

## **Thales Training & Simulation (Ace) Limited**

Annual report and financial statements  
for the year ended 31 December 2018

Registered number: 3023510



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## Directors' report

The Directors present their annual report and financial statements, together with the auditor's report, for the year ended 31 December 2018.

### Principal activities

The principal activities of the Company continued to comprise of provision for aircrew training services to the Ministry of Defence under the Ace private finance initiative. Services include instruction and maintenance of aircraft simulators based on two RAF sites in the UK at Lossiemouth and Marham.

### Dividends

A dividend of £1,721,000 was proposed and paid to the holding company during 2018 (2017: £1,047,000).

### Going concern

The Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future and therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Environmental information

The Thales Group in the UK has implemented an environmental policy to conduct our current and future business in a way that protects the environment. This is achieved through development and implementation of environmental management systems against which we report environmental performance regularly to the Thales Holding UK plc board. It is a Thales requirement that operating companies are certified to the International Standard for Environmental Management Systems ISO 14001 to which we have been certified. Current environmental programmes include reducing our carbon footprint and implementing a Green Purchasing programme.

### Future developments

The Company received formal notice that the main contract would be terminated on 31 March 2019 and the Company was compensated as a result of the customer's voluntary termination ahead of the non-compensation break point in the contract.

### Post balance sheet events

The Company declared interim dividends of £749,000 and £2,098,000 in March and April 2019 respectively.

### Directors

The Directors who served during the year were as follows:

P Jayne

S McCann

J Standen (resigned 15<sup>th</sup> April 2019)

D Rawlins (appointed 18<sup>th</sup> April 2019)

## Directors' report

### Directors' liabilities

The Company has not granted any indemnity against liability to its Directors during the year or at the date of approving the directors' report.

### Employee matters

People are the Company's greatest assets. With growing competition, attracting and retaining quality workers from the local community is key. Therefore it makes good business sense to incorporate attractive employment policies and principles with the view to creating a skilled, happy, diverse, proud and motivated workforce. This is what the Company tries to achieve.

### Donations

No political donations were made during the year (2017: £nil).

### Disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of the auditor, the Directors have taken all the steps they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditor

In accordance with section 489 of the Companies Act 2006, the Company has not elected to re-appoint its auditor annually and Ernst & Young LLP will therefore continue in office.

On behalf of the board



Director

15th July 2019

350 Longwater Avenue  
Green Park  
Reading  
RG2 6GF

## Strategic report

### Business review

As set out in the directors' report, the Company's main contract ended on 31 March 2019.

The revenue for the year ended 31 December 2018 was £11,769,000 (2017: £11,966,000), generating profit before tax of £4,347,000 (2017: £3,677,000).

### Key performance indicators

The customer had the right to deduct service credits in relation to various parts of the service being unavailable as prescribed within the contract. The Company has put in place a set of KPIs in order to monitor performance and underpin any service credit claims that may have arisen. Service credits were applied if the simulator was unavailable for training when required. Service credits were calculated using the number of sorties (training sessions) that the simulator was unavailable for multiplied by a service credit value as determined in the contract. There were no service credits incurred in 2018 (2017: £16,000).

### Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, in the form of interest rate swaps. The purpose is to manage currency and interest rate risks arising from the Company's operations and its sources of finance.

### Foreign currency risk

From time to time, the Company also faces transactional currency exposures. Such exposure arises from purchases by the Company in currencies other than the unit's functional currency. The Company uses forward currency contracts to hedge the currency exposures on any individual transactions in excess of €100,000 for which payment is anticipated more than one month after the Company has entered into a firm commitment for a sale or purchase. The forward currency contracts must be in the same currency as the hedged item. It is the Company's policy not to enter into forward contracts until a firm commitment is in place.

### Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables.

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. This may also involve the negotiation of third party guarantees of customer creditworthiness. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

## Strategic Report (continued)

### Credit risk (continued)

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company trades mainly with the UK Ministry of Defence (MOD) and has a minimal level of trade with other recognised trustworthy third parties. The Company recognises that this constitutes a significant concentration of credit risk to one party but believes that as the MoD is a government agency, this is not a significant risk.

