



RWG (Repair & Overhauls) Limited
Annual Report and Financial Statements 2019



RWG (Repair & Overhauls) Limited – SC120673

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Strategic report for the year ended 31 December 2019

The directors present their strategic report on the group for the year ended 31 December 2019.

Our business

The principal activities during the year of the company and its subsidiary undertakings (together “the Group”) were the provision of repair and overhaul services to operators of industrial aero-derivative gas generators in the global oil and gas, power generation, and marine propulsion industries. Our service capability covers SGT-A20 (Industrial Avon), SGT-A35 (Industrial RB211), SGT-A05 (Industrial 501), Rolls-Royce marine 501K, Olympus, Spey, Tyne, WR-21, and 570 gas generators as well as the specialist refurbishment of components.

The group results for 2019 reflect a solid performance across all engine groups. The continued expansion of our Advanced Remanufacturing Business delivered year on year growth in third party sales as well as supporting the engine groups in offering innovative, cost effective repair options to both existing and new customers. Success in trading alongside the continual review of our cost base and operating efficiencies driven by both the integration of our Marine business into the Large and Medium engine businesses and our Lean Six Sigma projects resulted in 2019 financial targets being achieved.

In addition to investment to replace aging assets, improve IT systems and expand Advanced Remanufacturing Manufacturing capabilities, 2019 saw the successful completion of a major test cell project. The project to build and commission a new test cell capable to meet the current and future testing requirements for SGT-A05 and Rolls Royce marine 501-K engines, was completed in time and in budget. The investment has enhanced the RWG Inc business allowing engines to be repaired and tested on the same site and deliver efficiencies in terms of both cost and turn time.

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

Section 172 (1) of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision-making. The Directors continue to have regard to the interests of the Group’s employees and other stakeholders, including the impact of its activities on the community, the environment and the Group’s reputation, when making decisions. Acting in good faith and fairly between members, the Directors consider what is most likely to promote the success of the Group for its members in the long term.

The Directors are fully aware of their responsibilities to promote the success of the Group in accordance with section 172 (1) of the Companies Act 2006 and ensure good corporate practice. The Board reflects on how the Group engages with its stakeholders and opportunities for enhancement in the future. The relevance of each stakeholder group may increase or decrease depending on the matter in question, so the Board seeks to consider the needs and priorities of each group during its discussions and as part of its decision making.

The Board continues to enhance its methods of engagement with the workforce. The Board recognises that our employees know our business and have a wide range of views and experience. Our employees, and their motivation and retention, are fundamental to the delivery of our strategy. The health, safety and well-being of our employees is one of our primary considerations in the way we do business.

The Group aims to work responsibly with our suppliers who are integral to the successful delivery of our strategy. We also continually look for new ways to support industrial gas generator operators. We strengthen our service offering with purpose-built repair and overhaul facilities. We are committed to offering the very best quality and scope of service to enhance the performance of operator’s engines and lower their lifecycle costs.

Measuring Performance

The Board of Directors review our operational and financial key performance indicators (KPIs) each quarter against agreed targets however given the straightforward nature of the business, we are of the opinion that analysis using those or other standard KPIs is not necessary for an understanding of the development, performance or position of the business within the statutory accounts.

The primary KPI is Total Recordable Case Frequency (TRCF) underlining that safety of employees, customers and subcontractors at work will always be our priority. The performance was reported monthly to our HSE committee during 2018 and 2019 and to board as part of their reporting packs. On the financial side profit before interest and tax is regularly reviewed throughout the year. This was £23.7m in 2019 (2018: £23.6m).

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Strategic report for the year ended 31 December 2019 (continued)

Financial review

The profit for the financial year amounted to £19.4m (2018: £18.9m) and was transferred to reserves. A final dividend of £22m (2018: £20m) was recommended by the directors and paid in the year.

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks. On a regular basis the major risks facing the Group are reviewed by the board and appropriate actions to mitigate the risks are identified and delegated to the management of the Group. The key business risks and uncertainties facing the Group are considered to be in relation to parts availability, cyber security and increased competition. In mitigation of these risks the Group continue to invest in Advanced Remanufacturing, strengthen the security of our systems and heighten user training and finally support its marketing effort and geographical presence.

Over the last year the risk from Brexit has minimised and although we continue to review the situation, the measures already put in place give the confidence that Brexit will not have a material impact on the business.

Financial risk management

The Group follows accounting, treasury and tax policies that underpin our approach to managing financial risk. We execute regular budgeting, forecasting and monitoring processes. We carry out a review and approval process in relation to capital commitments, acquisitions and disposals.

By order of the board



Director

RWG (Repair & Overhauls) Limited – SC120673

Directors' report for the year ended 31 December 2019

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

Disclosure of information to auditors

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

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

Employment policy and employee communications

It is the policy of the Group to afford disabled persons full and fair consideration for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities. Where the disability occurs during the period of employment every effort is made to continue to provide suitable employment with the provision of appropriate training. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests. The Group aims to ensure that all employees are aware of the financial and economic performance of their business units and of the Group as a whole. Communication with all employees continues through briefing groups to communicate developments in the Group's business and descriptions of the operations carried out by the Group.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 3. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Statements and accompanying notes. In addition, note 16 to the Group financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. The Group has adequate financial resources together with the cash inflows generated from its existing activities. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully. Having made the appropriate enquiries including a review of cash flow projections and key sensitivities, the directors consider that the business is a going concern. Adequate resources exist for the Group to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group and the parent company financial statements.

Branches outside the UK

The Group has no overseas branches.

Dividends

A final dividend of £22m (2018: £20m) was recommended by the directors and paid in the year.

Future Developments

Investment plans for 2020 focus on replacing and enhancing Advanced Remanufacturing capabilities and efficiencies as we continue to develop more innovative and cost efficient solutions to support existing and new markets.

Subsequent Event

The recent global COVID-19 pandemic is the most significant challenge of our generation. This COVID-19 outbreak is considered a non-adjusting balance sheet event under IAS 10. During these unprecedented times RWG will do everything we can to manage through this pandemic, protect our team and to deliver the essential services required by our customers. RWG has always maintained a robust business continuity plan which has

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Directors' report for the year ended 31 December 2019 (continued)

Subsequent Event (continued)

allowed all three businesses to adapt to this quickly changing situation. Investments in RWG's IT infrastructure has enabled many of our team to work remotely without impact to the services we provide. Risk Assessments, changed working practices and other measures put in place within our facilities to protect our teams from the spread of the Coronavirus are strictly adhered. Taking the above into account and without allowing any complacency, we do not expect the business to suffer any material impact from COVID-19.

Directors

The directors of the Group who were in office during the year and up to the date of signing the financial statements, except where otherwise shown, are listed below:

N Blaskoski
G Brown (resigned 3rd June 2020)
A Dinozzi (appointed 1 March 2019)
T Fors (resigned 12 December 2019)
N Gilman (resigned 1 March 2019)
M Gray
R Jaros
A Johnstone (appointed 3rd June 2020)
M Schlelein (appointed 12 December 2019)

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 group and parent company and of the profit or loss of the group and parent company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, 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 group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



A Dinozzi
Company Secretary

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Independent auditors' report to the members of RWG (Repair & Overhauls) Limited

Report on the audit of the group financial statements

Opinion

In our opinion, RWG (Repair & Overhauls) Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 and Financial Statements 2019 (the "Annual Report"), which comprise: the consolidated balance sheet as at 31 December 2019; the consolidated income statement for the year to 31 December 2019, the consolidated statement of comprehensive income for the year to 31 December 2019, the consolidated statement of changes in equity for the year to 31 December 2019, and the consolidated cash flow statement for the year ended 31 December 2019; 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 group 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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 group'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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

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Independent auditors' report to the members of RWG (Repair & Overhauls) Limited (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 2019 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 group 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 set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group'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 group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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Independent auditors' report to the members of RWG (Repair & Overhauls) Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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 exemption reporting

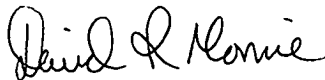
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the parent company financial statements of RWG (Repair & Overhauls) Limited for the year ended 31 December 2019.



David R Morrice (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
4 June 2020

RWG (Repair & Overhauls) Limited – SC120673**Consolidated income statement for the year to 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|----------|---------------|---------------|
| Revenue from continuing operations | 2 | 165,478 | 163,428 |
| Cost of sales | | (133,924) | (132,198) |
| Gross profit | | 31,554 | 31,230 |
| Administrative Expenses | | (9,475) | (8,487) |
| Operating Profit | | 22,079 | 22,743 |
| Share of profit from joint ventures | 10 | 1,590 | 825 |
| Finance income | 3 | 407 | 110 |
| Finance expense | 3 | (777) | (48) |
| Profit before tax from continuing operations | 4 | 23,299 | 23,630 |
| Taxation | 5 | (3,856) | (4,766) |
| Profit for the year | | 19,443 | 18,864 |

The notes on pages 15-43 are an integral part of these consolidated financial statements. The Group has applied IFRS 16 for the first time from 1 January 2019. See notes to the financial statements.

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**Consolidated statement of comprehensive income for the year to 31
December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|------|---------------|---------------|
| Profit for the year | | 19,443 | 18,864 |
| Other comprehensive (expense)/income | | | |
| Exchange differences on translation of foreign operations | 22 | (1,131) | 1,573 |
| Total comprehensive income for the year | | 18,312 | 20,437 |

Total comprehensive income/(expense) for the year is attributable to continuing operations.

