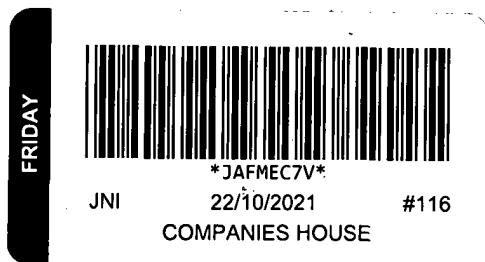
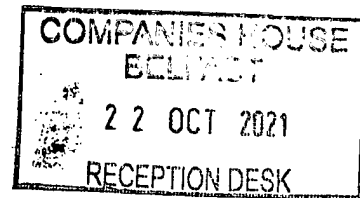


Short Brothers PLC

Annual Report and Financial Statements

For the year ended 31 December 2020

Registered No. NI 1062



Short Brothers PLC

Registered No. NI 1062

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Short Brothers PLC

Registered No. NI 1062

DIRECTORS

Sir Michael Ryan
Colin Thompson
Rhonda Harkins (appointed 30 October 2020)
Damon Ward (appointed 30 October 2020)
Paul Worthington (resigned 30 October 2020)

JOINT SECRETARIES

CHJ Secretarial Newco Limited
Colin Thompson

AUDITORS

Ernst & Young LLP
5 George Square
Glasgow
G2 1DY

BANKERS

Bank of America
2 King Edward Street
London
EC1A 1HQ

REGISTERED OFFICE

Airport Road
Belfast
BT3 9DZ

FOREWORD TO FINANCIAL STATEMENTS

Like many businesses in the aerospace segment 2020 was a very difficult trading year for the company due to the Coronavirus pandemic impacting the company results and the lives of individuals across the globe.

Despite the challenges of the pandemic, it was also a pivotal year for the company as on 30 October 2020, it was acquired from Bombardier Inc. (Bombardier) by Spirit AeroSystems Holdings Inc. (Spirit). The acquisition was deeply aligned with Spirit's strategy to grow Airbus work content and enhance its aftermarket business.

The successful completion of the transaction during the pandemic reinforced and acknowledged our expertise in the development, manufacture and support of key aerostructures, including wings, fuselages, and engine nacelles, and opens tremendous opportunities for the future. A project team is fully integrating Shorts into the Spirit environment, and progress across all major workstreams is on plan.

Spirit paid \$275 million for the shares of the company, along with the shares of a sister company in Casablanca and the assets of an aftermarket facility in Dallas. Spirit also assumed company liabilities for a government repayable loan and the company's pension liability, resulting in a total enterprise value of \$865 million. Spirit also agreed to payment a special contribution of £100 million to the Shorts pension scheme on 30 October 2021 and to fund ongoing deficit repair contributions.

Difficult trading conditions in 2020 due to the pandemic meant that company turnover decreased by 30% to \$620 million. The company made a pre-exceptional items loss of \$111 million in 2020 (2019: pre-exceptional profit of \$10 million). Continued pricing challenges in a difficult market and much lower production volume as a result of the pandemic, resulted in an impact of carrying fixed overhead across a reduced revenue base. The business continues to face challenging cost pressures in a difficult overall aerospace context. An operating loss of \$385 million includes the impact of provisions taken in 2020 relating to onerous contracts (\$194 million) as a direct result of changing demand and cost pressures experienced in the aircraft industry.

Since early 2020, the pandemic has deeply impacted global aviation markets. Consequently, the company has continued to take significant measures to protect its employees' health and wellbeing as well as to adjust its production schedules to meet reduced customer demand. Regrettably, it announced workforce reductions in June and August of 2020, relating to just under 500 jobs, to address production requirements into 2021. However, by utilising the UK Government's Coronavirus Job Retention Scheme (Government CJRS), the company was able to successfully mitigate a much greater headcount reduction.

2020 was also a year of many achievements. The company was competitively selected to lead Team MOSQUITO to further develop the RAF Lightweight Affordable Novel Combat Aircraft concept to full demonstration capability. Initially supporting more than 100 high-value engineering jobs in Belfast, the project has the potential to sustain further expertise in the wider UK supply chain and support the Ministry of Defence's strategic objectives. The project is helping to drive collaborative innovation, research and development and competitive advantage. This places the company in a good position to compete for potential future work on the project and other UK defence contracts.

The company was also recognised for environmental leadership in the 2020 NI Environmental Benchmarking survey, scoring highest for the fourth consecutive year and was also recognised as a Responsible Business Champion in the Environmental Leadership Award category by The Responsible Business Network Northern Ireland. Both awards illustrate our significant commitment and contribution to sustainability in Northern Ireland. Successful audits in 2020 included LRQA ISA 14001 Environmental Management and BSI and ISO 45001 Occupational Health & Safety compliance.

Our Belfast Wing Manufacturing and Assembly facility manufactures and assembles composite wings for the Airbus A220 aircraft family. In preparation for the ramp-up of the A220 programme from 2022, the company received planning permission in Q1 2020 for an extension to the existing facility. At full production, the A220 programme will sustain around 1,000 jobs at our Belfast site and up to 2,000 jobs in our supply chain. Spend approvals to commence the extension are in line with strategic timelines. The management team are regularly monitoring key milestones to ensure timelines are respected.

FOREWORD TO FINANCIAL STATEMENTS

In addition, recognising the company's significant contribution to the local economy, Sir Michael Ryan, one of the company directors and the VPGM for the Belfast facility, received a knighthood in the Queen's birthday honours in June 2021. This richly deserved recognition acknowledges his significant personal contribution, but also the ongoing support of the entire Belfast team to Northern Ireland's aerospace industry and its communities.

We acknowledge the impact of the continuing Covid-19 situation on all our employees, their families, our customers, suppliers, and communities, and we have taken significant actions during 2020 to emerge stronger from this crisis. We, with the support of our new parent company, are committed to aggressively pursue all opportunities to protect and grow our business. We continue to engage directly with government, along with our trade unions and industry peers, to help us manage through this period in a way that safeguards our unique skills base in Northern Ireland and enables the company to emerge stronger. As always, the dedication and hard work of our employees plays a key role in our present and future success.

STRATEGIC REPORT

The directors are pleased to present their Strategic Report for the year ended 31 December 2020.

BUSINESS REVIEW

The principal activities of the company are the design, development and manufacture of major aerostructures and components (wings, fuselages, engine nacelles and flight components) and providing aftermarket support as well as other engineering services for both internal and external customers.

The acquisition of the company and other related assets by Spirit, completed on 30 October 2020, via a share sale from Bombardier. The transaction supported Spirit's strategic decision to reshape its aviation portfolio away from a traditional Boeing focus. This allows Spirit to develop a more diverse portfolio to include additional Airbus product, business aircraft and aftermarket business. Shorts has the expertise to support a full product life cycle from design and development through to aftermarket and brings valuable engineering expertise and a strong track record of innovation, especially in advanced composites. Shorts continues to be an important supplier for Bombardier, producing a range of aerostructures and components for its *Challenger* and *Global* business jet families.

The company's Profit and Loss Account on page 26 of the financial statements shows a loss for the year, after taxation and exceptional items (note 4) of \$500.2 million (2019: loss of \$2.1 million). The directors do not recommend the payment of a final dividend (2019: \$ nil). The company's operating transactions and cash flows are primarily denominated in US Dollars, consequently both the company's functional currency and presentation currency is the US Dollar.

The Health and Safety KPIs below show a decrease in the number of incidents from 2019. The reduction is due to the fact that 2020 metrics are based on the hours worked by employees and does not include employees who were included within the Government CJRS scheme.

Our key focus over the short to medium term continues to be the delivery on cost reduction initiatives for current sustaining programmes and programmes under development. We are exploring the opportunity to exploit Belfast's capabilities within the Spirit Group and avail of cost synergies. We have a continuing plan in place which focuses on reduction of procurement costs and labour efficiencies. With Spirit's support and investment, and in line with their strategic initiatives, we will develop future growth and business development opportunities. In late 2020 the company was successful in its bid with the Ministry of Defence for the MOSQUITO programme.

During 2020, the net retirement benefits deficit decreased by \$9.9 million (2019: \$200 million increase) primarily caused by changes in the actuarial assumptions and a higher level of deficit recovery contributions by the employer. This was offset by actuarial losses, driven by the decrease in the implied discount rate (2020: 1.45%, 2019: 2.00%) and increased pension costs. The company has investment plans in place to achieve long-term returns that, in conjunction with contributions, provide sufficient assets to pay the projected benefits while maintaining an acceptable level of risk given the tolerance of plan stakeholders. Spirit has also committed to pay an additional £100 million cash contribution into the pension scheme on the first anniversary of the acquisition (30 October 2021) and to continue to meet ongoing deficit repair contributions.

Following an extensive consultation with pension scheme members and trade unions, the company has given notice that the current Scheme will close to future accrual on 10 December 2021 and be replaced by a defined contribution scheme. The company has determined that the costs associated with operating the Short Brothers Pension Scheme, as well as the unpredictability inherent in these costs, are unsustainable in the long-term.

This will place the company in a better position to plan for the future and continue to invest in innovation, protect the benefits members have already earned, and provide employees with a new flexible and competitive pension benefit.

Short Brothers PLC

STRATEGIC REPORT

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

	2020		2019	
Turnover	<i>\$ million</i>	<i>% of total</i>	<i>\$ million</i>	<i>% of total</i>
Fuselage	201	32	307	34
Propulsion	44	7	112	13
Wing	243	40	284	32
Aftermarket	132	21	187	21
	<u>620</u>		<u>890</u>	

	2020	2019
Deliveries	<i>Number</i>	<i>Number</i>
Fuselages	172	313
Propulsion	117	197
Wing	53	70
	<u>342</u>	<u>580</u>

The company uses a range of key performance indicators (KPIs) to monitor progress. These support the business strategy outlined below:

	2020	2019
KPIs	<i>\$ million</i>	<i>\$ million</i>
Operating (loss)/profit	(385)	13
Loss for the financial year after tax	(500)	(2)
Investment in property, plant and equipment (excludes investment in leases)	38	50
Research and development costs	7	5

	2020	2019
KPIs	<i>Number</i>	<i>Number</i>
Number of employee H&S incidents (total number of incidents per 200,000 work hours)	2.11	4.38
Number of time lost employee incidents (average number of incidents per 200,000 work hours)	0.14	0.16
Severity of employee incidents (average number of days lost per 200,000 work hours)	8.3	9.5

STRATEGIC REPORT

BUSINESS STRATEGY

The company's business strategy is to be the supplier of choice of innovative aerospace engineering solutions, focusing primarily on higher value products such as wings, engine nacelles and other complex aerostructures.

The company is committed to developing a culture of continuous improvement by ongoing operation of the Achieving Excellence System (AES). AES is the management system designed to drive a world class culture and world class performance, as measured through six Balanced Scorecard (BSC) levers: Safety, Quality, Productivity, People, Cash and Cost and Performance.

During 2020, the AES focus continued to be on improving performance through ongoing and disciplined use of the system, although Covid-19 guidelines had some impact on onsite meeting capability. All teams within the system continued to focus on delivering on a smaller number of key performance metrics, all of which were supported by relevant enabling metrics specific to their areas. An additional focus in 2020 was to align functional and process objectives, through an enhanced Annual Planning process, taking into account the acquisition of the company by Spirit.

Give an amazing customer experience

We aim to meet our commitments to our current customers in terms of cost, quality and delivery, and executing flawlessly on production rate changes. We must continue to strengthen relationships with our key customers to position Spirit to win work on future generations of aircraft.

We use Customer Scorecards as the indicative measure of our success with our customer base. These scorecards allow each customer to rate our performance on the product and services we provide across the following areas: cost/commercial, quality, delivery, responsiveness, aftermarket and customer focus. The information from the scorecards allows our operational and functional support staff to work more closely with our customers to improve the customer experience we provide. The metrics are embedded in the AES framework, increasing the accountability throughout the organization to provide an Amazing Customer Experience.

Optimise our business performance by eliminating waste in everything we do

Lean Techniques

Through the implementation of AES, the company has developed a maturity in the understanding of Lean techniques and continues to deploy them to eliminate waste in all aspects of our business. The elimination of waste is a major contributor to current cost-reduction initiatives.

During 2020, we continued the implementation of a Customer Delivery Model – an ambitious Lean project on the A220 Wing programme, with the objectives of (a) creating significant improvements to product flow through the Wing Manufacturing and Assembly facility, (b) reduction of overall cycle time and (c) reduction of customer delivery risk during the rate acceleration phase of this critical programme. Progress was unfortunately hampered by the impact of Covid 19 restrictions, and the project will continue to run through most of 2021.

Investment in Fixed and Intangible assets

Capital investment in programmes was \$47 million (2019: \$34 million).

Advance to higher value products and services

Industrial Strategy

The company's industrial strategy seeks to balance higher value-added processes with more competitive, lower cost supply.

STRATEGIC REPORT

Research and Development (“R&D”)

The company’s technology strategy is focused on improving competitiveness as well as alignment with the vision for growth and desired future capabilities of the business.

The company has continued to support the development of the UK aerospace technology strategy, which is a critical component of the Government’s Industrial Strategy and includes the joint Government and industry commitment to the UK Aerospace Technology Institute (ATI). We continue to execute our five-year strategic technology plan with support from the ATI.

Leverage new business

The role of the Business Development team has continued to advance in line with the company’s business growth strategy. The team’s mandate is to:

- Research, identify and capitalise on new business opportunities;
- Market the company’s engineering, manufacturing and aftermarket support capabilities to key airframers and aerospace companies who are global players;
- Develop strategic relationships with current and potential customers that will lead to bid opportunities and new business;
- Focus on emerging UK commercial space launch providers to capture Small Launch Vehicle (SLV) manufacture and assembly, payload fairing and inter-stage adaptor aerostructure work packages;
- Exploit associated technology spin-offs from the space sector to other business and Commercial Aircraft business segments;
- Secure national and regional space sector funding, and
- Target further UK Defence opportunities and consolidate existing business to shape future revenue growth. Seek out wider international defence aerostructure synergies with other primes.

Business development activity and effort continues to focus on the development, integration and manufacture of aircraft wings and advanced nacelle structures and systems. Further development of aftermarket support is a key element of the company’s business growth strategy.

Successfully transform to create a safe and rewarding workplace for all our people

Health and Safety

During 2020, the Covid-19 pandemic provided significant challenges to society and working life. During the first lockdown in early 2020, a small team started to develop return to work plans to anticipate eventual, graduated return to work during Q2 and Q3 for factory workers. Despite these significant challenges, the company continued, with diligent focus, its tracking of safety related occurrences.

The site continues to be accredited to ISO 45001 for our internal safety management system.

Our 2020 Belfast safety audit schedule was completed to plan, namely,

- 28 OHSAS internal audits;
- 44 critical risk audits;
- 2 external (virtual) accreditation audits.

Covid challenges aside, particular emphasis continues to be placed on auditing the more critical aspects of our risk profile as we continue to seek to minimise both the frequency of occurrences and their potential severity.

Our bespoke incident management system RAIL (Risk, Audit, Incident, Liability) continues to evolve, linking occurrences with existing risk assessment controls.

A cascading metric to ensure our managers are focussed on the validity of risk assessments relevant to their areas of responsibility, with onus placed on risk control, continues to be tracked.

STRATEGIC REPORT

Health and Safety (continued)

The KPIs for frequency of employee incidents continue to compare positively with industry standards. We recorded a slight decrease in our metrics during 2020, with the additional contributing factors of lockdown and the employee furlough scheme to be borne in mind. We continue to measure and rigorously investigate all reported incidents, involving employees and third-party contractors.

During 2020, and in addition to regular Covid briefings, we issued several themed safety alerts to inform and encourage all employees to fully engage in underpinning and sustaining a preventative safety culture. All employees were strongly encouraged to follow government issued Covid guidelines.

