

RNO Limited
Annual Report
for the year ended 31 December 2018

Registered number: 06409725



RNO Limited

Annual Report

for the year ended 31 December 2018

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Strategic Report for the year ended 31 December 2018

Business review and future developments

The Group manufactures and sells luxury motor yachts to a worldwide network of independent distributors from six locations in the South West of England and regional offices in Hong Kong and Fort Lauderdale, USA.

The results of the company, for the year under review, show turnover of £340.3m (2017: £274.4m), gross profit of £46.7m (2017: £26.1m) and an operating profit before exceptional costs of £29.8m (2017: £10.9m). This equates to a gross margin of 13.7% (2017: 9.5%) and operating profit margin of 8.8% (2017: 4.0%).

This result is a consequence of the new strategy the company set in 2016 with a strong focus on renewal of the product range, innovation, customer care and operational improvements. 2017 was a record year for turnover in the company's history with a 27% increase in turnover over 2016. 2018 was another record year in the company's history for revenue as well as operating profit before exceptional costs with a further 24% increase in turnover and 173% increase in operating profit over 2017.

	2018	2017	Movement	Movement
	£m	£m	£m	%
Revenue	340.3	274.4	65.9	24%
Gross profit	46.7	26.1	20.6	79%
Operating profit before exceptional costs	29.8	10.9	18.9	173%
EBITDA*	32.8	14.6	18.2	125%
Cash Balance	16.4	27.2	(10.8)	(40%)

* EBITDA is after Exceptional costs that are one-time in nature relating to pension equalisation, staff redundancy and transformation consultancy

Supporting the longer-term plan, Princess continued to invest in a sustainable strategy to ensure that the business continues to drive forward product innovation and its manufacturing capabilities. Total product development in 2018 was £14.7m (2017: £8.9m). With over of 75% of each yacht manufactured in Plymouth, we have continued to invest in our sites within Plymouth (UK), adding capital expenditure of £9.0m to the additions in 2017 of £3.7m. The South Yard Grant obligations were completed and audited and the grant released in the year (see note 18). This growth investment capital will continue through 2019 to enhance our capabilities, allowing for productivity improvements and general capacity expansion to meet the longer-term plan. This focus on the South West region operations is further supported by the recruitment of 850 employees, surpassing 3,000 by the end of 2018. Active apprentices currently represent 4.0% of the workforce with a 100% retention following qualification. The Group also continues to support the next generation of marine industry experts by promoting opportunities through South West colleges and supporting product innovation projects.

2018 witnessed the launch of six new products- the F45, F70, R35, V60, V78 and Y85. The R35 was the first new partnering project, working with Pininfarina and Ben Ainslie Racing Technologies to producing a full carbon fibre sports boat, using the an unprecedented Active Foil System to improve efficiency, handling and performance. The success of this project was noted by awards from The Boat Builders Awards 2018 for the R35 along with awards from Motor Boat Awards, Asia Boating Awards and World Yachts Trophies for the S60, V65 and F55 respectively.

At the year-end there was a net cash balance of £16.4m (2017: £27.2m). Despite efforts to ship finished boats during December 2018, poor weather impacted the logistics of shipping boats to our overseas customers, however in line with our performance obligations and the Revenue Recognition policy, these boats were taken to sales in 2018. This had the impact at the year-end of increasing Debtors by £15.4m and reducing projected cash by the same amount. This has since realigned during Q1 of 2019.

Having seen the order book grow through 2017 to record levels, the strength was maintained throughout 2018 and supported with the introduction of new product launches. At the end of 2018, the order book stretched to 20 months turnover and was reinforced by a strong 11 boat presence at the Dusseldorf boat show in January 2019. With 2019 production over 90% covered by the order book (including a planned production slot increase) and 2020 already 40% secured at similar production levels to 2019, retail orders for some yachts are now extending well into 2020. It is especially encouraging that the strength of the order book stretches across all regions and the breadth of our product offering.

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Strategic Report for the year ended 31 December 2018 (continued)

Business review and future developments (continued)

During the year, the Company continued to evaluate the risks and opportunities of the forthcoming exit from the European Union ("Brexit"). Likely scenarios have been assessed in conjunction with the government timeframes, with actions centred around the impact to the supply chain and despatch arrangements of our boats. Supplier lead times, the impact of tariffs and currency fluctuations are examples of areas under continual review.

Looking forward with the appointment of the Board of Directors complete, the focus continues on production improvements, implementation of quality systems and successfully launching an array of innovative new yachts that increases product renewal intensity and broadens the product range.

Net liabilities of the group at 31 December 2018 totalled (£28.7m) a decrease of £9.7m over the corresponding position last year (2017: (£38.4m) due to the combination of the profit in the year and the actuarial gain on the defined benefit pension scheme, in which scheme assets decreased by £4.2m to £96.4m due to a deterioration in the market return but this was offset by scheme liabilities decreasing from £113.6m to £109.2m, largely driven by the change in financial assumptions being offset by the higher discount rate of 2.9% (2017: 2.6%).

The RNO Limited Group accounts have transitioned to IFRS 15 in 2018 using the 'modified retrospective' approach. The financial statements have been retrospectively adjusted, but the cumulative impact has been recognised at the date of initial application through equity and the comparatives are presented using existing GAAP.

Post balance events

Following the start of the strategic partnership with HSBC in January 2018 and after the strong year of growth, a further review in January 2019 took place regarding the longer-term finance structure required to support the business plan.

This has culminated in a multi-year facility of up to £40m provided by HSBC and NatWest, each of which will continue to support Princess global customer base and local manufacturing sites. The Directors believe that extending this opportunity to embrace HSBC and NatWest will add further strength to commercial opportunities within private banking and our growth internationally and keep the Group on a solid financial growth for the rest of 2019 and beyond.

Key performance indicators

The ongoing financial performance and financial position of the group are monitored with reference to a series of key performance indicators which focus on the company's revenue, gross profit and total cash balances. All of these are monitored and approved by the directors and were reviewed at regular meetings of the board held during the year under review. The gross margin achieved in 2018 was 13.7% (2017: 9.5%). At the year-end there was a net cash balance of £16.4m (2017: £27.2m).

Principal risks and uncertainties

The business is subject to a number of risks, with the principal area of risk and uncertainty relating to the economic conditions prevailing in world markets. To counter this, the company continues to invest in new product development throughout its range of motor yachts to increase the range for potential clients across the world. In addition, the company continues to review its cost base to ensure it is appropriate to the level of activity, together with continuing to pursue new market opportunities as they arise.

Strategic Report for the year ended 31 December 2018 (continued)

The groups operations expose it to a variety of financial risks, including the effects of credit risk, liquidity risk, exchange rate and interest rate risk. The policies in place to mitigate the potential impact of these financial risks are as follows:

Credit and liquidity risk

Where appropriate, credit checks are made prior to the appointment of a new distributor and these are reviewed on a periodic basis together with ongoing checks in respect of existing distributors. Weekly reviews of the debtors' ledger are carried out with the finance and sales teams and action initiated, as appropriate, to collect any overdue amounts, thus optimising the company's liquidity position.

Exchange rate risk

A proportion of the material cost is purchased in a currency other than sterling. In order to manage potential fluctuations in the exchange rate, a continuing programme of forward currency purchasing is in place and this is monitored on a monthly basis. As at 31 December 2018, the principal amounts of the forward currency contracts outstanding were €15,500,000 and \$1,500,000.