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Consolidated balance sheet as at 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--------------------------------|------|-----------------|-----------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 7 | 20,111 | 22,518 |
| Property, plant and equipment | 8 | 9,912 | 7,726 |
| Right of use assets | 9 | 23,131 | - |
| Investment in joint ventures | 10 | 3,336 | 3,440 |
| | | 56,490 | 33,684 |
| Current assets | | | |
| Inventories | 11 | 52,760 | 51,127 |
| Trade and other receivables | 12 | 40,603 | 52,835 |
| Financial asset | | 1,150 | 1,225 |
| Cash and cash equivalents | 13 | 2,121 | 2,058 |
| | | 96,634 | 107,245 |
| Liabilities | | | |
| Current Liabilities | | | |
| Borrowings | 15 | (6,462) | (10,115) |
| Trade and other payables | 14 | (32,825) | (36,290) |
| Taxation | | (1,988) | (2,077) |
| | | (41,275) | (48,482) |
| Net current assets | | 55,359 | 58,763 |
| Non-current liabilities | | | |
| Deferred tax | 18 | (1,870) | (2,366) |
| Lease liabilities | 9 | (23,438) | - |
| Provisions | 17 | (759) | (611) |
| | | (26,067) | (2,977) |
| Net assets | | 85,782 | 89,470 |
| Equity | | | |
| Share capital | 19 | 1,002 | 1,002 |
| Share Premium | 20 | 10,268 | 10,268 |
| Retained earnings | 21 | 72,023 | 74,580 |
| Other reserves | 22 | 2,489 | 3,620 |
| Total equity | | 85,782 | 89,470 |

The financial statements on pages 10 to 44 were approved by the board of directors on 4 June 2020 and were signed on its behalf by:



A Dinozzi

RWG (Repair & Overhauls) Limited – SC120673

Consolidated statement of changes in equity for the year to 31 December 2019

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Other reserves £'000 | Total equity £'000 |
|--|------------------------|------------------------|----------------------------|-------------------------|-----------------------|
| As at 1 January 2018 | 1,002 | 10,268 | 75,716 | 2,047 | 89,033 |
| Profit for the year | - | - | 18,864 | - | 18,864 |
| Other comprehensive income/(expense) | | | | | |
| Exchange movements on retranslation of foreign currency net assets | - | - | - | 1,573 | 1,573 |
| Total comprehensive income/(expense) for the year | - | - | 18,864 | 1,573 | 20,437 |
| Transactions with owners: | | | | | |
| Dividends paid | - | - | (20,000) | - | (20,000) |
| As at 31 December 2018 | 1,002 | 10,268 | 74,580 | 3,620 | 89,470 |
| Profit for the year | - | - | 19,443 | - | 19,443 |
| Other comprehensive income/(expense) | | | | | |
| Exchange movements on retranslation of foreign currency net assets | - | - | - | (1,131) | (1,131) |
| Total comprehensive income for the year | - | - | 19,443 | (1,131) | 18,312 |
| Transactions with owners: | | | | | |
| Dividends paid | - | - | (22,000) | - | (22,000) |
| As at 31 December 2019 | 1,002 | 10,268 | 72,023 | 2,489 | 85,782 |

RWG (Repair & Overhauls) Limited – SC120673**Consolidated cash flow statement for the year ended 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|-----------------|---------------|
| Cash generated from operations | 23 | 33,509 | 12,490 |
| Tax paid | | (3,917) | (3,540) |
| Net cash generated from operating activities | | 29,592 | 8,950 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property plant and equipment | | 1,785 | 201 |
| Purchase of property, plant and equipment | 8 | (4,392) | (3,114) |
| Purchase of intangible assets | 7 | (21) | (1,722) |
| Dividends received from joint venture | 10 | 1,089 | 741 |
| Net cash (used in)/generated from investing activities | | (1,539) | (3,894) |
| Cash flows from financing activities | | | |
| Dividend paid to shareholders | 6 | (22,000) | (20,000) |
| Interest paid | 3 | (66) | (48) |
| Interest received | | 301 | - |
| Principal payment of leases | 9 | (2,517) | - |
| Net cash used in financing activities | | (24,282) | (20,048) |
| Net cash (decrease)/increase in cash and cash equivalents | | 3,771 | (14,992) |
| Effect of exchange rates on cash and cash equivalents | 23 | (55) | 73 |
| Opening cash and cash equivalents | | (8,057) | 6,862 |
| Closing cash and cash equivalents | | (4,341) | (8,057) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019

General information

RWG (Repair & Overhauls) Limited, its subsidiaries and joint venture, repair and overhaul gas turbine engines and refurbish gas turbines and other component parts. Details of the Group's activities during the year are provided in the Strategic Report. RWG (Repair & Overhauls) Limited is a private company limited by shares incorporated and domiciled in the United Kingdom and registered in Scotland. Information on the ultimate parents is disclosed in note 30. The registered office of RWG (Repair & Overhauls) Limited is 15 Justice Mill Lane, Aberdeen, AB11 6EQ.

1. Accounting Policies

Basis of preparation

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations adopted by the European Union ('EU') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group financial statements have been prepared on a going concern basis under the historical cost convention. Accounting policies have been applied consistently throughout the year.

Going Concern

The Group has adequate financial resources together with the cash inflows generated from its existing activities. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully. Having made the appropriate enquiries including a review of cash flow projections, available borrowing facilities (as described in note 15) and key sensitivities, the directors consider that the business is a going concern. Adequate resources exist for the Group to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group and the parent company financial statements. The Group's borrowing facility will expire on 31 July 2020 and it is the expectation of the directors that the facility will be renewed on this date.

Significant accounting policies

The Group's significant accounting policies adopted in the presentation of these financial statements are set out below. With the exception of the application of IFRS 16 "Leases", which has been applied from 1 January 2019, these policies have been consistently applied to all the years presented.

Critical accounting judgements and estimates

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. These estimates are based on management's best knowledge of the amount, event or actions and actual results ultimately may differ from those estimates. The estimates and assumptions that could result in a material adjustment to the carrying amounts of assets and liabilities are the assumptions underlying the models supporting the carrying value of non-current assets and assumptions used in calculating the provision for obsolete and slow-moving inventory and are discussed in the relevant accounting policies within this note.

Impairment of goodwill

The Group carries out impairment reviews whenever events or changes in circumstance indicate that the carrying value of goodwill may not be recoverable. In addition, the Group carries out an annual impairment review. An impairment loss is recognised when the recoverable amount of goodwill is less than the carrying amount. The impairment tests are carried out by CGU ('Cash Generating Unit') and reflect the latest Group budgets. The budgets are based on various assumptions relating to the Group's businesses including assumptions relating to market outlook, resource utilisation, foreign exchange rates, contract awards and contract margins. Pre-tax discount rates of between 11% and 13% have been used to discount the CGU cash flows and a sensitivity analysis has also been performed.

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Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

1. Accounting Policies (continued)

Provisions

The Group records provisions where it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made. Where the outcome is less than probable, but more than remote, no provision is recorded but a contingent liability is disclosed in the financial statements, if material. The recording of provisions is an area which requires the exercise of management judgement relating to the nature, timing and probability of the liability and typically the Group's balance sheet includes provisions for inventory and warranty provisions.

Basis of consolidation

The Group financial statements consolidate the results of the company and its subsidiary undertakings. All Group companies prepare financial statements to 31 December 2019 and adopt uniform accounting policies. All profits or losses generated on intra-group transactions and the investor's share of profits or losses on transactions with subsidiaries are eliminated on consolidation. The Company's own profit and loss account is not shown by virtue of the exemption available within Section 408 of the Companies Act 2006. A joint venture is an entity in which the Group holds a long-term interest and is jointly controlled by the Group and one or more other venturers under a contractual arrangement. The results of the joint ventures are accounted for using the equity method of accounting.

Joint ventures

A joint venture is a type of joint arrangement where parties to the arrangement share rights to its net assets. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group's interests in joint ventures are accounted for using equity accounting. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture from the acquisition date. The results of the joint ventures are included in the consolidated financial statements from the date the joint control commences until the date that it ceases. The Group includes its share of joint venture profit on the line "Share of profit from joint ventures" in the Group income statement and its share of joint venture net assets in the "investment in joint ventures" line in the Group balance sheet.

Presentational currency

The Group's earnings stream is primarily GBP and the principal presentational currency is the GBP, being the most representative currency of the Group.

Foreign currencies

Income statements of entities whose functional currency is not the GBP are translated into GBP at average rates of exchange for the period and assets and liabilities are translated into GBP at the rates of exchange ruling at the balance sheet date. Exchange differences arising on translation of net assets in such entities held at the beginning of the year, together with those differences resulting from the restatement of profits and losses from average to year end rates, are taken to the currency translation reserve.

In each individual entity, transactions in overseas currencies are translated into the relevant functional currency at the exchange rates ruling at the date of the transaction. Where more than one exchange rate is available, the appropriate rate at which assets can be readily realised and liabilities can be extinguished is used. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date. Any exchange differences are taken to the income statement.

The directors consider it appropriate to record US dollar denominated equity share capital in the accounts at the exchange rate ruling on the date it was raised.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

1. Accounting Policies (continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities and is stated net of sales taxes (such as VAT) and discounts. The Group recognises revenue when it transfers control over a good or services to a customer, usually at a specific point in time, based on purchase orders received.

Finance expense/income

Interest income and expense is recorded in the income statement in the period to which it relates. Arrangement fees and expenses in respect of the Group's debt facilities are amortised over the period which the Group expects the facility to be in place.

Dividends

Dividends to the Group's shareholders are recognised as a liability in the period in which the dividends are approved by shareholders. Interim dividends are recognised when paid. Dividend receipts are recognised as income when the right to receive the dividend becomes irrevocable.

Goodwill

The Group uses the purchase method of accounting to account for acquisitions. Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation. Intangible assets are recognised if it is probable that there will be future economic benefits attributable to the asset, the cost of the asset can be measured reliably, the asset is separately identifiable and there is control over the use of the asset. Intangible assets are amortised over their estimated useful lives, as follows:

| | |
|--------------|-----------|
| Licence Fees | 10 years |
| Software | 3-5 years |

Amortisation charges are included within Cost of Sales expenses on the Income Statement.

Property plant and equipment

Property plant and equipment (PP&E) is stated at cost less accumulated depreciation and impairment. No depreciation is charged with respect to freehold land and assets in the course of construction.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

| | |
|--------------------------------|-----------------|
| Short term leasehold buildings | period of lease |
| Plant and equipment | 2-10 years |

When estimating the useful life of an asset group, the principal factors the Group takes into account are the durability of the assets, the intensity at which the assets are expected to be used and the expected rate of technological developments. Asset lives and residual values are assessed at each balance sheet date.

Impairment

The Group performs impairment reviews in respect of PP&E, investment in subsidiaries, joint ventures and intangible assets whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. In addition, the Group carries out annual impairment reviews in respect of goodwill. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's fair value less costs to sell and its value in use, is less than its carrying amount.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

1. Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on first in first out basis. In respect of work in progress, cost includes direct materials and direct labour plus an allocation of production overheads based on a normal level of activity. Net realisable value is the price at which inventory can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving and defective inventory. This is performed using a calculation based on average historical usage adjusted for latest operational, financial and market conditions and expected future activity.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and other short-term bank deposits with maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The provision is determined by reference to previous experience of recoverability for receivables in each market in which the Group operates. Expected credit loss is in line with IFRS 9.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.