Environment and Energy

The company continues to assess our potential impact on the environment and maintain arrangements to manage risk and deliver continual improvement.

The Environmental Management System (EMS) is independently accredited to ISO14001 by Lloyd's Register Quality Assurance (LRQA) and is subject to regular external audits. LRQA undertook a surveillance audit and recertification audit in 2020. No non-conformances were raised. These are excellent results that acknowledge the robust arrangements in place for delivering environmental compliance and continual improvement.

2020 saw a continuation of a challenging programme of environmental targets. Each target is supported by action plans to build on improvements already made in the areas of waste, water, volatile organic compound (VOC) emissions (related to solvent use), energy use and greenhouse gas emissions.

Over the past few years, as part of an ambitious energy strategy, we have launched a number of initiatives to secure supply from more sustainable sources and reduce our energy cost burden.

A comprehensive range of solar and biogas plants are also helping the company become less dependent on mains-generated energy.

Communities

Whilst the Covid-19 pandemic presented challenges for the day-to-day administration of our charitable foundation, we still managed to support formal applications from a range of charities in 2020. These included Action Cancer, Brain Injury Matters NI, Buddy Bear Trust, Dreamscheme Northern Ireland, Go Kids Go, Homeplus NI Ltd, Multiple Sclerosis Society Northern Ireland and the Northern Ireland Hospice.

We engaged with a number of community organisations involved in emergency response support, such as St John Ambulance, to donate much needed PPE. Many employees volunteered at food banks and local groups helping vulnerable members of the community, and recognising their valuable work, our foundation also donated to these initiatives.

As part of our educational outreach, the company continued its sponsorship of a chair in Composites Engineering at Ulster University. We partnered with Sentinus, a not-for-profit STEM-related charity, on the delivery of flight-themed programmes in schools to help develop young people's interest in these subject areas.

We supported the Aisling educational bursary programme for third-level students in West Belfast as well as annual recognition awards at social enterprise, Orchardville. We also sponsored Catalyst in Titanic Quarter. Community-led and not-for-profit, its focus is the development of local entrepreneurial innovation.

Employees also organised their own fantastic fundraising activities throughout the year and, together with their charity society and the company's charitable foundation, donated thousands of pounds to local causes.

STRATEGIC REPORT

Communities (continued)

At the end of the year, a team of employees volunteered for a Christmas appeal. In collaboration with Belfast community groups, charities, and sports teams, they provided much needed support to around 2,500 local families, many of whom were affected by the pandemic. The team enthusiastically took up the role of Santa's helpers, preparing food hampers and sacks of presents to offer a little joy during the festive season.

STREAMLINED ENERGY AND CARBON REPORT

The company present their first report in relation to the Streamlined Energy and Carbon Report obligations. This covers energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and information relating to energy efficiency actions.

Category	2020	2019	Unit
Energy consumption used to calculate emissions	119,197,856	146,561,386	kWh
Natural Gas	63,681,933	74,401,765	kWh
LPG	134,649	151,685	kWh
Gas Oil	634,868	365,067	kWh
Electricity	54,283,380	70,956,069	kWh
Transport Fuel	463,026	686,801	kWh
Emissions from combustion of gas	11,709.20	13,678.76	tCO ₂ e
Emissions from combustion of fuel for transport purposes	96.07	130.81	tCO ₂ e
Emissions from business travel	21.67	44.51	tCO ₂ e
Emissions from purchased electricity	12,655.63	18,136.37	tCO ₂ e
Total gross tCO ₂ based on above	24,482.56	31,990.46	tCO ₂ e
Intensity ratio	950.95	930.75	tCO ₂ e per 200,000 hours

Energy efficiency actions

In the period covered by the report the company has installed a new nitrogen plant at Dunmurry, modified the Air Handling Unit (AHU) fan speed at the WPU cleanroom, moved to double stacking of the Wing Production Unit Spray Booths, introduced site furlough periods, which resulted in 10,857,016 kWh of annual savings.

Methodology used in the calculation of disclosures

ESOS methodology (as specified in Complying with the Energy Savings Opportunity Scheme version 6, published by the Environment Agency 28/10/2019) used in conjunction with Government GHG reporting conversion factors.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

Like most businesses, there are a range of risks and uncertainties facing the company and the matters described below are not intended to be an exhaustive list. We fully apply risk assessment and mitigation practices possible, to reduce the nature and extent of our risk exposure to an acceptable level. The principal risks and uncertainties facing the company are broadly grouped as Coronavirus, Brexit, Treasury and the Aerospace environment.

Coronavirus risk

As the global pandemic took hold in the UK in March 2020, our employees' health and safety remained the company's top priority, combined with the need to ensure business continuity. Where possible, the company facilitated remote working. This was not possible for all employees and a significant number of employees were placed on furlough utilising the UK Government's Coronavirus Job Retention Scheme (CJRS).

We used the initial furlough period to review our facilities and all reasonable steps were taken to safeguard the health, safety and well-being of employees. This ensured that, as employees returned to work on a phased programme, we were following the current government social distancing and workplace health and safety regulations.

We continue to monitor the impact of Covid on our business, as government guidelines change and market conditions adjust. Regrettably, we announced workforce reductions in June and August, relating to just under 500 jobs, to address revisions in production schedules into 2021. However, by utilising the CJRS, the company managed to mitigate a much larger number of reductions. The company continues to utilise the scheme whilst it is available.

Other mitigation measures included a global travel ban while visits to, and movements between, our Belfast sites were restricted. The company's cleaning regime has been reviewed so that employees can continue to practise good hygiene and follow Public Health Agency advice.

Future workplace rotations are being considered post Covid, to continue to minimise the employee population across our sites. The company continues to facilitate arrangements for employees who need to observe isolation and quarantine periods and to support those with childcare needs. Employees have access to the Covid testing programme within Northern Ireland, allowing for testing at drive-through testing sites, as well as at home testing. The company continues to consult with central and regional government, and our industry trade bodies, on the way forward through this crisis.

Business risk - Coronavirus

Our business, financial results, and prospects are dependent on global aviation demand. The pandemic has had and is expected to continue to have a significant impact on aviation demand and our industry. The demand for aircraft in the narrow body market and business jets is showing signs of recovery, and the long-term demand drivers are well positioned. The demand for the aftermarket sector is largely driven by the in-flight population of aircraft and the hours flown. As the flight hours increase, we will continue to focus on these higher-margin activities.

Revenues during the second half of 2020 reflect a lower level of production activity and deliveries, relative to 2019, as operations were suspended due to the global pandemic. Revenue reductions were due to the realignment of production orders to match the demand of the market. We expect to recover in the medium to long-term, and by 2023 we expect revenue to exceed pre-Covid levels. This is due to the ramp-up of our A220 programme, aftermarket business and other potential opportunities.

The company's costs were continually reviewed in light of changes to production rates. The factory sites were not operating to full capacity and production rates were adjusted to reflect long-term build schedules. One-time Covid costs were also incurred in excess of the Government assistance program.

STRATEGIC REPORT

Business risk – Coronavirus (continued)

This resulted in specific Covid waste costs in the year of \$34m and excess production costs of \$6m. Covid waste costs are payroll costs over and above government funding. Excess costs are a result of operating at a reduced production level compared with normal capacity.

The industry is expected to recover in the medium term and the long-term prospects are good. The financial projections used in the going concern assessment are based on latest master schedules considering the impact Covid has had on the industry. Management's best estimates regarding the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically, and the effects of any changes are recognised immediately.

Brexit risk

On 31 January 2020, the UK formally left the European Union and entered a transition period until 31 December 2021. Like other companies, we are adapting to the new trading arrangements between Great Britain and Northern Ireland as a result of the NI Protocol. We continue to engage with relevant government departments to ensure that those arrangements enable our business to operate as smoothly as possible. Because the company currently operates and conducts business in the U.K. and in EU, potential adverse consequences of Brexit such as global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between the U.K. and other countries and increased regulatory complexities could have a negative impact on our business, financial condition, and results of operations.

Treasury risks

These include credit risk, liquidity risk, cash flow and price risks, and currency risk.

Credit risk

Most of the company's revenues are derived from contracts with customers. The company continuously monitors collections and payments and maintains a provision for estimated credit losses. Company policy is aimed at minimising credit risk and requires that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the company's exposure to bad debts is not significant.

Liquidity risk

The company actively maintains short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions. The company manages liquidity risk through Spirit's centralised treasury department, with whom it shares banking arrangements.

The company's operations are primarily funded through advances from other related parties, specifically a \$200 million letter of credit facility with Spirit AeroSystems (Europe) Limited. The current letter of credit covers up to 31 December 2025. This provides significant headroom to operational requirements. Prior to completion of the sale of the company to Spirit, all previous intercompany funding repayable to Bombardier was cleared via repayment and issue of shares.

Currency risk

For part of the year, until the sale, the company entered into foreign exchange contracts to manage its foreign currency exposure. These contracts were arranged by Corporate Treasury based on an Exposure Forecast supplied by each site. The movement in the fair value of these contracts is recorded in the derivatives line in the balance sheet with the offset being recorded on OCI. As at 31 December 2020, due to the acquisition, the company currently does not use any hedging arrangements. The company has plans to introduce forward foreign currency contracts to reduce exposure to the risk of variability of foreign exchange rates within the next year.

STRATEGIC REPORT

Section 172 (1) (a) to (f) and Stakeholder Engagement

The directors have acted in a way that they considered, in good faith, to be the most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard to (amongst others matters):

- a) The likely consequence of any decision in the long-term;
- b) The interest of the company's employees;
- c) The need to foster the company's business relationships with suppliers, customers and others;
- d) The impact of the company's operations on the community and the environment;
- e) The desirability of the company maintaining a reputation for high standards of business conduct, and
- f) The need to act fairly between members of the company.

Engagement with our shareholders and wider stakeholder groups plays a vital role throughout the business. By understanding our stakeholders, the board factors into boardroom discussions the potential impact of our decisions on each stakeholder group and considers their broad range of interests.

Decision making

On 30 October 2020, Spirit acquired the shares of the company from Bombardier. Due to the sale, 100,000,000 ordinary shares were issued to Spirit.

The company's operations are primarily funded through advances from other related parties, specifically a \$200 million letter of credit facility with Spirit AeroSystems (Europe) Limited. The current letter of credit covers up to 31 December 2025.

Cessation of the hedging policy ended on 30 October 2020, due to the sale of the company to Spirit. For the last two months of the year, no hedging arrangements were in place. The company has plans to introduce foreign currency contracts to reduce exposure to the variability of foreign exchange rates, within the next year.

The impact of Covid has had a negative effect on our business. Regrettably, workforce reductions took place during the year, relating to just under 500 jobs, to address revisions in production schedules into 2021. However, by utilising the government's Coronavirus Job Retention Scheme, the company has managed to mitigate a larger number of reductions and will continue to maximise opportunities afforded by the scheme for as long as it is available.

The Spirit Corporate Governance Structure identifies the rules, practices and processes through which the group and its subsidiaries are directed and controlled and provides the framework for attaining both the group's and the company's objectives. Additionally, numerous internal policies are maintained setting forth governance practices to which the Group and the Company are required to adhere.

The directors of the company contribute to the preparation of a strategic plan and five-year financial projections, within the government framework. The management of the business and the execution of the company's strategy are subject to a number of principal and emerging risks which are identified and managed on behalf of the directors by the Senior Leadership Council, and appropriate processes put in place to monitor and mitigate them. In discharging these requirements, the directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long-term, and the reputation of the company and the wider group.

STRATEGIC REPORT

Section 172 (1) (a) to (f) and Stakeholder Engagement (continued)

Colleagues

Our people are our most valuable assets, their knowledge and expertise make a critical difference to our success and our investment in them protects and strengthens our culture. We work hard to create a diverse, equal and inclusive culture. We have an established approach to engaging colleagues to ensure we take their perspectives into account in our decisions and action plans and share with them our strategy and progress. Our leaders engage face to face with colleagues locally and we engage collectively, including through an effective partnership with our trade unions in regular Joint Consultative Council meetings. Constructive relationships which build on mutual respect and transparency help the company to retain employees and avoid labour disputes which contributes to greater productivity and business efficiency. Annual planning sessions held across the company encourage employee engagement at the beginning of each year and provide an opportunity for employees to provide input to annual planning and objective setting.

In October 2020, Spirit acquired Short Brothers. Spirit is one of the world's largest tier-one manufacturers and suppliers of aerostructures, employing almost 15,000 people across the world. This acquisition is a significant milestone in the Short Brothers history providing hope for a bright future ahead. During the acquisition and integration phase there was a clear focus on ensuring a positive experience for all employees as we worked to integrate HR policies and procedures.

During 2020 we also navigated our way through the pandemic, the key focus was to keep people safe. We worked tirelessly to ensure the safety and wellbeing of employees in the workplace: establish safe working practices for all employees and continue to adjust as PHA guidelines evolved.

We worked hard to optimise working from home: we needed to ensure that where people could they worked from home. At its height we had approximately 656 working from home, approximately 24% of the overall number of employees.

Regrettably, due to the pandemic, we announced workforce reductions in June and August, relating to just under 500 jobs, to address revisions in production schedules into 2021.

However, during this phase we also optimised the furlough scheme, where working from home was not possible for employees: at its height we had approximately 2,750 on furlough, 84% of the workforce. We worked hard to support employees during this phase and subsequently to manage their safe return to work and support them through the transition.

Suppliers

The company has contracts and agreements in place with top-tier suppliers across the globe and continues to seek qualified, competitive additions to the Spirit supplier network to enable meeting customer commitments and create effective longstanding relationships with suppliers which are mutually beneficial. The company engages with key suppliers through regular Programme Management Reviews and this has served to strengthen relationships and promote good business practice. These reviews are key to ensuring alignment with suppliers, across all aspects of technical and commercial interactions. We are a signatory to ADS 21st Century Supply Chain and we work with other members of that Partnership to synchronise how supply chain performance is measured and relationships improved. The company encourages suppliers to raise any issues or concerns they have about their relationship with the company, their contracts or the workforce.

STRATEGIC REPORT

Section 172 (1) (a) to (f) and Stakeholder Engagement (continued)

Customers

In order to fulfil our goal of providing an 'amazing customer experience' it is important to engage with customers to maintain and expand our current customer base. We use and share Customer Scorecards with key customers, which allow each customer to rate our performance across the following areas and to demonstrate our focus to customer needs: quality, cost/commercial, delivery, responsiveness, aftermarket and customer focus. In terms of our aftermarket customers, management obtain feedback in relation to responsiveness of queries and timeliness of fulfilling orders, both in repairs and spares supply.

Engagement with customers highlighted the fundamental need to continue to nurture and maintain strong relationships with our customers to ensure continued and new business.

Government and Regulators

The Directors recognise the importance of engagement with government, principally the Department of Business, Energy & Industrial Strategy (BEIS), and Invest Northern Ireland (INI). The company engages with both on a regular basis to provide business updates, highlight industry issues and support required, and apprise of potential new opportunities. Under the terms of the Repayable Launch Investment for the A220 wings, formal meetings with BEIS and INI take place twice each year to present current programme milestones and performance updates. Formal lines of communication are also open with BEIS with regards to the RLI levy repayments, which commenced in January 2020. In these ways, the company is fully engaged in, and committed to, keeping the government updated on its investment.

With respect to ongoing grant support for R&D projects and training from INI, the company is required to complete formal monitoring reports on a quarterly basis. These reports include updates on employment, financial performance, sales and marketing news, including customer satisfaction levels, operations, R&D, including any new products/services planned, and legal actions.

