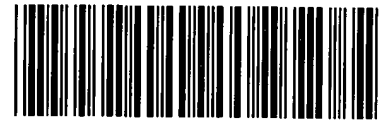


# **Vector Aerospace International Limited**

## **Report and Financial Statements**

31 December 2017

WEDNESDAY



\*A7J6RUA3\*

A05

21/11/2018

#194

COMPANIES HOUSE

**Directors**

Simon Jones  
Gary Carruthers  
Brent Fawkes  
Michael Scott

**Auditors**

Ernst & Young LLP  
19 Threefield Lane  
Southampton SO14 3QB

**Bankers**

Barclays Bank  
30 St Werburgh Street  
Chester  
Cheshire CH1 2DY

**Solicitors**

Shepherd and Wedderburn LLP  
1 Exchange Crescent  
Conference Square  
Edinburgh EH3 8UL

**Registered Office**

Fleetlands  
Fareham Road  
Gosport  
Hampshire PO13 0AA

## Strategic Report

The directors present their Strategic Report for the year ended 31 December 2017.

### Review of the business

The Company's principal activity is the maintenance, repair and overhaul of aircraft, airframes and components, aerospace engines and related services.

On 2 November 2017, The Veritas Capital Fund V, L.P, through its wholly owned subsidiary, StandardAero, completed the acquisition of the Vector Aerospace group from Airbus Group, including the acquisition of the company. The Veritas Capital Fund V, L.P is now considered to be the ultimate parent undertaking and controlling party of the company.

The Company's key performance indicators during the year are as follows:

|  | 2017   | 2016    | Change |
|--|--------|---------|--------|
|  | £000's | £000's  | (%)    |
| Turnover                                   | 92,005 | 74,507  | +23%   |
| Operating Profit/(Loss)                    | 4,576  | (4,839) | n/a    |
| Total Equity                               | 39,584 | 7,163   | +453%  |
| Current Assets as % of Current Liabilities | 287%   | 93%     | +209%  |
| Average monthly number of employees        | 691    | 766     | -10%   |

The business comprises airframe and component MRO (maintenance, repair and overhaul) activity, primarily for the Chinook (Boeing) and a number of civil helicopter operators (Airbus Helicopter (AH) / Sikorsky) aircraft. It also conducts MRO on aircraft engines (Rolls-Royce / Pratt & Whitney / Honeywell) and associated components and accessories.

Trading conditions for helicopter work remained challenging over the period with a lack of activity across the civil sector in response to lower demand from oil exploration and the grounding of the H225 (AH) aircraft in early 2016. This in turn affected the company's ability to expand into the commercial sector to offset the lower operational flying within the core military customers due to increased budget constraints.

The MRO aircraft engine grew in the year due to an increase in the Pratt & Whitney program input volumes. This is a maturing engine line which is now starting to realise its maintenance potential with some significant growth planned for the future.

Total equity increased by £32.4m largely due to the impact of the property revaluation exercise carried out following the change of ownership, and the net revaluation gain of £42.1m, off-set by the loss for the year of £7.6m and the net actuarial loss on the pension scheme of £2.1m, recorded in the 2017 financial statements.

The directors consider the level of business and the period end financial position to be satisfactory.

### Future Developments

The external commercial environment is expected to remain competitive through 2018 and beyond. However, we expect improvements to our current level of performance in the future, driven by our culture of continuous improvement, and the benefits to the business from being part of the wider StandardAero and Veritas Capital groups.

## Strategic Report (continued)

### Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to competition from other aircraft maintenance businesses. Other risks include:

**Legislative risk:** The Company is in compliance with applicable regulations of the aviation industry. Compliance imposes costs and failure to comply with the applicable standards could affect the Company's ability to operate.

**Revenue risk:** The majority of the revenues earned by the Company are covered by longer term support contracts. Activity levels are based on scheduled maintenance events which are dependent on customer flying hours and the passage of time. Additional revenue is generated as a result of unexpected damage to the airframe and/or completion of upgrade and modification programmes.

By order of the board



S Jones  
Director

Date: 20.11.18

## Directors' Report

The directors present their Directors' Report for the year ended 31 December 2017.

### Directors

The directors during the year and subsequently were as follows:

Paul Bryant (resigned 30 August 2017)

Simon Jones

Owen McClave (resigned 16 November 2017)

Chris Hosking (appointed 11 October 2017 and resigned 30 April 2018)

Gary Carruthers (appointed 19 June 2018)

Brent Fawkes (appointed 19 June 2018)

Michael Scott (appointed 19 June 2018)

Diane Roseborough (appointed 19 June 2018 and resigned 25 July 2018)

Robert Sinquefield (appointed 19 June 2018 and resigned 25 July 2018)

### Dividends

The directors do not recommend the payment of a dividend in the current year (2016: dividend paid in the year of £nil).

### Going concern

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

The Company has significant financial resources together with long-term contracts with a number of its customers. Following the change of ownership and ultimate control, longer term funding of the company is now provided by its parent StandardAero. The directors have received confirmation that this funding will continue to be provided to the company for the foreseeable future. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully. The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence and accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Directors' liabilities

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

## Directors' Report (continued)

### Employee involvement

The Company operates a framework for employee information and consultation, which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the Company has been continued through management presentations to employees in which employees have also been encouraged to present their views and suggestions. Regular meetings are held between management and employee representatives so as to promote a free flow of information and ideas.

