ST Aerospace Solutions (Europe) A/S

Amager Strandvej 392
2770 Kastrup

CVR no. 28 50 10 48

Annual report 2016

The annual report was presented and approved at the Company's annual general meeting on

31 May 2017

Henrik Schlotfeldt
chairman

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of ST Aerospace Solutions (Europe) A/S for the financial year 1 January – 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 31 May 2017
Executive Board:

Henrik Schlotfeldt

Board of Directors:

Serh Ghee Lim
Chairman

Lit Yoke Suan

Kieran Gerard Butler

Goh Poh Loh

KPMG

Independent auditor's report

To the shareholder of ST Aerospace Solutions (Europe) A/S

Opinion

We have audited the financial statements of ST Aerospace Solutions (Europe) A/S for the financial year 1 January – 31 December 2016 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines 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, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

KPMG

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

KPMG

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2017
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Per Ejsing Olsen
State Authorised
Public Accountant

Martin Eiler
State Authorised
Public Accountant

Management's review

Company details

ST Aerospace Solutions (Europe) A/S
Amager Strandvej 392
2770 Kastrup

Telephone:	45 72 48 00 00
Fax:	45 32 32 40 12
Website:	www.staseu.com

CVR no.:	28 50 10 48
Registered office:	Tårnby
Financial year:	1 January – 31 December

Board of Directors

Serh Ghee Lim, Chairman
Lit Yoke Suan
Kieran Gerard Butler
Goh Poh Loh

Executive Board

Henrik Schlotfeldt

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 København Ø
Denmark

Annual general meeting

The annual general meeting will be held on 31 May 2017.

Management's review

Financial highlights

EUR'000	2016	2015	2014	2013	2012
Key figures					
Revenue	17,013	18,229	19,193	53,986	155,823
Ordinary operating loss	-20,666	-15,554	-24,057	-27,513	-6,167
Net loss from financial income and expenses	-1,977	-1,532	-2,616	-278	-6,944
Loss for the year	-22,643	-17,086	-28,173	-33,291	-15,884
Non-current assets	23,578	23,066	25,794	39,287	56,985
Current assets	64,941	83,454	95,078	115,303	116,667
Total assets	88,519	106,520	120,872	154,590	173,652
Share capital	60,912	60,912	60,912	60,612	60,912
Equity	-13,066	9,779	25,582	54,694	87,294
Provisions	1,008	89	11	10,893	15,256
Non-current liabilities other than provisions	93,952	90,263	5,912	16,147	27,059
Current liabilities other than provisions	6,625	6,389	95,279	89,003	44,043
Ratios					
Gross margin	24.6%	23.2%	3.6%	20.6%	35.8%
Operating margin	-121.5%	-85.3%	-125.4%	-51.0%	-4.0%
Return on invested capital	-28.7%	-17.0%	-22.0%	-20.9%	-3.6%
Current ratio	64.6%	86.3%	99.8%	129.5%	216.3%
Return on equity	-1,377.7%	-96.6%	-66.9%	-32.0%	-16.9%
Solvency ratio	-14.9%	9.2%	21.2%	35.4%	50.3%
Other key figures					
Average number of full-time employees	98	104	176	338	552

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For definitions, see under accounting policies.

Management's review

Operating review

Principal activities

The Company's purpose is, directly or indirectly through shareholdings in other companies, to perform repair and overhaul of aircraft components and sale of assets and expendables for aircrafts.

Profit/loss for the year (including comparison with forecasts previously announced)

The Company realised a loss for the year after tax of EUR 22.6 million (2015: a loss of EUR 17.1 million).

Operating loss was increased from EUR 15.6 million in 2015 to EUR 20.7 million in 2016. Negatively impacted by new accounting principal for Trading stock; introducing a 20% yearly write off on Trading stock, which impacts the 2016 result negatively by EUR 11.6 million. Corrected for this, the results in 2016 improved by EUR 6.5 million mainly due to improvements in the cost structure and sales mix across the business. This trend is expected to continue in 2017.

