
ONTIC ENGINEERING & MANUFACTURING UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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ONTIC ENGINEERING & MANUFACTURING UK LIMITED

COMPANY INFORMATION

Directors	Gareth Hall Michael Waters Matthew Pritchard
Registered number	06707516
Registered office	3rd Floor 105 Wigmore Street London W1U 1QY
Independent auditor	Deloitte LLP Statutory Auditor 2 New Street Square London EC4A 3BZ United Kingdom
Bankers	HSBC Bank plc 14 Bradford Road Cleckheaton West Yorkshire BD19 3JR

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

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ONTIC ENGINEERING & MANUFACTURING UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

The principal activities of the Company comprise of the manufacture of legacy parts and the provision of repair services for the aviation industry worldwide.

Ontic Engineering & Manufacturing UK Limited owns the IP to produce fuel gauging systems (acquired from GE Aviation Systems Limited in 2011), and a portfolio of legacy avionics products (acquired from GE Aviation Systems Limited in 2016). It also manufactures under licence the following product groups: gas turbine units under a licence from Safran, F16 actuators, rail and oxygen products under licences from UTC, various military cockpit controls, switches and indicators from Ultra Electronics Limited, military and civil avionics products (including cockpit communication control systems) from Racal Acoustics Limited, and provides spare parts for Dart engines under a licence from Rolls Royce.

The directors consider the results of the business to be in line with expectations.

Business review

During the year ended 31 December 2018 the Company has generated £63,150,703 revenue (2017 - £69,112,843).

There have not been any significant changes in the principal activities in the year under review.

The 2018 performance continued to include a significant contribution from the portfolio of legacy avionics products acquired from GE Aviation Systems Limited in December 2016. This business was substantially transitioned into the Company's existing facility over the course of 2017.

On 4 January 2018 the Company acquired a licence for various military and civil avionics products (including cockpit communication control systems) from Racal Acoustics Limited (part of Esterline Corporation) for £3,525,000.

On 6 April 2018 the Company acquired a licence for the integrated pump control and dump valve elements of the gas turbine starter unit for the AV8B Harrier 2 from Goodrich Control Systems (a UTC Aerospace Company) for £750,000.

These acquisitions support the Company's strategy to deliver continued profitable growth in mature avionics and electronics products with high intellectual property content. The Company continues to assess a strong pipeline of opportunities in relation to new products and licence adoptions.

The business holds UK CAA/EASA Part 145 repair station / UK CAA/EASA Part 21G Manufacturing / ISO 9001:2015 and EN 9100:2018 certification from BSI.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Going concern

The Company is profitable with net assets and net current assets and is expected to continue to generate positive cash flows on its own account for the foreseeable future. It has a strong portfolio of geographically diverse customers across its businesses and expects to grow rapidly in the coming years as new licences are acquired. The Company participates in the group's centralised treasury arrangements and so may access the banking arrangements of its parent and fellow subsidiaries should further liquidity become necessary to finance its on-going operations and future development.

The directors, having assessed the responses of the directors of the Company's parent BBA Aviation plc to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the BBA Aviation plc to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of BBA Aviation plc, the Company's directors have a reasonable expectation that the Company has adequate resources to continue in existence undertaking the principal business activity outlined above for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

Financial key performance indicators

Financial Key Performance Indicators (KPIs) are used by the Company on an ongoing basis to assess its performance in relation to a variety of financial measures. These include, but are not limited to:-

Revenue

2018: £63,150,703

2017: £69,112,843

The primary driver behind the reduction in sales in the year compared to 2017 is the conclusion of Boeing 777 production and of F15 indicators under licence from UTC.

Operating Profit

2018: £13,935,078 (22.1%)

2017: £12,375,373 (17.9%)

The most significant reason for the increase in operating profit compared to the prior year (despite reduced revenue) is the change in portfolio mix across the product range.

Working Capital Ratio

2018: 3.04 to 1

2017: 2.75 to 1

The movement in working capital compared to the prior year results from the increase in bank balances (including the amount taken by the Group year end cash sweep), and an increase in inventory levels.

