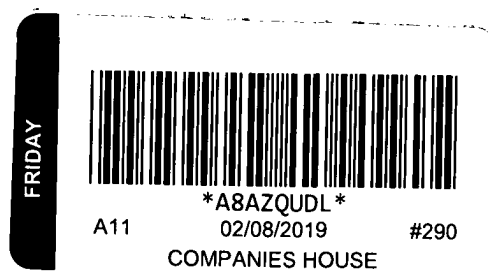


# HS Marston Aerospace Limited

Annual Report  
for the year ended 30 November 2018

Registered number: 02590031



# HS Marston Aerospace Limited

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# HS Marston Aerospace Limited

## Strategic report for the year ended 30 November 2018

The directors present their Strategic Report for the company for the year ended 30 November 2018.

The directors, in preparing this strategic report, have complied with section 414C(11) of the Companies Act 2006.

### Review of the business

The business experienced strong demand for its original equipment products and Aftermarket spares throughout the year, together with the introduction of new products for the Pratt & Whitney PurePower engine. Interest in the company's products has remained strong, particularly within the UTC group. Management monitors the performance of the business by utilising the following Key Performance Indicators ('KPIs'):

- Sales - 13.8% increase in 2018 (2017: 21.1% higher) than the previous years;
- Gross profit margin is 19.3% in 2018 (2017: 13.1%);
- Operating profit has increased to £3,408,000 in 2018 (2017: increase to £399,000);
- Stock days increased to 100 days in 2018 (2017: 81 days);
- Profit for the financial year of £2,922,000 (2017: £221,000 loss);
- Total shareholder' funds has increased to £4,352,000 in 2018 (2017: £1,264,000); and
- Current assets as % of current liabilities 80.9% (2017: 74.5%).

### Operations

The company operates lean manufacturing principles by utilising UTC's ACE and Operation Transformation Programme. There has been particular focus on quality, delivery performance, inventory and productivity. Productivity improved again in 2018.

### Engineering

The company continued to invest in new technology to meet the future demands of the engine manufacturers. All major project milestones for new development programmes, of both heat exchangers and fluids management products were achieved, as well as continued support for in-service.

### Environment and Health & Safety

The company continued to sustain an excellent EH&S performance in 2018. Environmental and Health & Safety accreditations, ISO 14001 and OHSAS 18001 were successfully maintained and further good progress recorded for five environmental metrics.

### Quality

The company has successfully maintained AS9100/AS9110 Quality Management System accreditation and retained Aerospace Regulatory Approvals with EASA, CAA, FAA, TCCA and CAAC.

### Employee involvement

It is the policy of the Company to create a common awareness amongst employees of the financial and economic factors affecting the performance of the Group. It is the policy of the Company to maintain and develop employee involvement. Local managers provide information on a regular basis on matters of concern to employees, using various means such as business review meetings, briefing meetings, video presentations, company newsletters and training sessions.

# HS Marston Aerospace Limited

## Strategic report for the year ended 30 November 2018 (continued)

### *Employee Programmes and Benefits*

The company operates ongoing employee development programmes which reflect development needs highlighted in the annual performance reviews. The company sponsored a number of employees on the UTC Employee Scholar Programme. All office employees completed a range of mandatory on-line training modules centred on business practices designed to increase awareness and promote strong ethical compliance. The company also continued a job rotation programme for high potential employees. As part of its "wellness" and health management programmes the company provide a 'Cycle to Work' scheme and bi-monthly health initiatives. It also provided an all employee reward programme, together with a new reward and recognition programme for those employees exhibiting exemplary performance. The company operates a sports and social club available to the employees.

### *Changes in the business*

UTC is committed to remaining in Wolverhampton and is making significant investments in this area to accommodate additional manufacture that is transferring into the site. The aerospace industry continues to be strong and the Directors are confident that the changes that they are making to the business will make it competitive for the future.

### **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.

The Company has taken a structured approach to the exit of the United Kingdom from the European Union (Brexit). This has included planning at both a local business level and the Collins Aerospace level through their corporate Brexit Working Group. The transition period remains uncertain and entirely outside of the control of Collins Aerospace, due to this the business continues to plan for the UK leaving the EU without a deal or transition period.

Key areas of focus with regards to business continuity and customer support are EASA Certifications for Spares and Repairs, Supply of Parts/Material, Shipment delays and flow of goods, Customs Delays and Export Licences.

With regards to EASA Certifications the Company have been proactively working with EASA and received confirmation that our EASA Part 145 TCO certificate number was successfully concluded on 13<sup>th</sup> February 2019. This certificate became valid and available on 30th March 2019 and will allow the business to continue to release equipment to EU customers.

