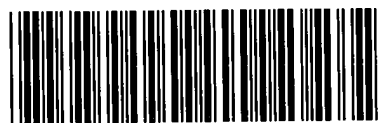


# **Atlantic Inertial Systems Limited**

## **Annual Report for the year ended 31 December 2020**

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# **Atlantic Inertial Systems Limited**

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## **Atlantic Inertial Systems Limited**

### **Strategic Report for the year ended 31 December 2020**

The Directors present their strategic report for the Company for the year ended 31 December 2020.

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Atlantic Inertial Systems Limited is involved in the development, manufacture, marketing and selling of gyroscopes and inertial navigation systems mainly for military applications.

United Technologies Corporation ("UTC"), the ultimate parent company of a multinational group of which the Company was a member during the year ended 31 December 2019, separated into three independent companies via spin-off transactions on 3 April 2020: (1) Otis Worldwide Corporation ("Otis"), (2) Carrier Global Corporation ("Carrier"), and (3) UTC, an aerospace company comprised of the Collins Aerospace Systems and Pratt & Whitney businesses.

On 9 June 2019, UTC entered into a merger agreement with the Raytheon Company to combine its aerospace businesses with Raytheon to form a merged company Raytheon Technologies Corporation ("RTX"). The merger was completed on 3 April 2020, shortly after the completion of the separation of Otis and Carrier. As a result of this merger, the Company is now a member of RTX.

#### **Business review**

The Company predominantly trades within the defence market which remains subject to uncertainty where national defence budgets are under constant scrutiny and possible cutbacks.

Despite the challenges and disruption the global pandemic has caused, the Company has been successful in keeping total revenue stable with only a small 3.2% drop from 2019.

Sales for Original Equipment and Spares Manufacture - the main component of revenue - fell by 3.1%; whilst those for Aftermarket also slightly reduced. The overall margin percentage rose from 44% to 46% and gross profits were stable with a small increase of 1% due to a competitive pricing strategy and maintaining a tight control on the costs of production.

The company's profit before tax fell by 7.3% over the year. This is due to continuing tight controls over overheads and project costs and also from not receiving any income from group undertakings compared to the £2m received in 2019.

#### **Key performance indicators**

The key financial and other performance indicators during the year were as follows;

	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>%</b>
<b>Revenue</b>	<b>81,534</b>	84,213	(3.2%)
<b>Operating profit</b>	<b>25,839</b>	25,901	(0.2%)
<b>Profit for the financial year</b>	<b>26,615</b>	26,629	(0.1%)
<b>Total shareholders' funds</b>	<b>110,053</b>	83,438	31.9%
<b>Current assets as % of current liabilities</b>	<b>381%</b>	332%	
<b>Average number of employees</b>	<b>348</b>	327	

## **Atlantic Inertial Systems Limited**

### **Strategic Report for the year ended 31 December 2020**

#### **Achieving Competitive Excellence**

The business continues to deploy an operational framework which drives continuous improvement in all areas across the business to ensure that financial and growth targets are met. The business has a good line of sight in terms of order book coverage to deliver an 11% increase in sales in 2021.

The business continues its focus on delivering the highest level of Quality throughout all its Operational and Support activities and has maintained Quality Cardinal Rules to reinforce its commitment to this important area and offering the best value to its customers.

#### **Principal risks and uncertainties**

The principal non-financial risks and uncertainties facing the Company are broadly grouped as competitive and legislative. The financial risks are discussed in the financial risk management section of the Directors' report.

##### **Competitive risks**

The Company is dependent on the performance of its large contracts. The Company, through a continued commitment to excellence, seeks to achieve and exceed customer expectation and therefore mitigate and reduce the risk of non-renewal and contract termination. The Company carefully manages and directs its business development team to identify and win new business opportunities via the development of customer relations and by continually improving its products.

There is significant competition from multinational firms with substantial resources and capital. The Company achieves competitive advantage through the effectiveness and innovation of its products, and its success in securing volume production contracts to achieve the necessary throughput efficiencies.

##### **Legislative risks**

The Company took the strategic decision towards the end of 2019 to discontinue its involvement in the Civil Aerospace repairs business (represented less than 10% of revenue in 2019) and therefore it has chosen not to renew its Civil Aviation Authority and Federal Aviation Authority approvals. The company maintains its Quality certifications ISO 9001 & AS9100. The Company also hold Environmental certification to ISO 14001 and accreditation to ISO 17025 for their laboratory facilities.

#### **COVID-19 current impact and future outlook**

As other companies around the world have done, Atlantic Inertial Systems Limited has had to adapt to the ever changing landscape we find ourselves in and the challenges that this brings.

The vast majority of our customers and suppliers are operating business as usual, we remain in constant contact with them to continue to monitor the situation. Customer demand for our products remains strong, with the majority of orders in place to meet our 2021 plan.

To help keep the liquidity of our company healthy, we have taken initiatives to control our cost base, we took advantage of the government retention policy for a proportion of our workforce to ensure we retained and supported them during this difficult time. We have made reductions to spend in general and administrative cost where it makes sense together with rescheduling our capital investments and company funded engineering. We have done this though whilst still making sure to invest in the infrastructure and technology for our key products to ensure we can meet the demands of our customers now and in the future.

At present we are not anticipating any long term problems stemming from Covid-19, but we will be constantly assessing and adapting to the changing environment we find ourselves in and look to build on the solid base and stable performance we put in place during 2020.