The company is represented on the joint government and industry Aerospace Growth Partnership (AGP) both serving on the Board, as well as on several working groups, on which government officials also sit. The Board is jointly chaired by the BEIS Minister responsible for Aerospace, and those meetings take place every four to six weeks. The various working group meetings occur approximately every six weeks. Through its participation in the AGP, the company is actively contributing to the future shape of the aerospace industry in the UK.

During the year, the company was represented on the BEIS Aerospace EU Exit & Trade Sector Panel, where government updated industry on its approach/policies in relation to Brexit, as well as enabling industry to raise matters of concern directly with government. Officials from HMRC, the Department for Transport, and the Department for International Trade also take part were also represented in these meetings.

The company continued to execute its government and political engagement plan to ensure its interests were amplified at Cabinet, UK Ministerial and NI Ministerial levels, as well as across the broader political spectrum.

STRATEGIC REPORT

Section 172 (1) (a) to (f) and Stakeholder Engagement (continued)

Environment

The Board recognise the important responsibility we have to minimise the adverse impact of our products and operations on the environment and continue to assess our potential impact and maintain arrangements to manage risk and deliver continual improvement. The Environmental Management System (EMS) is independently accredited to ISO14001 by Lloyd's Register Quality Assurance (LRQA) and is subject to regular external audits. LRQA undertook a surveillance audit and a recertification audit in 2020. No non-conformances were raised. These are excellent results which acknowledge the robust arrangements in place for delivering environmental compliance and continual improvement.

In 2020, for the fourth consecutive year, the company achieved first place in the Business in the Community's Annual Environmental Benchmarking Survey; Northern Ireland's premier environmental awards scheme for business and industry. We were also recognised as Responsible Business Champion in 2020. This provided further recognition of our continual improvement.

2020 saw a continuation of a challenging programme of environmental targets. Each target is supported by action plans to build on improvements already made in the areas of waste, water, volatile organic compound (VOC) emissions (related to solvent use), energy use and greenhouse gas emissions.

A range of solar and biogas plants are helping us become less dependent on mains-generated energy.

The projects are enabling us to secure supply at consistent rates while reducing our overall environmental footprint.

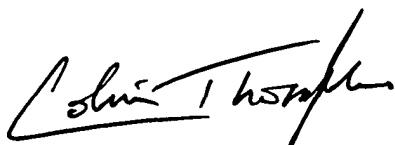
Communities

We continue to support a number of initiatives in our local communities in the areas of education, entrepreneurship and social inclusion.

In 2020, together with our charitable foundation, we responded to a number of Covid appeals from local charities.

These varied from our provision of personal protection equipment to St John Ambulance (NI), who were volunteer supporting our Northern Ireland Ambulance Service, to financial assistance for a range of community initiatives such as foodbanks and residents' associations, who were delivering meals and support to those most vulnerable as a result of the Covid-19 impact. Please refer to the Strategic Report for further details.

By order of the board



Colin Thompson

Director

Date: 21 October 2021

DIRECTORS' REPORT

The directors present their report for the year ended 31 December 2020.

Directors of the company

The current directors are shown on page 3.

The company has adopted a Code of Conduct (the "Code") and a Finance Code of Professional Conduct that applies to the directors of the company. Copies of the Code and Finance Code of Professional Conduct are available on the parent company's website at the following website:
<http://investor.spiritaero.com/corporategovernance/OD/default.aspx>

Dividends

The directors do not recommend the payment of a final dividend (2019: \$ nil).

Future developments

The company intends to continue operating in the area of design, development and manufacture of aircraft components (wings, fuselages, engine nacelles and flight components) and related products and services. We are also working to develop further opportunities which exploit our current technology within the space and defence sectors.

The acquisition by Spirit will help secure our long-term future driving growth in both our Airbus programmes, and the aftermarket segment of the business, as well as supporting new opportunities in space and defence.

The industry is showing early signs of recovery in the medium term, and the long-term prospects are expected to be in line with pre pandemic expectations as normal market conditions return.

Financial instruments

The company finances its activities with a combination of amounts due to other related parties, vendor non-recurring liability, finance leases, cash and government refundable advances. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities.

The disclosures of financial instrument risks and policies have been included in the Strategic Report in accordance with 414 C (11) of the Companies Act 2016 as the directors consider that this information is of strategic importance. The methods and assumptions are disclosed in the financial instruments note 18. The company has plans to introduce forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency.

Research and development

The company's research and development activities are discussed in the Strategic Report.

Employees

The company is an equal opportunity employer, and its policy is to appoint persons on the basis of merit and capability without regard to religious belief, political opinion, gender, marital status, sexual orientation, disability, race, ethnic background or national origin, age or status as an ex-offender. It is the company's policy to ensure equality for applications from disabled people to ensure that special requirements are facilitated appropriately in relation to the jobs for which they apply. When an employee becomes disabled, every effort is made to ensure continuity of employment. In all instances, consideration is given to the provision of appropriate training facilities. The company is committed to safeguarding the health and safety of its employees and others in accordance with current legislation.

DIRECTORS' REPORT

Employees (continued)

The company encourages the involvement of employees in its affairs by participation in regular face-to-face briefings and through a Joint Consultative Committee structure consisting of representatives of the Management and Trade Unions. By these means and through newsletters and other written communications, employees are regularly informed on the progress of the company and their views sought on matters that affect them as employees.

Post balance sheet events

During 2020, the company undertook an extensive consultation with pension scheme members and trade unions. In 2021, the company gave notice that the current Scheme will close to future accrual on 10 December 2021 and be replaced by a defined contribution scheme. The company has determined that the costs associated with operating the Short Brothers Pension Scheme, as well as the unpredictability inherent in these costs, are unsustainable in the long-term.

Going concern

The Directors have performed a going concern assessment, including a review of the Company's financial position, future operations and cash flows for the period to 31 December 2022. The company's business activities, together with the factors likely to affect its future development and position, are discussed in the Strategic Report, and these factors have been considered when preparing the financial projections of the company.

This assessment together with the net liabilities position at 31 December 2020 of \$503 million (2019: \$223.0 million), as shown on page 28, indicated that the company is dependent on continuing financial support being made available by its parent Spirit AeroSystems Holdings Inc. to enable it to continue operating and to meet its liabilities as they fall due.

The directors of the Company's ultimate parent undertaking Spirit AeroSystems Holdings, Inc. have provided a letter indicating that they have the ability to provide and will provide financial support to the Company to 31 December 2022. Based on the 2020 Spirit AeroSystems Holdings Inc. results and the 2021 and 2022 projections, the Directors are satisfied that Spirit has sufficient cash and liquidity to provide this support. In particular the Directors of the Company and those of Spirit have considered the financial performance and cash flows of the Spirit Group which indicate that Spirit is expected to continue to be cash generative and meet its obligations as they fall due for the period to 31 December 2022.

The Company has removed the following material uncertainties to continue as a going concern as stated in the 2019 accounts:

- There is a material uncertainty related to the market conditions over the coming months given the impact of the COVID-19 virus on aerospace markets and the demand for the company's aerostructures products and services, leading to reduced cash-flows. A revised financial forecast has been prepared to support the going concern assessment to reflect the latest current demand information from our customers. At the same time, the company has taken significant actions already to mitigate its cash outflows relating to this revised demand.
- The acquisition of the company by Spirit AeroSystems Holdings Inc., which is expected to complete in 2020, until the sale of the Company, the Directors cannot obtain a letter of support in respect of the funding of the Company's ongoing operations. The directors do not have visibility of the future funding and operating structure of Shorts within the Spirit AeroSystems Holdings, Inc. on completion of the acquisition.

DIRECTORS' REPORT

Going concern (continued)

Although a risk within the market remains, the aerospace industry is expected to recover from the impact of the COVID-19 pandemic in the medium term. The financial projections used in the going concern assessment are based on latest master schedules, which consider the impact COVID-19 has had on the aerospace industry. Further sensitivities in relation to the delay in recover has been considered by the Directors as part of their going concern assessment.

Spirit AeroSystems Holdings, Inc. acquired Shorts from Bombardier Inc on 30 October 2020. Spirit paid \$275 million for the shares of the company and also assumed company liabilities for a government repayable loan and the company's pension liability, resulting in a total enterprise value of \$865 million. Spirit also agreed to payment of a special contribution of £100 million to the Shorts pension scheme on 30 October 2021.

The transaction supports Spirit's strategic decision to reshape its aviation portfolio away from a traditional Boeing focus to develop a more diverse portfolio to include additional Airbus product, business aircraft and aftermarket business. Shorts has the expertise to support a full product life cycle from design and development through to aftermarket and brings valuable engineering expertise and a strong track record of innovation, especially in advanced composites. Shorts continues to be an important supplier for Bombardier, producing a range of aerostructures and components for its Challenger and Global business jet families. The Directors of the Company have a continuing plan in place which focuses on reduction of procurement costs and labour efficiencies. With Spirit's support, and in line with their strategic initiatives, we will develop future growth and business development opportunities.

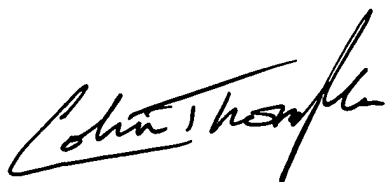
On the basis of their enquires of the Spirit going concern assessment, the letter of support provided by Spirit AeroSystems Holdings, Inc., and the reasonable expectations that the Spirit Group will continue as a going concern, the Directors have concluded that the Company will be able to continue in operation existence for the period to 31 December 2022. Consequently, the Directors continue to adopt the going concern basis of accounting in preparing the Company's financial statements.

Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

Directors' statement as to disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquires of fellow directors and the company's auditor, each director has taken all the steps that they is obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.



By order of the board

Colin Thompson
Director

Date: 21 October 2021

DIRECTORS' RESPONSIBILITIES STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period and otherwise comply with the Companies Act 2006.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Present information, including accounting policies in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures where compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- State whether applicable UK Accounting Standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Short Brothers PLC

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORT BROTHERS PLC

Opinion

We have audited the financial statements of Short Brothers plc for the year ended 31 December 2020 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its loss for the year then ended; have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the performance of reasonably possible reverse stress tested scenarios for liquidity on the overall Group position. The Company requires parent support from their ultimate parent, Spirit AeroSystems Holdings, Inc. as a result of the Company being financed through intercompany loans.

In order to consider the appropriateness of going concern as the basis of preparation and the ability of Spirit AeroSystems Holdings, Inc. to provide the relevant support as required, we have:

- obtained and walked through management's forecast cashflow model and the sensitivities applied thereon;
- confirmed availability of facilities including conditions and covenants;
- corroborated future forecast inputs as reasonable through reference to in year testing, and through independent verification of forecasts, including (i) aircraft component deliveries; (ii) unit costs; (iii) sales price and (iv) working capital and sensitised the assumptions applied;
- obtained the base case along with sensitised forecasts prepared by management, and challenged management on the appropriateness and robustness of the sensitives applied;
- agreed the opening cash position per management's forecast cashflow model to cash held in the bank;
- considered the methodology under which the forecast cashflows were derived and tested the integrity of management's forecast cashflow model;
- obtained a copy of the letter of support from the Directors of the ultimate parent company to the Directors of the Company;

Short Brothers PLC

AUDITOR'S REPORT

- agreed the opening cash position per management's forecast cashflow model to cash held in the bank;
- considered the methodology under which the forecast cashflows were derived and tested the integrity of management's forecast cashflow model;
- obtained a copy of the letter of support from the Directors of the ultimate parent company to the Directors of the Company;
- obtained the wider Spirit AeroSystems Holdings, Inc. forecasts to assess their ability to provide support as required. Considered the nature of the wider Group's business and identified the key drivers of cash flow generation and range of customer as well as the Group's obligations;
- challenged management's going concern period and whether the period to 31 December 2022 was appropriate and concluded this is in line with the support provided by Spirit AeroSystems Holdings, Inc; and
- audited the disclosure in respect of going concern in the financial statements and concluded the disclosure was appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 14 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

AUDITOR'S REPORT

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, data protection, anti-bribery and corruption.
- We understood how the company is complying with those frameworks by making enquiries of senior management, those charged with governance and those responsible for legal and compliance procedures. We corroborated our enquiries through a review of the following documentation and performance of the following procedures;
 - Obtaining an understanding of entity-level controls and considering the influence of the control environment;
 - Obtaining an understanding of policies and procedures in place regarding compliance with laws and regulations, including how compliance with these policies is monitored and enforced;

Short Brothers PLC

AUDITOR'S REPORT

- Obtaining an understanding of management's processes for identifying and responding to fraud risks, including programs and controls established to address such risks identified, or otherwise prevent, deter and detect fraud, and how senior management monitors those controls;
 - Review of board meeting minutes in the year and to the signing date.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved testing journals identified by specific risk criteria. Our procedures also included a focus on the Coronavirus Job Retention Scheme to understand how the company complied with the scheme rules and the testing of a sample of claims made under the scheme. We read the minutes of directors' meetings to identify any non-compliance with laws and regulations. We also made enquiries with the directors and of management of the company regarding compliance with laws and regulations.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue recognition and impairment of property plant and equipment to be fraud risks. Our testing of revenue included agreeing a sample of transactions to supporting invoices, delivery documents and the receipt of payment in bank statements, and the testing of certain revenue journals. We also performed cut-off testing and detailed analytical reviews of sales and margins by contract. Our testing of the impairment of property plant and equipment included obtaining management's impairment assessment in respect of the property plant and equipment held at 31 December 2020, challenging management regarding key assumptions used in their assessment and recomputing management's calculations. We also performed a sensitivity analysis on the model for any reasonably possible change in assumptions.

