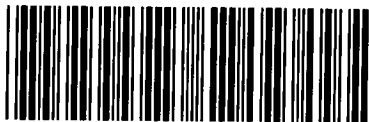


## **Delavan Limited**

**Annual Report  
for the year ended 31 December 2018**

Registered number: 00745611

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## **Delavan Limited**

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## **Delavan Limited**

### **Strategic Report for the year ended 31 December 2018**

The directors present their Strategic Report for the company for the year ended 31 December 2018.

The directors, in preparing this strategic report, have complied with s414C(11) of the Companies Act 2006.

Delavan Limited is principally involved in the manufacture of spray nozzles, systems and associated equipment including the maintenance repairs & overhaul (MRO) of gas turbine fuel nozzles.

The Company is based in Widnes, UK and its registered office is Fore 1, Fore Business Park, Huskisson Way, Shirley, Solihull, West Midlands, B90 4SS.

The Company is a subsidiary of United Technologies Corporation (UTC).

#### **Review of the business**

The company generated an operating profit of £2,888,000 in the year (2017: operating profit of £2,843,000) and the company's sales decreased by 2.98%. The company's results for 2018 show an improvement in market share achieved through focusing on brand awareness and marketing, with particular attention to premium products, in the spray drying, environmental and steel industries. The company also invested in its MRO facility for the overhaul and repair of fuel nozzles. There has been a focused, direct approach to engine shops and airlines to promote Delavan Limited as the European hub.

#### **Key performance indicators**

The key financial and other performance indicators during the year were as follows:

	<b>2018</b>	<b>2017</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Turnover	<b>8,137</b>	8,387	(2.98%)
Operating profit	<b>2,888</b>	2,843	1.58%
Profit for the financial year	<b>3,043</b>	2,823	7.79%
Total shareholders' funds	<b>30,386</b>	30,254	0.44%
Current assets as % of current liabilities	<b>2,253%</b>	2,019%	
Average number of employees	<b>48</b>	47	

#### **Achieving competitive excellence**

The business continues to deploy an operational framework which drives continuous improvement in all areas across the business to ensure that financial and growth targets are met. During 2018 the business delivered on the continuous improvement targets set.

#### **Employee Involvement**

It is the policy of the Company to maintain and develop employees' involvement as outlined in the Directors' Report. We measure our progress through annual employee surveys. The results of the survey showed improved levels of engagement within the organization.

## **Delavan Limited**

### **Strategic Report for the year ended 31 December 2018**

#### **Environmental Matters**

The Company is convinced of the importance of health, safety and the environment to the success of its business and is committed to be an industry leader in its commitment to safety and environmental responsibility. The Company will, on a continuing basis: develop and maintain a culture which recognises the importance of health, safety and the environment to its success and exercise its responsibilities in a manner that reflects this; provide a healthy and safe place of work for all its employees; develop products and operate facilities in a manner that strives to eliminate risk to employees, customers, the environment and the community at large; and improve its performance in health, safety and environmental matters by encouraging the participation, commitment and support of all its employees.

During 2018 the business continued to integrate into the UTC Environment, Health & Safety (EH&S) framework achieving all the milestones targets set within the integration plan.

The company holds an environmental provision associated with an investigation initiated by the UTC Environmental Health and Safety function. The provision covers planned testing, assessment and any preventative or remedial action required.

#### **Principal risks and uncertainties**

The principal non-financial risks and uncertainties facing the Company are broadly grouped as competitive and legislative. The financial risks are discussed in the financial risk management section of the Directors report.

Following the UK's decision to leave the EU following the referendum held on 23 June 2016 and the consequential uncertainty surrounding the UK economy the Directors have carried out a risk assessment. Whilst this is viewed as a low impact to the business, we have set up a team specifically to monitor developments as the post-Brexit landscape evolves and, in particular, to ensure that all potential implications relating to Brexit are considered.

#### **Competitive Risks**

The Company's aerospace MRO business is reliant on new and repeat orders from airframers. Some of the current business is secured for fixed periods of time or volumes, but will be subject to periodic competitive tender. As such, renewal of these contracts is uncertain and based upon financial and performance criteria. The remainder of the industrial business is drop in by nature and while there is no certainty of any future orders from this type of business, the Company has a strong history of securing these orders and growing the business.

#### **Legislative Risks**

All of the work in the MRO side of the business is carried out is subject to standards set by the Civil Aviation Authority (CAA), the European Aviation Safety Agency (EASA) and in some cases the Federal Aviation Authority (FAA). All of these bodies issue regulations which need to be complied with in order to be authorised to carry out maintenance work in the aerospace industry. Compliance imposes costs and failure to comply with the standards could materially affect the Company's ability to operate. To mitigate against these risks for both the MRO and Industrial products the company operates a robust business management system which ensures adherence to the regulatory standards through procedures, standard work and policies. This is supported by a strong audit program through self-assessment and within the UTC group audit function.

## **Delavan Limited**

### **Strategic Report for the year ended 31 December 2018**

#### **Future developments**

The directors expect the general level of activity to increase in the forthcoming year.