To protect our business immediately following Brexit we have developed and implemented a stock provisioning plan. This plan saw the company increase stock levels, of identified key parts that are procured from the EU or other suppliers with EU vendors and material. This is intended to protect our output for a three month window in the event of a no-deal Brexit.

With respect to movement of goods we have conducted a detailed evaluation of all potential customs scenarios with our main shipping agents to ensure that goods continue to move as quickly as possible.

In conclusion, given both the global work of the Collins Aerospace Brexit Working Group and specific actions taken by the Company within the UK we are confident that processes are now in place to mitigate any certification, customs and shipping risks to our customers and business continuity in the event of a no-deal Brexit.

# HS Marston Aerospace Limited

## Strategic report for the year ended 30 November 2018 (continued)

### Future developments

The directors expect the general level of activity to increase in the forthcoming year. This is as a result of growth in sales on the Pratt & Whitney PurePower range.

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 24 of the financial statements.

Approved by the Board and signed on its behalf by:



M Johans  
Director

**HS Marston Aerospace Limited** (Registered number: 02590031)

30 July 2019

# **HS Marston Aerospace Limited**

## **Directors' report for the year ended 30 November 2018**

The Directors present their report and the audited financial statements of the company for the year ended 30 November 2018.

### **Principal activities**

The company's principal activity during the year was the manufacture, design and service of heat exchangers and fluid management systems for the aerospace industry. The financial position was satisfactory and the Directors expect that the present level of activity will be sustainable for the foreseeable future. The company continues to respond to the changing needs of the market place through continued investment in engineering.

### **Future developments, events after the balance sheet date and Employee involvement**

Details of future developments can be found in the Strategic Report on page 4 and details of employee involvement can be found in the Strategic report on pages 2-3, and both form part of this report by cross-reference.

### **Research and development**

During 2018 the company maintained a technology focus resulting in numerous invention disclosure and patent applications related to its heat transfer and fluid management product lines. It also secured customer collaboration projects to develop next generation heat exchanger designs.

### **Directors**

The Directors during the year and up to the date of the financial statements were:

M R Frost  
M J Robinson  
A K Amadeo (Resigned on 29 January 2019)  
Dr U Raab  
M J Johans  
J St Onge  
A McHugh  
C Nicholson (Appointed 17 December 2018)  
S Bostock (Resigned 30 April 2018)

### **Qualifying third party indemnity provision**

As permitted by the Articles of Association, the Directors have the benefit of an indemnity (as provided by United Technologies Corporation, the company's ultimate parent company) which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

# HS Marston Aerospace Limited

## Directors' report for the year ended 30 November 2018 (continued)

### Going concern

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 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

The company's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit adverse effects on its financial performance. The policies set by the Directors are implemented by the company's management team.

#### *Foreign Exchange Risk*

The company is exposed to currency risk when it has binding commercial or financial obligations in a currency other than its functional currency and the related cash inflows and outflows are not equal in amounts and timing. Foreign exchange exposures/risks are classified in three categories:

- transaction exposures/risks
- translation exposures/risks (accounting, balance sheet)
- economic exposures/risks

Activities are focused on transactional cash flows which arise from receivables, payables, loans, cash balances, orders received, purchase orders, etc. The primary responsibility to identify hedge currency exposures lies with the company, although the company extensively uses the resources and guidance of the group treasury centre to manage foreign exchange risk.

#### *Credit Risk*

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the management of the company.

#### *Liquidity Risk*

The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for its operations and planned expansions.

#### *Interest rate risk*

The company has a policy of maintaining debt by utilising the company's overdraft facility on a variable rate basis.

# HS Marston Aerospace Limited

## Directors' report for the year ended 30 November 2018 (continued)

### Results and dividends

The company's performance for the year and the position as at the year-end is set out on pages 12 - 15. The directors do not recommend a dividend in respect of 2018 (2017: £nil) representing nil per share (2017: nil per share).

### Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### 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 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.

### 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).

### Political Donations

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

### 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 regulations.

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 these financial statements, the directors are required to:



# HS Marston Aerospace Limited

## Directors' report for the year ended 30 November 2018 (continued)

### Statement of directors' responsibilities in respect of the financial statements (continued)

- 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.

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.

### Statement of disclosure of information to auditors

In the case of each directors 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.

### 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 Johans  
Director  
HS Marston Aerospace Limited (Registered number: 02590031)

30 July 2019

## Independent auditors' report to the members of HS Marston Aerospace Limited

### Report on the audit of the financial statements

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#### Opinion

In our opinion, HS Marston Aerospace Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 November 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 30 November 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 HS Marston Aerospace 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 30 November 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 pages 7-8, 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.