Development in activities and financial position

Cost reduction activities and profitability improvement activities have been the main drivers through 2016. Activities related to cost reduction activities have mainly comprised reductions and delayed replacement of support staff. Profitability improvement acitivities have primarily comprised focus on reducing man-hours spent and material consumption in the MRO business.

Corporate loans to ST Aerospace Solutions (Europe) A/S increased by EUR 3.8 million in 2016 and amounted EUR 94.0 million at 31 December 2016.

At 31 December 2016, the balance sheet total amounted to EUR 88.5 million compared to EUR 106.5 million at 31 December 2015.

Investments

The Company has an equity investment in the wholly-owned subsidiary Airline Rotables Limited (ARL). The investment was measured at the recoverable amount, EUR 7.0 million, at 31 December 2016.

ARL's strategy comprises focus on MBH programs (maintenance by the hour) in Europe. In 2016, the Company realised a profit of EUR 1.1 million compared to a profit of EUR 0.5 million in 2015.

Apart from investments in ordinary operations, no significant investments were made in 2016.

Management's review

Operating review

Capital resources

The Company is financed by intra-group credit facilities which are confirmed to be available to finance the projected operations in 2017.

In the opinion of the Board of Directors and the Managing Director, the Company's capital resources are adequate.

Uncertainty regarding recognition and measurement

Inventory

The value of inventory is linked with uncertainty from demand/supply and obsolescence/out-phasing which effect the development in prices. Further, the length of the divestment period regarding excess inventory pool also effect the value. When assessing these uncertainties Management applies a number of assumptions and estimates linked with uncertainty and thus risk of error which could be significant.

Deferred tax assets

In the financial statements, no deferred tax asset was recognised at 31 December 2016. The Company has realised operating losses for many years, which increases the risk associated with the valuation thereof. The unrecognised deferred tax asset amounted to EUR 39 million at 31 December 2016 (2015: EUR 34 million).

Investment in subsidiary

The subsidiary Airline Rotables Limited (ARL) has generated losses for many years but realised a small profit in 2015 and 2016, which reduces the risk associated with the valuation of the related investment. In the financial statements, the value of ARL has been recognised at EUR 7 million, corresponding to the determined net realisable value.

With the redefined focus on MBH programmes in Europe for the ST Aerospace Group, further financial improvement is expected in the coming years due to increased activity and efficiency as well as other cost-cutting initiatives. The valuation of ARL is based on these expectations.

Financial risks

The Company's activities are exposed to currency risk, interest rate risk and credit risk. Interest rate risk has been reduced as a consequence of the reduced external financing.

The Managing Director is responsible for outlining the objectives and underlying principles of financial risk management for the Company. On this basis, policies have been implemented with regard to risk identification and masurement, exposure of limits and hedging strategies, handling of financial risks and exposure measurement against limits set.

Management's review

Operating review

Currency risks

Currency risk is primarily related to exposures to DKK, SEK and USD in connection with the Company's operations. The Company manages this risk by entering into forward exchange contracts.

Interest rate risks

The interest rate risk is associated with the Company's loan. The underlying loan is based on a floating rate.

Credit risks

The Company's policy is to perform credit assessments of customers to limit the credit risks.

Outlook

In 2016, the Company focused on continuing developing new product lines. During 2016, the Company relocated its MRO business from existing facilities in Stockholm Arlanda Airport to a new facility located 5 kilometers from the airport. The new facility will be the backbone for the future growth of the Company and will support the product development activities into new product types.

