

COMPANY REGISTERED NUMBER 06018571

Marshall Aviation Services Limited
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2015



Marshall Aviation Services Limited

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015

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Marshall Aviation Services Limited

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors

G. J. Clark
G.J.S. Moynihan
S.J. Fitz-Gerald

Company secretary

S.J. Moynihan

Registered office

Airport House
The Airport
Cambridge
CB5 8RY

Auditor

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

Bankers

Barclays Bank
9-11 St Andrew's Street
Cambridge
CB2 3AA

Solicitors

Bird & Bird
15 Fetter Lane
London
EC4A 1JP

Clyde & Co
St Botolph Building
138 Houndsditch
London
EC3A 7AR

Marshall Aviation Services Limited

THE STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2015

The directors of Marshall Aviation Services Limited ("the company") present their Report and Financial Statements containing a strategic report, directors' report and the financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

Marshall Aviation Services Limited's principal activity is the provision of aircraft servicing, maintenance and modification.

GENERAL BUSINESS REVIEW – STATEMENT OF INCOME

Turnover has decreased by 22% to £19.7m, compared to £25.4m in 2014. As forecast the Hawker fleet available for MRO continued to decline both through retirement and relocation to the United States. There was also continued reduction in the military and defence markets and anticipated special mission contracts were not secured.

The result for the year has been adversely affected by a charge of £1.41m in respect of provision for doubtful debts that are no longer considered recoverable, offset by a £0.45m release of provision for MoD claims (2014: £0.65m provision charge for MoD claims and £2.6m provision in relation to doubtful debts).

The company made a loss for the financial year of £3.4m (2014: loss £3.0m). This represents a disappointing performance for the business. Significant measures were taken in 2015 to improve the ongoing operational, financial and strategic position of the business and the business plans more measures in 2016 to increase the scope of its offerings and reduce its cost base. The key focus for the company during 2016 will be on continuing to follow through on the recovery plan implemented during 2015, whilst also securing key orders from customers to improve the financial performance of the company.

GENERAL BUSINESS REVIEW – STATEMENT OF FINANCIAL POSITION

Net assets have decreased by 41% to £4.8m compared to £8.2m in 2014 as a result of the loss for the year, which is reflective of the lower trading levels. While the business works to improve its financial performance, it has benefitted from short term financial support from the Group which has generated an intercompany loan balance and impacted the net asset position.

GENERAL BUSINESS REVIEW – STATEMENT OF CASHFLOW

The directors have taken advantage of the exemption in Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") paragraph 1.12(b) from preparing a statement of cash flows, on the basis that the company is a qualifying entity and its ultimate parent company, Marshall of Cambridge (Holdings) Limited, includes the company's cash flows in its own consolidated financial statements.

ANALYSIS OF FINANCIAL KEY PERFORMANCE INDICATORS

Marshall Aviation Services Limited measures its performance on a number of key performance indicators:

	2015 £000	2014 £000	Change
Turnover	19,719	25,381	-22.3%
Gross Margin %	38%	37%	1.0%
Net Profit (before tax) on Sales %	-21%	-14%	-7.0%

- Turnover fell in 2015 reflecting a fall in the numbers of the Hawker fleet and a reduction in military and defence work for various customers, including the UK MoD.
- Gross margin has increased slightly as a result of supplier rebates during the year.
- Net profit has deteriorated as a result of difficult trading conditions along with provision charges in respect of doubtful debts.

Marshall Aviation Services Limited

THE STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2015

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has implemented a co-ordinated set of risk management and control systems, including strategic planning and management reporting, to help anticipate, measure, monitor and manage its exposure to risk. The key business risks and uncertainties affecting the company are set out below:

Liquidity and cash flow risk

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

Engineering and product safety

Safety and quality of our engineering services are of paramount importance to the company, as well as being essential for maintaining the trust and confidence of all our customers. A significant failure could have a detrimental impact on relationships with customers and also the company's reputation. The Company has detailed and established procedures for ensuring the delivery of products and services to the highest standards and takes particular care to ensure compliance with the regulations and legislation relevant to the sectors in which it operates.

