

**Safran Seats GB Limited, formerly Zodiac Seats UK  
Limited**

**Registered No. 278391**

**Report and Financial Statements**

**31 December 2018**



**Directors**

E Manzon  
V Mascré  
C Thomasson  
V Foy

**Auditors**

Ernst & Young LLP  
The Paragon  
Counterslip  
Bristol BS1 6BX

**Bankers**

Barclays Bank PLC  
15 Colmore Row  
Birmingham B3 2WN

**Solicitors**

Pinsent Mason LLP  
3 Colmore Circus  
Birmingham B4 6BH

Pinsent Mason LLP  
1 Park Row  
Leeds LS1 5AB

**Registered Office**

Kestrel House  
Lakeside  
Llantarnam Industrial Park  
Cwmbran  
Wales NP44 3HQ

## Strategic report

The directors present their strategic report and the financial statements for the 16 month period ended 31 December 2018.

### Principal activity and review of the business

The company's principal activity is the design and manufacture of first, business class and premium economy seating and aircraft interior furniture supported by an established aftermarket business (refurbishment, retrofit and spares). Our customer base includes the world's leading international airlines and the major commercial aircraft manufacturers.

Following the acquisition of Zodiac Aerospace by Safran in February 18, the financial reporting period was aligned with Safran's year-end close and therefore extended from the 12 months ending August 2018 to 16 months ending December 2018.

The company had a satisfactory trading period in the 16 months to 31 December 2018 generating revenue of £275m (pre IFRS15 Adjustment £256m) (2017 – £193m (pre IFRS15 Adjustment £201m)) and operating loss of £59m (pre IFRS15 Adjustment £60m loss) (2017 – £59m loss (pre IFRS15 adjustment loss of £60.4m)). During the 2018 reporting period, the profit and loss impact of provisions for liability and charges was £51.3m leaving closing provision for liabilities at £46.3m (2017 - £18.1m). Net liabilities are £74.3m (pre IFRS15 adjustment (£73.0m) (2017 – net liabilities of £15.7m (pre IFRS15 adjustment £12.9m)).

The company is reporting an operational loss for the period, significant investment has been made during the year in improvement activities and in implementing best practices. These will give rise to sustainable improvements in performance across the full scope of the business.

### Key areas of strategic development and performance of the business include:

- Sales and marketing: new and replacement business is being won regularly; new markets have been developed in line with the company's strategy; with strong customer relationships key to the company's success. The improved commercial practices are now enabling the company to successfully bid for orders at appropriate margin levels.
- People: investment has been made in first tier management and the strengthening of second tier management. The company is committed to developing talent and is benefitting from leadership and training programmes provided internally by Safran University and through local training providers. These programmes will ensure we develop our talent today and leaders for the future.
- Processes: new product introduction processes continue to be improved through the adoption of the Safran PROMPT Program Management Referential.
- Research and Development: investments have increased in R&D (up 500% on a prior year annualised basis) with significant investments in a new platform to be made in existing markets and new areas of technology to strengthen the product portfolio and offering of Safran Seats GB Limited.
- Production efficiencies have been gained and new initiatives for process and efficiency improvements continue to be developed and implemented. The company monitors and continues to gain efficiencies through investment in lean training and Hoshin Kanri activities.
- Competitive advantage: the company operates in highly competitive markets and focuses on areas where it has competitive advantage such as innovative and robust design and engineering capability. As a result, the company is well positioned in terms of sustainable long term growth.

## Strategic report (continued)

### Future developments

The company is continuing to take the necessary actions to ensure that it remains well-placed to continue strong growth and financial performance in the aerospace market. This includes modernisation of facilities and I.T. and leveraging the resources of the Safran Group.

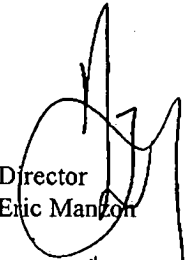
The order book of the company remains strong, with orders in excess of £234 million (of which £43 million is due to IFRS15 adjustment for recognition of engineering revenues in line with contractual performance obligations).

### Principal risks and uncertainties

- **Foreign currency exchange:** the company monitors closely short, medium and long term exchange rates and applies the group's policy of hedging against currency fluctuations relating to transactions with an underlying business requirement. All hedging is carried out by the ultimate parent undertaking.
- **Raw material quality, availability and prices:** the company works closely with key suppliers to ensure that raw materials are of the quality required, that suppliers have sufficient access to our demand schedule to ensure on time delivery, as well as driving cost initiatives including negotiating forward purchase contract terms where appropriate and e-auctions.
- **Customer relationships:** the company maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed. Entry into service of our products is of upmost importance to both Safran Seats UK, the Group and our customers and the company will work closely with our customers to ensure our entry into service meets their expectations at all times.
- **Contract risk:** the company conducts significant elements of its business under customer contracts which include performance, delivery and other aerospace specific conditions. The key to the management of contract risk is robust procedures, supported by effective legal and operational management. Rigorous review processes are in place across the company to ensure that financial, qualitative and quantitative parameters are met.
- **The effect of legislation or other regulatory activities:** the company monitors forthcoming and current legislation regularly.
- **New product, project and technology risk:** the company develops and introduces new products in support of its existing and new programme activities. All new product development involves business risk both in terms of possible abortive expenditure and reputation. Such risks are managed to reduce the impact, if any, on the company.
- **Political risk:** The full business implications of Brexit remain uncertain, which will be the case for some time, and any risks arising will be a key focus area for management in the next financial year. Currency fluctuations, trading arrangements, employment issues and other risks that become apparent over time will be monitored by management and mitigation put in place where possible.
- **Market risk:** All appropriate measures are taken to protect the company's intellectual property rights and to minimise the risk of infringement of third party rights.

## Strategic report (continued)

On behalf of the Board



Director  
Eric Manson

Date: 12<sup>th</sup> November 2019

Registered No. 278391

## Directors' report

The directors present their report and financial statements for the 16 month period ended 31 December 2018.