In 2017, the Company will continue to invest in new repair capabilities that will become key products in the aviation industry for the next 15 years. On this basis, the Company plans to become a significant and competitive player in the industry going forward. Planned investments include the continuation of capability development of Boeing 787 Dreamliner products. These product lines are granted through license agreements that will ensure that the Company plays a dominant role in the aviation industry, as the number of licenses granted is limited. The Company will represent the ST Aerospace Group in Europe for these licenses. The Company will also invest in a new product line for the Airbus A320 market. The Airbus A320 is one of the most significant mid-range aircrafts in Europe, and the Company sees great potential in investing in this product line, as the demand for support will increase in the coming years.

The Company is at a stage where it has reduced its cost structure and developed its sales activities to a level where it has positive cash flows to the extent that the Company can finance its operations and the future investment activities without any additional external funding.

The market for aircraft maintenance spending have reduced during 2016, especially due to the down turn in the Turkish market, and bankruptcy in Russia. The later part of 2016 and the beginning of 2017 have shown increased demand, and it is expected that the growth will continue for the next quarters.

In 2017, the Company will continue its process improvement activities, implementing additional actions to improve profitability. Sales related to the new capabilities are expected to come strongly into effect from 2017/2018 onwards.

Financial statements 1 January – 31 December

Income statement

EUR'000	Note	2016	2015
Revenue		17,013	18,229
Expenses for raw materials and consumables		-6,626	-7,571
Other external costs		-6,205	-6,432
Gross profit		4,182	4,226
Staff costs	2	-6,542	-8,359
Depreciation and impairment losses on current assets	3	-18,306	-11,421
Operating loss		-20,666	-15,554
Financial income		42	463
Financial expenses	4	-2,019	-1,995
Loss before tax		-22,643	-17,086
Tax for the year		0	0
Loss for the year	5	-22,643	-17,086

Financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	6		
Fixtures and fittings, tools and equipment		48	175
Equipment for maintenance of aircraft components		1,860	2,055
Aircraft components		12,205	13,113
Leasehold improvements		694	723
Assets under construction		1,771	0
		16,578	16,066
Investments	7		
Equity investments in group entities		7,000	7,000
		7,000	7,000
Total non-current assets		23,578	23,066
Current assets			
Inventories			
Raw materials and consumables		7,429	10,568
Work in progress		622	528
Finished goods and goods for resale		48,431	63,061
		56,482	74,157
Receivables			
Trade receivables		1,809	3,436
Receivables from group entities		3,234	3,612
Other receivables		1,748	968
		6,791	8,016
Cash at bank and in hand		1,668	1,281
Total current assets		64,941	83,454
TOTAL ASSETS		88,519	106,520

Financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	2016	2015
EQUITY AND LIABILITIES			
Equity	8		
Share capital		60,912	60,912
Cash flow hedge		-182	19
Retained earnings		-73,796	-51,152
Total equity		-13,066	9,779
Provisions	9		
Other provisions		1,008	89
Total provisions		1,008	89
Liabilities other than provisions			
Non-current liabilities other than provisions			
Payables to group entities	10	93,952	90,263
		93,952	90,263
Current liabilities other than provisions			
Trade payables		1,684	1,217
Other payables		4,941	5,172
		6,625	6,389
Total liabilities other than provisions		100,577	96,652
TOTAL EQUITY AND LIABILITIES		88,519	106,520
Contingent assets	11		
Contractual obligations, contingencies, etc.	12		
Related party disclosures	13		

Financial statements 1 January – 31 December

Statement of changes in equity

EUR'000	Share capital	Retained earnings	Cash flow hedge	Total
Equity at 1 January 2015	60,912	-34,066	-1,264	25,582
Adjustment, hedging of future cash flows	0	0	1,283	1,283
Net loss for the year	0	-17,086	0	-17,086
Equity at 31 December 2015	60,912	-51,152	19	9,779
Adjustment, hedging of future cash flows	0	0	-201	-201
Net loss for the year	0	-22,643	0	-22,643
Equity at 31 December 2016	60,912	-73,795	-182	-13,065

There have been no changes in the share capital during the last five years.