Other key performance indicators

The directors and management of the Company use a variety of other key performance indicators on an ongoing basis, both financial and operational in nature.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

This report was approved by the board on 28 June 2019 and signed on its behalf.

Matthew Pritchard
Director



ONTIC ENGINEERING & MANUFACTURING UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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

Directors' responsibilities statement

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

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

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

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

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

Directors' indemnities

The Company has entered into deeds of indemnity in favour of each of its directors, under which the Company agrees to indemnify each director against liabilities incurred by that director in respect of acts or omissions arising in the course of their office or otherwise by virtue of their office. Please refer to the group financial statements of the ultimate parent company, BBA Aviation plc, for further details.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Principal risks and uncertainties

The key risk facing the Company is further deterioration in the global economy resulting in airlines or airframe manufacturers either reducing their flight schedules and production or ceasing to trade.

The "Brexit" decision of the United Kingdom to leave the European Union continues to cause uncertainty with the economic environment as a whole, however the relative impact on the Company is tempered by the fact that the majority of the Company's exports, and its supply chain, are outside the remainder of the European Union.

The Company carries out a significant proportion of trading in US dollars, which results in the generation of US dollar denominated cash flows and profits. To hedge fluctuations in the US dollar exchange rate, the Company enters into forward foreign exchange contracts that may mature up to three years after the balance sheet date (see note 19 in the financial statements).

The Company also has some cash flows denominated in the Euro currency, but not nearly to the extent of those in US dollars. These are therefore not hedged, hence any Euro exchange rate movements represent a risk to the Company.

The Company has credit risk, which is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Results and dividends

The profit for the year, after taxation, amounted to £10,578,201 (2017 - £9,747,739).

No dividends were proposed or paid during the current or prior year.

Directors

The directors who served during the year, and up to the date of signing the Annual Report and financial statements were:

Gareth Hall
Michael Waters
Matthew Pritchard

Future developments

The directors expect that the present level of growth will continue in the foreseeable future through the acquisition of new licences.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Employee involvement

We encourage all employees to have their say in both formal and informal ways and run specific engagement programmes across the Group to bring our teams closer together and ensure they feel part of the whole. Recognition activities are supported by BBA Aviation's annual Vision, Mission and Values Awards.

The policy of providing employees with information about the Group has been continued through the newsletter 'Blue Flyer'. Monthly meetings are held in which employees are updated on Company initiatives, business performance and community activities.

The Company also carries out employee engagement surveys on a periodic basis, and has an employee forum (composed of a cross section of employees from across various departments) which meets on a regular basis and feeds back to all employees via internal communications.

Employees participate directly in the success of the business through the Company's goal share scheme and are encouraged to invest in the Group through participation in share option schemes.

Disabled employees

The Company is an equal opportunity employer and is committed to developing and maintaining a culture of equality and diversity in which employees are treated equally, whether or not they have a disability.

The Company takes all reasonable steps to employ, train and promote employees on the basis of abilities, qualifications and experience irrespective of any disability. The Company has a duty to make reasonable adjustments to its premises and working practices in order to accommodate disabled employees, including those who become disabled whilst in the Company's employment.

The Company will not condone any discrimination or harassment on the grounds of disability, either from employees or any outside third parties who carry out business with the Company.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

This report was approved by the board on 28 June 2019 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'Matthew Pritchard', written in a cursive style.

Matthew Pritchard
Director

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ONTIC ENGINEERING & MANUFACTURING UK LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- ◆ give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- ◆ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- ◆ have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Ontic Engineering & Manufacturing UK Limited (the 'company') which comprise:

- ◆ the statement of comprehensive income;
- ◆ the balance sheet;
- ◆ the statement of changes in equity;
- ◆ and the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ONTIC ENGINEERING & MANUFACTURING UK LIMITED

stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material 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 in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- ◆ adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- ◆ the financial statements are not in agreement with the accounting records and returns; or