**Independent auditors' report to the members of HS Marston Aerospace Limited**

*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.

*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

## HS Marston Aerospace Limited

### Profit and loss account for the year ended 30 November 2018

	Note	2018 £'000	2017 £'000
Turnover	3	57,011	50,077
Cost of Sales		(45,991)	(43,502)
<b>Gross Profit</b>		<b>11,020</b>	<b>6,575</b>
Administrative expenses		(7,612)	(6,176)
<b>Operating Profit</b>		<b>3,408</b>	<b>399</b>
Interest receivable and similar income	4	2,239	2,282
Interest payable and similar expenses	5	(2,696)	(2,684)
<b>Profit / (loss) before taxation</b>	6	<b>2,951</b>	<b>(3)</b>
Tax on profit / (loss)	9	(29)	(218)
<b>Profit / (Loss) for the financial year</b>		<b>2,922</b>	<b>(221)</b>

All results are derived from continuing operations.

## HS Marston Aerospace Limited

### Statement of comprehensive income For the year ended 30 November 2018

	Note	2018 £'000	2017 £'000
<b>Profit / (Loss) for the financial year</b>		<b>2,922</b>	<b>(221)</b>
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on pension scheme	20	17	3,095
Income tax relating to items not reclassified:			
- movement on deferred tax relating to pension deficit / (surplus)	9	(3)	(526)
<b>Other comprehensive income for the year net of tax</b>		<b>14</b>	<b>2,569</b>
<b>Total comprehensive income for the year</b>		<b>2,936</b>	<b>2,348</b>

**HS Marston Aerospace Limited**  
**Registered number: 02590031**

**Balance sheet**  
**At 30 November 2018**

	Note	2018 £'000	2017 £'000
<b>Fixed assets</b>			
Intangible assets	11	1,248	1,248
Tangible assets	12	11,039	10,100
		<b>12,287</b>	<b>11,348</b>
<b>Current assets</b>			
Stocks	13	12,560	9,636
Debtors	14	21,873	22,179
		<b>34,433</b>	<b>31,815</b>
Creditors: Amounts falling due within one year	15	(42,548)	(42,721)
<b>Net current liabilities</b>		<b>(8,115)</b>	<b>(10,906)</b>
<b>Total assets less current liabilities</b>		<b>4,172</b>	<b>442</b>
Creditors: Amounts falling due after more than one year	15	(10,599)	(10,599)
Provisions for liabilities	16	(1,652)	(872)
Pension and similar obligations	20	12,431	12,293
<b>Net assets</b>		<b>4,352</b>	<b>1,264</b>
<b>Equity</b>			
Called up share capital	18	10,800	10,800
Profit and loss account		(6,448)	(9,536)
<b>Total Shareholders' funds</b>		<b>4,352</b>	<b>1,264</b>

The notes on pages 16 to 44 form part of these financial statements

The financial statements on pages 12 to 44 were approved by the board of directors on 30 July 2019 and were signed on its behalf by:



M Johans  
 Director

# HS Marston Aerospace Limited

## Statement of changes in equity For the year ended 30 November 2018

	Called up share capital (Note 18) £'000	Profit and loss account £'000	Total Shareholders' (deficit)/funds £'000
<b>Balance at 1 December 2016</b>	<b>10,800</b>	<b>(11,884)</b>	<b>(1,084)</b>
Loss for the financial year	-	(221)	(221)
Other comprehensive income for the financial year			
- Actuarial gain on pension scheme	-	3,095	3,095
- Deferred tax on pension surplus	-	(526)	(526)
<b>Total comprehensive income for the financial year</b>	<b>-</b>	<b>2,348</b>	<b>2,348</b>
<b>Balance at 30 November 2017</b>	<b>10,800</b>	<b>(9,536)</b>	<b>1,264</b>
Change in accounting policy (note 21)	-	152	152
<b>Restated balance as at 30 November 2017</b>	<b>10,800</b>	<b>(9,384)</b>	<b>1,416</b>
Profit for the financial year	-	2,922	2,922
Other comprehensive income for the financial year			
- Actuarial gain on pension scheme	-	17	17
- Deferred tax on pension surplus	-	(3)	(3)
<b>Total comprehensive income for the financial year</b>	<b>-</b>	<b>2,936</b>	<b>2,936</b>
<b>Balance at 30 November 2018</b>	<b>10,800</b>	<b>(6,448)</b>	<b>4,352</b>



# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies

HS Marston Aerospace Limited ('the company') provides Aeroplane Parts for Intercompany and Commercial customers across the world, but predominantly in the UK and USA.