The Company's maximum exposure to credit risk is the carrying amount as disclosed in Note 12.

### Interest rate risk

The Company's bank loans and inter-company loans are interest bearing but with a fixed interest rate. In addition the Company has entered into interest rate swaps, relating to the bank loan as noted above in order to further manage its exposure. Based on this, the Company do not consider the interest rate risk to be significant.

### Liquidity risk

The Company prepares regular cash flow forecasts to ensure that there are always necessary funds in place to enable financial liabilities to be met as they fall due.

On behalf of the board



Director

15th July 2019

350 Longwater Avenue

Green Park

Reading

RG2 6GF

## Directors' responsibilities statement

The Directors are responsible for preparing the directors' report, the strategic 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 financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## Independent auditor's report to the shareholders of Thales Training & Simulation (Ace) Limited

### Opinion

We have audited the financial statements of Thales Training & Simulation (ACE) Limited for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes<sup>1</sup> to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

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



## Independent auditor's report to the shareholders of Thales Training & Simulation (Ace) Limited (continued)

### 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 by the parent company, 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 statement of Directors' responsibilities set out on page 6, 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.

### 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.



J I Gordon (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

15 July 2019

Statement of comprehensive income  
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
<b>Continuing operations</b>			
Revenue	4	11,769	11,966
Cost of sales		(6,405)	(7,105)
<b>Gross profit</b>		5,364	4,861
Administrative costs		(764)	(645)
Finance income	6	323	339
Finance expenses	6	(576)	(878)
<b>Profit before tax</b>		4,347	3,677
Income tax credit	8	507	507
<b>Profit for the year</b>		4,854	4,184
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Movement on cash flow hedges		412	475
Income tax relating to the components of other comprehensive income	8	(70)	(81)
<b>Other comprehensive income for the year net of tax</b>		342	394
<b>Total comprehensive income for the year attributable to the owners of the Company</b>		5,196	4,578

The accompanying notes are an integral part of this statement of comprehensive income.

Statement of financial position  
as at 31 December 2018

Company Registered Number: 3023510

	Note	2018 £000	2017 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment	10	6,127	9,307
Amounts owed by group undertakings	11	1,399	2,798
		<u>7,526</u>	<u>12,105</u>
<b>Current assets</b>			
Trade and other receivables	12	1,139	1,013
Amounts owed by group undertakings	11	1,399	1,473
Cash and cash equivalents	13	26,095	22,729
		<u>28,633</u>	<u>25,215</u>
<b>Total assets</b>		<u>36,159</u>	<u>37,320</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank loans	15	(3,350)	(3,345)
Amounts owed to group undertakings	15	-	(198)
Trade and other payables	14	(907)	(1,151)
Derivative financial instruments	16	(213)	(625)
		<u>(4,470)</u>	<u>(5,319)</u>
<b>Net current assets</b>		<u>24,163</u>	<u>19,896</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	18	(220)	(657)
Bank loans	15	(802)	(4,152)
		<u>(1,022)</u>	<u>(4,809)</u>
<b>Total liabilities</b>		<u>(5,492)</u>	<u>(10,128)</u>
<b>Net assets</b>		<u>30,667</u>	<u>27,192</u>

# Statement of financial position (continued)

as at 31 December 2018

Company Registered Number: 3023510

	Note	2018 £000	2017 £000
<b>EQUITY</b>			
Share capital	19	500	500
Hedging reserves		(177)	(519)
Retained earnings		30,344	27,211
<b>Total equity</b>		<u>30,667</u>	<u>27,192</u>

The accounts on pages 9 to 34 were approved by the Board of Directors and authorised for issue on 15<sup>th</sup> July 2019.

They were signed on its behalf by:



Director

The accompanying notes are an integral part of this statement of financial position.