The company's business activities, together with the factors likely to affect its financial position, financial risk management objectives, and its exposure to risk are described in the Strategic Report on pages 2 to 4.

### Results and dividends

The loss for the year after taxation amounted to £58,659,000 (2017 – loss of £59,231,000). The directors do not recommend a final dividend (2017 – £nil).

### Directors

The directors who served the company during the year and appointed subsequently were as follows:

N McManus (resigned 15 May 2019)  
E Manzoni  
A Doutriaux (resigned 12 February 2018)  
V Mascré (appointed 23 February 2018)  
C Thomasson (appointed 31 January 2019)  
V Foy (appointed 2 October 2019)

### Safran Acquisition of Zodiac Aerospace

On February 13<sup>th</sup> 2018, Zodiac Aerospace Group joined Safran's Group through a takeover process.

On December 3<sup>rd</sup> 2018, Zodiac Seats UK Limited filed a change of name to companies house, changing the name to Safran Seats GB Limited.

### Health and safety and the environment

The company recognises its responsibilities on all matters relating to health, safety and the environment. During the year the business has continued to update its health and safety policies and provide advice and support to staff, training and education on health and safety matters.

The company aims to manage its activities so that any adverse effects on the environment are minimised. A policy statement has been produced which reaffirms the company's commitment to environmental, social and economic sustainability. This has been discussed within the organisation to raise awareness and agree practical ways of implementation.

### Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £6,500 (2017 – £2,818).

### Employee involvement

Management of the company are responsible for:

- the development of employee involvement and communication policies which are appropriate to their own particular needs and in line with accepted practices;

## Directors' report (continued)

- ensuring that no employee or potential employee receives less favourable treatment on the grounds of sex, marital status, colour, race, nationality, religious beliefs or disability;
- selection and promotion being based on the suitability of an individual's skills, aptitude and experience for the job; and
- fully and fairly considering applications for employment from disabled persons having regard to the aptitudes and abilities of the applicant. In the event of disability, every effort is made to ensure that suitable training for employment with the company or elsewhere is given.

### Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The company has access to a cash management agreement with Safran SA under which the company has access to funds from the group as the need arises.

The directors recognise the reported current loss and net liability position and are taking actions to improve the financial position and the longer term sustainability of the business. As outlined earlier, these actions include introducing a senior management team and stronger governance of the entity and its performance. To this end, a clear strategy and roadmap has been developed and improvement activities launched. In the current year to 31<sup>st</sup> December 2019, the directors anticipate that operational performance will be closer to breakeven level. With a strong commitment to meeting our customer delivery requirements, supported by strong governance of processes and improvement projects, it is anticipated that the over the duration of the medium term plan, the business will become profitable. The medium term plan is shared with and approved by Safran Seats at Group level, and with Safran Group who continue to fund the business as a going concern and have provided the necessary commitment to do so to the directors.

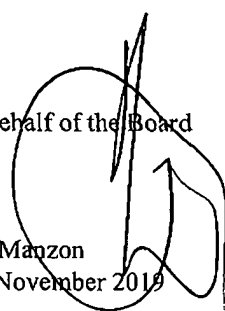
### Disclosure of information to the auditors

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 the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

Due to Safran SA Auditor rotation policy, the decision was made that Ernst & Young LLP will not be reappointed as auditors for 2019 and will be replaced by Mazars.

On behalf of the Board



Eric Manzon  
12<sup>th</sup> November 2019

## Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare 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 FRS101. 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 judgments 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 auditors' report**

**to the members of Safran Seats GB Limited, formerly Zodiac Seats UK Limited**

## **Opinion**

We have audited the financial statements of Safran Seats GB Limited, formerly Zodiac Seats UK Limited, for the 16 month period ended 31 December 2018 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 25, 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 FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 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.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **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.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# **Independent auditors' report**

**to the members of Safran Seats GB Limited, formerly Zodiac Seats UK Limited**

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

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

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

## **Matters on which we are required to report by exception**

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 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

# Independent auditors' report

to the members of Safran Seats GB Limited, formerly Zodiac Seats UK Limited

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

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

*Ernst & Young LLP*

Paul Mapleston (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Bristol

Date: *18th November 2019*

## Statement of comprehensive income

for the 16 month period ended 31 December 2018

		<i>16 month</i>	
		<i>Period ended</i>	<i>Year ended</i>
		<i>31 December</i>	<i>31 August</i>
		<i>2018</i>	<i>2017</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
			<i>Restated</i>
			<i>(note 2.2)</i>
<b>Revenue from contracts with customers</b>	4	274,968	193,381
Cost of sales		(312,180)	(218,511)
<b>Gross loss</b>		(37,212)	(25,130)
Distribution costs		(7,426)	(7,572)
Administrative expenses		(33,385)	(28,991)
<b>Operating loss</b>	5	(78,023)	(61,693)
Interest receivable and similar income	8	36	15
Interest payable and similar charges	9	(1,669)	(699)
<b>Loss on ordinary activities before taxation</b>		(79,656)	(62,377)
Tax	10	20,997	3,146
<b>Loss for the financial year</b>		(58,659)	(59,231)
<b>Other comprehensive income:</b>			
Other comprehensive income		—	—
<b>Total comprehensive loss for the year</b>		(58,659)	(59,231)

All amounts relate to continuing activities.