### Disclosure of information to the auditors

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

By order of the board



S Jones  
Director

Date: 20.11.18

## Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. 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 those financial statements, the directors are required to:

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

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

# **Independent auditor's report**

## **to the members of Vector Aerospace International Limited**

### **Opinion**

We have audited the financial statements of Vector Aerospace International Limited for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

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

### **Other information**

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

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

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

We have nothing to report in this regard.



# **Independent auditor's report (continued)**

## **to the members of Vector Aerospace International Limited**

### **Opinion on other matter prescribed by the Companies Act 2006**

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

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

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

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## **Independent auditor's report (continued)**

**to the members of Vector Aerospace International Limited**

### **Use of our report**

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

*Ernst & Young LLP*

David Marshall (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Southampton

Date: *20/11/2018*

## Statement of Comprehensive Income

for the year ended 31 December 2017

|  | Notes | 2017<br>£000's | 2016<br>£000's |
|--|-------|----------------|----------------|
| Turnover   | 2     | 92,005         | 74,507         |
| Cost of sales                                    |       | (66,015)       | (56,112)       |
| Gross profit                                     |       | 25,990         | 18,395         |
| Administrative expenses                          |       | (21,414)       | (23,234)       |
| Operating profit/(loss)                          | 3     | 4,576          | (4,839)        |
| Exceptional items                                | 6     | (12,048)       | (1,427)        |
| Interest payable and similar charges             | 7     | (1,080)        | (749)          |
| Other financing costs – pension scheme           | 8     | (401)          | (307)          |
| Loss on ordinary activities before taxation      |       | (8,953)        | (7,322)        |
| Taxation   | 9     | 1,383          | 1,317          |
| Loss for the financial year                      |       | (7,570)        | (6,005)        |
| Other comprehensive income                       |       |                |                |
| Revaluation gain on land and buildings           |       | 48,593         | -              |
| Actuarial loss on pension scheme                 |       | (2,557)        | (8,585)        |
| Tax on items in other comprehensive income       |       | (6,045)        | 1,717          |
| Total comprehensive income / (loss) for the year |       | 32,421         | (12,873)       |

All amounts relate to continuing operations.

## Statement of Changes in Equity

for the year ended 31 December 2017

|   | <i>Share<br/>capital<br/>£000's</i> | <i>Revaluation<br/>reserve<br/>£000's</i> | <i>Retained<br/>earnings<br/>£000's</i> | <i>Total<br/>equity<br/>£000's</i> |
|---|-------------------------------------|---|---|------------------------------------|
| At 1 January 2016                                       | -                                   | -   | 20,036                                  | 20,036                             |
| Loss for the year                                       | -                                   | -   | (6,005)                                 | (6,005)                            |
| Actuarial loss on defined benefit pension scheme        | -                                   | -   | (8,585)                                 | (8,585)                            |
| Deferred tax relating to actuarial loss                 | -                                   | -   | 1,717                                   | 1,717                              |
| At 31 December 2016                                     | -                                   | -   | 7,163                                   | 7,163                              |
| Loss for the year                                       | -                                   | -   | (7,570)                                 | (7,570)                            |
| Land and building revaluation in the year               | -                                   | 48,593                                    | -                                       | 48,593                             |
| Actuarial loss on defined benefit pension scheme        | -                                   | -   | (2,557)                                 | (2,557)                            |
| Deferred tax relating to revaluation and actuarial loss | -                                   | (6,480)                                   | 435                                     | (6,045)                            |
| At 31 December 2017                                     | -                                   | 42,113                                    | (2,529)                                 | 39,584                             |

## Statement of Financial Position

as at 31 December 2017

|   | Note | 2017<br>£000's | 2016<br>£000's |
|---|------|----------------|----------------|
| <b>Fixed assets</b>                               |      |                |                |
| Negative goodwill                                 | 11   | (5,657)        | (6,033)        |
| Intangible fixed assets                           | 12   | 806            | 9,017          |
| Tangible assets                                   | 13   | 84,066         | 36,627         |
|   |      | <u>79,215</u>  | <u>39,611</u>  |
| <b>Current assets</b>                             |      |                |                |
| Stocks  | 14   | 16,596         | 12,330         |
| Receivables:                                      | 15   |                |                |
| amounts falling due within one year               |      | 23,649         | 28,190         |
| amounts falling due after one year                |      | 4,860          | 2,686          |
|   |      | <u>45,105</u>  | <u>43,206</u>  |
| Cash at bank and in hand                          |      | 5,941          | -              |
|   |      | <u>51,046</u>  | <u>43,206</u>  |
| Payables: amounts falling due within one year     | 16   | (17,750)       | (46,391)       |
| <b>Net current assets/(liabilities)</b>           |      | <u>33,296</u>  | <u>(3,185)</u> |
| Total assets less current liabilities             |      | 112,511        | 36,426         |
| Payables: amounts falling due after more than one | 17   | (48,548)       | (12,787)       |
| Provisions for liabilities                        | 18   | (7,579)        | (676)          |
| Net assets excluding pension liabilities          |      | 56,384         | 22,963         |
| Provision for pension liabilities                 | 22   | (16,800)       | (15,800)       |
| <b>Net assets</b>                                 |      | <u>39,584</u>  | <u>7,163</u>   |
| <b>Capital and reserves</b>                       |      |                |                |
| Called up share capital                           | 19   | -              | -              |
| Revaluation reserve                               | 20   | 42,113         | -              |
| Retained earnings                                 |      | (2,529)        | 7,163          |
| <b>Total equity</b>                               |      | <u>39,584</u>  | <u>7,163</u>   |

These financial statements were approved by the Board of Directors on 20 November 2018 and were signed on its behalf by:

S Jones  
Director



## Notes to the financial statements

at 31 December 2017

### 1. Authorisation of financial statements and statement of compliance with FRS 102

The financial statements of Vector Aerospace International Limited for the year ended 31 December 2017 were approved for issue by the board of Directors on the date as shown on the Statement of Financial Position. The Company is incorporated and domiciled in England and Wales. Vector Aerospace International Limited is a private company, limited by shares.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds except when otherwise indicated.

