Building Extraordinary Futures

Operating Review
12 months to 31 December 2021

MARSHALL

Building Extraordinary Futures for customers, communities, people and planet.

Marshall is proud to be a family-owned British company with a diverse portfolio of businesses and a shared commitment to keeping our customers moving forward.

From supporting global armed forces to deliver mission-critical activities; keeping the UK distribution industry on the road; creating new, sustainable communities where people can live and thrive; to developing the next generation of industry talent, we are incredibly proud to have been building extraordinary futures since 1909.

The Marshall instinct to do the right thing, to put the customer at the heart of everything we do and to rise to challenges that others walk away from, runs through the veins of our people and our businesses, no matter where they are in the world.

We still, however, believe we can do more; we will use our purpose to drive long-term strategy, influence our decision making, shape our business operations and, importantly, inspire our people to build an extraordinary future for our extraordinary business.

Customers

Our customers come in many different shapes and sizes ranging from national and overseas governments, to some of the UK's leading supermarket chains, partnering with us to do some incredible things.

From designing Concorde's iconic 'droop' nose to changing the world of chilled distribution by introducing the first ever refrigerated lorry to the UK, we are proud of the part we continue to play in helping our customers succeed, often in the most challenging of circumstances. We continue to seek new ways we can achieve even more together.

Communities

Wherever we are in the world, Marshall works hard to be a good neighbour by taking care of the communities in which we operate.

We believe that everyone deserves the opportunity to fulfil their potential and that is why we focus our resources on equipping people for self-sufficiency. From inspiring disadvantaged young people to pursue STEM subjects, helping to provide half-way housing for the homeless, or creating adult apprenticeship schemes for the unemployed, we are always ready to lend a helping hand when it is really needed.

Headlines

Financial Headlines*

Revenue (£m)

£364.3m

Profit/(loss) before tax (£m)

£16.6m

Underlying Profit before tax (£m)

£6.0m

Net (debt)/cash (£m)

£(41.2)m

* Following the announcement in November 2021 of the proposed sale of our shareholding in Marshall Motor Holdings plc ("MMH"), the Group's year end has been changed to the 31 March and a 15 month set of audited accounts will be prepared for the period ended 31 March 2022. This Operating Review covers the interim 12 month period ended 31 December 2021 and excludes the results of MMH.

Operational Headlines

- Cambridge East development included in Greater Cambridgeshire Preferred Options for the Local Plan
- Aerospace continued to capitalise on its enablement contract with the US Marine Corps
- Land Systems secured a new facility in New Brunswick, Canada, but faced challenges in meeting the production demands of high volume programmes in the UK
- Fleet Solutions launched its Renewables Division to support customers on the road to net zero
- Skills Academy secured its first contract to deliver aerospace apprenticeships on behalf of Bombardier
- Covid-19 headwinds continued to present significant challenges, specifically employee absence and supply chain shortages
- The implementation of a new ERP system impacted operational performance at both Aerospace and Land Systems
- Our Global 6000 programme transitioned into a support contract in the year, however the main programme sustained further loss as it re-baselined to a 2022 completion

People

No matter which part of our business they belong in, Marshall people are special, and constantly strive to deliver outstanding results for our customers.

This shared pursuit of excellence by everyone from the newest apprentice to the CEO, gives us the momentum and courage to adapt and meet the challenges of an ever-changing world.

Planet

Through our Ambition 2030 programme, we put sustainability at the heart of everything we do, using our unique set of skills and values to rise to the global climate change challenge.

We are committed to taking ambitious climate action, building climate resilience, ensuring a healthy environment for employees and communities, and using and developing sustainable products and services.

Contents

Chairman's Statement

> "2021 was a more challenging year than 2020, with the impact of the UK Government's Integrated Review, disruption to supply chains around the world, the much-publicised global shortage of semi-conductors, and Covid-19."

Alex Dorrian CBE, Chairman

Dear shareholders,

I am pleased to introduce this special Operating Review, which covers the 12 months to 31st December 2021.

Following the announcement in November 2021 of the proposed sale of our shareholding in Marshall Motor Holdings plc ("MMH"), and considering the anticipated timescales, the Board of MMH took the decision to change MMH's financial year end to 31 March 2022. The Group has, therefore, also changed its financial year end and will produce a consolidated set of audited accounts for the 15 months to 31st March 2022 later in the year, once the new owners have completed the 15 month audit of MMH.

The Board has, therefore, produced this Operating Review to keep stakeholders informed on developments within the Group during 2021. The business and financial reports exclude the trading results of MMH, instead treating it as an investment, with associated dividend income. As such, the financial reports are non-compliant with UK Generally Accepted Accounting Practice and must not be relied upon for investment decisions. The Operating Review will, however, provide stakeholders with an insight into how the Group will report in the future.

Furthermore, I am delighted to inform shareholders that the Board will be paying a second interim dividend in respect of 2021 of 3p per share for both Ordinary and NVPO shares on 8th July 2022, maintaining our dividend payment record for the last five years, including throughout the pandemic.

During the year, we were proud to receive a visit from HRH The Princess Royal and to be awarded our third Queen's Award for International Trade, which was presented to us by Her Majesty's Lord Lieutenant. We have also celebrated the award of an OBE to Frank Butterfill, who joined Marshall as an apprentice more than 40 years ago, in recognition of his outstanding service to the RAF.

While the announcement of the UK MoD decision to retire its fleet of C-130J aircraft in March 2023 was disappointing, it was not unexpected and we continue to work closely with the MoD and the RAF to support UK Defence, both now and into the future. Despite this decision, the C-130 remains the workhorse of choice for Air Forces around the world and the order book for new aircraft stretches beyond 2030, presenting continued and new opportunities for Marshall.

The process to agree the new Local Plan for the Cambridge area continues, with Cambridge East (our airport site) included in the preferred options list published in September 2021. Our Property team is working hard with all key stakeholders to ensure that the site is formally adopted with the opportunity to build something extraordinary for the future of Cambridge and Marshall. In parallel, the down-selection of Cranfield as the preferred relocation site for our aerospace business is a big step towards creating all-new facilities for Marshall at the heart of a growing aerospace and engineering hub of international significance.

The strategic decision to sell our 64% majority shareholding in MMH was a big step, which followed extensive internal and external assessment of the options. As it turned out, once we had made the decision to sell down our stake, it all moved very quickly when we were approached by Constellation with a strong and compelling offer for the business. They have a deep understanding of the automotive sector and the resources to invest heavily as the industry transforms with new distribution models and new technology, so we wish our former colleagues in MMH every possible success for the future.