## Statement of financial position

at 31 December 2018

		31 December 2018 £000	31 August 2017 £000	1 September 2016 £000
	Notes		Restated (note 2.2)	Restated (note 2.2)
<b>Fixed assets</b>				
Intangible assets	11	8,689	3,824	3,993
Tangible assets	12	6,376	8,321	7,677
		<u>15,065</u>	<u>12,145</u>	<u>11,670</u>
<b>Current assets</b>				
Stocks	13	74,643	102,657	76,982
Debtors	14	54,585	42,487	42,665
Cash at bank and in hand		3	-	3,544
		<u>129,231</u>	<u>145,144</u>	<u>123,191</u>
<b>Creditors: Current creditors falling due within one year</b>	15	(151,130)	(134,154)	(56,400)
<b>Net current (liabilities)/assets</b>		<u>(21,899)</u>	<u>10,990</u>	<u>66,791</u>
<b>Total (liabilities)/assets less current (liabilities)/assets</b>		(6,834)	23,135	78,461
<b>Creditors: Non-current creditors falling due greater than one year</b>	16	(21,235)	(20,720)	(31,543)
Provisions for liabilities	17	(46,256)	(18,081)	(3,353)
<b>Net liabilities</b>		<u>(74,325)</u>	<u>(15,666)</u>	<u>43,565</u>
<b>Capital and reserves</b>				
Called up share capital	18	25,864	25,864	25,864
Profit and loss account		<u>(100,189)</u>	<u>(41,530)</u>	<u>17,701</u>
<b>Shareholders' deficit</b>		<u>(74,325)</u>	<u>(15,666)</u>	<u>43,565</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 12<sup>th</sup> November 2019 by:

Director

Eric Manzon

## Statement of changes in equity

for the 16 month period ended 31 December 2018

	<i>Share capital</i> £000	<i>Retained earnings</i> £000	<i>Total equity</i> £000
At 1 September 2016 (restated, <a href="#">note 2.2</a> )	25,864	17,701	43,565
Loss for the financial year	—	(59,231)	(59,231)
At 31 August 2017 (restated, <a href="#">note 2.2</a> )	25,864	(41,530)	(15,666)
Loss for the financial year	—	(58,659)	(58,659)
Other comprehensive income for the year	—	—	—
At 31 December 2018	25,864	(100,189)	(74,325)

## Notes to the financial statements

at 31 December 2018

### 1. Corporate information

The financial statements of Safran Seats GB Limited, formerly Zodiac Seats UK Limited (the "Company") for the period ended 31 December 2018 were authorised for issue by the board of directors on 28<sup>th</sup> October 2019 and the balance sheet was signed on the board's behalf by Eric Manzon. The Company is a private company limited by shares. The Company address is Kestrel House, Lakeside, Llantarnam Industrial Park, Cwmbran, Wales, NP44 3HQ. It is incorporated and domiciled in the United Kingdom.

The company's principal activity is the design and manufacture of first, business class and premium economy seating and aircraft interior furniture supported by an established aftermarket business (refurbishment, retrofit and spares). Our customer base includes the world's leading international airlines and the major commercial aircraft manufacturers.

### 2. Accounting policies

#### **2.1 Authorisation of financial statements and statement of compliance with FRS 101**

These financial statements were prepared in accordance with FRS 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The company has used a true and fair view override in respect of the non-amortisation of goodwill (note 11).

The Company's financial statements are presented in Sterling which is also the company's functional currency, and all values are rounded to the nearest thousand (£000) except where otherwise stated.

The company is a wholly owned subsidiary of the Safran S.A. Group, the group financial statements of which are publicly available. As such the company has taken advantage of the exemption under s400 of the Companies Act 2006 not to present group accounts.

The principal accounting policies adopted by the Company are set out below.

#### **Basis of preparation**

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 December 2018. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity;
- (b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- (c) the requirements of IFRS 7 Financial Instruments: Disclosures,
- (d) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- (e) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets;

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *Basis of preparation (continued)*

(f) the requirements of the following paragraphs of IAS 1 Presentation of Financial Statements;

10(d) and 111 – a statement of cash flows for the period;

10(f) – a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements;

16 – a statement of compliance with IFRS, which is not applicable since we are adopting FRS101 rather than following IFRS in full;

38A-D and 40A-D – a third statement of financial position, profit and loss and other comprehensive income, statement of changes in equity and other additional comparative information;

134-136 – disclosure of management of capital;

(g) the requirements of IAS 7 Statement of Cash Flows;

(h) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(i) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(j) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

(k) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c) 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

#### **Going concern**

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The company has access to a cash management agreement with Safran SA under which the company has access to funds from the group as the need arises.

The directors recognise the reported current loss and net liability position and are taking actions to improve the financial position and the longer term sustainability of the business. As outlined earlier, these actions include introducing a senior management team and stronger governance of the entity and its performance. To this end, a clear strategy and roadmap has been developed and improvement activities launched. In the current year to 31<sup>st</sup> December 2019, the directors anticipate that operational performance will be closer to breakeven level. With a strong commitment to meeting our customer delivery requirements, supported by strong governance of processes and improvement projects, it is anticipated that over the duration of the medium term plan, the business will become profitable. The medium term plan is shared with and approved by Safran Seats at Group level, and with Safran Group who continue to fund the business as a going concern and have provided the necessary commitment to do so to the directors.



## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies – (continued)

#### *Research and development*

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Research and development costs recharged onto customers are treated as contract costs and are not capitalised.

#### *Intangible fixed assets*

##### **Goodwill**

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Changes in the fair value of contingent or deferred consideration are recognised against the asset within the measurement period. After this period changes in the fair value of such consideration is recognised in the profit and loss account.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. The company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Goodwill is tested for impairment annually as at 31 December 2018 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *Intangible fixed assets*

##### **Software:**

Amortisation for computer software is calculated on cost on a straight-line basis to write off the relevant assets over their expected useful lives between 1 and 10 years.

#### *Tangible fixed assets*

Depreciation is calculated on cost on a straight-line basis to write off the relevant assets over their expected useful lives. The principal annual rates used are as follows:

Plant and office equipment	–	10%
Vehicles	–	25%
Computer hardware	–	20-33.3%
Production tooling	–	33.3%

Leasehold properties are amortised over the shorter of 50 years and the unexpired portion of the lease.

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

#### *Revenue from contracts with customers*

The Company recognises revenue as follows:

##### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each arrangement with a customer, the Company: identifies whether the arrangement meets the definition of a contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each performance obligation to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts or any other contingent events such as sales or usage-based royalties. Such estimates are determined using either the 'expected value' or 'most likely amount' method.