Skills availability

The UK aerospace skills base is under pressure with falling numbers available in the engineering resource pool. The Company continues to invest strongly in training to protect itself from this threat to its business although a fall in demand could put pressure on employment levels that then become economically unsustainable. Increasing global competition could hamper the company's ability to recruit and retain the very best skilled technicians and employees.

Exchange rate and credit risk

The Company is exposed to exchange rate variations in both customer and supplier contracts; an imbalance in these could lead to significant exchange rate risk exposure.

The directors have considered the impact and have appropriate plans to mitigate credit risk on the business. Following the recovery plan implemented during 2015, credit risk and the recoverability of receivables is a key area of focus for the business. Credit terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Credit risk is further mitigated through obtaining advance payments for work where possible, and ceasing work on aircraft where a specific credit risk has arisen.

Signed by order of the board of directors



S. J. Moynihan
Company Secretary

Approved by the directors on 26 April 2016

Marshall Aviation Services Limited

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2015

The directors present their Report and Financial Statements of the Company for year ended 31 December 2015.

RESULTS AND DIVIDENDS

The Company made a loss of £3,378,739 (2014: £2,978,324) for the year. The directors have not recommended a dividend (2014: £nil).

DIRECTORS

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

G.J. Clark

S.K. Jones (resigned 30 April 2015)

G.J.S. Moynehan (appointed 1 June 2015)

S.J. Fitz-Gerald (appointed 1 June 2015)

In accordance with the Articles of Association, G.J. Clark retires by rotation and, being eligible, offers himself for re-election. G.J.S. Moynehan and S.J. Fitz-Gerald retire on first appointment and, being eligible, offer themselves for re-election.

S.J. Fitz-Gerald is also a director of Marshall of Cambridge (Holdings) Limited, the ultimate parent undertaking. His interest in the share capital of that Company is disclosed in that Company's financial statements. No other director had any interest in the share capital of the Company or of any other group company during the year.

None of the directors holding office at 31 December 2015 had notified a beneficial interest in any contract to which the company or its fellow group undertakings were a party during the financial year.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The ultimate parent company purchased and maintained a directors' and officers' liability insurance policy throughout the year (2014: same). Although a director's defence costs may be met, neither the ultimate parent company's indemnity nor insurance provides cover in the event that he is proved to have acted fraudulently or dishonestly.

GOING CONCERN

The Company's business activities, together with the factors and risks likely to affect its future development and position, are set out in the Strategic Report.

The Company participates in the Marshall of Cambridge (Holdings) Limited group's treasury arrangements coordinated by the Company's ultimate parent company, Marshall of Cambridge (Holdings) Limited. Under this arrangement, it has access to and shares banking arrangements and facilities with its ultimate parent company and fellow group undertakings.

The directors, having considered the company's forecast cash flows for the foreseeable future and, having applied appropriate sensitivities, have assessed the responses of the directors of the company's ultimate parent company to their enquiries have no reason to believe that a significant uncertainty exists that may cast doubt about the ability of the Marshall of Cambridge (Holdings) Limited group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Marshall of Cambridge (Holdings) Limited, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. However, given the Company's losses and short term group funding, it does rely on its ultimate parent company for continued support, appropriate confirmation of which it has received.

Marshall Aviation Services Limited

THE DIRECTOR'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2015

RESEARCH AND DEVELOPMENT

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

SUBSEQUENT EVENTS

There have been no disclosable significant events after 31 December 2015 to the date of approval of the financial statements, on 26 April 2016.

EMPLOYEE PARTICIPATION

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

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

EQUAL OPPORTUNITIES

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

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

CHARITABLE DONATIONS

During the year the Company made charitable donations of £2,641 (2014: £3,539).

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

Marshall Aviation Services Limited

THE DIRECTOR'S REPORT*(continued)*

YEAR ENDED 31 DECEMBER 2015

AUDITOR

In accordance with section 487(2) of the Companies Act 2006, Ernst and Young LLP will continue in office as auditor of the company.

Signed by order of the board of directors

A handwritten signature in black ink, appearing to read 'S.J. Moynihan', with a long horizontal stroke extending to the right.