Taxation

The tax charge represents the sum of tax currently payable and deferred tax. Tax currently payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the income statement due to items that are not taxable or deductible in any period and also due to items that are taxable or deductible in a different period. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation on PP&E, tax losses carried forward and, in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base. Tax rates enacted, or substantially enacted, at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

1. Accounting Policies (continued)

Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations (net investment hedge).

Where hedging is to be undertaken, the Group documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objective and strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Group performs effectiveness testing on a quarterly basis.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in administrative expenses in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in administrative expenses (in the case of forward contracts) or finance income/expense (in the case of interest rate swaps) in the income statement. Amounts accumulated in equity are recycled through the income statement in periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the currency translation reserve in equity; the gain or loss relating to the ineffective portion is recognised immediately in administrative expenses in the income statement. Gains and losses accumulated in equity are included in administrative expenses in the income statement when the foreign operation is disposed of.

(d) Derivatives that are not designated as hedges

Certain derivatives, whilst providing effective economic hedges are not designated as hedges. Changes in the fair value of any derivative instruments that are not designated for hedge accounting are recognised immediately in administrative expenses in the income statement.

Fair value estimation

The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the balance sheet date. The fair values of all derivative financial instruments are obtained from valuations provided by financial institutions.

The carrying values of trade receivables and payables approximate to their fair values.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

1. Accounting Policies (continued)

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control or use an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an asset, the Group uses the definition of a lease in IFRS 16.

The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The Group recognises a right of use asset and a lease liability at the lease commencement date.

The right of use asset is initially measured at the same value as the lease liability. It is subsequently adjusted for depreciation and certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis from the commencement date to the end of the lease term.

The liability is calculated as the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate ("IBR") and is subsequently increased by the interest cost on the lease liability and reduced by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in rate or a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. A single discount rate has been applied to a portfolio of leases with reasonably similar characteristics.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which may significantly affect the amount of lease liabilities and right of use assets recognised.

The Group has elected not to recognise right of use assets, and lease liabilities for leases of low value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Retirement benefit liabilities

The Group's contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate. In addition, the Group contributes to the 401k pension plans of its US employees.

The Group has contributed in the past to a defined benefit scheme operated by one of its Joint Venture partners. The assets of this scheme are held in separate trustee administered funds. The scheme was closed to future accrual on 30 June 2014. Therefore, the Group no longer contributes to this defined benefit scheme.

Disclosure of impact of new and future accounting standards

(a) Amended standards and interpretations

The following standards and interpretations apply for the first time to accounting periods commencing on or after 1 January 2019:

IFRS 16

Impact of application of IFRS 16

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group has assessed the impact that the initial application of IFRS 16 has on its consolidated financial statements, as described below.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

1. Accounting Policies (continued)

Disclosure of impact of new and future accounting standards (continued)

The Group adopted IFRS 16 on 1 January 2019, using the modified retrospective approach. There was no restatement of comparative information. The Group has recognised new assets and liabilities for its operating leases of property, vehicles and other assets. The nature of expenses related to those leases has changed because the Group now recognises a depreciation charge for right of use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease.

On transition to IFRS 16, the Group recognised right of use assets and additional liabilities. There was no impact on net assets at the date of transition.

| At 1 January 2019 | 2019 £'000 |
|--------------------------------|---------------|
| Right of use assets recognised | 24,653 |
| Lease liabilities recognised | (24,653) |

Depreciation and interest in 2019 have increased by £1.9m and £0.7m respectively. There has been a reduction in lease operating costs of £2.5m. Adjusted EBITDA has increased by £2.5m. There is a reduction of £0.1m in profit before tax.

When measuring liabilities for leases that were classified as operating leases, the Group discounted payments using incremental borrowing rates at 1 January 2019. The weighted average rate applied is 3%.

| Reconciliation of lease liabilities at 1 January 2019 | 2019 £'000 |
|--|-----------------|
| Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements | (30,194) |
| Impact of discounting | 5,269 |
| Commitment discounted using the incremental borrowing rate at 1 January 2019 | (24,925) |
| Recognition exemption for leases of low value and short-term assets | 272 |
| Lease liabilities recognised at 1 January 2019 | (24,653) |

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- The Group applies a single discount rate to a portfolio of leases with reasonable similar characteristics;
- The Group has applied the exemption not to recognise right of use assets and liabilities for low value assets;
- The Group has used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

1. Accounting Policies (continued)

(b) Standards issued but not yet effective

Standards issued and relevant to the Group, but not yet effective up to the date of issuance of the Group's financial statements, are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group has not adopted any standards, interpretations or amendments early and intends to adopt these standards when they become effective. The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's financial statements in the period of initial application.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

2 Revenue

| Group revenue by destination | 2019 £'000 | 2018 £'000 |
|------------------------------|----------------|----------------|
| Africa | 8,809 | 18,967 |
| Asia | 52,084 | 47,403 |
| Europe (excl UK) | 15,884 | 4,666 |
| Middle East | 17,767 | 10,233 |
| UK | 23,917 | 24,712 |
| USA | 32,996 | 35,848 |
| Rest of world | 14,021 | 21,599 |
| | 165,478 | 163,428 |

The directors believe that the Group has one class of business, which is the repair and overhaul of gas turbine engines.

| 3 Finance expense/(income) | 2019 £'000 | 2018 £'000 |
|-------------------------------------|---------------|---------------|
| Interest payable on bank overdrafts | 66 | 48 |
| IFRS 16 interest (note 9) | 711 | - |
| Finance expense | 777 | 48 |
| Interest receivable | (407) | (110) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

| 4 | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Profit before tax from continuing operations | | |
| Profit before tax on continuing operations is stated after (crediting)/charging: | | |
| Gain on disposal of plant property and equipment | (663) | (22) |
| Amortisation of intangible fixed assets | 2,021 | 1,946 |
| Depreciation of plant property and equipment | 1,021 | 948 |
| Depreciation of right of use assets | 2,122 | - |
| Exchange loss | 355 | 208 |
| Inventory expensed through Cost of Sales | 65,561 | 64,850 |
| Stock Provision movement | (26) | 132 |
| Audit services – fees payable to company auditors for the audit of the parent company and consolidated financial statements | 63 | 58 |
| 5 | | |
| Taxation | | |
| | 2019 £'000 | 2018 £'000 |
| UK corporation taxes | | |
| - UK Corporation tax | 3,535 | 3,938 |
| - Double Taxation Relief | - | (13) |
| - Foreign tax suffered | 129 | 13 |
| - Adjustment in respect of prior years | 28 | (30) |
| | 3,692 | 3,908 |
| Overseas corporation taxes | | |
| - Corporation tax | 923 | 783 |
| - Adjustment in respect of prior years | (341) | - |
| | 582 | 783 |
| Total current tax | 4,274 | 4,691 |
| Deferred tax | | |
| - Current year | 158 | 46 |
| - Effect of changes in tax rates | (16) | (5) |
| - Adjustment in respect of prior years | (560) | 34 |
| Total deferred tax (note 18) | (418) | 75 |
| Total tax on profit | 3,856 | 4,766 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

5 Taxation (continued)

The tax charge on profit before tax on continuing operations is lower than (2018: higher than) the standard rate of corporation tax in the UK due to the following factors:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Profit before tax on continuing operations | 23,299 | 23,630 |
| - UK corporation tax at standard rate 19% (2018: 19%) | 4,427 | 4,490 |
| - Adjustment in respect of prior years (UK taxes) | 28 | (30) |
| - Adjustment in respect of prior years (overseas taxes) | (341) | - |
| - Expenses not deductible | 51 | 116 |
| - Income not taxable | (107) | (52) |
| - Adjustment in respect of prior years (deferred tax) | (560) | 34 |
| - Changes in tax rates (deferred tax) | (16) | (5) |
| - Tax rates in overseas jurisdictions and overseas payments | 319 | 213 |
| - Rolled over gains | 55 | - |
| Total tax charge | 3,856 | 4,766 |

Tax is calculated at the rates prevailing in the respective jurisdictions in which the Group operates.

6 Dividends

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Dividends paid on ordinary shares: | | |
| Class A : final paid £22 per share (2018 : £20) | 11,000 | 10,000 |
| Class B : final paid £22 per share (2018 : £20) | 11,000 | 10,000 |
| | 22,000 | 20,000 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

7 Intangible assets

| Group | Licence fee £'000 | Goodwill £'000 | Software £'000 | Total £'000 |
|--|----------------------|-------------------|-------------------|-----------------|
| Cost | | | | |
| At 1 January 2019 | 13,508 | 13,990 | 5,010 | 32,508 |
| Additions | - | - | 21 | 21 |
| Disposals | (29) | - | (288) | (317) |
| Exchange adjustment | (58) | (385) | (12) | (455) |
| At 31 December 2019 | 13,421 | 13,605 | 4,731 | 31,757 |
| Accumulated amortisation and impairment | | | | |
| At 1 January 2019 | (5,356) | (2,314) | (2,320) | (9,990) |
| Exchange adjustment | 8 | 57 | 12 | 77 |
| Disposals | - | - | 288 | 288 |
| Charge for the financial year | (1,292) | - | (729) | (2,021) |
| At 31 December 2019 | (6,640) | (2,257) | (2,749) | (11,646) |
| Net book value at 31 December 2019 | 6,781 | 11,348 | 1,982 | 20,111 |

| Group | Licence fee £'000 | Goodwill £'000 | Software £'000 | Total £'000 |
|--|----------------------|-------------------|-------------------|----------------|
| Cost | | | | |
| At 1 January 2018 | 12,119 | 13,404 | 4,713 | 30,236 |
| Additions | 1,383 | - | 339 | 1,722 |
| Disposals | - | - | (62) | (62) |
| Exchange adjustment | 6 | 586 | 20 | 612 |
| At 31 December 2018 | 13,508 | 13,990 | 5,010 | 32,508 |
| Accumulated amortisation and impairment | | | | |
| At 1 January 2018 | (4,119) | (2,226) | (1,645) | (7,990) |
| Exchange adjustment | (8) | (88) | (20) | (116) |
| Disposals | - | - | 62 | 62 |
| Charge for the financial year | (1,229) | - | (717) | (1,946) |
| At 31 December 2018 | (5,356) | (2,314) | (2,320) | (9,990) |
| Net book value at 31 December 2018 | 8,152 | 11,676 | 2,690 | 22,518 |

In accordance with IAS 36 'Impairment of assets', goodwill was tested for impairment during the year. The impairment tests were carried out against the Group's Cash Generating Units ('CGU'), being the operating divisions, which are aligned with how the Group manages and monitors performance.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

7 Intangible assets (continued)

Value-in-use calculations have been prepared for each CGU using the cash flow projections included in the financial budgets approved by management for 2019 and 2020. The projections used are based on management's view of future market conditions.

| <u>Division/Cash Generating Unit</u> | <u>Goodwill carrying value (£'000)</u> | <u>Average pre-tax discount rate used</u> |
|--------------------------------------|--|---|
| SGT-A20 (Avon) | 3,158 | 11-13% |
| RWG Inc | 8,190 | 11-13% |
| Total Goodwill | 11,348 | 11-13% |

Details of the key assumptions underlying the cash flows are included in the critical accounting judgements and estimates in the Accounting Policies. The cash flows have been discounted using a discount rate which is appropriate for each CGU.

