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COMPANY REGISTRATION NUMBER 00245740

Marshall of Cambridge Aerospace Limited

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2021

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Marshall of Cambridge Aerospace Limited

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

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Marshall of Cambridge Aerospace Limited

OFFICERS AND PROFESSIONAL ADVISERS

Board of directors	N.J. McManus D.S. Wilkinson
Company secretary	S.J. Moynihan
Registered office	Airport House The Airport Cambridge CB5 8RY
Auditor	BDO LLP 16 The Havens Ransomes Europark Ipswich IP3 9SJ
Bankers	Barclays Bank Plc 9-11 St Andrews Street Cambridge CB2 3AA
Solicitors	Bird & Bird 15 Fetter Lane London EC4A 1JP Greenwoods Monkton House City Road Peterborough PE1 1JE
Property advisors	Bidwells Trumpington Road Cambridge CB2 9LD

Marshall of Cambridge Aerospace Limited

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

The directors of Marshall of Cambridge Aerospace Limited ("the company") present their Report and Financial Statements containing a Strategic Report, Directors' Report and the financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITY

The company's principal activity is aerospace engineering. The company delivers world leading applied engineering services and technology through its capability in Managed Services, Integration and Product Technologies. The company operates in three segments: Military Aerospace, Aerostructures and Major Projects.

ANALYSIS OF FINANCIAL KEY PERFORMANCE INDICATORS

The company measures its performance on a number of key performance indicators as discussed below.

	2021	2020	Change
Turnover	£222m	£220m	1.0%
Gross margin	19.9%	23.1%	-3.2%pts
Operating margin before exceptional items	2.9%	4.9%	-2.0%pts
Order intake	£154m	£218m	-29.4%

GENERAL BUSINESS REVIEW

Financial performance, business environment and future developments

The Company achieved an acceptable result in the context of a second year of COVID-19 disruption to deliver an operating profit before separately disclosed exceptional items of £6.4m (2020: £10.7m) and maintaining revenues at £222m.

The strategic objective to diversify from UK MoD continued with 53% of revenue arising from international customers (2020: 53%).

Whilst this performance was below the prior year, the shortfall reflects the ongoing impact of COVID-19 on workforce efficiency, the reduction in engineering upgrade work for the RAF in the light of the planned early withdrawal of its C-130J fleet, a provision following delays on a major contract, and the lost productivity during the implementation of a new ERP system.

Despite a challenging year, the Company remains on a positive trajectory as it continues the capitalise on the enablement contract it won with the US Marine Corps in 2020. Feedback from the customer has been exceptional, recognising both the quality and speed with which inputs have been delivered, winning additional aircraft as a result.

The criticality of the work the Company does for its customers was never more evident than during the evacuation of Kabul, when employees worked around the clock to ensure aircraft availability for the RAF, Royal Netherlands Air Force, Norway, France, Austria and Denmark.

The Boeing P8 fuel tanks business continued to deliver predictable and reliable results, despite the operational disruption caused by operating in a COVID-19 secure environment and the impact on supply of materials. Further orders for fuel tanks were received from the customer meaning production is likely to extend beyond the end of 2024.

In respect of the Company's most complex programme, supply chain and other technical issues have caused the project to be delayed, with completion now expected towards the end of 2022. As a result of these delays, additional costs will be incurred to complete the Company's obligations. As such, a provision of £6.9m has been included in the Income Statement and reported as a Separately Disclosed item.

The Order Intake target of £150m was exceeded, as the team continued to win business with new international customers, most notably the Indian Air Force (as a sub-contractor to Lockheed Martin), and secure contract extensions and renewals with existing customers including France and Denmark.

Through its Canadian subsidiary, the Group secured an extension to its support contract with the Canadian Air Force. Positive progress has also been made in establishing a greater presence the United States.

Away from the C-130 platform, the Company has secured a £46m three-year maintenance contract to provide support to the Special Missions aircraft and is standing up a new team in the United Arab Emirates to deliver this work in-country.

Marshall of Cambridge Aerospace Limited

STRATEGIC REPORT (continued)

YEAR ENDED 31 DECEMBER 2021

In the UK, we are continuing to work constructively with the RAF to support the effective withdrawal of the C130-J fleet in line with the current out of service date. Commercial negotiations are progressing positively, a one-year price period having been secured up to the end of March 2023 and, importantly, an agreement has been reached which ensures the continuation the Centre Wing Replacement programme and supports the eventual resale of the fleet.

Other key areas of focus for 2022 will include the effective embedding of the new ERP system, the implementation of which was a complex organisation-wide initiative in 2021 in order to drive transformation of existing processes, deliver considerable efficiency savings, and create the blueprint for the operation when it relocates later in the decade. While expected to deliver significant benefits in the long-term, the system implementation was impacted by the ongoing COVID-19 pandemic and inefficiencies in delivery. As such, following an assessment by management, and taking into account third party ERP expert reviews and industry benchmarking, an impairment of £4.4m has been included in the Income Statement.

The relocation programme is also gathering significant pace as the team prepares its outline planning application for submission to Central Bedfordshire Council in Q4 2022, creating an exciting vision for the future of a strong and growing business at the heart of the Cranfield aviation cluster.

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PRINCIPAL RISKS AND UNCERTAINTIES

The company has implemented a co-ordinated set of risk management and control systems, including strategic planning and management reporting, to help anticipate, measure, monitor and manage its exposure to risk.

The company has identified a number of key risks to its businesses which, whilst having remained relatively stable over recent years, are nevertheless critical to its future financial and operational performance. These are explained further below:

Coronavirus / COVID-19

Following the emergence of the COVID-19 pandemic in early 2020, all businesses have been subject to either direct impact through reduced customer demand for services or operational disruption caused by the need to facilitate increased working from home and absence amongst its workforce. The nature of the sector in which the company operates means that we have not seen, nor do we expect to see, any significant change in the demand for our services as a result of COVID-19 and therefore do not anticipate any material impact on our revenue streams. Our primary risk is therefore ensuring that we are able to continue to support customers by managing our workforce to support increased home working and to cope with increased sickness absence from our employees. Appropriate actions have been implemented to prioritise operational activities across the company, creating sufficient additional bandwidth to cope with increased sickness absence and also alleviate the burdens on technical infrastructure bandwidth necessary to support the significant expected increase in working from home. We also continue to work with our supply chain partners to ensure we do not suffer indirect disruption as a result of their responses to the COVID-19 pandemic. In the event that the reasonably foreseeable operational disruption does cause an impact on cash flow, the Directors have considered the facilities available to it under the Group Treasury arrangements in place with its ultimate parent company, Marshall of Cambridge (Holdings) Limited, and are satisfied that these are sufficient and appropriate to ensure the company can continue to operate effectively. Further disclosure on these risks is given in Note 1 of these financial statements.

Failure to maintain and grow a sustainable order book

Most of the company's core business consists of longer term contractual arrangements and these contracts tend to be of considerable size. The nature of these contracts is such that they can take significant time and investment to secure. Gaps in the flow of work risk exposure for the business to significant losses. We continue to maintain a strong order book, delivering £154m order intake during the year, and secure new customers which further diversifies and de-risks our order backlog.