The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability. Whenever applicable, the Company applies the variable consideration allocation exception to recognise revenue for variable amount related to a distinct service that forms part of a single performance obligation.

##### *Sales of Engineering Services and Original Equipment*

Contracts for bundled sales of engineering services and original equipment are comprised of two performance obligations because the promises to engineer airworthy equipment and to transfer the equipment are capable of being distinct and separately identifiable. Accordingly, the Company allocates

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *Revenue from contracts with customers (continued)*

##### *Sales of Engineering Services and Original Equipment (continued)*

the transaction price based on the relative stand-alone selling prices of the engineering service and original equipment.

The Company recognises revenue from engineering services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. Revenue from the sale of the original equipment are recognised at a point in time, generally upon delivery of the equipment.

Engineering services (Development) work may be carried out prior to production and be wholly or partly financed by the customer. Development work financed by customers is generally inseparable from serial production and does not therefore represent a separate performance obligation. Accordingly, customer financed development work will be recognised within contract liabilities in the balance sheet when the funding is received, and subsequently taken to serial revenue in full as and when the related products are delivered.

However, financed development work that represents a separate performance obligation is recognised in revenue upon completion of the performance obligation when control is transferred at a point in time, or on a percentage-of-completion basis (cost-to-cost method) if control is transferred over time.

#### *Contract costs:*

As a result of the revenue recognition policy, the costs incurred to deliver contracted engineering service which are part of a bundled contract, are now capitalised as a cost to fulfil a contract and reported in stocks (see disclosure noted below) and amortized in line with the revenue recognition for the supply of the service.

#### *Sales of Aftermarket Parts*

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Revenue from sales of aftermarket parts is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The normal credit term is 30 to 90 days upon delivery.

No variable consideration has been identified in the sales of aftermarket parts.

#### *Aftermarket Services*

Revenue from sales of aftermarket services (on-wing technicians performing maintenance on customer product once the aircraft has landed at an airport) are recognised at the point in time when the benefit is transferred to the customer, generally when the service has been performed. The normal credit term is 30 to 90 days upon delivery.

No variable consideration has been identified in the sales of aftermarket services.

#### *Contract balances*

##### *i) Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *Revenue from contracts with customers (continued)*

##### *ii) Trade receivables*

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial instruments.

##### *iii) Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

#### **Stocks**

Stocks and work in progress are stated at the lower of cost and estimated realisable value. Cost includes materials, direct labour and the appropriate proportion of production overheads.

#### **Taxation**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exception:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

#### **Foreign currencies**

The Company's functional currency and presentation currency is pounds sterling. Transactions in foreign currencies are initially recorded in the 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

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *Foreign currencies (continued)*

the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The company does not apply hedge accounting of foreign exchange risks in its company financial statements.

#### *Leasing and hire purchase commitments*

Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the term of the lease, including any secondary period, and the expected useful life. The obligation to pay future rentals is included in creditors net of finance charges allocated to future periods. The financial charge element of rentals is calculated on the reducing balance of capital outstanding and charged to the appropriate accounting period through the profit and loss account.

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

#### *Government Grants*

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal amounts over the expected useful lives of the relevant assets.

#### *Financial Instruments*

The Company is applying the requirements of IFRS 9 to all financial instruments. Financial assets and financial liabilities are recognised when the party become party to the contractual provisions of the instrument.

##### *i) Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### *ii) Financial assets*

###### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *Financial instruments (continued)*

##### *ii) Financial assets (continued)*

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Company's financial assets include trade and other receivables.

#### *Subsequent measurement*

Financial assets at amortised cost

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to expected credit loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

#### *Derecognition of financial assets*

A financial asset is derecognised when

- The rights to receive cash flows from the asset have expired or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### *Impairment of financial assets*

For trade receivables that are expected to have a maturity of one year or less, the Company has applied the practical expedient and followed the simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and amounts owed from group undertakings, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ('the lifetime expected credit losses'). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *iii) Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or as loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, and derivative financial instruments.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

**Financial liabilities at fair value through profit or loss:** Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

**Loans and borrowings:** After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

##### *Derecognition of financial liabilities*

A liability is generally derecognised when the contract that gives rise to it is extinguished i.e. settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

#### *iii) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle liabilities simultaneously.

#### *iv) Derivatives*

The Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

#### *Pensions*

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. The assets of the scheme are held separately in an independently administered fund.

#### *Share-based payments*

The Safran S.A. Group has committed to awarding Safran Seats stock option plans to certain employees and Executive Board members.

The fair value of services rendered by employees as consideration for the options granted is expensed and recorded according to the services at the time they are rendered. This expense is measured on the basis of actuarial calculations built on behavioural assumptions derived from past observations. The cost is spread

## Notes to the financial statements

at 31 December 2018

### 2.1 Accounting policies (continued)

#### *Share-based payments (continued)*

over the benefit vesting period. The total amount of the expense to be recognized is measured by reference to the fair value of the options granted, using the binomial model.

#### *Onerous Contracts*

If the company has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the company recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract which is the lower of the cost of fulfilling it and any compensation or penalties arising from the failure to fulfil it.

#### *Warranty provisions*

Provision is made for the estimated liability of all products under warranty and is treated as a charge to cost of goods sold and not a reduction in revenue.

### 2.2 Changes in accounting policies and disclosures

The Company has adopted the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The company applied IFRS 15 and IFRS 9 for the first time for the period ended 31 December 2018. The nature and effect of the changes as a result of the adoption of these new standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The company adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Company did not apply any of the other available optional practical expedients.

In accordance with IAS 8, since this represents a change in accounting policy, comparative information for the prior period is presented in the 2018 financial statements showing the impact of the "full retrospective" application of IFRS 15.



