# Sector Aircraft Leasing Limited
# Annual Report and Financial Statements
# for the year ended 31 March 2015

**Registered Number 08054634**

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# Company Information

| | |
|---|---|
| **Directors:** | A A Murray<br>P J Roberts |
| **Registered Office:** | Pegasus Business Park<br>Herald Way<br>East Midlands Airport<br>Castle Donington<br>Derbyshire<br>DE74 2TU |
| **Registered Number:** | 08054634 (England and Wales) |
| **Independent Auditors:** | PricewaterhouseCoopers LLP |
| **Solicitors:** | Charles Russell Speechlys<br>Compass House<br>Lypiatt Road<br>Cheltenham<br>Gloucestershire<br>GL50 2QJ |
| **Bankers:** | Royal Bank Of Scotland<br>Nottingham<br>Smiths Bank Branch<br>16, South Parade<br>Nottingham<br>NG1 2JX |

# Strategic Report

The Directors present their strategic report for the year ended 31 March 2015.

**Principal Activities and Business Review**

The Company's principal activity is to lease aircraft. From 1 June 2012, the Company has acted as a lessor of its owned aircraft (being 14 Embraer aircraft) to British Midland Regional Limited, a fellow Group Company, and this is expected to continue.

**Review of Trading Performance**

The Company leases the aircraft to its fellow subsidiary, British Midland Regional Limited, currently at no charge being part of the same wholly owned Group.

The year end financial position remains satisfactory and the Directors expect this financial position to continue for the foreseeable future.

The Directors are pleased to see the aircraft asset valuation at March 2015 be over £10m in excess of the net book value. The Directors are also pleased with the improving performance of British Midland Regional Limited.

**KPI Analysis**

Given the nature of the Company's business, the Directors are of the opinion that the use of KPIs are not necessary for an understanding of the development, performance and position of the business.

**Principal Risks and Uncertainties**

The principal risk facing the business is the decline in the market value of the aircraft type.
As a lessor we ensure that the lessee maintains the aircraft to a high standard, however, ultimate market value is beyond the control of the Company as this is impacted by external factors.

**Signed on behalf of the Board by:**

P J Roberts
Director
23 July 2015

# Directors' Report

The Directors present their report with the Financial Statements of the Company for the year ended 31 March 2015.

**Dividends**
No dividend has been paid or proposed in respect of the year ended 31 March 2015 (2014: nil).

**Future Developments**
Details of the future developments are shown in the business review section of the Strategic Report.

**Directors**
The Directors serving during the year and up to the date of approval of the Financial Statements are as set out below:

A A Murray
P J Roberts (appointed 11 December 2014)
D A Bowden (resigned 24 October 2014)

**Political and Charitable Contributions**
The Company made no political or charitable contributions during the year.

**Director's Indemnities**
A qualifying third party indemnity provision is in place for the Directors of the Company. This is in the form of an insurance policy which covers liability for the actions of Directors and Officers of the Company.

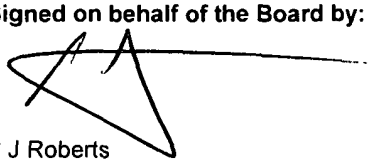
**Disclosure of Information to Auditors**
Each person who is a Director at the date of approval of this report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Auditors**
During the year PricewaterhouseCoopers LLP acted as auditors to the Company, and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

**Signed on behalf of the Board by:**



P J Roberts
Director
23 July 2015

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. On preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

# Independent Auditors' Report to the Members of Sector Aircraft Leasing Limited

## Report on the Financial Statements

### Our Opinion

In our opinion, Sector Aircraft Leasing Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have Audited

The financial statements comprise:

- the balance sheet as at 31 March 2015;
- the profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion, 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.