The resulting value-in-use amount has been compared to the carrying value for each CGU. The long-term growth rate is the CPI rate at the time the review is carried out. No impairment charge has been recorded during the current year.

Sensitivity analyses have been performed on the model's key assumptions. No reasonably possible changes in key assumptions would cause the carrying amount to exceed its recoverable amount.

| 8 | Property plant and equipment | Short term | Plant and equipment | Total |
|---------------------------------|---|---------------------|---------------------|-----------------|
| | | leasehold buildings | | |
| | | £'000 | £'000 | £'000 |
| Cost | | | | |
| | At 1 January 2019 | 4,509 | 25,698 | 30,207 |
| | Exchange adjustment | (88) | (307) | (395) |
| | Additions | 96 | 4,296 | 4,392 |
| | Disposals | (1,144) | (4,940) | (6,084) |
| | At 31 December 2019 | 3,373 | 24,747 | 28,120 |
| Accumulated depreciation | | | | |
| | At 1 January 2019 | (3,432) | (19,049) | (22,481) |
| | Exchange adjustment | 71 | 261 | 332 |
| | Charge for the financial year | (171) | (850) | (1,021) |
| | Disposals | 1,144 | 3,818 | 4,962 |
| | At 31 December 2019 | (2,388) | (15,820) | (18,208) |
| | Net book value at 31 December 2019 | 985 | 8,927 | 9,912 |

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Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

| 8 | Property plant and equipment (Continued) | Short term leasehold buildings | Plant and equipment | Total |
|---------------------------------|---|--------------------------------|---------------------|-----------------|
| | | £'000 | £'000 | £'000 |
| Cost | | | | |
| | At 1 January 2018 | 4,343 | 23,494 | 27,837 |
| | Exchange adjustment | 131 | 398 | 529 |
| | Additions | 265 | 2,849 | 3,114 |
| | Disposals | (230) | (1,043) | (1,273) |
| | At 31 December 2018 | 4,509 | 25,698 | 30,207 |
| Accumulated depreciation | | | | |
| | At 1 January 2018 | (3,155) | (18,977) | (22,132) |
| | Exchange adjustment | (107) | (388) | (495) |
| | Charge for the financial year | (221) | (727) | (948) |
| | Disposals | 51 | 1,043 | 1,094 |
| | At 31 December 2018 | (3,432) | (19,049) | (22,481) |
| | Net book value at 31 December 2018 | 1,077 | 6,649 | 7,726 |

Included within Property Plant and Equipment are £14,980k (2018: £19,447k) of assets that are fully depreciated and remain in use.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

9 Leases

| | Land & Buildings | Plant and equipment | Total |
|---|---------------------|------------------------|----------------|
| | £'000 | £'000 | £'000 |
| Right of use assets | | | |
| Cost | | | |
| At 1 January 2019 | 24,200 | 453 | 24,653 |
| Exchange adjustment | (277) | (1) | (278) |
| Additions | 1,156 | 94 | 1,250 |
| Disposals | (458) | (152) | (610) |
| At 31 December 2019 | 24,621 | 394 | 25,015 |
| Accumulated depreciation | | | |
| Exchange adjustment | 19 | - | 19 |
| Charge for the financial year | (1,918) | (204) | (2,122) |
| Disposals | 108 | 111 | 219 |
| At 31 December 2019 | (1,791) | (93) | (1,884) |
| Net book value at 31 December 2019 | 22,830 | 301 | 23,131 |
| Lease Liabilities | | | |
| At 1 January 2019 | 24,200 | 453 | 24,653 |
| Exchange adjustment | (262) | - | (262) |
| Additions | 1,156 | 94 | 1,250 |
| Disposals | (355) | (42) | (397) |
| Interest expense related to lease liabilities | 700 | 11 | 711 |
| Repayment of lease liabilities | (2,300) | (217) | (2,517) |
| At 31 December 2019 | 23,139 | 299 | 23,438 |

The Group does not have any other finance lease liabilities in addition to the IFRS 16 lease liabilities previously classified as operating leases under IAS 17. A maturity analysis of the Group's total lease liability is shown below:

| | 2019 £'000 |
|-----------------------------|---------------|
| Current lease liability | 2,768 |
| Non-current lease liability | 20,670 |
| At 31 December 2019 | 23,438 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

9 Leases (continued)

The following table shows the breakdown of lease expense between amounts charged to operating profit and amounts charged to finance costs.

| | 2019 £'000 |
|---|---------------|
| Depreciation charge for right of use assets | |
| Property | 1,918 |
| Plant and equipment | 204 |
| Short term and low value lease expense | 149 |
| Charged to operating profit | 2,271 |
| Interest expense related to lease liabilities | 711 |
| Charge to profit/(loss) before taxation for leases | 2,982 |

The short term and low value lease expense of £0.1m has been included in cash flow from operating activities. The Group leases various properties, plant and equipment throughout the world. The majority of the lease liability relates to properties of strategic importance to the Group. Some leases have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets are not used as security for borrowing purposes. Previously, leases of property, plant and equipment were classified as either finance or operating leases. From 1 January 2019, leases are recognised as a right of use asset and corresponding liability, once the asset is available for use by the Group.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at the same value as the lease liability. It is subsequently adjusted for depreciation and certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis from the commencement date to the end of the lease term.

The liability is calculated as the present value of the lease payments that are not paid at the commencement date, discounted using incremental borrowing rates ("IBR") and is subsequently increased by the interest cost on the lease liability and reduced by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in rate or a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which may significantly affect the amount of lease liabilities and right of use assets recognised.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

10 Investment in joint ventures

The Company's joint venture undertakings at 31 December 2019 were as follows:

| Name | Nature of business | Country of registration/ incorporation | Percentage of nominal share capital and voting rights |
|----------|---|---|---|
| RWG OTEC | Repair and overhaul of Siemens A35, A20 and Allison 501 industrial gas generators | Malaysia | 49% |

In relation to the Group's interests in joint ventures, its share of assets, liabilities, income and expenses is shown below.

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Non-current assets | | |
| Current assets | 8,526 | 6,899 |
| Current liabilities | (5,190) | (3,459) |
| Net assets | 3,336 | 3,440 |
| Operating profit | 1,590 | 825 |
| Net finance income | 106 | 110 |
| Profit before tax | 1,696 | 935 |
| Tax | (423) | (260) |
| Share of post-tax results from joint venture | 1,273 | 675 |

The movement in investments in joint ventures is shown below.

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| At 1 January 2019 | 3,440 | 3,338 |
| Exchange movements on retranslation of net assets | (127) | 146 |
| Elimination of unrealised profit | (161) | 22 |
| Share of profit after tax | 1,273 | 675 |
| Dividends | (1,089) | (741) |
| At 31 December 2019 | 3,336 | 3,440 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

11 Inventories

| | 2019 £'000 | 2018 £'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 41,828 | 35,032 |
| Work in progress | 10,932 | 16,095 |
| | 52,760 | 51,127 |

Inventory balances above are all stated at the lower of cost or Net Realisable Value after applying a provision for slow-moving or obsolete stock. The provision is based on part usage history and probability of future usage. The provisions are reviewed by management at least twice annually.

12 Trade and other receivables

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year | | |
| Trade receivables – net of provision for impairment | 18,458 | 29,159 |
| Amounts owed by joint venture (trading balances) | 8,613 | 6,771 |
| Amounts owed by shareholders' and their related companies | 12,657 | 16,587 |
| Other receivables | 203 | 223 |
| Prepayments and accrued income | 672 | 95 |
| Total receivables | 40,603 | 52,835 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

12 Trade and other receivables (continued)

The Group's trade receivables balance is shown in the table below.

| | Trade receivables - Gross £'000 | Provision for impairment £'000 | Trade receivables - net £'000 | Receivable days |
|-----------------------------------|--|--------------------------------------|--|--------------------|
| 31 December 2019 | | | | |
| RWG (Repair & Overhauls) Limited | 11,168 | - | 11,168 | 39 |
| RWG (Repair & Overhauls) USA, Inc | 7,305 | (15) | 7,290 | 66 |
| RWG OTEC | - | - | - | - |
| Total Group | 18,473 | (15) | 18,458 | 45 |
| 31 December 2018 | | | | |
| RWG (Repair & Overhauls) Limited | 24,907 | (109) | 24,798 | 38 |
| RWG (Repair & Overhauls) USA, Inc | 4,388 | (27) | 4,361 | 42 |
| RWG OTEC | - | - | - | - |
| Total Group | 29,295 | (136) | 29,159 | 41 |

Receivable days are calculated by allocating the closing trade receivables balance to current and prior year revenue including sales taxes. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the terms of the original receivables.

The ageing of the provision for impairment of trade receivables is as follows:

| | 2019 £'000 | 2018 £'000 |
|----------------|---------------|---------------|
| Up to 3 months | 15 | 136 |
| Over 3 months | - | - |
| | 15 | 136 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

12 Trade and other receivables (continued)

Included within gross trade receivables of £18,473k above (2018: £29,295k) are receivables of £3,222k (2018: £5,869k) which were past due but not impaired. These relate to customers for whom there is no recent history or expectation of default. The ageing analysis of these trade receivables, net of provisions, is as follows:

| | 2019 £'000 | 2018 £'000 |
|----------------|---------------|---------------|
| Up to 3 months | 3,194 | 5,849 |
| Over 3 months | 28 | 20 |
| | 3,222 | 5,869 |

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based historical credit losses adjusted reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The directors' analysis of the expected credit loss, including reference to the credit ratings of key customers, has concluded that the expected credit loss is not material to the group's financial statements.