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 Wobaston Road, Fordhouses, Wolverhampton, WV10 6QJ.

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 the historical cost basis. 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 recognised value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are recognised 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.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies (continued)

As permitted by FRS 101, the company has taken advantage 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 Technologies Corporation. The group financial statements of United Technologies Corporation are available to the public and can be obtained as set out in note 25.

### Adoption of new and revised Standards

The company has early adopted 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 December 2017.

The company has adopted the modified respective approach for IFRS 15, with £152,000 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 company has net current liabilities of £8,115,000 (2017: liabilities £10,906,000). The directors’ have received confirmation from United Technologies Corporation that they will provide sufficient funding to enable the company to meet its liabilities for a period of 12 months from the date of these financial statements. On this basis the directors consider that the going concern basis of preparation is still appropriate.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies (continued)

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's engineering development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the profit and loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated recognised and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets of this class are amortised over a three year period which is consistent with the useful economic life of the asset.

#### Derecognition of intangible assets

An intangible asset is de-recognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, recognised in profit or loss when the asset is recognised.

#### 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 and any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs recognised 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.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies (continued)

#### Tangible assets (continued)

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:

Land and building improvement	40 years
Machinery and equipment	3-12 years
Tooling	7 years
Furniture and fixtures	3-10 years
Software	3-5 years
Capital work 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.

#### Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### Stocks

Stocks are stated at the lower of cost and net recognised value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net recognised 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.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies (continued)

#### Taxation

Current tax, UK corporation 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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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 recognised. 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.

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 recognised 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 income statement, 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 the 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.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies (continued)

#### 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 and for the company this is 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. The company bases its estimate of the return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### Sale of goods

The company manufactures and sells a range of heat exchangers and fluid management systems. 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.

#### 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.

#### Sales of services

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on actual labour hours spent relative to the total expected labour hours.

Some contracts include multiple deliverables, such as the sale of equipment and related installation services. However, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies (continued)

#### Sales of services (continued)

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the company exceeds the payment, a contract asset is recognised. If the payments exceeds the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

#### Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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 cost of sales and administrative expenses (see Income Statement) in its income statement. Curtailments gains and losses are accounted for as past-service cost.

Net-interest expense or income is recognised within finance costs (see note 5).

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 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.

#### 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 the income statement within finance costs.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### 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



# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 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.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 1. Accounting policies (continued)

#### Leases

##### *The company as lessee*

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

#### 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.

#### *Restructuring*

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

#### *Onerous contracts*

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### *Warranties*

Provisions for the expected cost of warranty obligations are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Company's obligation.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 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.

#### *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 12 for the carrying amount for the property, plant and equipment, and note 1 for the useful economic lives for each class of assets.

#### **Defined Benefit Pension Scheme**

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 20 for the disclosures of the defined benefit scheme.

#### **Stock provisioning**

The company's principal activity during the year was the manufacture, design and service of heat exchangers and fluid management systems for the aerospace industry. As a result it is necessary to consider the recoverability of the cost of the stock and the associated provisioning required. Management consider the nature and condition of stock, as well as apply assumptions around expected future demand for the stock, when calculating the level of stock provisioning. See note 13 for the net carrying value of stock and associated provision.

# **HS Marston Aerospace Limited**

## **Notes to the financial statements For the year ended 30 November 2018**

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

#### **Impairment of Trade receivables**

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the age profile of the receivable and historic experience. See note 14 for the net carrying amount of the receivables and the associated impairment provision.

#### **Impairment of indefinite lived intangible assets**

Determining whether the company's goodwill balance is impaired requires estimations of the revenues included within the forecasts to assess the asset's value in use. The value in use calculations require the entity to estimate the future cash flows expected to arise and suitable discount rates in order to calculate present values. The carrying amount of goodwill at the balance sheet date was £1,248,000 with no impairment loss recognised in 2018 or 2017.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 3. Turnover

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

	2018 £'000	2017 £'000
<b>Continuing operations</b>		
Sales of goods	53,254	46,079
Rendering of services	3,757	3,998
	<b>57,011</b>	<b>50,077</b>

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

	2018 £'000	2017 £'000
<b>Revenue:</b>		
Production	55,559	48,876
Engineering	1,452	1,201
	<b>57,011</b>	<b>50,077</b>

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

	2018 £'000	2017 £'000
<b>Revenue:</b>		
United Kingdom	12,964	13,191
Continental Europe	5,803	7,004
Americas	33,887	24,958
Rest of the World	4,357	4,924
	<b>57,011</b>	<b>50,077</b>

### 4. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable to group companies	25	11
Pensions interest income – return on assets (note 20)	2,214	2,271
	<b>2,239</b>	<b>2,282</b>

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 5. Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest payable to group companies	803	665
Pensions interest expense – defined benefit obligations (note 20)	1,893	2,019
	<b>2,696</b>	<b>2,684</b>

Finance costs have been recognised based on the applicable rates to the Company's intercompany cash pooling arrangements.

