
Outstanding as at 1 January	313,199	-	313,199	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised	(313,199)	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**-**	**-**	**313,199**	**-**
Exercisable as at 31 December	**-**	**-**	**156,599**	**-**

b) IPO Performance Awards

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

The options vest for achieving growth in EPS from 2014 to 2017; 25% vest for achieving growth of CPI plus 4% per annum increasing to 100% vesting for achieving growth of CPI plus 10% per annum.

These options vest in two equal tranches and 50% become exercisable on the third anniversary of the date on which the Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange and the remaining 50% become exercisable on the fourth anniversary.

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

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

c) 2016 Performance Awards

The 2016 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in EPS from 2015 to 2018; 25% vest for achieving growth of CPI plus 3% per annum increasing to 100% vesting for achieving growth of CPI plus 8% per annum.

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

The 2016 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2018 No.	2018 WAEP	2017 No.	2017 WAEP
2016 Performance Awards				
Outstanding as at 1 January	538,835	-	660,801	-
Granted during the year	-	-	-	-
Forfeited during the year	(45,260)	-	(121,966)	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**493,575**	**-**	**538,835**	**-**
Exercisable as at 31 December	**-**	**-**	**-**	**-**

d) 2017 Performance Awards

The 2017 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in underlying, basic EPS from 2017 to 2019; 25% vest for achieving growth of CPI plus 1% per annum and the percentage of options which vests increases on a straight line basis up to 100% vesting for achieving growth of CPI plus 5% per annum.

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

The 2017 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

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

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

e) 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.

	2018 No.	2018 WAEP	2017 No.	2017 WAEP
2018 Performance Awards				
Outstanding as at 1 January	-	-	-	-
Granted during the year	930,966	-	-	-
Forfeited during the year	(199,912)	-	-	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**731,054**	**-**	**-**	**-**
Exercisable as at 31 December	**-**	**-**	**-**	**-**

30. Commitments and contingencies

Operating lease commitments – Group as lessee

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

The lease expenditure charged to the Consolidated Statement of Comprehensive Income during the year is disclosed in Note 6 'Profit before Taxation'.

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

	Year ended 31 December 2018		Year ended 31 December 2017	
	Property £'000	Vehicles and equipment £'000	Property £'000	Vehicles and equipment £'000
Within 1 year	10,065	352	11,560	362
Later than 1 year and less than 5 years	35,339	94	41,739	38
After 5 years	61,707	-	69,906	-
	107,111	**446**	**123,205**	**400**

Notes to the Consolidated Financial Statements

30. Commitments and contingencies *(continued)*

Operating leases – Group as lessor

The Group has entered into non-cancellable operating leases, as lessor, on property included in investment property. The terms of these leases vary.

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

	2018 £'000	2017 £'000
Within 1 year	378	593
Between 1 and 5 years	1,314	1,520
After 5 years	1,777	2,057
	3,469	**4,170**

31. Related party transactions

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

During 2018 and 2017 the Directors were members of an employee car ownership scheme under which the following transactions were made in the year. The Directors purchased 19 cars in 2018 (2017:15) at a price of £1,338,000 (2017: £1,170,000) and sold back 22 (2017:12) at a price of £1,532,000 (2017: £938,000). The Directors did not make a profit on these transactions.

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

2018	**Sales £'000**	**Purchases £'000**	**Year-end balance £'000**
Ultimate parent undertaking			
Marshall of Cambridge (Holdings) Limited	52	606	1
Other related parties			
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)**

2017	**Sales £'000**	**Purchases £'000**	**Year-end balance £'000**
Ultimate parent undertaking			
Marshall of Cambridge (Holdings) Limited	278	332	2
Other related parties			
Marshall of Cambridge Aerospace Limited	62	303	(37)
Marshall Thermo King Limited	327	3	254
Marshall Fleet Solutions Limited	3	8	-
Marshall Group Properties Limited	100	1,335	(368)
Aeropeople Limited	2	-	-
Marshall Land Systems Limited	3	-	-
	775	**1,981**	**(149)**

Notes to the Consolidated Financial Statements

31. Related party transactions *(continued)*

Outstanding balances with group entities are unsecured, interest free and are expected to be settled in cash. During the year ended 31 December 2018, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2017: £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 2018 was £1,999,000 (2017: £2,059,000).

The total unpaid pension contributions outstanding at the year end were £313,000 (2017: £263,000).

b) Defined benefit pension schemes

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

The most recent triennial actuarial valuation of the defined benefit section of the Plan is as at 31 December 2016. The valuation was agreed by the Trustees after the Group's year end and revealed a global, scheme-wide deficit on a technical provisions basis of £8.1 million. As a result, a recovery plan was put in place to which the Group, as a participating employer, was required to contribute.

The Group's only contributions to the defined benefit section of the Plan during the current year was a payment of £420,000 due under the recovery plan (2017: £nil).

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.

The Group recognised a provision of £6,000,000 in its financial statements for the year ending 31 December 2017 in respect of the estimated costs (including the Employer Debt) of it ceasing to be a participating employer of the Plan.