13 Cash and cash equivalents

| | 2019 £'000 | 2018 £'000 |
|--------------------------|---------------|---------------|
| Cash at bank and in hand | 2,121 | 2,058 |

Cash and cash equivalents include the following for the purpose of the statement of cash flows:

| | 2019 £'000 | 2018 £'000 |
|---------------------------|----------------|----------------|
| Cash at bank and in hand | 2,121 | 2,058 |
| Short term bank loan | - | (5,000) |
| Bank overdraft (note 15) | (6,462) | (5,115) |
| Cash and cash equivalents | (4,341) | (8,057) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

14 Trade and other payables

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Trade payables | 8,885 | 12,226 |
| Amounts owed to shareholders and their related companies | 9,557 | 11,786 |
| Amounts owed to joint venture | 184 | 202 |
| Other taxation and social security | 2,843 | 1,898 |
| Accruals and deferred income | 11,356 | 10,178 |
| | 32,825 | 36,290 |

Trade payables, amounts owed to shareholders and joint venture are unsecured and have varying terms of payment. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature. These are all trade balances.

15 Borrowings

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Bank loans and overdrafts due within one year or on demand | | |
| Bank loan | - | 5,000 |
| Bank overdraft | 6,462 | 5,115 |

The effective interest rates on the Group's bank borrowings at the balance sheet date were as follows:

| | 2019 % | 2018 % |
|-----------|-----------|-----------|
| Sterling | 1.50 | 1.50 |
| US Dollar | 2.49 | 3.09 |

The carrying amounts of the Group's borrowings are denominated in sterling.

The Group is required to issue trade financial instruments to certain customers. These include tender bonds, performance bonds, retention bonds, duty deferment bonds and letters of credit. At 31 December 2019 the Group's bank facilities relating to the issue of bonds, guarantees and letters of credit amounted to £10,500k (2018: £10,500k). At 31 December 2019, these facilities were 50% utilised (2018: 47%)

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

15 Borrowings (continued)

Undrawn borrowing facilities

The Group has the following undrawn borrowing facilities available at 31 December:

| | 2019 £'000 | 2018 £'000 |
|-------------------------------------|---------------|---------------|
| Expiring within one year | 14,245 | 9,607 |
| Expiring between two and five years | - | - |
| | 14,245 | 9,607 |

All undrawn borrowing facilities are floating rate facilities. The facilities expiring within one year are annual facilities subject to review during 2020. In July 2019, the Group extended its £15,000k bank facilities until 31 July 2020.

16 Financial instruments

The Group's activities give rise to a variety of financial risks: market risk (including foreign exchange risk), interest rate risk, price risk and credit risk.

Risk management is carried out by Management who together with the Group's business units identify, evaluate and where appropriate, hedge financial risks.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currencies. The Group has two subsidiary companies whose revenue and expenses are denominated in currencies other than GBP. Where possible, the Group's policy is to eliminate all significant currency exposures on revenues at the time of the transaction by using financial instruments such as forward currency contracts. Changes in the forward contract fair values are booked through the income statement.

The Group does not have any financial instruments in place to hedge foreign currency movements in its balance sheet.

The Group carefully monitors the economic and political situation in the countries in which it operates to ensure appropriate action is taken to minimise any foreign currency exposure.

The Group's largest foreign exchange risk relates to movements in the sterling/US dollar exchange rate. Movements in the sterling/US dollar rate impact the translation of sterling profit earned in the US and the translation of US dollar denominated net asset.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

16 Financial instruments (continued)

(i) Foreign exchange risk (continued)

The potential impact of changes in the sterling/US dollar exchange rate is summarised in the table below.

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Impact of 10% change to average £/\$ exchange rate on profit after tax | 226 | 147 |
| Impact of 10% change to closing £/\$ exchange rate on equity | 2,349 | 2,217 |

10% has been used in these calculations as it represents a reasonable possible change in the sterling/US Dollar exchange rate.

(ii) Interest rate risk

The Group finances its operations through a mixture of retained profits and debt. The Group is also exposed to interest rate risk on cash held on deposit.

(iii) Price risk

The Group is not exposed to any significant price risk in relation to its financial instruments.

(b) Credit risk

The Group's credit risk primarily relates to its trade receivables. Responsibility for managing credit risk lies within the businesses. Support is provided by Group Management where appropriate.

A customer evaluation is typically obtained from an appropriate credit rating agency. Where required, appropriate trade financial instruments such as letters of credit, bonds, guarantees and credit insurance will be used to manage credit risk.

The Group's major customers are typically large companies which have strong credit ratings assigned by international credit rating agencies. Where a customer does not have sufficiently strong credit ratings, alternative forms of security such as the trade finance instruments referred to above may be obtained. The Group has a broad customer base and management believe that no further credit risk provision is required in excess of the provision for impairment of trade receivables.

Management review trade receivables across the Group based on receivable days calculations to assess performance. There is significant management focus on receivables that are overdue. A table showing trade receivables and receivable days is provided in note 12. Receivable days calculations are not provided on non-trade receivables as management do not believe that this information is a relevant metric.

The Group also has credit risk in relation to cash held on deposit. The Group's policy is to deposit cash at institutions with a credit rating of 'A' or better where possible.

(c) Liquidity risk

With regard to liquidity, the Group's main priority is to ensure funding. At 31 December 2019, 100% (2018: 100%) of the Group's borrowing facilities were due to mature in less than one year. Based on the current outlook the Group has sufficient funding in place to meet its future obligations.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

16 Financial instruments (continued)

(d) Capital risk

The Group seeks to maintain an optimal capital structure. The Group monitors its capital structure on the basis of its net worth, interest cover and when applicable, the ratio of net debt to EBITDA. These ratios are calculated using the proportionally consolidated figures used for management reporting.

Interest cover is calculated by dividing total EBIT by net finance expense. This ratio was not applicable in 2019 as the group did not have a net finance expense. The ratio of net debt to total EBITDA at 31 December 2019 was 0.2 (2018: 0.3).

Financial liabilities

The table below analysis the Group's financial liabilities into relevant groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year £'000 | Between 1 and 2 years £'000 | Between 2 and 5 years £'000 | Over 5 years £'000 |
|--------------------------|------------------------------|-----------------------------------|-----------------------------------|--------------------------|
| 31 December 2019 | | | | |
| Borrowings | 6,462 | - | - | - |
| Trade and other payables | 32,825 | - | - | - |
| Provisions | - | 165 | - | 594 |
| 31 December 2018 | | | | |
| Borrowings | 10,115 | - | - | - |
| Trade and other payables | 36,290 | - | - | - |
| Provisions | - | 172 | - | 439 |

Fair value of non-derivative financial assets and financial liabilities

The fair value of short-term borrowings, trade and other receivables and cash at bank and in hand approximates to the carrying amount because of the short maturity of interest rates in respect of these instruments.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

17 Provisions

| Group | Dilapidation provision | Warranty provision | Total provision |
|-------------------------------|------------------------|--------------------|-----------------|
| | £'000 | £'000 | £'000 |
| At 1 January 2019 | 439 | 172 | 611 |
| Charge for the financial year | 155 | 33 | 188 |
| Release of provision | - | (5) | (5) |
| Utilised in financial year | - | (33) | (33) |
| Exchange adjustment | - | (2) | (2) |
| At 31 December 2019 | 594 | 165 | 759 |

The Group warranty provision of £165,000 (company £101,000) at 31 December 2019 arose in respect of guarantees provided in the normal course of business relating to contract performance. The balance provided represents the directors' estimate of future expenditure based on the history of such claims received by the company. It is expected that most of this expenditure will be incurred in the next financial year.

The Group also has a dilapidation provision of £594,000 in respect of the buildings leased. It is expected that this expenditure will be incurred at the end of the lease.

18 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate applicable to the territory in which the asset or liability has arisen.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These changes included a reduction in the main rate to 17% from April 2020. In March 2020, the UK Government substantively enacted by a resolution under the Provisional Collection of Taxes Act 1968 to cancel the reduction in corporate tax rate, from 1 April 2020, and maintain the rate at 19%. Deferred taxes at the balance sheet date, in relation to UK companies, continue to be measured using tax rates enacted as at the balance sheet date (17%).

The movement on the deferred tax account is shown below:

| Group | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| | £'000 | £'000 |
| At 1 January | 2,366 | 2,172 |
| Charge for the financial year | (418) | 75 |
| Exchange adjustment | (78) | 119 |
| At 31 December | 1,870 | 2,366 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

18 Deferred tax (continued)

Deferred tax provided in these financial statements, which represents the full potential liability, comprises corporation tax deferred by:

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|---------------|---------------|
| Group | | |
| - Accelerated capital allowances | 2,424 | 3,274 |
| - Short term timing differences | (554) | (908) |
| | 1,870 | 2,366 |
| Group | | |
| Recoverable within 12 months | (554) | (908) |
| Recoverable in excess of 12 months | 2,424 | 3,274 |
| | 1,870 | 2,366 |

19 Share capital

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Authorised, allotted, called up and fully paid at 1 January | | |
| 501,027 (2018: 501,027) 'A' ordinary shares of £1 each | 501 | 501 |
| 501,027 (2018: 501,027) 'B' ordinary shares of £1 each | 501 | 501 |
| | 1,002 | 1,002 |
| Authorised, allotted, called up and fully paid at 31 December | | |
| 501,027 (2018: 501,027) 'A' ordinary shares of £1 each | 501 | 501 |
| 501,027 (2018: 501,027) 'B' ordinary shares of £1 each | 501 | 501 |
| | 1,002 | 1,002 |

Both classes of shares carry equal rights with respect to dividends, voting and winding up.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

20 Share premium

| | 2019 | 2018 |
|-----------------------------------|--------|--------|
| | £'000 | £'000 |
| At 1 January and 31 December 2019 | 10,268 | 10,268 |

21 Retained earnings

| | 2019 | 2018 |
|-------------------------------|----------|----------|
| | £'000 | £'000 |
| At 1 January | 74,580 | 75,716 |
| Profit for the financial year | 19,443 | 18,864 |
| Dividends paid | (22,000) | (20,000) |
| At 31 December | 72,023 | 74,580 |