Loss making contracts

Where a customer project is forecast to become loss making a provision for contract losses is recognised immediately. Loss provisions are based on management's best estimate of the expected completion cost for a project, taking into account production and commercial estimates including risk contingencies. Risk contingencies are determined through a balanced risk matrix which considers the likelihood of an event occurring and the financial impact upon the project. Management acknowledge further increases in required loss provisions represents a risk to the financial statements although through regular contract status review meetings, and the existence of risk contingencies, management consider sufficient oversight and protection is provided against further increases in contract loss provisions.

Inadequate employee skills and experience and loss of key staff

People are the company's key asset, and it invests a tremendous amount to ensure that it is not exposed to skill shortages in the business and that its staff are trained to an excellent standard. The company has a detailed people agenda and with a current focus on talent management, skill development, flexible benefits and terms & conditions harmonisation, the latter particularly designed to encourage improved employee engagement.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Access to Intellectual Property
Over time OEMs (Original Equipment Manufacturers) have begun to guard their intellectual property (IP) more carefully. Where previously the company may have been able to negotiate access, and purchasers of assets were happy to buy the asset alone, the company now faces an environment where OEMs have recognised the value of restricting access to IP whilst customers increasingly wish to purchase a capability rather than a physical asset. This has led to the bundling of asset and in-service support together as a contractual package. Notwithstanding this, OEMs do recognise that they may not be best placed to deliver in-service support and sometimes contract this element out to a third party. The company and its directors' value strategic relationships very highly in positioning it to take advantage of these opportunities and work hard to develop such relationships.

Delivery of diversification strategy
The rebalancing of the company's existing businesses to reduce the reliance on work from its core C130 market in Europe is vital to ensuring it is able to maintain the breadth of its engineering capability whilst maintaining and improving its cost competitiveness in operations and engineering tasks. Activities in support of managing this risk form a key part of the directors' strategic thinking and delivering on the business's strategic growth objectives forms a key element in mitigating this risk.

Cyber Security
With changes in the geo-political environment, risks and incidents in the area of cyber security are well publicised and increasing. The Company operates within a market sector that is susceptible to malicious acts initiated by highly capable and well-funded operations which, potentially, could ultimately be backed by nation states. Accordingly, the threat profile faced by the organisation is deemed to be significant and considered a key business risk. The company mitigates its risk in this area by running a rolling cyber security strategy programme which regularly reviews the risk profile and identifies and addresses potential control gaps.

Business disruption / safety issue caused by malicious act or breach of physical security
The nature of the company's business means that airworthiness and safety concerns are integral and critical to its operational effectiveness. Managing risks which could contribute to events in these areas has been, and continues to be, core to the company's operational procedures and is monitored on a regular basis at a board level.

Exchange rate and credit risk
The company is exposed to exchange rate variations in both customer and supplier contracts; an imbalance in these could lead to significant exchange rate risk exposure. The company uses foreign exchange hedging instruments to mitigate this risk on a case-by-case basis. The directors have considered the impact and have appropriate plans to mitigate credit risk on the business and, given the nature of the company's customer base, do not consider it to be significant.

Liquidity and cash flow risk
Liquidity and cash flow risks relate to the ability to pay for goods and services required by the company to trade on a day-to-day basis. The company participates in the Marshall of Cambridge (Holdings) Limited group's treasury arrangements coordinated by the company's immediate parent company. Under this arrangement, it has access to and shares banking arrangements and facilities with its immediate parent and fellow group undertakings.

The directors have considered the current and future activities of the company, including cash forecasts for a period covering at least the next 12 months, and do not consider the liquidity and cash flow risks to be significant.

SECTION 172

Reporting on section 172

The Companies (Miscellaneous Reporting) Regulations 2018 (the "Regulations") have been in force with effect from 1 January 2019. The Regulations aim to extend sustainable and responsible governance practice beyond listed companies to private limited companies. The Regulations also require the Company to report how the directors of the Company have considered their duties under section 172 (of the Companies Act 2006 (the "Act")) ("Section 172") during the financial year.

Section 172 is owned by the directors to the Company. Success for a commercial company is often defined as long term value creation. Our directors always consider whether the decision they are about to take leads to a positive long term increase in the value of the Company for the benefit of the shareholder.

Section 172 of the Companies Act 2006

Duty to promote the success of the company

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to-
   (a) the likely consequences of any decision in the long term,
   (b) the interests of the company's employees,
   (c) the need to foster the company's business relationships with suppliers, customers and others,
   (d) the impact of the company's operations on the community and the environment,
   (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
   (f) the need to act fairly as between members of the company.

Section 172 protocol

As part of its Framework, the ultimate parent company of the Group, Marshall of Cambridge (Holdings) Limited, has adopted a Section 172 protocol (the "Protocol"), which provides detailed guidance for directors and management on the application and execution of Section 172 duties across the Group, including the Company. The Protocol provides directors and management with a clear process to follow when considering principal decisions, as defined in the Protocol and the Group's consolidated accounts. Responsibility for decision making on these principal decisions is delegated to the board of the Group (the "Group Board"), except where they cannot be delegated under the Act, via the Company's terms of reference.

Principal decisions

The Board has also adopted a protocol to enable the Directors in making principal decisions. Principal decisions are those that are strategic, commercially material and impact the Company's stakeholders. The principal Board decisions made during the year and how the Board considered stakeholder views are set out below.

Continued response to COVID-19

The COVID-19 pandemic created significant operational uncertainty throughout the year. The Board continues to oversee the Company's responses to the changes in circumstances with the overarching aim of ensuring the business emerges from the crisis well positioned for long-term success, whilst supporting our employees and their safety and continuing to deliver for our customers.

SECTION 172 (continued)

The Company worked closely with each of our customers for a definitive view, contract-by-contract, as to which fell into the critical or essential category, and how best to support each one. The Board also satisfied itself with the continuity plans in place and considered the strategic response to permanent changes in future customer priorities. Availability of ongoing financing to the Company was considered through dialogue with the Group Board. Facilities, with the Group's lenders, were extended in December 2021 and now expire on 31 March 2023. However, the receipt of proceeds from the sale of the Group's interest in Marshall Motor Holdings plc mean the Group is no longer dependent upon these facilities.

Throughout the year, the Board engaged with shareholders, keeping them informed by letter, email, and virtual briefings, including the AGM that was live-streamed to shareholders unable to attend.

The Board decided to utilise government support relating to the Coronavirus Job Retention Scheme, claiming £0.7m, and then approved the repayment of the support in March 2021. The Core Group also utilised the VAT Deferral Scheme enabling £3.3m of VAT liabilities to be repaid in instalments up to March 2022. At the onset of the pandemic, PAYE liabilities were deferred, but paid the following quarter.

Relocation

The Board also supported the Group Board's intention to relocate the MADG businesses from Cambridge Airport to new, state of-the-art facilities as part of its commitment to investing in the long term future of the Company. In October 2020, the Group Board approved an option agreement for a 150-year lease on a parcel of land on Cranfield University's proposed Air Park development. This option was renewed in 2021, with Board approval being given for the preparation of an outline planning application for submission in Q4 2022. In making this decision, the Group Board considered the impact on employees, customers, the community and the environment and agreed it was the right step towards unlocking value for all stakeholders.