## Other Matters on which we are required to Report by Exception

### Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

### Directors' Remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the Financial Statements and the Audit

### Our Responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

# Independent Auditors' Report to the Members of Sector Aircraft Leasing Limited

**What an Audit of Financial Statements Involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Hammond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
23 July 2015

# Profit and Loss Account
# For the year ended 31 March 2015

| | Notes | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|---|
| **Exceptional Turnover** | 2 | - | (900) |
| Cost of sales | | (507) | (1,813) |
| **Gross Loss** | | (507) | (2,713) |
| Operating costs | | (4) | (11) |
| **Operating Loss** | 3 | (511) | (2,724) |
| Interest receivable and similar income | 4 | - | 738 |
| Interest payable and similar charges | 5 | (50) | (796) |
| **Loss on Ordinary Activities before Taxation** | | (561) | (2,782) |
| Tax on loss on ordinary activities | 6 | (80) | 1,178 |
| **Loss for the Financial Year** | | (641) | (1,604) |

**Continuing Operations**
None of the company's activities were acquired or discontinued during the current year or previous year.

**Total Recognised Gains and Losses**
The company has no recognised gains or losses other than the losses for the current year or previous year.

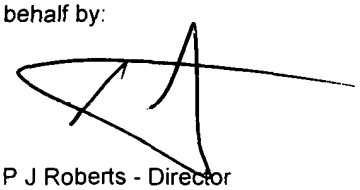
**Note of Historical Cost Profits and Losses**
There is no difference between the results as presented above and the results on a historical cost basis.

# Balance Sheet
# As at 31 March 2015

| | Notes | 31 March 15 £'000 | 31 March 15 £'000 | 31 March 14 £'000 | 31 March 14 £'000 |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Tangible assets | 7 | | 32,913 | | 33,420 |
| **Current Assets** | | | | | |
| Debtors | 8 | 27,303 | | 21,261 | |
| Cash at bank | | 1 | | - | |
| | | 27,304 | | 21,261 | |
| **Creditors** | | | | | |
| Amounts falling due within one year | 9 | (180) | | (2,283) | |
| **Net Current Assets** | | | 27,124 | | 18,978 |
| **Total Assets less Current Liabilities** | | | 60,037 | | 52,398 |
| **Creditors** | | | | | |
| Amounts falling due after more than one year | 10 | | (29,300) | | (21,100) |
| **Provisions for Liabilities** | 11 | | (5,132) | | (5,052) |
| **Net Assets** | | | 25,605 | | 26,246 |
| **Capital and Reserves** | | | | | |
| Called up share capital | 12 | | 22 | | 22 |
| Share premium account | 13 | | 27,487 | | 27,487 |
| Profit and loss account | 13 | | (1,904) | | (1,263) |
| **Shareholders' Funds** | 14 | | 25,605 | | 26,246 |

The notes on pages 9 to 13 form part of these consolidated financial statements.

The financial statements on pages 7 to 13 were approved by the Board of Directors on 23 July 2015 and were signed on its behalf by:



P J Roberts - Director
Director
Company registration number 08054634

# Notes to the Financial Statements

## 1. Accounting Policies

Sector Aircraft Leasing Limited is a limited company which is incorporated and domiciled in the United Kingdom. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

**Basis of Preparation**
The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable UK accounting standards ("UK GAAP"), and the Companies Act 2006

**Cash Flow Statement**
Under FRS 1 the Company is exempt from the requirement to present a cash flow statement as its cash flows are included in the publicly available consolidated financial statements of Sector Aviation Holdings Limited.

**Related Party Disclosures**
As a wholly owned subsidiary of Sector Aviation Holdings Limited, the Company is exempt under FRS 8 from disclosing related party transactions with other wholly owned group companies.

**Turnover**
Turnover represents amounts earned from or refunded to lessees for use of the Company's fixed assets. Revenues are recognised in the period to which lease charges relate on a straight line basis over the period from the lease inception to the nearest break clause.

**Deferred Taxation**
The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. An asset is recognised where its recoverability is assessed as reasonably certain in the foreseeable future. Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

**Foreign Currency Translations**
Monetary assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the balance sheet date or at the contracted rate where applicable. Transactions during the year denominated in foreign currencies are translated using the rate prevailing at the date the transaction occurred, or at the contracted rate where applicable.

