Atlantic Inertial Systems Limited

Annual Report
for the year ended 31 December 2018

Registered number: 06208660

Atlantic Inertial Systems Limited

Contents

Atlantic Inertial Systems 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 of the Companies Act 2006.

Atlantic Inertial Systems Limited is involved in the development, manufacture, marketing and selling of gyroscopes and inertial navigation systems mainly for military applications.

Business review

The Company predominantly trades within the defence market which remains subject to uncertainty where national defence budgets are under constant scrutiny and possible cutbacks.

The company has been successful in achieving a 15.8% rise in total revenue from 2017.

Sales for Original Equipment and Spares Manufacture - the main component of revenue - increased by 29.2%; whilst those for Aftermarket reduced. The overall margin percentage fell from 54.0% to 41.2% and Gross Profits fell by 13.2% due to the impact of product mix and licence income in 2017 not being repeated.

Whilst Profit before tax reduced by 21.6% over the year, the Company continues to maintain tight cost control on both overhead and programme costs. In addition to the reduction in Gross Profit, the Company also bore a higher level of corporate allocations.

Key performance indicators

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

	2018 £'000	2017 £'000	**Change %**
Revenue	**65,278**	56,383	15.8%
Operating profit	**17,579**	22,591	(22.2)%
Profit for the financial year	**15,239**	19,052	(20.0)%
Total shareholders' funds	**56,809**	128,771	(55.9)%
Current assets as % of current liabilities	**203%**	638%	
Average number of employees	**266**	247	

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. The business has a good line of sight in terms of order book coverage to deliver a further 18% increase in sales in 2019.

The business continues its focus on delivering the highest level of Quality throughout all its Operational and Support activities and has maintained Quality Cardinal Rules to reinforce its commitment to this important area and offering the best value to its customers.

Employee Involvement

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 newspapers and training sessions. A wide range of procedures exists for consultation with employees and their representatives, including suggestion schemes, employee communication meetings and employee surveys.

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 demonstrating its 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.

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.

Competitive Risks

The Company is dependent on the performance of its large contracts. The Company, through a continued commitment to excellence, seeks to achieve and exceed customer expectation and therefore mitigate and reduce the risk of non-renewal and contract termination. The Company carefully manages and directs its business development team to identify and win new business opportunities via the development of customer relations and by continually improving its products.

There is significant competition from multinational firms with substantial resources and capital. The Company achieves competitive advantage through the effectiveness and innovation of its products, and its success in securing volume production contracts to achieve the necessary throughput efficiencies.

Legislative Risks

A small proportion (less than 10%) of the business 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 the business 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 internal audit function.

Atlantic Inertial Systems Limited

Strategic Report for the year ended 31 December 2018

Impact of Brexit

The main market for the business is the US with more than 60% (2018) of turnover. Less than 10% (2018) was sold to EU territories. Whilst the proportion of sales to EU nations is expected to increase in 2019 it remains a small proportion of overall turnover. Should it be necessary in the absence of a trade deal with the EU additional time for the shipment process can be planned to ensure that border checks resulting from a potential "no deal" does not impact the companies ability to maintain delivery on time to customer expectations.

Supply chain risks to the business have been assessed as low and mitigation has been put in place to ensure the timely availability of parts.

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.

Future developments

The directors are forecasting an increase in sales and profitability in 2019, this expectation stems from a high proportion of confirmed orders for the coming year and provides a sound basis to reach targets set.

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.

Approval

Approved by the Board and signed on its behalf by:

S Barnes
Director
Date: 28 June 2019

Clittaford Road
Southway
Plymouth
Devon
PL6 6DE

Atlantic Inertial Systems 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

Details of future developments can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

Research and development

During 2018 the Company invested £3,308,000 (2017: £2,905,000) in research and development of new gyroscopes and navigation products. Of the total investment, £1,358,000 (2017: £1,928,000) was capitalised as qualifying development costs.

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 note 1 to in the financial statements.

Financial risk management objectives and policies

Foreign Currency Risks

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.

Liquidity Risk

The Company aims to mitigate liquidity risk by managing cash generation in its operations and applying cash collection targets. Investment is carefully controlled, with authorisation limits operating at different levels up to UTC board level and with hurdle rates of return and cash payback periods applied as part of the investment appraisal process.