**Statement of changes in equity**  
for the year ended 31 December 2018

	Share capital £000	Hedging reserves £000	Retained earnings £000	Total £000
<b>At 1 January 2017</b>	500	(913)	24,074	23,661
Profits for the year	-	-	4,184	4,184
Net movement on cash flow hedges after tax	-	394	-	394
Dividend paid in year	-	-	(1,047)	(1,047)
<b>At 1 January 2018</b>	500	(519)	27,211	27,192
Profits for the year	-	-	4,854	4,854
Net movement on cash flow hedges after tax	-	342	-	342
Dividend paid in year	-	-	(1,721)	(1,721)
<b>At 31 December 2018</b>	500	(177)	30,344	30,667

Statement of cash flows  
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		4,347	3,677
Adjustments for:			
Depreciation of property, plant & equipment	10	3,180	3,179
Amortisation of deferred financing costs	6	146	153
<b>Operating cash flows before movement in working capital</b>		<b>7,673</b>	<b>7,009</b>
(Increase)/decrease in receivables	12	(126)	2,180
Decrease in amounts owed from group undertakings	11	74	13
Decrease in trade and other payables	14	(244)	(1,874)
<b>Cash generated from operations</b>		<b>7,377</b>	<b>7,328</b>
Income taxes paid	8	-	-
<b>Net cash from operating activities</b>		<b>7,377</b>	<b>7,328</b>
<b>INVESTING ACTIVITIES</b>			
Repayments of loans receivable	11	1,399	-
<b>FINANCING ACTIVITIES</b>			
Dividends paid	9	(1,721)	(1,047)
Repayments of borrowings	15	(3,689)	(3,244)
<b>Net cash flows used in financing activities</b>		<b>(5,410)</b>	<b>(4,291)</b>
<b>Net increase in cash &amp; cash equivalents</b>		<b>3,366</b>	<b>3,037</b>
<b>Cash &amp; cash equivalents at beginning of year</b>	13	<b>22,729</b>	<b>19,692</b>
<b>Cash &amp; cash equivalents at end of year</b>	13	<b>26,095</b>	<b>22,729</b>

## Notes to the financial statements

for the year ended 31 December 2018

### 1. Corporate information

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 15<sup>th</sup> July 2019. The Company is a limited company incorporated and domiciled in England & Wales. The address of the registered office is given on page 3. The nature of the Company's operations and principal activities are set out in the directors' report. Information on its ultimate parent is presented in note 21.

### 2. Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulations. The financial statements have been prepared on a historical cost basis (except for derivative financial instruments that have been measured at fair value). The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The financial statements are presented in pounds sterling, the currency in which the majority of the Company's transactions are denominated, and all values are rounded to the nearest thousand, (£000), except when otherwise indicated.

The principal accounting policies adopted are set out below:

#### Property, plant and equipment

Land and buildings held for use in the supply of services, or for administrative purposes, are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent impairment losses.

Depreciation on buildings is charged to profit or loss.

Fixtures and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line / reducing balance basis over its expected useful life, as follows:

Simulators	15 - 20 years
Other plant and equipment	4 – 12 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation and is revised annually.

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**2. Accounting policies (continued)**

**Impairment of property, plant and equipment**

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment 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 in order to determine the extent of the impairment loss.

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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 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.

**Financial instruments**

**Financial assets**

IFRS 9 introduces a single approach to classification and measurement of financial assets, based on the characteristics of the financial instruments and on the Company's management and intention. Thus:

- Financial assets with expected cash flows that solely correspond to principal and interest payments are measured at amortised costs if managed only to collect these flows:
- In other cases, financial assets are measured at fair value through the income statement, except for equity investments not held for trading and whose changes in value affect optionally the Other Comprehensive Income (OCI).

These principles are reflected as follows on the assets presented in the Company's balance sheet:

- Receivables and financial loans are recognised at amortised cost. They are subject to impairment if an expected loss or an impairment indicator is identified. This impairment, recognised in "other financial income (expense)", may subsequently be reversed through profit and loss if the conditions so justify.
- Other financial assets are estimated at fair value through the profit and loss.
- Cash and cash equivalents include cash at bank and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value).