Section 172 application

The Group's Framework approach to the application of Section 172, to promote the success of the Group, including the Company, regulates the behaviour and activities of the Group Board and the Company's board and executive committee. Examples of activities undertaken in relation to the ultimate parent company include regular reporting to the Group on performance of the business as well as other ad hoc reports on specific areas of the business. This includes monthly financial reporting as well as forecasting and budgeting with regular update meetings on the company operations.

Activities in relation to employee and other stakeholder engagement are listed in the Directors report.

Signed by order of the board of directors

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N. J. McManus
Managing Director

Approved by the directors on 19th October 2022

Marshall of Cambridge Aerospace Limited

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2021

The directors present their Report and Financial Statements of the company for the year ended 31 December 2021.

RESULTS AND DIVIDENDS

The company made a post tax loss of (£5.3m) (2020: post tax profit of £7.3m) for the year. The directors do not recommend the payment of a final dividend (2020: £nil).

DIRECTORS

The directors who served the company during the year and to the date of this report, except as stated otherwise, were as follows:

G.J.S. Moynehan (resigned 23 March 2022)
D.S. Eldridge (resigned 25 April 2022)
M. Banfield (resigned 13 July 2021)
D.S. Wilkinson (resigned 31 December 2021)

In accordance with the Articles of Association, D.S. Wilkinson retires by rotation and, being eligible, offers themselves for re-election.

All directors are also directors of other subsidiary undertakings of the ultimate parent company. No director had any interest in the share capital of the company or of any other group company during the year.

None of the directors holding office at 31 December 2021 had notified a beneficial interest in any contract to which the company or its fellow group undertakings were a party during the financial year.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The ultimate parent company purchased and maintained a directors' and officers' liability insurance policy throughout the year. Although a director's defence costs may be met, neither the ultimate parent company's indemnity nor insurance provides cover in the event that he is proved to have acted fraudulently or dishonestly.

GOING CONCERN

The company participates in the group treasury arrangements of Marshall of Cambridge (Holdings) Limited ("MCH"), the company's immediate and ultimate parent undertaking. Under this arrangement, it has access to and shares banking arrangements and facilities with MCH and fellow group undertakings. The company is also an obligor and co-guarantor of the group banking arrangement.

For the year ended 31 December 2021 the company generated a post-tax loss of £5.3m and at 31 December 2021 had net current liabilities of £19.4m and net assets of £24.1m and has received a letter of support from MCH.

The directors have considered whether the company is able to meet its liabilities as they fall due and is a going concern. In addition to considering the company's forecast cash flows for the foreseeable future, the directors have also made enquiries of the MCH directors, given its guarantee to and participation in group banking arrangements. MCH directors have prepared a formal group going concern assessment, including the impact of certain reasonably possible adverse scenarios, which concludes the group is forecast to be able to meet its liabilities as they fall due for the relevant going concern period.

The MCH directors' assessment includes c£202m cash receipt, received in May 2022, following MCH selling its interest in Marshall Motor Holdings plc.

On this basis, the directors of the company have concluded that no material uncertainty exists that may cast significant doubt about the ability of MCH group to continue as going concern for at least 12 months from the approval of these financial statements.

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RESEARCH AND DEVELOPMENT

The company continues to be committed to research and development in support of its strategy and objectives and undertakes work in these areas whenever it is anticipated that a competitive advantage is to be achieved in terms of its principal activity of aerospace engineering.

FINANCIAL INSTRUMENTS

The company's financial risk management objectives and policies, including the exposure to market risk, exchange rate risk, credit risk, liquidity risk and cashflow risk are set out in the Strategic Report.

EMPLOYEE PARTICIPATION

The company recognises the importance of good communications and relations with its employees and the requirements of the Information and Consultation of Employees Regulations 2004. It is company policy to keep employees as fully informed as possible on matters which affect them through communication procedures, which include regular briefings, consultative committees and through its regular newsletter. These arrangements are continually being reviewed and updated to ensure the company meets the latest standards.

During the year, the policy of providing employees with information about the company has been continued through internal media methods in which employees have also been encouraged to present their suggestions and views on the company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

EQUAL OPPORTUNITIES

The company is committed to its Equal Opportunities policy covering recruitment, training and development, performance review and career progression. The company recognises the diversity of its employees and seeks to use their talents and abilities to the full. This approach extends to the fair treatment of employees with disabilities in relation to their recruitment, training and development. Full consideration is given to the retention of employees who become disabled during employment.

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

STAKEHOLDER ENGAGEMENT STATEMENT

The Company is part of the Marshall Group, which is proud to be a private, family owned group, fully committed to maintaining its values and its relationships with its employees, customers, suppliers, shareholders and local communities.

The Company aims to build enduring relationships with the UK government, customers, partners, suppliers and communities in the countries where it operates, as well as its shareholder. The Company works with its stakeholders in an honest, respectful and responsible way and seeks to work with others who share the Company's commitments to safety and ethics and compliance.

As noted in the employee engagement statement, responsibility for decision making on principal decisions is referred to the Board of the Group, except where they cannot be referred, via the Company's terms of reference.

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STAKEHOLDER ENGAGEMENT STATEMENT *(continued)*

The Company's activities affect a wide variety of individuals and organisations. The Company engages with these stakeholders and considers their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision making. By way of a stakeholder register, it has identified its key stakeholders, and the reasons for engagement and the ways in which it engages.

The Company holds an annual reception with its customers to obtain informed and direct feedback on the business and ongoing direction, undertakes regular customer site visits and attends regular working groups, industry days and supplier forums, each an opportunity to enhance the understanding of, and alignment with, customer requirements. The UK's Ministry of Defence is resident onsite which facilitates active engagement with the business.

The Company invites its suppliers to supplier forums to encourage communication on future requirements and performance, targets specific suppliers to participate in Offset and Industrial Participation projects, attends site/premises visits of targeted suppliers to discuss performance or engage with potential new suppliers on specific contracts. Site visits are an opportunity to monitor how work is being carried out, check it meets expectations and to share knowledge. They are intended to be mutually beneficial in terms of improvement and learning opportunities.

As with employee engagement, the pandemic made 2021 more challenging for face-to-face meetings with customers and suppliers. However the Company was still able to strengthen existing customer and supplier relationships and develop new ones by increasing communication with stakeholders around the world using the various digital technologies available. Dedicated sales people were able to maintain a high level of trust by demonstrating an in-depth understanding of customer needs as well as the value and benefits of working together.

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

The Group is a founding industry partner of the Launchpad initiative in Cambridge, now managed by Form the Future, a community interest company in Cambridge. With the Group's support, the Form the Future STEM (science, technology, engineering and mathematics) outreach programme, provides students aged 8 to 18 with experiences and opportunities designed to address the diversity issues which exist in STEM employment with the aim to improve gender diversity. The events enable the Company to improve links and make a positive impact on its local community, whilst providing its employees with an opportunity to improve their leadership, communication and project management skills.