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ONTIC ENGINEERING &
MANUFACTURING UK LIMITED**

- ◆ certain disclosures of directors' remuneration specified by law are not made; or
- ◆ we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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



Andrew Bond FCA (Senior Statutory Auditor)
for and on behalf of
Deloitte LLP
Statutory Auditor
2 New Street Square
London

28 June 2019

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £	2017 £
Turnover	4	63,150,703	69,112,843
Cost of sales		(21,399,758)	(32,340,413)
Gross profit		41,750,945	36,772,430
Administrative expenses		(27,815,867)	(24,397,057)
Operating profit	5	13,935,078	12,375,373
Interest receivable and similar income	9	5,170	74,370
Interest payable and expenses	10	(4,176,219)	(4,144,434)
Profit before tax		9,764,029	8,305,309
Tax on profit	11	814,172	1,442,430
Profit for the financial year		10,578,201	9,747,739
Other comprehensive (loss)/income for the year			
Movement in Cash Flow Hedges		(2,444,479)	3,650,913
Deferred Tax on Cash Flow Hedges		419,643	(664,661)
Other comprehensive (loss)/income for the year		(2,024,836)	2,986,252
Total comprehensive income for the year		8,553,365	12,733,991

There were no recognised gains and losses for 2018 or 2017 other than those included in the statement of comprehensive income.

All results derive from continuing operations.

The accompanying notes are an integral part of this Statement of Comprehensive Income.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED
REGISTERED NUMBER: 06707516

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	12	95,993,250	95,117,503
Tangible assets	13	7,753,854	7,574,676
		<u>103,747,104</u>	<u>102,692,179</u>
Current assets			
Stocks	14	28,091,500	23,027,112
Debtors	15	27,400,654	24,095,430
Cash at bank and in hand	16	1,997,808	880,845
		<u>57,489,962</u>	<u>48,003,387</u>
Creditors: amounts falling due within one year	17	(18,888,995)	(17,434,071)
Net current assets		<u>38,600,967</u>	<u>30,569,316</u>
Total assets less current liabilities		<u>142,348,071</u>	<u>133,261,495</u>
Creditors: amounts falling due after more than one year	18	(78,146,266)	(77,585,723)
Provisions for liabilities			
Deferred tax	20	(10,440,084)	(10,467,416)
		<u>(10,440,084)</u>	<u>(10,467,416)</u>
Net assets		<u>53,761,721</u>	<u>45,208,356</u>
Capital and reserves			
Called up share capital	21	1	1
Foreign exchange reserve	22	(820,820)	1,204,016
Profit and loss account	22	54,582,540	44,004,339
		<u>53,761,721</u>	<u>45,208,356</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



Matthew Pritchard
Director

Date: 28 June 2019

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £	Foreign exchange reserve £	Profit and loss account £	Total equity £
At 1 January 2017	1	(1,782,236)	34,256,600	32,474,365
Comprehensive income for the year				
Profit for the year	-	-	9,747,739	9,747,739
Movement in Cash Flow Hedges	-	3,650,913	-	3,650,913
Deferred Tax - Cash Flow Hedges	-	(664,661)	-	(664,661)
At 1 January 2018	1	1,204,016	44,004,339	45,208,356
Comprehensive income for the year				
Profit for the year	-	-	10,578,201	10,578,201
Movement in Cash Flow Hedges	-	(2,444,479)	-	(2,444,479)
Deferred Tax - Cash Flow Hedges	-	419,643	-	419,643
At 31 December 2018	1	(820,820)	54,582,540	53,761,721

The notes on pages 14 to 35 form part of these financial statements.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information

Ontic Engineering & Manufacturing UK Limited is a private company limited by shares incorporated in the United Kingdom, registered in England.

Its registered office is 3rd Floor, 105 Wigmore Street, London, W1U 1QY.

The directors have taken advantage of the exemption from the requirement to disclose information on the remuneration of key management personnel and related party transactions.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The Company has taken advantage of the exemption under FRS 102 from preparing a cash flow statement as it is a wholly-owned subsidiary of a parent, BBA Aviation plc, which prepares a group cash flow statement in its publically available financial statements.