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

Use of our report

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



Nick Gomer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow

Date: 21 October 2021

Short Brothers PLC

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2020

		2020	2019
		\$'000	\$'000
	<i>Note</i>		
TURNOVER	2	620,480	890,259
Cost of sales		(720,261)	(840,782)
GROSS (LOSS)/ PROFIT		(99,781)	49,477
Administrative expenses		(35,268)	(35,618)
Research and development		(7,322)	(6,452)
Other operating income		2,464	9,124
Government assistance income		29,179	-
Exceptional items	4	(274,747)	(3,321)
OPERATING (LOSS)/PROFIT	3	(385,475)	13,210
Interest payable and similar charges	5	(16,489)	(37,812)
Other finance cost – retirement benefits	20	(7,518)	(6,071)
LOSS BEFORE TAXATION		(409,482)	(30,673)
Tax (charge)/credit on loss on ordinary activities	7	(90,710)	28,558
LOSS FOR THE YEAR		(500,192)	(2,115)

Short Brothers PLC

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

		2020 \$'000	2019 \$'000
	<i>Note</i>		
LOSS FOR THE YEAR		<u>(500,192)</u>	<u>(2,115)</u>
OTHER COMPREHENSIVE INCOME:			
Items that can be reclassified to profit or loss			
Cash flow hedges			
Net (losses)/gains on derivative financial instruments designated as cash flow hedges		(11,590)	530
Net gains on cash flow hedges reclassified to income		9,191	24,061
Deferred tax credit/(charge) arising on cash flow hedges	7	<u>407</u>	<u>(4,180)</u>
		<u>(1,992)</u>	<u>20,411</u>
Items that cannot be reclassified to profit or loss			
Retirement benefits			
Net actuarial gains/ (losses) recognised in respect of retirement benefits	20	31,944	(173,856)
Foreign exchange losses on retirement benefits	20	(13,893)	(10,076)
Deferred tax (charge)/credit arising on retirement benefits	7	<u>(39,815)</u>	<u>31,268</u>
		<u>(21,764)</u>	<u>(152,664)</u>
Total other comprehensive loss for the year		<u>(23,756)</u>	<u>(132,253)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u><u>(523,948)</u></u>	<u><u>(134,368)</u></u>

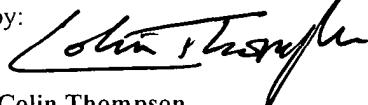
Short Brothers PLC

Registered No.NI 1062

BALANCE SHEET as at 31 December 2020

		2020	2019
		\$'000	\$'000
	<i>Note</i>		
Fixed assets			
Intangible assets	8	33,274	41,618
Tangible assets	9	200,310	264,687
Investments	10	-	431
		<u>233,584</u>	<u>306,736</u>
Current assets			
Stocks	11	239,801	275,921
Debtors	12	113,296	338,195
Cash at bank and in hand	13	41,192	40,580
		<u>394,289</u>	<u>654,696</u>
Creditors			
Amounts falling due within one year	14	(176,306)	(371,332)
Contract liabilities	2	(9,292)	(39,377)
		<u>208,691</u>	<u>243,987</u>
Net current assets			
		<u>208,691</u>	<u>243,987</u>
Total assets less current liabilities		<u>442,275</u>	<u>550,723</u>
Creditors			
Amounts falling due after more than one year	15	(327,939)	(332,882)
Provisions for liabilities	16	(617,375)	(440,826)
NET LIABILITIES		<u>(503,039)</u>	<u>(222,985)</u>
Capital and reserves			
Called up share capital	21	169,294	143,374
Share premium account	21	216,324	614
Cash flow hedge reserve	21	-	1,992
Retained losses	21	(888,657)	(368,965)
TOTAL CAPITAL AND RESERVES		<u>(503,039)</u>	<u>(222,985)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



Colin Thompson
Director

Date: 21 October 2021

Short Brothers PLC

Registered No.NI 1062

STATEMENT OF CHANGES IN EQUITY as at 31 December 2020

	<i>Share capital \$'000</i>	<i>Share premium account \$'000</i>	<i>Cash flow hedge reserve \$'000</i>	<i>Retained losses \$'000</i>	<i>Total \$'000</i>
At 1 January 2019	143,374	614	(18,419)	(214,462)	(88,893)
Loss for the year	-	-	-	(2,115)	(2,115)
Net other comprehensive income for the year	-	-	20,411	(152,664)	(132,253)
Total comprehensive income for the year	-	-	20,411	(154,779)	(134,368)
Share based payment: charge for the year	-	-	-	2,177	2,177
Share based payment: recharge from parent	-	-	-	(1,901)	(1,901)
At 31 December 2019	143,374	614	1,992	(368,965)	(222,985)
Loss for the year	-	-	-	(500,192)	(500,192)
Net other comprehensive loss for the year	-	-	(1,992)	(21,764)	(23,756)
Total comprehensive loss for the year	-	-	(1,992)	(521,956)	(523,948)
Share based payment: charge for the year	-	-	-	2,264	2,264
Issue of share capital during the year (Note 21)	25,920	215,710	-	-	241,630
At 31 December 2020	169,294	216,324	-	(888,657)	(503,039)

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES

Corporate information

The financial statements of the company for the year ended 31 December 2020 were authorised for issue by the board of directors on 20 October 2021. Short Brothers PLC is a private company limited by shares incorporated and domiciled in Northern Ireland. The registered office of the company is Airport Road, Belfast, BT3 9DZ. The principal activities of the company are described on page 6.

From 30 October 2020, the company's immediate parent undertaking and the ultimate parent undertaking within the United Kingdom is Spirit AeroSystems Global Holdings Limited. The company's ultimate parent undertaking and controlling party is Spirit AeroSystems Holdings, Inc., a company incorporated in USA, which is the parent company of the largest and smallest group for which consolidated financial statements are prepared that include the company. Copies of the consolidated financial statements of Spirit, which include the company, can be obtained from Spirit AeroSystems, 3801 S Oliver Street, Wichita, Kansas, USA, 67210. These financial statements can be found at the following website: <https://investor.spiritaero.com/filings-financials/FinancialDocs/default.aspx>

Before the sale of the company, the company's immediate parent undertaking was Bombardier Aerospace (UK) Limited and the ultimate parent undertaking within the United Kingdom was Bombardier Aerospace (Holdings) UK Limited. The company's ultimate parent undertaking and controlling party was Bombardier Inc., a company incorporated in Canada.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework and in accordance with applicable accounting standards.

A summary of the disclosure exemptions adopted is presented below. Equivalent disclosures for share-based payments, financial instruments, fair value measurements and impairment of assets are included in the group consolidated financial statements allowing the exemptions to be applied.

<i>Area</i>	<i>Disclosure exemption</i>
Cash flow statement	Complete exemption from preparing a cash flow statement.
Share-based payments	Exemption from disclosure of financial information in relation to the number and weighted average exercise prices of share options (except those relating to options exercised in the period), and the number and weighted average fair value of other equity instruments.
IFRSs issued but not effective	Disclosure regarding the impact of standards issued but not effective is exempt.
Financial instrument disclosures	Exemption from disclosure requirements of IFRS 7 Financial Instruments and IFRS 13 Fair Value Measurement.
Related party disclosures	Exemption from disclosure requirements of IAS 24 Related Party Disclosures. Transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member. Exemption from disclosure of key management personnel compensation.
Comparative information	Exemption from comparatives for movements on share capital, tangibles, intangibles and investment property
Presentation of financial statements	Exemption from statement of compliance with IFRS, cash flow information, capital management policy and presentation of a third balance sheet.
Impairment of assets	Exemption from disclosure requirements of IAS 36 Impairment of Assets for estimates used to measure recoverable amounts of Cash Generating Units (CGUs).

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

The financial statements have been prepared on a historical cost basis and in accordance with the Companies Act 2006 and applicable UK accounting standards.

The company's operating transactions and cash flows are primarily denominated in US Dollars, consequently both the company's functional currency and presentation currency is the US Dollar. The financial statements are presented in US Dollars and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

The company is not required to prepare group financial statements under Section 401 of the Companies Act 2006 as it is a wholly owned subsidiary of Spirit AeroSystems Global Holdings Limited, which in turn is a wholly owned subsidiary of Spirit AeroSystems Holdings, Inc. and it is included in that company's consolidated financial statements. The financial statements therefore present information about the company as an individual undertaking and not about its group.

Going Concern

The Directors have performed a going concern assessment, including a review of the Company's financial position, future operations and cash flows for the period to 31 December 2022. The company's business activities, together with the factors likely to affect its future development and position, are discussed in the Strategic Report, and these factors have been considered when preparing the financial projections of the company.

This assessment together with the net liabilities position at 31 December 2020 of \$503 million (2019: \$223.0 million), as shown on page 28, indicated that the company is dependent on continuing financial support being made available by its parent Spirit AeroSystems Holdings Inc. to enable it to continue operating and to meet its liabilities as they fall due.

The directors of the Company's ultimate parent undertaking Spirit AeroSystems Holdings, Inc. have provided a letter indicating that they have the ability to provide and will provide financial support to the Company to 31 December 2022. Based on the 2020 Spirit AeroSystems Holdings Inc. results and the 2021 and 2022 projections, the Directors are satisfied that Spirit has sufficient cash and liquidity to provide this support. In particular the Directors of the Company and those of Spirit have considered the financial performance and cash flows of the Spirit Group which indicate that Spirit is expected to continue to be cash generative and meet its obligations as they fall due for the period to 31 December 2022.

The Company has removed the following material uncertainties to continue as a going concern as stated in the 2019 accounts:

- There is a material uncertainty related to the market conditions over the coming months given the impact of the COVID-19 virus on aerospace markets and the demand for the company's aerostructures products and services, leading to reduced cash-flows. A revised financial forecast has been prepared to support the going concern assessment to reflect the latest current demand information from our customers. At the same time, the company has taken significant actions already to mitigate its cash outflows relating to this revised demand.
- The acquisition of the company by Spirit AeroSystems Holdings Inc., which is expected to complete in 2020, until the sale of the Company, the Directors cannot obtain a letter of support in respect of the funding of the Company's ongoing operations. The directors do not have visibility of the future funding and operating structure of Shorts within the Spirit AeroSystems Holdings, Inc. on completion of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Although a risk within the market remains, the aerospace industry is expected to recover from the impact of the COVID-19 pandemic in the medium term. The financial projections used in the going concern assessment are based on latest master schedules, which consider the impact COVID-19 has had on the aerospace industry. Further sensitivities in relation to the delay in recover has been considered by the Directors as part of their going concern assessment.

Spirit AeroSystems Holdings, Inc. acquired Shorts from Bombardier Inc on 30 October 2020. Spirit paid \$275 million for the shares of the company and also assumed company liabilities for a government repayable loan and the company's pension liability, resulting in a total enterprise value of \$865 million. Spirit also agreed to payment of a special contribution of £100 million to the Shorts pension scheme on 30 October 2021.

The transaction supports Spirit's strategic decision to reshape its aviation portfolio away from a traditional Boeing focus to develop a more diverse portfolio to include additional Airbus product, business aircraft and aftermarket business. Shorts has the expertise to support a full product life cycle from design and development through to aftermarket and brings valuable engineering expertise and a strong track record of innovation, especially in advanced composites. Shorts continues to be an important supplier for Bombardier, producing a range of aerostructures and components for its Challenger and Global business jet families. The Directors of the Company have a continuing plan in place which focuses on reduction of procurement costs and labour efficiencies. With Spirit's support, and in line with their strategic initiatives, we will develop future growth and business development opportunities.

On the basis of their enquires of the Spirit going concern assessment, the letter of support provided by Spirit AeroSystems Holdings, Inc., and the reasonable expectations that the Spirit Group will continue as a going concern, the Directors have concluded that the Company will be able to continue in operation existence for the period to 31 December 2022. Consequently, the Directors continue to adopt the going concern basis of accounting in preparing the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Key accounting policies are as follows:

Translation of foreign currencies

The company's financial statements are presented in US Dollars, which is also the company's functional currency. Trading activities denominated in foreign currencies are recorded in US Dollars at the exchange rate ruling at the date of transaction or, where forward foreign currency contracts have been taken out, at contractual rates. Monetary assets and liabilities are retranslated at the rates of exchange ruling at the statement of financial position date or at a forward contractual rate if applicable. Exchange gains and losses are taken to the income statement.

Revenue recognition

The company is in the business of design, development and manufacture of aircraft components (wings, fuselages, engine nacelles and flight components) and related products and services.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

a) Sale of goods – Production & Aftermarket

Revenues from the sale of aircraft components and spare parts are generally considered a single performance obligation and are recognised at delivery, which is the point in time when the customer has obtained control of the component and the company has satisfied its performance obligation. All costs incurred or to be incurred in connection with the sale, including warranty costs and sales incentives or discounts are charged to cost of sales or as a deduction from revenue at the time revenue is recognised. The normal credit term is 30 to 60 days following delivery.

b) Design of aircraft components

Revenues arising from the designing, engineering or manufacturing specifically designed aircraft components are generally recognised over time. The measure of progress toward complete satisfaction of the performance obligation is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. The contract transaction price is adjusted for change orders, claims, performance incentives and other contract terms that provide for the adjustment of prices to the extent they represent enforceable rights for the company.

Variable consideration such as assumptions for price escalation clauses and performance incentives is only included in the transaction price to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. If a contract review indicates the expected costs to fulfil the contract exceeds the expected economic benefits expected to be received under it, the entire expected loss on the contract is recognised as an onerous contract provision with the corresponding expense recorded in cost of sales. The expected benefits to be received are generally limited to the revenues from the associated contract.

There is no significant financing component in respect of the short-term advances the company receives from its customers.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Trade receivables

A receivable represents the company's right to an amount of consideration that is unconditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company transfers goods or services to a customer, a contract liability is recognised when the payment is made, or the payment is due. Contract liabilities are recognised as revenue when the company satisfies the performance obligations.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided separately below.

Exceptional items

Exceptional items represent material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, warrant separate presentation to allow better understanding of the company's financial performance during the year, to facilitate comparison with prior periods and to better assess trends in financial performance.

Borrowing costs

Borrowing costs on property plant and equipment and investment property, during construction and on intangible assets during the development period, are capitalised as part of the cost of that asset and are deducted from the financing expense to which they relate. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the company incurs in connection with the borrowing of funds.

Cost of sales, inventories and work in progress

Cost of sales represents actual costs incurred on those components recognised as a sale.

Raw materials and finished goods are stated at the lower of cost and estimated net realisable value. Cost comprises direct material and labour and an appropriate proportion of overheads. Work in progress represents costs incurred on units that were partially complete and hence undelivered at the year end. It includes material, direct labour and related manufacturing overhead.

Property, plant and equipment

Property, plant and equipment assets are recorded at cost less accumulated depreciation or any accumulated impairment losses. This cost includes its purchase price or manufacturing cost, other costs incurred in bringing the asset to its present location and condition and borrowing costs for qualifying assets. When a significant part is replaced or a major inspection or overhaul is performed, its cost is recognised in the carrying amount of the asset if the recognition criteria is satisfied, and the carrying amount of the replaced part or previous inspection or overhaul is derecognised. All other repair and maintenance costs are charged to income when incurred.

Depreciation is applied to reduce the cost of assets to their estimated residual value at the end of their useful lives. It is provided on a straight-line basis over the following periods:

Freehold land	Nil
Freehold buildings and long leasehold property	10 - 45 years
Plant, equipment and vehicles	3 - 20 years

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

The depreciation method and useful lives are reviewed on an annual basis and changes are accounted for prospectively. After the sale of the company to Spirit, a review of the asset ledger was performed on the estimated useful lives of assets and future production rates. The useful lives have been aligned to reflect Spirit's policy. Depreciation of assets under construction begins when the asset is ready for its intended use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account when the asset is derecognised.

Borrowing costs directly attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. The company capitalises borrowing costs for all eligible assets where construction was commenced on or after 19 February 2007.

Intangible assets

a) Research and development expenditure

Research costs are written off as incurred. Development costs mostly in relation to aircraft design and testing are similarly written off as incurred until the point where the company can demonstrate all the following criteria have been met:

- (a) The technical feasibility of completing the aircraft development to ensure that the aircraft will be available for sale;
- (b) The company's intention to complete the aircraft development;
- (c) The company's ability to use or sell the asset;
- (d) How the tooling will generate probable future economic benefits including the existence of a market for the aircraft;
- (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- (f) The company's ability to measure reliably the expenditure attributable to the asset during its development.

If the company meets these recognition criteria, the expenditure including the cost of materials, direct labour, manufacturing overheads, cost of development activities carried out by vendors for which the company controls the underlying output of the technology, and borrowing costs for qualifying assets are capitalised at cost and presented as an intangible asset on the balance sheet.

Development costs that have been capitalised are amortised over expected number of aircraft components to be produced, over the estimated useful lives of the programme family up to a maximum of 20 years. The amortisation is recognised in the profit and loss account as research and development. The amortisation method and useful lives are reviewed on an annual basis and changes are accounted for prospectively.

b) Computer software

The cost of acquiring computer software is capitalised and amortised to cost of sales on a straight-line basis over the estimate of its useful life which is between 3 and 5 years.

c) Carbon emissions

The carbon emissions allowances granted by the government are initially recorded at fair value as an intangible asset and a corresponding carbon emissions credit is recorded in creditors in the balance sheet. Carbon emissions allowances used during the year will be remitted to the government at the end of each calendar year in order to settle the company's emissions obligations. This usage is recorded as a disposal of the intangible asset and a subsequent reduction in the carbon emissions credit in creditors at the end of each year. No amortisation is recorded during the period as the intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Impairment of property, plant and equipment and intangible assets

The company assesses at each reporting date whether there is an indication that a tangible or intangible asset may be impaired. If any indication exists, the company estimates the recoverable amount of the individual asset, when possible. When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the Cash Generating Unit (CGU) level. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell reflects the amount the company could obtain from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. If there is no binding sales agreement or active market for the asset, the fair value is assessed by using appropriate valuation models dependent on the nature of the asset or CGU, such as discounted cash flow models.