The Company participates in the overall world-wide UTC funding strategy managed at corporate treasury level.

The Company participates in a UK cash pool. The objective is to maintain a balance between continuity of funding and flexibility.

Dividends

The profit for the financial year amounted to £14,717,000 (2017: £19,052,000).

The company paid a dividend of £88,100,000 with no other dividend being proposed or paid in the year (2017: £nil).

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

S Barnes
K Pindard
J Keppy (Resigned 3 June 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 remains in force at the date of this report.

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.

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.

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

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.

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.

Directors' confirmation

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.

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 independent auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

S Barnes
Director
Date: 28 June 2019

Clittaford Road
Southway
Plymouth
Devon
PL6 6DE

Independent auditors' report to the members of Atlantic Inertial Systems Limited

Report on the audit of the financial statements

Opinion

In our opinion, Atlantic Inertial Systems 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 changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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.

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 Atlantic Inertial Systems Limited

Report on the audit of the financial statements (continued)

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 pages 5-6, 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.

Independent auditors' report to the members of Atlantic Inertial Systems Limited

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Stephen Patey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
28 June 2019

Atlantic Inertial Systems Limited

Profit and Loss Account
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	*3*	**65,278**	56,383
Cost of sales		**(38,401)**	(25,945)
Gross profit		**26,877**	30,438
Administrative expenses		**(9,298)**	(7,847)
Operating profit		**17,579**	22,591
Income from shares in group undertakings		**-**	350
Finance income	*4*	**557**	194
Finance costs	*5*	**-**	-
Profit before taxation	*6*	**18,136**	23,135
Income tax expense	*10*	**(2,897)**	(4,083)
Profit for the financial year		**15,239**	19,052

The company has no recognised other comprehensive income/(expense) other than its profit for the financial years ended 31 December 2018 and 2017, and hence no separate statement of comprehensive income has been presented.

Atlantic Inertial Systems Limited
Registered number: 06208660

Balance Sheet
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	11	**19,974**	18,870
Property, plant and equipment	12	**9,101**	6,767
Investments	13	**6,549**	6,549
		35,624	32,186
Current assets			
Inventories	14	**9,199**	5,275
Debtors	15	**40,613**	109,355
		49,812	114,630
Creditors: Amounts falling due within one year	16	**(24,516)**	(17,961)
Net current assets		**25,296**	96,669
Total assets less current liabilities		**60,920**	128,855
Creditors: amounts falling due after more than one year	17	**(3,672)**	-
Provisions for liabilities	18	**(439)**	(84)
Deferred tax liability	19	**-**	-
Net assets		**56,809**	128,771
Equity			
Called up share capital	20	**100**	100
Share premium account		**12,126**	12,126
Capital contribution reserve		**20,876**	20,876
Profit and loss account		**23,707**	95,669
Total shareholders' funds		**56,809**	128,771

The notes on pages 13 to 39 form part of these financial statements.

The financial statements on pages 10 to 39 were approved by the board of directors on 28 June 2019 and were signed on its behalf by

S Barnes
Director

Atlantic Inertial Systems Limited
Statement of changes in equity

For the year ended 31 December 2018

	Called up share capital (Note 20) £'000	Share premium account £'000	Capital contribution reserve £'000	Profit and loss account £'000	Total share-holders' funds £'000
Balance at 1 January 2017	**100**	**12,126**	**20,876**	**76,613**	**109,715**
Profit for the financial year	-	-	-	19,052	19,052
Total comprehensive income for the year	**-**	**-**	**-**	**19,052**	**19,052**
Share based payments (note 24)	-	-	-	4	4
Balance at 31 December 2017	**100**	**12,126**	**20,876**	**95,669**	**128,771**
Change in accounting policy (note 26)	-	-	-	899	899
Restated balance as at 31 December 2017	**100**	**12,126**	**20,876**	**96,568**	**129,670**
Profit for the financial year	-	-	-	15,239	15,239
Total comprehensive income for the year	**-**	**-**	**-**	**15,239**	**15,239**
Share based payments (note 24)	-	-	-	-	-
Dividends (note 21)	-	-	-	(88,100)	(88,100)
Balance at 31 December 2018	**100**	**12,126**	**20,876**	**23,707**	**56,809**

1. Accounting policies

Atlantic Inertial Systems Limited is involved in the development, manufacture, marketing and selling of gyroscopes and inertial navigation systems mainly for military applications.