22 Other reserves

| | 2019 | 2018 |
|--|---------|-------|
| | £'000 | £'000 |
| At 1 January | 3,620 | 2,047 |
| Exchange movements on retranslation of foreign currency net assets | (1,131) | 1,573 |
| At 31 December | 2,489 | 3,620 |

The currency translation reserve relates to the retranslation of foreign currency net assets on consolidation. The movement in the year relates to the retranslation of foreign currency net assets, including goodwill and intangible assets recognised on acquisition

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

23 Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Operating profit | 22,079 | 22,743 |
| Adjustments for: | | |
| Depreciation | 1,021 | 948 |
| Depreciation on right of use assets | 2,122 | - |
| Amortisation of intangible assets | 2,021 | 1,946 |
| Gain on sale of property, plant and equipment | (663) | (22) |
| Loss on disposal of intangible assets | 29 | - |
| Gain on disposal of right of use assets | (6) | - |
| Increase in provisions | 150 | - |
| Changes in working capital: | | |
| Increase in stocks and work in progress | (1,963) | (5,849) |
| Decrease/(Increase) in debtors | 12,007 | (15,941) |
| Decrease/(Increase) in financial asset | 7 | (1,225) |
| (Decrease)/Increase in creditors | (3,295) | 9,890 |
| Cash generated from operations | 33,509 | 12,490 |

Analysis of net debt

| | At 1 January 2019 £'000 | Cash flows £'000 | Exchange difference £'000 | At 31 December 2019 £'000 |
|---------------------------|----------------------------------|------------------------|---------------------------------|------------------------------------|
| Cash and cash equivalents | 2,058 | 133 | (70) | 2,121 |
| Short-term borrowings | (10,115) | 3,638 | 15 | (6,462) |
| Net Debt | (8,057) | 3,771 | (55) | (4,341) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

24 Employees and directors (continued)

| Employee benefits expense | 2019 £'000 | 2018 £'000 |
|---------------------------|---------------|---------------|
| Wages and salaries | 26,391 | 25,144 |
| Social security costs | 2,488 | 2,442 |
| Other pension costs | 1,992 | 1,827 |
| | 30,871 | 29,413 |

The average monthly number of persons employed by the company during the year was:

| By activity | 2019 Number | 2018 Number |
|---------------------------|----------------|----------------|
| Direct production workers | 316 | 324 |
| Management and staff | 153 | 152 |
| | 469 | 476 |

The average number of employees excludes employees of joint venture companies.

Key management compensation

Key management compensation represents any charge to the income statement in respect of the remuneration of the Group Board. The Directors did not receive emoluments in respect of their services to the company during the year (2018: £nil).

25 Retirement benefit obligations

The Company previously contributed to a defined contribution pension scheme and a defined benefit pension scheme, the assets of which were held separately from those of the Company. The JWG defined benefit scheme was closed to future accrual on 30 June 2014. On the 5th November 2014 RWG ceased to participate in both parents defined schemes, charging £11.2m to cover both schemes remaining liabilities relating to RWG employees. The total pension cost for the Company in respect of the schemes was £1.8m (2018: £1.6m). Costs in respect of the US 401k plans were £158k (2018: £148k). The total defined contribution scheme balance outstanding at 31 December 2019 was £241k (2018: £230k).

26 Contingent Liabilities

The Group had issued bank guarantees to certain customers in the normal course of business. The total amount outstanding at 31 December 2019 was £5.0m (2018: £4.7m).

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

27 Capital and other financial commitments

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| <hr/> | | |
| At the balance sheet date the following capital commitments existed for tangible fixed assets: | | |
| Contracted for but not provided | 203 | 889 |

The capital expenditure above related to property plant and equipment.

28 Related party transactions

Included in the profit and loss account are proceeds, costs and expenses which arise from transactions with the shareholders and their related companies. Such transactions mainly comprise sales and purchases of goods and services in the ordinary course of business, normal commercial terms and at market rates and in total amounted to:

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Sales to shareholders and their related companies | 65,051 | 75,966 |
| Sales to RWO in which the Group owns a 49% interest | 14,628 | 9,186 |
| Total sales to Shareholders and their related companies and Joint Venture | 79,679 | 85,152 |
| Total purchases from shareholders and their related companies | 64,323 | 74,283 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the consolidated financial statements for the year to 31 December 2019 (continued)

29 Subsidiaries and joint ventures

The Company's subsidiary undertakings at 31 December 2019 were as follows:

| Name | Nature of business | Registered Address | Percentage of nominal share capital and voting rights |
|-----------------------------------|---|--|---|
| RWG (Reparação E Revisão) LTDA | Repair and overhaul of Siemens SGT-A35 industrial gas generators | Rua Dr Cincinato Braga 47, Unidade 1, Sao Bernardo do Campo, Sao Paulo, Brazil | 100% |
| RWG (Repair & Overhauls) USA, Inc | Repair and overhaul of Siemens Allison 501 and 570 industrial and marine gas generators | RWG (Repair & Overhauls) USA, Inc, 6223 W Sam Houston Pkwy N, 77041-5145, Houston, USA | 100% |

The Company's joint venture undertakings at 31 December 2019 were as follows:

| Name | Nature of business | Country of registration/ incorporation | Percentage of nominal share capital and voting rights |
|----------|---|---|---|
| RWG OTEC | Repair and overhaul of Siemens SGT-A35, SGT-A20 and Allison 501 industrial gas generators | No 39-1, Jalan 9/62A Bandar Menjalara, Kepong, 52200 Kuala Lumpur, Malaysia | 49% |

30 Ultimate controlling parties

There is no ultimate controlling party of RWG (Repair & Overhauls) Limited which is a joint venture owned 50/50 by Siemens Aktiengesellschaft and JWG Investments Limited, a wholly owned subsidiary of John Wood Group PLC.

Copies of the financial statements of John Wood Group PLC can be obtained from John Wood Group PLC, 15 Justice Mill Lane, Aberdeen AB11 6EQ.

Copies of the financial statements of Siemens Aktiengesellschaft can be obtained from Siemens AG, Wittelsbacher Platz 2, 80333 Munich, Germany.

31 Post Balance Sheet Events

The recent global COVID-19 pandemic is the most significant challenge of our generation. This COVID-19 outbreak is considered a non-adjusting balance sheet event under IAS 10. During these unprecedented times RWG will do everything we can to manage through this pandemic, protect our team and to deliver the essential services required by our customers. RWG has always maintained a robust business continuity plan which has allowed all three businesses to adapt to this quickly changing situation. Investments in RWG's IT infrastructure has enabled many of our team to work remotely without impact to the services we provide. Risk Assessments, changed working practices and other measures put in place within our facilities to protect our teams from the spread of the Coronavirus are strictly adhered. Taking the above into account and without allowing any complacency, we do not expect the business to suffer any material impact from COVID-19

RWG (Repair & Overhauls) Limited – SC120673

Company financial statements

The audited financial statements of RWG (Repair & Overhauls) Limited for the year ended 31 December 2019

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Independent Auditors’ report to the members of RWG (Repair & Overhauls) Limited

Report on the audit of the parent company financial statements

Opinion

In our opinion, RWG (Repairs & Overhauls) Limited’s parent company financial statements (the “financial statements”):

- give a true and fair view of the state of the parent company’s affairs as at 31 December 2019 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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 and Financial Statements 2019 (the “Annual Report”), which comprise: the company balance sheet as at 31 December 2019; the company statement of changes in equity for the year to 31 December 2019 and the company cash flow statement for the year ended 31 December 2019; 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 group 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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 parent 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the parent company’s ability to continue as a going concern.

Independent Auditors' report to the members of RWG (Repair & Overhauls) Limited

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 2019 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 parent 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 set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Independent Auditors' report to the members of RWG (Repair & Overhauls) Limited

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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.

Other matter

We have reported separately on the group financial statements of RWG (Repair & Overhauls) Limited for the year ended 31 December 2019.



David Morrice (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
4 June 2020

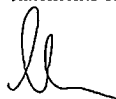
RWG (Repair & Overhauls) Limited – SC120673

Company balance sheet as at 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---------------------------------------|------|-----------------|-----------------|
| Assets | | | |
| Non-current Assets | | | |
| Intangible assets | 2 | 10,740 | 12,648 |
| Property, plant and equipment | 3 | 5,723 | 5,959 |
| Right of use assets | 4 | 16,713 | - |
| Investment in subsidiary undertakings | 5 | 7,269 | 6,923 |
| Investment in joint venture | 5 | 339 | 339 |
| | | 40,784 | 25,869 |
| Current assets | | | |
| Inventories | 6 | 41,828 | 38,410 |
| Trade and other receivables | 7 | 31,299 | 47,547 |
| Financial asset | | 1,150 | 1,225 |
| Cash and cash equivalents | 8 | 848 | 298 |
| | | 75,125 | 87,480 |
| Liabilities | | | |
| Current Liabilities | | | |
| Borrowings | 10 | (5,706) | (9,722) |
| Trade and other payables | 9 | (26,088) | (31,920) |
| Taxation | | (1,814) | (1,624) |
| | | (33,608) | (43,266) |
| Net current assets | | 41,517 | 44,214 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 13 | (469) | (327) |
| Lease liabilities | 4 | (16,934) | - |
| Provisions | 12 | (699) | (540) |
| | | (18,102) | (867) |
| Net assets | | 64,199 | 69,216 |
| Equity | | | |
| Share capital | 14 | 1,002 | 1,002 |
| Share Premium | 15 | 10,268 | 10,268 |
| Retained Earnings | 16 | 52,929 | 57,946 |
| Total equity | | 64,199 | 69,216 |

The company's profit for the year was £15.9m (2018: £16.5m). In accordance with Section 408(3) of the Companies Act (2006), the Company is exempt from the requirement to present its own income statement.

