

Stirling Dynamics Limited

Annual report and financial statements

Registered number 02092114

31 December 2019



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Company Information

Directors

A L Pfeil
M J Sheehan (resigned on 30th April 2020)
J L Hoyle
D R Clark (appointed on 27 January 2020)

Registered office

230 Bristol Business Park
Stoke Gifford
Bristol
BS16 1FJ

Auditors

Constantin
25 Hosier Lane
LONDON
EC1A 9LQ

Strategic Report

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2019. The comparative figures are for the 9 months ended 31 December 2018.

Principal Activities

The principal activity of the company is to provide complex technical engineering services and state-of-the-art control system technology into aerospace, marine and training and simulation markets. The company operates through the following business streams after aligning its key activities with the principal markets for its products and services. These are:

Aerospace Technical Services: focusing on high-end engineering and consultancy services which support complex design and development programmes in the aerospace industries including those with demanding safety-critical requirements;

Aerospace and Marine Systems: providing world-leading control technologies with a product portfolio that spans state-of-the-art advanced pilot training, simulation equipment, autopilots and hover control for submarines including safety critical systems;

Business review

The directors are pleased to report that the financial performance of the company has continued to develop on all fronts over the year to 31 December 2019. This includes continued profitability, cash position, investment in infrastructure, business development in international markets and retention of existing key customers. The company's comprehensive 3-year plan demonstrates these trends will continue for the foreseeable future. Trading results are set out on page 9 and the company reports turnover for the year ended 31 December 2019 was £10.6 million (nine month period ended 31 December 2018 - £7.3 million).

Profit before taxation for the year to 31 December 2019 amounted to £2.0 million (nine month period ended 31 December 2018 - £1.1 million).

The company now has a stronger balance sheet and an improved funding position, with bank and intercompany balances at 31 December 2019 totalling £5.8 million (period ended 31 December 2018 - £4.5million).

This year has seen several key developments within the company to support not only resolving and progressing our future technology products but also in supporting national technology themes. In addition to the R&D performed for customers, we also undertook research activities funded through UK government schemes.

Key performance indicators

Given the nature of the business, the company's directors are of the opinion that key performance indicators are important. The company uses several indicators to monitor and improve the development, performance and position of the business. Some of the key non-financial key performance indicators are productive headcount and labour utilisation, monitored through timesheet bookings. Approved supplier matrix, customer on time delivery and acceptance, are monitored through our Quality Management System. In terms of key financial indicators, the business monitors revenue, margin and operating profit on a monthly basis, as well as cash and debtors position on a weekly basis. The financial performance of the individual projects is also managed on a regular basis, through reviews with heads of the business units and project managers.

Principal risks and uncertainties

Credit risk

Credit risk arises from the granting of payment terms to customers in the UK, USA, Europe and the Far East. These customers are predominantly blue chip international organisations or government departments. Where feasible, customers are credit vetted using third party credit agencies, or through analysis of customer provided financial information.

Credit risk for such customers is managed through commercial contracts including, where possible, advance payments to cover the procurement of materials or commitment of resources. Similarly, customers will often be required to make milestone payments against completed work before the company commits project resources to further work.

Strategic Report *(continued)*

Economy

The uncertainty over Brexit is being managed successfully by the company by maintaining a strong order book outside Europe. Developing long term strategic relationships with these overseas customers is imperative.

Covid 19 Risk

During March 2020 the company analysed the main risks presented by the Covid 19 crisis with the following being the main risks

- Ensuring the health and safety of employees and others
- The effect on the level of business activity and how the company could continue activity in line with lockdown restrictions

The company has formed a Covid 19 Crisis Management Team including directors and senior management which meets regularly to ensure active management of these risks including

- Active support from the wider Expleo group
- Implementation of all actions and procedures to ensure appropriate health and safety requirements and compliance with government guidance
- Close liaison with current and prospective customers to ensure appropriate activity levels, managed through detailed forecasts
- Significant move to home working for the vast majority of staff

Foreign exchange risk

The company is predominantly exposed to currency risk on sales made in several different currencies. The company operates natural hedging through operating bank accounts in a number of currencies, including US Dollars and Euros. It is the company's policy to hold foreign currency balances sufficient to settle future liabilities in that same foreign currency.

Competition

The company is able to maintain its competitive advantage by continual investment in business development, R&D, training, business systems and improvements in production methods to support the market needs.

By order of the board



J L Hoyle
Director

9 September 2020

Directors' report

The directors present their report together with the audited financial statements for the year ended 31 December 2019. The comparative figures are for the 9 month period ended 31 December 2018.