#### Basis of preparation

For the year ended 31 December 2016, when the company was a wholly owned subsidiary of Airbus Corp SE, the financial statements were prepared under the historical cost convention and in accordance with FRS101 'Reduced Disclosure Framework' (FRS101). Following the change of ownership on 2 November 2017, the financial statements for the year ended 31 December 2017 have been prepared in accordance with FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS102).

Accordingly the company has prepared the financial statements which comply with FRS102 for the years ended 31 December 2017 and 31 December 2016 and the significant accounting policies meeting these requirements are set out below in the relevant notes. On transition from FRS101 to FRS102 the company has applied the guidance and taken advantage of the transitional relief provisions in Section 35 of FRS102. There were no transitional adjustments that impact the previously reported equity of the company at 31 December 2016, or 31 December 2015, nor the previously reported loss of the company for the year ended 31 December 2016.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

The Company is exempt from the obligation to prepare and deliver group financial statements by virtue of section 400 of the Companies Act 2006, as the Company's parent company publishes group financial statements in which this company is included. Accordingly, the financial statements present information about the Company as an individual undertaking and not about its group.

The Company has taken advantage of the following reduced disclosure exemptions under FRS102:

- the requirements of Section 7 'Statement of Cash Flows';
- the requirements of Section 3 'Financial Statement Presentation' paragraph 3.17(d);
- the requirements of Section 11 paragraphs 11.39 to 11.48A and Section 12 paragraphs 12.26 to 12.29 relating to 'Financial Instruments' disclosures; and
- the requirement of Section 33 paragraph 33.7 relating to 'Related Party Transactions' and compensation payments to key management personnel.

## Notes to the financial statements

at 31 December 2017

### 1.1 Change in accounting policy – revaluation of land and buildings

Following the change of ownership on 2 November 2017, a full revaluation exercise over the company's land and buildings was carried out. In order to keep its statutory accounting records in line with those reported to its parent, the company has changed its accounting policy relating to land and buildings, as permitted by FRS102. As detailed below, land and buildings have been revalued as at 31 December 2017 to fair value, with the increase in value recorded in a revaluation reserve. This change has increased the value of tangible fixed assets by £48,593,000, and the reported net assets and total equity, by £42,113,000 as at 31 December 2017.

### 1.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements are considered to have the most significant effect on the amounts recognised in the financial statements:

#### **Taxation**

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

#### **Pension and other post-employment benefits**

The cost of defined benefit pensions plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 22.

#### **Trade receivables – customer claim balances**

Management judgement is required at the period end date to determine the expected level of recoveries which will arise from customer claims. These relate to the expected reimbursement of costs incurred in the run-down and closure of specific contracts with the customer, where the claims made are subject to review and audit by the customer in the period subsequent to the period end. Further details of outstanding claim balances are contained in note 15.

### 1.3 Accounting policies

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Where there are long term contracts, revenue is recognised prior to the completion of the full contract, if the contract is defined into specific identifiable work segments and those work segments have been completed.

Revenue is recognised excluding discounts, rebates, VAT and other sales taxes or duty.

## Notes to the financial statements

at 31 December 2017

### 1.3 Accounting policies (continued)

#### *Intangible assets*

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation is provided on all intangible assets on a straight-line bases over the expected useful life as follows:

- Software: 3 to 5 years

The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets are amortised on a straight line basis over the estimated useful lives which are reviewed on an annual basis. The company has a number of licenses to maintain Original Equipment Manufacturer engines as an approved Maintenance and Repair Organisation. The economic life of the licences is the date at which the rights inferred in the licence terms expire. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Where the fair value of the separable net assets exceeds the fair value of the consideration for an acquired undertaking, the difference is treated as negative goodwill and is capitalised and amortised through the profit and loss account over the period in which the non-monetary assets acquired are recovered. In the case of fixed assets, this is the period in which they are depreciated, and in the case of current assets, the period over which they are sold or otherwise realised.

#### *Tangible fixed assets*

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction are capitalised as part of the cost of that asset.

Land and buildings are recognised initially at cost. With effect from 31 December 2017, land and buildings thereafter are carried at fair value less depreciation and impairment charged subsequent to the date of the revaluation. Fair value is based on periodic valuations by an external independent valuer and is determined from market-based evidence by appraisal. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve in equity except to the extent that it reverses a decrease in the carrying value of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent of any existing surplus in respect of that asset in the revaluation reserve.

An annual transfer is made from the revaluation reserve to retained earnings for the difference between depreciation based on the carrying amount of the assets and that based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.