The Group continues to support its employees in their volunteering activities in the community. These activities are many and varied, including offering time to charities, air cadets and as school governors, for example.
The Marshall Group has operated an apprentice programme since 1920 and the Company currently has 36 apprentices in training.

The Company reports to its ultimate beneficial owner on a regular basis in the form of its financial statements, monthly and quarterly board reports and business reviews, presentations to the board of the Group, review of key strategic bids, business plans and strategic plans as well as risk reporting. The Company's strategy is to pursue strategic growth to create long term value for its shareholders.

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STAKEHOLDER ENGAGEMENT STATEMENT *(continued)*

The Company is committed to making a difference and alleviating the pressures placed on the environment. Through its Ambition 2030 sustainability strategy, the Group continues its focus on reducing the impact on the environment and local communities and maximising opportunities to improve performance in alignment with the United Nations Sustainable Development Goals.

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

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

For further details of the Ambition 2030 project, please refer to the Group's annual report.

EMPLOYEE ENGAGEMENT STATEMENT

People are the Company's key asset and it invests a tremendous amount to ensure it is not exposed to skill shortages and that its staff are trained to an excellent standard. The Company has a detailed people agenda including leadership and people management development, development of technical skills and capabilities, engagement and wellbeing.

Throughout the year, the directors engaged with the Company's employees in various ways to provide information on matters of concern to them as employees, to take into account their views in making decisions likely to affect their interests, to encourage involvement in the Company's performance and to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Company's performance.

The ultimate parent company, Marshall of Cambridge (Holdings) Limited, ("the Group") has adopted a Section 172 (of the Companies Act 2006 (the "Act")) ("Section 172") protocol (the "Protocol"), which provides detailed guidance for directors and management on the application and execution of Section 172 duties across the Group, including the Company. The Protocol provides directors and management with a clear process to follow when considering principal decisions, as defined in the Protocol and the Group's consolidated accounts, that affect employees, amongst others. Responsibility for decision making on these principal decisions is delegated to the Board of the Group, except where they cannot be delegated under the Act, via the Company's terms of reference. For further details on the process behind principal decisions affecting employees, and for principal decisions made that impact the Company's employees, please refer to the Section 172 Statement available in the Group's annual report.

Due to the pandemic, 2021 has been more challenging in the business in terms of delivering its usual Town Hall updates, safety tours, conferences and other face-to-face communication. However, some of this activity was moved into the virtual space using pre-recorded videos and online meetings. To protect front-line employees on site, movement and mixing was restricted but the local management teams have been visible on site. The management of COVID-19 and subsequent decisions around creating a safe working environment have actually helped to increase local communication.

In 2021, the business held several leadership virtual events with its leadership community, delivered pre-recorded updates from the CEO and other directors and held phone-in updates for all those people working from home rather than on site. During the year there were a number of business wins, a change programme involving the implementation of a new ERP, a restructure of the business and ongoing changes to terms and conditions of employment. The latter two resulted in a high level of collective consultation through the year with the employee and trade union representatives meeting with the company at least twice per month.

Marshall of Cambridge Aerospace Limited

EMPLOYEE ENGAGEMENT STATEMENT *(continued)*

The Group has appointed Jonathan Flint, an independent non-executive director to have responsibility for employee engagement. His role is to understand the views of the workforce and identify any areas of concern, communicate the views of the workforce to the Board of the and ensure the Group Board considers the workforce in all its proposals.

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

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

BUSINESS RELATIONSHIPS

The Company is required to outline how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year. Our approach to fostering business relationships with our suppliers, customers and others and the impact this has on principal decisions in the period has been outlined in the Section 172 statement above.

ENERGY AND CARBON REPORTING

For periods commencing on or after 1 April 2019, large companies are required to provide additional disclosures in relation to UK energy use and carbon emissions. As a subsidiary entity, the Company is exempt from this disclosure subject to such information being presented within the group consolidated accounts of its parent company. Energy use and carbon emission reporting, including that of the Company, has been presented and is available in the group consolidated financial statements of Marshall of Cambridge (Holdings) Limited.

CHARITABLE DONATIONS

During the year the company made various charitable contributions totalling £5,500 (2020: £7,300).

POST BALANCE SHEET NOTE

On the 27th May 2022, the Company sought and was granted forgiveness from its liability to repay £28m of intercompany funding from its ultimate parent, Marshall of Cambridge (Holdings) Limited.

DISCLOSURE OF INFORMATION TO THE AUDITOR

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all steps that he is obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

BDO LLP have been re-appointed as auditor for the ensuing year in accordance with Section 485 of the Companies Act 2006.

Signed by order of the board of directors

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N. J. McManus
Managing Director

Approved by the directors on 19th October 2022

Marshall of Cambridge Aerospace Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

YEAR ENDED 31 DECEMBER 2021

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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. 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 OF CAMBRIDGE AEROSPACE LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Marshall of Cambridge Aerospace Limited ("the Company") for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARSHALL OF CAMBRIDGE AEROSPACE LIMITED *(continued)*

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, 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 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 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.

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Marshall of Cambridge (Aerospace) Limited. We determined that the most significant laws and regulations which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (FRS 102 and the Companies Act 2006) and labour regulations and tax in the United Kingdom
- We understood how the company is complying with those legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, review of correspondence with tax authorities and considering material legal expenses.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it is considered there was a susceptibility of fraud. We also considered potential fraud drivers: including financial or other pressures, opportunity, and personal or corporate motivations. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and key areas of estimation uncertainty or judgement, for example; costs to complete and stage of completion on key material contracts.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARSHALL OF CAMBRIDGE AEROSPACE LIMITED *(continued)*

Use of our report

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

DocuSigned by:
Tracey Keeble
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Tracey Keeble (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Ipswich, UK
19 October 2022

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

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Marshall of Cambridge Aerospace Limited

INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £000 Total	2020 £000 Total
TURNOVER	2	222,070	219,915
Cost of sales		(170,960)	(169,036)
Exceptional items related to cost of sales	3	(6,930)	-
GROSS PROFIT		44,180	50,879
Administrative expenses		(45,220)	(40,136)
OPERATING (LOSS) / PROFIT BEFORE SEPARATELY DISCLOSED ITEMS		(1,040)	10,743
Other exceptional items	3	(5,666)	(2,827)
Other operating income	4	499	1,158
OPERATING (LOSS) / PROFIT	5	(6,207)	9,074
Interest receivable and similar income	8	-	97
Interest payable and similar charges	9	(125)	(120)
(LOSS) / PROFIT BEFORE TAXATION		(6,332)	9,051
Tax	10	1,077	(1,744)
(LOSS) / PROFIT FOR THE FINANCIAL YEAR		(5,255)	7,307

All of the activities of the company are classed as continuing.

Marshall of Cambridge Aerospace Limited

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2021

	2021 £000	2020 £000
(LOSS) / PROFIT FOR THE FINANCIAL YEAR	(5,255)	7,307
Fair value gain recognised on cash flow hedges (note 25)	(1,252)	1,820
Tax expense relating to components of other comprehensive income (note 10b)	238	(353)
TOTAL OTHER COMPREHENSIVE (EXPENSE)/INCOME	(1,014)	1,467
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	(6,269)	8,774

The notes on pages 22 to 40 form part of the Report and Financial Statements.