## Notes to the financial statements (continued)

for the year ended 31 December 2018

### 2. Accounting policies (continued)

#### Financial liabilities

Borrowings and other financial liabilities are measured at amortised cost using the effective interest rate. Upon initial recognition, premiums, redemption and issuance costs are included in the calculation of the effective interest rate and are recognised in the profit and loss account on an actuarial basis over the life of the loan.

#### Trade receivables

Trade receivables are carried at fair value (in the majority of cases this will equate to original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end). Bad debts are written off when identified. Long term receivables are discounted where necessary.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at the proceeds received, net of direct issue costs, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs.

#### Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

#### Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of fluctuations in interest rates. The Company uses derivative financial instruments (primarily interest rate swaps) to hedge its risks associated with interest rate fluctuations relating to certain firm commitments and forecasted transactions.

The use of financial derivatives is governed by the Company's policies approved by the board of Directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy.

## Notes to the financial statements (continued)

for the year ended 31 December 2018

### 2. Accounting policies (continued)

#### Derivative financial instruments and hedge accounting (continued)

The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. The Company's policy with respect to hedging the interest rate risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

#### Taxation

The tax charge/(credit) comprises current and deferred tax. Income tax expense/(credit) is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity. Current tax is the expected tax payable/(receivable) on the profit /(loss) for the year and any adjustments in respect of previous years using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively at the balance sheet date or the date that the temporary differences are expected to be reversed. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**2. Accounting policies (continued)**

**Revenue recognition**

Revenue represents the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Sale of goods are recognised when goods are delivered and title has passed. Operating revenue from services provided are recognised insofar as the transaction has been completed on the reporting date.

Finance income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

**Retirement benefit costs**

The Company participates in the Thales UK Pension Scheme (TUPS) which is a defined benefit retirement benefit scheme managed by Thales UK Limited for the benefit of employees and former employees of the Thales Group in the UK. The annual cost of contributions associated with employees who are members of this scheme is borne by the Company as an expense in the statement of comprehensive income and there is no impact retained in the statement of financial position. The impact for 2017 in these financial statements is shown in note 17.

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Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

**Foreign currencies**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and options (see above for details of the Company's accounting policies in respect of such derivative financial instruments).

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**2. Accounting policies (continued)**

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Significant accounting judgements, estimates and assumptions**

The preparation of financial statements requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets recognised in the financial statements are listed below:

*Deferred tax recognition*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probably that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. Further details on deferred tax asset recognition are disclosed in Note 18.

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**3. Application of new and revised International Financial Reporting Standards (IFRSs)**

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, with the exception of those resulting from the first application of IFRS 15 (Revenue from contracts with customers) and IFRS 9 (Financial instruments). Following due consideration, the Directors concluded that the new and amended International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2018 did not have a material impact on the annual financial statements of the Company. Accordingly, no re-statement of the financial statements for the previous year to reflect the application of these new standards in 2018 was considered necessary by the Directors.

**New standards issued but not yet effective**

The Company has not applied the following IFRS's that are applicable to the Company and those that have been issued but are not yet effective.

**New/revised international financial reporting standards**

**Effective date**

IFRS 16 Leases

Annual periods beginning on or after 1 January 2019

The directors have assessed the impact of IFRS16 and no material impact on the annual financial statements of the company is expected.

**4. Revenue**

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

	2018 £000	2017 £000
Rendering of services	11,769	11,966
Revenue per statement of comprehensive income	11,769	11,966
Interest received	323	339
Total revenue as defined in IFRS 15	12,092	12,305

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**4. Revenue (continued)**

	<b>2018</b>	<b>2017</b>
	£000	£000
Order book at 1 January	26,756	37,334
Order intake – non-Group	1,499	1,388
Revenue – non-Group - as defined in IFRS 15	11,769	11,966
Order book at 31 December	<u>16,486</u>	<u>26,756</u>

At the end of 2018, the order book was expected to be recognised as revenue within the next two years. Subsequent to the year end, the Company received a termination notice and the contract ended on 31 March 2019.