## **Atlantic Inertial Systems Limited**

### **Strategic Report for the year ended 31 December 2020**

#### **Section 172 (1) Statement**

This section describes how the directors have had regard to the matter set out in Section 172(1) (a) to (f) of the Companies Act 2006 in exercising their duty to promote the success of the Company for the benefit of its key stakeholders.

#### **The likely consequences of any decision in the long term**

The directors of the Company have a duty of care to the key stakeholders when making decisions that affect long term sustainability of the Company. Key objectives are formulated as such to ensure that the Company continues as a going concern. The directors remain mindful that its strategic decisions can have long term implications for the business and its stakeholders, and these implications are carefully assessed.

#### **Having regard to the need to act fairly as between members of the Company**

The directors recognise their legal and regulatory duties, and do not take any decisions or actions, such as selectively disclosing confidential or inside information, that will provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

#### **Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct**

#### **Modern Slavery Act**

The Company is committed to ensuring slavery and human trafficking are not taking place in its business or supply chains. To this end the Company has published a statement for the reporting period at [www.rtx.com](http://www.rtx.com).

#### **Having regard to the interests of the Company's employees**

##### *Employee involvement*

It is the policy of the Company to create a common awareness amongst employees of the financial and economic factors affecting the performance of the Group. It is the policy of the Company to maintain and develop employee involvement. Local managers provide information on a regular basis on matters of concern to employees, using various means such as business review meetings, briefing meetings, video presentations, company newsletters and training sessions.

##### *Disabled employees*

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

##### *Employee Programmes and Benefits*

The company operates ongoing employee development programmes which reflect development needs highlighted in the annual performance reviews. The company sponsored a number of employees on the RTX Employee Scholar Programme. All office employees completed a range of mandatory on-line training modules centred on business practices designed to increase awareness and promote strong ethical compliance, training includes anti-corruption and bribery matters. The company also continued a job rotation programme for high potential employees. As part of its "wellness" and health management programmes the company provides a 'Cycle to Work' scheme and bi-monthly health initiatives. It also provided an all employee reward programme, together with a new reward and recognition programme for those employees exhibiting exemplary performance. The company operates a sports and social club available to the employees.

## **Atlantic Inertial Systems Limited**

### **Strategic Report for the year ended 31 December 2020**

#### **Section 172 (1) Statement (continued)**

**Having regard to need to foster the Company's business relationships with suppliers, customers and others**

##### **Customers**

The directors of the Company, on a continuing basis, promote the development and maintenance of a customer focus culture. The Company carefully manages and directs its business development team to identify and win new business opportunities via the development of customer relations and by continually improving its products.

##### **Suppliers**

The directors recognise the key role suppliers play in ensuring the company delivers a reliable service to customers. The directors seek to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers. The Company works with suppliers and builds robust, long-lasting supply chains. The Company pays the suppliers in line with their payment terms.

##### **Regulators**

The Company seeks a constructive and cooperative relationship with the bodies that authorise and regulate the business activities. This helps us maintain a reputation for high standards of business conduct.

All of the business carried out is subject to quality standard certifications ISO 9001 and AS9100. The Company also hold environmental certification to ISO 14001 and accreditation to ISO 17025 for their laboratory facilities. These bodies issue regulations which need to be complied with in order to be authorised to carry out work in the aerospace industry. Compliance imposes costs and failure to comply with the standards could materially affect the Company's ability to operate. To mitigate against these risks the business operates a robust business management system which ensures adherence to the regulatory standards through procedures, standard work and policies. This is supported by a strong audit program through self-assessment and through the RTX group audit function.

The Company manages its tax affairs responsibly and proactively to comply with tax legislation. The Company's approach is to seek to build solid and constructive working relationships with all tax authorities.

#### **The impact of the Company's operations on the community and the environment**

The Company is convinced of the importance of health, safety and the environment to the success of its business and is committed to be an industry leader in its commitment to safety and environmental responsibility.

The Company will, on a continuing basis: develop and maintain a culture which recognises the importance of health, safety and the environment to its success and exercise its responsibilities in a manner that reflects this; provide a healthy and safe place of work for all its employees; develop products and operate facilities in a manner that strives to eliminate risk to employees, customers, the environment and the community at large; and improve its performance in health, safety and environmental matters by encouraging the participation, commitment and support of all employees.

## Atlantic Inertial Systems Limited

### Strategic Report for the year ended 31 December 2020

#### Streamlined Energy and Carbon Reporting ('SECR')

This Report summarises the energy usage, associated emissions, energy efficiency actions and energy performance for the Company under the government policy Streamlined Energy and Carbon Reporting ('SECR'), as implemented by the 2018 Regulations. It also summarises the methodologies utilised for all calculations related to the elements reported under Energy and Carbon.

The following figures demonstrate year on year changes in consumption and resulting emissions for the company. A meaningful comparison to 2019 is difficult due to the impact COVID-19 had on the company during the year 2020.

The Company also shares its site with its joint venture partner, Silicon Sensing Systems Limited. At present, there is no agreed method of determining Silicon Sensing Systems Limited's share of the energy consumption and cost for the site, so all figures below are the joint position for both companies. For Annual Reports starting from 2021 onwards, a method will be devised to split the cost and consumption figures between both entities, so entries can be made in both sets of annual reports.

During the year a couple of actions taken to improve the Company's energy efficiency were; purchasing a new energy efficient chiller for their server room, installing energy efficient LED lighting across the site and installing 6 new electric charging points in the car park.

#### Utility and Scope

Scope 1 consumption and emissions relate to direct combustion of natural gas and fuels.