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Marshall of Cambridge Aerospace Limited

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	Notes	2021 £000	2020 £000
FIXED ASSETS			
Intangible assets	11	8,954	12,311
Tangible assets	12	36,952	36,008
Investments	13	4,350	4,343
		50,256	52,662
CURRENT ASSETS			
Stocks	14	10,437	10,795
Debtors	15	57,604	59,596
Cash at bank		614	396
		68,655	70,787
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	(88,013)	(88,298)
NET CURRENT LIABILITIES		(19,358)	(17,511)
TOTAL ASSETS LESS CURRENT LIABILITIES		30,897	35,151
PROVISION FOR LIABILITIES	19	(6,833)	(4,818)
NET ASSETS		24,064	30,333
CAPITAL AND RESERVES			
Called up share capital	24	12,000	12,000
Cash flow hedge reserve	25	751	1,765
Profit and loss account		11,313	16,568
SHAREHOLDER'S FUNDS		24,064	30,333

The Report and Financial Statements were approved by the directors and authorised for issue on 19th October 2022 and are signed on their behalf by:

DocuSigned by:

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....

N. McMANUS
Director

Company Registration Number: 245740

The notes on pages 22 to 40 form part of the Report and Financial Statements

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Marshall of Cambridge Aerospace Limited

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2021

	Share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholder's funds £000
Balance brought forward 1 January 2021	12,000	1,765	16,568	30,333
Loss for the financial year	-	-	(5,255)	(5,255)
Other comprehensive expense, net of tax	-	(1,014)	-	(1,014)
Total comprehensive income for the year	-	(1,014)	(5,255)	(6,269)
Balance carried forward 31 December 2021	12,000	751	11,313	24,064

The notes on pages 22 to 40 form part of the Report and Financial Statements

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

1. Accounting Policies

(a) Statement of Compliance

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

The company's financial statements have been prepared in compliance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") as it applies to the financial statements of the company for the year ended 31 December 2021.

(b) Basis of Preparation

The financial statements of the company were authorised for issue on 19th October 2022 by the board of directors. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the company.

(c) Going Concern

The company participates in the group treasury arrangements of Marshall of Cambridge (Holdings) Limited ("MCH"), the company's immediate and ultimate parent undertaking. Under this arrangement, it has access to and shares banking arrangements and facilities with MCH and fellow group undertakings. The company is also an obligor and co-guarantor of the group banking arrangement.

For the year ended 31 December 2021 the company generated a post-tax loss of £5.3m and at 31 December 2021 had net current liabilities of £19.4m and net assets of £24.1m and has received a letter of support from MCH.

The directors have considered whether the company is able to meet its liabilities as they fall due and is a going concern. In addition to considering the company's forecast cash flows for the foreseeable future, the directors have also made enquiries of the MCH directors, given its guarantee to and participation in group banking arrangements. MCH directors have prepared a formal group going concern assessment, including the impact of certain reasonably possible adverse scenarios, which concludes the group is forecast to be able to meet its liabilities as they fall due for the relevant going concern period.

The MCH directors' assessment includes c£202m cash receipt, received in May 2022, following MCH selling its interest in Marshall Motor Holdings plc.

On this basis, the directors of the company have concluded that no material uncertainty exists that may cast significant doubt about the ability of MCH group to continue as going concern for at least 12 months from the approval of these financial statements.

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1. Accounting Policies *(continued)*

(d) Consolidation

In accordance with section 400 of the Companies Act 2006 consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of Marshall of Cambridge (Holdings) Limited, the ultimate parent company of the group, which is registered in England and Wales, for which consolidated financial statements are publicly available. These financial statements therefore present information about the company alone and not about its group.

(e) Exemptions for Qualifying Entities Under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders.

The company has taken advantage of the following disclosure exemptions under FRS 102 reduced disclosure framework:

(a) The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
(b) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
(c) The requirements of Section 11, paragraphs 11.39 to 11.48A and Section 12, paragraphs 12.26 to 12.29A;
(d) The requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
(e) The requirements of Section 33 Related Party Disclosures paragraph 33.7.

(f) Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period.

(g) Key Sources of Estimation Uncertainty

The following are the company's key sources of estimation uncertainty:

Turnover and contract loss provisions

Turnover on long term contracts is recognised by reference to the stage of completion of contract activity, and therefore is sensitive to the ability to reliably assess this stage of completion. This is normally based on the costs incurred to date as a proportion of total anticipated contract costs, however if this does not accurately reflect the stage of completion then an alternative approach is used instead. In making the assessment of costs to complete the contract, management considers not only specific forecast costs but also the level of risk on the programme. In addition, if the final outcome of a contract cannot be reliably assessed, revenue recognition is limited to the level of costs incurred until such time that the contract has progressed sufficiently to make profit recognition appropriate. Where a contract is forecast to be loss making, full provision is made for such losses in the first year in which they are foreseen. The loss provision is based on management's best estimate of the likely outturn for the project based on engineering and production estimates and taking into account reserves for certain risks.

Impairment of intangible assets

Impairment reviews of intangible assets are performed by projecting the future cash flows, excluding finance costs and tax, based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a recognised rate which considers prevailing market interested rates and judgements relating to the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying asset, an impairment charge is recorded in the Consolidated Income Statement. When an impairment loss subsequently reverses, due to a change in circumstances or in the estimates used to determine the asset's recoverable amount, the carrying value of the asset is increased so long as it does not exceed the original carrying value and recognised in the Consolidated Income Statement.

Marshall of Cambridge Aerospace Limited

1. **Accounting Policies** ***(continued)***

g) Key Sources of Estimation Uncertainty ***(continued)***
Impairment of investments
Where there are indicators of impairment of investments, the company compares the carrying value of the asset with its recoverable amount, represented by the higher of its value in use and net realisable value. Value in use is based on a discounted cash flow model and is therefore sensitive to the discount rate used as well as the expected future cash flows and extrapolated growth rate.

Offset provision
As a result of trading internationally, the company has entered into a number of contracts that include an offset agreement with a foreign government. These contracts impose an obligation on the company to purchase a certain value of goods or services from approved companies within that country. As such, the company is required to consider the value of any outstanding obligation under offset agreements at each year end, and the associated offset provision required. When calculating the offset provision, management considers the terms of each offset agreement, the value of the obligation that the company has generated, the value of the obligation that the company has settled during the course of business, and the manner in which it expects to settle the remaining obligation.

Research and development expenditure credits
The company recognises a provision for research and development expenditure credits receivable based on reasonable estimates, informed by the relevant tax legislation. Management estimates are required to determine the amount of tax credit that can be recognised, based upon the level of qualifying research and development activity undertaken by the company.

Deferred tax
Unrelieved tax losses and other deferred tax assets have been recognised only to the extent that the directors consider it is probable they will be recovered against future taxable profits or the reversal of deferred tax liabilities. Management estimation is required to determine whether the recognition of future taxable profits is probable.

A five year financial forecast has been prepared which indicates the company will make taxable profit for the next five years. The directors acknowledge the estimation uncertainty included in future financial forecasts but consider the recognition of deferred tax assets reasonable.