### 6. Profit / (loss) before taxation

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

	2018 £'000	2017 £'000
Net foreign exchange losses	58	127
Depreciation of tangible assets (note 12)	1,426	1,257
Loss on disposal of fixed assets	5	-
Impairment of intangible assets (note 11)	-	125
Operating lease charges	22	29
Research and development	741	1,040
Stock recognised as an expense	1,876	1,915
Staff costs (note 8)	19,097	16,732

### 7. Auditors' remuneration

Fees payable to PricewaterhouseCoopers LLP for the audit of the company's annual financial statements were £45,513 (2017: £38,513).

No non-audit services have been provided to the company during the year (2017: £nil).

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 8. Staff costs

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

	2018 Number	2017 Number
Manufacturing	210	222
Administration	163	127
	<b>373</b>	<b>349</b>

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	15,951	14,124
Social security costs	1,744	1,576
Other pension costs	1,402	1,032
	<b>19,097</b>	<b>16,732</b>

'Other pension costs' includes only those items included within operating costs. Items reported elsewhere have been excluded.

### Directors' remuneration and transactions

	2018 £'000	2017 £'000
<b>Directors' remuneration</b>		
Emoluments	714	746
Company contributions to money purchase pension schemes	22	31
	<b>736</b>	<b>777</b>

	2018 Number	2017 Number
<b>The number of directors who:</b>		
Are members of a money purchase pension scheme	4	5

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 8. Staff costs (continued)

	2018 £'000	2017 £'000
<b>Remuneration of the highest paid director:</b>		
Emoluments and amounts (excluding shares) under long term incentive schemes	278	212
Company contributions to money purchase pension schemes	6	9

Directors' transactions - No transactions have been completed with directors during the year (2017: none).

There was no compensation for loss of office during the year (2017: none).

### 9. Tax on profit / (loss)

#### Tax expense included in profit or loss:

	2018 £'000	2017 £'000
<b>Current tax</b>		
UK corporation tax on loss for the year	-	-
<b>Total current tax</b>	-	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	32	126
Impact of rate change	(7)	(15)
Adjustments in respect of prior years	4	107
<b>Total deferred tax (see note 17)</b>	29	218
<b>Total tax on profit/ (loss)</b>	29	218



# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 9. Tax on profit / (loss)

Tax expense for the year is lower (2017: lower) than the standard rate of corporation tax in the UK for the year ended 30 November 2018 of 19.00% (2017: 19.33%). The differences are explained below:

The charge for the year can be reconciled to the profit / (loss) in the profit and loss account as follows:

	2018 £'000	2017 £'000
<b>Profit / (loss) before taxation</b>	<b>2,951</b>	<b>(3)</b>
Tax on profit/ (loss) at standard UK corporation tax rate of 19.00% (2017: 19.33%)	<b>561</b>	<b>(1)</b>
Effects of:		
Expenses not deductible for tax purposes	1	21
Group relief for nil consideration	<b>(528)</b>	106
Re-measurement of deferred tax – changes in UK tax rates	<b>(7)</b>	<b>(15)</b>
Adjustments in respect of prior years	<b>4</b>	107
Share options	<b>(2)</b>	-
<b>Total tax charge for the year</b>	<b>29</b>	<b>218</b>

The tax charge in future periods may be affected by the rate of Corporation tax.

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.

### Tax credit included in other comprehensive income

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	2018 £'000	2017 £'000
<b>Current tax</b>	-	-
<b>Deferred tax</b>		
Arising on income and expenses recognised in other comprehensive income:		
Movement on deferred tax relating to pension deficit	<b>(3)</b>	<b>(526)</b>
<b>Total income tax recognised in other comprehensive income</b>	<b>(3)</b>	<b>(526)</b>

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 10. Dividends on equity shares

There were no proposed final dividend for the year ended 30 November 2018 per ordinary share (2017: nil).