We have been sorry to say farewell to Charlie Marshall, whose contribution to the Board has been invaluable. His dynamism and the experience he has built up over years of growing his own successful businesses have added significantly to our debates and the development of our strategy. We also wish him every success in the future.

Finally, as this is my last report, I want to put on record what a privilege it has been to be Chairman of this remarkable company over the last six years, and to thank those, including the Marshall family, other shareholders, directors and colleagues who have made the experience so rewarding. I will forever remember my time with Marshall and I will follow the fortunes of the company with great interest as the exciting and ambitious plans are delivered. Jonathan Flint is an outstanding appointment as the new Chairman and I know he will enjoy the full support of the business, our partners, customers and shareholders as he leads the company through the next few years.

Alex Dorrian CBE
Chairman

Awarded

our third Queen's Award, for International Trade, which was presented to us by Her Majesty's Lord Lieutenant

Celebrated

the award of an OBE to Frank Butterfill, who joined Marshall as an apprentice more than 40 years ago, in recognition of his outstanding service to the RAF

Visited

by Her Royal Highness The Princess Royal

Chief Executive's Report

> **"I have met with a wide range of stakeholders from across government and the industry. Without exception, they have all been both surprised and impressed to learn about the breadth and depth of the work we do. There is no doubt Marshall remains an important company in the UK and overseas and we need to build on this."**
>
> **Kathy Jenkins,** Chief Executive Officer

For a second consecutive year, Covid-19 has dominated business for us, as well as for our customers and our partners. In many ways, the impact was greater in 2021, as markets at home and overseas dealt with the after-effects of a global shutdown.

For us, the performance in most areas of our core business was affected by the pandemic. The cost of managing colleague absences, funding our robust testing regime and mitigating supply chain issues has been substantial. This being said, we are proud of the way we all worked together to keep our people safe and our business operating throughout the pandemic.

We also had to respond to disappointing news when the government's Integrated Review of Security, Defence, Development and Foreign Policy was published in March 2021, confirming the intention to bring forward the out-of-service date for the Royal Air Force C-130J fleet to March 2023. Whilst this has had an immediate impact in terms of reducing throughput, global events meant the demand for availability did not diminish. This is at the heart of our ongoing dialogue with the customer.

We should not let, however, the impact of Covid-19, or the outcome of the Integrated Review, overshadow some of our achievements in 2021, the most significant being confirmation that the Cambridge East development has been included in the Greater Cambridge Preferred Options for the Local Plan. The scale and potential of this mixed-use city development are already attracting significant national and global interest.

Elsewhere, our expansion plans in North America picked up pace with the securing of a new facility in New Brunswick for our Land Systems business. We also set up our new Aerospace office in Washington DC and are exploring how we respond at pace to existing demand. As an example of this, we demonstrated world-class performance for the US Marine Corps and ended the year with three USMC aircraft in our hangars at Cambridge.

We were honoured to win our third Queen's Award for international Trade recognising the phenomenal growth of our C-130 export business and our support to fleets from more than 15 countries.

In a further strengthening of our strategic collaboration relationship with BAE Systems, Marshall became the first partner to be awarded delegated design authority on the next generation combat aircraft (FCAS) in September. This has re-positioned us on the UK industrial landscape, and we will leverage this into 2022.

Marshall Fleet Solutions delivered a second consecutive year of profit and broke ground on its new 'super site' in Tamworth. This facility is in the heartland of the logistics sector and will provide the business with a platform for accelerated growth as it celebrates its 50-year anniversary.

Marshall Skills Academy achieved a historical milestone when it secured a contract with Bombardier to deliver its Level 3, Aircraft Maintenance Engineering Apprenticeship from September 2022, the first time the Academy will have delivered an apprenticeship programme for a third party. This demonstrates our experience and credibility in this space and we already have other companies seeking our expertise.

This is the positive news, but the past 12 months have also served to highlight the scale of transformation that is needed if we are to reach anywhere close to our full potential. This will not be easy and, as we make these changes, we must never lose the things which have made Marshall special: our independence, our instinct to 'do the right thing', our willingness to solve customers' problems, our place at the heart of our local communities and, of course, our people.

We began to lay some important foundations during 2021 as we shaped and defined our strategy with, at its heart, our Shareholder Value Proposition (SVP), outlining the clear principles of return, which each of our activities have been tasked to deliver in order to justify ongoing support and investment. This is an increased level of rigour for our organisation but one all our businesses must, over time, demonstrate they can achieve.

Having taken the decision to disaggregate Marshall Aerospace and Defence Group in June last year to give the three business units, Marshall Aerospace, Marshall Land Systems and Marshall Slingsby Advanced Composites the accountability and autonomy to deliver their individual strategies, we must now realise the cost savings and benefits of this new structure. This work is already well underway.

Marshall Fleet Solutions

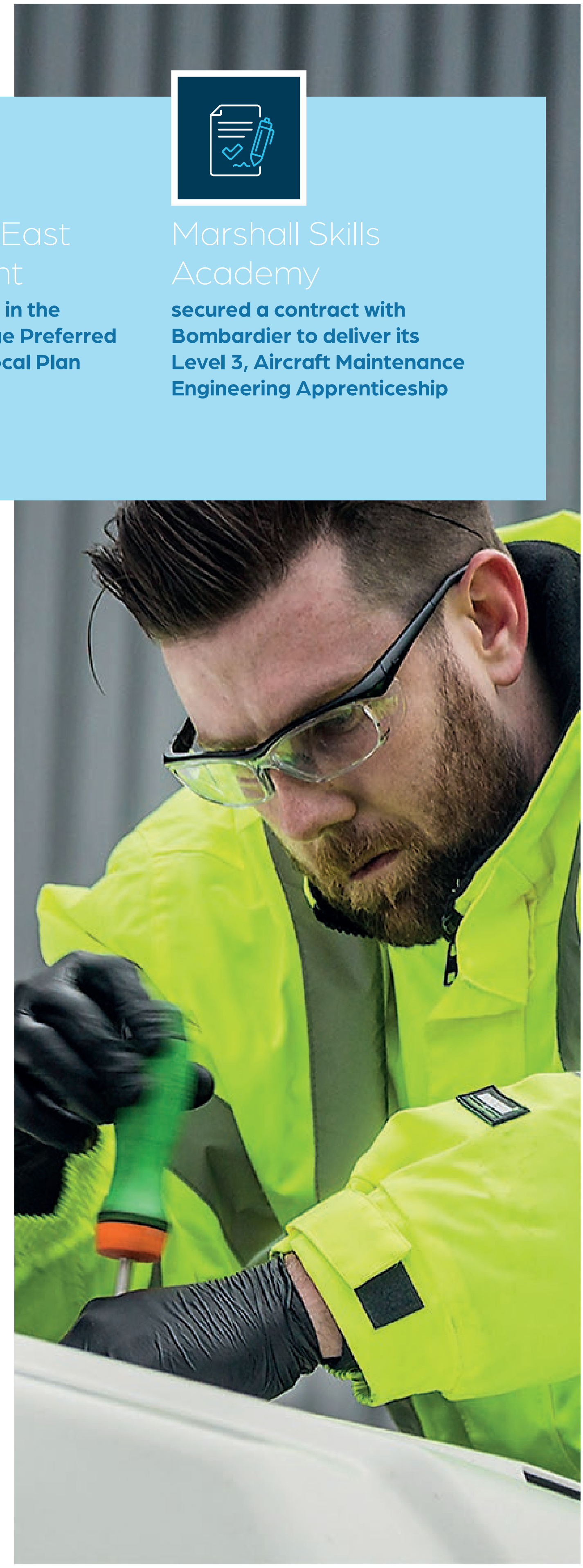
delivered a second consecutive year of profit and broke ground on its new 'super site' in Tamworth