Interest rate risk

The rate of interest earned on the company's cash balances is monitored on an ongoing basis by continuing review of rates available in the market. Deposits are made with reference to these rates, in conjunction with projections of future cash requirements.

This report was approved by the board of directors on 21 May 2019..... and signed on behalf of the board by:



A M Sheriff
Director

Registered Number 0640972

Directors' Report for the year ended 31 December 2018

The directors present their report and the audited consolidated and company financial statements for the year ended 31 December 2018.

Principal activities and Incorporation

The group's (incorporating Princess Yachts Limited and Felix Engineering Limited) principal activities are those associated with the manufacture and sale of motor yachts to a worldwide network of independent dealers from six locations in the south west of England. The company (RNO Limited) is a private limited company, domiciled in the United Kingdom, incorporated in England and Wales, registered office being Newport Street, Plymouth, Devon PL1 3QG. Its principal activity is that of a holding and investment company for the group. The ultimate parent undertaking of the company is RNO Group S.C.A., a company registered in Luxembourg.

Future developments

Information on the future developments and financial risk management are contained within the Strategic Report.

Going concern

The directors have undertaken detailed reviews of the group's forecast trading position as well as the trading positions of its distributors around the world, and the group's indebtedness, and are satisfied that the company and group have adequate resources to continue trading for the foreseeable future. The parent company RNO Group S.C.A. have provided written confirmation of their intention to support RNO Group for a period of at least 12 months.

Results and dividend

The group's results are shown in the Consolidated Income Statement on page 8. No ordinary share dividends have been paid or are proposed (2017: nil).

Research and development

The group continues to develop new motor yachts to add to the existing range, with several new models having been launched during the year under review and with several more in the pipeline. Refer to note 5 and note 11 for further details.

Directors

The directors of the company during the year and up to the date of signing the financial statements were:

A Bratt	E Velasco
A Pallavicini	P Franchet
A Sheriff	P Houël
C Gates	P Mellier

Employees

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

Employee involvement in the group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in contributing towards its success. The group encourages the involvement of employees' by means of regular works committee meetings and the issue of periodic newsletters. The Group has a companywide bonus scheme.

RNO Limited

Directors' Report for the year ended 31 December 2018

Qualifying indemnity provision

During the year and up to the date of signing the financial statements the Company had in force an indemnity provision in favour of one or more directors of Princess Yachts Limited, against liability in respect of proceedings brought by third parties, subject to conditions set out in section 234 of the Companies Act 2006.

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the directors' report is approved so far as each director is aware:

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

On behalf of the board



A M Sheriff
Director

Independent auditors' report to the members of RNO Limited

Year ended 31 December 2018

Report on the audit of the financial statements

Opinion

In our opinion:

- RNO Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 December 2018; the consolidated income statement and statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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 group's and 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

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

Independent auditors' report to the members of RNO Limited (continued)

Year ended 31 December 2018

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

RNO Limited

Independent auditors' report to the members of RNO Limited (continued)

Year ended 31 December 2018

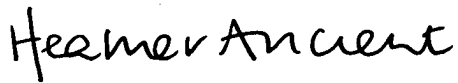
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Heather Ancient (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

23 May 2019

RNO Limited

Consolidated Income Statement for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Continuing operations			
Revenue	2	340,260	274,446
Cost of sales		(293,567)	(248,312)
Gross profit		46,693	26,134
Distribution costs		(13,051)	(12,272)
Administrative expenses		(5,093)	(4,430)
Other income		1,287	1,452
Operating profit before exceptional costs		29,836	10,884
Exceptional costs	9	(3,893)	(3,070)
Operating profit	5	25,943	7,814
Finance income	3	36	90
Finance costs	4	(10,523)	(10,802)
Profit before income tax		15,456	(2,898)
Income tax charge	8	(4,133)	(1,057)
Profit/(loss) for the year from continuing operations	23	11,323	(3,955)

The notes on pages 25 to 43 are integral to these consolidated financial statements.

RNO Limited

Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit/(loss) for the year		11,323	(3,955)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit and loss			
Actuarial gain on post-employment benefit obligations	21	2,258	931
Movement on deferred tax relating to pension liability	19	(384)	(158)
Other comprehensive income for the year, net of tax		1,874	773
Total comprehensive income / (expense) for the year		13,197	(3,182)

The notes on pages 25 to 43 are integral to these consolidated financial statements.

RNO Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total Equity £'000
At 1 January 2017	40	4,105	(39,389)	(35,244)
Loss for the year	-	-	(3,955)	(3,955)
Other comprehensive income/(expense)				
Actuarial gain on post-employment benefit obligations	-	-	931	931
Movement on deferred tax relating to pension liability	-	-	(158)	(158)
Total other comprehensive income	-	-	773	773
Total comprehensive expense	-	-	(3,182)	(3,182)
At 31 December 2017	40	4,105	(42,571)	(38,426)

	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total Equity £'000
At 1 January 2018	40	4,105	(42,571)	(38,426)
Restatement IFRS 15 (see note 29)	-	-	(4,171)	(4,171)
Restatement IFRS 15 – tax (see note 29)	-	-	709	709
At 1 January 2018 - restated	40	4105	(46,033)	(41,888)
Profit for the year	-	-	11,323	11,323
Other comprehensive income/(expense):				
Actuarial gain on post-employment benefit obligations	-	-	2,258	2,258
Movement on deferred tax relating to pension liability	-	-	(384)	(384)
Total other comprehensive income	-	-	1,874	1,874
Total comprehensive income	-	-	13,197	13,197
At 31 December 2018	40	4,105	(32,836)	(28,691)

The notes on pages 25 to 43 are integral to these consolidated financial statements.

RNO Limited

Company Statement of Changes in Equity for the year ended 31 December 2018

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' deficit £'000
At 1 January 2017	40	4,105	(58,767)	(54,622)
Loss for the year	-	-	(11,103)	(11,103)
Excess payment for group relief	-	-	476	476
At 31 December 2017	40	4,105	(69,394)	(65,249)

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' deficit £'000
At 1 January 2018	40	4,105	(69,394)	(65,249)
Profit for the year	-	-	(9,526)	(9,526)
Excess payment for group relief	-	-	1,442	1,442
At 31 December 2018	40	4,105	(77,478)	(73,333)

The notes on pages 25 to 43 are integral to these consolidated financial statements.

RNO Limited

Consolidated Balance Sheet as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	52,098	45,652
Intangible assets	11	124,848	118,441
Investments	12	61	190
Deferred income tax assets	19	6,438	8,288
		183,445	172,571
Current assets			
Inventories	14	89,023	68,710
Trade and other receivables	15	30,422	20,977
Cash and cash equivalents	25	16,446	27,220
		135,891	116,907
Total assets		319,336	289,478
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	22	40	40
Share premium account	23	4,105	4,105
Accumulated losses	23	(32,836)	(42,571)
Total equity		(28,691)	(38,426)
Liabilities			
Non-current liabilities			
Borrowings	17	111,249	190,303
Deferred government grants	18	222	3,978
Deferred income tax liabilities	19	3,480	2,391
Retirement benefit obligations	21	12,705	12,906
Provisions for other liabilities and charges	20	2,708	2,746
		130,364	208,859

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Consolidated Balance Sheet as at 31 December 2018 (continued)

	Note	2018 £'000	2017 £'000
Current liabilities			
Trade and other payables	16	132,629	108,045
Borrowings	17	85,034	11,000
		217,663	119,045
Total liabilities		348,027	327,904
Total equity and liabilities		319,336	289,478

The notes on pages 25 to 43 are integral to these consolidated financial statements.