**Fixed Assets and Depreciation**
Fixed assets are capitalised at cost and depreciated using a straight line basis calculated to write down their cost to the estimated residual values on the anticipated date of withdrawal from service or disposal.

The aircraft are currently leased to British Midland Regional Limited who are responsible for maintaining the assets and returning them in a reasonable state of repair. Therefore component depreciation is not applicable.

Assets are reviewed for impairment, where impairment indicators are noted.

These estimates are reviewed regularly and adjusted as appropriate.

Depreciation rates:

Asset type

Aircraft - 18 years on a straight line basis

The aircraft are being depreciated to their residual value, which is calculated based upon current values of aircraft component parts. These are reviewed where changes in market values or other circumstances are noted.

**Borrowings**
Non-Interest bearing loans and overdrafts are initially recorded at par value, net of attributable transaction costs.

**Classification of Financial Instruments Issued by the Company**
Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the requirements set out within the standard.

## Notes to the Financial Statements - continued

### 2. Exceptional Turnover

During the prior year a decision was made to issue a full refund to British Midland Regional Limited of £900,000 in respect of leased airframe charges recognised in the period to 31 March 2013, with any historic lease charge being waived and the rental being reduced to a free of charge basis. Given the nature of this change the refund processed in the prior year was considered to be exceptional.

### 3. Operating Loss

The operating loss is stated after charging / (crediting):

| | 31 March 15 | 31 March 14 |
|---|---|---|
| | £'000 | £'000 |
| Depreciation - owned assets | 1,165 | 1,156 |
| Impairment of fixed assets | - | 658 |
| Reversal of impairment | (658) | - |

### 3. Operating Loss - continued

Auditors' remuneration is borne by British Midland Regional Limited and is not recharged.

The Company has no employees other than the Directors. The Directors receive no emoluments in respect of their services to the Company and no amounts are recharged.

### 4. Interest Receivable and Similar Income

| | 31 March 15 | 31 March 14 |
|---|---|---|
| | £'000 | £'000 |
| Waiver of interest previously charged by shareholders | - | 738 |

During the prior year interest charged to group companies in respect of previous years had been refunded, with interest no longer being charged on the loans.

### 5. Interest Payable and Similar Charges

| | 31 March 15 | 31 March 14 |
|---|---|---|
| | £'000 | £'000 |
| Amortisation of issue cost on shareholders loan | 50 | - |
| Waiver of interest previously charged to fellow group companies | - | 796 |
| | 50 | 796 |

During the prior year interest charged by the shareholders in respect of previous years had been refunded, with interest no longer being charged on the loans.

# Notes to the Financial Statements - continued

## 6. Taxation

**Analysis of the tax charge/(credit)**
The tax charge/(credit) on the loss on ordinary activities for the year was as follows:

| | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|
| Deferred tax: | | |
| Total deferred tax (charge)/credit | (80) | 1,178 |
| Tax on loss on ordinary activities | (80) | 1,178 |

UK corporation tax was charged at 21% (23% in 2014)

**Factors affecting the tax charge/(credit)**
The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

| | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | (561) | (2,782) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21% (2014 - 23%) | (118) | (640) |
| Effects of: | | |
| Expenses not deductible for tax purposes | - | 14 |
| Depreciation in excess of capital allowances | 107 | 417 |
| Utilisation of tax losses | - | 209 |
| Transfer pricing adjustment | 811 | - |
| Group relief | (800) | - |
| Current tax charge/(credit) | - | - |

**Factors that may affect future tax charges**

The UK corporation tax rate reduced to 20% from 21% from 1 April 2015. These further changes have been recognised in these financial statements when calculating deferred tax.