On November 26, 2018 the ultimate parent undertaking and controlling party, United Technologies Corporation, announced its intention to separate into three independent companies: (1) UTC, an aerospace company comprised of the Collins Aerospace Systems and Pratt & Whitney businesses, (2) Otis, and (3) Carrier.

The proposed separations are expected to be effected through spin-offs by UTC of Otis and Carrier that are intended to be tax-free for the Company's shareowners for U.S. federal income tax purposes.

The Company expects to complete the separation transaction by mid-year 2020.

#### **Events after the balance sheet date**

Details of significant events since the balance sheet date are contained in note 22 to the financial statements.

#### **Approval**

Approved by the Board and signed on its behalf by:



M Williams  
Director

30 July 2019

Fore 1, Fore Business Park,  
Huskisson Way,  
Shirley, Solihull,  
West Midlands,  
B90 4SS.

## **Delavan Limited**

### **Directors' Report for the year ended 31 December 2018**

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

#### **Future developments and events after the balance sheet date**

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

#### **Going concern**

The directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the accounting policies in the financial statements.

#### **Financial risk management objectives and policies**

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk, foreign currency risk and liquidity risk. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks.

##### *Cash flow risk*

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures.

Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

##### *Credit risk*

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

The Company's credit risk is primarily attributable to its trade debtors. 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 the 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.

##### *Liquidity risk*

To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term debt finance. All borrowing facilities are centrally managed through a cash-pooling arrangement.

# **Delavan Limited**

## **Directors' Report for the year ended 31 December 2018**

### **Financial risk management objectives and policies (continued)**

#### *Liquidity risk (continued)*

The Company buys and sells goods and services denominated in currencies other than sterling. As a result, the value of the business's non-sterling denominated revenues, purchases, financial assets and liabilities and cash flows can be affected significantly by movements in exchange rates in general and in US Dollar rates in particular.

The Company holds monetary assets and liabilities in which the underlying currency is a currency other than the Company's functional currency. In line with Generally Accepted Accounting Principles these monetary assets and liabilities are revalued at each month end to the closing balance sheet rate. These revaluations give rise to foreign exchange gains or losses which are taken through the profit and loss account in the month in which they arise.

### **Modern Slavery Act**

The Company is committed to ensuring slavery and human trafficking are not taking place in its business or supply chains. To this end the Company has published a statement for the Reporting Period at [www.utcaerospacesystems.com](http://www.utcaerospacesystems.com).

### **Dividends**

The company paid an interim dividend of £2,823,000 with no other dividend being proposed or paid in the year (2017: £nil).

### **Directors**

The directors, who served throughout the year and up to the date of signing the financial statements were as follows:

M Williams  
A McHugh  
R Hudson (Resigned 30 July 2019)  
K Kinsley (Appointed 30 July 2019)

### **Directors' indemnities**

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### **Employee consultation**

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through monthly all staff briefings, formal and informal meetings, the Company magazine and a special edition for employees of the annual financial statements. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

## **Delavan Limited**

### **Directors' Report for the year ended 31 December 2018**

#### **Statement of directors' responsibilities in respect of the financial statements**

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, 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 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.

The directors 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.

#### **Statement of disclosure of information to auditors**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the 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 company's auditors are aware of that information.



## **Delavan Limited**

### **Directors' Report for the year ended 31 December 2018**

#### **Independent Auditors**

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



M Williams  
Director  
30 July 2019

Fore 1, Fore Business Park,  
Huskisson Way,  
Shirley,  
Solihull,  
West Midlands,  
B90 4SS.

**Independent auditors' report to the members of Delavan Limited**

**Report on the audit of the financial statements**

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**Opinion**

In our opinion, Delavan Limited's 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 (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- 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 balance sheet as at 31 December 2018; the profit and loss account; the statement of comprehensive income; the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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**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 company 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.

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**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 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 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 company's trade, customers, suppliers and the wider economy.

## **Independent auditors' report to the members of Delavan Limited**

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### **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.

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 company and its 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 Statement of directors' responsibilities in respect of the financial statements set out on page 6, 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 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.

#### *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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Independent auditors' report to the members of Delavan Limited**

*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.

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**Other required reporting**

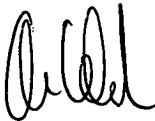
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**Companies Act 2006 exception reporting**

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Alan Walsh (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
East Midlands

31 July 2019

# Delavan Limited

## Profit and Loss Account For the year ended 31 December 2018

	<i>Note</i>	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Turnover</b>	<b>3</b>	<b>8,137</b>	<b>8,387</b>
Cost of sales		<b>(3,821)</b>	<b>(3,950)</b>
<b>Gross profit</b>		<b>4,316</b>	<b>4,437</b>
Administrative expenses		<b>(1,428)</b>	<b>(1,594)</b>
<b>Operating profit</b>		<b>2,888</b>	<b>2,843</b>
Interest receivable and similar income	<b>4</b>	<b>546</b>	<b>409</b>
Interest payable and similar expenses	<b>5</b>	<b>(416)</b>	<b>(428)</b>
<b>Profit before taxation</b>	<b>6</b>	<b>3,018</b>	<b>2,824</b>
Tax on profit	<b>10</b>	<b>25</b>	<b>(1)</b>
<b>Profit for the financial year</b>		<b>3,043</b>	<b>2,823</b>

All results are derived from continuing operations.