## Notes to the financial statements

at 31 December 2017

### 1.3 Accounting policies (continued)

#### *Tangible fixed assets (continued)*

Depreciation is provided on all property, plant and equipment, other than land, on a straight line basis over its expected useful life as follows:

|   |                              |
|---|------------------------------|
| Buildings                                 | - over 5 to 40 years         |
| Equipment / machinery / tools / furniture | - over 3 to 25 years         |
| Computer hardware                         | - over 3 to 5 years          |
| Leasehold improvements                    | - over the term of the lease |
| Vehicles                                  | - over 3 to 15 years         |

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

|                             |   |   |
|-----------------------------|---|---|
| Spare parts and consumables | – | purchase cost on a first in, first out basis  |
| Work in progress            | – | cost of direct materials and labour plus attributable overheads based on a normal level of activity |

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

#### *Provision for liabilities*

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate can be made.

The estimated liability for costs to be incurred as a result of future warranty claims is recorded in the year in which the revenue is recognised on the basis of warranty terms and historical experience.

#### *Foreign currency*

The company financial statements are presented in sterling, which is also the company's functional currency.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Income Statement.

#### *Operating leases*

Rentals paid under operating leases are charged to the Income Statement on a straight line basis over the lease term.

#### *Exceptional items*

The Company presents as exceptional items those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow users of the financial statements to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

## Notes to the financial statements

at 31 December 2017

### 1.3 Accounting policies (continued)

#### *Income taxes*

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exception:

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

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

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

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

#### *Trade and other debtors*

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### *Pensions*

The Company operates defined benefit pension schemes, which require contributions to be made to separately administered funds.

The cost of providing benefits under the defined benefit plans is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the income statement as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

## Notes to the financial statements

at 31 December 2017

### 1.3 Accounting policies (continued)

#### *Pensions (continued)*

The defined benefit pension asset or liability in the balance sheet comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value of plan assets is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

## Notes to the financial statements

at 31 December 2017

### 2. Turnover

Turnover is attributable to one continuing operation, the repair and overhaul support of aircraft and related aircraft engines and components.

An analysis of turnover by geographical market is given below:

|                   | 2017<br>£000's | 2016<br>£000's |
|-------------------|----------------|----------------|
| United Kingdom    | 34,533         | 30,545         |
| North America     | 24,496         | 12,700         |
| Rest of the World | 32,976         | 31,262         |
|                   | <u>92,005</u>  | <u>74,507</u>  |

### 3. Operating profit/(loss)

This is stated after charging / (crediting):

|  | 2017<br>£000's | 2016<br>£000's |
|--|----------------|----------------|
| Auditors' remuneration – audit services  | 76             | 74             |
| Operating lease rentals – land and buildings                                   | 133            | 114            |
| – other  | 227            | 224            |
| Depreciation of tangible fixed assets  | 2,488          | 2,308          |
| Amortisation of intangible assets  | 1,165          | 971            |
| Amortisation of other intangible assets – negative goodwill                    | (376)          | (377)          |
| Foreign exchange losses/(gains)  | (2,376)        | (853)          |
| Cost of stocks recognised as an expense (included in cost of sales) including: |                |                |
| - write-down of stocks to net realisable value                                 | 30             | 18             |

## Notes to the financial statements

at 31 December 2017

### 4. Directors' remuneration

|  | <i>2017</i><br><i>£000's</i> | <i>2016</i><br><i>£000's</i> |
|--|------------------------------|------------------------------|
| Aggregate remuneration in respect of qualifying services                     | 967                          | 580                          |
| Aggregate amounts payable in respect of defined contributions pension scheme | 95                           | 30                           |
| Highest paid director:   |                              |                              |
| Aggregate remuneration in respect of qualifying services                     | 469                          | 224                          |
| Aggregate amounts payable in respect of defined contributions pension scheme | 47                           | 7                            |
|  |                              |                              |
|  | <i>2017</i><br><i>No.</i>    | <i>2016</i><br><i>No.</i>    |
| Number of directors accruing benefits under defined contribution schemes     | 4                            | 4                            |

### 5. Staff costs

|  | <i>2017</i><br><i>£000's</i> | <i>2016</i><br><i>£000's</i> |
|--|------------------------------|------------------------------|
| Wages and salaries                             | 24,772                       | 27,431                       |
| Social security costs                          | 3,168                        | 3,459                        |
| Defined benefit pension service cost (note 22) | 273                          | 264                          |
| Defined contribution pension costs             | 2,220                        | 2,241                        |
|  | 30,433                       | 33,395                       |

The average monthly number of employees during the period was as follows:

|                | <i>2017</i><br><i>No.</i> | <i>2016</i><br><i>No.</i> |
|----------------|---------------------------|---------------------------|
| Administration | 266                       | 321                       |
| Production     | 425                       | 445                       |
|                | 691                       | 766                       |

## Notes to the financial statements

at 31 December 2017

### 6. Exceptional items

|  | <i>2017</i><br><i>£000's</i> | <i>2016</i><br><i>£000's</i> |
|--|------------------------------|------------------------------|
| Redundancy and other restructure costs relating to the completion of long term customer programmes | 100                          | 1,427                        |
| Tangible fixed asset impairments (Note 13)   | 685                          | -                            |
| Intangible fixed asset impairments (Note 12)   | 11,263                       | -                            |
| Total exceptional expense  | <u>12,048</u>                | <u>1,427</u>                 |