Copies of the group financial statements of BBA Aviation plc are available from 3rd Floor, 105 Wigmore Street, London W1U 1QY.

The following principal accounting policies have been applied:

2.2 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

If contracts entered into by the Company are subsequently modified from the original terms, these are assessed to ensure that the above criteria remain satisfied and the timing and amount of revenue adjusted according to the conclusion of this assessment.

2.4 Operating leases: the Company as lessee

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

The Company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 01 January 2017 to continue to be charged over the period to the first market rent review rather than the term of the lease.

2.5 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.6 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.7 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

2.8 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.9 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Statement of Comprehensive Income over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The business acquires licences from Original Equipment Manufacturers (OEMs) to become the alternate OEM for that product. The useful life is based on the underlying contract, where that is a determinable period. An annual review is performed to assess the licence's remaining useful life against the vitality of the underlying platform.

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is provided on the cost of software and is calculated on a straight line basis over the useful life of the software.

Intangible assets, other than goodwill, arising on acquisitions are capitalised at fair value. An intangible asset will be recognised as long as the asset is separable or arises from contractual or other legal rights, and its fair value can be measured reliably. Amortisation is provided on the fair value of the asset and is calculated on a straight line basis over its useful life, which typically is the term of the licence or contract.

2.10 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.10 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Short-term leasehold property	- 10 years - 40 years
Plant and machinery	- 10 years
Motor vehicles	- 4 years
Computer equipment	- 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

All capital expenditure is initially recognised as assets under course of construction. Assets under course of construction are measured at historical cost and are not depreciated. When the assets are ready for use, they are transferred at historical cost to their appropriate asset category, from which point depreciation commences and is charged to the Statement of Comprehensive Income over the useful life of the asset.

2.11 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.12 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.13 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.14 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.15 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.16 Taxation

The charge for taxation is based on the profit for the year and comprises current and deferred taxation. Current tax is calculated at tax rates which have been enacted or substantively enacted as at the balance sheet date.

Deferred taxation takes into account taxation deferred due to temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is accounted for using the balance sheet liability method and is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases in the computation of taxable profit.

No provision is made for temporary differences on unremitted earnings of foreign subsidiaries, joint ventures or associates where the Company has control and the reversal of the temporary difference is not foreseeable.

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

Deferred tax is calculated at tax rates which have been enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.17 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

2.18 Financial instruments

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The Company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgments and estimates.

Items in the financial statements where significant judgments have been made are:-

Impairment of intangible assets (licences) and impairment of goodwill analysis is performed at each reporting period. Carrying amount of assets is compared to the recoverable amount of assets being the higher of fair value of the assets less cost to sell and value in use (present value of future cash flows from the use of the asset). Please refer to Note 12.

In September 2018 Ontic Engineering & Manufacturing UK Limited entered into a Military MRO distribution agreement with a third party. The transaction involved initial sale of inventory to enable the distributor to provision for spare parts to repair shops globally, and an ongoing inventory provisioning based on quarterly reviews of market demand. Ontic owns the supply chain for these parts and the third party acts as a global distributor. Ontic expects to purchase some of these parts from the distributor in the future for use in repair operations, with such purchases being priced by reference to the market price at that time. Inventory sold to the distributor is held on consignment at Ontic's location in Cheltenham.

It has been concluded that revenue on these transactions will be recognised in full at the point of sale of the inventory from Ontic to the distributor. This is because risks and rewards in relation to the inventory have been fully passed to the distributor. Among other factors, the distributor is insuring the stock, has full access and control over it; markets the stock and bears risks and rewards with regards to pricing for sales. As such it has been concluded that the sales of the inventory and subsequent potential purchases from the distributor should be accounted for separately.

Items in the financial statements that are a key source of estimation uncertainty are:-

The assessment of the fair value of acquisitions: although the valuation of acquired current assets and liabilities is not a key source of estimation uncertainty, the valuation of non-current assets and liabilities is often dependent on, and sensitive to, long term forecasts of the related cash flows and the discount rates applied. These are in turn dependent on long term forecasts of the performance of the business. As such the valuation of these assets and liabilities is considered to be a key source of estimation uncertainty. Please refer to Note 23.