Cambridge East development

has been included in the Greater Cambridge Preferred Options for the Local Plan

Marshall Skills Academy

secured a contract with Bombardier to deliver its Level 3, Aircraft Maintenance Engineering Apprenticeship



We will continue to embed our new Enterprise Resource Planning (ERP) system into our operations to ensure it delivers all the efficiencies and savings we have identified and complete the work we have started to drive significant change into our operating model. Some of this will require hard decisions as we address our capability gaps and refresh, but we must ensure that we have the resources and capability focused on the right places to deliver on our plans.

Alongside this, having established Cranfield as our preferred option for the relocation of our Aerospace business, we recently completed our initial stage of engagement with our colleagues. In addition, we held the first rounds of public consultation and have increased the pace of our planning to ensure we are able to execute an effective relocation before the end of the decade.

We must never forget our customers, or the markets we serve. Over the past 12 months, I have met with a wide range of stakeholders from across government and the industry. Without exception, they have all been both surprised and impressed to learn about the breadth and depth of the work we do. There is no doubt Marshall remains an important company in the UK and overseas and we need to build on this.

We took the opportunity to refresh and simplify our brand and with this, adopt a more disciplined approach in order to bring more clarity to the public face of Marshall. To complete this, we defined a new purpose, Building Extraordinary Futures for Customers, Communities, People and Planet. This was co-created by colleagues from across all areas of the business to provide us with a compelling vision, whilst recognising all the family have achieved so far.

In summary, we have a great deal of work still to do as we transform our business. Against this backdrop, we must expect 2022 to be another challenging year. I am, however, confident it is one from which we will emerge a much more resilient, future fit organisation with extraordinary prospects.

Kathy Jenkins
Chief Executive Officer

Operational Review

Marshall Aerospace

Marshall Aerospace (MA) delivered a solid performance in the context of a second year of Covid-19 disruption to achieve an underlying profit of £7.9m.

Whilst the number was below expectation, this shortfall reflects the ongoing impact of Covid-19 on workforce efficiency, the significant reduction in engineering upgrade work for the RAF in light of the planned early withdrawal of its C-130J fleet, and the impact on productivity during the implementation of a new ERP system.

Despite a challenging year, the business unit remains on a positive trajectory as it continues to 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.

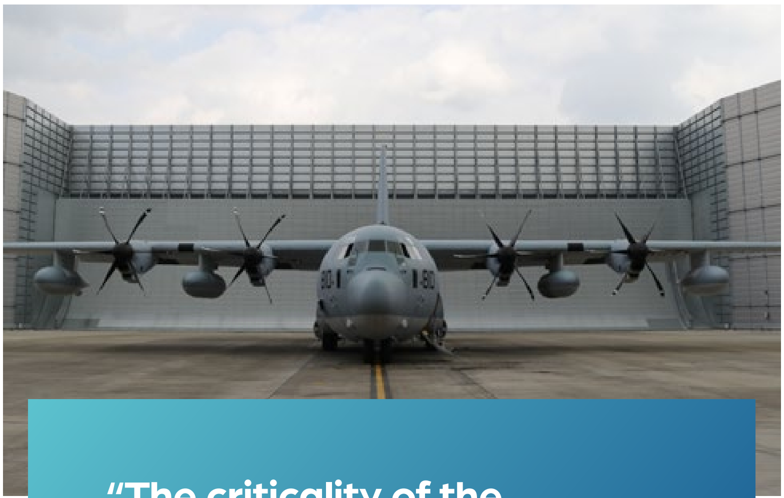
The criticality of the work that MA does for its customers was never more evident than during the evacuation of Kabul when the team worked around the clock to ensure aircraft availability for the RAF, Royal Netherlands Air Force, Norway, France, Austria and Denmark.

The order intake target of £150m was met in full, 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.

The Canadian Aerospace business also performed strongly in the year, securing an extension to its support contract with the Royal Canadian Air Force. We have also made positive progress in the US, having identified three potential locations for a new Marshall Aerospace Maintenance, Repair and Overhaul (MRO) facility, and we remain on track to make a down selection during 2022.

Away from the C-130 platform, MA secured a three-year MRO contract (£46m) to provide support to the Special Missions aircraft and is mobilising a new team in the United Arab Emirates to deliver this work in-country.

In the UK, we are continuing to work constructively with the RAF to support the effective withdrawal of the C-130 fleet in line with the current out-of-service date. Commercial discussions are progressing positively, a one-year price period having been secured and, importantly, an agreement has been reached which ensures the continuation of the Centre Wing Replacement programme and supports the eventual resale of the fleet.



"The criticality of the work that MA does for its customers was never more evident than during the evacuation of Kabul when the team worked around the clock to ensure aircraft availability."

Other key areas of focus for 2022 will include the effective embedding of the new ERP system transforming processes to ensure it delivers all identified efficiency savings, and the creation of the blueprint for the operation when it relocates later in the decade.

The relocation programme is also gathering significant pace as the team prepares its outline planning application for submission to Central Bedfordshire Council in Q3 2022, setting out an exciting vision for the future of a strong and growing Marshall Aerospace business at the heart of the Cranfield aviation cluster.

Elsewhere, Aerostructures delivered another strong performance on the P8 Poseidon tank programme during 2021 and celebrated a key milestone early in 2022 when it delivered the 1,000th auxiliary fuel tank for customer Boeing.

Marshall Land Systems

As reflected by its disappointing financial performance, 2021 was a particularly challenging year for Marshall Land Systems (MLS), with an underlying loss before tax of £6.1m.