The financial statements on pages 9 to 43 were approved by the board of directors on

21 May 2019 and were signed on its behalf by:



A M Sheriff

Director

Registered number: 06409725

RNO Limited

Company Balance Sheet as at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed Assets			
Investments	12	<u>187,006</u>	<u>187,006</u>
Current assets			
Cash at bank and in hand		3	18
Deferred income tax assets	19	<u>209</u>	<u>212</u>
Total current assets		<u>212</u>	<u>230</u>
Creditors: amounts falling due within one year	16	<u>(149,302)</u>	<u>(62,182)</u>
Net current liabilities		<u>(149,090)</u>	<u>(61,952)</u>
Total assets less current liabilities		<u>37,916</u>	<u>125,054</u>
Creditors: amounts falling due after more than one year	17	<u>(111,249)</u>	<u>(190,303)</u>
Net liabilities		<u>(73,333)</u>	<u>(65,249)</u>
Capital and reserves			
Called up share capital	22	40	40
Share premium account	23	4,105	4,105
Profit and loss account	23	<u>(77,478)</u>	<u>(69,394)</u>
Total shareholders' deficit		<u>(73,333)</u>	<u>(65,249)</u>

The company's loss for the year is £9,526,000 (2017: loss of £11,103,000).

The financial statements on pages 9 to 43 were approved by the board of directors on

21 May 2019

and were signed on its behalf by:



A M Sheriff
Director

Registered number: 06409725

RNO Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from operations	24	29,193	21,715
Interest paid		(4,139)	(2,785)
Income tax paid		(498)	-
Net cash generated from operating activities		24,556	18,930
Cash flows from investing activities			
Purchases of property, plant and equipment	10	(8,969)	(3,715)
Proceeds from sale of investment		129	-
Proceed from sale of property, plant and equipment		18	-
Research & development expenditure on development of new yachts	11	(14,748)	(8,877)
Interest received	3	36	90
Net cash used in investing activities		(23,534)	(12,502)
Cash flows from financing activities			
Repayments of borrowings	25	(11,000)	(10,257)
Shareholder loan advance drawdown	25	(796)	-
Net cash generated used in financing activities		(11,796)	(10,257)
Net decrease in cash and cash equivalents	25	(10,774)	(3,829)
Movement in borrowings	25	11,796	10,257
Other non-cash movements	25	(6,776)	(6,738)
Net debt at 1 January	25	(174,083)	(173,773)
Net debt at 31 December	25	(179,837)	(174,083)

RNO Limited

Company Statement of Cash Flows for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from operations	26	15,919	13,042
Interest paid		(4,139)	(2,785)
Net cash generated from operating and investing activities		11,780	10,257
Cash flows from financing activities			
Repayments of borrowings		(11,796)	(10,257)
Shareholder loan advance drawdown		-	-
Net cash used in financing activities		(11,796)	(10,257)
Net decrease in cash and cash equivalents		(16)	-
Movement in borrowings	27	11,796	10,257
Other non-cash movements	27	(6,776)	(6,738)
Net debt at 1 January	27	(201,284)	(204,803)
Net debt at 31 December	27	(196,280)	(201,284)

RNO Limited

Accounting Policies

Group:

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), as adopted by the EU and IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the going concern basis under the historical cost convention and historic cost modified by the revaluation of financial assets and financial liabilities held at fair value through Profit & Loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.

The company is a private limited company, limited by shares, incorporated in the United Kingdom.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Accounting policies adopted by subsidiaries are consistent with the policies across the group, with the exception of research and development costs, which are written off to the profit and loss account as incurred in subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The group has applied the exemption to omit the Company's Income Statement and Statement of Comprehensive Income from the financial statements, under section 408 of the Companies Act 2006. The company's Income Statement and Statement of Comprehensive Income for the financial year has been approved by the directors in accordance with section 414 (1).

New standards which are now effective

The following new and amended standards have been adopted by the group for the financial year beginning on 1 January 2018;

IFRS 9 - Management have reviewed the impact of IFRS 9 'Financial Instruments' and concluded that the impact is not material. The unlisted investments held (note 12) are fair valued through the profit and loss account and will continue to be so under IFRS 9. All other assets have been considered and are deemed to be performing. Therefore no additional expected credit loss is required. Debt instruments represent borrowings held to collect and cash flows represent capital and interest only. Consequently these are held at amortised cost.

IFRS 15 – The RNO Limited Group accounts have transitioned to IFRS 15 in 2018 using the 'modified retrospective' approach. The financial statements have been retrospectively adjusted, but the cumulative impact has been recognised at the date of initial application through equity and the comparatives are presented using existing GAAP.

IFRS 16 - Management have reviewed the changes under IFRS 16 'Leases', and concluded the impact of reflecting IFRS 16 in the financial statements will be the recognition of £2.2m tangible fixed assets and financial liabilities. The impact on the profit and loss account will be minimal.

Accounting Policies (continued)

Standards not yet effective

As at the date of authorisation of these financial statements, the following Standards and Interpretations as well as amendments to existing Standards and Interpretations, which have not been applied in these financial statements, were in issue but not effective:

IFRS 16 'Leases' (effective 2019)

Annual Improvements to IFRSs - 2015-2017 Cycle (effective 2019)

Amendments to IAS 19 - Employees benefit plan amendments, curtailments or settlements (effective 2019)

Amendments to IFRS 9 Financial instruments on prepayment features with negative compensation (effective 2019)

IFRIC 23 'Uncertainty over income tax treatments' (effective 2019)

Amendments to IAS 28 Investments in associates and Joint ventures (effective 2019)

Amendments to IFRS 3 'Business combinations' on definition of a business (effective 2020)

Amendments to IAS 1 and IAS 8 - on definition of materiality (effective 2020)

IFRS 17 Insurance contracts (effective 2021)

Management will quantify the effect of adopting the remaining standards in due course as the implementation date nears.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and the equity instruments issued by the group in exchange for control of the acquired, plus any costs directly attributable to the business combination. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date.

Going concern

The directors have undertaken detailed reviews of the group's forecast trading position as well as the trading positions of its distributors around the world, and the group's indebtedness, and are satisfied that the company and group have adequate resources to continue trading for the foreseeable future. The parent company RNO Group S.C.A. have provided written confirmation of their intention to support RNO Group for a period of at least 12 months.

Accounting Policies (continued)

Group (continued)

Revenue recognition

Revenue is the invoiced value of goods, net of value added tax and discounts. For yachts under 80 feet in length, revenue from the sale of goods is recognised when the significant risks and benefits of product ownership transfer to the buyer. This is normally when the yachts are fully paid for (but which may also be upon shipment), completion of the product or the product being ready for delivery and in conjunction with specific contract terms.

Long-term contract accounting

Revenue and profit recognised in the year reflects management's best estimate of the value of work completed on each yacht over 80 feet in length. The degree of completion, which forms the basis of this estimate, is assessed by reference to the labour cost expended in the construction process at the accounting date as a percentage of the total expected labour cost for the yacht. The resultant percentage is then applied to management's estimate of the total expected revenue and profit on completion of the yacht to determine the amounts to be recognised in the financial statements. Losses are recognised as soon as they are identified. The amount by which recorded revenue exceeds payments received on account is classified separately as contract receivables.

Research and development costs

Costs directly associated with the development of new yachts (material and labour) are capitalised and amortised over the period during which it is expected sales revenues will be generated as the result of establishing a commercially viable and separately identifiable project. Capitalised costs are reviewed annually and will be written off where continuing carry forward is no longer considered to be appropriate.