### 11. Intangible assets

	Goodwill £'000	Development costs £'000	Total £'000
<b>Cost</b>			
At 1 December 2017	1,248	408	1,656
Disposals	-	(408)	(408)
At 30 November 2018	<b>1,248</b>	-	<b>1,248</b>
<b>Accumulated amortisation and impairment</b>			
At 1 December 2017	-	408	408
Charge for the year	-	-	-
Disposals	-	(408)	(408)
At 30 November 2018	-	-	-
<b>Net book value</b>			
At 30 November 2018	<b>1,248</b>	-	<b>1,248</b>
At 30 November 2017	1,248	-	1,248

Development costs have been recognised in accordance with the measurement and recognition bases of IAS 38 *Intangible Assets* and are therefore not treated, for dividend purposes, as a recognised loss. The costs related to the development of new engineering contracts commenced during 2013 from which date the related costs have been written off over the period of expense and disposed in 2018.

Following the adoption of FRS 101, goodwill is no longer amortised which is different from Companies Act for the overriding purpose of giving a true and fair view. Previously the Company amortised goodwill over 15 years with an annual charge of £683,000.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 12. Tangible assets

	Land and Building Improvement £'000	Machinery and Equipment £'000	Tooling £'000	Furniture and Fixtures £'000	Software £'000	Capital Work in Progress £'000	Total £'000
<b>Cost</b>							
At 1 December 2017	4,811	14,641	925	303	177	578	21,435
Additions	-	1,499	-	25	-	850	2,374
Disposals	(704)	(847)	-	(161)	(8)	-	(1,720)
<b>At 30 November 2018</b>	<b>4,107</b>	<b>15,293</b>	<b>925</b>	<b>167</b>	<b>169</b>	<b>1,428</b>	<b>22,089</b>
<b>Accumulated Depreciation</b>							
At 1 December 2017	3,037	7,529	375	285	109	-	11,335
Charge for the year	164	1,082	155	8	17	-	1,426
Disposals	(704)	(847)	-	(154)	(6)	-	(1,711)
<b>At 30 November 2018</b>	<b>2,497</b>	<b>7,764</b>	<b>530</b>	<b>139</b>	<b>120</b>	<b>-</b>	<b>11,050</b>
<b>Net book value</b>							
<b>At 30 November 2018</b>	<b>1,610</b>	<b>7,529</b>	<b>395</b>	<b>28</b>	<b>49</b>	<b>1,428</b>	<b>11,039</b>
At 30 November 2017	1,774	7,112	550	18	68	578	10,100

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 13. Stocks

	2018 £'000	2017 £'000
Raw materials and consumables	7,172	5,801
Work in progress	3,622	2,946
Finished goods and goods for resale	1,766	889
	<b>12,560</b>	<b>9,636</b>

The above net stock values include a provision for excess and obsolete stock of £923,000 (2017: £1,602,000). There is not a material difference between the carrying value of stock and the replacement value.

### 14. Debtors

#### Amounts falling due within one year:

	2018 £'000	2017 £'000
Trade receivables	3,757	5,318
Amounts owed by group undertakings	16,593	16,151
Prepayments and accrued income	129	230
VAT	507	443
Current tax	852	-
Deferred tax asset (note 17)	35	37
	<b>21,873</b>	<b>22,179</b>

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

The company holds no trade and other receivable balance which fall due after more than one year (2017: nil).

Trade receivables are stated after provision for impairment of £72,000 (2017: £129,000).

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 15. Creditors

<b>Amounts falling due within one year</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	23,581	23,548
Trade creditors	4,000	4,582
Amounts owed to group undertakings	12,433	12,409
Accruals and deferred income	2,534	2,182
	<b>42,548</b>	<b>42,721</b>

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

Bank loans and overdrafts relate to the intercompany cash pooling arrangement with UTC Aerospace Systems European Financial Shared Services (EFSS).

<b>Amounts falling due after more than one year</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Long term loan	10,599	10,599
	<b>10,599</b>	<b>10,599</b>

The merger of the Goodrich (UK) pension scheme took place on the 1 June 2017, to allow for an Asset-Backed Contribution (ABC) structure. A long term loan was secured with Farmington (UK) LP to allow the company to make the additional contribution to the ABC structure.

The loan is secured by a promissory note, having a fixed repayment date of 31 May 2026.

### 16. Provisions and Liabilities

	<b>EPA Reserve</b>	<b>Product Warranties</b>	<b>Deferred tax liability</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 December 2017	187	57	628	872
Additions to the profit and loss account	-	780	62	842
Additions to the statement of comprehensive income	-	-	3	3
Utilisation of provision	(8)	-	-	(8)
Unused amounts reversed to the profit and loss account	-	(57)	-	(57)
<b>At 30 November 2018</b>	<b>179</b>	<b>780</b>	<b>693</b>	<b>1,652</b>

#### Environmental

The EPA reserve relates to site rectification obligations to ensure that the Wolverhampton site continues to meet environmental requirements.