**5. Operating profit**

Operating profit is stated after charging:

	<b>2018</b>	<b>2017</b>
	£000	£000
Net foreign exchange (gains)/ losses	(4)	(43)
Depreciation of property, plant and equipment (note 10)	3,180	3,179
Operating lease expenses (note 20)	18	15
Staff costs (note 7)	1,750	1,866
Auditor's remuneration for audit services	<u>6</u>	<u>7</u>

Amounts payable to Ernst & Young LLP and their associates by the Company in respect of non-audit services were £nil (2017:£nil).

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**6. Finance income and expenses**

	2018 £000	2017 £000
Interest received	<u>323</u>	<u>339</u>
Interest on bank loans and overdrafts	(430)	(725)
Amortisation of deferred financing charges	<u>(146)</u>	<u>(153)</u>
Finance expense	<u>(576)</u>	<u>(878)</u>

**7. Staff costs**

The average monthly number of employees (including Executive Directors) was:

	2018 Number	2017 Number
Technical	27	28
Administration	<u>4</u>	<u>4</u>
	<u>31</u>	<u>32</u>

	2018 £000	2017 £000
Their aggregate remuneration comprised:		
Wages and salaries	1,502	1,592
Social security costs	133	148
Other pension costs	<u>115</u>	<u>126</u>
	<u>1,750</u>	<u>1,866</u>

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**7. Staff costs (continued)**

**Directors' emoluments**

<b>Remuneration</b>	<b>2018 £000</b>	<b>2017 £000</b>
Emoluments	-	-
Contributions to pension schemes	-	-
<b>Total emoluments</b>	<b>-</b>	<b>-</b>

	<b>Number</b>	<b>Number</b>
During the period the following number of Directors:		
Accrued benefits under money purchase pension schemes	-	-
Accrued benefits under defined benefit pension schemes	-	-
Received entitlement to shares under long term incentive schemes	-	-
Exercised share options	-	-

The Directors of Thales Training & Simulation (Ace) Limited did not receive remuneration for the services they provided to the Company (2017: £Nil).

**8. Income tax expense**

	<b>2018 £000</b>	<b>2017 £000</b>
<b>Current tax:</b>		
UK corporation tax	-	-
<b>Total current tax</b>	<b>-</b>	<b>-</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(351)	(351)
Adjustments in respect of deferred tax of previous year	(156)	(156)
<b>Total deferred tax</b>	<b>(507)</b>	<b>(507)</b>
<b>Total tax credit on profit</b>	<b>(507)</b>	<b>(507)</b>



Notes to the financial statements (continued)  
for the year ended 31 December 2018

**8. Income tax expense (continued)**

The rate of corporation tax remained unchanged at 19%. A reduction to 17% effective 1 April 2020 was included in the Finance Act 2016 which was substantively enacted on 6 September 2016.

The deferred tax balances as at 31 December 2018 have been calculated at the above rates corresponding to the expected years of reversal

The tax charge for the year can be reconciled to the statement of comprehensive income as follows:

	2018 £000	2017 £000
Profit before tax	4,347	3,677
Profit multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	826	708
<b>Tax effect of:</b>		
Disallowable items	37	38
Group relief received for nil payment	(1,241)	(1,142)
Adjustment for non-trading losses used	(14)	(1)
Deferred tax rate change impact movement	41	46
Adjustments to prior year (deferred tax)	(156)	(156)
<b>Total tax credit</b>	<b>(507)</b>	<b>(507)</b>

In addition to the amount charged to the statement of comprehensive income deferred tax has been charged directly to equity as detailed below:

	2018 £000	2017 £000
Net gain on revaluation of cash flow hedges	70	81
<b>Deferred tax expense reported in other comprehensive income</b>	<b>70</b>	<b>81</b>

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**9. Dividends**

	2018 £000	2017 £000
Dividend for the year ended 31 December 2018 of 344.2p (2017 – 209.4p) per share	<u>1,721</u>	<u>1,047</u>

The Company declared interim dividends of £749,000 and £2,098,000 in March and April 2019 respectively.