The excess inventory provision, which is calculated on a quarterly basis to reserve for potential losses on obsolete inventory, requires usage to be forecasted for 10 years to determine excess quantities. Excess parts are quantities on hand in excess of the forecasted years' usage. Active parts are those that are routinely used and/or sold in the normal course of business and are held in such quantities that no reserve is required. However active parts are subject to NRV analysis.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. Turnover

An analysis of turnover by class of business is as follows:

	2018 £	2017 £
Sale of goods	53,140,739	54,759,707
Rendering of services	10,009,964	14,353,136
	<u>63,150,703</u>	<u>69,112,843</u>

Analysis of turnover by country of destination:

	2018 £	2017 £
United Kingdom	18,724,694	31,478,170
Rest of Europe	4,247,727	3,472,588
Rest of the world	40,178,282	34,162,085
	<u>63,150,703</u>	<u>69,112,843</u>

5. Operating profit

The operating profit is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets	799,304	507,350
Amortisation of intangible assets, including goodwill	6,301,045	6,752,629
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	40,000	32,436
Defined contribution pension cost	585,230	329,099
Exchange differences	86,424	(379,618)
Operating lease rentals	189,553	217,835
	<u>189,553</u>	<u>217,835</u>

6. Auditor's remuneration

	2018 £	2017 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	40,000	32,436
	<u>40,000</u>	<u>32,436</u>

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2018 £	2017 £
Wages and salaries	12,631,136	12,217,780
Social security costs	1,278,142	865,843
Cost of defined contribution scheme	585,230	329,099
	<u>14,494,508</u>	<u>13,412,722</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Production	78	43
Distribution	4	3
Administration	174	121
	<u>256</u>	<u>167</u>

Staff costs include the full cost of those employees who transferred from GE Aviation Systems Limited due to the acquisition made in 2016, however headcount reflects the actual starting dates of each employee.

8. Directors' remuneration

	2018 £	2017 £
Directors' emoluments	180,768	193,980
Company contributions to defined contribution pension schemes	2,325	6,162
	<u>183,093</u>	<u>200,142</u>

During the year retirement benefits were accruing to 3 directors (2017 - 3) in respect of defined contribution pension schemes.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

9. Interest receivable and similar income

	2018 £	2017 £
Bank interest receivable	5,170	74,370
	<u>5,170</u>	<u>74,370</u>

10. Interest payable and expenses

	2018 £	2017 £
Interest on loans from group undertakings	4,176,219	4,144,434
	<u>4,176,219</u>	<u>4,144,434</u>

11. Taxation

	2018 £	2017 £
Corporation tax		
Adjustments in respect of previous periods	-	(1,156,401)
	<u>-</u>	<u>(1,156,401)</u>
Total current tax	<u>-</u>	<u>(1,156,401)</u>
Deferred tax		
Prior year adjustment	(240,619)	116,719
Origination and reversal of timing differences	(641,844)	(449,789)
Effect of rate change	68,291	47,041
Total deferred tax	<u>(814,172)</u>	<u>(286,029)</u>
Taxation on loss on ordinary activities	<u>(814,172)</u>	<u>(1,442,430)</u>

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - *lower than*) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	<u>9,764,029</u>	<u>8,305,309</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	1,855,166	1,598,772
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	90,838	66,798
Adjustments to tax charge in respect of prior periods	(240,619)	(1,039,682)
Tax rate changes	68,291	47,041
Group relief	(2,587,848)	(2,115,359)
Total tax charge for the year	<u>(814,172)</u>	<u>(1,442,430)</u>