Warranty cost

Provision is made for warranty costs that are estimated to arise in relation to boats sold. Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Grants

Government grants are treated as deferred income in the balance sheet and credited to trading results over the estimated useful economic lives of the assets to which they relate. Amortisation of government grants commences once all conditions of the grant have been met.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date, except where they are covered by forward currency contracts, in which case the forward contract rate is used. Transactions denominated in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. All exchange differences are included in the Income Statement. The consolidated financial statements are presented in sterling, which is the company's functional and the group's presentation currency.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity and debt instruments issued by the group are recorded at the proceeds received, net of direct issue costs. Direct issue costs are amortised over the life of the instrument. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise. Assets are derecognised when the rights to receive cash flows have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

RNO Limited

Accounting Policies (continued)

Group (continued)

The group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 1 January 2013. Accordingly, the group has classified its financial assets in the following categories:

i) ***Financial assets at fair value through profit and loss***

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if it has a readily ascertainable market value and it is publicly traded.

ii) ***Loans, liabilities and receivables***

Loans, liabilities and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. The group's loans, liabilities and receivables comprise "trade and other receivables" "trade and other payables" and "cash and cash equivalents" in the balance sheet. Loans, liabilities and receivables are held at amortised cost.

Share capital

Debt and equity instruments are classified according to the substance of the contractual arrangements as required by IAS 32 'Financial Instruments: Disclosure and Presentations'. Ordinary shares are classified as equity. Preferences shares are classified as debt.

Operating leases

Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term.

Intangible assets - goodwill

Purchased goodwill represents the excess of the cost of the acquisition of the business over the fair value of the net identifiable assets of the acquired business. Goodwill is not amortised but tested for impairment annually, or when trigger events occur, and carried at cost less accumulated impairment losses.

Property, plant and equipment

Property, plant and equipment are recorded at its purchase cost, together with any associated expense of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight line basis, over the expected useful economic life of the asset concerned. Freehold land and assets under construction are not depreciated. The principal economic lives are:

Freehold buildings	25 to 50 years
Cranes and hoists	7 to 20 years
Other plant and equipment	4 to 7 years
Motor vehicles	4 to 5 years

Inventory and work in progress

Inventory are stated at the lower of cost and net realisable value with due allowance being made for obsolete and slow moving items. Raw materials are stated at cost on a "First in, First out" (FIFO) basis. Work in progress is stated at the accumulated cost of material, labour and an appropriate allocation of production overheads.

Pensions

Pension scheme arrangements are accounted for in accordance with accounting standard IAS 19 'Retirement Benefits'. Scheme assets are determined at bid value and liabilities are calculated using the projected unit method discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The expected return on assets and the increase or decrease in the present value of the liabilities for the year are included in other finance expense. Actuarial gains and losses are recognised in the Statement

Accounting Policies (continued)

Group (continued)

of Comprehensive Income. The pension deficit is included in the balance sheet, net of the related deferred tax. The group also operates defined contribution pension arrangements. Contributions are charged to the income statement when they fall due.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call 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.

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

Tax, including deferred tax

The tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for on an undiscounted basis at expected rates on all differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised where the directors are satisfied that the amount is recoverable

Fair values

The fair values of short term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. The following analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Details of the group's assets measured at fair value at 31 December 2018 are shown in note 13 of the financial statements.

Exceptional items

The Group classifies certain one-off charges or credits that have a material impact (both qualitative and quantitative) on the group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

Accounting Policies (continued)

Company:

These financial statements are prepared on the going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, unless otherwise stated, are set out below.

Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

Going concern

The company meets its day-to-day working capital requirements through its bank facilities. The company's forecasts and projections show that the company should be able to operate within the level of its current facilities.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

The parent company, RNO Group S.C.A., have provided written confirmation of their intention to support RNO Group for a period of at least 12 months. Following the start of the strategic partnership with HSBC in January 2018 and after the strong year of growth, a further review in January 2019 took place regarding the longer-term finance structure required to support the business projections.

This has culminated in a multi-year facility provided by HSBC and RBS/NatWest, each of which will continue to support Princess global customer base and local manufacturing sites. The Directors believe that extending this opportunity to embrace RBS will add further strength to commercial opportunities within private banking and our growth internationally and keep the Group on a solid financial growth for the rest of 2019 and beyond.

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based in historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances (note 1).

Tax, including deferred tax

The tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Group relief is claimed from other group companies in respect of their losses, to offset taxable profits in this company. £0.50 is paid for each £1 of tax losses surrendered across the group. As this payment is in excess of the expected amount payable (equating to the tax rate for the year of 19%), any amount above this level is taken direct to reserves through the Statement of Comprehensive Income

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Pre 1 April 2017, a net deferred tax asset was recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Due to changes in legislation, tax losses incurred post 1 April 2017 can be carried forward and surrendered through group relief and therefore a net deferred tax asset is recognised on the basis the losses will be utilised within the taxable profits

Accounting Policies (continued)

Tax, including deferred tax (continued)

of the group in the future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Fixed asset investments

Unlisted investments, excluding those relating to the subsidiary companies, are stated at market value using, where applicable, the AIM quoted price as an indicator. The Companies Act 2006 alternative rules have been adopted. The amount of any profit or loss arising on revaluation is taken to the revaluation reserve. Subsidiary investments are held at the lower of cost and net realisable value.

Investments in Subsidiary Companies

The Investment in the subsidiary companies are held at cost less accumulated impairment losses. Purchased goodwill represents the excess of the cost of the acquisition of the business over the fair value of the net identifiable assets of the acquired business. Goodwill is not amortised but tested for impairment annually, or when trigger events occur, and carried at cost less accumulated impairment losses.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity and debt instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Direct issue costs are amortised over the life of the instrument. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise. Assets are derecognised when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Notes to the Consolidated Financial Statements

1 Critical accounting estimates and judgements

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.

Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Estimated impairment of goodwill (Group and Company)

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated on page 21. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 11).

b) Useful economic lives of yacht models for capitalisation of development costs (Group)

Development costs relating to the introduction of new yacht models are capitalised and amortised off over the period during which it is expected sales revenues will be generated. This period is the average useful life for new models developed over recent years. A one year reduction in the period over which such development costs are amortised would have impacted profit before income tax by £3,687,000 (2017: £2,219,000).

c) Pension benefits (Group)

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying value of pension obligations.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 21.

d) Revenue recognition – long-term contract accounting (Group)

Yachts over 80 feet in length are accounted for under long-term contract accounting, with revenue and profit being based on the degree of completion at year end. The revenue and profit recognised are calculated using the labour cost incurred as a percentage of total forecast labour cost to complete, multiplied by the proportion of the expected profit on completion. Estimates are required for the percentage completion of the yacht itself, and also on the estimate of the overall profit to be generated. A 1% decrease in the overall expected profit would reduce gross profit by £50,000 (2017: £75,000). A 1% decrease in the percentage completion of the yachts would reduce gross profit by £75,000 (2017: £150,000).

e) Warranty Provision (Group)

Historical warranty spend data is collated across all models and used to estimate future warranty spend based on boats sold and the balance of warranty period remaining. When historical information is unavailable, for instance on new launches an estimate is made by reference to the historic warranty spend on a similar size of yacht.

Notes to the Consolidated Financial Statements (continued)

2 Revenue

All revenue derives from UK boat manufacturing activities and originates in the UK. The directors consider that there is only one operating segment, relating to the principal activity.