(h) Turnover
Turnover comprises the invoiced value of goods and services supplied by the company excluding trade discounts and value added tax. Turnover relating to long term contracts represents the value of work performed during the year determined by reference to the stage of completion of the contract.

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The specific methods used to recognise the different forms of revenue earned by the company are set out below.

i) Sale of goods
Turnover from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

ii) Long term contracts
Turnover from long term contracts is recognised by reference to the stage of completion of contract activity at the year end date. This is normally determined by the proportion that contract costs incurred to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. If the nature of a particular contract means that costs incurred do not accurately reflect the progress of contract activity, an alternative approach is used such as the achievement of pre-determined contract milestones.

1. Accounting Policies *(continued)*

(h) Turnover *(continued)*
ii) Long term contracts (continued)
Milestones are considered to have been achieved where the customer has acknowledged that the obligations under the contract are complete, or considered to be virtually certain, as at the year end date.

Revenue in respect of variations to contracts, claims and incentive payments are recognised when it is highly likely that it will be agreed by the customer. Profit attributable to long term contracts is recognised if the final outcome of such contracts can be reliably assessed. On all contracts, full provision is made for any losses in the year in which they are first foreseen.

iii) Rendering of services
Turnover from the provision of services is recognised as the contract activity progresses to reflect the performance of the underlying contractual obligations.

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

(j) Research and Development Expenditure Credits
Research and development expenditure credits are recognised based on the level of qualifying research and development expenditure incurred by the company. Expenditure credits are either used to reduce the tax charge incurred by the company or, where the company is loss making, group relieved to other companies within the Marshall of Cambridge (Holdings) Limited group.

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

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its useful economic life as follows:

Leasehold Property	3-20 years
Plant and Machinery	3-8 years
Motor Vehicles	3-5 years
Aircraft	5-20 years
Runway	20 years

Depreciation is provided when the assets are available for use.

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

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

1. Accounting Policies ***(continued)***

(l) Intangible Assets
Intangible assets are stated at cost less accumulated amortisation and impairment losses. Intangible assets are tested annually for impairment or otherwise when circumstances change.

Amortisation begins when an assets is acquired or becomes available for use and is calculated on a straight line basis to allocate the costs of assets over their estimated useful life as follows:

Computer Software	3 - 8 years
Development Costs	over the life of the project

(m) Assets in Course of Construction
Assets under construction are included in property, plant and machinery on the basis of expenditure incurred at the balance sheet date and are no depreciated until the assets are complete and available for use. In the case of assets constructed by the Group, the value includes the cost of own work completed.

(n) Stocks and Work In Progress
Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Work in progress is valued at the lower of cost and net realisable value. Cost includes, where appropriate, labour and factory overheads. Long term contract work in progress is stated at cost, as defined above, less amounts transferred to the income statement and provision for any known or anticipated losses and payments on account received and receivable.

(o) Operating Leases
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

(p) Pension Costs
Marshall of Cambridge (Holdings) Limited group operates a number of different pension funds, including both defined contribution and defined benefit schemes, for the employees of the group. The assets of all the schemes are held in separately administered trust funds. For the defined contribution schemes, contributions are recognised in the profit and loss account in the period in which they become payable.

The defined benefit scheme is a group plan. It is not possible for the company to obtain sufficient information to enable it to account for the plan as a defined benefit plan, therefore it accounts for the plan as a defined contribution plan

(q) 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, except that:

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

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 period end date.

1. Accounting Policies *(continued)*

(r) Foreign Currencies
Transactions in foreign currencies are initially recorded in the company's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

(s) Derivative Financial Instruments
The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

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

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

Changes in the value of derivatives are recognised in profit or loss within administrative expenses, except where they have been designated as qualifying cash flow hedges. Gains or losses on derivatives designated as cash flow hedges are initially recognised within other comprehensive income, and subsequently recycled to profit or loss when the derivative is settled.

(t) Investments
Fixed asset investments are stated at cost less provision for diminution in value.

(u) Impairment
The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried as a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

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

(v) Provisions for Liabilities
A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

(x) Trade and other debtors and creditors
Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

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2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax.

The turnover and profit before tax are attributable to the company's principal activities of aerospace engineering for various business streams.

An analysis of turnover by geographical destination is given below:

	2021 £000	2020 £000
United Kingdom	104,807	103,315
Rest of Europe	30,802	31,219
North America	29,306	38,623
Rest of World	57,155	46,758
	222,070	219,915

An analysis of turnover by business stream is given below:

	2021 £000	2020 £000
Military Aerospace	192,786	176,528
Aerostructures	25,669	34,827
Major Projects	1,746	6,364
Other	1,869	2,196
	222,070	219,915

3. Exceptional items

	2021 £000	2020 £000
Major project loss provision[1]	6,930	-
Exceptional items relating to cost of sales	6,930	-
Restructuring programme[1]	526	1,532
Intangible Asset impairment[1]	4,352	-
COVID-19 expenses[1]	1,138	302
Profit on disposal of Investment[1]	(350)	-
Exovent[2]	-	993
Other exceptional items	5,666	2,827
Total exceptional items	12,596	2,827

[1] The directors consider these costs to be non-routine in nature
[2] Considered by the directors to be non-recurring

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

- Provision for losses on the completion of a major complex project;
- Cost relating to a significant restructuring exercise across the Company;
- Impairment of ERP system carrying value following review in light of inefficiencies in implementation.
- COVID–19 costs relating to the incremental costs of providing testing, personal protective equipment and all associated cleaning, sanitisation and other costs required to keep colleagues and visitors safe.
- Profit on the disposal of Aeropeople limited, a previously owned 100% subsidiary which was sold during the year; and,
- As a response to the onset of the COVID-19 pandemic, costs relating to the development of the Exovent negative pressure ventilator are disclosed separately.

4. Other Operating Income

	2021 £000	2020 £000
Rent receivable	147	29
Research and development expenditure credits	352	916
Furlough credits	-	213
	499	1,158

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

5. Operating Profit

Operating profit is stated after charging/(crediting):

	2021 £000	2020 £000
Research and development expenditure	969	1,623
Depreciation of owned tangible fixed assets (see note 12)	3,987	4,740
Amortisation of intangible fixed assets (see note 11)	1,859	446
(Profit) / Loss on disposal of tangible fixed assets	(25)	6
Operating lease costs:		
- Plant and equipment	459	423
- Land and buildings	3,323	3,961
Realised foreign exchange loss/(gain)	21	(173)
Unrealised foreign exchange loss/(gain)	18	-
Exceptional items relating to cost of sales	6,930	-
Other separately disclosed items	5,666	2,827
Repayment of Furlough	349	-
Audit of the financial statements of the company	305	73

6. Particulars of Employees

The average monthly number of employees (including executive directors) of the company during the financial year was:

	2021 No.	2020 No.
Production	791	706
Administration and management	499	492
	1,290	1,198

The aggregate payroll costs of the above were:

	2021 £000	2020 £000
Wages and salaries	57,881	60,449
Social security costs	6,005	6,301
Pension costs – defined benefit schemes (note 18)	-	-
Pension costs – defined contribution schemes (note 18)	4,770	4,190
	68,656	70,940