**Delavan Limited****Statement of comprehensive income  
For the year ended 31 December 2018**

	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Profit for the financial year</b>	<b>3,043</b>	<b>2,823</b>
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (loss)/ gain on pension scheme	<b>(179)</b>	<b>408</b>
Income tax relating to items not reclassified:		
- movement on deferred tax relating to pension surplus	<b>30</b>	<b>(69)</b>
<b>Other comprehensive (expense)/ income for the year net of tax</b>	<b>(149)</b>	<b>339</b>
<b>Total comprehensive income for the year</b>	<b>2,894</b>	<b>3,162</b>

**Balance sheet**  
**As at 31 December 2018**

	<i>Note</i>	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
<b>Fixed assets</b>			
Tangible assets	<b>11</b>	<b>703</b>	<b>635</b>
		<b>703</b>	<b>635</b>
<b>Current assets</b>			
Stocks	<b>12</b>	<b>585</b>	<b>745</b>
Debtors	<b>13</b>	<b>33,342</b>	<b>33,049</b>
Creditors: Amounts falling due within one year	<b>14</b>	<b>(1,506)</b>	<b>(1,674)</b>
<b>Net current assets</b>		<b>32,421</b>	<b>32,120</b>
<b>Total assets less current liabilities</b>		<b>33,124</b>	<b>32,755</b>
Creditors: amounts falling due after more than one year	<b>14</b>	<b>(1,879)</b>	<b>(1,879)</b>
<b>Provisions for liabilities</b>			
Other provisions	<b>16</b>	<b>(2,169)</b>	<b>(2,228)</b>
Pensions and similar obligations	<b>19</b>	<b>1,310</b>	<b>1,606</b>
<b>Net assets</b>		<b>30,386</b>	<b>30,254</b>
<b>Equity</b>			
Called up share capital	<b>17</b>	<b>50</b>	<b>50</b>
Non-distributable reserves		<b>16</b>	<b>16</b>
Profit and loss account		<b>30,320</b>	<b>30,188</b>
<b>Total Shareholders' funds</b>		<b>30,386</b>	<b>30,254</b>

The notes on pages 15 to 40 form part of these financial statements

The financial statements on pages 11 to 40 were approved by the board of directors on 30 July 2019 and were signed on its behalf by:



M Williams  
Director

# Delavan Limited

## Statement of changes in equity For the year ended 31 December 2018

	Called up share capital (Note 17) £'000	Non- distributable Reserves £'000	Profit and loss account £'000	Total Shareholders' funds £'000
<b>Balance at 1 January 2017</b>	<b>50</b>	<b>16</b>	<b>27,026</b>	<b>27,092</b>
Profit for the financial year	-	-	2,823	2,823
Other comprehensive income/(expense) for the year:				
- Actuarial gain on pension scheme (note 19)	-	-	408	408
- Deferred tax on pension scheme (note 15)	-	-	(69)	(69)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>3,162</b>	<b>3,162</b>
<b>Balance at 31 December 2017</b>	<b>50</b>	<b>16</b>	<b>30,188</b>	<b>30,254</b>
Change in accounting policy (note 21)	-	-	61	61
<b>Restated balance as at 31 December 2017</b>	<b>50</b>	<b>16</b>	<b>30,249</b>	<b>30,315</b>
Profit for the financial year	-	-	3,043	3,043
Other comprehensive (expense)/income for the year:				
- Actuarial loss on pension scheme (note 19)	-	-	(179)	(179)
- Deferred tax on pension scheme (note 15)	-	-	30	30
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>2,894</b>	<b>2,894</b>
Dividends (note 18)	-	-	(2,823)	(2,823)
<b>Balance at 31 December 2018</b>	<b>50</b>	<b>16</b>	<b>30,320</b>	<b>30,386</b>



# **Delavan Limited**

## **Notes to the financial statements For the year ended 31 December 2018**

### **1. Accounting policies**

Delavan Limited ('the company') is principally involved in the manufacture of spray nozzles, systems and associated equipment including the maintenance of gas turbine fuel nozzles.

The company is a private limited company, limited by shares, and is incorporated and domiciled in England, United Kingdom. The address of its registered office is Fore 1, Fore Business Park, Huskisson Way, Shirley, Solihull, West Midlands, B90 4SS.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and all the years presented, unless otherwise stated.