S.J. Moynihan
Company Secretary

Approved by the directors on 26 April 2016

Marshall Aviation Services Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

YEAR ENDED 31 DECEMBER 2015

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
MARSHALL AVIATION SERVICES LIMITED**

YEAR ENDED 31 DECEMBER 2015

We have audited the financial statements of Marshall Aviation Services Limited for the year ended 31 December 2015 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

~~In our opinion 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.~~


**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
MARSHALL AVIATION SERVICES LIMITED *(continued)***

YEAR ENDED 31 DECEMBER 2015

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.



Jennifer Hazlehurst (Senior statutory auditor)
For and on behalf of:
Ernst & Young LLP, Statutory Auditor
Manchester, UK

26 April 2016

Marshall Aviation Services Limited

STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £	2014 £
TURNOVER	2	19,718,854	25,380,854
Cost of sales		(12,308,011)	(16,086,273)
GROSS PROFIT		7,410,843	9,294,581
Administrative expenses		(10,686,070)	(9,603,449)
Exceptional items	3	(956,366)	(3,201,000)
Other operating income	4	127,073	-
OPERATING LOSS	3	(4,104,520)	(3,509,868)
Interest receivable and similar income	7	7	662
Interest payable and similar charges	8	(583)	(20)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,105,096)	(3,509,226)
Tax on profit on ordinary activities	9	726,357	530,902
LOSS FOR THE FINANCIAL YEAR		(3,378,739)	(2,978,324)
RETAINED EARNINGS AT THE BEGINNING OF THE YEAR		8,188,918	11,167,242
RETAINED EARNINGS AT THE END OF THE YEAR		4,810,179	8,188,918

All of the activities of the company in the current and preceding year are classed as continuing.

The company has no recognised gains or losses and no changes to equity other than the profit or loss for the current and preceding years as set out above. Therefore a statement of income and retained earnings is presented in place of a statement of comprehensive income and a statement of changes in equity.

The notes on pages 12 to 25 form part of the Report and Financial Statements.


Marshall Aviation Services Limited

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

	Notes	2015 £	2014 (represented – see note 13) £
FIXED ASSETS			
Intangible fixed assets	10	-	-
Tangible fixed assets	11	370,933	430,104
		<u>370,933</u>	<u>430,104</u>
CURRENT ASSETS			
Stocks	12	1,934,614	2,601,268
Debtors	13	12,181,686	16,363,004
Cash at bank and in hand		1,186	13,667
		<u>14,117,486</u>	<u>18,977,939</u>
CREDITORS: amounts falling due within one year	14	<u>(9,678,239)</u>	<u>(11,219,124)</u>
NET CURRENT ASSETS		<u>4,439,247</u>	<u>7,758,815</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>4,810,180</u></u>	<u><u>8,188,919</u></u>
CAPITAL AND RESERVES			
Called up share capital	19	1	1
Profit and loss account		<u>4,810,179</u>	<u>8,188,918</u>
SHAREHOLDERS' FUNDS		<u><u>4,810,180</u></u>	<u><u>8,188,919</u></u>

The Report and Financial Statements were approved by the directors and authorised for issue on 26 April 2016 and are signed on their behalf by:



 G. J. S. MOYNEHAN
 Director

Company Registration Number: 06018571

The notes on pages 12 to 25 form part of the Report and Financial Statements.

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015

1. Accounting Policies

(a) Statement of compliance

Marshall Aviation Services Limited is a limited liability company incorporated in England and Wales. The registered office is Airport House, The Airport, Cambridge, CB5 8RY.

The company's financial statements have been prepared in compliance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") as it applies to the financial statements of the company for the year ended 31 December 2015.

(b) Basis of preparation

The financial statements of the company were authorised for issue on 26 April 2016 by the Board of Directors. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the company.

The company transitioned from previously extant UK GAAP to FRS 102 as at 1 January 2014. An explanation of how the transition to FRS 102 has affected the reported financial position and financial performance is given in note 22.

(c) Going Concern

The company's business activities, together with the factors and risks likely to affect its future development and position, are set out in the Strategic Report.

The company participates in the Marshall of Cambridge (Holdings) Limited group's treasury arrangements coordinated by the company's ultimate parent company, Marshall of Cambridge (Holdings) Limited. Under this arrangement, it has access to and shares banking arrangements and facilities with its ultimate parent company and fellow group undertakings.