### 7. Interest payable and similar charges

|  | <i>2017</i><br><i>£000's</i> | <i>2016</i><br><i>£000's</i> |
|--|------------------------------|------------------------------|
| Dividends due on preference shares (see note 10) | 300                          | 300                          |
| Group interest payable                           | 491                          | 174                          |
| Other interest payable                           | 350                          | 298                          |
| Group interest receivable                        | (61)                         | (23)                         |
| Net interest payable                             | <u>1,080</u>                 | <u>749</u>                   |

### 8. Other financing costs – pension scheme

|   | <i>2017</i><br><i>£000's</i> | <i>2016</i><br><i>£000's</i> |
|---|------------------------------|------------------------------|
| Interest income on pension scheme assets (see note 22)    | (2,060)                      | (2,323)                      |
| Interest cost on pension scheme liabilities (see note 22) | 2,461                        | 2,630                        |
| Net interest payable                                      | <u>401</u>                   | <u>307</u>                   |

## Notes to the financial statements

at 31 December 2017

### 9. Taxation

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

|  | 2017<br>£000's | 2016<br>£000's |
|--|----------------|----------------|
| Current tax:   |                |                |
| UK corporation tax at 19.25% (2016 – 20.00%)           | -              | -              |
| Adjustment to tax in respect of previous periods       | -              | (1,697)        |
| Total current tax                                      | -              | (1,697)        |
| Deferred tax   |                |                |
| Origination and reversal of timing differences         | (1,458)        | 408            |
| Adjustment to tax in respect of previous periods       | 75             | -              |
| Effect of tax rate change                              | -              | (28)           |
| Tax (credit) / charge on profit on ordinary activities | (1,383)        | (1,317)        |

|  | 2017<br>£000's | 2016<br>£000's |
|--|----------------|----------------|
|--|----------------|----------------|

#### (b) Factors affecting total tax charge

The tax assessed on the profit on ordinary activities differs from the standard rate of corporation tax in the UK as follows:

|  |         |         |
|--|---------|---------|
| Profit on ordinary activities before tax   | (8,953) | (7,322) |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%) | (1,723) | (1,464) |
| Net expenses/(income) not deductible for tax purposes  | 72      | 182     |
| Effect of tax rate changes   | -       | (28)    |
| Other differences (including losses)   | 193     | 1,690   |
| Adjustments to tax charge in respect of previous periods   | 75      | (1,697) |
| Total tax (credit)/charge for the year (note 9(a))   | (1,383) | (1,317) |

## Notes to the financial statements

at 31 December 2017

### 9. Taxation (continued)

(c) Deferred tax recognised at year end:

|   | 2017<br>£000's | 2016<br>£000's |
|---|----------------|----------------|
| Deferred tax assets in respect of:                          |                |                |
| Pension scheme  | 2,856          | 2,686          |
| Other timing differences (including tax losses)             | 2,004          | -              |
| Deferred tax asset recognised (note 15)                     | <u>4,860</u>   | <u>2,686</u>   |
| Deferred tax liabilities in respect of:                     |                |                |
| Land and building revaluation                               | (6,480)        | -              |
| Accelerated capital allowances and other timing differences | (636)          | (281)          |
| Deferred tax liability recognised (note 18)                 | <u>(7,116)</u> | <u>(281)</u>   |

### 10. Dividends and other appropriation

The directors did not recommend the payment of a dividend for the current year (2016: £nil). The dividend payable on the cumulative preference shares of £300,000 (2016: £300,000) is shown as a finance cost within net interest (see note 7).

### 11. Negative goodwill

|  | £000's          |
|--|-----------------|
| Cost:                                  |                 |
| At 1 January 2017 and 31 December 2017 | <u>(10,327)</u> |
| Amortisation:                          |                 |
| At 1 January 2017                      | 4,294           |
| Provided during the period             | 376             |
| At 31 December 2017                    | <u>4,670</u>    |
| Net book value:                        |                 |
| At 31 December 2017                    | <u>(5,657)</u>  |
| At 1 January 2017                      | <u>(6,033)</u>  |

Negative goodwill relates to the purchase of the business from the Defence Aviation and Repair Agency in 2008. It reflects the difference between the fair value of the net assets acquired and the purchase consideration, and is being amortised over the depreciation period of the related tangible fixed assets, or released on sale, whichever is sooner. The remaining amortisation period is currently 15 years (to 2032).



## Notes to the financial statements

at 31 December 2017

### 12. Intangible fixed assets

|                          | <i>Software</i><br><i>£000's</i> | <i>Licences</i><br><i>£000's</i> | <i>Total</i><br><i>£000's</i> |
|--------------------------|----------------------------------|----------------------------------|-------------------------------|
| Cost:                    |                                  |                                  |                               |
| At 1 January 2017        | 1,137                            | 14,544                           | 15,681                        |
| Additions                | 12                               | 4,205                            | 4,217                         |
| At 31 December 2017      | <u>1,149</u>                     | <u>18,749</u>                    | <u>19,898</u>                 |
| Amortisation:            |                                  |                                  |                               |
| At 1 January 2017        | 423                              | 6,241                            | 6,664                         |
| Provided during the year | 239                              | 926                              | 1,165                         |
| Impairment charge        | -                                | 11,263                           | 11,263                        |
| At 31 December 2017      | <u>662</u>                       | <u>18,430</u>                    | <u>19,092</u>                 |
| Net book value:          |                                  |                                  |                               |
| At 31 December 2017      | <u>487</u>                       | <u>319</u>                       | <u>806</u>                    |
| At 1 January 2017        | <u>714</u>                       | <u>8,303</u>                     | <u>9,017</u>                  |

The licenses relate to payments to aircraft engine manufacturers to become authorised maintenance facilities. The amounts are amortised on a straight line basis over the remaining life of the license.