**10. Property, plant and equipment**

	Property £000	Simulators £000	Plant and equipment £000	Total £000
<b>Cost</b>				
At 1 January 2017	3,623	54,655	916	59,194
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2017	<u>3,623</u>	<u>54,655</u>	<u>916</u>	<u>59,194</u>
31 December 2018	<u>3,623</u>	<u>54,655</u>	<u>916</u>	<u>59,194</u>
<b>Accumulated depreciation</b>				
At 1 January 2017	(2,856)	(43,099)	(753)	(46,708)
Charge for the year	<u>(195)</u>	<u>(2,942)</u>	<u>(42)</u>	<u>(3,179)</u>
At 31 December 2017	<u>(3,051)</u>	<u>(46,041)</u>	<u>(795)</u>	<u>(49,887)</u>
Charge for the year	<u>(196)</u>	<u>(2,942)</u>	<u>(42)</u>	<u>(3,180)</u>
At 31 December 2018	<u>(3,247)</u>	<u>(48,983)</u>	<u>(837)</u>	<u>(53,067)</u>
<b>Carrying amount</b>				
At 31 December 2018	<u>376</u>	<u>5,672</u>	<u>79</u>	<u>6,127</u>
At 31 December 2017	<u>572</u>	<u>8,614</u>	<u>121</u>	<u>9,307</u>
At 1 January 2017	<u>767</u>	<u>11,556</u>	<u>163</u>	<u>12,486</u>

## Notes to the financial statements (continued)

for the year ended 31 December 2018

### 11. Amounts owed by group undertakings

A loan was made to Thales Training & Simulation (Ace Holdings) Limited in relation to a refinancing in 2007. The amount outstanding at 31 December 2018 was £2,798,000 (2017: £4,271,000). The first repayment was made in September 2017.

### 12. Trade and other receivables

	2018 £000	2017 £000
Trade and other receivables:		
Amounts receivable from the rendering of services	1,069	943
Prepayments	70	70
	<u>1,139</u>	<u>1,013</u>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value and therefore no allowance has been made for estimated irrecoverable amounts from the rendering of services.

The carrying amount above represents the Company's maximum exposure to credit risk.

### 13. Cash and cash equivalents

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

### 14. Trade and other payables

	2018 £000	2017 £000
Trade payables	23	38
Amounts owed to group undertakings	213	463
Accruals and deferred income	364	366
Interest due to group undertakings	-	6
Other taxes and social security costs	307	278
	<u>907</u>	<u>1,151</u>

The Directors consider that the carrying amount of trade payables approximates their fair value.

Trade payables are non-interest bearing and normally settled on a 30 day term.

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**15. Bank overdrafts, loans and amounts owed to group**

	2018 £000	2017 £000
<b>Current liabilities</b>		
Bank loans	3,350	3,345
Amounts owed to group – loan	-	198
<b>Non-current liabilities</b>		
Bank loans	802	4,152
	<u>4,152</u>	<u>7,695</u>
Amount due for settlement within 12 months (shown under current liabilities)	3,482	3,689
Deferred financing charges due within 12 months (shown under current liabilities)	(132)	(146)
<b>On demand or within one year</b>	<u>3,350</u>	<u>3,543</u>
Amount due for settlement	867	3,482
Deferred financing charges	<u>(65)</u>	<u>(132)</u>
In the second year	802	3,350
Amount due for settlement	-	867
Deferred financing charges	<u>(-)</u>	<u>(65)</u>
In the third to fifth years inclusive	-	802
<b>Amount due for settlement after 12 months</b>	<u>802</u>	<u>4,152</u>
<b>Total due</b>	<u>4,152</u>	<u>7,695</u>

All of the Company's borrowings are denominated in sterling.

The Company has two loans as at 31 December 2018 the first loan for £4,349,000 (2017: £7,840,000) from Mizuho Corporate Bank Plc. A second loan from Thales UK Limited was repaid in the year (2017: £198,000).

## Notes to the financial statements (continued)

for the year ended 31 December 2018

### 15. Bank overdrafts, loans and amounts owed to group (continued)

The first loan, which commenced on 5 March 2007, is repayable in twenty-seven half yearly instalments from 30 March 2007 to 31 March 2020. Interest is being accrued at a fixed rate of 6.344% per annum on the accumulating balance. The loan is secured on all assets in the Company.