Factors that may affect future tax charges

For the year ended 31 December 2018 a UK Corporation rate of 19% has been used as enacted by Finance (No.2) Act 2015. The rate is expected to further reduce to 17% from 1 April 2020, which was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax. During the year beginning 1 January 2018, the net reversal of the deferred tax asset is expected to decrease the corporation tax charge for the year by approximately £690,000. This is due to the expected reversal of timing differences associated with accelerated tax depreciation and Intangibles amortisation. The reversal of the other deferred tax assets cannot be reliably estimated.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. Intangible assets

	Licences £	Computer software £	Goodwill £	Total £
Cost				
At 1 January 2018	95,426,582	571,697	19,521,279	115,519,558
Additions	2,214,607	79,185	-	2,293,792
On acquisition of business combination	4,883,000	-	-	4,883,000
At 31 December 2018	<u>102,524,189</u>	<u>650,882</u>	<u>19,521,279</u>	<u>122,696,350</u>
Amortisation				
At 1 January 2018	14,139,100	415,331	5,847,624	20,402,055
Charge for the year	5,253,056	71,925	976,064	6,301,045
At 31 December 2018	<u>19,392,156</u>	<u>487,256</u>	<u>6,823,688</u>	<u>26,703,100</u>
Net book value				
At 31 December 2018	<u><u>83,132,033</u></u>	<u><u>163,626</u></u>	<u><u>12,697,591</u></u>	<u><u>95,993,250</u></u>
At 31 December 2017	<u><u>81,287,482</u></u>	<u><u>156,366</u></u>	<u><u>13,673,655</u></u>	<u><u>95,117,503</u></u>

Licences and goodwill are amortised over a period of up to 20 years. Computer software is amortised over 5 years.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. Tangible assets

	Short-term leasehold property £	Plant and machinery £	Motor vehicles £	Computer equipment £	Assets under course of const- ruction £	Total £
Cost or valuation						
At 1 January 2018	4,471,590	2,119,700	51,544	392,655	3,001,103	10,036,592
Additions	611,766	300,890	-	1,477	77,402	991,535
Disposals	-	-	-	-	(13,052)	(13,052)
Transfers between classes	2,556,018	323,539	-	108,494	(2,988,051)	-
At 31 December 2018	<u>7,639,374</u>	<u>2,744,129</u>	<u>51,544</u>	<u>502,626</u>	<u>77,402</u>	<u>11,015,075</u>
Depreciation						
At 1 January 2018	1,327,257	717,387	35,391	381,881	-	2,461,916
Charge for the year on owned assets	480,366	268,343	5,523	45,073	-	799,305
At 31 December 2018	<u>1,807,623</u>	<u>985,730</u>	<u>40,914</u>	<u>426,954</u>	<u>-</u>	<u>3,261,221</u>
Net book value						
At 31 December 2018	<u>5,831,751</u>	<u>1,758,399</u>	<u>10,630</u>	<u>75,672</u>	<u>77,402</u>	<u>7,753,854</u>
At 31 December 2017	<u>3,144,333</u>	<u>1,402,313</u>	<u>16,153</u>	<u>10,774</u>	<u>3,001,103</u>	<u>7,574,676</u>

14. Stocks

	2018 £	2017 £
Work in progress (goods to be sold)	4,279,305	3,342,309
Finished goods and goods for resale	23,812,195	19,684,803
	<u>28,091,500</u>	<u>23,027,112</u>

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

15. Debtors

	2018 £	2017 £
Due after more than one year		
Foreign exchange forward contracts	274,445	879,195
	<u>274,445</u>	<u>879,195</u>
Due within one year		
Trade debtors	11,217,112	7,868,162
Amounts owed by group undertakings	10,785,484	5,770,378
Other debtors	2,900,923	6,728,263
Prepayments and accrued income	1,415,995	1,311,038
Foreign exchange forward contracts	806,695	1,538,394
	<u>27,400,654</u>	<u>24,095,430</u>

The amounts owed to group undertakings consist of normal intercompany trading balances, and a Group sweep of the Company bank account at year end.