It became clear during the year that the business was not fully prepared for the speed and level of change required to meet the production demands of high volume programmes such as the Dutch Defensiebrede Vervanging Operationele Wielvoertuigen (DVOW) programme. In addition, ongoing disruption to our international supply chain and the productivity of internal labour driven by the continuing impact of Covid-19, has caused delays on the UK MoD's GASKET programme.

Scaling production exposed a range of operational issues which, supplemented by Covid-19 headwinds and challenges around the implementation of a new ERP system, drove an additional level of cost and inefficiency into the business, ultimately accounting for its loss making position.

MLS did enjoy some success in winning new business during the year, securing orders for its deployable CT Scanners from the Australian and Canadian governments as well as additional shelters with customers Kongsberg and BAE Systems.

It also continued to develop important strategic partnerships with industry, joining PA Consulting, Leonardo and Leidos as part of Team Protect to support the UK MoD with the delivery of some of its most vital programmes and signing a collaboration agreement with Intracom Defence to develop advanced hybrid power solutions.

Recognising the scale of the transformation required to return MLS to profitability, Gary Moynehan was appointed as Managing Director in October to deliver a strategy that capitalises on the business unit's core capability and reputation in the marketplace.

As a result, the business will focus on the deployable operational infrastructure market which offers long-term stability and growth and affords potential to develop its geographical footprint into North America, Europe and Middle East.

Product modularisation will also form a key pillar of the new strategy, significantly reducing duplication and complexity to create cost effective, repeatable, scalable production processes to drive enhanced flexibility and interoperability for customers, whilst driving down production costs.

Despite the challenges in the UK, MLS made significant progress in Canada where, having secured backing from a number of Canadian agencies, it signed a 10-year lease on a new 82,000 sq.ft. production facility in the province of New Brunswick in December.

This new site, which will be operational in 2023, will increase operational capacity for existing European markets, whilst at the same time opening up new opportunities in Canada and other international markets.

The Canadian Government is committed to investing heavily in its armed forces over the next decade, the most immediate opportunity being the Logistics Vehicle Modernization (LVM) programme – the replacement of the Canadian Army's fleet of light and heavy logistic vehicles, trailers and containers. MLS is an integral part of the General Dynamics Land Systems Canada LVM bid team, which we believe offers customers the most compelling and cost competitive solution.

Operational Review

Marshall Group Properties

Delivering an underlying profit before tax of £11.3m, 2021 was a pivotal year for Marshall Group Properties, with the highlight being confirmation in September that the airport land has been included in the Greater Cambridge Preferred Options for the Local Plan.

This represents a hugely significant milestone in our ambition for Cambridge East and the focus now is to continue with the successful engagement programme at both a local and national level to ensure that we cement Cambridge East's position in the Local Plan when it is published.

Work to support the successful relocation of the Marshall Aerospace (MA) and Marshall Land Systems (MLS) businesses remains firmly on track. Having identified Cranfield as a preferred location for MA and with an option agreement signed in September 2020, we are preparing to submit an outline planning application for a new facility during Q3 of this year. Similarly, we are at an advanced stage of our scoping work to find a suitable location for the MLS in the Cambridge area, its move being a key enabler for Phase 3 of the Marleigh development.

Other relocation and demolition works required to enable Phase 3 have also been successfully delivered in line with the plan.

Elsewhere, we concluded the sale of the Land North of Cherry Hinton to the Bellway/Clarion Joint Venture in March 2021, delivering initial receipts of £9.1m with four subsequent annual payments due in March 2022–24. The new owners have renamed the development Trinity Fields and have begun the process of consultation with the local community.

Despite the ongoing challenges of Covid-19, sales of Phase 1a of the Marleigh development were broadly in line with expectation with 76 private dwellings sold in the year, complemented by the sale of 42 shared ownership apartments and homes on the development to L&Q.

We were particularly pleased with the way in which we were able to work with our Marleigh Joint Venture partner Hill to ensure that we did not need to make any compromises on the quality of the development.

Our commitment to creating a vibrant, sustainable community in Marleigh for generations of families to enjoy remained front and centre and we have now begun to see the green spaces and shared facilities come to life as we begin to market the 88 homes comprising Phase 1b.

In particular, we look forward to the opening of the new Marleigh Academy Primary School for the first intake of pupils in September 2022, supported by additional funding from Marshall and Hill to help ensure the school is equipped to deliver an outstanding level of STEM-focused education.

We were also pleased to have secured reserved matters consent for Marleigh, Phase 2, comprising 421 homes in October. Receipts for 50% of the Land Value having been received from our JV partner Hill during Q1 2021.

The continued promotion of the Cambridge East development to ensure its optimised inclusion in the Greater Cambridge Local Plan will be the key focus for Marshall Group Properties during 2022, whilst at the same time ensuring the ongoing delivery of new homes on Marleigh.

"Our commitment to creating a vibrant, sustainable community in Marleigh for generations of families to enjoy remained front and centre and we have now begun to see the green spaces and shared facilities come to life as we begin to market the 88 homes comprising Phase 1b."

Marshall Fleet Solutions

Covid-19 was again a key factor for Marshall Fleet Solutions (MFS) during 2021, bringing both positive and negative impacts on financial performance with an underlying profit before tax of £0.1m.

Despite all of the challenges, MFS was able to build on the progress made during 2020 to record a second consecutive year of growth, albeit slightly lower than expected.

The global shortage in semi-conductors had a hugely detrimental effect on our Thermo King sales and installation business with manufacturers' inability to produce new vehicles leading to a 35% shortfall in unit sales volume compared with pre-pandemic. Whilst there is considerable pent-up demand in the industry, restricted capacity in the supply chain means it is likely to take some time before installations return to pre-pandemic levels.

MFS enjoyed some upside on the service side of the business as customers were required to keep older, less reliable trucks on the road.

Similarly, its Tesco.com fleet management business enjoyed another strong year benefiting from sustained consumer demand for home deliveries as more and more households have taken to online grocery shopping during the pandemic. The strength of MFS's relationship with Tesco was further underlined when it renewed a three-year fleet management contract, winning business from a key competitor, to achieve increased nationwide coverage.

The team responded fantastically to the increase in activity, managing 150,000 inbound calls and attending 120,000 scheduled and unscheduled service calls during the year, and despite Covid-19, maintaining its levels of customer service throughout; this was reflected in its award for best Customer Service for 2021 by Temperature Controlled Storage & Distribution magazine.

The most significant announcement of the year, however, was the launch of Marshall Fleet Solutions Renewables Division, focused on delivering innovative new products that help drive down carbon emissions in the transport industry.

