Cobham Limited (formerly Cobham plc)

Annual Report and Financial Statements
for the year ended 31 December 2019

Registered number 00030470

Contents

Cobham Limited (formerly Cobham plc)

Strategic Report for the year ended 31 December 2019

The Directors have pleasure in submitting the Strategic Report and the audited consolidated financial statements of Cobham Limited (the Company) and all of its subsidiaries (together, the Group) for the year ended 31 December 2019.

The Cobham Group offers an innovative range of products and services to solve challenging problems in defence, aerospace and space markets with an emphasis on keeping people alive and assets safe in harsh or remote environments.

The Group employs around 10,000 people and has customers and partners in over 100 countries with principal operations in the UK, USA, France, Denmark and Australia. Cobham has specialist capabilities and know-how in: wireless; audio; video and data communications, including satellite communications; defence electronics; air-to-air refuelling; aviation services; life support; and mission equipment markets.

During the year, Cobham operated across four Sectors, each with differentiated capabilities and many leading market positions. Three of the Group's Sectors design, manufacture and test intelligent hardware, primarily subsystems, with expertise in components. The fourth provides outsourced aviation services for an international customer base.

On 17 January 2020, the entire issued share capital of the Company was acquired by AI Convoy Bidco Limited, a wholly-owned indirect subsidiary of funds managed by Advent International Corporation (Advent). Following this effective acquisition date, the boards of AI Convoy Bidco Limited and the Company have started to undertake a detailed evaluation of the Group; further details are provided below.

Business review

The Group's results for the year and financial position at the year end are set out in the Consolidated Income Statement on page 49 and in the Consolidated Balance Sheet on page 50. For the financial year, the Group reported a consolidated profit after tax of £63.4m (2018: £74.1m) and at 31 December 2019, the Group had consolidated net assets of £1,205.8m (2018: £1,170.9m).

Revenue

Group revenue was £2,059.6m (2018: £1,863.3m), an increase of 11%, with the impact from the 2018 divestments offset by favourable currency translation and organic growth in some sectors.

Total revenue

£m	**2019**	2018
Communications and Connectivity	**516.3**	552.0
Mission Systems	**559.9**	402.7
Advanced Electronic Solutions	**662.7**	595.0
Aviation Services	**322.4**	315.1
Elimination of inter-segment items	**(1.7)**	(1.5)
	2,059.6	1,863.3

In Communications and Connectivity, revenue decreased by £35.7m. This included the prior year divestments of the AvComm and Wireless test and measurement businesses, and the Opera software business. Organic revenue growth was driven by ongoing retrofit of the FliteLine radio and the Radio Management System on the USAF fleet of trainer aircraft, increased avionics sales including NH-90 and higher slip-ring demand. This growth was more than offset by lower maritime SATCOM shipments and reduced wireless project installations.

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

Revenue growth of £157.2m in Mission Systems was driven by programme timing with increased throughput from improved execution, supply chain management and a reduction in arrears. There was also increased demand for products from new build and retrofit activity.

In Advanced Electronic Solutions, revenue increased by £67.7m. This was mainly achieved in the electronic warfare portfolio and missile guidance programmes, as well as from higher demand for products including semiconductors, rotary joints and space waveguides.

Revenue also increased in Aviation Services by £7.3m. This increased revenue driven by commercial markets in Australia, was partially offset by the completion of the UK DHFS contract at the end of March 2018.

Results

Group statutory operating profit was £83.2m (2018: £119.2m), with the prior year including a £227.1m profit on disposal and the £200.0m charge on the KC-46 tanker development programme. Excluding these two comparator items, the reduction in statutory operating profit in 2019 largely reflected a further programme charge within Advanced Electronic Solutions. Spend on company funded research and development was lower at £88.0m (2018: £103.2m), reflecting the prior year divestments and move to flight trials for Aviator S, whilst staff costs were higher at £710.5m (2018: £702.7m), reflecting increased costs related to share based payments provided in the year, offset by lower pension costs. Also impacting the 2019 result were favourable movements in non-hedge accounted derivative financial instruments of £16.2m (2018: £19.7m adverse). Amortisation of intangible assets arising on business combinations remained broadly unchanged at £84.5m (2018: £89.8m).