The directors, having considered the company's forecast cash flows for the foreseeable future and, having applied appropriate sensitivities, have assessed the responses of the directors of the company's ultimate parent company to their enquiries have no reason to believe that a significant uncertainty exists that may cast doubt about the ability of the Marshall of Cambridge (Holdings) Limited group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Marshall of Cambridge (Holdings) Limited, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. However, given the company's losses and short term group funding, it does rely on its ultimate parent company for continued support, appropriate confirmation of which it has received.

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

1. Accounting Policies *(continued)*

(d) Exemptions for qualifying entities under FRS 102

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

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

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

(e) Judgements and key sources of estimation uncertainty

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

The following judgement has had the most significant effect on amounts recognised in the financial statements:

Operating lease commitments

As a lessee the company obtains use of property, plant and equipment. The classification of such leases as operating or finance requires the company to determine whether it retains or acquires the significant risks and rewards of ownership of these assets.

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

Impairment of tangible fixed assets and investments

Where there are indicators of impairment of tangible fixed assets or investments, the company compares the carrying value of the asset with its recoverable amount, represented by the higher of its value in use and net realisable value. Value in use is based on a discounted cash flow model, and is therefore sensitive to the discount rate used as well as the expected future cash flows and extrapolated growth rate. Net realisable value is estimated as fair value less costs to sell, based on available data from sales transactions for similar assets.

Recoverability of receivables

The company makes an estimate of the recoverable value of trade and other debtors. When assessing the recoverability of these balances, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and previous experience.

Taxation

The company establishes provisions for current and deferred tax based on reasonable estimates, informed by the relevant tax legislation. Management estimated is required to determine the amounts of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

1. Accounting Policies *(continued)*

(f) Turnover

Turnover comprises the invoicable value of goods and services supplied by the company excluding trade discounts and value added tax.

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

i) Sale of goods

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

ii) Rendering of services

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

(g) Research and development

Research and development expenditure is written off as incurred, except that development expenditure may be capitalised where the appropriate recognition criteria are met. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

(h) Pensions

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

(i) Provisions for liabilities

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

(j) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

(k) Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

1. Accounting Policies *(continued)*

(l) Tangible fixed assets

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

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

Plant and machinery	3-8 years
Leasehold improvements	3 years

Depreciation is provided when the assets are available for use.

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

(m) Operating profit

Operating profit is stated before interest and tax charges.

(n) Operating Leases

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

(o) Stocks

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

(p) Work in progress

Work in progress is valued at the lower of cost and net realisable value. Cost includes, where appropriate, labour and factory overheads.

(q) Research and development expenditure credits

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

(r) Foreign currencies

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

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

1. Accounting Policies *(continued)*

(s) Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- Where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax liability / (asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the period end date.

(t) Goodwill

Goodwill acquired on business combination is capitalised, classified as an asset on the statement of financial position and amortised on a straight line basis over its useful life, being 5 years. Goodwill acquired in a business combination is, from the acquisition date, allocated to each cash generating unit that is expected to benefit from the synergies of the combination.

Subsequent to initial recognition, goodwill is stated at cost less accumulated amortisation and accumulated impairment. The carrying value of goodwill is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

2. Turnover

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

The turnover and profit before tax are attributable to the company's principal activity.

An analysis of turnover by geographical destination is given below:

	2015	2014
	£	£
United Kingdom	4,302,860	3,292,471
Rest of Europe	10,701,338	12,272,368
North America	-	4,665,291
Rest of World	4,714,656	5,150,724
	<hr/>	<hr/>
	19,718,854	25,380,854
	<hr/>	<hr/>

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2015

3. Operating Profit

Operating profit is stated after charging/(crediting):

	2015	2014
	£	£
Depreciation of owned tangible fixed assets	163,879	145,080
Exceptional Item - provisions (see note a)	956,366	3,201,000
Operating lease costs		
- motor vehicles	84,290	45,646
- land and buildings	1,149,890	1,077,462
Foreign exchange losses	183,340	19,987
	<u> </u>	<u> </u>

Auditor's Remuneration

Auditor's remuneration is as follows:

	2015	2014
	£	£
Audit of the financial statements of the company	58,000	48,500
Taxation services	-	(4,300)
	<u> </u>	<u> </u>
	58,000	44,200
	<u> </u>	<u> </u>

- (a) During 2014, a £650,000 provision was made for MoD, and a £2,600,000 provision was made in relation to doubtful debts. During 2015, a £1,406,366 provision was made in relation to doubtful debts, offset by a £450,000 release of provision for MoD claims.