## Notes to the financial statements

at 31 December 2018

### 2.2 Changes in accounting policies and disclosures (continued)

#### IFRS 15 Revenue from Contracts with Customers (continued)

The effect of adopting IFRS 15 is as follows:

#### Impact on statement of comprehensive income (increase/(decrease) in profit):

		<i>Year ended 31 August 2017 £000</i>	<i>Year ended 31 August 2017 £000</i>	<i>Year ended 31 August 2017 £000</i>
	<i>Notes</i>			
			<b>IFRS 15</b>	
		<b>Reported</b>	<b>Adjustment</b>	<b>Restated</b>
<b>Revenue from contracts with customers</b>	(a)	201,211	(7,830)	193,381
Cost of sales	(a)	(227,564)	9,053	(218,511)
<b>Gross loss</b>		(26,353)	1,223	(25,130)
Distribution costs		(7,572)	—	(7,572)
Administrative expenses		(28,991)	—	(28,991)
<b>Operating loss</b>		(62,916)	1,223	(61,693)
Interest receivable and similar income		15	—	15
Interest payable and similar charges		(699)	—	(699)
<b>Loss on ordinary activities before taxation</b>		(63,600)	1,223	(62,377)
Tax		3,146	—	3,146
<b>Loss for the financial year</b>		(60,454)	1,223	(59,231)
<b>Other comprehensive income:</b>				
Other comprehensive income		—	—	—
<b>Total comprehensive loss for the year</b>		(60,454)	1,223	(59,231)

The change did not have a material impact on OCI for the period.

## Notes to the financial statements

at 31 December 2018

### 2.2 Changes in accounting policies and disclosures (continued)

#### IFRS 15 Revenue from Contracts with Customers (continued)

Impact on statement of financial position at 31 August 2017 (increase/(decrease)):

	Notes	31 August 2017 £000	31 August 2017 £000	31 August 2017 £000	31 August 2017 £000
		Reported	Prior Year IFRS 15 Adjustment	IFRS 15 Adjustment	Restated
<b>Fixed assets</b>					
Intangible assets		3,824	–	–	3,824
Tangible assets		8,321	–	–	8,321
		<u>12,145</u>	<u>–</u>	<u>–</u>	<u>12,145</u>
<b>Current assets</b>					
Stocks	(a)	50,478	42,011	10,168	102,657
Debtors	(a)	57,022	(7,338)	(7,197)	42,487
Cash at bank and in hand		–	–	–	–
		<u>107,500</u>	<u>34,673</u>	<u>2,971</u>	<u>145,144</u>
<b>Creditors: Current (amounts falling due within one year)</b>	(a)	<u>(114,490)</u>	<u>(7,093)</u>	<u>(12,571)</u>	<u>(134,154)</u>
<b>Net current (liabilities)/assets</b>		<u>(6,990)</u>	<u>27,580</u>	<u>(9,600)</u>	<u>10,990</u>
<b>Total assets less current assets</b>		5,155	27,580	(9,600)	23,135
Provisions for liabilities		(18,081)	–	–	(18,081)
Creditors: Non Current	(a)	–	(31,543)	10,823	(20,720)
<b>Net (liabilities)/assets</b>		<u>(12,926)</u>	<u>(3,963)</u>	<u>1,223</u>	<u>(15,666)</u>
<b>Capital and reserves</b>					
Called up Share Capital		25,864	–	–	25,864
Profit and loss account	(a)	<u>(38,790)</u>	<u>(3,963)</u>	<u>1,223</u>	<u>(41,530)</u>
<b>Shareholders' (deficit)/funds</b>		<u>(12,926)</u>	<u>(3,963)</u>	<u>1,223</u>	<u>(15,666)</u>

## Notes to the financial statements

at 31 December 2018

### 2.2 Changes in accounting policies and disclosures (continued)

#### IFRS 15 Revenue from Contracts with Customers (continued)

Impact on statement of financial position at 1 September 2016 (increase/(decrease)):

		31 August 2016	31 August 2016	31 August 2016
	Notes	£000	£000	£000
		Reported	IFRS15 Adjustment	Restated
<b>Fixed assets</b>				
Intangible assets		3,993	–	3,993
Tangible assets		7,677	–	7,677
		<u>11,670</u>	<u>–</u>	<u>11,670</u>
<b>Current assets</b>				
Stocks	(a)	34,971	42,011	76,982
Debtors	(a)	50,003	(7,338)	42,665
Cash at bank and in hand		3,544	–	3,544
		<u>88,518</u>	<u>34,673</u>	<u>123,191</u>
<b>Creditors: Current</b> (amounts falling due within one year)	(a)	<u>(49,307)</u>	<u>(7,093)</u>	<u>(56,400)</u>
<b>Net current (liabilities)/assets</b>		<u>39,211</u>	<u>27,580</u>	<u>66,791</u>
<b>Total assets less current assets</b>		<u>50,881</u>	<u>27,580</u>	<u>78,461</u>
Provisions for liabilities		(3,353)	–	(3,353)
Creditors: Non Current	(a)	–	(31,543)	(31,543)
<b>Net (liabilities)/assets</b>		<u>47,528</u>	<u>(3,963)</u>	<u>43,565</u>
<b>Capital and reserves</b>				
Called up Share Capital		25,864	–	25,864
Profit and loss account		21,664	(3,963)	17,701
<b>Shareholders' (deficit)/funds</b>		<u>47,528</u>	<u>(3,963)</u>	<u>43,565</u>

## Notes to the financial statements

at 31 December 2018

### 2.2 Changes in accounting policies and disclosures (continued)

#### IFRS 15 Revenue from Contracts with Customers (continued)

The nature of these adjustments are described below:

- (a) Engineering revenue received from the customer during the development cycle of the product was recognised on an earned value basis under IAS 11 *Construction Contracts*, but is now deferred as an IFRS 15 Contract Liability and the revenue is amortized over the contract performance obligations which is the delivery of the original equipment

Engineering cost incurred during the development cycle of the product was recognised as these costs were incurred under IAS 11 *Construction Contracts*, but is now deferred as an IFRS 15 Cost to Fulfil a Contract and the cost is amortized over the contract performance obligations which is the delivery of the original equipment.