#### **Basis of accounting**

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements are therefore prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The financial statements have been prepared on a going concern basis and also under the historical cost convention.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

**Notes to the financial statements  
For the year ended 31 December 2018**

**1. Accounting policies (continued)**

As permitted by FRS 101, the company has taken advantage of some of the disclosure exemptions available under that standard. The key exemptions taken are as follows:

IFRS 3 - not to restate business combinations before the date of transition

IFRS 7 – financial instrument disclosures

IFRS 13 - disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities

IAS 1 – Information on management of capital

IAS 7 – statement of cash flows

IAS 8 - disclosures in respect of new standards and interpretations that have been issued but are not yet effective

IAS 24 - disclosure of key management compensation and for related party disclosures entered into between two or more members of a group;

IAS 1 - the requirement to present roll forward reconciliations in respect of share capital and

IAS 16 - the requirement to present roll forward reconciliations in respect of property, plant and equipment

IFRS 15 – paragraphs 110b, 113a, 114, 115, 118, 119 a-c, 121-127, 129

Where required, equivalent disclosures are given in the group financial statements of United Technology Corporation.

The group financial statements of United Technologies Corporation are available to the public and can be obtained as set out in note 23.

**Adoption of new and revised Standards**

The company has applied IFRS 15 "Revenue from Contracts with Customers (which replaces IAS 18 "Revenue") and IFRS 9 "Financial Instruments" (which replaces IAS 39 "Financial Instruments") for the first time for the reporting period commencing 1 January 2018.

The company has adopted the modified respective approach for IFRS 15, with £61,000 being the brought forward restatement to reserves. IFRS 9 did not have a material impact on the company.

**Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The strategic report also describes the financial position of the Company; its cash flows, liquidity position and borrowing facilities; the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

The Company meets its day to day working capital requirements through a cash-pooling arrangement which is centrally managed by its ultimate parent undertaking.

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

**Notes to the financial statements  
For the year ended 31 December 2018**

**1. Accounting policies (continued)**

**Tangible assets**

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost. Depreciation on buildings is charged to the Profit and Loss Account.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset, less any residual value, on a straight-line basis over its expected useful life, as follows:

Freehold land and buildings	over the length of the lease on a straight line basis
Plant, machinery and vehicles	3-10 years on a straight line basis
Fixtures, fittings and office equipment	3-10 years on a straight line basis
Construction in progress	no depreciation charge until transferred to appropriate class of asset upon completion

Useful lives are reviewed, and adjusted if appropriate, at the end of every reporting period.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

**Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net 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.

Deferred tax 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 used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

**Notes to the financial statements  
For the year ended 31 December 2018**

**1. Accounting policies (continued)**

**Taxation (continued)**

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 the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Current tax and deferred tax for the year**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when performance obligations have been satisfied or when the goods or services have transferred to the customer and the customer has control of these. The company's activities are described in detail below.

**Sale of goods**

The company manufactures and sells a range of spray nozzles, systems and associated equipment. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the company has objective evidence that all criteria for acceptance have been satisfied.

**Notes to the financial statements  
For the year ended 31 December 2018**

**1. Accounting policies (continued)**

**Over time revenue recognition**

Performance obligations are satisfied over-time if the customers receives the benefits as we perform work, if the customer controls the asset being worked on, or if the product being produced for the customer has no alternative use and we have a contractual right to payment. Revenue is recognised for our maintenance, repairs and overhaul contracts on an over time basis using the cost incurred to represent work performed which corresponds with and best depicts transfer of control to the customer. Costs include labour, materials, and other direct costs.

**Interest receivable and similar income**

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Pension costs**

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net-interest expense or income; and
- remeasurement.

The company presents the first two components of defined benefit costs within administrative expenses in its profit and loss account. Curtailments gains and losses are accounted for as past-service cost.

Interest expense or income is recognised within finance costs and interest receivable (see note 4 and 5).

**Dividend distribution**

Dividend distributions to the company's shareholders are recognized as liabilities in the company's financial statements in the period in which they are approved and paid.

**Notes to the financial statements  
For the year ended 31 December 2018**

**1. Accounting policies (continued)**

**Foreign currency**

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments).

**Interest Payable and similar expenses**

As explained below, where financial liabilities are measured at amortised cost using the effective interest method, interest expense is recognised on an effective yield basis in profit or loss within interest payable and similar expenses.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

**Financial Assets**

Financial assets are classified into the following specified categories: at fair value through profit or loss (FVTPL); and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***Financial assets at fair value through profit or loss or at fair value through other comprehensive Income***

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the company has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the company considers this classification to be more relevant.
- Debt securities where contractual cash flows are solely principal and interest and the objective of the company's business model is achieved both by collecting contractual cash flows and selling financial assets

**Notes to the financial statements  
For the year ended 31 December 2018**

**1. Accounting policies (continued)**

***Financial assets at amortised cost***

The company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

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

The following financial assets are classified at fair value through profit or loss (FVPL):

- debt investments that do not qualify for measurement at either amortised cost
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

**Impairment of financial assets**

***Assets carried at amortised cost***

The company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired.

**Trade and other receivables**

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as noncurrent assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The group has concluded that the expected loss rates for trade and other receivables are a reasonable approximation of the loss rates.

**Notes to the financial statements  
For the year ended 31 December 2018**

**1. Accounting policies (continued)**

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are discounted where the impact of discounting is material.