#### Product warranties

The provision for product warranties relates to expected warranty claims on specific products sold to a customer. It is expected that the majority of this expenditure will be incurred in the next financial year.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 17. Deferred tax

Deferred tax liabilities/ (assets) are provided as follows:

	Intangible assets £'000	Retirement benefit obligations £'000	Other tax items £'000	Accelerated tax depreciation £'000	Total £'000
At 1 December 2016	212	(274)	(98)	7	(153)
Charged to:					
-profit and loss	-	37	61	120	218
-equity	-	526	-	-	526
<b>At 30 November 2017</b>	<b>212</b>	<b>289</b>	<b>(37)</b>	<b>127</b>	<b>591</b>
Change in accounting policy (note 21)	-	-	35	-	35
<b>Restated balance at 1 December 2017</b>	<b>212</b>	<b>289</b>	<b>(2)</b>	<b>127</b>	<b>626</b>
Charged/ (credited) to:					
-profit and loss	-	21	(33)	41	29
-equity	-	3	-	-	3
<b>At 30 November 2018</b>	<b>212</b>	<b>313</b>	<b>(35)</b>	<b>168</b>	<b>658</b>

At the balance sheet date, the company had no unused tax losses for 2017 and 2018 available for offset against future profits.

The provision for deferred tax consists of the following deferred tax liabilities/ (assets):

	2018 £'000	2017 £'000
Deferred tax assets due within 12 months	(35)	(37)
Deferred tax liabilities due within 12 months	168	127
Total provision due within 12 months	133	90
Deferred tax assets due after more than 12 months	-	-
Deferred tax liabilities due after more than 12 months	525	501
Total provision due after more than 12 months	525	501
Total deferred tax provision	658	591

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 18. Called up share capital

#### Ordinary shares

	2018 £'000	2017 £'000
<b>Allotted and fully-paid</b>		
10,800,100 (2017: 10,800,100) ordinary shares of £1 each	<b>10,800</b>	10,800

### 19. Financial commitments

Capital commitments are as follows:

	2018 £'000	2017 £'000
Contracts for future capital expenditure not provided in the financial statements	<b>690</b>	937
	<b>690</b>	937

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	<b>77</b>	29
Between one and five years	<b>188</b>	27
	<b>265</b>	56

### 20. 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 income statement of £511,000 (2017: £365,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 30 November 2018, there were nil contributions (2017: £nil) due in respect of the current reporting period that had not been paid over to the schemes.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 20. Retirement benefit schemes (continued)

#### Defined benefit schemes

The company has a defined benefit scheme UTC (UK) Pension Scheme – HS Marston Section 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 HS Marston Section, the majority of employees are entitled to post-retirement yearly instalments amounting to 1/60th of final salary for each complete month and year of pensionable service on attainment of a retirement age of 65. The pensionable salary is based on the yearly rate of gross salary, excluding bonuses.

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.

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 UTC (UK) Pension Scheme – HS Marston section as at 31 December 2015 was carried out by Willis Towers Watson, an independent firm of actuaries, using the projected unit method. This valuation was updated as at 30 November 2018 by Willis Towers Watson.

The next full accounting valuation of the Plan is due at 31 December 2018. A separate valuation is performed for cash funding.



# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 20. 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)	2.98%	2.66%
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 (max 5%)	3.00%	3.00%
Average longevity at age 65 for current pensioners (years)* employees (future pensioners) (years)*		
Male	21.2	21.1
Female	23.7	23.7
Average longevity at age 65 for current employees (future pensioners)		
Male	22.6	22.8
Female	25.2	25.6

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

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2018 £'000	2017 £'000
Service cost:		
Current service cost	711	493
Other Administrative cost	180	174
Net interest income	(321)	(252)
	<b>570</b>	<b>415</b>

Of the expense (service cost) for the year, £711,000 (2017: £493,000) and £180,000 (2017: £174,000) has been included in the income statement in administrative expenses. The net interest expense has been included within finance income (note 4 and 5). The remeasurement of the net defined benefit liability is included in the statement of comprehensive income.