	2018 £'000	2017 £'000
Revenue recognised when delivered	329,766	263,387
Revenue recognised according to long term contract accounting	10,494	11,059
Revenue	340,260	274,446

3 Finance income

	2018 £'000	2017 £'000
Interest receivable from bank deposits	36	90
Net finance income receivable	36	90

4 Finance costs

	2018 £'000	2017 £'000
Interest payable on bank loan	862	1,551
Amortisation of bank loan issue cost	449	325
Interest payable on other loans (note 17)	2,876	2,958
Preference share dividend (note 17)	6,019	5,571
Other finance expense – pensions (note 21)	317	397
Net finance costs payable	10,523	10,802

5 Operating profit

	2018 £'000	2017 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets (note 10)	2,518	2,409
Profit on disposal	18	-
Amortisation of development costs (note 11)	8,341	5,996
Amortisation of government grant income (note 18)	(3,978)	(1,640)
Research and development tax credit		
- Current year	(861)	(508)
- Prior year	(310)	(676)
Inventory expensed in the year	153,450	137,801
Operating lease rentals – plant and machinery	266	11

Notes to the Consolidated Financial Statements (continued)

6 Auditors' remuneration

	2018 £'000	2017 £'000
Fees payable to company's auditors and its associates for the audit of the company and consolidated financial statements	22	22
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries	73	77
Taxation compliance services	30	22
Other non-audit services	-	6
	125	127

7 Staff numbers and costs

The average monthly number of employees for the group during 2018 and 2017 was:

By activity	2018 Group Number	2017 Group Number	2018 Company Number	2017 Company Number
Production	2,715	2,273	-	-
Selling and distribution	64	51	-	-
Administration	86	83	5	5
	2,865	2,407	5	5

Employee costs	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Wages and salaries	100,803	76,406	-	-
Social security costs	10,043	6,774	-	-
Other pension costs	1,686	913	-	-
Exceptional Costs (note 9)	3,180	-	-	-
	115,712	84,093	-	-

Directors' emoluments

The directors are remunerated through Princess Yachts Limited, a 100% wholly owned subsidiary, in respect of their services to the group.

Aggregate directors' emoluments for the year were £1,559,000 (2017: £1,441,000). The aggregate value of company contributions paid to a defined contribution pension scheme in respect of the directors' qualifying services is £56,000 (2017: £72,000). One director (2017: one) is accruing benefits under money purchase pension schemes. The number of directors with accrued benefits under the company's defined benefit pension scheme is one (2017: one).

The remuneration of the highest paid director was £975,000 (2017: £947,000). The highest paid director does not accrue benefits under the company's defined benefit pension scheme. The same applied in the prior year.

Notes to the Consolidated Financial Statements (continued)

7 Staff numbers and costs (continued)

Key management compensation:

Key management only includes the directors whose salaries are disclosed above plus additional directors who are paid by a wholly owned subsidiary. The total compensation paid or payable to key management for employee services is salaries £3,439,000 (2017 £1,991,000) and post-employment benefits £166,000 (2017 £111,000).

8 Income tax (charge/credit)

Analysis of (charge)/credit to income statement

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax at 19% (2017: 19.25%)	(808)	(98)
Adjustments relating to prior years	(60)	(128)
Total current tax	(868)	(226)
Deferred tax (note 19):		
Origination and reversal of timing differences	(3,436)	(984)
Change in tax rate	116	133
Adjustments relating to prior years	56	20
Total deferred tax charge	(3,265)	(831)
Total tax charge for the current year	(4,133)	(1,057)

The tax assessed for 2018 and 2017 reconciles to the standard effective rate of corporation tax in the UK as follows:

	2018 £'000	2017 £'000
Profit/(Loss) before income tax	15,456	(2,898)
Profit/ (Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(2,937)	558
Effects of		
Expenses not deductible for tax purposes	(1,552)	(1,476)
Income not taxable for tax purposes	112	296
Adjustments relating to prior years	(5)	(108)
Impact of unrecognised deferred tax assets / liabilities	133	(460)
Deferred tax rate changes	116	133
Total tax charge for the current year	(4,133)	(1,057)

Legislation was introduced to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. Further changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016 in September 2016. These included the replacement of the 18% rate from 1 April 2020 with the lower rate of 17%. To date, no further changes have been announced.

Notes to the Consolidated Financial Statements (continued)

8 Income tax (charge/credit) (continued)

The Groups profits for this financial year are taxed at an effective rate of 19% (2017: 19.25%). Deferred tax balances within the financial statements have been calculated using a rate of 17% (2017: 17%).

9 Exceptional costs

	2018	2017
	£'000	£'000
Consultancy costs	464	2,818
Redundancy costs	249	252
Defined benefit pension scheme past service costs	3,180	-
	3,893	3,070

Exceptional consultancy costs relate to the additional cost of contracting consultants as part of the company transformation project. Discrete Redundancy costs relate to the business staff restructuring programme. Defined benefit pension scheme past service costs relate to the cost of Guaranteed Minimum Pensions (GMP) equalisation.

10 Property, plant and equipment

Group	Freehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2017	47,792	21,257	69,049
Additions	-	3,715	3,715
At 1 January 2018	47,792	24,972	72,764
Additions	87	8,882	8,969
Disposal	-	(60)	(60)
At 31 December 2018	47,879	33,794	81,673
Accumulated depreciation			
At 1 January 2017	7,312	17,391	24,703
Charge to income statement	866	1,543	2,409
At 1 January 2018	8,178	18,934	27,112
Charge to income statement	866	1,652	2,518
Disposal	-	(55)	(55)
31 December 2018	9,044	20,531	29,575
Net book value at 31 December 2018	38,835	13,263	52,098
Net book value at 31 December 2017	39,614	6,038	45,652

RNO Limited

Notes to the Consolidated Financial Statements (continued)

11 Intangible assets

a) Capitalised development costs

Group	Total £'000
Cost	
At 1 January 2017	47,918
Additions	8,877
At 1 January 2018	56,795
Additions	14,748
Disposals	(30,860)
At 31 December 2018	40,683
Accumulated amortisation	
At 1 January 2017	36,735
Charge to income statement – cost of sales	5,996
At 1 January 2018	42,731
Charge to income statement – cost of sales	8,341
Disposals	(30,860)
At 31 December 2018	20,212
Net book value at 31 December 2018	20,471
Net book value at 31 December 2017	14,064

b) Goodwill

Group	£'000
Cost	
At 31 December 2018 and 31 December 2017	104,377
c) Total	
Net book value at 31 December 2018	124,848
Net book value at 31 December 2017	118,441

Impairment tests for goodwill

Management reviews the business performance at the one, overall, segmental level of the principal activity.

The recoverable amount of the only Cash Generating Unit has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the annual financial projections approved by management covering a five year period, being management's lowest estimate for the future life of the business. The growth rates used do not exceed the long-term average growth rate for the business in which the CGU operates.

Notes to the Consolidated Financial Statements (continued)

11 Intangible assets (continued)

The key assumptions used for value-in-use calculations in 2018 and 2017 are as follows:

	2018	2017
Operating profit before exceptional costs (£'000)	29,836	10,884
Economic life (years)	5	5
Growth rate - %	13.2%	21.1%
Discount rate - %	5.5%	5.5%

Management determined projected operating profit before depreciation and amortisation based on past performance together with expectations of future market development. The discount rates used are pre-tax. The growth rate of 13.2% reflects the improved production capacity and expanded product offering. The discount rate would need to increase to 43% before an impairment would be required. A significantly reduced growth rate could be supported provided margins remain at 2018 levels (pre-exceptional costs) without the need for impairment.