## 7. Tangible Fixed Assets

| | Aircraft £'000 |
|---|---|
| **Cost** | |
| At 1 April 2014 and 31 March 2015 | 36,270 |
| **Depreciation** | |
| At 1 April 2014 | 2,850 |
| Charge for the year | 1,165 |
| Reversal of impairment | (658) |
| At 31 March 2015 | 3,357 |
| **Net Book Value** | |
| At 31 March 2015 | 32,913 |
| At 31 March 2014 | 33,420 |

# Notes to the Financial Statements - continued

## 7. Tangible Fixed Assets - continued

The reversal of the impairment charge of £657,000 for the year ended 31 March 2015 was as a result of the market valuation of aircraft appreciating during the year with a market valuation being performed by the International Bureau of Aviation. The uplift in valuation being supported by the company entering into a total care agreement with Rolls Royce for aircraft engines.

A March 2015 valuation of the aircraft showed the market value to be over £10m in excess of the net book value.

## 8. Debtors: Amounts falling due within one year

| | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|
| Amounts owed by group undertakings | 27,042 | 21,000 |
| Other debtors | 261 | 261 |
| | 27,303 | 21,261 |

Amounts owed by group undertakings are unsecured, repayable on demand (although is not expected to be called in the foreseeable future) and are non-interest bearing.

## 9. Creditors: Amounts falling due within one year

| | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|
| Amounts owed to group undertakings | - | 2,103 |
| Other creditors | 180 | 180 |
| | 180 | 2,283 |

Amounts owed to group undertakings are unsecured, repayable on demand and non-interest bearing.

## 10. Creditors: Amounts falling due after more than one year

| | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|
| Shareholder loans | 29,300 | 21,100 |

Shareholder loans have repayment dates up to 1 June 2017, are non-interest bearing and are secured against the tangible fixed assets of the Company.

## 11. Provisions for Liabilities

| | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|
| Deferred tax | | |
| Accelerated capital allowances | 5,132 | 5,052 |

| | Deferred tax £'000 |
|---|---|
| Balance at 1 April 2014 | 5,052 |
| Credit to Profit and Loss Account during the year | (101) |
| Adjustments to previous years | 181 |
| Balance at 31 March 2015 | 5,132 |

Deferred tax has been calculated at 20% (2014: 20%), is undiscounted and is analysed above.

## Notes to the Financial Statements - continued

### 12. Called Up Share Capital

Allotted, issued and fully paid:

| Number: | Class: | Nominal value: | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|---|---|
| 22,000 | Ordinary | £1 | 22 | 22 |

### 13. Reserves

| | Profit and loss account £'000 | Share premium account £'000 | Totals £'000 |
|---|---|---|---|
| At 1 April 2014 | (1,263) | 27,487 | 26,224 |
| Deficit for the year | (641) | - | (641) |
| At 31 March 2015 | (1,904) | 27,487 | 25,583 |

### 14. Reconciliation of Movements in Shareholders' Funds

| | 31 March 15 £'000 | 31 March 14 £'000 |
|---|---|---|
| Loss for the financial year | (641) | (1,604) |
| **Net Reduction of Shareholders' Funds** | (641) | (1,604) |
| Opening shareholders' funds | 26,246 | 27,850 |
| **Closing Shareholders' Funds** | 25,605 | 26,246 |

### 15. Parent and Ultimate Controlling Party

Sector Aviation Holdings Limited is regarded by the Directors as being the company's ultimate parent company.

The Company is a wholly owned subsidiary of Sector Aviation Holdings Limited, a company registered in England and Wales. This company prepares consolidated financial statements which are available from

Pegasus Business Park
Herald Way
East Midlands Airport
Castle Donington
DE74 2TU

The Company's ultimate controlling parties are Mr S W Bond and Mr P J Bond.

### 16. Post Balance Sheet Events

On 1 April 2015 the parent company of Sector Aircraft Leasing Limited, Sector Aviation Holdings Limited, was acquired by Airline Investments Limited which also owns Loganair Limited. Loganair Limited has proudly earned the title of Scotland's Airline and has been providing air travel to its home market within Scotland as well as other destinations within the UK since 1962. It also has a franchise arrangement with Flybe which extends the network of flights on offer far beyond Loganair Limited's local markets. The Directors of the Company are committed to continue the growth of bmi regional into the foreseeable future as a sister airline to Loganair Limited and as an important part of the enlarged airline group under the ownership of Airline Investments Limited.