4. Other Operating Income

	2015	2015
	£	£
Rental income	127,073	-
	<u> </u>	<u> </u>

5. Directors' Remuneration

G.J. Clark, G.J.S. Moynahan and S.K. Jones are also directors of other subsidiary undertakings of the ultimate parent undertaking, and S.J. Fitz-Gerald is also a director of the ultimate parent undertaking; all directors provide their services to all of the undertakings where they are a director. The directors do not believe that it is practicable to apportion the total remuneration between their qualifying services as directors of the company and their qualifying services as directors of either the ultimate parent undertaking or fellow subsidiary undertakings. The total remuneration of S.J. Fitz-Gerald is disclosed within the financial statements of the ultimate parent undertaking. The total remuneration of G.J. Clark, G.J.S. Moynahan and S.K. Jones is disclosed within the financial statements of the immediate parent undertaking. A management charge of £1,887,000 (2014: £1,802,000) has been made by the ultimate parent company to the immediate parent company, which includes a proportion of the directors' emoluments. The immediate parent company has not recharged any of these costs to the company in either the current or preceding year.

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

6. Particulars of Employees

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

	2015 Number	2014 Number
Production	160	179
Sales and marketing	8	7
Administration	24	28
	<u>192</u>	<u>214</u>

The aggregate payroll costs of the above were:

	2015 £	2014 £
Wages and salaries	7,709,719	8,518,197
Social security costs	834,970	1,086,897
Other pension costs	508,216	508,158
	<u>9,052,905</u>	<u>10,113,252</u>

7. Interest Receivable and Similar Income

	2015 £	2014 £
Bank interest receivable	<u>7</u>	<u>662</u>

8. Interest Payable and Similar Charges

	2015 £	2014 £
Interest payable to ultimate parent undertaking	<u>583</u>	<u>20</u>

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

9. Tax on Profit on Ordinary Activities

(a) Analysis of charge / (credit) in the year

	2015 £	2014 £
Current tax:		
UK Taxation		
UK Corporation tax based on the results for the year at 20.25% (2014: 21.50%)	(878,124)	(688,177)
Adjustments in respect of prior years	81,964	15,420
Total current tax	(796,160)	(672,757)
Deferred Tax:		
Origination and reversal of timing differences	61,355	190,761
Adjustments in respect of prior years	672	(48,906)
Effects of changes on tax rate on opening liability	7,776	-
	69,803	141,855
Tax on profit on ordinary activities	(726,357)	(530,902)

(b) Factors affecting current tax charge

The UK standard rate of corporation tax is 20.25% (2014: 21.50%). The actual tax charge for the current and previous year varies from the standard rate for reasons set out in the following reconciliation:

	2015 £	2014 £
Loss on ordinary activities before taxation	(4,105,096)	(3,509,226)
Loss on ordinary activities multiplied by the standard rate of corporation tax of 20.25% (2014: 21.50%)	(831,283)	(754,484)
Effects of :		
Expenses not deductible for tax purposes	18,550	18,749
Adjustments in respect of prior years	82,636	(33,486)
De-recognition of deferred tax asset on losses	-	235,000
Effect of tax rate changes	3,740	3,319
Total tax credit (note 9(a) above)	(726,357)	(530,902)

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

9. Tax on Profit on Ordinary Activities *(continued)*

(c) Factors that may affect future tax charges

The standard rate of tax applied to reported loss on ordinary activities is 20.25% (2014: 21.50%). The applicable tax rate has changed following the substantive enactment of the Finance Act 2013. Finance (No. 2) Act 2015 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. In the March 2016 budget, the Government announced a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020, however this change has not been substantively enacted. These changes to corporation tax rates impacted the deferred tax charge and closing deferred tax position for 2015.

During the year beginning 1 January 2016, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £10,900. This is due to reversal of deferred tax on fixed asset timing differences.