Initially focusing on two main product lines: the supply of Green D + HVO alternative vegetable fuel for use in all types of diesel-powered engines as a direct drop-in to conventional fossil fuelled diesel; and Titan – a hybrid solar and kinetic energy system that can be retrofitted to vehicles to provide ultimately 100% free power for on-board refrigeration units.

With the government subsidy on red diesel removed from April 2022 , Green D+ HVO alternative fuel is expected to be in demand. Similarly, Titan is expected to be a very compelling solution for many MFS customers and the whole industry alike, which is looking for convenient, positive return on investment and meaningful reduction in carbon emissions.

This focus has started to give MFS an industry-leading position in renewables and trials are currently underway on both products with a number of its key customers that are expected to lead to significant revenue growth.

The new MFS supersite, conveniently situated just minutes from the main M42/A5 motorway junction in Tamworth, opened during the first half of this year, providing the business with a state-of-the-art facility to accommodate the growth of its Thermo King Transport Refrigeration, Tail Lift and National Part and Accessories business.

The new site will also be home to a dedicated Centre of Excellence providing unique training facilities for the temperature-controlled and tail lift industry, another first for MFS as it marks its 50th anniversary during 2022.

Operational Review

Marshall Slingsby Advanced Composites

The business continued to build on the turnaround it achieved in 2020, delivering £0.4m underlying profit before tax, which was better than expected despite supply chain challenges and colleague Covid-19 absence.

The workforce restructuring concluded at the end of 2020, alongside the introduction of new lean and continuous improvement manufacturing methods. A change in New Product Introduction (NPI) methodology also enabled better control of design costs and operational efficiencies, which improved product margins underpinning the strong 2021 performance.

Whilst order intake was lower than in the previous year, this was, in the main, as a result of the delay in two major projects that will now to be realised during 2022/23.

Two new significant customer contracts were successfully won during 2021, helping reduce dependency with the traditional Advanced Composites customer base, providing positive long-term revenue opportunities and enhancing the pipeline for 2022.

One of the highlights of the year was the signing of the partnering agreement with BAE Systems that saw Marshall become the first partner to be awarded delegated design authority on the Tempest future combat air system programme.

The team have also continued to develop other specialist activities through Research and Development aimed particularly at co-developing advanced materials with selected specialist partners and new manufacturing techniques.

The business has achieved its long-awaited NADCAP approval (the National Aerospace and Defense Contractors Accreditation Program) during 2022, enabling us to strengthen our position as a provider of high-quality, innovative, end-to-end solutions to both commercial and military aerospace, and naval defence programmes.

Marshall Skills Academy

The global pandemic had a particularly detrimental impact across all aspects of the Marshall Skills Academy business, as contracts were delayed and organisations de-prioritised Learning and Development activities.

International travel restrictions impacted a major delivery contract in Bangladesh, which when coupled with the dramatic downturn in the civil aviation market, meant that 2021 revenues fell significantly.

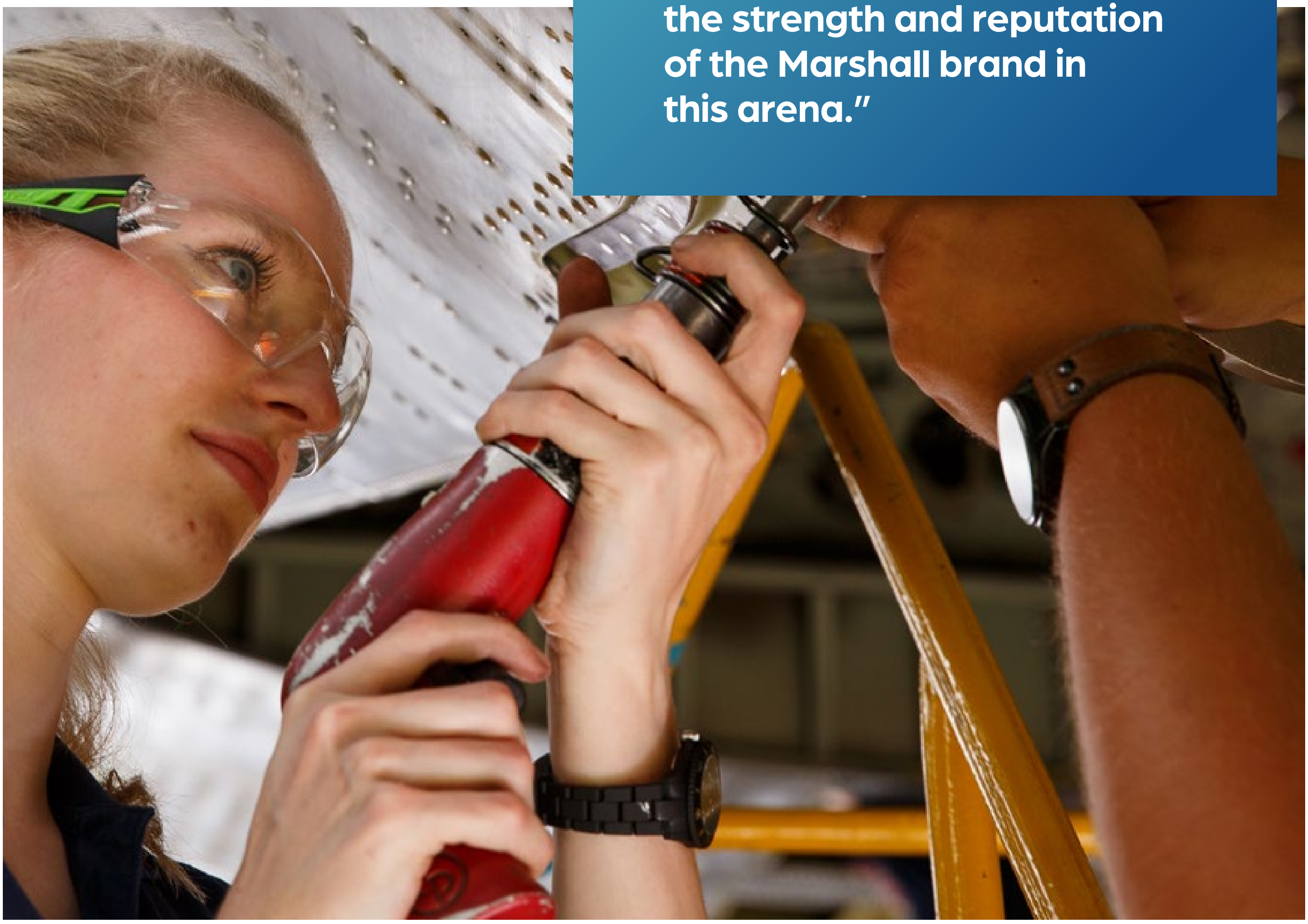
Whilst the team enjoyed some success in winning general Learning and Development business within the SME network, reduced spend and the switch to remote learning again hampered expected progress in this area. This led to a full strategic review and restructuring of the business to right-size its cost base during Q3.