16. Cash at bank and in hand

	2018 £	2017 £
Cash at bank and in hand	1,997,808	880,845
Less: bank overdrafts	(116,170)	-
	<u>1,881,638</u>	<u>880,845</u>

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

17. Creditors: Amounts falling due within one year

	2018 £	2017 £
Bank overdrafts	116,170	-
Payments received on account	2,604,861	1,595,436
Trade creditors	5,455,155	1,844,860
Amounts owed to group undertakings	3,073,232	2,927,430
Other taxation and social security	115,063	71,210
Other creditors	2,736,778	2,489,815
Accruals and deferred income	3,591,167	7,677,319
Foreign exchange forward contracts	1,196,569	828,001
	<u>18,888,995</u>	<u>17,434,071</u>

There has been no security given in respect of any amounts contained within these balances.

The amounts owed to group undertakings consist of normal trading balances and intercompany management fees and recharges.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

18. Creditors: Amounts falling due after more than one year

	2018 £	2017 £
Amounts owed to group undertakings	76,139,143	76,139,143
Other creditors	1,295,736	1,307,611
Foreign exchange forward contracts (after 1 yr)	711,387	138,969
	<u>78,146,266</u>	<u>77,585,723</u>

There has been no security given in respect of any amounts contained within these balances.

The amounts owed to group undertakings consist of two separate loans:-

1) A £36,000,000 loan agreement with BBA Aviation Scottish Limited Partnership, dated 28 March 2014.

This loan is repayable in full on 31 December 2033. Full or partial repayment in advance of this date is not permitted without the prior written consent of the lender.

The loan is subject to quarterly interest payments, at a fixed annual rate of 7.5% throughout the period of the loan.

2) A £47,139,143 loan agreement with BBA Aviation plc, dated 3 January 2017.

This loan is repayable in full on 31 January 2022. Full or partial repayment in advance of this date is allowed at the request of either borrower or lender, subject to giving a notice period of 5 business days.

£7,000,000 of the loan was repaid on 29 June 2017.

The loan is subject to quarterly interest payments, at an annual rate of 3 month GBP LIBOR plus 3%.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

19. Financial instruments

	2018 £	2017 £
Financial assets		
Financial assets measured at fair value through other comprehensive income or profit or loss	3,078,948	3,298,434
Financial assets that are debt instruments measured at amortised cost	24,741,934	19,411,086
Financial assets that are equity instruments measured at cost less impairment	-	-
	<u>27,820,882</u>	<u>22,709,520</u>
Financial liabilities		
Derivative financial instruments measured at fair value through other comprehensive income	(1,907,956)	(966,970)
Other financial liabilities measured at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(92,407,382)	(92,371,537)
	<u>(94,315,338)</u>	<u>(93,338,507)</u>

Financial assets measured at fair value through other comprehensive income or profit or loss comprise bank balances of £1,997,808 measured through profit or loss, and the forward exchange rate contracts used to hedge foreign currency exchange risk (£1,081,140) measured through other comprehensive income.

Financial assets that are debt instruments measured at amortised cost comprise the trade debtors balance, amounts owed by group undertakings, and the customer prepayments/deferred income element of other debtors.

Derivative financial instruments measured at fair value through other comprehensive income comprise of the forward exchange rate contracts used to hedge foreign currency risk.

Financial liabilities measured at amortised cost comprise all elements constituting the creditors balance, excluding the forward rate exchange contracts, corporation tax, payments received on account, other taxation and social security, and the accrued payroll element of other creditors.

In order to comply with the group foreign exchange risk management strategy, the impact of currency fluctuations on the profit and loss account and cashflow is being minimised through the use of foreign currency exchange derivatives. These derivatives are all US dollar contracts included at fair value in the financial statements. The Company has outstanding commitments under forward exchange rate contracts of £38,629,297 (2017 - £47,668,291). These contracts had a fair value of £826,816 liability (2017 - £1,450,619 asset). The weighted average exchange rate of the contracts is 1.3280 US dollars to pound sterling.

The Company uses the derivatives to hedge its exposure to changes in foreign currency exchange rates. The fair values are based on the net present market values of the equivalent instruments at the balance sheet date, based on the latest exchange rates.