The company has carried forward tax losses of £3,032,352 (2014: £3,032,350) being a potential deferred tax asset of £576,147 (2014: £606,470), which would be available to offset against future taxable profits. Since the losses will only be available against the company's taxable profits (rather than available as group relief surrendered to fellow group undertakings within the Marshall of Cambridge (Holdings) Limited group), together with the fact the directors' do not feel that the company will return to profitability within the foreseeable future, no deferred tax asset in respect of taxable losses has been recognised.

10. Intangible fixed assets

	Goodwill
Cost	£
At 1 January 2015 and 31 December 2015	835,613
	<hr/>
Amortisation	
At 1 January 2015 and 31 December 2015	835,613
	<hr/>
Net book value	
At 31 December 2014 and 31 December 2015	-
	<hr/> <hr/>

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2015

11. Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Total £
Cost			
At 1 January 2015	215,569	1,421,643	1,637,212
Additions	99,158	5,550	104,708
Transfers	27,251	(27,251)	-
At 31 December 2015	<u>341,978</u>	<u>1,399,942</u>	<u>1,741,920</u>
Depreciation			
At 1 January 2015	187,714	1,019,394	1,207,108
Charge for the year	34,580	129,299	163,879
At 31 December 2015	<u>222,294</u>	<u>1,148,693</u>	<u>1,370,987</u>
Net book value			
At 31 December 2015	<u>119,684</u>	<u>251,249</u>	<u>370,933</u>
At 31 December 2014	<u>27,855</u>	<u>402,249</u>	<u>430,104</u>

In accordance with FRS 102 Section 27 Impairment of Assets paragraph 27.7 and as the business is loss making, the carrying values of fixed assets at 31 December 2015 have been compared to their recoverable amounts represented their value in use to the company. On the basis of forecast future cashflows, the cashflows exceed the carrying value of the assets and therefore no impairment has been recognised.

12. Stocks

	2015 £	2014 £
Raw materials and consumables	559,290	1,124,827
Work in progress	1,375,324	1,476,441
	<u>1,934,614</u>	<u>2,601,268</u>

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

Stocks recognised as an expense in the year were £9,085,833 (2014: £11,192,049).

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

13. Debtors

	2015 £	2014 (represented) £
Trade debtors	5,557,576	5,582,177
Unbilled Receivables	1,838,519	7,328,321
Amounts owed by group undertakings	2,437,975	1,665,584
Other debtors	2,036,084	894,930
VAT	-	129,385
Prepayments and accrued income	239,117	620,391
Deferred tax asset (note 15)	72,415	142,216
	<u>12,181,686</u>	<u>16,363,004</u>

In the prior year, progress payments were netted off against unbilled receivables within debtors. In the current year, progress payments are disclosed separately within creditors (see note 14), therefore the comparative amounts have also been represented.

14. Creditors - Amounts Falling due Within One Year

	2015 £	2014 (represented) £
Trade creditors	3,131,358	5,946,444
Amounts owed to group undertakings	3,754,522	2,099,774
Taxation and social security	277,229	530,959
Other creditors	2,811	455,387
Accruals and deferred income	889,369	1,199,248
Progress payments	1,622,950	987,312
	<u>9,678,239</u>	<u>11,219,124</u>

In the prior year, progress payments were netted off against unbilled receivables within debtors (see note 13). In the current year, progress payments are disclosed separately within creditors, therefore the comparative amounts have also been represented.

15. Deferred Tax Asset

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

	2015 £	2014 £
Balance brought forward	142,216	293,864
Profit or loss (charge) /credit for the year	(69,801)	(151,648)
Balance carried forward	<u>72,415</u>	<u>142,216</u>

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

15. Deferred Tax Asset *(continued)*

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

	2015	2014
	£	£
Excess of depreciation over taxation allowances	72,415	84,808
Other short term timing differences	-	57,408
	<u>72,415</u>	<u>142,216</u>

The company has recognised a deferred tax asset of £72,415 (2014: £142,216) in relation to excess of depreciation over taxation allowances and other timing differences, as the Marshall of Cambridge (Holdings) Limited group is expecting to make taxable profits in the foreseeable future, against which the deferred tax asset will reverse.