**2. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Critical judgements in applying the company's accounting policies***

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

**Defined Benefit Pension Scheme**

The Company participates in a group defined benefit scheme for qualifying employees (the UTC (UK) Pension Scheme). Under the scheme, the employees are entitled to retirement benefits varying between 1% and 67% per cent of final salary on attainment of a retirement age of 65.

The company has an obligation to pay pension benefits to certain employees. The costs of these benefits and the present value of the obligations depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 19 for the disclosures of the defined benefit scheme.



**Notes to the financial statements  
For the year ended 31 December 2018**

**2. Critical accounting judgements and key sources of estimation uncertainty (continued)**

***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Useful economic lives of properties, plant and equipment**

The annual depreciation charge for property, plant and equipment is sensitive to changes in estimated useful economic lives of the assets. The useful lives of the assets are assessed on an annual basis and are amended when necessary to reflect current estimates. See note 11 for the carrying amount for the property, plant and equipment, and note 1 for the useful economic lives for each class of assets.

**Stock provisioning**

The company supplies, installs and maintains fire and security equipment which are subject to changing customer demands and technological change. As a result it is necessary to consider the recoverability of the cost of the inventory and the associated provisioning required. Management considers the nature and condition of inventory, as well as applies assumptions around expected future demand for the inventory, when calculating the level of inventory provisioning. See note 12 for the net carrying value of inventory and associated provision.

# Delavan Limited

## Notes to the financial statements For the year ended 31 December 2018

### 3. Turnover

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

	2018 £'000	2017 £'000
<b>Continuing operations</b>		
Sales of goods	5,812	5,771
Sales of services	2,325	2,616
	<b>8,137</b>	<b>8,387</b>

An analysis of the Company's turnover by class of business is set out below:

	2018 £'000	2017 £'000
<b>Turnover:</b>		
Spray Nozzles	5,958	5,771
Gas Turbines	2,179	2,616
	<b>8,137</b>	<b>8,387</b>

An analysis of the Company's turnover by geographical market is set out below.

	2018 £'000	2017 £'000
<b>Turnover:</b>		
United Kingdom	1,200	1,020
Rest of Europe	2,753	3,390
North America	2,352	2,271
Rest of World	1,832	1,706
	<b>8,137</b>	<b>8,387</b>

### 4. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from group companies	233	99
Pension interest income - return on assets (note 19)	313	310
	<b>546</b>	<b>409</b>

# Delavan Limited

## Notes to the financial statements For the year ended 31 December 2018

### 5. Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest payable to group companies	138	147
Pension interest expense – defined benefit obligation (note 19)	278	281
	<b>416</b>	<b>428</b>

### 6. Profit before taxation

Profit before taxation is stated after (crediting)/ charging:

	2018 £'000	2017 £'000
Net foreign exchange (gain) / loss	(16)	61
Depreciation of tangible assets:		
- owned	130	79
Amount of stock recognised as an expense	3,102	3,136
Staff costs (note 8)	2,011	1,903

### 7. Auditors' remuneration

Fees payable to PricewaterhouseCoopers LLP and their associates for the audit of the company's annual financial statements were £28,900 (2017: £28,900).

Fees payable to PricewaterhouseCoopers LLP and their associates for non-audit services to the company were £nil (2017: £nil).

# Delavan Limited

## Notes to the financial statements For the year ended 31 December 2018

### 8. Staff costs

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Engineering	4	4
Production	19	20
Administration	25	23
	<b>48</b>	<b>47</b>

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	1,464	1,449
Social security costs	141	135
Other pension costs (note 19)	406	319
	<b>2,011</b>	<b>1,903</b>

### 9. Directors' remuneration and transactions

	2018 £'000	2017 £'000
<b>Directors' remuneration</b>		
Emoluments	129	116
Company contributions to money purchase pension schemes	20	18
	<b>149</b>	<b>134</b>

	2018 Number	2017 Number
<b>The number of directors who are:</b>		
Members of a defined contribution pension scheme	1	1

Two of the directors of the company (2017: 2) are also directors of other group undertakings and their remuneration, including share based payment charges, for the year was paid by other undertakings.

The highest paid director did not exercise any share options in the year and had no shares receivable under long-term incentive schemes.

# Delavan Limited

## Notes to the financial statements For the year ended 31 December 2018

### 10. Tax on profit

Tax expense included in profit or loss:

	2018 £'000	2017 £'000
<b>Total current tax</b>	-	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	(24)	6
Impact of change in tax rate	-	-
Adjustment in respect of prior years	(1)	(5)
<b>Total deferred tax (see note 15)</b>	(25)	1
<b>Total tax on profit</b>	(25)	1

Tax expense for the year is lower (2017: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
<b>Profit before taxation</b>	<b>3,018</b>	<b>2,824</b>
Tax on profit at standard UK corporation tax rate of 19% (2017: 19.25%)	<b>574</b>	544
Effects of:		
Expenses not deductible for tax purposes	-	-
Adjustment in respect of prior years	(1)	(5)
Group relief (receivable)/surrendered for no payment	(600)	(538)
Rate differential on temporary differences	2	-
<b>Total tax charge for the year</b>	<b>(25)</b>	<b>1</b>

The tax charge in future periods may be affected by:

Claims for capital allowances are running in advance of depreciation. Whether this continues to be the case depends on the level of capital allowance claims in the future and the level of future investment in fixed assets.