Notes to the Consolidated Financial Statements

32. Pensions *(continued)*

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.

33. Acquisition of non-controlling interest in subsidiaries

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 £49,553; the value of consideration in excess of the carrying value of the non-controlling interest acquired has been recognised in retained earnings.

34. Ultimate parent company

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

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

Company Financial Statements

Balance Sheet
at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Investments	6	161,886	163,528
Current assets			
Debtors	7	6,317	6,265
		6,317	6,265
Creditors: amounts falling due within one year	9	(38,880)	(30,499)
Net current liabilities		(32,563)	(24,234)
Net assets		**129,323**	**139,294**
Capital and reserves			
Called-up share capital	10	49,834	49,531
Share premium		19,672	19,672
Share-based payment reserve		1,570	2,608
Own shares reserve		-	-
Profit and loss account		58,247	67,483
Shareholders' funds		**129,323**	**139,294**

The total comprehensive loss of the Company for the year ended 31 December 2018 was £4,757,000 (2017: income of £54,208,000).

The Company financial statements were approved for issue by the Board of Directors and authorised for issue on 12 March 2019.

Richard Blumberger
Chief Financial Officer

Company Financial Statements

Statement of Changes in Equity

For the year ended 31 December 2018

	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 2017		**49,531**	**19,672**	**1,869**	**-**	**17,802**	**88,874**
Profit for the financial year		-	-	-	-	54,208	54,208
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**54,208**	**54,208**
Equity dividends paid		-	-	-	-	(4,527)	(4,527)
Share-based payment charge		-	-	739	-	-	739
At 31 December 2017		**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)
Issue of share capital		303	-	-	(303)	-	-
Exercise of share options		-	-	(1,567)	303	504	(760)
Share-based payment charge		-	-	529	-	-	529
At 31 December 2018		**49,834**	**19,672**	**1,570**	**-**	**58,247**	**129,323**

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 and Wales 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 2017.

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.

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.

Notes to the Company Financial Statements

3. Accounting policies *(continued)*

Share-based payments *(continued)*

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 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 though 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.

4. Auditor's remuneration

The auditor's remuneration for audit and other services was £3,000 (2017: £3,000).

Notes to the Company Financial Statements

5. Employees and directors

Employee costs for the Company during the year:

	2018 £'000	2017 £'000
Wages and salaries	1,337	2,098
Social security costs	412	454
Other pension costs	101	115
Share based payments	583	633
	2,433	**3,300**

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

	2018 No.	2017 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 53 to 60.

6. Investments in subsidiaries

	2018 £'000
Cost	
At 1 January 2018	163,528
Acquisition of minority interest shareholding	50
Share-based payment awards to employees of subsidiaries	84
Impairment	(1,776)
At 31 December 2018	**161,886**

On 22 February 2018, the Company 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 Company's shareholdings in these entities up to 100%. Total consideration for these shares amounted to £49,553; the value of consideration in excess the carrying value of the non-controlling interest acquired has been recognised as an addition to Investments in Subsidiaries.

Management has recognised an impairment charge of £1,776,000 in the current year against investments in subsidiaries with a carrying amount of £12,946,000 as at 31 December 2017. The impairment charge is recorded within administrative expenses in the Income Statement. The impairments recorded are a consequence of the continuing deterioration in market conditions resulting in revised assumptions around future profitability and growth rates within certain brands

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 72 to 132.

Notes to the Company Financial Statements

6. Investments in subsidiaries *(continued)*

Name of Undertaking	**Principal activity at period end**
Marshall Motor Group Limited	Franchised motor dealership
Marshall of Cambridge (Garage Properties) Limited	Property holding
Tim Brinton Cars Limited* (reg no. 01041301)	Property holding
Marshall of Ipswich Limited*	Franchised motor dealership
Marshall of Peterborough Limited*	Franchised motor dealership
S.G. Smith Holdings Limited	Holding company
S.G. Smith Automotive Limited* (reg no. 00622112)	Holding company
S.G. Smith (Motors) Limited* (reg no. 00287379)	Property holding
S.G. Smith (Motors) Beckenham Limited* (reg no. 00648395)	Franchised motor dealership
S.G. Smith (Motors) Forest Hill Limited* (reg no. 00581710)	Franchised motor dealership
S.G. Smith (Motors) Crown Point Limited* (reg no. 00581711)	Franchised motor dealership
S.G. Smith (Motors) Sydenham Limited* (reg no. 00660066)	Franchised motor dealership
S.G. Smith (Motors) Croydon Limited	Dormant
S.G. Smith Trade Parts Limited* (reg no. 01794317)	Motor parts sales
Prep-Point Limited* (reg no. 00660067)	Maintenance and repair of motor vehicles
Marshall of Stevenage Limited*	Franchised motor dealership
Marshall Commercial Vehicles Limited	Dormant
Marshall North West Limited	Franchised motor dealership
Marshall of Scunthorpe Limited* (reg no. 01174004)	Franchised motor dealership
Silver Street Automotive Limited	Franchised motor dealership
Exeter Trade Parts Specialists LLP* (reg no. OC329331)	Motor parts sales
Audi South West Limited	Dormant
Hanjo Russell Limited	Dormant
CMG 2007 Limited* (reg no. 06275636)	Holding company
Astle Limited* (reg no. 01114983)	Franchised motor dealership
Crystal Motor Group Limited* (reg no. 04813767)	Franchised motor dealership
Ridgeway Garages (Newbury) Limited	Franchised motor dealership
Pentagon Limited	Franchised motor dealership
Pentagon South West Limited	Dormant
Ridgeway TPS Limited	Motor parts sales
Ridgeway Bavarian Limited	Franchised motor dealership
Wood in Hampshire Limited	Dormant
Wood of Salisbury Limited	Dormant