The company is a private company, limited by shares, and is incorporated and domiciled in England, United Kingdom. The address of its registered office is Clittaford Road, Southway, Plymouth, Devon PL6 6DE.

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.' 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 under the historical cost convention, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

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.

1. Accounting policies (continued)

The financial statements contain information about Atlantic Inertial Systems Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as they are included by full consolidation in the consolidated financial statements of its ultimate parent, United Technologies Corporation, a company incorporated in the United States of America.

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
IFRS 2 paragraphs 45b and 46-52 – share based payments
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 28.

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 £899,000 being the brought forward restatement to reserves. IFRS 9 did not have a material impact on the company.

1. Accounting policies (continued)

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 directors' report 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.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets – Development costs

Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. All development costs are capitalised where the Company has the intention to complete the project and it can demonstrate that the asset will generate future economic benefits. Development costs are amortised on straight line basis over 5 years.

Intangible assets – Goodwill

Goodwill arises on a business combination and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the profit and loss account.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

1. Accounting policies (continued)

Property, plant and equipment

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 income.

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 property	-	10 years
Plant and machinery	-	5-12 years
Software	-	Up to 5 years
Payments on account and assets in the course of construction	-	No depreciation charged 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.

1. Accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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.

Investments

Except as stated below, investments, including investments in joint ventures, are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

The Company has taken advantage of the exemption available to it under IAS 28 from applying the equity method to its investment in a joint venture.

Inventories

Inventories 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.

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.

1. Accounting policies (continued)

Taxation (continued)

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 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 gyroscopes and inertial navigation 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.

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.

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.

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.

The Company participates in a group defined benefit scheme, 'UTC (UK) Pension Scheme' for qualifying employees. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 (Revised 2011), the Company recognises a cost equal to its contribution payable for the period, which is presented within other operating expenses in the profit and loss account.

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 and loss account 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).

Leases

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.

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 group 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

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.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

1. Accounting policies (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the profit and loss account on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the balance sheet and transferred to the profit and loss account on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in the profit and loss account in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited as 'other operating income' to the profit and loss account as the related expenditure is incurred.

Share based payments

Incentives in the form of shares are provided to one or more Directors under share award schemes that are established by the previous ultimate parent company, Goodrich Corporation. The fair value of these options and awards at the date of the grant is determined by a valuation as described in Note 24 and is charged to the profit and loss account over the relevant vesting periods. An amount equivalent to that charged to profit in any period is credited to shareholders funds as a reserve movement reflecting the fact that there is no cash cost to the Company of these share based payments.

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.

1. Accounting policies (continued)

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.

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.

Loss making contracts

The loss making contract provision relates to long term contracts where the estimated total costs are forecast to exceed contract values. In accordance with FRS 101 the entire loss is recognised as soon as the loss is identified by management.

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.

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

Recoverability of goodwill

Under the new accounting standards management have assessed the recoverability of goodwill, with reference to the estimated future cash flows of the Company. The Company has followed a UTC wide calculation and its future revenues do not indicate that goodwill requires impairment. The most significant assumptions used in the impairment review is the discount rate applied to forecast cash flows.

Recoverability of internally-generated intangible asset

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £5,589,000 (2017: £4,485,000). The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

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.

Inventory provisioning

The Company is involved in the development, manufacture, marketing and selling of gyroscopes and inertial navigation systems mainly for military applications. These 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 14 for the net carrying value of inventory and associated provision.

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 15 for the net carrying amount of the receivables and the associated impairment provision.

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.

In the judgement of the directors, the company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for a defined contribution scheme, see note 23 for details.