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of ST Aerospace Solutions (Europe) A/S for 2016 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015. This has entailed the following changes to recognition and measurement:

- Going forward, dividends from equity investments in subsidiaries recognised at cost are always recognised in the income statement. In case of indication of impairment, an impairment test is conducted. Indication of impairment exists if distributed dividend exceeds profit for the year or if the carrying amount of equity investments exceeds the consolidated carrying amounts of the net assets in the subsidiary. Previously, cost was reduced to the extent that distributed dividend exceeded accumulated earnings after the acquisition date.
- Going forward, the residual value of property, plant and equipment must be reassessed on an ongoing basis.

The changes have no monetary effect on the income statement or the balance sheet for 2016 or for the comparative figures.

Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of ST Aerospace Solutions (Europe) A/S and group entities are included in the consolidated financial statements of Singapore Technologies Engineering Limited, 540 Airport Road, Paya Lebar, Singapore 539938, Company Registration Number 198105870H.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Singapore Technologies Engineering Limited.

Reporting currency

The annual report is presented in thousand EUR based on accounting records processed in EUR.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the Company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which evidence matters existing at the balance sheet date.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial Instruments

Derivative financial instruments consist of forward agreements acquired for the purpose of hedging exchange rate risk exposures. Hedging instruments are measured at fair value. Profit or loss due to changes in fair value are recognised in equity and recycled to the income statement when the hedged expense is incurred.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Income statement

Revenue

Income is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year end and that the income can be reliably measured and is expected to be received.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Expenses for raw materials and consumables

Expenses for raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other external costs

Other external expenses include expenses related to distribution, sales, advertising, administration, premises, bad debts, lease payments under operating leases, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on receivables, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax expense attributable to the profit for the year is recognised in the income statement, whereas the tax expense attributable to equity transactions is recognised directly in equity. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable profits.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Fixtures and fittings, tools and equipment	2-3 years
Leasehold improvements	3-30 years
Aircraft components, new aircraft types	25 years
Aircraft components, old aircraft types	8 years
Equipment for maintenance of aircraft components	2-15 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Equity investments in group entities

Investments in subsidiaries are measured at cost. Dividends exceeding the accumulated earnings in the subsidiary in the period of ownership are treated as a cost reduction. Where the costs exceed the net realisable value, write-down is made to such lower value.

Impairment of assets

The carrying amount of property, plant and equipment as well as investments in group entities is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Leases

Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed in contingent liabilities, etc.

Inventories, including work in progress

Inventories, including goods for resale, are measured at cost in accordance with the weighted average method. Cost comprise purchase price plus delivery costs

Work in progress is measured at cost, covering cost of materials and time added expected profit.

Components (non-current assets) reclassified to goods for sale are transferred at cost less accumulated depreciation at the time of transfer.

Where the net realisable value is lower than cost, inventories are written down to this lower value.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Equity

Dividend

The expected dividend payment for the year is disclosed as a separate item under equity.

Provisions

Provisions comprise anticipated costs of relocation and restructuring. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at value in use.

When it is probable that total costs will exceed total income from a construction contract, the total projected loss on the work is recognised as a provision. The provision is recognised as production costs.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at net realisable value.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Financial ratios

Financial highlights are calculated as follows:

Gross margin	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$
Operating margin	$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$
Return on invested capital	$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$
Current ratio	$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$
Invested capital	Operating intangible assets and property, plant and equipment plus net working capital
Return on equity	$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$
Solvency ratio	$\frac{\text{Equity ex. non-controlling interests at year end x 100}}{\text{Total equity and liabilities at year end}}$

Financial statements 1 January – 31 December

Notes

2 **Staff costs**

EUR'000	2016	2015
Wages and salaries	5,373	6,480
Pensions	530	742
Other social security costs	639	1,137
	6,542	8,359
Average number of full-time employees	98	104

Pursuant to section 98 8(3) of the Danish Financial Statements Act, remuneration to the Executive Board has not been disclosed.