The financial statements on pages 49 to 64 were approved by the board of directors on 4 June 2020 and were signed on its behalf by:



RWG (Repair & Overhauls) Limited – SC120673**Company Statement of changes in equity for the year to 31 December 2019**

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total equity £'000 |
|--|---------------------------|---------------------------|-------------------------------|--------------------------|
| As at 1 January 2018 | 1,002 | 10,268 | 60,690 | 71,960 |
| Profit for the year | - | - | 17,256 | 17,256 |
| Total comprehensive income for the year | - | - | 17,256 | 17,256 |
| Transactions with owners: | | | | |
| Dividends paid | - | - | (20,000) | (20,000) |
| As at 31 December 2018 | 1,002 | 10,268 | 57,946 | 69,216 |
| Profit for the year | - | - | 16,983 | 16,983 |
| Total comprehensive income for the year | - | - | 16,983 | 16,983 |
| Transactions with owners: | | | | |
| Dividends paid | - | - | (22,000) | (22,000) |
| As at 31 December 2019 | 1,002 | 10,268 | 52,929 | 64,199 |

RWG (Repair & Overhauls) Limited – SC120673**Company cash flow statement for the year ended 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|-----------------|---------------|
| Cash generated from operations | 17 | 30,957 | 9,135 |
| Tax paid | | (3,502) | (2,743) |
| Net cash generated from operating activities | | 27,455 | 6,392 |
| Cash flows from investing activities | | | |
| Purchase of property plant and equipment | 3 | (1,756) | (1,906) |
| Proceeds from sale of property plant and equipment | | 1,785 | 201 |
| Purchase of intangible assets | 2 | (21) | (339) |
| Increase in subsidiary share capital | | (346) | - |
| Dividends received from joint venture | 16 | 1,089 | 741 |
| Net cash used in investing activities | | 751 | (1,303) |
| Cash flows from financing activities | | | |
| Dividend paid to Shareholders | 16 | (22,000) | (20,000) |
| Interest received | | 299 | - |
| Interest paid | | (62) | (30) |
| Principal payments of leases | | (1,877) | - |
| Net cash used in financing activities | | (23,640) | (20,030) |
| Net cash increase/(decrease) in cash and cash equivalents | | 4,566 | (14,941) |
| Opening cash and cash equivalents | | (9,424) | 5,517 |
| Closing cash and cash equivalents | | (4,858) | (9,424) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019

General information

RWG (Repair & Overhauls) Limited, its subsidiaries and joint venture, repair and overhaul gas turbine engines and refurbish gas turbines and other component parts. Details of the Group's activities during the year are provided in the Strategic Report. RWG (Repair & Overhauls) Limited is a private company limited by shares incorporated and domiciled in the United Kingdom and registered in Scotland. The registered office of RWG (Repair & Overhauls) Limited is 15 Justice Mill Lane, Aberdeen, AB11 6EQ.

1. Accounting Policies

The Company follows all accounting policies of the Group. The Group Accounting Policies are referred to on pages 15-22 of the Group Consolidated Accounts.

Disclosure of impact of new and future accounting standards

(a) Amended standards and interpretations

The following standards and interpretations apply for the first time to accounting periods commencing on or after 1 January 2019:

IFRS 16

Impact of application of IFRS 16

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company has assessed the impact that the initial application of IFRS 16 has on its consolidated financial statements, as described below.

Disclosure of impact of new and future accounting standards (continued)

The Company adopted IFRS 16 on 1 January 2019, using the modified retrospective approach. There was no restatement of comparative information. The Company has recognised new assets and liabilities for its operating leases of property, vehicles and other assets. The nature of expenses related to those leases has changed because the Company now recognises a depreciation charge for right of use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease.

On transition to IFRS 16, the Company recognised right of use assets and additional liabilities. There was no impact on net assets at the date of transition.

| At 1 January 2019 | 2019 £'000 |
|--------------------------------|---------------|
| Right of use assets recognised | 17,454 |
| Lease liabilities recognised | (17,454) |

Depreciation and interest in 2019 have increased by £1.4m and £0.5m respectively. There has been a reduction in lease operating costs of £1.9m. Adjusted EBITDA has increased by £1.9m.

When measuring liabilities for leases that were classified as operating leases, the Company discounted payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3%.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

2 Intangible assets

| Company | Licence fee £'000 | Goodwill £'000 | Software £'000 | Total £'000 |
|--|----------------------|-------------------|-------------------|----------------|
| Cost | | | | |
| At 1 January 2019 | 12,000 | 4,000 | 4,694 | 20,694 |
| Additions | - | - | 21 | 21 |
| Disposals | - | - | (288) | (288) |
| At 31 December 2019 | 12,000 | 4,000 | 4,427 | 20,427 |
| Accumulated amortisation and impairment | | | | |
| At 1 January 2019 | (5,200) | (842) | (2,004) | (8,046) |
| Disposals | - | - | 288 | 288 |
| Charge for the financial year | (1,200) | - | (729) | (1,929) |
| At 31 December 2019 | (6,400) | (842) | (2,445) | (9,687) |
| Net book value at 31 December 2019 | 5,600 | 3,158 | 1,982 | 10,740 |
| Cost | | | | |
| At 1 January 2018 | 12,000 | 4,000 | 4,417 | 20,417 |
| Additions | - | - | 339 | 339 |
| Disposals | - | - | (62) | (62) |
| At 31 December 2018 | 12,000 | 4,000 | 4,694 | 20,694 |
| Accumulated amortisation and impairment | | | | |
| At 1 January 2018 | (4,000) | (842) | (1,349) | (6,191) |
| Disposals | - | - | 62 | 62 |
| Charge for the financial year | (1,200) | - | (717) | (1,917) |
| At 31 December 2018 | (5,200) | (842) | (2,004) | (8,046) |
| Net book value at 31 December 2018 | 6,800 | 3,158 | 2,690 | 12,648 |

In accordance with IAS 36 'Impairment of assets', goodwill was tested for impairment during the year. Please see the Group's policy for impairment testing in note 7.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

3 Property plant and equipment

| | Short term leasehold buildings | Plant and equipment | Total |
|---|--------------------------------------|------------------------|-----------------|
| | £'000 | £'000 | £'000 |
| Cost | | | |
| At 1 January 2019 | 2,236 | 17,728 | 19,964 |
| Additions | 96 | 1,660 | 1,756 |
| Disposals | (81) | (2,736) | (2,817) |
| At 31 December 2019 | 2,251 | 16,652 | 18,903 |
| Accumulated depreciation | | | |
| At 1 January 2019 | (1,583) | (12,422) | (14,005) |
| Charge for the financial year | (171) | (699) | (870) |
| Disposals | 81 | 1,614 | 1,695 |
| At 31 December 2019 | (1,673) | (11,507) | (13,180) |
| Net book value at 31 December 2019 | 578 | 5,145 | 5,723 |
| Cost | | | |
| At 1 January 2018 | 2,239 | 17,092 | 19,331 |
| Additions | 227 | 1,679 | 1,906 |
| Disposals | (230) | (1,043) | (1,273) |
| At 31 December 2018 | 2,236 | 17,728 | 19,964 |
| Accumulated depreciation | | | |
| At 1 January 2018 | (1,460) | (12,814) | (14,274) |
| Charge for the financial year | (174) | (651) | (825) |
| Disposals | 51 | 1,043 | 1,094 |
| At 31 December 2018 | (1,583) | (12,422) | (14,005) |
| Net book value at 31 December 2018 | 653 | 5,306 | 5,959 |

Included within Property Plant and Equipment are £11,434k (2018:£11,786k) of assets that are fully depreciated and remain in use.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

4 Leases

| Right of use assets | Land & Buildings £'000 | Plant and equipment £'000 | Total £'000 |
|---|---------------------------------------|--------------------------------------|------------------------|
| Cost | | | |
| At 1 January 2019 | 17,028 | 426 | 17,454 |
| Additions | 1,156 | 94 | 1,250 |
| Disposals | (458) | (152) | (610) |
| At 31 December 2019 | 17,726 | 368 | 18,094 |
| Accumulated depreciation | | | |
| Charge for the financial year | (1,409) | (190) | (1,599) |
| Disposals | 107 | 111 | 218 |
| At 31 December 2019 | (1,302) | (79) | (1,381) |
| Net book value at 31 December 2019 | 16,424 | 289 | 16,713 |

Lease Liabilities

| | | | |
|---|---------------|------------|---------------|
| At 1 January 2019 | 17,028 | 426 | 17,454 |
| Additions | 1,156 | 94 | 1,250 |
| Disposals | (355) | (42) | (397) |
| Interest expense related to lease liabilities | 493 | 11 | 504 |
| Repayment of lease liabilities | (1,680) | (197) | (1,877) |
| At 31 December 2019 | 16,642 | 292 | 16,934 |

The Company does not have any other finance lease liabilities in addition to the IFRS 16 lease liabilities previously classified as operating leases under IAS 17. A maturity analysis of the Company's total lease liability is shown below:

| | 2019 £'000 |
|-----------------------------|-----------------------|
| Current lease liability | 2,086 |
| Non-current lease liability | 14,848 |
| At 31 December 2019 | 16,934 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

5 Investments

| | Share in subsidiaries (Company) £'000 | Share in joint venture (Company) £'000 | Total (Company) £'000 |
|---|---|--|-----------------------------|
| Cost and net book value at 1 January 2019 | 6,923 | 339 | 7,262 |
| Increase in share capital | 346 | - | 346 |
| Net book value at 31 December 2019 | 7,269 | 339 | 7,608 |

The directors believe that the carrying value of the investments is supported by their underlying net assets. All investments are held directly by the Company. In February 2019 debt was converted to equity within RWG (Reparação E Revisão) LTDA totalling £346k. The Company's subsidiary undertakings at 31 December 2019 were as follows:

| Name | Nature of business | Country of registration/ incorporation | Percentage of nominal share capital and voting rights |
|-----------------------------------|---|---|---|
| RWG (Reparação E Revisão) LTDA | Repair and overhaul of Siemens SGT-A35 industrial gas generators | Brazil | 100% |
| RWG (Repair & Overhauls) USA, Inc | Repair and overhaul of Siemens Allison 501 and 570 industrial and marine gas generators | USA | 100% |

The Company's joint venture undertakings at 31 December 2019 were as follows:

| Name | Nature of business | Country of registration/ incorporation | Percentage of nominal share capital and voting rights |
|----------|---|---|---|
| RWG OTEC | Repair and overhaul of Siemens SGT-A35, SGT-A20 and Allison 501 industrial gas generators | Malaysia | 49% |

6 Inventories

| | 2019 Company £'000 | 2018 Company £'000 |
|-------------------------------|--------------------------|--------------------------|
| Raw materials and consumables | 28,510 | 24,529 |
| Work in progress | 13,318 | 13,881 |
| | 41,828 | 38,410 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

6 Inventories (continued)

Inventory balances above are all stated at the lower of cost or Net Realisable Value after applying a provision for slow-moving or obsolete stock. The provision is based on part usage history and probability of future usage. The provisions are reviewed by management at least twice annually.