**Notes to the financial statements**  
**For the year ended 31 December 2018**

**10. Tax on profit (continued)**

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

**11. Tangible assets**

	Freehold Land and buildings	Plant, machinery and vehicles	Fixtures, fittings and office equipment	Construction in progress	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2017	968	2,709	449	89	4,215
Additions	9	47	14	-	70
Disposals	-	-	-	-	-
Transfer between classes	-	89	-	(89)	-
At 31 December 2017	977	2,845	463	-	4,285
Additions	-	179	-	20	199
Disposals	-	(76)	(8)	-	(84)
At 31 December 2018	977	2,948	455	20	4,400
<b>Accumulated depreciation</b>					
At 1 January 2017	932	2,222	417	-	3,571
Depreciation	2	61	16	-	79
Disposals	-	-	-	-	-
At 31 December 2017	934	2,283	433	-	3,650
Depreciation	1	119	10	-	130
Disposals	-	(76)	(7)	-	(83)
At 31 December 2018	935	2,326	436	-	3,697
<b>Net book value</b>					
At 31 December 2018	42	622	19	20	703
At 31 December 2017	43	562	30	-	635

## Delavan Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 12. Stocks

	2018 £'000	2017 £'000
Raw materials	286	315
Work in progress	24	155
Finished goods and goods for resale	275	275
	<b>585</b>	<b>745</b>

In the opinion of the Directors the difference between the purchase price or production cost of stocks and their replacement cost is not material. There is a provision of £86,217 (2017: £75,577) over stock held.

#### 13. Debtors

##### Amounts falling due within one year:

	2018 £'000	2017 £'000
Trade receivables	1,124	1,003
Amounts owed by group undertakings	31,490	31,403
Other receivables	128	60
VAT	84	136
Deferred tax asset (note 15)	460	420
Prepayments and accrued income	56	27
	<b>33,342</b>	<b>33,049</b>

Loans to other group companies mature on a monthly basis and are renewable at a variable interest rate. No interest is charged on inter-company trading balances. There are no securities held for non-trading balances with group undertakings.

Trade receivables are stated after provision for impairment of £35,992 (2017: £20,960).

**Notes to the financial statements  
For the year ended 31 December 2018**

**14. Creditors**

**Creditors: amounts falling due within one year**

	<b>2018 £'000</b>	<b>2017 £'000</b>
Trade creditors	<b>354</b>	320
Amounts owed to group undertakings	<b>1,048</b>	1,204
Accruals and deferred income	<b>104</b>	150
	<b>1,506</b>	1,674

Loans from the ultimate parent company and other group undertakings are repayable on demand and interest bearing.

No interest is charged on inter-company trading balances. There are no securities held for non-trading balances with group undertakings.

**Creditors: amounts falling due after more than one year**

	<b>2018 £'000</b>	<b>2017 £'000</b>
Amounts owed to group undertakings	<b>1,879</b>	1,879
	<b>1,879</b>	1,879

**15. Taxation, including deferred tax**

The analysis of deferred tax assets/ (liabilities) is as follows:

	<b>2018 £'000</b>	<b>2017 £'000</b>
Deferred tax assets due after more than 12 months	<b>460</b>	420
Deferred tax liabilities due after more than 12 months	<b>(17)</b>	(19)
Total deferred tax asset due after more than 12 months	<b>443</b>	401
Net deferred tax asset	<b>443</b>	401



## Delavan Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 15. Taxation, including deferred tax (continued)

The movement in deferred tax is as follows:

Deferred tax asset:

	<b>Accelerated tax depreciation £'000</b>	<b>Other timing differences £'000</b>	<b>Retirement benefit obligations £'000</b>	<b>Total £'000</b>
At 1 January 2017	<b>(19)</b>	<b>380</b>	<b>110</b>	<b>471</b>
(Charged)/ credited to profit and loss account	-	(4)	3	(1)
(Charged)/ credited to other comprehensive income	-	-	(69)	(69)
At 31 December 2017	<b>(19)</b>	<b>376</b>	<b>44</b>	<b>401</b>
Change in accounting policy (note 21)	-	(13)	-	(13)
Restated balance at 1 January 2018	<b>(19)</b>	<b>363</b>	<b>44</b>	<b>388</b>
(Charged)/ credited to profit and loss account	2	3	20	25
(Charged)/ credited to other comprehensive income	-	-	30	30
At 31 December 2018	<b>(17)</b>	<b>366</b>	<b>94</b>	<b>443</b>

# Delavan Limited

## Notes to the financial statements For the year ended 31 December 2018

### 16. Provisions for liabilities

	Deferred tax liability £'000	Environmental £'000	Total £'000
At 1 January 2017	-	2,234	2,234
Amounts utilised	-	(25)	(25)
Additions	19	-	19
At 31 December 2017	19	2,209	2,228
Amounts utilised	(2)	(57)	(59)
At 31 December 2018	17	2,152	2,169

### Environmental

A provision has been established for the costs associated with an investigation initiated by the UTC Environment Health and Safety function. The provision covers planned testing, assessment and any resulting preventative or remedial action required based on initial findings.