The value in use is calculated using estimated net cash flows, with detailed projections generally over a three-year period and subsequent years being extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU. When the recoverable amount is less than the carrying value of the related asset or CGU, the related assets are written down to their recoverable amount and an impairment loss is recognised in net income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the recoverable amount of the asset or CGU. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset or CGU to the amount that would have been recorded net of amortisation, had no impairment loss been recognised for the asset or CGU in prior years. Such reversal is recognised to income in the same line item where the original impairment was recognised.

Government grants

Government grants in respect of capital or development expenditure which have been received based on expenditure incurred, are credited to a deferred revenue account in the balance sheet and released to the profit and loss account as per the depreciation of property, plant and equipment and amortisation of development expenditure accounting policies. Government grants of a revenue nature, other than that receivable based upon employment levels, are credited to revenue to match them with the expenditure to which they relate. Government grants of a revenue nature that have been received based upon employment levels are contingent upon fulfilling conditions over a subsequent qualifying period.

Such grants are credited to a deferred revenue account in the balance sheet and released to the profit and loss account over that subsequent qualifying period in equal monthly instalments. The release of such grants to the profit and loss account is subject to an annual review of the compliance with those conditions required to be fulfilled over the qualifying period.

Government refundable advances are recorded as a financial liability within deferred revenue if there is reasonable assurance that the amount will be repaid. Repayments to the government in the form of levies in line with deliveries made are then recorded as a reduction of the financial liability. Accretion of interest on the financial liability is recorded in interest payable and similar charges in the profit and loss account.

Government grants relating to the Coronavirus Job Retention Scheme are recognised as income in the period in which they become receivable.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax assets are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted by the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise income tax is recognised in the profit and loss account.

Leases

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Leases are recognised as a right-of-use asset in tangible assets and a corresponding lease liability in other non-financial liabilities at the date at which the leased asset is available for use by the company.

The lease liability is measured at the present value of lease payments to be made over the term, discounted using the incremental borrowing rate at lease commencement date if the interest rate in the lease is not readily available. Lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate and amounts expected to be paid under residual value guarantees. Each lease payment is allocated between the repayment of the principal portion of lease liability and the interest portion. The interest expense is charged to profit and loss over the lease period and is recorded in financing expense. Payments associated with short-term leases and leases of low-value assets are recognised in financing expense. Payment associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the profit and loss account.

The company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land	95 – 125 years
Buildings	1 – 5 years
Machinery	1 – 7 years
Vehicles	1 – 5 years
IT Equipment	1 – 7 years

1. ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

If ownership of the leased asset transfers to the company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to significant accounting judgements, estimates and assumptions, section (b) Estimates and assumptions, section (iii) Impairment of non-financial assets.

The company applies the short-term lease recognition exemption to its short-term leases consistently across each class of underlying asset (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases consistently on a lease by lease basis. Lease payments on short-term leases and leases of low value are recognised as an expense on a straight-line basis over the lease term. Treatment is as for current operating leases with increased disclosure requirements.

A right-of-use asset is depreciated over the useful life of the asset.

Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in interest payable and similar charges.

Product warranties

Provisions for warranty related costs are recognised based on experience of the level of repairs and returns. The future cash flows are estimated based on a number of factors, including historical claim and cost experience, the duration of the warranty coverage and the nature of the product sold, and are discounted at a current pre-tax rate that reflects the risks specific to the provision. The unwinding of the discount is expensed in the profit and loss account as interest payable and similar charges. The estimate for warranty related costs is reviewed annually and adjusted as appropriate through cost of sales.

Liability and damage claims

Provisions for liability and damage claims are recognised in other expenses or cost of sales when the general recognition criteria for provisions are fulfilled. The costs are estimated based on experience and legal advice. These estimates are reviewed annually and adjusted as appropriate.

Restructuring

Provisions for restructuring costs are recognised when the company is demonstrably committed to a particular course of action, through a formal plan without possibility of withdrawal. The associated costs are estimated based on past experience and legal advice. These estimates are reviewed annually and adjusted as appropriate through other expenses.

Onerous contract provision

An onerous contract provision is recorded if it is more likely than not the unavoidable costs of meeting the obligations under a firm contract exceed the economic benefits expected to be received under it. In most cases the economic benefits expected to be reviewed under the contract consists of contract revenue. The calculation of the unavoidable costs is based on estimates of expected future costs including anticipated future cost overruns and expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. The movement of the provision is impacted by anticipated delivery schedules, since for new aircraft programmes early production units require higher costs than units produced later in the processes. The information usually required by IAS 37 is not disclosed on grounds it can be expected to prejudice the outcome of mitigation plans.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Retirement benefits

For 2020, the company operates a defined benefit pension plan and has also agreed to provide certain additional post-employment healthcare benefits to senior employees. Following an extensive consultation with pension scheme members and trade unions, the company have given notice that the current Scheme will close to future accrual on 10 December 2021 and be replaced by a defined contribution scheme.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the profit and loss account on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the profit and loss account during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost. Actuarial gains and losses are recognised in full in the statement of comprehensive income in the year in which they occur.

The defined benefit pension liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are measured at fair value at the end of the reporting period, which is based on published market price information in the case of quoted securities,

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Share based payments

Under the company's former ultimate parent undertaking, Bombardier Inc., certain employees of the company are granted share options and performance share units. These awards are granted by Bombardier Inc., which accounts for these share-based transactions as equity settled in its own financial statements. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other conditions linked to the price of the shares of the company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in capital and reserves in respect of the deemed capital contribution made by Bombardier Inc.

As at acquisition date, no further share based payment transactions will take place.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial assets of the company include cash and cash equivalents, trade and other receivables and favourable derivative financial instruments. Financial liabilities of the company include trade and other payables, amounts due to related parties, obligations under finance leases, bank loans, vendor non-recurring liabilities, government refundable advances and unfavourable derivative financial instruments.

a) Initial recognition and measurement

Financial assets and liabilities are recognised on the balance sheet when the company becomes a party to the contractual obligations of the instrument. Financial assets within the scope of IFRS 9 'Financial Instruments' are classified as financial assets at fair value through profit or loss, loans and receivables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities are classified as financial liabilities at fair value through profit or loss or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial assets and liabilities at initial recognition.

Initially, financial assets and liabilities are recognised at fair value less, in the case of financial instruments not at fair value through profit and loss, any costs directly attributable to the acquisition or issue of the financial instrument.

b) Subsequent measurement

Subsequent to recognition, financial assets and liabilities are measured according to the category to which they are classified. The financial asset and liability categories listed below are measured at amortised cost, unless they are classified as fair value through profit and loss, in which case they are measured at fair value.

i) Loans and receivables

Trade and other receivables as well as other financial assets are subject to impairment review. Trade receivables, contract assets and lease receivables are reviewed for impairment based on the simplified approach which measures the loss allowance at an amount equal to the lifetime expected credit losses. For other financial assets for which the credit risk has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to 12-month expected credit losses. For other financial assets for which credit risk has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime expected credit losses.

ii) Financial liabilities at fair value through other comprehensive income

The company has designated unfavourable derivative financial instruments as fair value through other comprehensive income. These are classified as cash flow hedges and are recorded as per hedge accounting rules for derivative financial instruments.

iii) Other financial liabilities

Trade and other payables, amounts due to related parties, obligations under finance leases, bank loans, government refundable advances and vendor non-recurring liabilities are classified as other financial liabilities and are measured at amortised cost using the effective interest rate method.

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

c) Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the company has transferred its rights to receive cash flows from the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

d) Impairment of a financial asset

The company recognised an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through the profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposure for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of a default (a lifetime ECL).

For trade receivables and contract assets, the company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognised a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

The company considers a financial asset to be in default when internal or external information indicates the company is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

e) Fair value of financial instruments

Fair value amounts disclosed in these financial statements represent the company's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which the company has immediate access. However, there is no active market for most of the company's financial instruments, so the company determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. These calculations represent management's best estimates based on a range of methods and assumptions. Since they are based on estimates, the fair values may not be realised in an actual sale or immediate settlement of the instruments.

Significant accounting judgements, estimates and assumptions

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses and assets and liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgements, estimates and assumptions (continued)

a) *Judgements*

In the process of applying the company's accounting policies, management have made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

i) Revenue from contracts with customers

The company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of design of aircraft components

The company concluded that revenue for the design of aircraft components is to be recognised over time because the customer has the rights over the asset as the design progresses and indeed there is no alternative use for the design asset. The company determined that the input method is the best method in measuring progress of the design service because there is a direct relationship between the company's effort and the transfer of service to the customer. The company recognised revenue on the basis of cost incurred relative to the total cost to complete the design. The information about revenue from contracts with customers is disclosed in Note 2.

b) *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the company. Such changes are reflected in the assumptions when they occur.

i) Pensions and other post-employment benefits

The company has a defined benefit pension plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit method. The key assumptions used for the actuarial valuation are based on the company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 20.

ii) Government refundable advances

Government refundable advances in respect of development expenditure must be repaid to the government in the form of levies on each delivery made. Assumptions used in the calculation of this liability are reviewed by management on a regular basis. For more information on the government refundable advances, refer to note 15.

iii) Warranty provision

The company has warranty provisions for several programmes. The key estimates used in the provision calculations include run rate experience to date, costs per replacement and duration of warranty. The assumptions applied are specific to each programme and are reviewed by management on a regular basis. For more information on the warranty provision, refer to note 17.

iv) Inventory provision

The company has an inventory provision to ensure inventory is stated at the lower of cost and net realisable value. Inventory is assessed for impairment on a regular basis in line with a defined provisioning policy. Factors taken into consideration include ageing, part quality and contract exit plans. The assumptions used in the calculation are reviewed by management on a regular basis. For more information on the inventory provision, refer to note 11.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

2. ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgements, estimates and assumptions (continued)

v) Valuation of deferred income tax assets

To determine the extent to which deferred income tax assets can be recognised, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilised. Such estimates are made as part of the budget and strategic plan on an undiscounted basis and are reviewed on a quarterly basis. Management exercises judgement to determine the extent to which realisation of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profit and availability of prudent tax planning strategies. For more information on the deferred tax asset, refer to note 7 and 12.

vi) Onerous contracts

The company has an onerous contract provision for several programmes. The key estimates used in the onerous contract calculation include the expected future costs such as anticipated future cost overruns and expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. The assumptions applied are specific to each programme and are reviewed by management on a regular basis. For more information on the onerous contracts, refer to note 17.

vii) Provision for expected credit losses of trade receivables

The company uses a Provision Matrix to calculate Expected Credit Losses for trade receivables. The provision rates are based on the historical loss rates calculated for each identified category of trade receivables. These categories are based on similar credit risks. The provision matrix is initially based on the company's historical observed loss rates. The company will calibrate the matrix to adjust for any forward looking macro-economic factors and trends specific to individual customers. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs are sensitive to changes in circumstance and of forecast economic conditions. The company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual future default. Refer to note 12 for the provision of ECLs.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

2. REVENUE

a) Revenue streams

The company generates revenue primarily from the sale of aircraft components and related products and services to its customers.

	2020 \$'000	2019 \$'000
Revenue from contracts with customers	620,480	890,259
Total revenue	<u>620,480</u>	<u>890,259</u>

b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

	2020 \$'000	2019 \$'000
Types of goods or service:		
Fuselage	200,826	307,050
Propulsion	44,129	111,762
Wing	243,018	284,182
Aftermarket	132,507	187,265
Total revenue from contracts with customers	<u>620,480</u>	<u>890,259</u>

	2020 \$'000	2019 \$'000
<i>Geographical markets</i>		
Canada and United States	453,890	696,520
Rest of the world	166,590	193,739
Total revenue from contracts with customers	<u>620,480</u>	<u>890,259</u>

	2020 \$'000	2019 \$'000
<i>Market or customer type</i>		
Sale of production goods	487,973	702,994
Sale of aftermarket goods	132,507	187,265
Total revenue from contracts with customers	<u>620,480</u>	<u>890,259</u>

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

2. REVENUE (CONTINUED)

b) Disaggregation of revenue from contracts with customers (continued)

	2020	2019
	\$'000	\$'000
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	617,283	885,519
Services transferred over time	3,197	4,740
Total revenue from contracts with customers	<u>620,480</u>	<u>890,259</u>

b) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers for which revenue is recognised over time.

	2020	2019
	\$'000	\$'000
Trade debtors (note 12)	96,963	37,178
Amounts due from related parties (note 12)	-	149,698
Contract liabilities	(9,292)	(39,377)

Contract liabilities of \$9,292,000 represent consideration paid in advance of performance obligations being fulfilled. Liabilities will be released overtime to the Profit and loss once obligations are met.

The amounts due from related parties of \$149,698,000 in the prior year relates to the previous parent undertaking.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

3. OPERATING (LOSS)/PROFIT

This is stated after charging / (crediting):

	Note	2020 \$'000	2019 \$'000
Depreciation of property, plant and equipment	9	21,745	21,995
Depreciation of right-of-use assets	9	8,300	6,706
Amortisation of deferred development expenditure (recognised within research and development)	8	617	1,832
Amortisation of software (recognised within administration expenses)	8	318	349
Amortisation of deferred revenue (recognised within turnover)	19	(246)	(360)
Amortisation of government grants received	19	(3,021)	(1,859)
Research and development costs expensed as incurred		6,705	4,620
Minimum lease payments due under operating leases		787	1,188
Loss/ (gain) on disposal of tangible assets		288	(3,550)
Profit on disposal of program		-	(3,326)
Cost of inventory recognised as an expense		638,194	788,788
Net foreign currency exchange differences		15,843	5,772
Govt Coronavirus Job Retention Scheme Grant		(29,179)	-
Government grants recognised directly to income		(3,192)	(3,842)
Costs in respect of construction contracts		5,291	9,811
Restructuring charge/(credit)	4	25,179	(3,279)
Contract exit costs	4	47,263	6,600
Onerous contract provisions	4	193,430	-
Impairment of fixed assets	4	8,875	-
Other provisions		4,102	-
Expected credit losses of trade receivables and contract assets	12	3,280	2,630
		<hr/>	<hr/>
<i>Auditor's remuneration:</i>			
Audit of the financial statements		300	203
Other services:			
Taxation compliance services		-	22
Non statutory audit services		63	103
		<hr/>	<hr/>
		63	125
		<hr/>	<hr/>

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

4. EXCEPTIONAL ITEMS

Exceptional items were as follows:

	2020	2019
	\$'000	\$'000
Restructuring charge/(credit)	25,179	(3,279)
Contract exit costs	47,263	6,600
Onerous contract provision	193,430	-
Impairment of fixed assets	8,875	-
	<u>274,747</u>	<u>3,321</u>

During 2020, there were 495 workforce reductions (2019: 0 heads). The company recorded a restructuring charge for the year of \$25,179,000 (2019: credit of \$3,279,000) which is made up of a creation of \$33,980,000, offset by a foreign exchange adjustment of \$1,966,000 and a curtailment gain of \$6,835,000 (2019: \$nil).

Due to the general business environment and the impact of the pandemic on aerospace component demand, several of the company's programmes ended production during 2020. The company recorded impairment charges of \$55,106,000 relating to the remaining contract liabilities pertaining to these terminated programmes. Due to sale by Bombardier of its CRJ programme in June 2020, a provision of \$7,843,000 is no longer required and was therefore released to the profit and loss account.

During the year, the company reviewed its contracts to assess the unavailable costs to fulfil performance obligations and a charge \$193,430,000 was created in respect of future obligations (note 17).

During 2020, a formal valuation of the company's assets was performed. As a direct result, the company recorded impairment charges of \$8,778,000 in relation to tangible assets (note 9) and \$97,000 in relation to intangible assets (note 8).