Scope 2 consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day to day business operations.

Scope 3 emissions that are as a consequence of the company's actions but the source is not owned or controlled, and which are not classed as scope 2 emissions. For example business travel in private cars.

The total consumption (kWh) figures for energy supplies are as follows:

	2020 Consumption (kWh)	2019 Consumption (kWh)
Grid-Supplied Electricity (Scope 2)	2,591,430	2,874,945
Natural Gas (Scope 1)	406,971	213,232
Transportation (Scope 3)	303,665	852,835
<b>Total</b>	<b>3,302,066</b>	<b>3,941,012</b>

The total emission (tCO<sub>2</sub>e) figures for energy supplies are as follows. Conversion factors utilised in these calculations are detailed below:

	2020 Consumption (tCO <sub>2</sub> e)	2019 Consumption (tCO <sub>2</sub> e)
Grid-Supplied Electricity (Scope 2)	604	735
Natural Gas (Scope 1)	75	42
Transportation (Scope 3)	70	195
<b>Total</b>	<b>749</b>	<b>972</b>

## Atlantic Inertial Systems Limited

### Strategic Report for the year ended 31 December 2020

#### Streamlined Energy and Carbon Reporting ('SECR') (Continued)

##### Intensity Metric

An intensity metric of tCO<sub>2</sub>e per £m revenue has been applied for the annual total emissions. The methodology of the intensity metric calculations are detailed below, and results of this analysis is as follows:

	2020 Intensity Metric	2019 Intensity Metric
tCO <sub>2</sub> e/£m revenue	9.25	11.57

##### Reporting Methodology

Scope 1 and 2 consumption and CO<sub>2</sub>e emission data has been calculated in line with the 2020 UK Government environmental reporting guidance. To maintain continuity with the GHG reporting undertaken before the implementation of SECR, only UK consumption and emissions are included within the emissions reporting. The intensity metric therefore is also calculated utilising the UK revenue figure.

Estimations undertaken to cover missing billing periods were calculated on a kWh/day pro-rata basis at meter level. Where data was not available for the entirety of the reporting period, an average of similar meter classes were taken and applied to the properties with no available data.

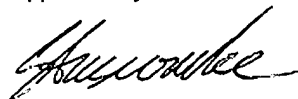
Intensity metrics have been calculated utilising the reported 2020 UK revenue figure, and tCO<sub>2</sub>e for both individual sources and total emissions were then divided by this figure to determine the tCO<sub>2</sub>e per metric.

##### Future developments

The directors are forecasting an increase in sales and profitability in 2021, this expectation stems from a high proportion of confirmed orders for the coming year and provides a sound basis to reach targets set.

##### Approval

Approved by the Board and signed on its behalf by:



S Anscombe  
Director  
6 September 2021

Clifford Road  
Southway  
Plymouth  
Devon  
PL6 6DE



# **Atlantic Inertial Systems Limited**

## **Directors' Report for the year ended 31 December 2020**

The directors present their report and audited financial statements of the company for the year ended 31 December 2020.

### **Future developments**

Details of future developments can be found in the Strategic Report on page 6 and form part of this report by cross-reference.

### **Research and development**

During 2020 the Company invested £4,880,000 (2019: £5,245,000) in research and development of new gyroscopes and navigation products. Of the total investment, £3,319,000 (2019: £2,815,000) was capitalised as qualifying development costs.

### **Going concern**

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the accounting policies in the financial statements.

### **Financial risk management objectives and policies**

#### **Foreign currency risks**

The Company buys and sells goods and services denominated in currencies other than sterling. As a result, the value of the business's non-sterling denominated revenues, purchases, financial assets and liabilities and cash flows can be affected significantly by movements in exchange rates in general and in US Dollar rates in particular.

The Company holds monetary assets and liabilities in which the underlying currency is a currency other than the Company's functional currency. In line with Generally Accepted Accounting Principles these monetary assets and liabilities are revalued at each month end to the closing balance sheet rate. These revaluations give rise to foreign exchange gains or losses which are taken through the profit and loss account in the month in which they arise.

#### **Liquidity risk**

The Company aims to mitigate liquidity risk by managing cash generation in its operations and applying cash collection targets. Investment is carefully controlled, with authorisation limits operating at different levels up to RTX board level and with hurdle rates of return and cash payback periods applied as part of the investment appraisal process.

The Company participates in the overall world-wide RTX funding strategy managed at corporate treasury level.

The Company participates in a UK cash pool. The objective is to maintain a balance between continuity of funding and flexibility.

### **Dividends**

The profit for the financial year amounted to £26,615,000 (2019: £26,629,000).

No ordinary dividend was declared or paid in the year (2019: £nil).

## **Atlantic Inertial Systems Limited**

### **Directors' Report for the year ended 31 December 2020**

#### **Employee Involvement**

Details of employee involvement can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

#### **Environmental Matters**

Details of Environmental Matters and Streamlined Energy & Carbon Reporting can be found in the Strategic Report on pages 4-6 and form part of this report by cross-reference.

#### **Directors**

The directors who held office during the year and up to the date of signing the financial statements are given below:

K Pindard  
S Barnes (Resigned 12 November 2020)  
S Anscombe (Appointed 12 November 2020)

#### **Directors' indemnities**

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remains in force at the date of this report.

#### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

## **Atlantic Inertial Systems Limited**

### **Directors' Report for the year ended 31 December 2020**

#### **Directors' confirmation**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### **Independent Auditors**

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as independent auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



S Anscombe  
Director  
6 September 2021

Clifford Road  
Southway  
Plymouth  
Devon  
PL6 6DE

## **Atlantic Inertial Systems Limited**

### **Independent auditors' report to the members of Atlantic Inertial Systems Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, Atlantic Inertial Systems Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2020; the Profit and loss account and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### **Basis for opinion**

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

##### **Independence**

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

##### **Conclusions relating to going concern**

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

##### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

## **Atlantic Inertial Systems Limited**

### **Independent auditors' report to the members of Atlantic Inertial Systems Limited**

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

#### **Strategic report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

##### **Auditors' 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 auditors' 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.

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

## Atlantic Inertial Systems Limited

### Independent auditors' report to the members of Atlantic Inertial Systems Limited

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to indirect taxes including VAT and UK employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management and the Directors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant minutes of senior management and director meetings;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the recoverability of goodwill and internally generated intangible assets, useful economic lives of assets and provisioning; and
- Identifying and testing journal entries, in particular and entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


#### Other required reporting

#### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Stephen Patey (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
6 September 2021

# Atlantic Inertial Systems Limited

## Profit and loss account for the year ended 31 December 2020

	<b>Note</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Revenue</b>	<b>3</b>	<b>81,534</b>	<b>84,213</b>
<b>Cost of sales</b>		<b>(44,074)</b>	<b>(47,201)</b>
<b>Gross profit</b>		<b>37,460</b>	<b>37,012</b>
<b>Administrative expenses</b>		<b>(11,702)</b>	<b>(11,111)</b>
<b>Other income</b>		<b>81</b>	<b>-</b>
<b>Operating profit</b>		<b>25,839</b>	<b>25,901</b>
<b>Income from shares in group undertakings</b>		<b>-</b>	<b>2,000</b>
<b>Finance income</b>	<b>4</b>	<b>122</b>	<b>126</b>
<b>Finance costs</b>	<b>5</b>	<b>(3)</b>	<b>(11)</b>
<b>Profit before taxation</b>	<b>6</b>	<b>25,958</b>	<b>28,016</b>
<b>Income tax credit/ (expense)</b>	<b>10</b>	<b>657</b>	<b>(1,387)</b>
<b>Profit for the financial year</b>		<b>26,615</b>	<b>26,629</b>

The company has no recognised other comprehensive income other than its profit for the financial years ended 31 December 2020 and 2019, and hence no separate statement of comprehensive income has been presented.

**Atlantic Inertial Systems Limited**  
**Registered number: 06208660**

**Balance Sheet**  
**As at 31 December 2020**

	<b>Note</b>	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
<b>Fixed assets</b>			
Intangible assets	<b>11</b>	<b>24,989</b>	22,593
Property, plant and equipment	<b>12</b>	<b>13,204</b>	11,940
Right-of-use assets	<b>13</b>	<b>221</b>	123
Investments	<b>14</b>	<b>6,549</b>	6,549
		<b>44,963</b>	41,205
<b>Current assets</b>			
Inventories	<b>15</b>	<b>8,283</b>	6,502
Debtors	<b>16</b>	<b>87,149</b>	61,680
		<b>95,432</b>	68,182
Creditors: Amounts falling due within one year	<b>17</b>	<b>(25,061)</b>	(20,535)
<b>Net current assets</b>		<b>70,371</b>	47,647
<b>Total assets less current liabilities</b>		<b>115,334</b>	88,852
Creditors: amounts falling due after more than one year	<b>18</b>	<b>(4,787)</b>	(5,095)
Provisions for liabilities	<b>19</b>	<b>(494)</b>	(319)
<b>Net assets</b>		<b>110,053</b>	83,438
<b>Equity</b>			
Called up share capital	<b>21</b>	<b>100</b>	100
Share premium account		<b>12,126</b>	12,126
Capital contribution reserve		<b>20,876</b>	20,876
Profit and loss account		<b>76,951</b>	50,336
<b>Total shareholders' funds</b>		<b>110,053</b>	83,438

The notes on pages 16 to 43 form part of these financial statements.

The financial statements on pages 13 to 43 were approved by the board of directors on 6 September 2021 and were signed on its behalf by



S Anscombe  
Director



# Atlantic Inertial Systems Limited

## Statement of changes in equity For the year ended 31 December 2020

	Called up share capital (Note 21) £'000	Share premium account £'000	Capital contribution reserve £'000	Profit and loss account £'000	Total share- holders' funds £'000
<b>Balance at 1 January 2019</b>	<b>100</b>	<b>12,126</b>	<b>20,876</b>	<b>23,707</b>	<b>56,809</b>
Profit for the financial year	-	-	-	26,629	26,629
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,629</b>	<b>26,629</b>
<b>Balance at 31 December 2019</b>	<b>100</b>	<b>12,126</b>	<b>20,876</b>	<b>50,336</b>	<b>83,438</b>
Profit for the financial year	-	-	-	26,615	26,615
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,615</b>	<b>26,615</b>
<b>Balance at 31 December 2020</b>	<b>100</b>	<b>12,126</b>	<b>20,876</b>	<b>76,951</b>	<b>110,053</b>

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies**

Atlantic Inertial Systems Limited is involved in the development, manufacture, marketing and selling of gyroscopes and inertial navigation systems mainly for military applications.

The company is a private company, limited by shares, and is incorporated and domiciled in England, United Kingdom. The address of its registered office is Clifton Road, Southway, Plymouth, Devon, PL6 6DE.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and all the years presented, unless otherwise stated.