Dividends

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

Directors

The directors who served during the period were:

A L Pfeil
M J Sheehan
J L Hoyle (appointed on 26 March 2019)
D R Clark (appointed on 27 January 2020)

Employees

Throughout the period the company maintained the practice of keeping employees informed about changes in corporate policies, activities and progress. Particular attention is given to the health and safety of employees, gender diversity, employment of disabled persons, continued employment of employees who become disabled and to the training, career development and promotion of disabled people.

Future Developments

In light of the COVID-19 pandemic, it is anticipated that there will be a down-turn in aerospace engineering activity over the next 3-5 years due to the reduction in air passenger travel, a reduction in new aircraft orders and the subsequent reduction in outsourcing of aerospace R&D activity. The company is preparing for this situation by exploring and making plans for diversification into a number of adjacent business sectors where the core skills of dynamics, systems, simulation and control can be deployed as transferable capabilities.

The company is investing in an R&D programme to address the evolving needs of the military pilot training environment, which is trending towards high-fidelity, lower-cost desktop simulators.

The Marine sector is considered as relatively stable and the company will continue with its core offerings as well as transferring some of our capabilities to other types of naval marine platforms.

The company's response to the COVID-19 pandemic has been to enable a significant level of home working which has had no discernible effect on productivity. It is anticipated that a greater level of flexibility will be offered to staff in the future regarding working location.

Political contributions

The company made no political donations or incurred any political expenditure during the period.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Constantin will therefore continue in office.

Matters dealt with in the strategic report

Under S414C(11) of the Companies Act 2006, the business review and principal risks, are set out in the strategic report on pages 2 and 3.

By order of the board



J L Hoyle
Director

230 Bristol Business Park
Stoke Gifford
BRISTOL
BS16 1FJ

9 September 2020

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's report to the members of Stirling Dynamics Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Stirling Dynamics Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework", and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account and other comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Independent Auditor's report to the members of Stirling Dynamics Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Independent Auditor's report to the members of Stirling Dynamics Limited

Matters on which we are required to report by exception

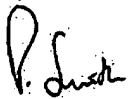
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Peter Smith (Senior statutory auditor)

For and on behalf of Constantin

Chartered Accountants and Statutory Auditor
25 Hosier Lane
London
EC1A 9LQ

Date 9 September 2020

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2019

	<i>Note</i>	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Turnover	3	10,633	7,262
Cost of sales		(6,151)	(4,146)
Gross profit		4,482	3,116
Administrative expenses		(2,657)	(2,057)
Other operating income	4	128	61
Operating profit	5	1,953	1,120
Interest received and similar income	8	68	-
Interest payable and similar charges	9	(6)	-
Profit on ordinary activities before taxation		2,015	1,120
Tax on profit on ordinary activities	10	(405)	(180)
Profit for the financial year/period		1,610	940
Other comprehensive income		-	-
Total comprehensive income for the year/period		1,610	940

The notes on pages 13 to 26 form an integral part of these financial statements.

Balance Sheet
At 31 December 2019

	Notes	2019 £000	2018 £000
Fixed assets			
Tangible assets	11	2,369	255
Current assets			
Stocks	13	631	225
Debtors	14	7,724	7,008
Cash at bank and in hand		1,238	680
		<u>9,593</u>	<u>7,913</u>
Creditors: amounts falling due within one year	15	(3,860)	(3,208)
Net current assets		5,733	4,705
Creditors: amounts falling due after more than one year	17	(1,736)	-
Provisions for liabilities			
Other provisions	18	(214)	(418)
Net assets		6,152	4,542
Capital and reserves			
Called up share capital	19	18	18
Share premium account		1,494	1,494
Profit and loss account		4,640	3,030
Shareholders' funds		6,152	4,542

These financial statements were approved by the board of directors on
on its behalf by:

9 September 2020

and were signed



J L Hoyle
Director

Registered number 02092144

The notes on pages 12 to 25 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2019

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2018	18	1,494	2,090	3,602
Total comprehensive income for the period				
Profit	-	-	940	940
Other comprehensive profit	-	-	-	-
Total comprehensive profit for the period	-	-	940	940
Transactions with owners, recorded directly in equity				
Dividends	-	-	-	-
Balance at 31 December 2018	18	1,494	3,030	4,542

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2019	18	1,494	3,030	4,542
Total comprehensive income for the year				
Profit	-	-	1,610	1,610
Adjustment from the adoption of IFRS 16	-	-	-	-
Other comprehensive profit	-	-	-	-
Total comprehensive profit for the year	-	-	1,610	1,610
Transactions with owners, recorded directly in equity				
Dividends	-	-	-	-
Balance at 31 December 2019	18	1,494	4,640	6,152

The notes on pages 12 to 25 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Adoption of new and revised Standards

Impact of initial application of IFRS 16 Leases

In the current year, the company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. Details of these new requirements are described in Note 2. The impact of the adoption of IFRS 16 on the company's financial statements is described below.