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	(70,417)	(72,840)
Fair value of scheme assets	82,848	85,133
Net surplus arising from defined benefit obligation	<b>12,431</b>	<b>12,293</b>

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 20. Retirement benefit schemes (continued)

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

	2018 £'000	2017 £'000
Opening defined benefit obligation	72,840	70,328
Current service cost	500	493
Interest cost	1,893	2,019
Remeasurement (gains) / losses :		
Actuarial losses and gains arising from changes in financial assumptions	(2,755)	2,431
Actuarial losses arising from changes in methodology*	2,275	-
Actuarial losses and gains arising from changes in financial assumptions	(213)	-
Benefits paid	(4,365)	(2,493)
Other – Plan participants contribution	31	62
Other – Past service cost - plan amendments	211	-
Closing defined benefit obligation	70,417	72,840

\* The liability experience item arising over the year is due to a change in methodology for rolling forward the liabilities applied by the actuary.

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

	2018 £'000	2017 £'000
Opening fair value of scheme assets	85,133	79,318
Interest income	2,214	2,271
Remeasurement (losses) / gains:		
The return on scheme assets (excluding amounts included in net interest expense)	(676)	5,526
Contributions from the employer	691	623
Contributions from scheme participants	31	62
Benefits paid	(4,365)	(2,493)
Other – Administrative costs	(180)	(174)
Closing fair value of scheme assets	82,848	85,133

## HS Marston Aerospace Limited

### Notes to the financial statements For the year ended 30 November 2018

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

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

	2018 £'000	2017 £'000
Cash and cash equivalents	2,154	937
Equity securities	18,309	33,202
Debt securities	37,117	23,156
Real Estate/Property	2,485	2,213
Other	22,783	25,625
<b>Total</b>	<b>82,848</b>	<b>85,133</b>

The actual (loss) / gain on scheme assets was (£676,000) (2017: £5,526,000).

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	Increase by 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 statement of financial position.

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

The Company expects to make a contribution of £582,000 (2017: £583,000) to the defined benefit scheme during the next financial year.

# HS Marston Aerospace Limited

## Notes to the financial statements For the year ended 30 November 2018

### 21. Changes in accounting policies

The company has adopted IFRS 15 Revenue from Contracts with Customers from 1 December 2017 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 December 2017 and at the end of the earliest period presented 30 November 2017:

	IAS 18 carrying amount 30 November 2017 £'000	Remeasurement £'000	IFRS 15 carrying amount 1 December 2017 £'000
Debtors	22,179	328	22,507
Provisions – deferred tax liability	(591)	(35)	(626)
Stock	9,636	(141)	9,495
Profit and loss account	(9,536)	152	(9,384)

The impact on the company's retained earnings as at 1 December 2017 and 30 November 2017 is as follows:

	2018 £'000	2017 £'000
<b>Retained earnings</b>	<b>(9,536)</b>	<b>(9,536)</b>
Recognition of profit on adoption of IFRS 15	187	-
Decrease in deferred tax liabilities	(35)	-
Adjustment to retained earnings from adoption of IFRS 15	152	-
<b>Opening retained earnings – IFRS 15</b>	<b>(9,384)</b>	<b>(9,536)</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.

## **HS Marston Aerospace Limited**

### **Notes to the financial statements For the year ended 30 November 2018**

#### **22. Contingent liabilities**

The company participates in a cash pooling arrangement with several UK group companies. As part of a multilateral guarantee, the company is party to a cross-undertaking with the bank, its parent undertaking, fellow subsidiaries and other related companies, on a limited number of specified accounts, limited to the credit balance standing within a group wide cash pooling facility. As at 30 November 2018 there was a cash pool surplus of £229,000 (2017: £272,000) representing the bank balances of all the group companies within the cash pool.

#### **23. Related party transactions**

As 100% of the company's voting rights are controlled within the United Technologies Corporation group (UTC), the company is not required pursuant to FRS 101 paragraph 8 (k) to disclose transactions with other group subsidiaries, joint venture or associated companies.

The company has not transacted with any other related parties during the year (2017: none).

#### **24. Subsequent events**

On 7 May 2019 the company's immediate parent undertaking changed from United Technologies Holdings Limited to Goodrich Aftermarket Services Limited.

On 7 June 2019 the company issued one ordinary share at an issue price of £10,621,868 to its immediate parent undertaking Goodrich Aftermarket Services Limited.

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

#### **25. Controlling party**

The company's immediate parent undertaking throughout the year and as at 30 November 2018 was United Technologies Holdings Limited.

On 7 May 2019 the company's immediate parent undertaking became Goodrich Aftermarket Services Limited.

The company's ultimate parent undertaking and controlling party throughout the year and as at the date of signing the financial statements is United Technologies Corporation, a company incorporated in the United States of America.

United Technologies Corporation is the smallest and largest group to 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).