During the year licences with a net book value of £11,263,000 were assessed as being fully impaired. This followed the change in ownership of the company in November 2017 and a revision to the ongoing contract pricing arrangements for work carried out under the licences. The impairment losses are included as an exceptional item in the Statement of Comprehensive Income (see Note 6).

## Notes to the financial statements

at 31 December 2017

### 13. Tangible fixed assets

|  | <i>Land and<br/>buildings<br/>£000's</i> | <i>Plant and<br/>machinery<br/>£000's</i> | <i>Total<br/>£000's</i> |
|--|--|---|-------------------------|
| Cost:  |  |   |                         |
| At 1 January 2017                                    | 24,456                                   | 30,398                                    | 54,854                  |
| Additions  | 626                                      | 1,427                                     | 2,053                   |
| Disposals  | -  | (77)                                      | (77)                    |
| Surplus on revaluation                               | 44,735                                   | -   | 44,735                  |
| At 31 December 2017                                  | 69,817                                   | 31,748                                    | 101,565                 |
| Depreciation:  |  |   |                         |
| At 1 January 2017                                    | 3,415                                    | 14,812                                    | 18,227                  |
| Provided during the year                             | 444                                      | 2,044                                     | 2,488                   |
| Disposals  | -  | (42)                                      | (42)                    |
| Impairment loss                                      | -  | 685                                       | 685                     |
| Accumulated depreciation written back on revaluation | (3,859)                                  | -   | (3,859)                 |
| At 31 December 2017                                  | -  | 17,499                                    | 17,499                  |
| Net book value:                                      |  |   |                         |
| At 31 December 2017                                  | 69,817                                   | 14,249                                    | 84,066                  |
| At 1 January 2017                                    | 21,041                                   | 15,586                                    | 36,627                  |

Included within land and buildings is freehold land with a carrying amount of £33,816,000 (2016: £12,188,000).

The land and buildings were valued on the basis of open market value by an independent valuer (Gesvalt S.A.) with a recognised and relevant professional qualification, as at 31 December 2017, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. A revaluation gain of £48,593,000 was recorded, being the first year a revaluation exercise was performed for following the change in accounting policy applied (see Note 1). The comparable amounts for land and buildings determined according to the historical cost accounting rules are as follows:

|                     | <i>£000's</i> |
|---------------------|---------------|
| At 31 December 2017 | 21,222        |
| At 1 January 2017   | 21,041        |

## Notes to the financial statements

at 31 December 2017

### 14. Stocks

|                             | 2017<br>£000's | 2016<br>£000's |
|-----------------------------|----------------|----------------|
| Spare parts and consumables | 10,349         | 5,594          |
| Work in progress            | 6,247          | 6,736          |
|                             | <u>16,596</u>  | <u>12,330</u>  |

### 15. Receivables

#### Amounts falling due within one year:

|                                    | 2017<br>£000's | 2016<br>£000's |
|------------------------------------|----------------|----------------|
| Trade receivables                  | 17,874         | 14,477         |
| Amounts owed by group undertakings | 2,191          | 3,380          |
| Other receivables                  | 1,589          | 8,265          |
| Prepayments and accrued income     | 712            | 785            |
| Corporation tax recoverable        | 1,283          | 1,283          |
|                                    | <u>23,649</u>  | <u>28,190</u>  |

#### Amounts falling due after more than one year:

|                                  | 2017<br>£000's | 2016<br>£000's |
|----------------------------------|----------------|----------------|
| Deferred tax asset (see Note 9c) | 4,860          | 2,686          |
|                                  | <u>4,860</u>   | <u>2,686</u>   |

Trade receivables noted above include £nil (2016: £2,491k) and other receivables include £nil (2016: £6,755k) relating to outstanding claim balances due from a customer which are subject to potential customer review and audit. As such these balances represent the directors' best estimate of the expected recoveries from these claims on which the exact timing of payments is uncertain and may occur at a future date which is over 12 months after the period end date.

## Notes to the financial statements

at 31 December 2017

### 16. Payables: amounts falling due within one year

|                                       | 2017<br>£000's | 2016<br>£000's |
|---------------------------------------|----------------|----------------|
| Trade payables                        | 1,483          | 1,686          |
| Amounts owed to group undertakings    | 7,525          | 31,193         |
| Other taxes and social security costs | 1,801          | 759            |
| Other payables                        | 342            | 125            |
| Accruals and deferred income          | 6,599          | 12,628         |
|                                       | <u>17,750</u>  | <u>46,391</u>  |

### 17. Payables: amounts falling due after more than one year

|  | 2017<br>£000's | 2016<br>£000's |
|--|----------------|----------------|
| Trade payables                           | -              | 2,787          |
| Amounts owed to group undertakings       | 38,548         | -              |
| Liability component of preference shares | 10,000         | 10,000         |
|  | <u>48,548</u>  | <u>12,787</u>  |

Included in the balance above is a loan of \$52,200,000 (2016: \$nil) which is repayable on 7 July 2022. At 31 December 2017 this equates to a balance of £38,548,143 (2016: £nil). Interest is charged on this loan at 3% (2016: nil).