The business will now focus predominantly on delivering aviation engineering apprenticeships along with technical, regulatory and health & safety training bespoke to the aerospace market, capitalising on the strength and reputation of the Marshall brand in this arena.

This new approach has already begun to pay dividends with the signing of a contract with business jet aviation specialist Bombardier to deliver its Level 3, Aircraft Maintenance Engineering Apprenticeship from September 2022.

This will be the first time that Marshall has been able to offer a large scale aerospace apprenticeship provision externally and is already attracting significant interest across the industry, giving confidence that 2022 will be positive year that will see the business move into profitability.

"The business will now focus predominantly on delivering aviation engineering apprenticeships along with technical, regulatory and health and safety training bespoke to the aerospace market, capitalising on the strength and reputation of the Marshall brand in this arena."



Operational Review

Futureworx

The newly formed Futureworx team became firmly established during 2021, assembling its core team of highly capable and creative engineering and enterprise talent, and securing its position within the Cambridge ecosystem.

Having purposefully been created to operate very differently to the core businesses, Futureworx uses an entrepreneurial approach and takes Marshall into exciting new technologies, markets and customers. It does this by creating innovative solutions for relevant and timely global and societal problems, with the aim of building new businesses out of these solutions to return value to Marshall.

The breadth of experience, expertise and creativity within Futureworx, coupled with the power of the Marshall brand, has enabled the team to forge a wide range of important strategic relationships with like-minded organisations, offering complementary capabilities across a number of different industries.

This collaborative approach is already beginning to pay dividends and deliver some tangible examples of products and services which have the potential to deliver long-term revenue streams for the Marshall business.

Whilst many of the projects are still at the formative stage, 2022 will see significant progress in two key opportunity areas: the use of autonomy in renewable energy, and hydrogen fuel and infrastructure in aviation.

The first is the planned development of a ground-breaking deployed UAV-based service for the offshore renewable energy industry, which will allow continuous, remote and autonomous surveying of infrastructure.

With the UK accounting for almost half of all the off-shore wind turbine power used in the world, and plans to double the number of wind turbines in the North Sea in the next five years we believe this is a particularly exciting growth opportunity.

In the hydrogen energy area, Futureworx is in contract with a fellow Cambridge start-up company to bring a certified liquid hydrogen fuel system to the market in a high-altitude, long endurance airborne platform. Additionally, we are working with some major UK aerospace and airport partners to create demonstrable technologies for the refuelling of liquid hydrogen powered aircraft.

It has also signed a memorandum of undertaking with Cranfield Aerospace Solutions Ltd that will see them collaborate on the conversion of aircraft to run on liquid hydrogen and the supply of ground-support equipment for that activity. With hydrogen being a long-term industrial and societal opportunity, these early activities create the opportunity for Marshall to be part of future solutions and supply chains.

Throughout all of its activities, Futureworx will continue to take full advantage of being part of the Cambridge ecosystem and an active member of the Cambridge start-up scene, accelerated by the move to its new offices in the city's prestigious St John's Innovation Park.

"The breadth of experience, expertise and creativity within Futureworx, coupled with the power of the Marshall brand, has enabled the team to forge a wide range of important strategic relationships."

Consolidated Income Statement

for the 12 months ended 31 December

	Notes	**2021 (unaudited) £'000**	2020 (unaudited) £'000
Total Group revenue	3	**364,262**	333,699
Less: share of revenue in the year in joint ventures		**(21,198)**	–
Statutory revenue		**343,064**	333,699
Cost of sales		**(255,000)**	(250,726)
Gross profit		**88,064**	82,973
Net operating expenses		**(103,911)**	(70,380)
Profit on sale of land and buildings		**21,068**	–
Other income	5	**3,444**	2,639
Group operating profit	6	**8,665**	15,232
Share of profit in the year in joint ventures		**3,517**	428
Dividend received from Marshall Motor Holdings plc		**4,465**	–
Net finance charges	7	**(18)**	(87)
Profit before taxation	3	**16,629**	15,573
Analysed as:			
Underlying profit before tax	3	**5,951**	16,065
Separately disclosed exceptional items	4	**10,678**	(492)
Tax charge on profit		**(3,870)**	(3,471)
Profit after taxation		**12,759**	12,102

Consolidated Statement of Comprehensive Income

for the 12 months ended 31 December

	Notes	**2021 (unaudited) £'000**	2020 (unaudited) £'000
Profit after taxation		**12,759**	12,102
Fair value gain/(loss) on cash flow hedges		**3,235**	(2,442)
Taxation on cash flow hedges		**(696)**	371
Actuarial gain/(loss) on defined benefit pension scheme	11	**3,462**	(2,801)
Deferred tax relating to defined benefit pension scheme		**(587)**	592
Total other comprehensive income/(expense)		**5,414**	(4,280)
Total comprehensive income		**18,173**	7,822

Consolidated Balance Sheet

at 31 December 2021

	Notes	2021 (unaudited) £'000	2020 (unaudited) £'000
Fixed assets			
Intangible assets		**11,972**	13,107
Tangible assets		**87,405**	100,790
Investments		**5,341**	12,070
Investments – MMH at cost		**–**	30,268
Total fixed assets		**104,718**	156,235
Current assets			
Stocks and work-in-progress		**27,985**	22,057
Debtors – Amounts falling due within one year		**95,160**	93,489
– Amounts falling due after more than one year		**42,951**	20,446
Investments – MMH at cost		**30,268**	–
Cash at bank and in hand	10	**3,689**	10,076
		200,053	146,068
Creditors: amounts falling due within one year			
Bank loans and overdrafts	10	**(44,848)**	(25,979)
Other creditors		**(86,374)**	(118,833)
		(131,222)	(144,812)
Net current assets		**68,831**	1,256
Total assets less current assets		**173,549**	157,491
Creditors: amounts falling due after more than one year			
Other creditors		**(19,042)**	(18,922)
		(19,042)	(18,922)
Provision for liabilities		**(18,043)**	(11,787)
Net assets before pension liability		**136,464**	126,782
Pension liability	11	**–**	(4,633)
Net assets		**136,464**	122,149
Capital and reserves			
Called up share capital		**15,785**	15,785
Share premium account		**611**	611
Capital redemption reserve		**130**	130
Cashflow hedge reserve		**4,309**	1,770
Profit and loss account		**115,629**	103,853
Shareholders' funds and total capital employed		**136,464**	122,149