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

19. Financial instruments (continued)

The cash flows relating to the hedge accounting are expected to occur over a period of almost 3 years from the balance sheet date, the final hedged contract expected to mature on 26 August 2021.

20. Deferred taxation

	2018 £	2017 £
At beginning of year	(10,467,416)	(9,038,508)
Charged to profit or loss	814,172	286,223
Charged to other comprehensive income	419,643	(664,661)
Arising on business combinations	(1,206,483)	(1,050,470)
At end of year	(10,440,084)	(10,467,416)

The provision for deferred taxation is made up as follows:

	2018 £	2017 £
Accelerated capital allowances	(108,652)	(72,464)
Other	77,749	56,832
Arising on business combinations	(10,582,219)	(10,205,179)
Cash flow hedges	173,038	(246,605)
	(10,440,084)	(10,467,416)

Under Financial Reporting Standard 102, deferred taxation is provided in full on certain timing differences. The Company does not discount provisions.

21. Share capital

	2018 £	2017 £
Authorised, allotted, called up and fully paid		
1 (2017 - 1) Ordinary share of £1.00	1	1

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

22. Reserves

Foreign exchange reserve

This represents the fair value of the forward exchange contracts at the balance sheet date, net of the associated deferred tax.

Profit and loss account

This represents the cumulative profit and loss account at the balance sheet date.

23. Business combinations

On 4 January 2018 the Company acquired a licence for various military and civil avionics products (including cockpit communication control systems) from Racal Acoustics Limited (part of Esterline Corporation) for £3.525m.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value:-

Recognised amounts of identifiable assets acquired and liabilities assumed

	Book value £	Fair value adjustment £	Fair value £
Fixed assets			
Tangible	50,000	(50,000)	-
Intangible	4,883,000	-	4,883,000
	<u>4,933,000</u>	<u>(50,000)</u>	<u>4,883,000</u>
Current assets			
Stocks	275,000	(275,000)	-
Total assets	<u>5,208,000</u>	<u>(325,000)</u>	<u>4,883,000</u>
Creditors			
Due within one year	(528,000)	-	(528,000)
Deferred tax on differences between fair value and tax bases	(830,000)	-	(830,000)
Total identifiable net liabilities	<u>3,850,000</u>	<u>(325,000)</u>	<u>3,525,000</u>
Total purchase consideration			<u>3,525,000</u>

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

23. Business combinations (continued)

The intangible assets associated with this business combination have been estimated as having a useful life of 15 years, and will be amortised accordingly.

Consideration

	£
Cash	(3,525,000)
Total purchase consideration	(3,525,000)

Cash outflow on acquisition

	£
Purchase consideration settled in cash, as above	(3,525,000)
Net cash outflow on acquisition	(3,525,000)

The results of this licence since its acquisition are as follows:

	Current period since acquisition £
Turnover	98,986
Profit for the year	79,473

24. Pension commitments

The Company operates a stakeholder pension contribution scheme for which the pension cost charge for the year amounted to £585,230 (2017 - £329,099). There is a £102,264 outstanding contribution as at the balance sheet date (2017 - £72,455).

ONTIC ENGINEERING & MANUFACTURING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

25. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	333,722	341,064
Later than 1 year and not later than 5 years	1,282,005	1,253,915
Later than 5 years	3,771,105	4,097,300
	<u>5,386,832</u>	<u>5,692,279</u>

26. Controlling Party

The ultimate parent company and controlling party is BBA Aviation plc, a company incorporated in the United Kingdom. BBA Aviation plc is the only company which prepares group financial statements incorporating the financial statements of the Company. These group financial statements are available to the public from the Company Secretary of BBA Aviation plc at 3rd Floor, 105 Wigmore Street, London, W1U 1QY. The immediate parent company is The Guthrie Corporation Limited, a company incorporated in the United Kingdom.

The registered address of both the smallest parent undertaking (The Guthrie Corporation Limited) and the largest parent undertaking (BBA Aviation plc) is 3rd Floor, 105 Wigmore Street, London, W1U 1QY.