The preference shares carry a dividend of 3% per annum, payable in four instalments each year. The dividend rights on these shares are cumulative.

## Notes to the financial statements

at 31 December 2017

### 18. Provisions for liabilities

|                                 | <i>Deferred<br/>tax<br/>£000's</i> | <i>Warranties<br/>£000's</i> | <i>Total<br/>£000's</i> |
|---------------------------------|------------------------------------|------------------------------|-------------------------|
| At 1 January 2017               | 281                                | 395                          | 676                     |
| Land and building revaluation   | 6,480                              | -                            | 6,480                   |
| Net charge/(credit) in the year | 355                                | (52)                         | 303                     |
| Utilised in the year            | -                                  | 120                          | 120                     |
| At 31 December 2017             | <u>7,116</u>                       | <u>463</u>                   | <u>7,579</u>            |

Deferred tax: see note 9 for analysis of net deferred tax liability..

Warranties: A provision is recognised for potential warranty claims. It is expected that these costs will normally be incurred within two years of the balance sheet date.

### 19. Called-up share capital

|   | <i>Allotted, called up and fully<br/>paid</i> |             |
|---|---|-------------|
|   | <i>2017</i>                                   | <i>2016</i> |
|   | <i>£</i>                                      | <i>£</i>    |
| 100 ordinary shares of £1 each (2016: 100 shares) | 100   | 100         |
| Share capital classified as equity                | <u>100</u>                                    | <u>100</u>  |

### 20. Reserves

The revaluation reserve is used to record the increase in the fair value of land and buildings and decreases to the extent that such decreases relates to an increase on the same asset previously recognised in equity.

## Notes to the financial statements

at 31 December 2017

### 21. Obligations under leases and hire purchase contracts

#### *Operating lease agreements:*

The Company has entered into commercial leases on certain motor vehicles and items of plant and machinery. These leases have duration of between 1 and 4 years.

The company has entered into one property lease agreement that contains an option for renewal, with such option being exercisable up to three months before the expiry of the lease term at rentals based on market prices at the time of exercise.

The company has also entered into one property lease agreement that expires in March 2025. The agreement includes a break clause to terminate the lease in March 2020 on nine months notice.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under operating leases are as follows:

|  | <i>Land and<br/>buildings</i> | <i>Other</i>  | <i>Land and<br/>buildings</i> | <i>Other</i>  |
|--|-------------------------------|---------------|-------------------------------|---------------|
|  | <i>2017</i>                   | <i>2017</i>   | <i>2016</i>                   | <i>2016</i>   |
|  | <i>£000's</i>                 | <i>£000's</i> | <i>£000's</i>                 | <i>£000's</i> |
| Operating leases future minimum<br>lease payments due: |                               |               |                               |               |
| Within one year  | 133                           | 129           | 133                           | 227           |
| Within two to five years                               | 461                           | 115           | 485                           | 244           |
| In over five years                                     | 296                           | -             | 402                           | -             |
|  | <u>890</u>                    | <u>244</u>    | <u>1,020</u>                  | <u>471</u>    |

### 22. Pension commitments

Vector Aerospace International Limited now operates two defined benefit schemes in the UK which provides both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement (or their career average re-valued salary) and their length of service.

The main scheme is the Vector Aerospace International Limited Pension Scheme ('the Scheme'). The Scheme has been closed to future accrual since April 2012.

On 1 July 2015, Vector Aerospace International Limited replaced its fellow subsidiary Vector Aerospace Engine Services UK Limited as Principal Employer to the Vector Aerospace 1998 Pension Plan ('the Plan'). The Plan has been closed to future accrual since July 2015.

Combined company contributions to the Scheme and the Plan for 2018 are expected to be £2,305,000.

## Notes to the financial statements

at 31 December 2017

### 22. Pension commitments (continued)

The latest full actuarial valuation of the Scheme was carried out as at 31 March 2015 and of the Plan as at 31 March 2014. These have been updated to 31 December 2017 by a qualified independent actuary (Punter Southall). The major assumptions used by the actuary were (in nominal terms) as follows:

|   | As at<br>31 Dec<br>2017 | As at<br>31 Dec<br>2016 |
|---|-------------------------|-------------------------|
| Discount rate   | 2.45%                   | 2.70%                   |
| Rate of increase in RPI price inflation                                   | 3.35%                   | 3.45%                   |
| Rate of increase in CPI price inflation                                   | 2.35%                   | 2.45%                   |
| Rate of increase in salaries  | 4.10%                   | 4.20%                   |
| Rate of increase to pensions in payment - Scheme                          | 3.35%                   | 3.45%                   |
| Rate of increase to pensions in payment (pre 1 April 2007) - Plan         | 3.25%                   | 3.30%                   |
| Rate of increase to pensions in payment (on or after 1 April 2007) - Plan | 2.25%                   | 2.25%                   |

The expected future lifetime of a male pensioner aged 65 is 21.3 years. For a future male pensioner retiring in 20 years, this increases to 22.4 years. The expected future lifetime of a female pensioner aged 65 is 23.8 years. For a future female pensioner retiring in 20 years, this increases to 25.0 years.