Good progress has been made during the year on the KC-46 tanker development, including the one-off net settlement of US$63m (£48.7m) payable to Boeing as part of the previously announced agreement on damages assertions. Qualification of the KC-46 Wing Aerial Refuelling Pod (WARP) continues. This is the last element of the aircraft's aerial refuelling system yet to be in production and the qualification programme is anticipated to complete during 2020 against a rebased schedule. WARP certification flight trials are now formally complete and full rate production of the Centerline Drogue System (CDS) has commenced, in addition to delivery of a number of kits and spares.

Group underlying operating profit, as defined in note 3 to the Group Financial Statements, was £200.8m (2018: £203.3m, restated for IFRS 16, Leases), including dividends received from the AirTanker group of £3.5m (2018: £9.9m). The underlying operating margin was 9.7% (2018: 10.9%).

Underlying operating profit

£m	2019	2018 (restated)
Communications and Connectivity	**66.9**	56.8
Mission Systems	**95.1**	75.5
Advanced Electronic Solutions	**31.6**	55.7
Aviation Services	**4.8**	15.3
Head office	**2.4**	-
	200.8	203.3

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

Underlying profit increased in Communications and Connectivity to £66.9m (2018: £56.8m) (margin increasing from 10.3% to 13.0%), reflecting significant operational improvements and increased volumes of higher margin products, as well as lower investment in Company funded research and development expenditure, including on the Aviator S SATCOM system as it entered flight testing phase. Included in 2018 underlying operating profit were £4.3m of additional inventory and receivables provisions.

In Mission Systems underlying operating profit increased to £95.1m (2018: £75.5m) (margin down from 18.8% to 17.0%) reflecting increased production volumes, as well as improvements in quality and manufacturing, and cost efficiencies. These more than offset increased investment in technology and other costs required to deliver the growth.

Underlying profit in Advanced Electronic Solutions was lower at £31.6m (2018: £55.7m) (margin down from 9.4% to 4.8%). In 2019, results were impacted by higher volumes on lower margin programmes and an adverse profit mix in the space business. Programme margin adjustments booked in the year included £36.0m to resolve contractual and technical specifications on a contract now in full production. This was only partly offset by a £5.2m property disposal profit and the benefit from the US$20m per annum overhead cost reduction exercise announced at the 2018 year end. In 2018, underlying operating profit included a £4.2m net credit, following a reassessment of certain legal, property and inventory provisions.

In Aviation Services, underlying profits reduced to £4.8m (2018: £15.3m) (margin down from 4.9% to 1.5%), due to maintenance spend on legacy aircraft and new fleet commissioning costs in Australia, the lost contribution from the UK Defence Helicopter School (DHFS) contract and a £3.2m charge relating to the loss on disposal of helicopters and subsequent partial write down of the remaining unused fleet. 2018 also included a £4.4m credit relating to lease servicing and make good provisions no longer required, and £2.1m from a one-off gain under IFRS 16 as a result of aircraft lease renegotiations. A new five year contract, Medium Speed Aerial Support Services (MSASS), has been agreed with the UK MOD to continue the support of operational readiness training in the UK.

The Group's net finance charge was £13.8m (2018: £47.7m). Included in this charge was the net finance expense on cash and debt holdings (including IFRS 16 related lease obligations) of £12.8m (2018: £46.2m, of which £20.4m related to accelerated interest (make-whole) costs following a debt pay-down). The non-cash finance charge from pension schemes was £1.0m (2018: £1.5m).

The Group's overall tax charge was £6.0m (2018: £2.6m credit). Excluding the impacts from uncertain tax positions, the underlying effective tax rate was 14.3% (2018: 23.0%), excluding joint ventures. The tax charge reflects the net outcome from the settlement of a previously disclosed, long running UK tax dispute, for which £69.5m was paid to the UK tax authorities in the year (£55.2m tax and £14.3m associated interest), and recognition of a liability in respect of the European Commission (EC) State Aid decision on UK controlled foreign company (CFC) legislation.