Consolidated Statement of Changes in Equity

for the12 months ended 31 December

	Notes	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total £'000
Balance at 31 December 2020		**15,785**	**611**	**130**	**1,770**	**103,853**	**122,149**
Total comprehensive income for the period		**–**	**–**	**–**	**2,539**	**15,634**	**18,173**
Equity dividends payable	8	**–**	**–**	**–**	**–**	**(3,858)**	**(3,858)**
Balance at 31 December 2021		**15,785**	**611**	**130**	**4,309**	**115,629**	**136,464**

	Notes	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total £'000
Balance at 31 December 2019		15,785	611	130	3,841	97,973	118,340
Total comprehensive income / (expense) for the period – restated		–	–	–	(2,071)	9,893	7,822
Equity dividends payable	8	–	–	–	–	(4,013)	(4,013)
Balance at 31 December 2020		**15,785**	**611**	**130**	**1,770**	**103,853**	**122,149**

Consolidated Statement of Cash Flows

for the 12 months ended 31 December

	Notes	**2021 (unaudited) £'000**	2020 (unaudited) £'000
Net cash (outflow) / inflow from operating activities	9	**(33,717)**	2,106
Investing activities			
Interest received		**293**	–
Payments to acquire intangible assets		**(5,455)**	(6,688)
Payments to acquire tangible assets and investments		**(12,298)**	(22,880)
Receipts from sales of fixed assets		**23,350**	10,179
Receipts from sales of investments		**6,915**	203
Receipts from sales of businesses/subsidiaries		**602**	–
Net cash inflow/(outflow) from investing activities		**13,407**	(19,186)
Financing activities			
Bank and other interest paid		**(933)**	(288)
Dividends paid to preference shareholders	8	**(744)**	(744)
Equity dividends paid	8	**(3,269)**	(3,269)
Proceeds from borrowings		**18,869**	40,979
Repayment of borrowings		**–**	(20,851)
Net cash inflow from financing activities		**13,923**	15,827
Decrease in cash at bank and in hand		**(6,387)**	(1,253)
Cash balance at start of period		**10,076**	11,463
Effect of exchange rates on cash and cash resources		**–**	(134)
Decrease in cash and cash equivalents		**(6,387)**	(1,253)
Cash balance at close of period		**3,689**	10,076

Notes to the Operating Review

for the 12 months to 31 December

1. Accounting Policies

The Group has applied the same accounting policies and methods of computation in its Operating Review as in its 2020 Annual Report and Accounts, except as explained below.

(a) Basis of Preparation

Except for not including the consolidation of Marshall Motor Holdings plc (MMH) in the consolidation, these unaudited statements have been prepared in compliance with applicable UK accounting standards.

Due to MMH's change in reporting date, MMH has not prepared statutory accounts for the period ended 31 December 2021 and no audit was undertaken. As such, this Operating Review excludes MMH from the consolidated financial statements, with the Balance Sheet including MMH at the original cost of the investment and the Income Statement recognising dividends received.

As MMH is more than 50% owned by the Group at the Balance Sheet date, MMH's results should be consolidated into the Group's results to be fully compliant with applicable UK accounting standards.

The comparative information for the year ended 31 December 2020 in this Operating Review does not therefore constitute statutory accounts for that year but is extracted from the consolidated statutory accounts. That extraction, which includes adjustments in relation to MMH to achieve the objectives described above, has not been audited and as such, the comparative information is described as "unaudited". The statutory accounts for the year ended 31 December 2020 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

(b) Going Concern

The directors have adopted the going concern basis in preparing the Operating Review. In forming this opinion directors have considered 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 directors assessment includes c.£202m cash receipt, received in May 2022, following the sale of the Group's shareholding 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 review of these financial statements.

2. Significant Events and Transactions

The significant events and transactions which have occurred since 31 December 2020 and relate to the Group's Operating Review for the twelve months ended 31 December 2021 are summarised as follows:

(a) Government Grants

The Core Group (the Group excluding MMH) repaid 2020 receipts from the Coronavirus Job Retention Scheme (CJRS) amounting to £0.7m. The Core Group did not utilise the CJRS in 2021.

(b) Property Transactions

In March 2021, the land known as the Land North of Cherry Hinton was sold to Bellway Homes for £34.5m, realising a profit on disposal of £20.8m. The profit recognised is inclusive of a provision for land remediation. £8.0m of the consideration was received on completion, with the remainder deferred, to be paid in four equal, annual instalments of £6.6m.

Also in March 2021, the joint venture agreement with Hill Developments was finalised for Phase 2 of the Marleigh development. The final land parcel was slightly larger than that originally transferred into the joint venture in 2018, resulting in the recognition of £2.2m of additional profit on transfer. As with Phase 1, 50% of the additional profit has been deferred until built units are sold. The Phase 2 land was valued at £25.0m, with the Group receiving £12.5m of cash on completion of the agreement.

(c) Global 6000 Aircraft Integration Programme

As a result of the pandemic, supply chain, regulatory and technical issues, the completion of the programme has been significantly delayed from the timeline agreed with the customer in the Joint Accord. As such, estimated costs to completion have increased resulting in an additional loss provision of £6.9m being recognised in 2021. An agreement in principle has been reached with the customer for the completion of the remaining works in 2022.

(d) ERP Software Implementation

The directors have recognised an impairment charge of £4.4m against the intangible asset relating to the new ERP software systems in Aerospace and Land Systems. This charge reflects the difficulty of implementing the software through the pandemic and responding to changes in the specification and application of the software through the implementation processes.

(e) Change in Corporation Tax Rate

During the period, the UK Government substantively enacted the planned increase in the standard rate of corporation tax from 19% to 25% from April 2023.

The opening deferred tax balances were remeasured at the new rate, resulting in a deferred tax charge to the Consolidated Income Statement of £1.4m.

(f) Disposal of Martlet Capital

During the period Martlet Capital, which funds early-stage technology start-ups in the Cambridge area, was sold to a new independent business led by Robert Marshall.