12 Investments

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Investment in Princess Yachts Limited	-	-	187,006	187,006
Other unlisted investments	61	190	-	-
	61	190	187,006	187,006

The principal subsidiary companies within RNO Limited, all with the registered office of Newport Street, Plymouth, Devon PL1 3QG, are:

Subsidiary	Holding	Nature of Business	Country of Incorporation
The Renwick Group Limited	100%	Holding company	England
Princess Yachts Limited	100%	Manufacture of luxury motor yachts	England

Other unlisted investments

Other unlisted investments comprise various shares across a number of entities. The majority of these shares are held in Sutton Harbour Holdings plc, a business concerned with regional regeneration and development. The group holds approximately 1% of this company's shares which are traded on the Alternative Investment Market. The original cost of these shares was £55,000 and valuation movements have been as follows:

Notes to the Consolidated Financial Statements (continued)

12 Investments (continued)

Group	2018 £'000	2017 £'000
Market value at 1 January	190	179
Revaluation	(4)	11
Disposal	(125)	-
Market value at 31 December	61	190

13 Financial instruments by category

Group – 31 December 2018

	Loans, liabilities and receivables at amortised cost £'000	Assets at fair value through profit and loss £'000	Total £'000
Assets as per balance sheet			
Financial assets at fair value	-	61	61
Financial assets at fair value/derivative	-	237	237
Trade and other receivables excluding prepayments	26,058	-	26,058
Cash and cash equivalents	16,446	-	16,446
Total	42,504	298	42,802
Liabilities as per balance sheet			
Borrowings	196,283	-	196,283
Trade and other payables excluding non-financial liabilities	132,338	-	132,338
Total	328,621	-	328,621

Group – 31 December 2017

	Loans, liabilities and receivables £'000	Assets at fair value through profit and loss £'000	Total £'000
Assets as per balance sheet			
Financial assets	-	190	190
Trade and other receivables excluding prepayments	14,571	-	14,571
Cash and cash equivalents	27,220	-	27,220
Total	41,791	190	41,981
Liabilities as per balance sheet			
Borrowings	201,303	-	201,303
Trade and other payables excluding non-financial liabilities	124,647	-	124,647
Total	325,950	-	325,950

Notes to the Consolidated Financial Statements (continued)

14 Inventories

Group	2018 £'000	2017 £'000
Contract work in progress	13,285	19,607
Raw materials	15,875	15,209
Short-term work in progress	46,603	28,487
Finished goods	13,260	5,407
	89,023	68,710

There is no material difference between the balance sheet amount of inventory and its replacement cost. A slow moving/obsolete inventory provision of £1,142,000 (2017: £1,301,000) has been included within the raw materials analysis above.

£72,000 of inventory was written off in 2018 (2017: £nil).

15 Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	24,604	13,490	-	-
Corporation tax	1,454	1,080	-	-
Other receivables	-	-	-	-
Prepayments and accrued income	4,364	6,407	-	-
	30,422	20,977	-	-

The fair value of trade receivables is £24,604,000 (2017: £13,490,000). There are no trade receivables past due and not impaired and there is no provision for impaired receivables in either 2018 or 2017. The credit quality of those trade receivables not past due and not impaired is considered good.

Notes to the Consolidated Financial Statements (continued)

16 Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Amounts due within one year				
Trade payables	54,884	27,399	-	-
Other payables and accruals	15,478	16,369	-	898
Amounts owed to group undertakings	-	-	64,268	50,284
Other taxation and social security	4,029	2,861	-	-
Government grants	291	3,978	-	-
Deferred income	57,947	57,438	-	-
	132,629	108,045	64,268	51,182

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

17 Borrowings

Group and company	2018 £'000	2017 £'000
Non-current		
Bank loan (unsecured), net of issue costs	-	11,729
Redeemable preference shares	111,249	105,230
Shareholders' advances and other loans (unsecured)	-	73,344
	111,249	190,303
Current		
Bank loan (Company and Group- unsecured)	12,000	11,000
Shareholders' advances and other loans (unsecured)	73,034	-
	85,034	11,000

The borrowings are at market rate and as such are recognised at amortised cost. All borrowings are denominated in Sterling in both 2018 and 2017.

RNO Limited

Notes to the Consolidated Financial Statements (continued)

17 Borrowings (continued)

Maturity profile

The maturity profile of the carrying amount of borrowing at 31 December 2018 was as follows:

	Bank loan £'000	Redeemable preference shares £'000	Other loans £'000	Total £'000
<1 year	12,000	-	73,034	85,034
1-5 years	-	111,249	-	111,249
> 5 years	-	-	-	-
	12,000	111,249	73,034	196,283

a) Bank loan (see Note 31)

On 31 July 2017 the Company and its parent, RNO Group S.C.A., agreed a debt restructuring with the bank regarding the Group's loan repayment arrangements, including the amount payable by RNO Limited. Under new payment arrangement the loan will be repaid in instalments with the last payment due 30 September 2019. Following the refinance in May 2019 (Note 31), these loans were repaid in full.

b) Preference shares (see Note 31)

The cumulative preference shares comprise 62,100,000 shares of £0.01 each (authorised, issued at £0.99 premium and paid up). The shares, which do not carry any voting rights, are redeemable on or before 31 December 2020 at the option of the shareholders, who have confirmed that it is not their current intention to exercise their option before this date. The shares bear interest calculated at 72% of 5.08% plus 275 basis points of the subscription price p.a. on the par value of these shares on a cumulative basis.

On winding up, the preference shareholders rank above ordinary shareholders. On redemption or winding up, the preference shareholders are entitled to receive the subscription price together with any interest accrued but unpaid in respect of their shares. The accrued interest on preference shares amounts to £49,149,000 (2017: £43,130,000). The interest will be rolled up throughout the term of the preference shares. Following the refinance in May 2019 (Note 31), the shareholders intend to extend the redemption date to 31 December 2024.

c) Shareholders' advance and other loans (see Note 31)

Other loans comprise shareholders' advances from RNO Group S.C.A. (£49,019,000 and £15,000,000 plus interest). These advances are not due to be repaid until 30 September 2019. For £15,000,000 of the loans, the interest is being rolled up throughout the term of the loan. For the remaining £49,019,000 the interest is paid quarterly. Following the refinance in May 2019 (Note 31), the shareholders intend to extend the redemption date to 31 December 2024.

18 Deferred government grants

Group	2018 £'000	2017 £'000
Non-current		
At 1 January 2018	4,491	6,131
Amortisation in the year	(3,978)	(1,640)
At 31 December 2018	513	4,491

Notes to the Consolidated Financial Statements (continued)

18 Deferred government grants (continued)

Non-current	222	513
Current	291	3,978
	513	4,491

A grant of £4,491,000 was received during 2013 from the UK Government's Regional Growth Fund with regard to the company's development of its South Yard site at the Devonport Dock Yard. During 2018, the monitoring period obligations were completed and audited, with amortisation of £3,978,000 released in the year.