Any penalty obligations due to failure to meet the terms of the contract, which are accrued but not yet presented by the customer are accounted for as a reduction in sales rather than a charge to cost of sale. Upon presentation of the penalty the accounting treatment remains consistent.

The tax impact for the movement in the income statement as a result of the accounting change was nil because of the deferred tax asset position of the company as noted in note 10.

#### IFRS 9 Financial Instruments

The Company has adopted IFRS 9 'Financial Instruments: Recognition and Measurement' as at 1 January 2018. The Company has undertaken an assessment of its accounting policy as a result of the changes in the standard:

- A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest.
- A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flow which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value.
- All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, and accounting mismatch.
- For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

Management's review included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS.

Management's assessment was to consider whether the contractual cash flows of the financial instruments represented solely payments of principal and interest (SPPI) in order to determine whether the financial instruments should be classified at amortised cost or fair value through profit and loss.

Management concludes that the financial instruments should continue to be held at amortised cost. There are no changes in classification or measurement of its assets and liabilities as a result of adopting IFRS 9.

## Notes to the financial statements

at 31 December 2018

### 2.2 Changes in accounting policies and disclosures (continued)

#### IFRS 9 Financial Instruments (continued)

IFRS 9 introduces a new impairment model which requires the recognition of impairment provision based on expected credit losses rather than incurred credit losses, as was required under IAS 39.

A credit loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An expected credit loss is then calculated by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The company, through the supply of Premium First and Business class seats, is trading fundamentally with Tier 1 and Tier 2 Airlines for Original Equipment and Engineering Development Services. For the Aftermarket business, credit limits provided to parts distributors and Maintenance Repair and Overhaul (MRO) providers are actively monitored and failure to pay to terms can result in credit facilities being withdrawn. Bad Debt write off is therefore rare.

The company conducted a statistical analysis of credit notes raised to assess whether there is a risk that the full amount of the debtor balance was likely to be recoverable. Through the stratification of income streams and analysis of credit notes by reason code, statistical analysis indicated that the company should impair approximately 2% of debtor balances for Aftermarket Sales and less than 0.5% for Original Equipment and Engineering Sales. As a result of this assessment, management have determined that no additional provision is required.

#### IFRS16 Lease Accounting

FRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The company will adopt IFRS 16 from 1 January 2019 and is currently considering the impact.

## Notes to the financial statements

at 31 December 2018

### 3. Significant Accounting Judgements, estimates and assumptions

#### *Judgements and key sources of estimation uncertainty*

The preparation of 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 year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

- **A Liquidated damages** - Provision has been made for late delivery penalties to the extent that they are contractual and have been based on actual delivery dates compared to contracted dates. As at 31 December 2018, the carrying amount for the provision for liquidated damages was £6,704,000 (31 August 2017: £16,792,000)
- **Onerous Contract Provision assessment** - Provision has been made where economic benefits to be received from a contract are less than the costs of fulfilling it as at 31 December 2018. Following the acquisition of Zodiac SA by Safran SA in the financial year ending 31 December 2018, a change in the calculation methodology for onerous contracts was made to align to that used by Safran SA. Although there was not adjustment to the position as at year ending 31 August 2017, there were provisions made for 2018 for key contracts with significant performance challenges. As at 31 December 2018, the carrying amount for the provision for Onerous contracts was £28,861,000 (31 August 2017: nil)
- **Development Cost** - The business has capitalised costs for product development costs. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. As at 31 December 2018, the carrying amount of capitalised development cost was £5,608,000 (31 August 2017: nil)
- **Impairment of non-financial assets** - Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Company.
- **Deferred taxation** - Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Company has recognised £54.9m (31 August 2017: £nil) of tax losses carried forward which it expects to be able to offset against future taxable profits. The Company has determined that it cannot recognise deferred tax assets on £15.4m (31 August 2017: £48m) of the tax losses carried forward.

## Notes to the financial statements

at 31 December 2018

### 4. Revenue from Contracts with customers

Set out below is the disaggregation of the company's revenue from contracts with customers:

	16-month period ended 31 December 2018	Year ended 31 August 2017
	£'000	Restated £'000
<b>Type of goods or service</b>		
Sales of Engineering Services and Original Equipment	197,565	147,229
Sales of Aftermarket Parts	76,795	45,670
Aftermarket Services	608	482
<b>Total Revenue from Contracts with Customers</b>	<b><u>274,968</u></b>	<b><u>193,381</u></b>
 <b>Geographical markets</b>		
United Kingdom	35,578	27,764
Europe	6,738	13,949
United States of America	128,408	58,636
Rest of the world	104,244	93,030
<b>Total Revenue from Contracts with Customers</b>	<b><u>274,968</u></b>	<b><u>193,381</u></b>
 <b>Timing of revenue recognition</b>		
Goods transferred at a point in time	247,476	164,151
Aftermarket Services transferred at a point in time	608	482
Engineering Services transferred over time	26,884	28,748
<b>Total Revenue from Contracts with Customers</b>	<b><u>274,968</u></b>	<b><u>193,381</u></b>

## Notes to the financial statements

at 31 December 2018

### 4. Operating loss

This is stated after charging/(crediting):

	<i>16 month period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 £000</i>
Auditors' remuneration:		
Audit of these financial statements	184	141
Non-audit services	—	—
Depreciation	2,475	1,667
Amortisation	751	587
Operating lease rentals — Plant and machinery	178	203
— Land and buildings	2,494	1,854
Net foreign currency exchange differences	(8,013)	(41)
Cost of stocks recognised as an expense (included in cost of sales)	174,701	137,985
Including: — write-down of stocks to net realisable value	19,987	8,616
Change in fair value of deferred consideration	—	(300)
Research and development expenditure (including customer-funded work)	24,644	32,608

### 5. Directors' remuneration

	<i>16 month period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 £000</i>
Aggregate remuneration	368	367
Pension Costs	10	5

Number of directors who exercised share options

Remuneration payable to the highest paid director was as follows:

	<i>16 month period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 £000</i>
Aggregate remuneration	368	200

There are no retirement benefits accruing to the directors (2017 – £nil) under the company's defined contribution scheme.