### 17. Called up share capital

	2018 £'000	2017 £'000
<b>Allotted and fully-paid</b>		
50,000 (2017: 50,000) ordinary shares of £1 each	50	50

### 18. Dividends

Amounts recognised as distributions to equity shareholders in the year:

	2018 £'000	2017 £'000
Interim dividend for the year ended 31 December 2018 of £56.46p (2017: £nil) per £1 ordinary share	2,823	-
	2,823	-

**Notes to the financial statements  
For the year ended 31 December 2018**

**19. Retirement benefit schemes**

**Defined contribution schemes**

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The total cost charged to profit and loss account of £39,000 (2017: £40,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 31 December 2018, contributions of £nil (2017: £nil) were due in respect of the current reporting year had not been paid over to the schemes.

**Defined benefit schemes**

The company has a defined benefit scheme "UTC (UK) Pension Scheme" for qualifying employees. The defined benefit scheme is administered by a separate fund that is legally separated from the company. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

Under the Goodrich Section, the majority of employees are entitled to post-retirement yearly instalments amounting to 1.25% of final pensionable pay for each complete month and year of pensionable employment plus any flat pension to which they are entitled on attainment of a normal retirement age of 65 (although some benefits may be taken at an earlier age). The pensionable salary is based on annual rate of a member's basic pay.

The scheme typically exposes the company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk. The risk relating to benefits to be paid to the dependents of scheme members is re-insured by an external insurance company.

**Notes to the financial statements**  
**For the year ended 31 December 2018**

**19. Retirement benefit schemes (continued)**

Asset volatility	The present value of the defined benefit scheme liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on scheme asset is below this rate, this could lead to deterioration in the Scheme's funding level, all other things being equal. Currently the scheme has a relatively balanced investment in equity securities, debt instruments and real estate. Due to the long-term nature of the scheme liabilities, the trustees of the pension fund consider it appropriate that a reasonable portion of the scheme assets should be invested in equity securities and in real estate to leverage the expected return generated by the fund.
Change in bond yields	A decrease in the bond interest rate will increase the scheme liability but this could be expected to be partially offset by an increase in the return on the scheme's debt investments.
Life expectancy	The present value of the defined benefit scheme liability is calculated by reference to the best estimate of the mortality of scheme participants both during and after their employment. An increase in the life expectancy of the scheme participants will increase the scheme's liability.
Salary risk	The present value of the defined benefit scheme liability is calculated by reference to the future salaries of scheme participants. As such, an increase in the salary of the scheme participants will increase the scheme's liability.
Inflation risk	The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the scheme against extreme inflation). Elements of the scheme's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation could also lead to deterioration in the funding position.

No other post-retirement benefits are provided to these employees.

A full accounting valuation of the Goodrich Section of the UTC (UK) Pension Scheme as at 31 December 2017 was carried out by Willis Towers Watson, an Independent firm of actuaries, using the projected unit method. This valuation was updated as at 31 December 2018 by Willis Towers Watson.

The next full accounting valuation of the Goodrich Section is due as at 31 December 2020. A separate valuation is performed for cash funding.

# Delavan Limited

## Notes to the financial statements For the year ended 31 December 2018

### 19. Retirement benefit schemes (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018 %	2017 %
Key assumptions used:		
Discount rate(s)	2.81	2.55
Expected rate(s) of salary increase	3.00	3.00
Rate of inflation	3.25	3.25
Expected rate of increase of pensions in payment	3.30	3.30
Average longevity at age 65 for current pensioners (years)*		
Male	21.2	21.1
Female	23.7	23.7
Average longevity at age 65 for current employees (future pensioners) (years)*		
Male	22.6	22.8
Female	25.2	25.6

\* Based on standard mortality table with modifications to reflect expected changes in mortality.

Amounts recognized in profit and loss in respect of these defined benefit schemes are as follows:

	2018 £'000	2017 £'000
Service cost:		
Current service cost	330	253
Past service costs – plan amendments	11	-
Administration cost	26	26
Interest income	(35)	(29)
	<b>332</b>	<b>250</b>

Of the expense for the year, £367,000 (2017: £279,000) has been included in the profit and loss account as administrative expenses. The net interest expense has been included within interest payable and receivable (see notes 4 and 5). The re-measurement of the net defined benefit liability is included in the statement of comprehensive income.