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

7. Directors' Remuneration

The directors' aggregate remuneration in respect of qualifying services were:

	2021 £000	2020 £000
Remuneration	766	644
Compensation for loss of office	-	104
Pension contributions to group defined contribution schemes	40	44
	806	792

Remuneration of highest paid director:

	2021 £000	2020 £000
Remuneration	323	321
Pension contributions to group defined contribution schemes	23	20
	346	341

The number of directors who accrued benefits under company pension schemes was as follows:

	2021 No	2020 No
Defined benefit schemes	-	-
Defined contribution schemes	2	4

8. Interest Receivable and Similar Income

	2021 £000	2020 £000
Bank interest receivable	-	97

9. Interest Payable and Similar Charges

	2021 £000	2020 £000
Interest payable to group undertakings	125	120

10. Tax

(a) Tax on profit on ordinary activities

	2021 £000	2020 £000
Current tax:		
UK Taxation		
UK corporation tax based on the profit for the year at 19.00% (2020: 19.00%)	-	64
Adjustments in respect of prior years	99	157
Adjustments in respect of group relief	(2,907)	719
	(2,808)	940
Deferred tax		
Origination and reversal of timing differences	1,903	1,181
Adjustment in respect of prior years	(170)	10
Effect of tax rate changes on opening liability	(2)	(387)
	1,731	804
Tax on (loss)/profit	(1,077)	1,744

(b) Tax included in Other Comprehensive Income

	2021 £000	2020 £000
Deferred tax		
Total tax (credit)/charge included in other comprehensive income	(238)	353

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

10. Tax *(continued)*

(c) Factors affecting current tax charge
The UK standard rate of corporation tax is 19.00% (2020: 19.00%). The actual tax charge for the current and previous years varies from the standard rate for reasons set out in the following reconciliation:

	2021	2020
	£000	£000
(Loss)/Profit on ordinary activities before taxation	(6,332)	9,051
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax of 19.00% (2020: 19.00%)	(1,203)	1,720
Expenses not deductible for tax purposes	260	240
Research and development enhanced claim	(50)	2
Effect of differences in tax rate changes on opening liability	(2)	(411)
Effect of tax rate changes	(11)	26
Adjustments in respect of prior years	(71)	167
Total tax (credit)/charge (note 10(a))	(1,077)	1,744

(d) Factors that may affect future tax charges
The standard rate of tax applied to reported loss on ordinary activities is 19%. The Finance Act 2021 increased the UK corporation tax rate from 19% to 25% with effect from 1 April 2023.

A deferred tax asset of £231,654 (2020: £828,582) in respect of timing differences between capital allowances and £299,483 (2020: £1,434,077) in respect of tax losses has been recognised on the basis the Group has sufficient certainty over recoverability against future taxable profits of the Group.

During the year beginning 1 January 2022, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £531,137. This is due to the anticipated reversal of deferred tax on fixed asset timing differences and utilisation of brought forward tax losses.

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

11. Intangible Fixed Assets

	Computer Software £000
Cost	
At 1 January 2021	12,757
Additions	2,854
Impairment of intangible assets[1]	(4,352)
At 31 December 2021	11,259
Depreciation	
At 1 January 2021	446
Charge for the year	1,859
At 31 December 2021	2,305
Net Book Value	
At 31 December 2021	8,954
At 31 December 2020	12,311

[1] Relates to the impairment of the company's ERP system. The impact is included within admin expenses.

12. Tangible Fixed Assets

	Leasehold Property £000	Aircraft £000	Plant and Machinery £000	Motor Vehicles £000	Runway £000	AICC £000	Total £000
Cost							
At 1 January 2021	3,663	476	73,231	2,845	21,908	3,324	105,447
Additions	1,295	-	505	-	(8)	3,522	5,314
Disposals	-	-	(1)	(382)	-	-	(383)
Transfers	243	-	(342)	3	96	-	-
At 31 December 2021	5,201	476	73,393	2,466	21,996	6,846	110,378
Depreciation							
At 1 January 2021	2,784	459	56,319	2,845	7,032	-	69,439
Charge for the year	326	8	3,359	-	677	-	4,370
Disposals	-	-	(1)	(382)	-	-	(383)
Transfers	200	-	(293)	3	90	-	-
At 31 December 2021	3,310	467	59,384	2,466	7,799	-	73,426
Net Book Value							
At 31 December 2021	1,891	9	14,009	-	14,197	6,846	36,952
At 31 December 2020	879	17	16,912	-	14,876	3,324	36,008

13. Investments

	Shares in subsidiary undertakings £000
Cost	
At 1 January 2021	20,213
Addition	7
Disposals	(0)
At 31 December 2021	20,220
Amounts provided	
At 1 January and 31 December 2021	15,870
Net Book Value	
At 31 December 2021	4,350
At 31 December 2020	4,343

The company previously owned 100% of the issued share capital of Aeropeople Limited, a business that supplies labour to aerospace and associated industries. This company was sold on 18 April 2021 and was held at a cost of £1.

At 31 December 2021 the company owns 20% or more of the issued share capital of the following companies:

Company	**Country of registration or incorporation**	**Class of shares held**	**%**
Marshall Aerospace Canada, Inc.	Canada	Ordinary	100
Marshall Aerospace Netherlands B.V.	Netherlands	Ordinary	100
Slingsby Holdings Limited	England and Wales	Ordinary	100
Aeroacademy Limited	England and Wales	Ordinary	100
Marshall Middle East Limited	England and Wales	Ordinary	100
Marshall Aerospace & Defence France SAS	France	Ordinary	100
Marshall USA LLC	USA	Ordinary	100

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

13. Investments (continued)

Marshall Aerospace Canada, Inc. began trading in 2006. Its principal activity is to provide design engineering support to the Royal Canadian Air Force. It made a post tax profit of £333,256 (2020: £466,608) and held capital and reserves at 31 December 2021 of £6,900,462 (2020: £6,518,760).

Marshall Aerospace Netherlands B.V. began trading in 2006. Its principal activity is to supply design engineering services to the aerospace industry. It made a post tax profit of £108,001 (2020: £48,151) and held capital and reserves at 31 December 2021 of £528,315 (2020: £450,142).

Slingsby Holdings Limited is an investment holding company and at 31 December 2021 holds 100% of the share capital of Slingsby Advanced Composites Limited. Slingsby Advanced Composites principal activity is the design, manufacture and marketing of structural composite and metal structures for the defence, aerospace/aviation, marine and rail industries. During the year, Slingsby Holdings Limited dissolved three dormant subsidiary entities.

Slingsby Holdings Limited made a post tax loss for the year ended 31 December 2021 of £nil (2020: £nil) and held capital and reserves at 31 December 2021 of £699,994 (2020: £699,994).

Aeroacademy Limited has not traded since its incorporation. It held capital and reserves at 31 December 2021 of £1 (2020: £1).

Marshall Middle East Limited's principal activity is to conduct business development activities within the Middle East on behalf of Marshall of Cambridge Aerospace Limited. It made a post tax profit of £14,487 (2020 loss of £38,694) for the period ended 31 December 2021 and held a capital and reserves deficit at 31 December 2021 of £587,658 (2020 deficit £601,945).