#### **Basis of accounting**

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework.' The financial statements are therefore prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The financial statements have been prepared on a going concern basis and under the historical cost convention.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

The financial statements contain information about Atlantic Inertial Systems Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as they are included by full consolidation in the consolidated financial statements of its ultimate parent, Raytheon Technologies Corporation, a company incorporated in the United States of America.

As permitted by FRS 101, the company has taken advantage of some of the disclosure exemptions available under that standard. The key exemptions taken are as follows:

IFRS 3 - not to restate business combinations before the date of transition

IFRS 7 - financial instrument disclosures

IFRS 13 - disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities

IAS 1 - information on management of capital

IAS 7 - statement of cash flows

IAS 8 - disclosures in respect of new standards and interpretations that have been issued but are not yet effective

IAS 24 - disclosure of key management compensation and for related party disclosures entered into between two or more members of a group

IAS 1 - the requirement to present roll forward reconciliations in respect of share capital

IFRS 2 - paragraphs 45b and 46-52 - share based payments

IAS 16 - the requirement to present roll forward reconciliations in respect of property, plant and equipment

IFRS 15 - paragraphs 110b, 113a, 114, 115, 118, 119 a-c, 121-127, 129

IAS 36 - paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e)

Where required, equivalent disclosures are given in the group financial statements of Raytheon Technologies Corporation.

The group financial statements of Raytheon Technologies Corporation are available to the public and can be obtained as set out in note 26.

#### **Adoption of new and revised Standards**

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020 have had a material impact on the company.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### **Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The directors' report describes the financial position of the Company; its cash flows, liquidity position and borrowing facilities; the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

The Company meets its day to day working capital requirements through a cash pooling arrangement which is centrally managed by its ultimate parent undertaking.

The directors have a reasonable expectation that the Company has adequate resources 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.

##### **Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

##### **Intangible assets – Development costs**

Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. All development costs are capitalised where the Company has the intention to complete the project and it can demonstrate that the asset will generate future economic benefits. Development costs are amortised on straight line basis over 5 years.

##### **Intangible assets – Goodwill**

Goodwill arises on a business combination and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the profit and loss account.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### **Property, plant and equipment**

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost. Depreciation on buildings is charged to income.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset, less any residual value, on a straight-line basis over its expected useful life, as follows:

Freehold property	- 10 years
Plant and machinery	- 5-12 years
Software	- Up to 5 years
Payments on account and assets in the course of construction	- No depreciation charged until transferred to appropriate class of asset upon completion

Useful lives are reviewed, and adjusted if appropriate, at the end of every reporting period.

##### **Impairment of tangible and intangible assets**

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### **Impairment of tangible and intangible assets (continued)**

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

##### **Investments**

Except as stated below, investments, including investments in joint ventures, are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

The Company has taken advantage of the exemption available to it under IAS 28 from applying the equity method to its investment in a joint venture.

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

##### **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### **Taxation (continued)**

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

##### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when performance obligations have been satisfied or when goods or services have transferred to the customer and the customer has control of these. The company's activities are described in detail below. The company bases its estimate of the return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

##### **Sale of goods**

The company manufactures and sells a range of gyroscopes and inertial navigation systems. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the company has objective evidence that all criteria for acceptance have been satisfied.

##### **Over time revenue recognition**

Performance obligations are satisfied over-time if the customers receive the benefits as we perform work, if the customer controls the asset being worked on, or if the product being produced for the customer has no alternative use and we have a contractual right to payment. Revenue is recognised for our maintenance, repairs and overhaul contracts on an over time basis using the cost incurred to represent work performed which corresponds with and best depicts transfer of control to the customer. Costs include labour, materials, and other direct costs.

# **Atlantic Inertial Systems Limited**

## **Notes to the financial statements For the year ended 31 December 2020**

### **1. Accounting policies (continued)**

#### ***Sales of services***

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on actual labour hours spent relative to the total expected labour hours.

Some contracts include multiple deliverables, such as the sale of equipment and related installation services. However, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the company exceeds the payment, a contract asset is recognised. If the payments exceeds the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

#### ***Pension costs***

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### ***Foreign currency***

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the profit and loss account in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments).



## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### **Leases**

The company leases vehicles. Rental contracts are typically made for fixed periods of 6 months to 10 years but may have extension options.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. A lessee may elect an accounting policy, by asset class, to include both the lease and non-lease components as a single component and account for it as a lease (thus eliminating the pricing allocation). The Company has adopted this accounting policy election for equipment leases only.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Lease assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease for each period.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### **Leases (continued)**

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

##### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

##### **Financial assets**

Financial assets are classified into the following specified categories: at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### ***Financial assets at fair value through profit or loss or at fair value through other comprehensive income***

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the company has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group considers this classification to be more relevant.
- Debt securities where contractual cash flows are solely principal and interest and the objective of the company's business model is achieved both by collecting contractual cash flows and selling financial assets.

##### ***Financial assets at amortised cost***

The company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### ***Financial assets at fair value through profit and loss***

The following financial assets are classified at fair value through profit or loss (FVTPL):

- debt investments that do not qualify for measurement at either amortised cost;
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

##### **Impairment of financial assets**

##### ***Assets carried at amortised cost***

The company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired.

##### **Trade and other receivables**

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as noncurrent assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The group has concluded that the expected loss rates for trade and other receivables are a reasonable approximation of the loss rates.

##### **Government grants**

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the profit and loss account on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the balance sheet and transferred to the profit and loss account on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in the profit and loss account in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **1. Accounting policies (continued)**

##### **Government grants (continued)**

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited as 'other operating income' to the profit and loss account as the related expenditure is incurred.

##### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are discounted where the impact of discounting is material.

##### **Restructuring**

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

##### **Warranties**

Provisions for the expected cost of warranty obligations are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Company's obligation.

##### **Loss making contracts**

The loss making contract provision relates to long term contracts where the estimated total costs are forecast to exceed contract values. In accordance with FRS 101 the entire loss is recognised as soon as the loss is identified by management.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **2. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### ***Critical judgements in applying the company's accounting policies***

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

#### ***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### **Impairment of indefinite lived intangible assets**

Determining whether the company's goodwill balance is impaired requires estimations of the revenues included within the forecasts to assess the asset's value in use. The value in use calculations require the entity to estimate the future cash flows expected to arise and suitable discount rates in order to calculate present values. The carrying amount of goodwill at the balance sheet date was £14,385,000 (2019: £14,385,000) with no impairment loss recognised in 2020 (2019: £nil).

#### **Recoverability of Internally-generated Intangible asset**

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £10,604,000 (2019: £8,208,000). The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

#### **Useful economic lives of properties, plant and equipment**

The annual depreciation charge for property, plant and equipment is sensitive to changes in estimated useful economic lives of the assets. The useful lives of the assets are assessed on an annual basis and are amended when necessary to reflect current estimates. See note 12 for the carrying amount for the property, plant and equipment, and note 1 for the useful economic lives for each class of assets.

#### **Useful economic lives of right-of-use assets**

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **2. Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Inventory provisioning**

The Company is involved in the development, manufacture, marketing and selling of gyroscopes and inertial navigation systems mainly for military applications. These are subject to changing customer demands and technological change. As a result it is necessary to consider the recoverability of the cost of the inventory and the associated provisioning required. Management considers the nature and condition of inventory, as well as applies assumptions around expected future demand for the inventory, when calculating the level of inventory provisioning. See note 15 for the net carrying value of inventory and associated provision.

##### **Impairment of trade receivables**

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the age profile of the receivable and historic experience. See note 16 for the net carrying amount of the receivables and the associated impairment provision.

## Atlantic Inertial Systems Limited

### Notes to the financial statements For the year ended 31 December 2020

#### 3. Revenue

An analysis of the Company's revenue is as follows:

	2020 £'000	2019 £'000
<b>Continuing operations</b>		
Sales of goods	75,057	79,765
Rendering of services	1,553	1,049
Royalty revenues	173	177
Other operating income	4,751	3,222
	<b>81,534</b>	<b>84,213</b>

An analysis of the Company's revenue by class of business is set out below:

	2020 £'000	2019 £'000
<b>Revenue:</b>		
Original Equipment Manufacture	80,708	83,325
Aftermarket	826	888
	<b>81,534</b>	<b>84,213</b>

An analysis of the Company's revenue by geographical market is set out below.

	2020 £'000	2019 £'000
<b>Revenue:</b>		
United Kingdom	12,001	10,415
Rest of Europe	1,359	10,155
North America	49,090	53,164
Rest of World	19,084	10,479
	<b>81,534</b>	<b>84,213</b>

## Atlantic Inertial Systems Limited

### Notes to the financial statements For the year ended 31 December 2020

#### 3. Revenue (continued)

The company undertakes development contracts which have a linked follow-on production contract. Revenue and costs for the development stage of these contracts are capitalised in the balance sheet and amortised over the life of the production contract so that contract assets and liabilities are held on the balance sheet until the production phase commences.

The company has recognised the following assets and liabilities related to contracts with customers:

	31 Dec 2020 £'000	31 Dec 2019 £'000	1 Jan 2019 £'000
Current contract assets relating to development contracts	7,561	7,873	6,618
Contract assets	7,561	7,873	6,618
Non-current asset recognised for costs incurred to fulfil a contract	-	-	-
Contract liabilities relating to development contracts	6,779	7,130	5,818

##### (1) Significant changes in contract assets and liabilities

Contract assets for the development contracts have increased by £682,000 in 2020 (2019: £1,255,000 increase) before amortisation, as the company has provided more engineering and development services ahead of the agreed payment schedules for the linked follow on production contract. The company also recognised a loss allowance for contract assets in accordance with IFRS 9.

Contract liabilities for the development contracts have increased by £560,000 in 2020 (2019: £1,312,000 increase) before amortisation. The increases in 2020 and 2019 were due to revenue being able to be recognized and capitalised as development work progressed and an increase in overall contract activity.

##### (2) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	31 Dec 2020 £'000	31 Dec 2019 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Development contracts	911	-

##### (3) Assets recognised from costs to fulfil a contract.

In addition to the contract balances disclosed above, the company has also recognised an asset in relation to costs to fulfil development contracts.

	31 Dec 2020 £'000	31 Dec 2019 £'000
Amortisation recognised as cost of providing services during the year	994	-

During the year, there were no impairment losses recognised on contract assets in the profit or loss in 2020 (2019: nil).