3. Revenue

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

	2018 £'000	2017 £'000
Continuing operations		
Sales of goods	**58,362**	48,009
Rendering of services	**3,622**	3,171
Royalty revenues	**144**	116
Other operating income	**3,150**	5,087
	65,278	56,383

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

	2018 £'000	2017 £'000
Revenue:		
Original Equipment Manufacture	**62,067**	53,144
Aftermarket	**3,211**	3,239
	65,278	56,383

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

	2018 £'000	2017 £'000
Revenue:		
United Kingdom	**9,218**	14,605
Rest of Europe	**5,284**	4,415
North America	**40,670**	25,061
Rest of World	**10,106**	12,302
	65,278	56,383

4. Finance Income

	2018 £'000	2017 £'000
Interest receivable from group companies	**557**	194
	557	194

5. Finance costs

	2018 £'000	2017 £'000
Interest payable to group companies	-	-
	-	-

6. Profit before taxation

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

	2018 £'000	2017 £'000
Net foreign exchange (gains)/losses	**(45)**	271
Depreciation of tangible fixed assets:		
- owned	**732**	771
- held under finance leases	**11**	-
Profit on disposal of Plant, property and equipment	**(10)**	-
Amortisation of intangible assets	**254**	203
Research and development	**1,950**	977
Operating lease charges	**23**	19
Staff costs (see note 8)	**14,605**	12,799

7. Auditors' remuneration

Fees payable to PricewaterhouseCoopers LLP and their associates for the audit of the Company's financial statements were £41,000 (2017: £46,000).

Fees payable to PricewaterhouseCoopers LLP and their associates for the audit of Silicon Sensing Systems Limited joint venture were £nil (2017: £25,000).

Fees payable to PricewaterhouseCoopers LLP and their associates for non-audit services of the Company amount to £35,000 (2017: £nil).

Fees payable to PricewaterhouseCoopers LLP and their associates for non-audit services of Silicon Sensing Systems Limited joint venture were £nil (2017: £7,050).

8. Staff costs

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

	2018 Number	2017 Number
Administration and management	**72**	72
Engineering	**65**	61
Operations	**129**	114
	266	247

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	**12,395**	10,837
Social security costs	**1,223**	1,066
Other pension costs (see note 23)	**987**	896
	14,605	12,799

'Other pension costs' includes only those items included within operating costs.

9. Directors' remuneration and transactions

	2018	2017
	£'000	£'000
Directors' remuneration		
Emoluments	**291**	316
Stock option	**26**	12
Company contributions to money purchase pension schemes	**22**	21
	339	349

	2018	2017
	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	**2**	2

	2018	2017
	£'000	£'000
Remuneration of the highest paid director:		
Emoluments and amounts (excluding shares) under long term incentive schemes	**201**	221
Stock option	**26**	12
Company contributions to money purchase pension schemes	**15**	13
	242	246

The highest paid director exercised share options in the year of £26,000 (2017: £12,000). During the year, the highest paid Director accrued retirement benefits in respect of defined contribution pension schemes.

10. Income tax expense

Tax charge included in the profit and loss account:

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on profits for the year	**2,957**	3,993
Adjustments in respect of prior years		
UK corporation tax	**19**	-
Total current tax	**2,976**	3,993
Deferred tax		
Origination and reversal of timing differences	**(53)**	102
Under provision in deferred tax in prior years	**(26)**	(12)
Total deferred tax (see note 19)	**(79)**	90
Total tax on profit	**2,897**	4,083

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

	2018 £'000	2017 £'000
Profit before taxation	**18,136**	23,135
Tax on profit at standard UK corporation tax rate of 19% (2017: 19.25%)	**3,446**	4,453
Effects of:		
Expenses not deductible for tax purposes	**3**	8
Income not taxable	**-**	(67)
Group relief received for nil payment	**(526)**	(286)
Adjustments in respect of prior years	**(7)**	(12)
Rate differential on temporary differences	**(19)**	(13)
Total tax charge for the year	**2,897**	4,083

The tax credit in future years may be affected by:

Depreciation is running in advance of claims for capital allowances. 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.

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. Intangible assets

	Development costs £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2017	3,083	22,326	25,409
Additions	1,928	-	1,928
At 31 December 2017	**5,011**	**22,326**	**27,337**
Additions	1,358	-	1,358
At 31 December 2018	**6,369**	**22,326**	**28,695**
Accumulated amortisation			
At 1 January 2017	323	7,941	8,264
Amortisation	203	-	203
At 31 December 2017	**526**	**7,941**	**8,467**
Amortisation	254	-	254
At 31 December 2018	**780**	**7,941**	**8,721**
Net book value			
At 31 December 2018	**5,589**	**14,385**	**19,974**
At 31 December 2017	4,485	14,385	18,870

In 2016, 2017 and 2018 Development costs relating to High Performance sensors and associated Inertial Measurement Units (IMU's) were capitalised in accordance with the measurement and recognition bases of IAS 38 *Intangible Assets.* The IMU's went into production in 2017 and the costs are being written off over 5 years.