Notes to the Operating Review
for the 12 months to 31 December

3. Segmental Analysis

Revenue

	2021 (unaudited) £'000	2020 (unaudited) £'000
Aerospace	**232,681**	229,270
Land Systems	**40,579**	44,240
Group Properties (including share of revenue in joint ventures)	**29,123**	8,078
Fleet Solutions	**54,291**	45,694
Slingsby Advanced Composites	**8,335**	10,284
Skills Academy	**2,024**	1,808
Futureworx	**–**	–
Aeropeople (sold in the year)	**3,383**	12,803
Other	**518**	385
Internal sales	**(6,672)**	(18,863)
Total	**364,262**	333,699

Profit/(loss) before tax

	2021 (unaudited) £'000	2020 (unaudited) £'000
Aerospace	**(5,256)**	12,574
Land Systems	**(6,086)**	2,225
Group Properties	**32,395**	10,763
Fleet Solutions	**118**	57
Slingsby Advanced Composites	**376**	153
Skills Academy	**(420)**	(306)
Futureworx	**(875)**	–
Aeropeople (sold in the year)	**(33)**	(973)
MMH dividends	**4,465**	–
Unallocated central costs	**(8,055)**	(8,920)
Total	**16,629**	15,573

Underlying profit/(loss) before separately disclosed exceptional items and before tax

	2021 (unaudited) £'000	2020 (unaudited) £'000
Aerospace	**7,881**	16,127
Land Systems	**(6,086)**	2,225
Group Properties	**11,327**	4,453
Fleet Solutions	**118**	127
Slingsby Advanced Composites	**376**	153
Skills Academy	**(420)**	(306)
Futureworx	**(875)**	–
Aeropeople (sold in the year)	**(33)**	(973)
Unallocated central costs	**(6,337)**	(5,741)
Total	**5,951**	16,065

4. Separately Disclosed Exceptional Items

	2021 (unaudited) £'000	2020 (unaudited) £'000
Restructuring costs	**(2,415)**	(5,661)
Contract loss provision	**(6,930)**	–
Intangible fixed asset impairment	**(4,352)**	–
Exovent ventilator development costs	**–**	(801)
Items directly attributed to the COVID-19 pandemic	**(1,158)**	(315)
Dividend received from Marshall Motor Holdings plc	**4,465**	–
Profit on disposal of tangible assets	**21,068**	6,285
Separately disclosed exceptional items	**10,678**	(492)

5. Other Income

	2021 (unaudited) £'000	2020 (unaudited) £'000
Coronavirus Job Retention Scheme grant (repaid)/received	**(731)**	731
Research and development expenditure tax credit	**479**	1,069
Rent received	**213**	288
Deferred land profit	**3,383**	451
Trademark licence income	**100**	100
Other income	**3,444**	2,639

6. Operating Profit

	2021 (unaudited) £'000	2020 (unaudited) £'000
Operating profit is after charging/(crediting):		
Depreciation of tangible assets	**7,751**	8,230
Amortisation and impairment of intangible assets	**6,545**	–
Profit on disposal of land and buildings	**(21,068)**	–
Gain on revaluation of investment properties	**(623)**	(104)
Gain on revaluation of investments	**(974)**	(1,988)
Amounts provided against investments	**205**	425

Notes to the Operating Review

for the 12 months to 31 December

7. Net Finance Charges

	2021 (unaudited) £'000	2020 (unaudited) £'000
Bank interest receivable	**(293)**	–
Interest receivable from joint ventures	**(708)**	(118)
Unwind of discounting	**(1,208)**	(1,260)
Bank loans and overdrafts – interest and charges	**933**	220
Interest payable to joint ventures	**390**	526
Other interest	**–**	68
Interest on defined benefit scheme liabilities	**55**	47
Present value adjustment – deferred receivable on land sale	**849**	604
Net finance charges	**18**	87

8. Dividends

	2021 (unaudited) £'000	2020 (unaudited) £'000
Dividends on Ordinary shares		
In respect of 2020 – Interim of 1.00p per share	**–**	138
In respect of 2020 – Interim of 3.00p per share	**–**	415
In respect of 2020 – Interim of 3.00p per share	**415**	–
In respect of 2021 – Interim of 1.00p per share	**138**	–
	553	553
Dividends on NVPO shares		
In respect of 2020 – Interim of 3.00p per share	**–**	1,358
In respect of 2020 – Interim of 3.00p per share	**–**	1,358
In respect of 2020 – Interim of 3.00p per share	**1,358**	–
In respect of 2021 – Interim of 3.00p per share	**1,358**	–
	2,716	2,716
Dividends on preference shares		
A preference shares (2021: 8.00p)	**384**	384
B preference shares (2021: 10.00p)	**360**	360
	744	744
Reversal of accrual for preference dividends	**(155)**	–
Aggregate dividends paid	**3,858**	4,013

A second interim dividend in respect of 2021 of 3.00p per Ordinary share and 3.00p per NVPO share, amounting to £1,773,000 will be paid on 8 July 2022.

9. Reconciliation of profit to net cash inflow from operating profit

	2021 (unaudited) £'000	2020 (unaudited) £'000
Profit before tax	**16,629**	15,573
(Profit) on disposal of land and buildings	**(22,181)**	(7,178)
Share of profit in the year in joint ventures	**(3,517)**	(428)
Deferred land profit	**(3,383)**	(451)
Gain on investment properties at fair value through profit and loss	**(623)**	(104)
Gain on investments at fair value through profit and loss	**(769)**	(1,563)
Net finance charges	**18**	87
Foreign exchange movement	**–**	(2,378)
Depreciation of tangible fixed assets and impairment charges	**7,751**	8,040
Amortisation and impairment of intangible fixed assets	**6,545**	463
R&D tax claim	**(479)**	(1,061)
Increase in stocks	**(5,928)**	(2,148)
Decrease in debtors	**933**	3,123
Increase in provisions	**1,405**	3,400
Decrease in creditors	**(26,637)**	(13,178)
Adjustment for pension funding	**(1,227)**	(1,201)
UK and overseas corporation tax (paid)/received	**(2,254)**	1,110
Cash (outflow)/inflow from operating activities	**(33,717)**	2,106

10. Net Debt Reconciliation

	2021 (unaudited) £'000	2020 (unaudited) £'000
Cash at bank and in hand	**3,689**	10,076
Bank loans and overdrafts due in less than one year	**(44,848)**	(25,979)
Net debt at end of period	**(41,159)**	(15,903)

11. Pension

The valuation of the defined benefit section of the Marshall Group Executive Plan under FRS102 has been based on the actuarial valuation, performed by Buck Consultants, as at 31 December 2021.

The valuation surplus of £2.1m (2020 deficit – £4.6m) has not been recognised in the Consolidated Balance Sheet as the Group is unable to recover the surplus through reduced contributions in the future or through refunds from the plan.

12. Post Balance Sheet Event

In November 2021, the Group gave an irrevocable undertaking to Constellation Automotive Holdings (Buyer) that it would accept an offer of 400p for each of its 50.4m shares in MMH. On 29 November 2021, the Buyer announced details of its offer to the market, seeking acceptances from other shareholders to achieve a 100% takeover of the business. Full details of the offer were published on 14 December 2021. Following receipt of regulatory approval, the Buyer declared the offer unconditional on 11 May 2022. Disposal receipts of £201.6m were received by the Group on 25 May 2022.

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