16. Pension Costs

The company participates in a defined contribution scheme, which is operated by Marshall of Cambridge (Holdings) Limited (the "Group") for the benefit of its employees. The scheme is funded by the payment of contributions to trustee administered funds which are kept independently from the assets of the Group.

The total pension cost for the year for the Company in respect of defined contribution schemes was £508,216 (2014: £508,158).

17. Commitments under Operating Leases

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

	Land and Buildings 2015	Land and Buildings 2014	Other 2015	Other 2014
	£	£	£	£
Within 1 year	1,095,000	1,094,493	28,743	45,646
Between 2 and 5 years	3,423,727	3,982,972	32,643	47,560
After 5 years	58,290	699,493	-	-
	<u>4,577,017</u>	<u>5,776,958</u>	<u>61,386</u>	<u>93,206</u>

18. Related party transactions

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

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

19. Called up share capital

	2015 £	2014 £
Allotted called up and fully paid		
100 (2014: 100) Ordinary shares of 1p each	1	1

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

20. Contingencies

The company has given various guarantees to its bankers, which at the year-end amounted to £30,000 (2014: £130,000).

21. Ultimate parent company and controlling party

The immediate parent undertaking and controlling party is Marshall of Cambridge Aerospace Limited.

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

22. Transition to FRS 102

The company transitioned from UK GAAP to FRS 102 as at 1 January 2014. The impact from the transition to FRS 102 is as follows:

Reconciliation of equity

	Note	At 1 Jan 2014			At 31 Dec 2014		
		Previously stated £	Effect of transition £	FRS 102 (restated) £	Previously stated £	Effect of transition £	FRS 102 (restated) £
Fixed assets		402,041	-	402,041	430,104	-	430,104
Current assets	(i)						
Stocks		3,177,570	-	3,177,570	2,601,268	-	2,601,268
Debtors		11,969,398	(9,792)	11,959,606	15,388,992	(13,300)	15,375,692
Cash at bank		1,054,511	-	1,054,511	13,667	-	13,667
		16,201,479	(9,792)	16,191,687	18,003,927	(13,300)	17,990,627
Creditors: amounts falling due within one year	(i)	(5,478,947)	52,462	(5,426,485)	(10,301,812)	70,000	(10,231,812)
Net current assets		10,722,532	42,670	10,765,202	7,702,115	56,700	7,758,815
Total assets less current liabilities being net assets		11,124,573	42,670	11,167,243	8,132,219	56,700	8,188,919
Capital and reserves		11,124,573	42,670	11,167,243	8,132,219	56,700	8,188,919

Marshall Aviation Services Limited

NOTES TO THE REPORT AND FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2015

22. Transition to FRS 102 *(continued)*

Reconciliation of profit or loss

	Note	Year ended 31 Dec 2014		
		Previously stated £	Effect of transition £	FRS 102 (restated) £
Turnover		25,380,854	-	25,380,854
Cost of sales		(16,086,273)	-	(16,086,273)
Gross profit		9,294,581	-	9,294,581
Administrative expenses	(i)	(9,620,987)	17,538	(9,603,449)
Exceptional items		(3,201,000)	-	(3,201,000)
Operating loss		(3,527,406)	17,538	(3,509,868)
Interest receivable and similar income		662	-	662
Interest payable and similar charges		(20)	-	(20)
Loss on ordinary activities before taxation		(3,526,764)	17,538	(3,509,226)
Tax on profit on ordinary activities	(i)	534,410	(3,508)	530,902
Profit for the financial year		(2,992,354)	14,030	(2,978,324)

Notes to the reconciliations

(i) Operating lease rentals

The company was previously required to charge operating lease rentals to profit or loss on a straight-line basis over the period of the lease. FRS 102 requires that, where the payments to the lessor are structured to increase in line with expected general inflation, this is reflected in the expense charged to profit or loss. Accordingly, the operating lease charge for the year ended 31 December 2014 has been decreased by £17,538, with a corresponding tax charge of £3,508. This has also resulted in a reduction in amounts due under operating leases, presented within current liabilities, of £52,462 and £70,000 as at 1 January 2014 and 31 December 2014, respectively. It has also generated a reduction in the deferred tax asset, presented within current assets, of £9,792 and £13,300 as at 1 January 2014 and 31 December 2014, respectively.