## Delavan Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 19. Retirement benefit schemes (continued)

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2018 £'000	2017 £'000
Present value of defined benefit obligations	(10,745)	(10,696)
Fair value of scheme assets	12,055	12,302
Net surplus	1,310	1,606

Movements in the present value of defined benefit obligations in the year were as follows:

	2018 £'000	2017 £'000
Opening defined benefit obligation	10,696	10,189
Current service cost	330	253
Interest cost	278	281
Plan participants' contributions	-	2
Past service costs – plan amendments	11	-
Re-measurement (gains)/losses:		
Actuarial gains and losses arising from changes in demographic assumptions	(132)	-
Actuarial gains and losses arising from changes in financial assumptions	(566)	249
Actuarial gains and losses arising from experience adjustments	341	-
Benefits paid	(213)	(278)
Closing defined benefit obligation	10,745	10,696

**Notes to the financial statements  
For the year ended 31 December 2018**

**19. Retirement benefit schemes (continued)**

Movements in the fair value of scheme assets in the year were as follows:

	<b>2018</b> <b>£'000</b>	2017 £'000
Opening fair value of scheme assets	<b>12,302</b>	11,407
Interest income	<b>313</b>	310
Return on plan assets less than discount rate	<b>(536)</b>	657
Contributions from the employer	<b>215</b>	230
Plan participants' contributions	-	2
Other contributions	-	-
Benefits paid	<b>(213)</b>	(278)
Administrative costs paid	<b>(26)</b>	(26)
Closing fair value of scheme assets	<b>12,055</b>	12,302

The major categories and fair values of scheme assets at the end of the reporting year for each category are as follows:

	<b>2018</b> <b>£'000</b>	2017 £'000
Cash and cash equivalents	<b>325</b>	1,624
Equity instruments	<b>2,532</b>	2,522
Debt instruments	<b>5,533</b>	4,133
Property	<b>362</b>	320
Other	<b>3,303</b>	3,703
Total	<b>12,055</b>	12,302

The actual return on scheme assets was £313,000 (2017: £310,000).

**Notes to the financial statements  
For the year ended 31 December 2018****19. Retirement benefit schemes (continued)**

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.1%	Decrease 2%	Increase 2%
Salary growth rate	1%	Increase 3%	Decrease 3%
Pension growth rate	0.1%	Increase 1%	Decrease 1%
Life expectancy	1 year	Increase by 4%	Decrease by 4%

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting year, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The Goodrich Section of the UTC (UK) Pension Scheme expects to make a contribution of £9,000,000 (2017: £9,400,000) to the defined benefit scheme during the next financial year.

**20. Contingent Liabilities**

As part of a multilateral guarantee, the company has entered an agreement with the bank, its parent undertaking, fellow subsidiaries and other related companies. Under this agreement, the company is party to a cross-undertaking on a limited number of specified accounts, limited to the credit balance standing within a group wide cash pooling facility.

The company participates in a cash pooling arrangement with several UK group companies. At 31 December 2018 there was a cash pool surplus of £242,463 (2017: surplus £393,097) representing the bank balances of all the group companies within the cash pool.



**Notes to the financial statements  
For the year ended 31 December 2018**

**21. Changes in accounting policies**

The company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which results in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the company has adopted the new rules using the modified retrospective approach and has not restated comparatives for the 2017 financial year. The cumulative effect of the change in accounting was recognised through retained earnings at the date of adoption. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of adoption 1 January 2018 and at the end of the earliest period presented 31 December 2017:

	<b>IAS 18 carrying amount 31 December 2017 £'000</b>	<b>Remeasurement £'000</b>	<b>IFRS 15 carrying amount 1 January 2018 £'000</b>
Debtors	33,049	200	33,249
Stock	745	(126)	619
Deferred tax asset	420	(13)	407
Profit and loss account	30,188	61	30,249

The impact on the company's retained earnings as at 1 January 2018 and 31 December 2017 is as follows:

	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Retained earnings</b>	<b>30,188</b>	<b>30,188</b>
Recognition of profit on adoption of IFRS 15	74	-
Reduction in deferred tax asset	(13)	-
Adjustment to retained earnings from adoption of IFRS 15	<b>61</b>	-
<b>Opening retained earnings – IFRS 15</b>	<b>30,249</b>	<b>30,188</b>

Performance obligations are satisfied over-time if the customers receives the benefits as we perform work, if the customer controls the asset being worked on, or if the product being produced for the customer has no alternative use and we have a contractual right to payment. Revenue is recognised for our maintenance, repairs and overhaul contracts on an over time basis using the cost incurred to represent work performed which corresponds with and best depicts transfer of control to the customer. Costs include labour, materials, and other direct costs.

Previously under IAS 18, revenue for these types of contracts was recognised at a point in time ie on completion of the repair.

## **Delavan Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **22. Subsequent events**

On 10 June 2019, United Technologies Corporation announced its intention to merge with Raytheon. This is expected to be complete by mid-year 2020.

#### **23. Controlling party**

The company's immediate parent undertaking is Goodrich (Great Britain) Limited.

The company's ultimate parent undertaking and controlling party is United Technologies Corporation, a company incorporated in the United States of America.

United Technologies Corporation is the smallest and largest group to consolidate these financial statements.

Copies of the United Technologies Corporation group financial statements are publicly available and can be obtained from [www.utc.com](http://www.utc.com).