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2020	2019
	\$'000	\$'000
Interest on inter-group loans	6,056	10,329
Finance charges payable	2,005	1,416
Other interest payable	23	19
Accretion on other financial liabilities	8,366	25,949
Accretion on provisions	39	99
	<u>16,489</u>	<u>37,812</u>

During the year the company recognised a \$11,759,000 gain on the modification of a government refundable advance.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

6. STAFF COSTS

	2020 \$'000	2019 \$'000
Wages and salaries	148,116	164,776
Social security costs	15,132	17,644
Pension costs	44,645	38,766
Share based payment transaction expense (note 22)	2,264	2,177
	<u>210,157</u>	<u>223,363</u>

Included within wages and salaries is income related to the Government Coronavirus Job Retention Scheme of \$29,179,000 (2019: \$nil). Included in other pension costs are \$44,373,000 (2019: \$37,420,000) in respect of defined benefit schemes (note 20) and \$272,000 (2019: \$217,000) in respect of the company's defined contribution schemes.

	2020 \$'000	2019 \$'000
Directors' remuneration:		
Short-term employee benefits	<u>724</u>	<u>703</u>

	2020 No.	2019 No.
Number of directors accruing benefits under defined benefit schemes	<u>2</u>	<u>3</u>

	2020 \$'000	2019 \$'000
Highest paid director:		
Remuneration	467	380
Accrued pension at 31 December	<u>-</u>	<u>150</u>

The average number of employees (including directors) employed by the company during the year was as follows:

	2020 No.	2019 No.
Operations	3,048	3,256
Administration	<u>174</u>	<u>226</u>
	<u>3,222</u>	<u>3,482</u>

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

7. TAX ON LOSS

	2020 \$'000	2019 \$'000
(a) Tax charged/(credited) in the profit and loss account		
<i>Current income tax</i>		
Foreign exchange on tax balance	-	69
Current tax on profits for the year	323	-
Adjustment in respect of prior years	(13)	-
	<u>310</u>	<u>69</u>
<i>Deferred income tax</i>		
Origination and reversal of temporary differences in current year	107,142	(5,235)
Origination and reversal of temporary differences in respect of prior periods	(5,218)	(23,392)
Effect of changes in tax rates	(11,524)	-
	<u>90,400</u>	<u>(28,627)</u>
Total tax charge/(credit) in the profit and loss account	<u>90,710</u>	<u>(28,558)</u>

(b) Tax relating to items in other comprehensive income

	2020 \$'000	2019 \$'000
<i>Deferred tax</i>		
Tax (credit)/charge on cash flow hedges	(407)	4,180
Tax charge/(credit) on retirement benefits	39,815	(31,268)
	<u>39,408</u>	<u>(27,088)</u>

Current and deferred tax have been calculated using the standard rate of corporation tax in the UK being the prevalent rates of corporation tax of the Group. A reduction in the UK corporation tax rate from 19% to 17% (effective from April 2020) was substantively enacted on 6 September 2016. A further change to the main corporation tax rate was announced in the 11 March 2020 Budget. As a result of this the main UK corporation tax rate will remain at 19%, from 1 April 2020. The UK deferred tax has been calculated at 19% as at 31 December 2020 reflecting HMRC enactment on 17 March 2020, of this non-change in UK corporation tax rate.

An increase in the UK corporation tax rate from 19% to 25% effective from April 2021 was announced in the 2021 Budget. This rate has not been substantially enacted at the balance sheet date and is not reflected in the deferred tax liabilities. The net balance sheet impact of applying 25% rate would be \$0, being a \$2m increase to the booked deferred tax asset offset by a \$2m increase to the booked deferred tax liability.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

7. TAX ON LOSS (CONTINUED)

(c) Reconciliation of the total tax charge/(credit)

The tax charge/(credit) in the profit and loss account is higher (December 2019: higher) than the standard rate of corporation tax in the UK of 19% (December 2019: 19%).

The differences are reconciled below:

	2020 \$'000	2019 \$'000
Loss before tax	(409,482)	(30,673)
	<u> </u>	<u> </u>
Tax on loss at statutory rate of corporation tax in the UK of 19% (December 2019: 19%)	(77,802)	(5,828)
Effects of:		
Adjustable items for tax purposes	2,300	(73)
Foreign exchange on tax balance	-	69
Deferred tax movement at 17% rather than 19%	-	666
Adjustments in respect of prior periods	(5,231)	(23,392)
Tax rate changes	(11,524)	-
Amounts not recognised	182,967	-
	<u> </u>	<u> </u>
Total tax charge/(credit) in the profit and loss account	90,710	(28,558)
	<u> </u>	<u> </u>

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

7. TAX ON LOSS (CONTINUED)

(d) Deferred tax (assets)/liabilities

Deferred tax assets of \$224m were not recognised as at 31 December 2020. Based on the level of historical taxable losses and projections for the future taxable income, directly impacted by the coronavirus pandemic and continuing challenging costs pressures in the aerospace industry, management believes these deferred tax assets should not be recognised in the Company's balance sheet.

At the end of each reporting period, management will reassess the unrecognition of these deferred assets to determine the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

These unrecognised deferred tax assets are still available for the Company to utilise in the event of future taxable profits; cash tax will not be impacted by the unrecognition of these assets.

The impact of the corporation tax rate change, from 17% to 19%, on the opening 2020 deferred tax asset in the balance sheet was to increase it by \$16,169k.

	2020 \$'000	2019 \$'000
Provision at start of period	(129,876)	(73,530)
Adjustments in respect of prior years	(5,150)	(23,695)
Deferred tax charge to income statement for period	95,618	(5,563)
Deferred tax charge to OCI for period	39,408	(27,088)
	—	—
Provision at end of period	-	(129,876)
	—	—
	2020 \$'000	2019 \$'000

The net deferred tax included in the balance sheets is as follows:

Deferred tax asset

Pensions	-	(70,202)
Corporate interest restriction	-	(16,812)
Tax losses	-	(59,191)
Share based payments	-	(460)
Fixed assets	(6,259)	4,907
Temporary differences	-	(6,873)
	—	—
	(6,259)	(148,631)
	—	—

Deferred tax liability

Temporary differences	-	12,903
Revaluation of cash flow hedges	-	408
Intangible asset	6,259	5,444
	—	—
	6,259	18,755
	—	—
	-	(129,876)
	—	—

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

7. TAX ON LOSS (continued)

Unrecognised deferred tax not booked to the balance sheet is as follows:

	2020	2019
	\$'000	\$'000
Pensions	(76,572)	-
Fixed assets	(13,604)	-
Temporary differences	(7,661)	-
Corporate interest restriction	(19,562)	-
Tax losses	(106,713)	-
	<u> </u>	<u> </u>
Unrecognised deferred tax asset	(224,112)	-
	<u> </u>	<u> </u>

The deferred tax (charge)/credit included in the profit and loss account is as follows:

	2020	2019
	\$'000	\$'000
Pensions	(30,318)	2,811
Fixed assets	11,166	(4,369)
Intangible assets	(814)	(694)
Corporate interest restriction	(16,812)	6,785
Tax losses	(59,192)	1,121
Share based payment	(460)	127
Temporary differences	6,030	22,846
	<u> </u>	<u> </u>
Deferred tax (charge)/credit	(90,400)	28,627
	<u> </u>	<u> </u>

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

8. INTANGIBLE ASSETS

	<i>Development expenditure</i> \$'000	<i>Software</i> \$'000	<i>Carbon emissions</i> \$'000	<i>Total</i> \$'000
Cost:				
At 1 January 2020	268,108	37,334	500	305,942
Additions	1,083	374	596	2,053
Disposals	(121,514)	(27,265)	(764)	(149,543)
At 31 December 2020	<u>147,677</u>	<u>10,443</u>	<u>332</u>	<u>158,452</u>
Amortisation and Impairment:				
At 1 January 2020	227,974	35,850	500	264,324
Charge for the year	617	318	-	935
Disposals	(119,570)	(27,200)	(500)	(147,270)
Impairment	7,092	97	-	7,189
At 31 December 2020	<u>116,113</u>	<u>9,065</u>	<u>-</u>	<u>125,178</u>
Net book value:				
At 31 December 2020	<u>31,564</u>	<u>1,378</u>	<u>332</u>	<u>33,274</u>
At 31 December 2019	<u>40,134</u>	<u>1,484</u>	<u>-</u>	<u>41,618</u>

During 2020, the company exited a dual supply agreement for aircraft components resulting in an impairment charge of \$7,092,000.

On 1 June 2020, Bombardier divested a programme in which the company participated. The sale resulted in a gain in intangible tooling for the company of \$2,374,000.

There were no borrowing costs incurred on qualifying development expenditure to be capitalised within development expenditure additions (2019: nil).

During 2020, the company recorded an impairment loss of \$97,000 which represents the write-down of certain software. This was recorded by the company following a formal asset valuation conducted as part of the acquisition by Spirit.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

9. TANGIBLE ASSETS

	<i>Right of Use Assets</i> \$'000	<i>Assets in the course construction</i> \$'000	<i>Long leasehold land and buildings</i> \$'000	<i>Plant and equipment</i> \$'000	<i>Total</i> \$'000
Cost:					
At 1 January 2020	58,830	47,261	322,332	392,757	821,180
Additions	8,133	25,477	2	12,539	46,151
Transfers	(45,679)	(3,187)	-	48,866	-
Disposals	(1,238)	-	(4,890)	(36,958)	(43,086)
	<u>20,046</u>	<u>69,551</u>	<u>317,444</u>	<u>417,204</u>	<u>824,245</u>
Depreciation and Impairment:					
At 1 January 2020	20,412	-	164,034	372,047	556,493
Charge for the year	8,300	-	8,434	13,311	30,045
Transfers	(25,047)	-	-	25,047	-
Disposals	(601)	-	(4,890)	(33,553)	(39,044)
Impairment	-	62,800	8,548	5,093	76,441
	<u>3,064</u>	<u>62,800</u>	<u>176,126</u>	<u>381,945</u>	<u>623,935</u>
Net book value:					
At 31 December 2020	<u>16,982</u>	<u>6,751</u>	<u>141,318</u>	<u>35,259</u>	<u>200,310</u>
At 31 December 2019	<u>38,418</u>	<u>47,261</u>	<u>158,298</u>	<u>20,710</u>	<u>264,687</u>

During 2020, a customer cancelled a product development programme which the company supported. The company recorded an impairment of \$62,800,000 of assets under construction on cessation. This resulted in an impairment of \$33,537,000 which was recorded within contract liabilities. The net contract exit costs of \$29,263,000 are recorded as an exceptional item to profit and loss (note 4).

During 2020, the company decided to cease its participation in a dual supply agreement, which gave rise to a constructive obligation for the costs associated with the exit. The company recorded an impairment of \$4,863,000 of plant and equipment relating to that contract.

In December 2020, the company settled an equipment lease early. this resulted in a reclassification of equipment with a net book value of \$20,632,000 from right-of-use assets to plant and equipment.

There were additions to assets under construction of plant and equipment \$23,996,000 and land and buildings \$1,481,000 (2019: plant and equipment \$33,591,000 and land and buildings \$300,000) in relation to fixed assets.

There were borrowing costs capitalised during 2020 of \$273,000 (December 2019: \$364,000). Borrowing costs were capitalised at the company's general rate of borrowing of 5.99%.

During 2020, an impairment loss of \$8,778,000 was recorded by the company. This loss represents the write-down of certain land and buildings (\$8,548,000) and plant and equipment (\$230,000). This was recorded by the company following a formal asset valuation conducted as part of the acquisition by Spirit.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

10. INVESTMENTS

	<i>Total</i> \$'000
Cost and net book value at 1 January 2020	431
Disposal	(431)
	<u> </u>
Cost and Net book value at 31 December 2020	-

Due to the acquisition of the company by Spirit, investments at the acquisition date were disposed of.

Details of the principal investments in which the company or its subsidiary undertakings held more than 10% of the nominal value of any class of share capital, during 2020 until 30 October 2020, are as follows:

<i>Name of company</i>	<i>Address of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion shares held</i>	<i>Nature of business</i>
<i>Principal subsidiary undertakings</i>				
All held by the company:				
Short Brothers Pension Trustee Ltd	Airport Road, Belfast, Co Antrim BT3 9DZ Northern Ireland	Ordinary shares	100%	Non trading company
Short Brothers CIF Trustee Ltd	Airport Road, Belfast, Co Antrim BT3 9DZ Northern Ireland	Ordinary shares	100%	Non trading company
Bombardier (UK) CIF Trustee Ltd	Airport Road, Belfast, Co Antrim BT3 9DZ Northern Ireland	Ordinary shares	100%	Non trading company
Spirit AeroSystems Belfast Executive Benefits Trustee Ltd (Formerly: Bombardier Aerospace Shorts Executive Benefits Trustee Ltd)	Airport Road, Belfast, Co Antrim BT3 9DZ Northern Ireland	Ordinary shares	100%	Non trading company
Bombardier Aerospace Marketing Russia LLC	Denisovskiy Pereulok 26, Moscow, 105005, Russian Federation	Ordinary shares	70%	Sales and marketing
Bombardier Aerospace Services Russia LLC	Denisovskiy Pereulok 26, Moscow, 105005, Russian Federation	Ordinary shares	70%	Regional support hub

Short Brothers PLC

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10. INVESTMENTS (CONTINUED)

Following the acquisition of the company, by Spirit, there was a change to the investments held by the company. Details of the principal investments in which the company or its subsidiary undertakings held more than 10% of the nominal value of any class of share capital, from 1 November 2020, are as follows:

<i>Name of company</i>	<i>Address of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion shares held</i>	<i>Nature of business</i>
<i>Principal subsidiary undertakings</i>				
All held by the company:				
Short Brothers Pension Trustee Ltd	Airport Road, Belfast, Co Antrim BT3 9DZ Northern Ireland	Ordinary shares	100%	Non trading company
Short Brothers CIF Trustee Ltd	Airport Road, Belfast, Co Antrim BT3 9DZ Northern Ireland	Ordinary shares	100%	Non trading company
Spirit AeroSystems Belfast Executive Benefits Trustee Ltd (Formerly: Bombardier Aerospace Shorts Executive Benefits Trustee Ltd)	Airport Road, Belfast, Co Antrim BT3 9DZ Northern Ireland	Ordinary shares	100%	Non trading company

11. STOCKS

	<i>2020</i>	<i>2019</i>
	<i>\$'000</i>	<i>\$'000</i>
Raw materials	30,637	24,105
Work in progress	125,799	162,085
Finished goods	83,365	89,731
	<u>239,801</u>	<u>275,921</u>

The write-down of inventories recognised in cost of sales is \$45,339,000 (2019: \$9,085,000). This includes general provisioning, slow moving and obsolete stock and specific write-down of stock to net realisable value.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

12. DEBTORS

	2020	2019
	\$'000	\$'000
Amounts falling due within one year:		
<i>Trade and other receivables:</i>		
Trade debtors	103,877	41,082
Less: provision for expected credit losses	<u>(7,184)</u>	<u>(3,904)</u>
Net trade debtors	96,693	37,178
Amounts due from related parties	-	149,698
Other debtors	1,158	861
<i>Financial Assets:</i>		
Derivative financial instruments (note 18)	-	1,821
<i>Other assets:</i>		
VAT receivable	1,208	3,710
Income tax credit receivable	2,743	1,424
Prepayments	<u>11,494</u>	<u>11,060</u>
	<u>113,296</u>	<u>205,752</u>
Amounts falling due after more than one year:		
<i>Deferred tax asset (note 7)</i>	-	129,876
<i>Financial assets:</i>		
Derivative financial instruments (note 18)	<u>-</u>	<u>2,567</u>
	<u>-</u>	<u>132,443</u>
Total debtors	<u><u>113,296</u></u>	<u><u>338,195</u></u>

13. CASH AT BANK AND IN HAND

	2020	2019
	\$'000	\$'000
Cash at bank and in hand	<u><u>41,192</u></u>	<u><u>40,580</u></u>

Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group. The company's cash at bank and in hand balance is denominated in US Dollars, Sterling and Euro.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020	2019
	\$'000	\$'000
<i>Trade and other payables:</i>		
Trade creditors	70,334	106,178
Amounts due to related parties	4,587	133,526
Accruals	56,175	74,644
<i>Financial liabilities:</i>		
Other creditors/Amounts due to related parties	-	18,353
Vendor non-recurring liability	6,824	6,919
Government refundable advances (note 15)	17,319	-
Derivative financial instruments (note 18)	-	2,203
<i>Other liabilities:</i>		
Payroll related liabilities	16,342	17,874
Deferred revenue (note 19)	3,454	4,036
Lease liability (note 25)	1,271	7,599
	<u>176,306</u>	<u>371,332</u>

Included in payroll related liabilities above is an amount of \$4,396,000 (December 2019: \$4,171,000) for other taxes and social security costs.