The highest paid Director was compensated £286,000 for loss of office in 2019. The highest paid director did not exercise share options during the year.



## Notes to the financial statements

at 31 December 2018

### 6. Staff costs

	<i>16 month period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 £000</i>
Wages and salaries	62,211	49,545
Social security costs	6,303	5,139
Pension costs (note 18)	3,014	2,007
	<u>71,528</u>	<u>56,691</u>

The average monthly number of employees during the year was made up as follows:

	<i>No.</i>	<i>No.</i>
Production	1,557	1,806
Sales and distribution	68	63
Administration	159	191
	<u>1,784</u>	<u>2,060</u>

### 7. Interest receivable and similar income

	<i>16 month period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 £000</i>
Interest receivable from group companies	<u>36</u>	<u>15</u>

### 8. Interest payable and similar charges

	<i>16 month period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 £000</i>
Interest paid to group companies	<u>1,669</u>	<u>699</u>

## Notes to the financial statements

at 31 December 2018

### 9. Tax:

#### (a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	<i>16 month period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 restated £000</i>
<b>Current tax:</b>		
UK corporation tax on the loss for the year	–	(1,832)
Group relief receivable	(11,862)	(1,191)
Adjustments in respect of prior years	39	629
Total current tax	(11,823)	(2,394)
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(9,117)	44
Adjustments in respect of prior years	(57)	(796)
Total deferred tax (note 8(c))	(9,174)	(752)
Income tax credit reported in the statement of comprehensive income	(20,997)	(3,146)

#### (b) Factors affecting current tax credit for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017 – 19.58%). The differences are explained below:

	<i>16 month: period ended 31 December 2018 £000</i>	<i>Year ended 31 August 2017 restated £000</i>
Loss on ordinary activities before taxation	(79,656)	(62,377)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 – 19.58%)	(15,135)	(12,213)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	114	52
RDEC credit taxed in prior years	(321)	(410)
Adjustments in respect of prior years	(18)	(167)
Deferred tax (recognised)/not recognised	(6,008)	8,243
Rate of change on deferred tax	367	1,388
Rate difference on losses carried back	–	(39)
Total tax for the year (note 8(a))	(20,997)	(3,146)

## Notes to the financial statements

at 31 December 2018

### 10. Tax (continued)

#### (a) Deferred tax

A deferred tax asset has been recognised in the year reflecting the group's confidence in its ability to generate future profit against which to offset tax losses as follows:

	2018 £000	2017 £000
At 1 September 2017	1,452	700
Charged/(credited) to the profit and loss account	9,117	(44)
Adjustment in respect of prior year	57	796
At 31 December 2018	<u>10,626</u>	<u>1,452</u>

The elements of deferred taxation are as follows:

	2018 £000	2017 £000
Capital allowances in arrears of depreciation	1,218	1,452
Short-term timing differences	64	–
Tax losses	9,344	–
Deferred tax asset (note 14)	<u>10,626</u>	<u>1,452</u>

#### Unrecognised deferred tax

There is an unrecognised deferred tax asset of £2.9m (2017: £8.9m) in respect of tax losses carried forward. The losses remain unrecognised due to the uncertainty of the future profits against which these losses would offset. The losses can be carried forward indefinitely.

#### (d) Factors that may affect future tax charges

A reduction in the UK Corporation tax rate from 19% to 17% with effect from 1 April 2020 was enacted in the Finance Bill 2015-16. The reduction in corporation tax rate will reduce the company's future tax charge accordingly.

## Notes to the financial statements

at 31 December 2018

### 11. Intangible fixed assets

	<i>Goodwill</i> £000	<i>Computer Software</i> £000	<i>Product Development</i> £'000	<i>Total</i> £000
<i>Cost or valuation:</i>				
At 1 September 2017	1,610	4,468	–	6,078
Additions	–	8	5,608	5,616
Disposals	–	–	–	–
At 31 December 2018	1,610	4,476	5,608	11,694
<i>Amortisation:</i>				
At 1 September 2017	–	2,254	–	2,254
Charge for the year	–	751	–	751
Disposals	–	–	–	–
At 31 December 2018	–	3,005	–	3,005
<i>Net book value:</i>				
At 31 December 2018	1,610	1,471	5,608	8,689
At 1 September 2017	1,610	2,214	–	3,824

Goodwill relates to the trade and assets of Three Sixty Aerospace Limited purchased in 2013, initial consideration was £1.2 million with an additional £900,000 subject to meeting certain performance criteria payable in the future. There have been no indications of impairment over the goodwill in the current year.

### 12. Tangible fixed assets

	<i>Short leasehold property</i> £000	<i>Plant and vehicles</i> £000	<i>Total</i> £000
<i>Cost or valuation:</i>			
At 1 September 2017	6,645	16,108	22,753
Additions	–	530	530
Disposals	–	–	–
At 31 December 2018	6,645	16,638	23,283
<i>Depreciation:</i>			
At 1 September 2017	4,603	9,829	14,432
Charge for the year	340	2,135	2,475
Disposals	–	–	–
At 31 December 2018	4,943	11,964	16,907
<i>Net book value:</i>			
At 31 December 2018	1,702	4,674	6,376
At 1 September 2017	2,042	6,279	8,321

## Notes to the financial statements

at 31 December 2018

### 13. Stocks

	31 December 2018	31 August 2017 <i>restated</i>
	£000	£000
Contract Costs	39,527	54,563
Raw materials and consumables	31,042	38,684
Work in progress	4,074	9,410
	<u>74,643</u>	<u>102,657</u>