19 Deferred income tax

Group

	Pension Assets £'000	Excess capital allowances over depreciation Assets Liabilities £'000 £'000	Other timing differences Assets Liabilities £'000 £'000	Total £'000
At 1 January 2017	2,530	931 -	5,386 (1,961)	6,886
Movement recognised in income statement	(178)	209 -	(432) (430)	(831)
Movement recognised in other comprehensive income	(158)	- -	- -	(158)
At 1 January 2018	2,194	1,140 -	4,954 (2,391)	5,897
Movement recognised in income statement	350	(537) -	(1,988) (1,089)	(3,295)
Movement recognised in other comprehensive income	(384)	- -	- -	(384)
Movement recognised in equity	-	- -	709 -	709
At 31 December 2018	2,160	603 -	3,675 (3,480)	2,958

Total deferred tax assets = £6,408,000 (2017: £8,288,000)

Total deferred tax liabilities = £3,480,000 (2017: £2,391,000)

All deferred tax assets and liabilities are reversing in more than 12 months.

There is an unrecognised deferred tax asset in RNO Limited of £1,514,000 (2017: £1,510,000) relating to losses carried forward. This has not been recognised due to uncertainty that sufficient taxable profits will be generated in future in that company in order to utilise the tax losses.

Notes to the Consolidated Financial Statements (continued)

20 Provisions for other liabilities and charges

Group	Warranty cost £'000
1 January 2018	2,746
Utilised in the year	(5,510)
Additional provision made in the year	5,472
31 December 2018	2,708

21 Retirement benefit obligations

Defined benefit scheme

Princess Yachts Limited, a wholly owned subsidiary within the group, operates a defined benefit pension scheme which was closed to new entrants and accrual of pensionable service ceased on 31 May 2003. The scheme's funding is valued triennially by an independent qualified actuary using the accrued benefits method. At the last full valuation on 6 April 2016, the value of the scheme's assets (which are held separately from those of the group) was £82,700,000 which was sufficient to cover 90% of the benefits accrued at that date.

During the year ended 31 December 2018, contributions of £1,440,000 (2017: £1,440,000) were made towards meeting the funding requirement. These are recognised in cost of sales. Contributions of £1,440,000 are expected to be made in 2019. The following information is based on the 6 April 2016 actuarial valuation rolled forward to 31 December 2018 by a qualified independent actuary.

The principal assumptions used by the actuary were:

Principal assumptions	2018	2017
Rate of increase in pay – uncapped members	2.6%	2.6%
Rate of increase in pay – capped members	2.6%	2.6%
Rate of increase in pension payment	3.4%	3.4%
Discount rate	2.9%	2.6%
Inflation	3.6%	3.6%
Commutation factor	100%	100%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. At 31 December 2018 the assumed life expectations on retirement, at age 65 for current pensioners, were 21.5 years for men (2017: 21.4 years) and 23.6 years for women (2017: 23.5 years).

Assets and expected rates of return

The expected return on assets is based on the long term future expected investment return of each asset class. The return on gilts is assumed to be the yield on the FTSE Actuaries 15 year gilt index and the return on corporate bonds is assumed to be the yield on the iBoxx Corporate AA 15+ index. The return on equities is assumed to be 3.5% p.a. margin above gilt yields.

Notes to the Consolidated Financial Statements (continued)

21 Retirement benefit obligations (continued)

	Bid value at 31 December 2018 £'000	Bid value at 31 December 2017 £'000
Equity instruments	46,309	48,322
Debt instruments	38,591	40,269
Property	3,859	5,034
Cash and cash equivalents	1,930	1,006
Other assets	5,789	6,040
Market value of assets	96,478	100,671
Present value of scheme liabilities (funded)	(109,183)	(113,577)
Scheme liability	(12,705)	(12,906)

There is no current service cost in either year.

Amounts recognised in profit & loss	2018 £'000	2017 £'000
Expected return on assets	2,597	2,648
Interest on liabilities	(2,914)	(3,045)
Past service cost – pension equalisation	(3,180)	-
Other finance expense	(3,497)	(397)

Analysis of amounts recognised in Statement of Comprehensive Income:

Actual return less expected return on assets	(5,167)	4,044
Experience adjustments arising on liabilities	7,425	(3,113)
Actuarial gain in Statement of Comprehensive Income	2,258	931

Actual return on assets

Expected return on assets	2,597	2,648
Actuarial gain on assets	(5,167)	4,044
	(2,570)	6,692

Notes to the Consolidated Financial Statements (continued)

21 Retirement benefit obligations (continued)

Reconciliation of fair value of scheme assets	2018 £'000	2017 £'000
Assets at 1 January	100,671	95,155
Expected return on assets	2,597	2,648
Actuarial (loss) / gain	(5,167)	4,044
Employer contributions	1,440	1,440
Benefits paid (net of transfers in)	(3,063)	(2,616)
Assets at 31 December	96,478	100,671
Reconciliation of present value of scheme liabilities		
Liabilities at 1 January	(113,577)	(110,035)
Interest cost	(2,914)	(3,045)
Past service cost	(3,180)	-
Actuarial gain	7,425	(3,113)
Benefits paid (net of transfers in)	3,063	2,616
Liabilities at 31 December	(109,183)	(113,577)

The scheme assets are stated at bid value. The weighted average duration of the liabilities valued at 31 December 2018 is 18.0 years (2017: 18.0 years). The effect of changes to the principal actuarial assumptions on the value of the funded defined benefit obligations disclosed is summarised below:

Change to assumption	Approximate effect of liabilities
Discount rate increased by 1%	(£16,818,000)
Discount rate decreased by 1%	£21,857,000
RPI and associated assumptions increased by 1%	£16,013,000
RPI and associated assumptions decreased by 1%	(£12,350,000)

History of experience gains and losses	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Defined benefit obligation	(109,183)	(113,576)	(110,035)	(87,323)	(88,885)
Plan assets	96,478	100,670	95,154	77,431	73,071
Deficit	(12,705)	(12,906)	(14,880)	(9,892)	(15,814)
Experience adjustments on plan liabilities	-	-	-	1,461	217
Experience adjustments on plan assets	(5,167)	4,044	15,905	2,204	(1,086)

Defined contribution schemes

The group also operates defined contribution pension schemes. Pension contributions in respect of these schemes were £1,686,000 (2017: £913,000). There were no contributions outstanding or prepaid at 31 December 2018 (2017: £nil).

RNO Limited

Notes to the Consolidated Financial Statements (continued)

22 Called up share capital

Group and company	2018 Quantity	2018 £	2017 Quantity	2017 £
Authorised				
A ordinary shares of £0.01 each	3,000,000	30,000	3,000,000	30,000
B ordinary shares of £0.01 each	780,000	7,800	780,000	7,800
C ordinary shares of £0.01 each	200,000	2,000	200,000	2,000
D ordinary shares of £0.01 each	20,000	200	20,000	200
At 31 December	4,000,000	40,000	4,000,000	40,000

Group and company	2018 Quantity	2018 £	2017 Quantity	2017 £
Authorised, allotted, issued and fully paid				
A ordinary shares of £0.01 each	3,000,000	30,000	3,000,000	30,000
B ordinary shares of £0.01 each	780,000	7,800	780,000	7,800
C ordinary shares of £0.01 each	200,000	2,000	200,000	2,000
D ordinary shares of £0.01 each	17,000	170	17,000	170
At 31 December	3,997,000	39,970	3,997,000	39,970

The value of the shares allotted on the acquisition of The Renwick Group plc was £4.0m, reflecting a premium of £0.99 per share. During 2017, 200,000 B ordinary shares of £0.01 each in the capital of the company held by its parent, RNO Group S.C.A., were re-designated and converted to 200,000 C ordinary shares of £0.01. A further 20,000 B ordinary shares of £0.01 were converted to D ordinary shares with the same value.