The second loan, which commenced on 5 March 2007, is repayable in twenty three instalments from 30 March 2007 to 31 March 2018. Interest is being accrued at a fixed rate of 13% per annum on the accumulating balance.

The Directors estimate the fair value of the Company's borrowings, by discounting their future cash flows at the market rate, to be as follows:

	2018 £000	2017 £000
Borrowings	3,967	7,089

### 16. Financial instruments

#### Categories of financial instruments

	Loans and receivables £000	Derivatives designated as hedging instruments £000	Amortised cost £000	Total £000
<b>31 December 2018</b>				
<b>Assets</b>				
Amounts owed by group undertakings	2,798	-	-	2,798
Trade and other receivables	1,069	-	-	1,069
	<u>3,867</u>	<u>-</u>	<u>-</u>	<u>3,867</u>
<b>Liabilities</b>				
Trade and other payables	-	-	907	907
Borrowings	-	-	4,152	4,152
Derivative financial instruments	-	213	-	213
	<u>-</u>	<u>213</u>	<u>5,059</u>	<u>5,272</u>

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**16. Financial instruments (continued)**

**Categories of financial instruments (continued)**

	Loans and receivables	Derivatives designated as hedging instruments	Amortised Cost	Total
31 December 2017	£000	£000	£000	£000
<b>Assets</b>				
Amounts owed by group undertakings	4,271	-	-	4,271
Trade and other receivables	943	-	-	943
Derivative financial instruments	-	-	-	-
	<u>5,214</u>	<u>-</u>	<u>-</u>	<u>5,214</u>
<b>Liabilities</b>				
Trade and other payables	-	-	1,151	1,151
Borrowings	-	-	7,695	7,695
Derivative financial instruments	-	625	-	625
	<u>-</u>	<u>625</u>	<u>8,846</u>	<u>9,471</u>

**Fair value**

The Directors consider that for all financial instruments, assets and liabilities that are carried in the financial statements, apart from the bank loans shown in note 15, the carrying value approximates the fair value. The carrying amount of the assets above represents the Company's maximum exposure to credit risk. All trade payables will be paid within the next three months.

**Fair value hierarchy**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the financial statements (continued)  
for the year ended 31 December 2018

16. Financial instruments (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value

	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
<b>At 31 December 2018</b>				
Interest rate swap	211	-	211	-
Exchange rate hedge	2	-	2	-
	<u>213</u>	<u>-</u>	<u>213</u>	<u>-</u>

	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
<b>At 31 December 2017</b>				
Interest rate swap	612	-	612	-
Exchange rate hedge	13	-	13	-
	<u>625</u>	<u>-</u>	<u>625</u>	<u>-</u>

# Notes to the financial statements (continued)

for the year ended 31 December 2018

## 16. Financial instruments (continued)

### Maturity of financial liabilities

The contractual maturity of the Company's non-derivative financial liabilities is as follows:

	Timing of cash flows				
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	Total £000
<b>At 31 December 2018</b>					
Trade and other payables	831	-	-	-	831
Bank loans	3,597	833	-	-	4,430
	<u>4,428</u>	<u>833</u>	<u>-</u>	<u>-</u>	<u>5,261</u>
<b>At 31 December 2017</b>					
Trade and other payables	1,007	-	-	-	1,007
Bank loans	3,833	3,597	833	-	8,263
Amounts owed to group undertakings	211	-	-	-	211
	<u>5,051</u>	<u>3,597</u>	<u>833</u>	<u>-</u>	<u>9,481</u>

The contractual maturity of the Company's non-derivative financial assets is as follows:

	Timing of cash flows				
	Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	Total £000
<b>At 31 December 2018</b>					
Amounts owed by group undertakings	1,573	1,474	-	-	3,047
Trade receivables	1,069	-	-	-	1,069
	<u>2,642</u>	<u>1,474</u>	<u>-</u>	<u>-</u>	<u>4,116</u>
<b>At 31 December 2017</b>					
Amounts owed by group undertakings	1,672	1,573	1,474	-	4,719
Trade receivables	943	-	-	-	943
	<u>2,615</u>	<u>1,573</u>	<u>1,474</u>	<u>-</u>	<u>5,662</u>



## Notes to the financial statements (continued)

for the year ended 31 December 2018

### 16. Financial instruments (continued)

The Company's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match its requirements.