** subsidiaries for which exemption from audit by virtue of s479A of the Companies Act 2006 has been taken for the year ended 31 December 2018.*

7. Debtors

	2018 £'000	**2017 £'000**
Amounts owed by Group undertakings	5,567	5,371
Other debtors	603	186
VAT	21	56
Prepayments and accrued income	113	552
Deferred tax asset (note 8)	13	100
	6,317	**6,265**

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:

Deferred tax assets	**Share-based payments £'000**	**Other temporary differences £'000**	**Total £'000**
At 1 January 2017	307	5	312
Credited to the income statement - current year	-	66	66
(Charged)/credit to the income statement - prior year	(307)	29	(278)
At 31 December 2017	**-**	**100**	**100**
Charged to the income statement - current year	-	(82)	(82)
Charged to the income statement - prior year	-	(5)	(5)
At 31 December 2018	**-**	**13**	**13**

The Directors believe that all dividends paid by the Company's subsidiaries will meet the exemption conditions set out in tax legislation and are non-taxable income.

9. Creditors: amounts falling due within one year

	2018 £'000	**2017 £'000**
Bank overdraft	4,274	6,390
Trade creditors	735	77
Amounts owed to Group undertakings	30,775	20,561
Corporation tax	1,490	1,554
Other taxes and social security	63	60
Other creditors	354	-
Accruals and deferred income	1,189	1,857
	38,880	**30,499**

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

10. Called-up share capital

	2018 £'000	**2017 £'000**
77,865,653 (2017: 77,392,862) ordinary shares of 64p each	49,834	49,531

Ordinary shares	**2018 £'000**	**2017 £'000**
At 1 January	49,531	49,531
Issued on 11 April 2018	303	-
	49,834	**49,531**

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. There were no shares issued in 2017.

Notes to the Consolidated Financial Statements

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.

12. Dividends

	2018 £'000	2017 £'000
Paid during the year		
Final dividend for 2016	-	2,864
Interim dividend for 2017	-	1,663
Final dividend for 2017	3,309	-
Interim dividend for 2018	1,674	-
	4,983	**4,527**

A final dividend of £3,309,000 (2016: £2,864,000) for the year ended 31 December 2017 was paid in May 2018. This represented a payment of 4.25p per ordinary share in issue at that time.

An interim dividend in respect of the year ended 31 December 2018 of £1,674,000 (2017: £1,663,000), representing a payment of 2.15p per ordinary share in issue at that time, was paid in September 2018.

A final dividend of 6.39p per share in respect of the year ended 31 December 2018 is to be proposed at the annual general meeting on 21 May 2019. The ex-dividend date will be 25 April 2019 and the associated record date will be 26 April 2019. This dividend will be paid subject to shareholder approval on 24 May 2019 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 £101,000 (2017: £115,000)

The total unpaid pension contributions outstanding at the year end were £3,000 (2017: £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.

Notes to 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 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 table shows 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.

Continuing operating profit	**2018 £'000**	**2017 £'000**
Total continuing operating profit as reported	**25,066**	**20,097**
Impact of non-underlying items		
Post-retirement benefits charge	-	6,000
Restructuring costs and provisions	(3,217)	6,783
Profit on disposal of assets classified as held for sale	(268)	-
Loss on disposal of investment property	1,146	-
Loss on impairment of goodwill and other intangible assets	9,302	-
	6,963	**12,783**
Continuing underlying operating profit	**32,029**	**32,880**

Continuing revenue	**2018 £'000**	**2017 £'000**
Total continuing revenue as reported	**2,186,887**	**2,231,979**
Impact of non like-for-like activities		
New dealerships acquired or opened in the year	(36,334)	(4,437)
Dealerships closed in the year	(15,908)	(67,772)
Business activities ceased in the year	-	(50,859)
	(52,242)	**(123,068)**
Continuing like-for-like revenue	**2,134,645**	**2,108,911**

Continuing gross profit	**2018 £'000**	**2017 £'000**
Total continuing gross profit as reported	**255,677**	**258,301**
Impact of non like-for-like activities		
New dealerships acquired or opened in the year	(3,537)	(617)
Dealerships closed in the year	(1,623)	(6,538)
	(5,160)	**(7,155)**
Continuing like-for-like gross profit	**250,517**	**251,146**

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 E145HQ
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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