# Atlantic Inertial Systems Limited

## Notes to the financial statements For the year ended 31 December 2020

### 4. Finance Income

	2020 £'000	2019 £'000
Interest receivable from group companies	122	126
	<b>122</b>	<b>126</b>

### 5. Finance costs

	2020 £'000	2019 £'000
Interest on grant	-	7
Lease liability	3	4
	<b>3</b>	<b>11</b>

### 6. Profit before taxation

Profit before taxation is stated after charging:

	2020 £'000	2019 £'000
Net foreign exchange losses	1,681	208
Depreciation of tangible fixed assets:		
- owned	1,076	1,014
Depreciation of right-of-use assets	92	96
Loss on disposal of plant, property and equipment	-	11
Amortisation of intangible assets	923	196
Stock recognised as expense	36,376	39,888
Impairment of inventory	669	1,055
Research and development	1,561	2,430
Lease expenses	-	24

### 7. Auditors' remuneration

Fees payable to PricewaterhouseCoopers LLP and their associates for the audit of the Company's financial statements were £40,000 (2019: £36,000).

Fees payable to PricewaterhouseCoopers LLP and their associates for non-audit services of the Company amount to £nil (2019: £20,000) and relate to taxation compliance services.

## **Atlantic Inertial Systems Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

#### **8. Staff costs**

The average monthly number of employees (including executive directors) was:

	<b>2020 Number</b>	<b>2019 Number</b>
Administration and management	<b>75</b>	79
Engineering	<b>88</b>	85
Operations	<b>185</b>	163
	<b>348</b>	327

Their aggregate remuneration comprised:

	<b>2020 £'000</b>	<b>2019 £'000</b>
Wages and salaries	<b>14,675</b>	14,221
Social security costs	<b>1,434</b>	1,403
Other pension costs (see note 23)	<b>1,214</b>	1,140
	<b>17,323</b>	16,764

'Other pension costs' includes only those items included within operating costs.

# Atlantic Inertial Systems Limited

## Notes to the financial statements For the year ended 31 December 2020

### 9. Directors' remuneration and transactions

	2020 £'000	2019 £'000
<b>Directors' remuneration</b>		
Emoluments	341	309
Company contributions to money purchase pension schemes	25	22
	<b>366</b>	<b>331</b>

Two directors are executives of the company and their remuneration is disclosed.

	2020 Number	2019 Number
<b>The number of directors who:</b>		
Members of a defined contribution pension scheme	2	2

	2020 £'000	2019 £'000
<b>Remuneration of the highest paid director:</b>		
Emoluments and amounts (excluding shares) under long term incentive schemes	231	217
Company contributions to money purchase pension schemes	16	15
	<b>247</b>	<b>232</b>

The highest paid director exercised share options in the year of £nil (2019: £nil). During the year, the highest paid director accrued retirement benefits in respect of defined contribution pension schemes.

There was no (2019: nil) compensation paid for loss of office.

# Atlantic Inertial Systems Limited

## Notes to the financial statements For the year ended 31 December 2020

### 10. Income tax credit / (expense)

Tax (credit)/ charge included in the profit and loss account:

	2020 £'000	2019 £'000
<b>Current tax</b>		
UK corporation tax on profits for the year	-	4,588
Adjustments in respect of prior years	(832)	(3,436)
<b>Total current tax</b>	<b>(832)</b>	<b>1,152</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	192	198
Impact of change in tax rate	13	-
Under provision in deferred tax in prior years	(30)	37
<b>Total deferred tax (see note 20)</b>	<b>175</b>	<b>235</b>
<b>Total tax on profit</b>	<b>(657)</b>	<b>1,387</b>

### Factors affecting tax (credit)/ charge for the year:

The tax on the profit before tax for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The (credit)/ charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2020 £'000	2019 £'000
<b>Profit before taxation</b>	<b>25,958</b>	<b>28,016</b>
Tax on profit before taxation at standard UK corporation tax rate of 19% (2019: 19%)	4,932	5,323
Effects of:		
Expenses not deductible for tax purposes	2	3
Income not taxable	-	(380)
Group relief received for nil payment	(4,742)	(136)
Adjustments in respect of prior years	(832)	(3,436)
Under provision in deferred tax in prior years	(30)	37
Impact of change in tax rate	13	-
Rate differential on temporary differences	-	(24)
<b>Total tax (credit)/ charge for the year</b>	<b>(657)</b>	<b>1,387</b>

The tax credit in future years may be affected by:

Claims for capital allowances are running in advance of depreciation. Whether this continues to be the case depends on the level of capital allowance claims in the future and the level of future investment in fixed assets.

# Atlantic Inertial Systems Limited

## Notes to the financial statements For the year ended 31 December 2020

### 10. Income tax (credit)/ expense (continued)

#### Factors that may affect future tax charge:

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19%.

In the March 2021 Budget, the Government announced that from April 2023 the corporation tax rate would increase from 19% to 25%. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period and increase the deferred tax liability by £99,000.

### 11. Intangible assets

	Development costs £'000	Goodwill £'000	Total £'000
<b>Cost</b>			
At 1 January 2019	6,369	22,326	28,695
Additions	2,815	-	2,815
At 31 December 2019	9,184	22,326	31,510
Additions	3,319	-	3,319
At 31 December 2020	12,503	22,326	34,829
<b>Accumulated amortisation</b>			
At 1 January 2019	780	7,941	8,721
Amortisation	196	-	196
At 31 December 2019	976	7,941	8,917
Amortisation	923	-	923
At 31 December 2020	1,899	7,941	9,840
<b>Net book value</b>			
At 31 December 2020	10,604	14,385	24,989
At 31 December 2019	8,208	14,385	22,593

Development costs relating to High Performance sensors and associated Inertial Measurement Units (IMU's) were capitalised in accordance with the measurement and recognition bases of IAS 38 *Intangible Assets*. Dependent on the project, the costs are amortised over 5 years straight line basis or subject to annual impairment. £7,593,000 has an indefinite life and is subject to annual impairment (2019: £7,908,000).