Vendor non-recurring liability

The vendor non-recurring liability relates to unsecured vendor contributions which will be repaid in full by the end of 2023. Contributions are discounted and non-interest bearing.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2020	2019
	\$'000	\$'000
<i>Financial liabilities:</i>		
Amounts due to related parties	20,083	-
Government refundable advances	275,125	293,576
Derivative financial instruments (note 18)	-	15
<i>Other liabilities:</i>		
Deferred revenue (note 19)	16,452	18,757
Lease liability (note 25)	16,279	20,534
	<u>327,939</u>	<u>332,882</u>

Amounts due to related parties

Loan balances due to other related parties are unsecured and bear interest at the rate of US LIBOR plus 5.25% per annum.

Leases

The company has a number of leases which are guaranteed by Spirit and are repayable over various terms of which details can be seen at note 25. The leases bear interest based on US LIBOR plus margin.

Government refundable advances

The government refundable advances relate to repayable launch investment provided to the company by the UK Government and are not wholly repayable within five years. Conditions for the repayment of this investment depend upon the successful outcome of programmes for which the investment is allocated. The investment will be reimbursed to the UK government in the form of a levy linked to aircraft sales on the related programmes. The movement during the year, as seen below, relates to the impact of the adjustment for change in assumption of levy payments in the year, offset by the gain on modification as noted in note 5.

	<i>Total</i>
	<i>\$'000</i>
Government refundable advances:	
At 1 January 2019	256,080
Movement during the year	<u>37,496</u>
At 31 December 2019	293,576
Movement during the year ¹	<u>(1,132)</u>
At 31 December 2020	<u>292,444</u>
Analysed as:	
Creditors: falling due within 1 year	17,319
Creditors: falling due in more than 1 year	<u>275,125</u>
Total government refundable advances	<u>292,444</u>

¹The movement in 2020 relates to interest accrued and foreign exchange revaluations offset by levy repayments and a reduction in liability.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

16. PROVISIONS FOR LIABILITIES

	\$'000	\$'000
Other provisions (note 17)	214,364	27,868
Retirement benefits (note 20)	403,011	412,958
	<u>617,375</u>	<u>440,826</u>

17. OTHER PROVISIONS

	<i>Termination agreements</i> \$'000	<i>Product warranties</i> \$'000	<i>Liability and damage claims</i> \$'000	<i>Onerous contract</i> \$'000	<i>Restructuring</i> \$'000	<i>Total</i> \$'000
At 1 January 2019	-	22,189	1,826	-	31,161	55,176
Created	4,700	2,138	1,220	-	-	8,058
Released	-	(1,121)	(703)	-	(3,453)	(5,277)
Utilised	-	(5,055)	(241)	-	(27,586)	(32,882)
Movement due to discounting	-	98	-	-	-	98
Exchange adjustment	-	292	33	-	2,370	2,695
At 31 December 2019	<u>4,700</u>	<u>18,541</u>	<u>2,135</u>	<u>-</u>	<u>2,492</u>	<u>27,868</u>
Created	2,360	6,375	4,201	193,430	39,600	245,966
Released	(1,896)	(14,656)	(176)	-	(5,576)	(22,304)
Utilised	(1,173)	(1,808)	(130)	(4,539)	(29,980)	(37,630)
Movement due to discounting	-	39	-	-	-	39
Exchange adjustment	-	151	36	-	238	425
At 31 December 2020	<u>3,991</u>	<u>8,642</u>	<u>6,066</u>	<u>188,891</u>	<u>6,774</u>	<u>214,364</u>

Termination agreements

During 2020, the company decided to cease its participation in a dual supply agreement which gave rise to a constructive obligation for the costs associated with the exit of \$1,979,000 leading to a creation of a provision for this amount. During the year, the company recorded a release of \$800,000 due to a revised assessment of the costs and a utilisation of \$285,000.

On 1 June 2020, Bombardier divested a programme in which the company participated. This gave rise to a constructive obligation for the costs associated with the exit of \$381,000 leading to a creation of a provision for this amount. During the year, the company recorded a release of \$1,096,000 due to a reallocation to inventory and a utilisation of \$888,000.

17. OTHER PROVISIONS (CONTINUED)

Product warranties

A provision for warranty costs is recorded in cost of sales. The cost is estimated based on a number of factors, including the historical claim and cost experience, the duration of warranty coverage and the nature of the product sold. The product warranty for aircraft components extends up to 20 years.

Of the release of \$14,656,000 in the year, \$10,477,000 relates to a programme that was sold by a customer during the year, therefore the provision is no longer required. Another \$3,570,000 relates specifically to the reversal of a programme provision that has been replaced by a new provision under Spirit ownership. The remaining \$609,000 release occurred following a revised assessment of the costs by management.

Liability and damage claims

In the normal course of operations, the company is a defendant against various matters and uncertainties associated with agreements entered into with third parties. Best estimates of the associated costs have been recorded in other expenses or cost of sales. The company intends to vigorously defend its position in these matters and any resulting costs are expected to be paid within the next 10 years.

Onerous Contracts

An onerous contract provision is recorded if it is more likely than not the unavoidable costs of meeting the obligations under a firm contract exceed the economic benefits expected to be received under it. In most cases the economic benefits expected to be reviewed under the contract consists of contract revenue. The calculation of the unavoidable costs is based on estimates of expected future costs including anticipated future cost overruns and expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. The movement of the provision is impacted by anticipated delivery schedules, since for new aircraft programmes early production units require higher costs than units produced later in the processes. The calculation is based on projections until 2025. The information usually required by IAS 37 is not disclosed on grounds it can be expected to prejudice the outcome of mitigation plans. The company has taken a similar exemption relating to a contamination of land and the restoration costs.

Restructuring provision

A restructuring provision has been created in the year of \$39,600,000 which relates to severance payments for retirement enhancement and voluntary redundancy. A release of \$5,576,000 in the year related to a release of utilised old provision in relation to heads with no planned utilisation. A utilisation of \$29,980,000 related to payments made during the year.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020.

18. FINANCIAL INSTRUMENTS

Methods and assumptions

The company historically only measured derivative financial instruments at fair value.

On acquisition by Spirit, all derivative contracts were cancelled as part of the terms of sale. At the balance sheet date, there are no derivatives in place. The methods and assumptions up until October were as follows:

Fair value amounts disclosed in these financial statements represent the company's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The methods and assumptions used to measure the fair value is as follows:

Favourable and unfavourable derivative financial instruments

The fair value of derivative financial instruments for forward foreign currency contracts generally reflects the estimated amounts that the company would receive to sell favourable contracts i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts i.e. taking into consideration the company's credit risk, at the reporting dates. The company uses discounted cash flow analysis and public quotations to estimate the fair value of forward agreements. The fair value is calculated using market data such as foreign exchange spot rates.

19. DEFERRED REVENUE

	<i>Government grants \$'000</i>	<i>Deferred income \$'000</i>	<i>Total \$'000</i>
At 1 January 2019	23,060	2,040	25,100
Received	106	-	106
Reclassification	(194)	-	(194)
Released to profit and loss account	(1,859)	(360)	(2,219)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	21,113	1,680	22,793
Received	-	403	403
Reclassification	(23)	-	(23)
Released to profit and loss account	(3,021)	(246)	(3,267)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	18,069	1,837	19,906
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		<i>2020</i>	<i>2019</i>
		<i>\$'000</i>	<i>\$'000</i>
Analysed as:			
Creditors: amounts falling due within one year		3,454	4,036
Creditors: amounts falling due after more than one year		16,452	18,757
		<hr/>	<hr/>
		19,906	22,793
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

20. RETIREMENT BENEFITS

The company's principal pension scheme is a defined benefit scheme, which is funded by the payment of contributions to a separately administered trust fund. The scheme is governed by a Trust Deed and Rules and the Trustee of the scheme is Short Brothers Pension Trustee Limited (SBPTL). The sole responsibility of SBPTL is to run the scheme as its Trustee. The Board of SBPTL, consists of six Company Nominated Directors, three Member Nominated Directors, one Pensioner Nominated Director and one Independent Board member. The Board of SBPTL is responsible for the administration of the pension scheme assets and for establishing the investment strategy and performance objectives of the scheme.

Each year, the Board of SBPTL, in conjunction with its professional advisers, continues its work reviewing the scheme's level of compliance with the recommendations set out in the Pension Regulator's Code of practice on Internal Controls. The Board continually reviews its training needs and skills to ensure effective decision making. The Directors in place throughout the year met on four occasions to discuss matters in relation to the administration and management of the scheme.

Contributions to the scheme are determined with the advice of independent qualified actuaries on the basis of regular actuarial valuations using the projected unit credit method. The company made regular (and deficit repair) contributions of \$42.2 million (December 2019: \$28.3 million), with regular contributions being 13.1% (2019: 12.1%) of pensionable earnings (excluding employee salary sacrifice contributions).

In the year ended 31 December 2020, the company expects to contribute \$167.0 million to the scheme which includes a contribution on the anniversary of acquisition of \$130.0 million.

The company also provides certain additional post-retirement healthcare benefits to senior employees. These benefits are unfunded.

The actuarial valuation conducted as at 31 December 2018 has been updated using the major assumptions as set out below.

	2020	2019
Major assumptions: pension benefits		
Rate of general increase in salaries	3.00%	3.00%
Rate of increase in pensions in payment:		
Pre April 1997 service	0.00%	0.00%
Inflation up to 5% p.a. for service between April 1997 and October 2005	2.81%	2.98%
Inflation up to 2.5% p.a. for service between October 2005 and October 2015	1.88%	1.96%
Inflation up to 2.5% p.a. service for post October 2015	1.64%	1.69%
Discount rate for scheme liabilities	1.45%	2.00%
Inflation:		
RPI	2.80%	2.95%
CPI	2.40%	2.10%
Proportion of members commuting maximum allowable pension for cash at retirement	95.00%	75.00%
Average expected future life at age 65 for:		
Male currently aged 65	21.4	21.2
Female currently aged 65	23.7	23.0
Male currently aged under 65	22.7	22.3
Female currently aged under 65	25.1	24.3

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

20. RETIREMENT BENEFITS (CONTINUED)

	2020	2019
Major assumptions: other benefits		
Rate of increase in healthcare benefits	5.50%	6.40%
Discount rate for scheme liabilities	1.45%	2.00%
Average expected future life at age 65 for:		
Male currently aged 65	21.4	21.2
Female currently aged 65	23.7	23.0
Male currently aged under 65	22.7	22.3
Female currently aged under 65	25.1	24.3

Discount rates represent the market rates for high quality corporate fixed income investments available for the period to maturity of the benefits. The expected rates of return are established using a stochastic model to forecast returns for each category of scheme assets based on assumptions as to risk free rates and equity return scenarios that align to the scheme investment style and policy. The expected rate of salary increases is determined considering the current and expected salary structure and collective agreements, as well as historical and anticipated wage increases. The mortality assumptions are based on standard mortality tables which allow for future mortality improvements.

The assets and liabilities of the schemes are as follows:

	<i>Pension benefits \$'000</i>	<i>Other benefits \$'000</i>	<i>Total retirement benefits \$'000</i>
<i>At 31 December 2020</i>			
Total fair value of scheme assets	2,259,270	-	2,259,270
Present value of scheme liabilities	(2,661,468)	(813)	(2,662,281)
Scheme deficit	(402,198)	(813)	(403,011)
<i>At 31 December 2019</i>			
Total fair value of scheme assets	2,007,843	-	2,007,843
Present value of scheme liabilities	(2,420,014)	(787)	(2,420,801)
Scheme deficit	(412,171)	(787)	(412,958)

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2020 %	2019 %
Equities	44.76	44.10
Bonds	46.85	45.28
Cash	8.39	10.62

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

20. RETIREMENT BENEFITS (CONTINUED)

Analysis of the amount recognised in the profit and loss account

	<i>Pension benefits \$'000</i>	<i>Other benefits \$'000</i>	<i>Total retirement benefits \$'000</i>
<i>Year ended 31 December 2020</i>			
Current service costs	44,302	71	44,373
Curtailed gain	(6,835)	-	(6,835)
Administrative expenses	14,970	-	14,970
Recognised in arriving at operating profit	<u>52,437</u>	<u>71</u>	<u>52,508</u>
Net interest on defined benefit liability	<u>7,504</u>	<u>14</u>	<u>7,518</u>
<i>Year ended 31 December 2019</i>			
Current service costs	37,351	69	37,420
Administrative expenses	12,089	-	12,089
Recognised in arriving at operating profit	<u>49,440</u>	<u>69</u>	<u>49,509</u>
Net interest on defined benefit liability	<u>6,051</u>	<u>20</u>	<u>6,071</u>

The majority of the current service costs were recognised within cost of sales.