### 14. Debtors

	31 December 2018	31 August 2017 <i>restated</i>
	£000	£000
Trade debtors	27,309	25,880
Amounts recoverable on contracts	–	3,385
Amounts owed by group undertakings	–	4,838
Other debtors	985	2,662
VAT and other taxes recoverable	1,285	2,278
Corporation tax debtor – group relief	11,862	–
Corporation tax debtor	711	292
Deferred tax asset (note 10(c))	10,626	1,452
Prepayments and accrued income	1,807	1,700
	<u>54,585</u>	<u>42,487</u>

### 15. Creditors: Current creditors falling due within one year

	31 December 2018	31 August 2017 <i>restated</i>
	£000	£000
Bank overdraft	–	7,888
Trade creditors	29,144	35,478
Amounts owed to group undertakings	90,171	53,227
Other creditors	2,187	7,371
Contingent consideration	166	166
Derivative financial liabilities	–	594
Accruals and deferred income	7,984	6,891
Contract Liabilities	21,478	22,539
	<u>151,130</u>	<u>134,154</u>

Trade creditors are non-interest bearing and are normally settled within 60 days.

## Notes to the financial statements

at 31 December 2018

### 15. Creditors: Current creditors falling due within one year (continued)

Derivative financial instruments consist of forward contracts measured at fair value using rates prevailing at the year-end. Changes in values are included within the profit and loss account.

Included within deferred income is a £168k Asset Based Grant received from the Welsh Assembly Government in 2014. The grant income is released in line with the depreciation charge over 108 months. Unfulfilled conditions are the retention of 30 high skilled engineering jobs that were secured by receiving the grant and maintaining the Henry Thomas House building for the use of the project until March 2019 (at which the conditions will be fulfilled).

### 16. Creditors: Non-current creditors falling greater than one year

	31 December 2018 £000	31 August 2017 restated £000
<b>Contract Liabilities</b>		
Greater than one Year	10,686	15,602
In Two to Five Years	10,549	5,118
Greater than Five Years	—	—
<b>Contract Liabilities</b>	<b>21,235</b>	<b>20,720</b>

### 17. Provisions for liabilities

	Warranty provision £000	Onerous Contract provision £000	Other provisions £000	Total £000
At 1 September 2017	849	—	17,232	18,081
Profit and loss account	8,736	28,861	13,666	51,263
Utilised	(2,094)	—	(20,994)	(23,088)
At 31 December 2018	<b>7,491</b>	<b>28,861</b>	<b>9,904</b>	<b>46,256</b>

#### Other provisions

At 31 December 2018 other provisions comprise provisions for penalties (£6,704k), commitment letters (£580k), litigation and commercial costs (£2,589k) and dilapidation charges (£30k) which are expected to be utilised over the next 12 months.

The warranty provision covers future product costs arising in the normal course of business from prior year sales.

The onerous contract provision has been made where economic benefits to be received from a contract are less than the costs of fulfilling it.

## Notes to the financial statements

at 31 December 2018

### 18. Issued share capital

		2018		2017
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	25,864,297	<u>25,864</u>	25,864,297	<u>25,864</u>

### 19. Capital commitments

Capital expenditure contracted but not provided for totalled £71,000 at 31 December 2018 (2017 – £918,000).

### 20. Share based payments

The ultimate parent, Safran SA Group, grants share options to certain senior employees of Safran Seats GB Limited, formerly Zodiac Seats UK Limited, and these generally vest over an eight year period. The cost of these awards is determined using the fair value of common shares on the date of the grant and the associated expense is recognised over the vesting period. The market value of share options is determined based on the closing share price of the ultimate parent, Safran SA Group. The expense for the granting of share options in Safran Seats GB Limited, formerly Zodiac Seats UK Limited during the year was £nil (2017: £nil).

The following table illustrates the number of, and movements in, share options during the year.

	2018	2017	2018	2017
	<i>No.</i>	<i>No.</i>	<i>WAEP</i>	<i>WAEP</i>
			<i>£000</i>	<i>£000</i>
Outstanding as at 1 September	18,750	23,750	€27.38	€27.38
Granted during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Cancelled during the year	(16,250)	(5,000)	€27.06	€27.38
Outstanding as at 30 November	<u>2,500</u>	<u>18,750</u>	<u>€29.50</u>	<u>€27.38</u>
Conversion Zodiac to Safran at 1 December	(1,814)	–	–	–
Outstanding as at 31 December	<u>686</u>	<u>–</u>	<u>€107.47</u>	<u>–</u>

On the 1<sup>st</sup> December, the Share Option Scheme transitioned from Zodiac to Safran with a dilution in the number of shares due to the higher Safran share price compared to Zodiac.

The beneficiaries of stock option plans can opt for free shares instead of the stock options awarded, at the rate of one free share for every three stock options. Options not allotted in this way are cancelled.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 3.9 years (2017 – 5.2 years).

## Notes to the financial statements

at 31 December 2018

### 21. Pensions

The company's defined contribution pension cost included within operating loss for the period was £3.0m (2017 – £2.0m). £nil (2017 – £nil) remains unpaid at the year end.

### 22. Other financial commitments

At 31 December 2018, the company had annual commitments under non-cancellable operating leases as set out below:

	2018		2017	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	1,754	205	1,731	272
In two to five years	6,189	353	6,462	564
Over five years	1,712	–	3,985	–
	<u>9,655</u>	<u>558</u>	<u>12,178</u>	<u>836</u>

### 23. Contingent liabilities

The company has a duty deferment guarantee of £300,000 (2017 – £300,000) in respect of HM Customs and Excise.

### 24. Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

### 25. Ultimate parent undertaking and controlling party

As at 31 December 2018, the company's immediate parent undertaking was Safran Seats GB Investment Limited, formerly Zodiac Aerospace UK Investment Limited, and the ultimate parent undertaking and controlling party was Safran SA. The largest group in which the results of the company are consolidated is that headed by Safran SA, incorporated in France.

The group financial statements of Safran SA Group are available to the public and may be obtained at [www.safran-group.com](http://www.safran-group.com).