The assets in the scheme were:

|   | 31 Dec<br>2017<br>£000's | 31 Dec<br>2016<br>£000's |
|---|--------------------------|--------------------------|
| UK equities   | -                        | 1,300                    |
| Global equities   | 23,200                   | 16,200                   |
| UK and global government bonds and swaps                | 32,000                   | 35,200                   |
| UK and global corporate bonds                           | 14,800                   | 11,300                   |
| UK Property   | 1,100                    | 700                      |
| UK cash and other                                       | 5,000                    | 7,700                    |
| Global cash and other                                   | 2,700                    | 3,500                    |
| Fair value of pension assets (combined Scheme and Plan) | <u>78,800</u>            | <u>75,900</u>            |

|   |                 |                 |
|---|-----------------|-----------------|
| The actual return on assets over the period was:                | <u>2,016</u>    | <u>910</u>      |
| Present value of pension obligations (combined Scheme and Plan) | (95,600)        | (91,700)        |
| Fair value of pension assets                                    | <u>78,800</u>   | <u>75,900</u>   |
| Net liability recorded in statement of financial position       | <u>(16,800)</u> | <u>(15,800)</u> |

## Notes to the financial statements

at 31 December 2017

### 22. Pension commitments (continued)

#### Reconciliation of opening and closing balances of the present value of the defined benefit obligation

|   | 2017<br>£000's | 2016<br>£000's |
|---|----------------|----------------|
| Benefit obligation at beginning of year | 91,700         | 67,900         |
| Interest cost                           | 2,461          | 2,630          |
| Actuarial (gains)/losses                | 2,513          | 22,124         |
| Benefits paid                           | (1,074)        | (954)          |
| Benefit obligation at end of year       | 95,600         | 91,700         |

#### Reconciliation of opening and closing balances of the fair value of pension assets

|  | 2017<br>£000's | 2016<br>£000's |
|--|----------------|----------------|
| Fair value of scheme assets at beginning of year | 75,900         | 59,100         |
| Interest income on scheme assets                 | 2,060          | 2,323          |
| Return on assets, excluding interest income      | (44)           | 13,539         |
| Contributions by employers                       | 2,231          | 2,156          |
| Benefits paid                                    | (1,074)        | (954)          |
| Scheme administrative cost                       | (273)          | (264)          |
| Fair value of scheme assets at end of year       | 78,800         | 75,900         |

#### Amounts recognised in the income statement:

|   | 2017<br>£000's | 2016<br>£000's |
|---|----------------|----------------|
| Service cost (administrative costs)               | 273            | 264            |
| Net interest on the net defined benefit liability | 401            | 307            |
| Total expense recognised in year                  | 674            | 571            |



## Notes to the financial statements

at 31 December 2017

### 22. Pension commitments (continued)

#### Amounts recognised in Other Comprehensive Income:

|  | 2017<br>£000's | 2016<br>£000's |
|--|----------------|----------------|
| Actuarial gains/(losses) on the liabilities  | (2,513)        | (22,124)       |
| Return on assets, excluding interest income  | (44)           | 13,539         |
| Net actuarial gain/(loss) recognised in year | (2,557)        | (8,585)        |

#### Sensitivity analysis

The results in the pension disclosures are inherently volatile, particularly the net pension liability recorded in the statement of financial position. These are dependent on the assumptions chosen by the directors.

The table below shows the sensitivity of the balance sheet position to changes in assumptions to illustrate this volatility:

|   | 31 Dec<br>2017<br>£m | 31 Dec<br>2016<br>£m |
|---|----------------------|----------------------|
| Present value of pension liabilities of £95.6m (2016: £91.7m) when increasing the following assumptions by 1% p.a.: |                      |                      |
| Discount rate   | 74.1                 | 70.6                 |
| Retail price inflation  | 119.2                | 116.2                |
| Mortality (increase life expectancy by 1 year)  | 99.8                 | 95.3                 |

Present value of pension liabilities of £95.6m (2016: £91.7m) when decreasing the following assumptions by 1% p.a.:

|  |       |       |
|--|-------|-------|
| Discount rate                                | 126.5 | 122.1 |
| Retail price inflation                       | 79.0  | 74.5  |
| Mortality (reduce life expectancy by 1 year) | 91.4  | 87.8  |

The above sensitivity analysis is based on the full actuarial valuation of the Scheme as at 31 March 2015 updated to 31 December 2017 and the full actuarial valuation of the Plan as at 31 March 2014 updated to 31 December 2017 by a qualified independent actuary.

### 23. Related Party Transactions

The company has taken advantage of the FRS102 exemption not to disclose transactions between wholly owned subsidiaries and other group companies within the same group. This exemption has been applied to both the Veritas Capital and Airbus Group companies (see Note 24).

## Notes to the financial statements

at 31 December 2017

### 24. Ultimate parent undertaking

On 2 November 2017 The Veritas Capital Fund V, L.P, through its wholly owned subsidiary StandardAero, purchased Vector Aerospace Holdings SAS and its subsidiaries, including the company, from Airbus Group SE.

The directors consider the ultimate parent undertaking and controlling party to be The Veritas Capital Fund V, L.P from 2 November 2017. Prior to 2 November 2017 it was considered to be Airbus Group SE, a company incorporated in the Netherlands. It is the parent company of the largest and smallest group that has included the Company in its 31 December 2016 group financial statements, copies of which are available from its registered office, Mendelweg 30, 2333 CS Leiden, The Netherlands.

Vector Aerospace (UK Holdings) Limited is the company's immediate holding company. Copies of the financial statements of this company, which are the largest and smallest group that has included the company in its 31 December 2017 group financial statements, may be obtained from its registered office, Fleetlands, Fareham Road, Gosport, Hampshire, PO13 0AA.