In fiscal year 2019, the company adjusted the pension obligation related to equalisation for an Aviation plan in the UK. The adjustment of \$26,368,000 was recorded as a prior period restatement in the opening balances as at 1 January 2018. The provision will be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In the year ended 31 December 2020, \$6.8 million (2019: \$nil) curtailment gain resulting from the restructuring of the company, was recognised within other exceptional items.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

20. RETIREMENT BENEFITS (CONTINUED)

Analysis of the amount recognised in the statement of comprehensive income

	<i>Pension benefits</i>	<i>Other benefits</i>	<i>Total retirement benefits</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<i>Year ended 31 December 2020</i>			
Return on scheme assets (excluding amounts included in net interest expense)	146,401	-	146,401
Actuarial changes from changes in assumptions	(304,608)	24	(304,584)
Actuarial changes arising from changes in demographic assumptions	208,371	-	208,371
Actuarial changes from experience adjustments	(18,244)	-	(18,244)
Net actuarial gains/ recognised in the statement of comprehensive income	<u>31,920</u>	<u>24</u>	<u>31,944</u>
Foreign exchange losses	(13,866)	(27)	(13,893)
	<u>18,054</u>	<u>(3)</u>	<u>18,051</u>
<i>Year ended 31 December 2019</i>			
Return on scheme assets (excluding amounts included in net interest expense)	214,721	-	214,721
Actuarial changes from changes in assumptions	(388,884)	(52)	(388,936)
Actuarial changes from experience adjustments	353	6	359
Net actuarial losses recognised in the statement of comprehensive income	<u>(173,810)</u>	<u>(46)</u>	<u>(173,856)</u>
Foreign exchange losses	(10,052)	(24)	(10,076)
	<u>(183,862)</u>	<u>(70)</u>	<u>(183,932)</u>

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

20. RETIREMENT BENEFITS (CONTINUED)

Changes in the fair value of scheme assets

	<i>Pension Benefits \$'000</i>	<i>Other benefits \$'000</i>	<i>Total retirement Benefits \$'000</i>
At 1 January 2019	1,710,838	-	1,710,838
Interest income on scheme assets	49,361	-	49,361
Actuarial losses on scheme assets	214,721	-	214,721
Administrative expenses	(12,089)	-	(12,089)
Employers' contributions	38,987	56	39,043
Members' contributions	1,298	-	1,298
Benefits paid	(57,385)	(56)	(57,441)
Foreign exchange movement	62,112	-	62,112
	<hr/>	<hr/>	<hr/>
At 31 December 2019	2,007,843	-	2,007,843
Interest income on scheme assets	39,041	-	39,041
Actuarial gains on scheme assets	146,401	-	146,401
Administrative expenses	(14,970)	-	(14,970)
Employers' contributions	51,858	62	51,920
Members' contributions	1,011	-	1,011
Benefits paid	(53,740)	(62)	(53,802)
Foreign exchange movement	81,826	-	81,826
	<hr/>	<hr/>	<hr/>
At 31 December 2020	2,259,270	-	2,259,270

Changes in the present value of the scheme liabilities

	<i>Pension Benefits \$'000</i>	<i>Other benefits \$'000</i>	<i>Total retirement Benefits \$'000</i>
At 1 January 2019	(1,922,643)	(687)	(1,923,330)
Current service cost	(37,351)	(69)	(37,420)
Interest on scheme liabilities	(55,412)	(20)	(55,432)
Actuarial losses on scheme liabilities	(388,531)	(46)	(388,577)
Members' contributions	(1,298)	-	(1,298)
Benefits paid	57,385	59	57,444
Foreign exchange movement	(72,164)	(24)	(72,188)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	(2,420,014)	(787)	(2,420,801)
Current service cost	(44,302)	(71)	(44,373)
Curtailment gain	6,835	-	6,835
Interest on scheme liabilities	(46,545)	(14)	(46,559)
Actuarial (losses)/gains on scheme liabilities	(114,481)	24	(114,457)
Members' contributions	(1,011)	-	(1,011)
Benefits paid	53,740	62	53,802
Foreign exchange movement	(95,690)	(27)	(95,717)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	(2,661,468)	(813)	(2,662,281)

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

20. RETIREMENT BENEFITS (CONTINUED)

	<i>31 December 2020</i>	<i>31 December 2019 (Restated)</i>	<i>31 December 2018 (Restated)</i>	<i>31 December 2017 (Restated)</i>	<i>31 December 2016 (Restated)</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Pension benefits					
Fair value of scheme assets	2,259,270	2,007,843	1,710,838	1,896,070	1,587,330
Present value of scheme liabilities	(2,661,468)	(2,420,014)	(1,922,643)	(2,175,437)	(1,951,998)
Scheme deficit	(402,198)	(412,171)	(211,805)	(279,367)	(364,668)
Experience adjustments on liabilities	(18,244)	353	6,966	(2,056)	(21,256)
Experience adjustments on assets	146,401	214,721	(116,559)	118,755	186,597
Other benefits					
Present value of scheme liabilities	(813)	(787)	(687)	(1,272)	(1,159)
Scheme deficit	(813)	(787)	(687)	(1,272)	(1,159)
Experience adjustments on liabilities	-	6	574	55	343

A 0.25 percentage point increase in one of the following actuarial assumptions would have the following effects, all other actuarial assumptions remaining unchanged:

	<i>Retirement benefit cost for the year 2020</i>	<i>Retirement benefit liability as at 31 December 2020</i>
	<i>\$'000</i>	<i>\$'000</i>
Discount rate	(3,964)	(140,801)
Rate of compensation increase	1,914	35,542
Inflation rate	3,418	106,626

A one-year additional life expectancy as at 31 December 2020 would increase the net retirement benefit liability by \$119 million and the retirement benefit cost for the year 2020 by \$3 million, all other actuarial assumptions remaining unchanged.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

20. RETIREMENT BENEFITS (CONTINUED)

The cumulative amount of actuarial losses recognised since 1 February 2010 in the company's statement of comprehensive income is \$243.7 million (December 2019: \$275.7 million). The company is unable to determine how much of the pension scheme deficit recognised on transition to IFRS 9 of \$191.3 million and taken directly to total equity is attributable to actuarial gains and losses since inception of the scheme.

Therefore, the company is unable to determine the amount of the actuarial gains and losses that would have been recognised in the statement of comprehensive income before 1 February 2010.

The company is proposing to move away from Defined Benefit Pension Scheme and entered into consultation with Scheme members. Refer to note 26 for further information.

21. SHARE CAPITAL AND RESERVES

Share capital

	2020 <i>No.</i>	2019 <i>No.</i>	2020 <i>\$'000</i>	2019 <i>\$'000</i>
Authorised shares:				
Ordinary shares of £0.20 each	550,000,000	450,000,000	189,824	163,904
Ordinary shares issued and fully paid:				
Ordinary shares of £0.20 each	<u>493,635,000</u>	<u>393,635,000</u>	<u>169,294</u>	<u>143,374</u>

The company's historical Sterling denominated share capital up to 30 October 2020, has been translated at a rate of £1 = US\$1.82116, the rate applied to convert the balance sheet of the company on adoption of the US Dollar as the functional and presentation currency on 1 February 2004.

On 27 October 2020, the company issued 50,000,000 ordinary shares of £0.20 each, translated at the rate of £1 = US\$1.30156, the rate applied at date of issue. The company recognised share capital of \$13,015,580 and share premium of \$162,614,149.

On 30 October 2020, the company issued 50,000,000 ordinary shares of £0.20 each, translated at the rate of £1 = \$1.29044, the rate applied at date of issue. The company recognised share capital of \$12,904,391 and share premium of \$53,095,609.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share Premium

The share premium account represents the aggregate value of the premiums on shares issued.

Cash flow hedge reserve

The cash flow hedge reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date, net of tax, nil at December 2020.

Retained losses

Retained losses contain accumulated losses and share based payment transactions incurred as at the reporting date, net of tax.

Short Brothers PLC

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as at 31 December 2020

22. SHARE BASED PAYMENTS

Certain employees of the company were granted share options and performance share units in respect of the company's previous ultimate parent undertaking Bombardier. These awards were granted by Bombardier. Upon sale to Spirit, on 30 October 2020, the company ceased to be a part of the share option plan.

Details of each scheme, that have since ceased, are given below.

Share option plan

Under the share option plan certain employees of Bombardier, including certain employees of the company, were granted options to purchase Class B shares (Subordinate Voting) in Bombardier.

The significant terms and conditions of the plan were:

- The exercise price was equal to the weighted average trading prices on the Toronto Stock Exchange during the five days preceding the date on which the options were granted;
- The options vest at the expiration of the third year following the grant date; and
- The options terminate no later than seven years after the grant date.

There were no share options exercised during the year ended 31 December 2020 and year ended 31 December 2019.

Performance share unit plan

Upon sale to Spirit, on 30 October 2020, the company ceased to be a part of the performance share unit plan. Up until this date, the company, incurred costs of \$2,237,000 in the year pertaining to this performance share unit plan. Details of the plan, that has since ceased, is given below.

Former ultimate parent undertaking, Bombardier, approved a performance share unit plan under which performance share units (PSUs) were granted to designated employees including certain employees of the company. The PSUs gave recipients the right, upon vesting, to receive a certain number of Class B shares (Subordinate Voting) in Bombardier. PSUs granted vest three years after award based upon the fulfilment of certain financial performance thresholds. The conversion ratio for vested PSUs ranged from 50% to 100%. At the employee's discretion, PSUs could have been settled in shares in the ultimate parent undertaking or as a cash settlement equal to the sale value of the share settlement at the market share price prevailing on the date they vested. As the company did not have an obligation to settle the share-based payment award, the company accounted for this transaction as an equity settled award.

Set out below are the costs incurred pertaining to the above Bombardier schemes:

	2020	2019
	\$'000	\$'000
As at 1 January	2,237	2,514
Charge for the year – Share Options	-	(503)
Charge for the year – Performance Share Units	(1,232)	(1,674)
Recharge from previous parent undertaking – Share Options	-	503
Recharge from previous parent undertaking – Performance Share Units	-	1,397
Write off balance at acquisition – Performance Share Units	(1,005)	-
	<u>-</u>	<u>2,237</u>
At 31 December	<u>-</u>	<u>2,237</u>
Share Option	-	-
Performance Share Units	-	2,237
	<u>-</u>	<u>2,237</u>

The above costs have been recognised within administrative expenses in the profit and loss account.

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NOTES TO THE FINANCIAL STATEMENTS

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22. SHARE BASED PAYMENTS (CONTINUED)

Long-Term Incentive Plan

Key employees of the company are eligible for compensation under the stock compensation offerings of the parent company. Under this plan, employees are given the opportunity to acquire Spirit AeroSystems International Holdings Inc. Class A common stock at their market value at the grant date. The awards vest in line with the Long-Term Incentive Plan rules, with the common stock being released in three equal instalments over a three-year period.

	2020
	Number
Outstanding at 1 November	-
Granted	10,223
Exercised	-
Outstanding at 31 December	10,223

There is no exercise price as the common stock can be sold as soon as they vest, with no common stock purchase required.

The total charge for the financial year relating to share based payments relating to this plan was \$27,000 from 1 November 2020 to 31 December 2020.

23. CONTINGENT LIABILITIES

The company has a global supply base with numerous supporting contracts in place. The company reviewed its significant contracts and believes that contractual terms are being met.

Government grants that are contingent upon fulfilling certain conditions are subject to an annual review of compliance. If the company fails to meet one of the conditions, then the government body will be informed.

24. CAPITAL AND OTHER COMMITMENTS

Amounts contracted for but not provided in the financial statements at 31 December 2020 amounted to \$31,485,000 (December 2019: \$20,595,000). These commitments relate to property, plant and equipment.

25. LEASES

The company has lease contracts for various items of land, buildings, vehicles and other equipment used in its operations. Leases of land generally have lease terms between 95 and 125 years, buildings between 1 and 5 years, while vehicles and other equipment generally have lease terms between 2 and 7 years. The company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the company is restricted from assigning and subleasing the leased assets and some contracts require the company to maintain certain financial ratios. The average incremental borrowing rate applied to lease liabilities recognised at the date of initial application was 4.9% (2019: 5.4%).

There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. The company has agreed in principle a land lease in relation to the extension of the Belfast Wing Facility. Planning permission for the extension has been granted. The lease will be signed when work on the site is ready to commence; a small retainer is paid until the lease is signed.

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

25. LEASES (CONTINUED)

Once the lease is signed the lease liability and right-of-use asset will be recognised in the financial statements in accordance with IFRS 16.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	<i>Land and Buildings</i> \$'000	<i>Plant and Machinery</i> \$'000	<i>Other Equipment</i> \$'000	<i>Total</i> \$'000
At 1 January 2019	-	-	-	-
Cost - Transfer from PPE	-	-	37,529	37,529
Additions	14,934	1,025	5,342	21,301
Depreciation expense	(65)	(509)	(6,132)	(6,706)
Depreciation - Transfer from PPE	-	-	(13,706)	(13,706)
At 1 January 2020	<u>14,869</u>	<u>516</u>	<u>23,033</u>	<u>38,418</u>
Cost - Transfer to PPE	-	-	(45,679)	(45,679)
Disposals – Cost	-	-	(1,238)	(1,238)
Additions	-	-	8,133	8,133
Depreciation expense	(169)	(443)	(7,688)	(8,300)
Disposals – Depreciation	-	-	601	601
Depreciation - Transfer to PPE	-	-	25,047	25,047
At 31 December 2020	<u><u>14,700</u></u>	<u><u>73</u></u>	<u><u>2,209</u></u>	<u><u>16,982</u></u>

During the year, a lessor exercised their right to terminate lease contracts for right-of-use assets classified as other equipment. This was as a direct result of the change in control of the company on 30 October 2020 when the acquisition by Spirit completed. To terminate the lease contracts, the company paid \$10,670,000 to the lessor. This payment represented the lease payments which were due over the original remaining life of the leases. Ownership of the equipment passed to the company. At the date of termination, the cost \$45,679,000 and depreciation \$25,047,000 of the equipment was transferred from right-of-use assets to plant and equipment.

Set out below are the carrying amounts of lease liabilities (included under other non-financial liabilities) and the movements during the period:

Short Brothers PLC

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

25. LEASES (CONTINUED)

	2020	2019
	\$'000	\$'000
As at 1 January	(28,133)	(21,617)
Additions	(7,714)	(15,314)
Disposal	618	-
Remeasurement	(383)	-
Accretion of interest	(1,171)	(1,416)
Payments	19,233	10,214
	<u>(17,550)</u>	<u>(28,133)</u>
At 31 December	<u>(17,550)</u>	<u>(28,133)</u>
Current	(1,271)	(7,599)
Non-current	(16,279)	(20,534)
	<u>(17,550)</u>	<u>(28,133)</u>
Maturity analysis of contractual undiscounted payments:		
	2020	2019
	\$'000	\$'000
Within one year	(1,814)	(7,459)
Between two and five years inclusive	(7,054)	(10,224)
Greater than five years	(127,576)	(129,018)
	<u>(136,444)</u>	<u>(146,701)</u>
The analysis above includes a land lease 94 years	(136,444)	(146,701)
The following are the amounts recognised in profit or loss:		
	2020	2019
	\$'000	\$'000
Depreciation expense right-of-use assets	8,300	6,706
Interest expense on lease liabilities	1,171	1,416
Expense relating to short-term leases (included in other operating expenses)	646	747
Expense relating to leases of low value assets (included in administrative expenses)	141	51
	<u>10,258</u>	<u>8,920</u>

Short-term and low value leases

The company elected to use the recognition exemptions for lease contracts that, at commencement date have a lease term less than 12 months and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is low (low-value assets). Maturity analysis of the amounts payable is as follows:

	2020	2019
	\$'000	\$'000
Within one year	1	420
Greater than one year	-	1
	<u>1</u>	<u>421</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2020

26. POST BALANCE SHEET EVENTS

Pension scheme

During 2020, the company undertook an extensive consultation with pension scheme members and trade unions. In 2021, the company gave notice that the current Scheme will close to future accrual on 10 December 2021 and be replaced by a defined contribution scheme. The company determined that the costs associated with operating the defined benefit scheme, as well as the unpredictability inherent in those costs, was unsustainable for the business in the long-term.

27. GOVERNMENT ASSISTANCE

Due to the coronavirus pandemic, the company utilised the UK Government's Coronavirus Job Retention Scheme and managed to mitigate a larger number of reductions. The company will continue to utilise the scheme for as long as it is available. In 2020, \$29,179,000 was recognised by the company relating to the UK Government CJRS grant.

Due to the pandemic, the company availed of a rates holiday for 20/21 year, that was granted as part of emergency support measures agreed by the NI Executive in response to the Covid crisis.

28. CONTROLLING PARTY

At the balance sheet date, the immediate parent undertaking and the ultimate parent undertaking within the United Kingdom is Spirit AeroSystems Global Holdings Limited, a company registered in the United Kingdom.

The ultimate parent undertaking and controlling party is Spirit AeroSystems Holdings, Inc., a company incorporated in USA, which is the parent company of the largest and smallest group for which consolidated financial statements are prepared that include the company. Copies of the consolidated financial statements of Spirit AeroSystems, which include the company, can be obtained from Spirit AeroSystems, 3801 S Oliver Street, Wichita, Kansas, USA, 67210

The ultimate controlling party is Spirit AeroSystems Holdings, Inc.

Until 30 October 2020, the company's immediate parent undertaking was Bombardier Aerospace (UK) Limited and the ultimate parent undertaking within the United Kingdom was Bombardier Aerospace (Holdings) UK Limited. The company's ultimate parent undertaking and controlling party was Bombardier, a company incorporated in Canada.