Marshall Aerospace & Defence France SAS was incorporated in 2020. Its principal activity is to conduct business development activities within France on behalf of Marshall of Cambridge Aerospace Limited. For the year ended 31 December 2021 the company generated a post tax loss of £68,596 (2020 loss: £21,945). It has a capital and reserves deficit at 31 December 2021 of £85,482 (2020 deficit £4,165).

Marshall USA LLC was incorporated in 2021. Its principal activity is to conduct business development activities within the USA on behalf of Marshall of Cambridge Aerospace Limited. For the year ended 31 December 2021 the company generated a pre-tax loss of £412,489 (2020: £nil). It has a capital and reserves deficit at 31 December 2021 of £412,000 (2020: nil)

14. Stocks

	2021	2020
	£000	£000
Raw materials	7,432	7,484
Work in progress	3,005	3,311
	10,437	10,795

The difference between purchase price or production cost of raw materials and their replacement cost is not considered material.

Stocks recognised as an expense in the year were £167,951,126 (2020: £104,487,000).

Progress payments receivable in excess of the value of work done on individual contracts less provisions are shown separately under Creditors: Amounts falling due within one year on the statement of financial position (see note 17).

Marshall of Cambridge Aerospace Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

15. Debtors

	2021 £000	2020 £000
Trade debtors	17,273	16,509
Amounts recoverable on long term contracts	23,253	21,215
Amounts owed by group undertakings	6,152	2,100
Other debtors	2,634	10,800
Prepayments and accrued income	4,582	3,741
Derivative financial instruments	1,476	2,405
Deferred tax asset (see note 16)	686	2,180
Corporation tax receivable	1,548	646
	57,604	59,596

Amounts owed by group undertakings are interest free and repayable on demand.

16. Deferred Tax Asset

The movement in the deferred tax asset during the year was:

	2021 £000	2020 £000
Balance brought forward	2,180	3,338
Profit and loss debit for the year	(1,732)	(805)
Other comprehensive income credit for the year	238	(353)
Balance carried forward (see note 15)	686	2,180

The deferred tax asset consists of the tax effect of timing differences in respect of:

	2021 £000	2020 £000
Excess of depreciation over taxation allowances	232	829
Impact of tax losses carried forward	299	1,434
Impact of short term timing differences (including research and development expenditure credit carry forward)	182	131
Other short term timing differences	149	200
Deferred tax on cash flow hedge reserve	(176)	(414)
	686	2,180

17. Creditors: Amounts Falling due Within One Year

	2021 £000	2020 £000
Bank overdrafts	-	1,477
Payments received on account	20,995	47,326
Trade creditors	15,284	12,823
Amounts owed to group undertakings	30,568	4,735
Other taxes and social security	6,832	5,412
Other creditors	252	778
Accruals and deferred income	13,130	14,588
Derivative financial instruments	952	1,159
	88,013	88,298

Amounts owed to group undertakings are interest free and repayable on demand.

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18. Pensions

The company participates in two of the pension schemes which are operated by Marshall of Cambridge (Holdings) Limited (the "Group") for the benefit of its employees, one of which has elements of both defined benefit and defined contribution, while the other is entirely defined contribution. The schemes are funded by the payment of contributions to trustee-administered funds which are kept independently from the assets of the Group.

The scheme which has elements of both defined benefit and defined contribution is known as the Marshall Group Executive Pension Plan (the "Plan"). The level of defined benefit pension contribution is determined with the advice of independent qualified actuaries. It is not possible to apportion the underlying assets and liabilities of the scheme to the individual companies on a consistent and reasonable basis. The company is therefore accounting for the contributions to the scheme as if it were a defined contribution scheme. The total pension cost for the company in respect of this scheme was £nil (2020: £nil). As at 31 December 2021, the scheme is in surplus as calculated in accordance with FRS102 section 28, although as required by FRS102 this surplus has not been recognised. The deficit on the scheme recognised in the Group financial statements as at 31 December 2020 amounted to £4,807,023.

The total pension cost for the year for the company in respect of the defined contribution scheme was £4,769,626 (2020: £4,190,031).The total unpaid pension contributions outstanding at the year end, and included in other creditors, amounted to £712,631 (2020: £687,499).

19. Provision for Liabilities

	Total
	£000
Balance at 1 January 2021	4,818
Additional provisions created during the year	8,149
Amounts utilised in the year	(6,134)
Balance carried forward 31 December 2021	6,833

The loss provision relates to management's best estimate of the foreseeable loss on major contracts. The provision is expected to be utilised in 2022.

20. Commitments under Operating Leases

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land & buildings		Plant & equipment	
	£000's	£000's	£000's	£000's
	2021	2020	2021	2020
Within 1 year	174	3,322	226	435
Between 2 to 5 years	-	584	640	656
More than 5 years	-	-	-	-
	174	3,906	866	1,091

21. Contingencies

The company has given various guarantees to its bankers mainly in relation to performance bonds, which at the year-end amounted to £4,896,027 (2020: £4,896,027). These would require the company to make certain payments in the event it does not perform what is expected of it under the terms of related contracts. The company does not anticipate making any payments in relation to these performance bonds.

The Company has access to the parent company's £75,000,000 banking facility which is secured by cross guarantees between certain members of the parent company's group. The Company is one of these members. At the 31 December 2021 £53,384,000 was outstanding (2020 - £24,726,000).

22. Contingent Liabilities

The Company recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated. As a large organisation, the Company has a number of contracts with customers to deliver services and products, as well as with its supply chain. From time to time the Company is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst no claims exist at the balance sheet date, one such claim was received after the year end. The Directors do not believe that the outcome of this matters will result in any material adverse change in the Company's financial position

23. Related Party Transactions

The company has taken advantage of the exemption in FRS 102 Section 33 Related Party Disclosures paragraph 33.7 not to disclose transactions with fellow subsidiary undertakings of the Marshall of Cambridge (Holdings) Limited group.

24. Share Capital

Allotted, called up and fully paid:

	2021	2020
	£000	£000
12,000,000 Ordinary shares of £1 each	12,000	12,000

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

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25. Cash Flow Hedge Reserve

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

26. Capital Commitments

Amounts contracted for but not provided in the report and financial statements amounted to £861,505 (2020: £1,791,625).

27. Ultimate Parent Company and Controlling Party

The immediate parent undertaking is Marshall ADG Limited. The ultimate parent company and controlling party continues to be Marshall of Cambridge (Holdings) Limited.

The parent undertaking of the smallest and the largest group of undertakings for which consolidated financial statements are prepared and of which the company is a member is Marshall of Cambridge (Holdings) Limited, registered in England and Wales, and this is therefore considered to be the ultimate parent undertaking and also the ultimate controlling party. Copies of these consolidated financial statements can be obtained from Marshall of Cambridge (Holdings) Limited, Airport House, The Airport, Cambridge, CB5 8RY.

28. Post Balance Sheet Note

On the 27th May 2022, the Company sought and was granted forgiveness from its liability to repay £28m of intercompany funding from its ultimate parent, Marshall of Cambridge (Holdings) Limited.