The date of initial application of IFRS 16 for the company is 1 January 2019.

The company has applied IFRS 16 using the cumulative catch-up approach which:

- requires the company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the company.

(b) Impact on lessee accounting

IFRS 16 changes how the company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the company:

- (a) Recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
- (b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Notes (continued)

1 Adoption of new and revised Standards (continued)

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within the administrative expenses line item.

The company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

2 Accounting policies

The company is incorporated and domiciled in the UK, registered in England and is a private company limited by shares.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2016/15 Cycle) issued in July 2017 and effective immediately have been applied.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

The company's parent undertaking, Expleo Group SAS includes the company in its consolidated financial statements. The consolidated financial statements of Expleo Group SAS are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Expleo Engineering UK Limited, Club Street, Bamber Bridge, PRESTON, PR5 6FN.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- Disclosures in respect of IFRS 16
- The effects of new but not yet effective IFRSs.

The company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Notes (continued)

2 Accounting policies (continued)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 22.

Measurement convention

The financial statements are prepared on the historical cost basis. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The directors, having considered the current trading prospects, identifiable risks, working capital requirements and the availability of finance and having obtained a letter of support from Expleo Group SAS, are of the opinion that the company is a going concern. The accounts have been prepared on this basis.

Foreign currency

Transactions in foreign currencies are translated to the company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- | | |
|---|----------|
| • Equipment | 5 years |
| • Computer equipment (including software) | 3 years |
| • Leasehold property improvements | 5 years |
| • Fixtures and fittings | 7 years |
| • Leasehold property | 10 years |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Research and development

The company makes appropriate claims for research and development expenditure credits ("RDEC"). The RDEC credit for each year is recognised as a reduction in cost of sales in the profit and loss account in the period to which the credit relates.

Investments

Investments are stated at cost less accumulated impairment losses.

Notes (continued)

2 Accounting policies (continued)

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers during the year. Turnover is recognised by reference to the value of work performed to date as a proportion of the total contract value, or the value of goods shipped.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Leases

The company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019: The company as lessee

The company assesses whether a contract is or contains a lease, at inception of the contract. The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Notes (continued)

2 Accounting policies (continued)

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within the tangible fixed assets line in the balance sheet.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'impairment of tangible and intangible assets' policy.

Expenses

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. The profit included is calculated to reflect the proportion of work done at the year end by recording turnover and related costs as contract activity progresses. Provision is made for any losses which are foreseen.

Amounts recoverable on contracts is stated at unbilled sales value, after deducting foreseeable losses and payments on account not matched with turnover.

Notes (continued)

3. Turnover

Turnover comprises:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
United Kingdom	3,663	1,229
Europe	48	123
United States	2,286	3,120
Other	<u>4,636</u>	<u>2,790</u>
	<u>10,633</u>	<u>7,262</u>

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Turnover – by business class		
Aerospace Technical Services	6,141	4,131
Aerospace and Marine Services	4,597	3,165
Eliminate Grant Funding	<u>(105)</u>	<u>(34)</u>
	<u>10,633</u>	<u>7,262</u>

Turnover is generated from continuing operations.

4. Other operating income

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Grant income	105	34
Rental income	<u>23</u>	<u>27</u>
	<u>128</u>	<u>61</u>

Notes (continued)

5. Operating profit

The operating profit is derived after the following are taken into account:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Depreciation of tangible fixed assets - owned by the company	132	88
Depreciation of right of use assets – Leasehold Property	12	-
Fees payable to the company's auditor and its associates for the audit of the company's financial statements	16	14
Auditor remuneration - non-audit	-	-
Operating lease costs, property	202	178
	<u>202</u>	<u>178</u>

6. Staff numbers and costs

The average monthly number of persons employed by the company (including the directors) during the year analysed by category, was as follows:

	Year ended 31 December 2019 No.	Period ended 31 December 2018 No.
Management and administration (including directors)	16	15
Production	71	68
	<u>87</u>	<u>83</u>

The aggregate payroll costs of those persons were as follows:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Wages and salaries	3,422	2,804
Social security costs	351	290
Contribution to defined contribution plan	191	146
	<u>3,964</u>	<u>3,240</u>

Notes (continued)

7. Directors' remuneration

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Directors' emoluments *	86	123
Company contributions to defined contribution pension schemes	6	9
	<u>92</u>	<u>132</u>

*One director is remunerated through Stirling Dynamics Limited. Other directors are remunerated by fellow UK group companies.