# Atlantic Inertial Systems Limited

## Notes to the financial statements For the year ended 31 December 2020

### 12. Property, plant and equipment

	Freehold Property £'000	Plant and machinery £'000	Software £'000	Payments on account and assets in the course of construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2019	3,924	7,884	1,394	2,645	15,847
Additions	-	10	-	3,854	3,864
Disposals	-	(55)	-	-	(55)
Transfer between classes	727	2,120	140	(2,987)	-
At 31 December 2019	4,651	9,959	1,534	3,512	19,656
Additions	-	-	-	2,340	2,340
Transfer between classes	1,389	720	308	(2,417)	-
At 31 December 2020	6,040	10,679	1,842	3,435	21,996
<b>Accumulated depreciation</b>					
At 1 January 2019	2,043	3,706	997	-	6,746
Depreciation	80	802	132	-	1,014
Disposals	-	(44)	-	-	(44)
At 31 December 2019	2,123	4,464	1,129	-	7,716
Depreciation	241	656	179	-	1,076
At 31 December 2020	2,364	5,120	1,308	-	8,792
<b>Net book value</b>					
At 31 December 2020	3,676	5,559	534	3,435	13,204
At 31 December 2019	2,528	5,495	405	3,512	11,940

# Atlantic Inertial Systems Limited

## Notes to the financial statements For the year ended 31 December 2020

### 13. Right-of-use assets

The company has a lease contract for company vehicles. The amounts recognised in the financial statements in relation to the lease are as follows:

#### (i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020 £'000	2019 £'000
<b>Right-of-use assets</b>		
Vehicles	221	123
	<b>221</b>	<b>123</b>
<b>Lease liabilities</b>		
Current	78	63
Non-current	143	60
	<b>221</b>	<b>123</b>

Additions to the right-of-use assets during the 2020 financial year were £188,000 (2019: £75,000).

#### (ii) Amounts recognised in the profit and loss account

The profit and loss account shows the following amounts relating to leases:

	2020 £'000	2019 £'000
<b>Depreciation charge on right-of-use assets</b>		
Vehicles	92	96
	<b>92</b>	<b>96</b>
Interest expense (included in finance cost)	3	4
Expense relating to leases of low value assets that are not shown above as short-term leases (included in administration expenses)	-	24
	<b>2020 £'000</b>	<b>2019 £'000</b>
Future minimum lease payments as at 31 December are as follows:		
Not later than one year	78	63
Later than one year and not later than five years	143	60
<b>Total gross payments</b>	<b>221</b>	<b>123</b>
<b>Carrying amount of liability</b>	<b>221</b>	<b>123</b>

## Atlantic Inertial Systems Limited

### Notes to the financial statements For the year ended 31 December 2020

#### 14. Investments

	£'000
<b>Cost and net book value</b>	
At 1 January 2019	6,549
At 31 December 2019	6,549
At 31 December 2020	6,549

The Company's investment in Silicon Sensing Systems Limited is treated as a joint venture because the Company exercises joint control through its 50% holding of the voting rights.

Details of the Company's investments at 31 December 2020 are as follows. Unless otherwise indicated, all ownership interests are in the ordinary share capital of the investee.

Name and registered address	Place of incorporation (and operation)	Proportion of ownership interest %	Proportion of voting power held %
<i>Silicon Sensing Systems Limited</i> Clifford Road, Southway, Plymouth, Devon, PL6 6DE, England	England	50%	50%

The investment in the joint venture is stated at cost less provision for impairment.

#### 15. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	2,790	815
Work in progress	2,510	5,077
Finished goods and goods for resale	2,983	610
	<b>8,283</b>	<b>6,502</b>

In the opinion of the Directors the difference between the carrying value of inventory and its replacement value is not material. There is a provision of £1,509,000 (2019: £1,770,000) over stock held.



# Atlantic Inertial Systems Limited

## Notes to the financial statements For the year ended 31 December 2020

### 16. Debtors

	2020 £'000	2019 £'000
Trade receivables	5,740	11,819
Amounts owed by group undertakings	71,034	39,989
VAT	386	989
Other receivables	30	208
Prepayments and accrued income	2,398	802
Contract assets	7,561	7,873
	<b>87,149</b>	<b>61,680</b>

Loans to other group companies mature on a monthly basis and are renewable at a variable interest rate. No interest is charged on inter-company trading balances.

Trade receivables are stated after provision for impairment of £258,000 (2019: £70,000).

### 17. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	6,364	5,869
Amounts owed to group undertakings	1,963	2,027
Corporation tax	272	1,104
Accruals	6,178	4,169
Lease liability (note 13)	78	63
Deferred and unearned income	8,071	4,969
Contract liabilities	2,135	2,334
	<b>25,061</b>	<b>20,535</b>

No interest is charged on inter-company trading balances (2019: £nil).

### 18. Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Accruals and deferred income	-	239
Lease liability (note 13)	143	60
Contract liabilities	4,644	4,796
	<b>4,787</b>	<b>5,095</b>

## Atlantic Inertial Systems Limited

### Notes to the financial statements For the year ended 31 December 2020

#### 19. Provisions for liabilities

	Product warranties £'000	Deferred tax provision £'000	Total £'000
At 1 January 2019	182	-	182
Arising during the year	-	137	137
At 31 December 2019	182	137	319
Arising during the year	-	175	175
At 31 December 2020	182	312	494

#### Product warranties

The provision for product warranties relates to expected warranty claims on products sold in the last three years. It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.