Atlantic Inertial Systems Limited

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

12. Property, plant and equipment

	Freehold Property £'000	Plant and machinery £'000	Software £'000	Payments on account and assets in the course of construction £'000	Total £'000
Cost					
At 1 January 2017	3,295	5,169	965	1,273	**10,702**
Additions	-	-	-	2,281	**2,281**
Transfer between classes	121	1,127	25	(1,273)	**-**
At 31 December 2017	**3,416**	**6,296**	**990**	**2,281**	**12,983**
Additions	-	-	-	3,087	**3,087**
Disposals	-	(223)	-	-	**(223)**
Transfer between classes	508	1,811	404	(2,723)	**-**
At 31 December 2018	**3,924**	**7,884**	**1,394**	**2,645**	**15,847**
Accumulated depreciation					
At 1 January 2017	1,772	2,971	702	-	**5,445**
Depreciation	158	475	138	-	**771**
At 31 December 2017	**1,930**	**3,446**	**840**	**-**	**6,216**
Depreciation	113	473	157	-	**743**
Disposals	-	(213)	-	-	**(213)**
At 31 December 2018	**2,043**	**3,706**	**997**	**-**	**6,746**
Net book value					
At 31 December 2018	**1,881**	**4,178**	**397**	**2,645**	**9,101**
At 31 December 2017	1,486	2,850	150	2,281	6,767

13. Investments

	£'000
Cost and net book value	
At 1 January 2017	**6,549**
At 31 December 2017	**6,549**
At 31 December 2018	**6,549**

The Company's investment in Silicon Sensing Systems Limited is treated as a joint venture because the Company exercises joint control through its 50% holding of the voting rights.

Details of the Company's investments at 31 December 2018 are as follows. Unless otherwise indicated, all ownership interests are in the ordinary share capital of the investee.

Name & Registered Address	Place of incorporation (and operation)	Proportion of ownership interest %	Proportion of voting power held %
Silicon Sensing Systems Limited Clittaford Road, Southway, Plymouth, Devon, PL6 6DE, England	England	50%	50%

The investment in the joint venture is stated at cost less provision for impairment.

14. Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	**1,333**	1,987
Work in progress	**7,084**	2,607
Finished goods and goods for resale	**782**	681
	9,199	5,275

In the opinion of the Directors the difference between the carrying value of inventory and its replacement value is not material. There is no provision (2017: £nil) over stock held.

15. Debtors

	2018 £'000	2017 £'000
Trade receivables	**19,063**	10,828
Amounts owed by group undertakings	**20,242**	95,829
VAT	**489**	1,942
Other receivables	**43**	82
Prepayments and accrued income	**678**	444
Deferred tax asset (note 19)	**98**	230
	40,613	109,355

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 provisions for impairment included in trade receivables (2017: £nil).

16. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	**8,477**	5,538
Amounts owed to group undertakings	**1,548**	1,794
Corporation tax	**3,550**	3,993
Accruals	**5,247**	3,350
Deferred and unearned income	**5,694**	3,286
	24,516	17,961

No interest is charged on inter-company trading balances (2017: £nil).

17. Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Accruals and deferred income	**3,672**	-
	3,672	-

18. Provisions for liabilities

	Product warranties £'000	Loss making contracts £'000	Total £'000
At 1 January 2017	408	102	510
Amounts utilised	-	(134)	(134)
Arising during the year	-	116	116
Unused amounts reversed to the profit and loss account	(408)	-	(408)
At 31 December 2017	**-**	**84**	**84**
Arising during the year	182	173	355
At 31 December 2018	**182**	**257**	**439**

Product warranties

The provision for product warranties relates to expected warranty claims on products sold in the last three years. It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.

Loss making contracts

The loss making contract provision relates to long term contracts where the estimated total costs are forecast to exceed contract values. In accordance with FRS 101 the entire loss is recognised as soon as the loss is identified by management.