#### Sensitivity analysis – Interest rates

The Company uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings.

The fair value of swaps entered into at 31 December 2018 is estimated at £211,000 (2017: £612,000). These amounts are based on market values of equivalent instruments at the statement of financial position date. All of these interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been deferred in equity.

### 17. Retirement benefit schemes

The Thales Group operates a number of schemes within the UK for the benefit of employees and former employees of the Group. The full details of the Thales UK Pension Scheme, which is a defined benefit scheme, are reported in the financial statements of Thales UK Limited. The Company recognised the amounts described below in respect of ~~its pension scheme obligations during the year. The schemes include both defined benefit schemes and defined~~ contribution schemes.

#### Defined contribution schemes

The total cost charge to income in relation to defined contribution schemes amounted to £85,000 for 2018 (2017: £82,000) representing contributions payable to the schemes by the Company at rates specified in the rules of the plan.

#### Defined benefit schemes

The total cost charged to income in relation to defined benefit schemes amounted to £30,000 for 2018 (2017: £44,000).

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**18. Deferred tax**

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period.

Deferred tax asset	Cash flow hedges £'000	Total £'000
<b>As at 1 January 2017</b>	188	188
Charged to equity	(81)	(81)
<b>As at 31 December 2017</b>	107	107
Charged to equity	(70)	(70)
<b>As at 31 December 2018</b>	37	37
Deferred tax liability	Accelerated tax depreciation £'000	Total £'000
<b>As at 1 January 2017</b>	(1,271)	(1,271)
Charged to income statement	507	507
<b>As at 31 December 2017</b>	(764)	(764)
Credited to income statement	507	507
<b>As at 31 December 2018</b>	(257)	(257)
	2018 £'000	2017 £'000
Deferred tax asset	37	107
Deferred tax liability	(257)	(764)
<b>Net deferred tax liability recognised</b>	(220)	(657)

## Notes to the financial statements (continued)

for the year ended 31 December 2018

### 19. Share capital

	2018 £000	2017 £000
<i>Authorised</i>		
500,000 ordinary shares of £1 each	<u>500</u>	<u>500</u>
<i>Allotted, called-up and fully-paid</i>		
500,000 ordinary shares of £1 each	<u>500</u>	<u>500</u>

### Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2018.

### 20. Operating lease arrangements

#### The Company as lessee

	2018 £000	2017 £000
Minimum lease payments under operating leases charged to expense for the year	<u>18</u>	<u>15</u>

At the date of the statement of financial position the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2018 £000	2017 £000
- Within one year	17	18
- In the second to fifth years inclusive	19	28
- After five years	-	-
	<u>36</u>	<u>46</u>

Operating lease payments represent rentals payable by the Company for certain of its office properties. Leases are negotiated for an average term of four years and rentals are fixed for an average of four years.

## Notes to the financial statements (continued)

for the year ended 31 December 2018

### 21. Related party transactions

The immediate parent company is Thales Training & Simulation (Ace Holdings) Limited. Both companies are registered in the UK. The ultimate parent company is Thales SA a company incorporated in France. This is also both the largest and smallest group which includes the Company and for which consolidated financial statements are prepared. Copies of the group financial statements of Thales SA are available from Tour Carpe Diem, 31 place des Corolles, 92098 Paris La Défense, France.

#### Trading transactions

During the year, the Company entered into the following trading transactions with related parties:

	Purchases of goods		Amounts owed to related parties	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Parent company	1,265	2,029	213	469

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

#### Other related party transactions

In addition to the above, Thales UK Limited performed certain administrative services for the Company, for which a management fee of £494,000 (2017: £458,000) was charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments.

Please refer to note 11 for details of loans owed by group undertakings and note 15 for details of loans owed to group undertakings.