During the year retirement benefits were accruing to 1 director (period ended 31 December 2018 - 3) in respect of defined contribution pension schemes.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £86,409 during the year (period ended 31 December 2018 - £66,415) and company contributions of £5,745 (period ended 31 December 2018 - £5,313) were made to a defined contribution plan on their behalf.

8. Interest receivable and similar income

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Other interest receivable	68	-
	<u>68</u>	<u>-</u>

9. Interest payable and similar expenses

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Interest payable on right of use assets	6	-
	<u>6</u>	<u>-</u>

Notes (continued)

10. Taxation

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Recognised in the profit and loss account		
<i>Corporation tax</i>		
Current tax on profits for the year/period	291	63
Adjustments in respect of previous periods	55	(29)
Total tax	<u>346</u>	<u>34</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	111	146
Adjustments in respect of prior periods	(52)	-
Total deferred tax	<u>59</u>	<u>146</u>
Taxation on profit	<u>405</u>	<u>180</u>
Reconciliation of effective tax rate		
	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Profit for the year/period	1,610	940
Total tax expense	<u>405</u>	<u>180</u>
Profit excluding taxation	<u>2,015</u>	<u>1,120</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (period ended 31 December 2018 - 19.00%)	383	212
Effects of:		
Expenses not deductible for tax purposes	25	3
Adjustments to tax charge in respect of previous periods	3	(29)
Other items	(6)	(6)
Total tax charge for the year/period	<u>405</u>	<u>180</u>

As at 31 December 2019 there were accumulated tax losses carried forward of £nil (31 December 2018 - £353,000).

Notes (continued)

11. Tangible fixed assets

	Plant, machinery and IT equipment £000	Leasehold property improvement, fixtures & fittings £000	Right of use asset - Leasehold property £000	Total £000
Cost				
At 1 January 2019	573	81	-	654
Additions	58	581	1,642	2,281
Disposals	(57)	(46)	-	(103)
At 31 December 2019	<u>574</u>	<u>616</u>	<u>1,642</u>	<u>2,832</u>
Depreciation				
At 1 January 2019	334	65	-	399
Charge for the year	117	15	12	144
Disposals	(44)	(36)	-	(80)
At 31 December 2019	<u>407</u>	<u>44</u>	<u>12</u>	<u>463</u>
Net book value				
At 31 December 2019	<u>167</u>	<u>572</u>	<u>1,630</u>	<u>2,369</u>
At 31 December 2018	<u>239</u>	<u>16</u>	<u>-</u>	<u>255</u>

Notes (continued)

12. Fixed asset investments

Fixed asset investments solely comprise interests in subsidiary companies.

Subsidiary undertakings

The following was a subsidiary undertaking of the company:

Name	Class of shares	Holding	Principal activity
Stirling Dynamics EBT Limited	Ordinary	100%	Dormant

The registered address of Stirling Dynamics EBT Limited is 230 Bristol Business Park, Stoke Gifford, Bristol, United Kingdom, BS16 1FJ.

On 28 July 2015 Stirling Dynamics acquired 100% of the share capital of Stirling Dynamics EBT Ltd (company no. 09706656) for £1

Cost as at 1 st January 2019	£1
Additions	£Nil
Disposals	£Nil
Impairments	£Nil
Net book value as at 31 December 2019	£1

13. Stock

	31 December 2019	31 December 2018
Raw materials and consumables	339	225
Finished goods and goods for resale	292	-

Stock recognised in cost of sales during the year as an expense was £404,369 (period ended 31 December 2018 - £518,898).

Notes (continued)

14. Debtors

	31 December 2019 £000	31 December 2018 £000
Trade debtors	2,770	2,627
Prepayments and accrued income	197	219
Amounts recoverable on contracts	40	290
Interest due within 12 months on operating lease under IFRS16	88	-
Amounts owed by group undertakings (see below)	4,608	3,788
Corporation tax	-	65
VAT	21	19
	<u>7,724</u>	<u>7,008</u>

The gain recognised in profit or loss for the period in respect of bad and doubtful trade debtors was £197,799 (period ended 31 December 2018 – loss of £113,561).