19. Deferred tax

The Company recognises deferred tax assets as follows:

	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 1 January 2017	283	37	320
(Charged)/ credited to profit and loss account	(130)	40	(90)
At 31 December 2017	**153**	**77**	**230**
Change in accounting policy (note 26)	-	(211)	(211)
Restated balance at 1 January 2018	**153**	**(134)**	**19**
(Charged)/ credited to profit and loss account	(132)	211	79
At 31 December 2018	**21**	**77**	**98**

The provision for deferred tax consists of the following deferred tax assets:

	2018 £'000	2017 £'000
Deferred tax assets due within 12 months	**77**	77
Net asset due within 12 months	**77**	77
Deferred tax assets due after more than 12 months	**21**	153
Net asset due after more than 12 months	**21**	153
Total deferred tax provision	**98**	230

20. Called up Share capital

Ordinary shares

	2018 £'000	2017 £'000
Allotted and fully-paid		
10,000 (2017: 10,000) Ordinary Shares of £1 each	**10**	10

Preference shares of £1 each

	2018 £'000	2017 £'000
Allotted and fully-paid		
90,000 (2017: 90,000) Preference Shares of £1 each	**90**	90

As the preference shares carry no right to dividends and are not redeemable, they are considered to constitute equity rather than debt and have therefore been recognised as such.

21. Dividends on equity shares

Amounts recognised as distributions to equity holders in the year:

	2018 £'000	2017 £'000
Final dividend for the year ended 31 December 2018 of £8,810 (2017: £nil) per £1 share	**88,100**	-
	88,100	-

22. Financial Commitments

Operating Leases

	2018 £'000	2017 £'000
Within one year	**18**	8
Between two and five years	**121**	232
	139	240

Operating lease payments represent rentals payable by the Company for the lease of cars and office equipment. Car leases are negotiated for an average terms of four years and rentals are fixed for an average of four years.

23. 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 of £987,000 (2017: £886,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. There were no contributions outstanding at the year end.

Defined benefit schemes

The Company participates in a group defined benefit scheme for qualifying employees (the UTC (UK) Pension Scheme). Under the schemes, 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.

There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 (Revised 2011), the Company recognises a cost equal to its contribution payable for the year, which in the year ended 31 December 2018 was £nil (2017: £10,000).

Further details of the Group defined benefit scheme are disclosed in note 22 of the financial statements of Goodrich Controls Systems for the year-ended 31 December 2018.

24. Share based payments

Cash-settled share-based payments

The company issues to certain employees share appreciation rights (SARs), determined by reference to the company's parent's shares, that require the company to pay the intrinsic value of the SAR to the employee at the date of exercise. The company recorded total expenses of £nil and £4,000 in 2018 and 2017, respectively. The total intrinsic value at 31 December 2018 was £nil (2017: £2,000).

25. Related party transactions

	2018	2017
	£'000	£'000
Product Sales	**93**	240
Product Purchases	**726**	367
Service charges to related parties	**1,941**	1,823
Royalty charges to related parties	**150**	128
Amounts owed to related parties	**295**	53
Amounts owed by related parties	**118**	30

The Company's ultimate parent is United Technologies Corporation, whose group financial statements are publicly available. Accordingly, the Company has taken advantage of the exemption in FRS101 from disclosing transactions with fellow wholly owned members or investees of United Technologies Corporation Group, with the exception of related party transactions with the Company's joint venture partner, Silicon Sensing Systems Limited. The above balances all relate to Silicon Sensing Systems Limited.

Atlantic Inertial Systems Limited

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

26. 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:

	IAS 18 carrying amount 31 December 2017 £'000	**Remeasurement £'000**	**IFRS 15 carrying amount 1 January 2018 £'000**
Inventories	5,275	265	5,540
Debtors	109,355	4,580	113,935
Creditors: due within one year	(17,961)	1,207	(16,754)
Creditors: due after one year	-	(4,943)	(4,943)
Deferred tax asset	230	(211)	19
Profit and loss account	95,669	899	96,568

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

	2018 £'000	2017 £'000
Retained earnings	**95,669**	95,669
Recognition of profit on adoption of IFRS 15	**1,110**	-
Reduction in deferred tax asset	**(211)**	-
Adjustment to retained earnings from adoption of IFRS 15	899	-
Opening retained earnings – IFRS 15	96,568	95,669

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.

27. 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.

28. Controlling party

The company's immediate parent undertaking is Goodrich Limited, a company registered in England & Wales.

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