7 Trade and other receivables

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year | | |
| Trade receivables | 11,168 | 24,798 |
| Amounts owed by Group undertakings | - | 580 |
| Amounts owed by joint venture (trading balances) | 7,786 | 6,059 |
| Amounts owed by shareholders' and their related companies (trading balances) | 11,805 | 15,817 |
| Other receivables | 204 | 223 |
| Prepayments and accrued income | 336 | 70 |
| | 31,299 | 47,547 |

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based historical credit losses adjusted reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The directors' analysis of the expected credit loss, including reference to the credit ratings of key customers, has concluded that the expected credit loss is not material to the group's financial statements.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

7 Trade and other receivables (continued)

At 31 December 2019, none (2018: £109k) of the amounts owed were impaired. The ageing of the provision for impairment of trade receivables is as follows:

| | 2019 £'000 | 2018 £'000 |
|----------------|---------------|---------------|
| Up to 3 months | - | 109 |
| Over 3 months | - | - |
| | - | 109 |

The movement on the provision of impairment is as follows:

| | 2019 £'000 | 2018 £'000 |
|--------------------------|---------------|---------------|
| At 1 January | (109) | - |
| Released during the year | 109 | - |
| Utilised during the year | - | (109) |
| At 31 December | - | (109) |

The other classes within debtors do not contain impaired assets.

8 Cash and cash equivalents

| | 2019 £'000 | 2018 £'000 |
|--------------------------|---------------|---------------|
| Cash at bank and in hand | 848 | 298 |

Cash and cash equivalents include the following for the purpose of the statement of cash flows:

| | 2019 £'000 | 2018 £'000 |
|---------------------------|---------------|---------------|
| Cash at bank and in hand | 848 | 298 |
| Short term bank loan | - | (5,000) |
| Bank overdraft (note 10) | (5,706) | (4,722) |
| Cash and cash equivalents | (4,858) | (9,424) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

9 Trade and other payables

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Trade payables | 7,466 | 11,322 |
| Amounts owed to Group undertakings | 12 | 11 |
| Amounts owed to joint venture | 184 | 202 |
| Amounts owed to shareholders and their related companies | 9,205 | 11,635 |
| Other taxation and social security | 1,204 | 1,802 |
| Accruals and deferred income | 8,017 | 6,948 |
| | 26,088 | 31,920 |

Trade payables are unsecured and have varying terms of payment. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

10 Borrowings

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Bank loans and overdrafts due within one year or on demand | | |
| Bank loan | - | 5,000 |
| Bank overdraft | 5,706 | 4,722 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

11 Financial Instruments

The Company's activities give rise to a variety of financial risks: market risk (including foreign exchange risk) and credit risk.

Risk management is carried out by Management who together with the Group's business units identify, evaluate and where appropriate, hedge financial risks.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currencies. Where possible, the Company's policy is to eliminate all significant currency exposures on revenues at the time of the transaction by using financial instruments such as forward currency contracts. Changes in the forward contract fair values are booked through the profit and loss account.

(ii) Interest rate risk

The Company finances its operations through a mixture of retained profits and debt. The Company is also exposed to interest rate risk on cash held on deposit.

(iii) Price risk

The Company is not exposed to any significant price risk in relation to its financial instruments.

(b) Credit risk

The Company's credit risk primarily relates to its trade debtors. Responsibility for managing credit risk lies within the businesses. Support is provided by Group Management where appropriate.

A customer evaluation is typically obtained from an appropriate credit rating agency. Where required, appropriate trade financial instruments such as letters of credit, bonds, guarantees and credit insurance will be used to manage credit risk.

The Company's major customers are typically large companies which have strong credit ratings assigned by international credit rating agencies. Where a customer does not have sufficiently strong credit ratings, alternative forms of security such as the trade finance instruments referred to above may be obtained. The Company has a broad customer base and management believe that no further credit risk provision is required in excess of the provision for impairment of trade receivables.

Management review trade receivables across the Company based on receivable days calculations to assess performance. There is significant management focus on receivables that are overdue. A table showing trade receivables and receivable days is provided in group note 12. Receivable days calculations are not provided on non-trade receivables as management do not believe that this information is a relevant metric.

The Company also has credit risk in relation to cash held on deposit. The Company's policy is to deposit cash at institutions with a credit rating of 'A' or better where possible.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

11 Financial Instruments (continued)

(c) Liquidity risk

With regard to liquidity, the Company's main priority is to ensure funding. At 31 December 2019, 100% (2018: 100%) of the Group's borrowing facilities were due to mature in less than one year. Based on the current outlook the Company has sufficient funding in place to meet its future obligations.

(d) Capital risk

The Company's capital risk is determined by that of the Group.

Financial liabilities

The table below analysis the Company's financial liabilities into relevant groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year £'000 | Between 1 and 2 years £'000 | Between 2 and 5 years £'000 | Over 5 years £'000 |
|--------------------------|------------------------------|-----------------------------------|-----------------------------------|--------------------------|
| 31 December 2019 | | | | |
| Borrowings | 5,706 | - | - | - |
| Trade and other payables | 26,088 | - | - | - |
| 31 December 2018 | | | | |
| Borrowings | 9,722 | - | - | - |
| Trade and other payables | 31,920 | - | - | - |

Fair value of non-derivative financial assets and financial liabilities

The fair value of short-term borrowings, trade and other receivables and cash at bank and in hand approximates to the carrying amount because of the short maturity of interest rates in respect of these instruments.

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

12 Provisions

| Company | Dilapidation provision | Warranty provision | Total provision |
|-------------------------------|------------------------|--------------------|-----------------|
| | £'000 | £'000 | £'000 |
| At 1 January 2019 | 439 | 101 | 540 |
| Charge for the financial year | 155 | 4 | 159 |
| At 31 December 2019 | 594 | 105 | 699 |

The Company warranty provision at 31 December 2019 arose in respect of guarantees provided in the normal course of business relating to contract performance. The balance provided represents the directors' estimate of future expenditure based on the history of such claims received by the company. It is expected that most of this expenditure will be incurred in the next financial year.

The Group also has a dilapidation provision of £594k (2018: £439k) in respect of the buildings leased. It is expected that this expenditure will be incurred at the end of the lease.

13 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate applicable to the territory in which the asset or liability has arisen.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These changes included a reduction in the main rate to 17% from April 2020. In March 2020, the UK Government substantively enacted by a resolution under the Provisional Collection of Taxes Act 1968 to cancel the reduction in corporate tax rate, from 1 April 2020, and maintain the rate at 19%. Deferred taxes at the balance sheet date, in relation to UK companies, continue to be measured using tax rates enacted as at the balance sheet date (17%).

The movement on the deferred tax account is shown below:

| Company | Deferred tax |
|-------------------------------|--------------|
| | £'000 |
| At 1 January 2019 | 327 |
| Charge for the financial year | 142 |
| At 31 December 2019 | 469 |

Deferred tax provided in these financial statements, which represents the full potential liability, comprises corporation tax deferred by:

| Company | 2019 | 2018 |
|----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| - Accelerated capital allowances | (739) | (598) |
| - Share options | 2 | 2 |
| - Short term timing differences | 268 | 269 |
| | (469) | (327) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

14 Share capital

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Authorised, allotted, called up and fully paid at 1 January | | |
| 501,027 (2018: 501,027) 'A' ordinary shares of £1 each | 501 | 501 |
| 501,027 (2018: 501,027) 'B' ordinary shares of £1 each | 501 | 501 |
| | 1,002 | 1,002 |
| Authorised, allotted, called up and fully paid at 31 December | | |
| 501,027 (2018: 501,027) 'A' ordinary shares of £1 each | 501 | 501 |
| 501,027 (2018: 501,027) 'B' ordinary shares of £1 each | 501 | 501 |
| | 1,002 | 1,002 |

Both classes of shares carry equal rights with respect to dividends, voting and winding up.

15 Share premium

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| At 1 January and 31 December 2019 | 10,268 | 10,268 |

16 Retained earnings

| | 2019 £'000 | 2018 £'000 |
|-------------------------------|---------------|---------------|
| At 1 January | 57,946 | 60,690 |
| Profit for the financial year | 16,983 | 17,256 |
| Dividends paid | (22,000) | (20,000) |
| At 31 December | 52,929 | 57,946 |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

17 Cash generated from operations

Company reconciliation of operating profit to cash generated from operations:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Operating profit | 19,995 | 20,595 |
| Adjustments for: | | |
| Depreciation | 870 | 825 |
| Depreciation on right of use assets | 1,599 | - |
| Amortisation of intangible assets | 1,929 | 1,917 |
| Gain on disposal of property, plant and equipment | (663) | (22) |
| Gain on disposal of right of use assets | (5) | - |
| Increase in provisions | 159 | - |
| Changes in working capital: | | |
| Increase in stock and work in progress | (3,418) | (5,497) |
| Decrease/(Increase) in debtors | 16,248 | (16,115) |
| Decrease/(Increase) in financial asset | 75 | (1,225) |
| (Decrease)/Increase in creditors | (5,832) | 8,657 |
| Cash generated from operations | 30,957 | 9,135 |

Analysis of net debt

| | At 1 January 2019 £'000 | Cash flows £'000 | At 31 December 2019 £'000 |
|---------------------------|----------------------------------|------------------------|------------------------------------|
| Cash and cash equivalents | 298 | 550 | 848 |
| Short-term borrowings | (9,722) | 4,016 | (5,706) |
| Net Debt | (9,424) | 4,566 | (4,858) |

RWG (Repair & Overhauls) Limited – SC120673

Notes to the company financial statements for the year to 31 December 2019 (continued)

18 Capital and other financial commitments

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| <hr/> | | |
| At the balance sheet date the following capital commitments existed for tangible fixed assets: | | |
| Contracted for but not provided | 203 | 217 |

The capital expenditure above related to property plant and equipment.

19 Post Balance Sheet Events

The recent global COVID-19 pandemic is the most significant challenge of our generation. This COVID-19 outbreak is considered a non-adjusting balance sheet event under IAS 10. During these unprecedented times RWG will do everything we can to manage through this pandemic, protect our team and to deliver the essential services required by our customers. RWG has always maintained a robust business continuity plan which has allowed all three businesses to adapt to this quickly changing situation. Investments in RWG's IT infrastructure has enabled many of our team to work remotely without impact to the services we provide. Risk Assessments, changed working practices and other measures put in place within our facilities to protect our teams from the spread of the Coronavirus are strictly adhered. Taking the above into account and without allowing any complacency, we do not expect the business to suffer any material impact from COVID-19