23 Reserves

Group	Share premium account £'000	Retained earnings/ (accumulated losses) £'000	Total £'000
1 January 2017	4,105	(39,389)	(35,284)
Loss for the year	-	(3,955)	(3,955)
Actuarial gain on pension scheme	-	773	773
1 January 2018	4,105	(42,571)	(38,466)
IFRS 15 net of tax	-	(3,462)	(3,462)
Profit for the year	-	11,323	11,323
Actuarial gain on pension scheme (net of tax)	-	1,874	1,874
31 December 2018	4,105	(32,836)	(28,731)

Notes to the Consolidated Financial Statements (continued)

23 Reserves (continued)	Share premium account £'000	Accumulated losses £'000	Total £'000
Company			
1 January 2018	4,105	(69,394)	(65,289)
Loss for the year	-	(9,526)	(9,526)
Excess payment for group relief	-	1,442	1,442
31 December 2018	4,105	(77,478)	(73,373)

24 Cash generated from operations - Group

Group	2018 £'000	2017 £'000
Profit/(Loss) before income tax	15,456	(2,898)
Fair value movement on investments	4	11
Depreciation of property, plant and equipment	2,518	2,409
Amortisation of development costs	8,341	5,996
Grant amortisation	(3,978)	(1,640)
Research & Development tax credit	(1,171)	(1,184)
Movement on warranty provision	(38)	(429)
Interest receivable	(36)	(90)
Interest payable	10,523	10,477
Profit on disposal of property, plant and equipment	(18)	-
(Increase)/Decrease in inventory	(23,775)	1,568
Increase in trade and other receivables	(8,644)	(11,314)
Increase/(Decrease) in trade payables	27,485	(9,394)
Increase in other payables	786	10,728
Pension contributions	(1,440)	(1,440)
Non cash Exceptional item	3,180	127
Net cash generated from operating activities	29,193	21,715

Notes to the Consolidated Financial Statements (continued)

25 Reconciliation of movement in net debt - Group

	Net debt at 1 January 2018 £'000	Cash flow £'000	Non-cash flow £'000	Net debt at 31 December 2018 £'000
Cash	27,220	(10,774)	-	16,446
Net cash movement	27,220	(10,774)	-	16,446
Bank loan	(22,729)	11,000	(271)	(12,000)
Shareholders' advances and other loans	(73,344)	796	(486)	(73,034)
Preference shares	(105,230)	-	(6,019)	(111,249)
Borrowing	(201,303)	11,796	(6,776)	(196,283)
Net debt	(174,083)	1,022	(6,776)	(179,837)

Non-cash flow includes £271,000 (2017: £325,000) amortised loan costs, £486,000 (2017: (£842,000)) other loan interest and £6,019,000 (2017: £5,571,000) accrued dividend on the preference shares.

26 Cash generated from operations - Company

Company	2018 £'000	2017 £'000
Loss before income tax	(10,406)	(11,612)
Interest payable	10,383	10,477
Increase in other payables	15,942	14,177
Net cash generated from operating activities	15,919	13,042

27 Reconciliation of movement in net debt - Company

	Net debt at 1 January 2018 £'000	Cash flow £'000	Non-cash flow £'000	Net debt at 31 December 2018 £'000
Cash	19	(16)		3
Bank loan	(22,729)	11,000	(271)	(12,000)
Shareholders' advances and other loans	(73,344)	796	(486)	(73,034)
Preference shares	(105,230)	-	(6,019)	(111,249)
Borrowing	(201,303)	11,796	(6,776)	(196,283)
Net debt	(201,284)	11,780	(6,776)	(196,280)

Notes to the Consolidated Financial Statements (continued)

28 Operating lease commitments

The group had lease commitments in respect of non-cancellable operating leases for marina berthing spaces and plant and machinery. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 £'000	2017 £'000
Within one year	628	52
Two - five years	1,983	201
	2,611	253

29 IFRS 15 Revenue Recognition

The RNO Limited Group accounts have transitioned to IFRS 15 in 2018 using the 'modified retrospective' approach.

The financial statements have been retrospectively adjusted, but the cumulative impact has been recognised at the date of initial application through equity and the comparatives are presented using existing GAAP.

The only boats for which the group previously applied Long Term Contract Accounting to are those over 80 feet in length; the distinction has been made from the other boats the group manufacture since these larger boats are typically built to a customer specification with control passing to a customer, who is committed to the purchase at the contractual stage. The boats are by their nature built over a longer timeframe.

On review of the contracts for boats over 80 feet, a typical M-class contract shows that the group satisfy the performance obligation over time because an asset is created that the customer controls during the process, which the group have no readily available alternate use for and there is an enforceable right to payment.

It is clear therefore that all M-class boats sold under such a contract must have revenue recognised over time but these are the only class of boat over 80 feet that fit the criteria. There is therefore a transition adjustment reflected in the 2018 financial statements for the boats over 80 feet that do not meet the criteria to recognise over time.

The transition has had the following impact on the RNO Limited Group financial statements:

	2018 Profit & Loss Impact Summary £'000
Turnover	(6,075)
Material costs	2,293
Labour costs	2,447
	(1,335)

Notes to the Consolidated Financial Statements (continued)

29 IFRS 15 Revenue Recognition (continued)

In assessing the impact of IFRS 15, the following steps have been considered:

- Step 1 - Identify the explicit contract between Princess Yachts and the customer which includes the following attributes:
 1. The parties to the contract have approved it and are committed to perform;
 2. Each party's rights to the goods/services transferred are identified;
 3. The payment terms are identified;
 4. The contract has a commercial substance; and
 5. It is probable that the company will collect the consideration after evaluating the customer's ability and intention to pay.
- Step 2 - Identify the performance obligation within the contract which is to build a yacht to the customer's specification.
- Step 3 - Determine the transaction price as stated in the contract.
- Step 4 - Allocate the transaction price to the performance obligation in the contract. As identified in Step 2, there is just one performance obligation to satisfy over time.
- Step 5 - Recognise revenue as the entity satisfies the performance obligation. The single performance obligation is satisfied over time in line with the construction process and therefore revenue also recognised over time.

30 Related party transactions

The company had the following transactions with related parties in 2018 and 2017:

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. There were no transactions with related parties that are not members of the group during the year. During the year the company made no loans to key management personnel.

As detailed in note 17, 62,100,000 cumulative preference shares of £0.01 each are held by RNO Group S.C.A.. During the year, accrued interest of £6,019,000 (2017: £5,571,000) were added to the carrying value of the preference shares. In addition £2,876,000 (2017: £2,958,000) of interest, on advances of £73,034,000 (2017: £73,344,000) made by RNO Group S.C.A. was charged to the income statement in the year.

31 Events after the balance sheet date

Following the start of the strategic partnership with HSBC in January 2018 and after the strong year of growth, a further review in January 2019 took place regarding the longer-term finance structure required to support the business projections.

This has culminated in a multi-year facility of up to £40m provided by HSBC and NatWest, each of which will continue to support Princess global customer base and local manufacturing sites. The Directors believe that extending this opportunity to embrace HSBC and NatWest will add further strength to commercial opportunities within private banking and our growth internationally and keep the Group on a solid financial growth for the rest of 2019 and beyond.

32 Ultimate controlling party

The immediate parent undertaking is RNO Group S.C.A.

The smallest undertaking for which the company is a member and for which group financial statements are prepared is RNO Limited and the largest group for which consolidated financial statements are prepared is the ultimate parent undertaking, RNO Group S.C.A., a company incorporated in Luxembourg. These financial statements are not filed. The ultimate controlling party is L'Catterton S.A.S.