3 **Depreciation, amortisation and impairment**

Impairment losses on current assets	17,199	10,336
Depreciation on property, plant and equipment	1,107	1,085
	18,306	11,421

Impairment losses on current assets relate to inventory totaling EUR 17,199 thousand (2015: EUR 10,336 thousand), of which EUR 17,199 thousand (2015: EUR 4,579 thousand) is based on ageing and EUR 0 (2015: EUR 5,757 thousand) originates from annual impairment test.

4 **Financial expenses**

Financial expenses regarding group entities amounted to EUR 2,019 thousand in 2016 (2015: EUR 1,990 thousand).

5 **Proposed distribution of loss**

Retained earnings	-22,643	-17,086
	-22,643	-17,086

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6 Property, plant and equipment

EUR'000	Fixtures and fittings, tools and equipment	Equipment for main-tenance of aircraft components	Aircraft components	Leasehold improve-ments	Assets under construction	Total
Cost at 1 January 2016	473	5,360	20,224	1,673	0	27,730
Additions for the year	0	44	0	4	1,771	1,819
Disposals for the year	-196	-172	-141	0	0	-509
Cost at 31 December 2016	277	5,232	20,083	1,677	1,771	29,040
Impairment losses and depreciation at 1 January 2016	-298	-3,304	-7,110	-951	0	-11,663
Depreciation for the year	-127	-161	-787	-32	0	-1,107
Reversal of impairment and depreciation of sold assets	196	93	19	0	0	308
Impairment losses and depreciation at 31 December 2016	-229	-3,372	-7,878	-983	0	-12,462
Carrying amount at 31 December 2016	48	1,860	12,205	694	1,771	16,578

7 Investments

EUR'000	2016	2015
Cost at 1 January/31 December	18,000	18,000
Revaluation at 1 January/31 December	-11,000	-11,000
Carrying amount at 31 December	7,000	7,000

Name/legal form	Registered office	Equity interest	Equity	Profit/loss for the year
			EUR'000	EUR'000
Airline Rotables (UK Holdings) Limited	6002 Taylors End, Stansted Airport, Stansted, Essex, CM24 IRL	100 %	-7,079	1,090
			-7,079	1,090

8 Equity

The share capital consists of 4,563,966 shares of a nominal value of DKK 100 each.

All shares rank equally.

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9 Provisions

EUR'000	2016	2015
Balance at 1 January	89	11
Reversed in the year	-89	0
Employed in the year	1,008	78
Balance at 31 December	1,008	89

The expected due dates of other provisions are:

	2016	2015
Within one year	1,008	89
	1,008	89

The provision as per 31 December 2016 of EUR 1,008 thousand relates to expected expenses from an undergoing relocation of the workshop in Stockholm.

10 Non-current liabilities other than provisions

The Company is financed by intra-group credit facilities which are confirmed to be available to finance the projected operations in 2017.

In the opinion of the Board of Directors and the Managing Director, the Company's capital resources are adequate.

11 Contingent assets

The unrecognised deferred tax asset amounted to EUR 39 million at 31 December 2016 (31 December 2015: EUR 34 million). The deferred tax asset primarily relates to tax losses carried forward.

12 Contractual obligations, contingencies, etc.

Operating lease obligations

Operating lease obligations mainly relates to leasehold of premises for the Company's offices in Copenhagen and Stockholm.

EUR'000	2016	2015
Within 1 year	2,005	464
Between 1 and 5 years	5,951	127
	7,956	591

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13 Related party disclosures

Consolidated financial statements

ST Aerospace Solutions (Europe) A/S and Singapore Technologies Aerospace Limited are included in the consolidated financial statements of the ultimate parent company, Singapore Technologies Engineering Limited.

The consolidated financial statements are publicly available from the parent company:

Company Registration Number 198105870H
540 Airport Road, Paya Lebar
Singapore 539938

or at:
http://wwww.stengg.com/investor-relations/annual-reports