Amounts owed by group undertakings includes an on demand current account payable by Expleo Engineering UK Limited of £4,526,103 (31 December 2018 - £3,788,856).

15. Creditors: Amounts falling due within one year

	31 December 2019 £000	31 December 2018 £000
Payments received on account	696	1,073
Trade creditors	392	394
Other taxation and social security	195	298
Other creditors	498	291
Amounts owed to group undertakings	3	-
Accruals and deferred income	1,907	1,130
Corporation tax	88	-
Deferred taxation (see note 16)	81	22
	<u>3,860</u>	<u>3,208</u>

Included within other creditors are pension contributions payable of £71,000 (31 December 2018 - £74,000).

Notes (continued)

16. Deferred taxation

The following is recognised as a deferred tax (asset)/liability

	31 December 2019 £000	31 December 2018 £000
Accelerated capital allowances	87	28
Short term timing differences	(6)	(6)
	<u>81</u>	<u>22</u>

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

	31 December 2019 £000	31 December 2018 £000
Finance leases in relation to Leasehold property – Right of use asset	1,736	-

18. Provisions

	Onerous lease £000	Warranty provision £000	Rent free provision £000	Total £000
Balance at 1 January 2019	34	379	5	418
Provisions made in the year	-	498	-	498
Provisions released in the year	(34)	(663)	(5)	(702)
	<u>-</u>	<u>214</u>	<u>-</u>	<u>214</u>
Balance at 31 December 2019	-	214	-	214

The warranty provision is calculated in line with the total contract value based on the complexity of the products delivered, history of relationship with the client and previous product experience.

Share Capital

	31 December 2019 £000	31 December 2018 £000
Allotted, called up and fully paid		
142,192,461- A ordinary shares of £0.0000475 each	7	7
54,691,000- B ordinary shares of £0.0000475 each	3	3
21,876,400- C ordinary shares of £0.0000475 each	1	1
144,741,835- deferred shares of £0.0000475 each	7	7
	<u>18</u>	<u>18</u>

Notes (continued)

20. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2019 £000	31 December 2018 £000
Land & Buildings		
Within 1 year	-	211
Between 2 and 5 years	-	-
5 years and over	-	-
	-	211

21. Employee benefits

The company operates a defined contribution pension plan. The total expense to this plan in the current year was £191,000 (period to 31 December 2018: £146,000).

22. Related party transactions

The company has made sales to and purchases from various fellow subsidiary companies in the normal course of its business activities; these are normal commercial arrangements consistent with those with third parties.

The above arrangements in the year to 31 December 2019 are as follows:

- Sales revenue of £180,404 to fellow group companies in the year to 31 December 2019 (*Period to 31 December 2018: £14,071*)
- Recharges of costs to fellow group companies £nil in the year to 31 December 2019 (*Period to 31 December 2018: £nil*)
- Recharges of costs from fellow group companies £114,424 in the year to 31 December 2019 (*Period to 31 December 2018: £nil*)
- Purchases of £46,910 from fellow group companies in the year to 31 December 2019 (*Period to 31 December 2018: £nil*)
- Management fees & brand recharges of costs from fellow group companies of £411,150 in the year to 31 December 2019 (*Period to 31 December 2018: £nil*)

In addition the company entered into a treasury management agreement with Expleo Services, therefore any excess cash over and above the immediate working capital requirement is advanced to group and drawn down as required. The company receives interest at a commercial rate on such transfers, which over the year to 31 December 2019, totalled £67,856 (*Period to 31 December 2018: £nil*).

23. Ultimate parent company and parent company of larger group

The immediate parent company is Expleo Engineering UK Limited which has a 100% holding in the company. The ultimate parent undertaking and controlling party is Expleo Group SAS a company registered in France. Copies of the consolidated accounts of Expleo Group SAS which is largest group for which group accounts are prepared and of which Expleo Engineering UK Limited is a member, are available from Expleo Engineering UK Limited, Club Street, Bamber Bridge, PRESTON, PR5 6FN.

24. Accounting estimates and judgements

The key area of estimation within the accounts of the company relates to the valuation of certain elements of amounts recoverable on contracts as included in debtors (see note 14). This uncertainty relates to estimating the value of work performed to date as a proportion of the total contract value; or estimating the final contract value where additional scope activity is undertaken. The company utilises previous experience and the expertise of its engineering teams to make such estimates as accurate as possible.