Statutory profit after tax for the year was £63.4m (2018: £74.1m).

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

Cash flow

£m	2019	2018 (restated)
Net debt at start of year	**(128.1)**	(531.9)
Cash generated from operations	**283.7**	210.2
Tax paid	**(69.4)**	(25.5)
Net interest paid	**(26.2)**	(42.1)
Net cash from operating activities	**188.1**	142.6
Capital expenditure net of proceeds of disposals	**(65.4)**	(62.7)
(Costs of)/proceeds from business divestments	**(3.3)**	324.7
Dividend paid	**(9.5)**	-
New finance leases and other lease changes	**(38.5)**	(17.8)
Decrease in net debt	**71.4**	386.8
Exchange movements	**(1.4)**	17.0
Cash and cash equivalents at end of year	**(58.1)**	(128.1)

Cash generated from operations was £283.7m (2018: £210.2m). Tax paid in the year, including the UK dispute settlement noted above was £69.4m (2018: £25.5m including the benefit of a tax refund from a prior period) with net interest paid of £26.2m (2018: £42.1m, including accelerated interest payments of £20.4m from the debt pay-down). After tax and interest payments, the net cash from operating activities was £188.1m (2018: £142.6m).

At 31 December 2019 the Group's net debt was £58.1m including lease liabilities (2018: £128.1m).

Free cash flow and operating cash flow are considered to provide a consistent measure of the operating cash flow of the Group's business. These alternative performance measures are used in internal management accounts, internal incentive arrangements and for decision making including capital allocation. The Cash Flow Statement subtotal of net cash from operating activities is reconciled to alternative measures of cash flow, free cash flow and operating cash flow as follows:

£m	2019	2018 (restated)
Net cash from operating activities per Cash Flow Statement	**188.1**	142.6
Purchase of property, plant and equipment	**(73.4)**	(63.4)
Purchase of intangible assets	**(5.8)**	(6.1)
Lease capital payments	**(19.7)**	(19.0)
Proceeds on disposal of property, plant and equipment	**13.8**	6.8
Free cash flow	**103.0**	60.9
Tax paid	**69.4**	25.5
Net finance costs paid	**26.2**	42.1
Operating cash flow	**198.6**	128.5

Operating cash flow was £198.6m (2018: £128.5m), with underlying operating cash conversion of 99% (2018: 63%). This is after the net cash utilisation of the exceptional charges for onerous contracts and other legacy items including the £48.7m net payment to Boeing following the February 2019 KC-46 settlement.

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

Free cash was an inflow of £103.0m (2018: £62.2m inflow), after interest and tax payments as described above.

Below free cash flow there was a cash outflow of £3.3m relating to divestments, primarily relating to final cash impacts of the 2018 divestment of the AvComm and Wireless test and measurement business (2018: net inflow of £324.7m).

Events after the balance sheet date

On 25 July 2019, the Board announced it had reached agreement with Advent for the acquisition of the entire share capital of the Group (the Transaction), to be implemented by means of a Court-sanctioned scheme of arrangement (the Scheme) under Part 26 of the Companies Act. A General Meeting was held on 16 September 2019 where the Scheme was duly approved by the Group's shareholders. Regulatory approvals for the acquisition were received in multiple jurisdictions including the UK, US, France and Australia and final court approval to enact the Scheme was received on 15 January 2020 resulting in the closing of the Transaction on 17 January 2020. Cobham was re-registered as a private company and delisted from the London Stock Exchange on 20 January 2020. Further details are provided in note 31 to the Group Financial Statements.

An interim dividend for the year ended 31 December 2020 of US$54.7m was paid in February 2020.

The beginning of 2020 is affected by the global COVID-19 pandemic. In this context, the Group's priority is the health, safety and security of its employees as well as the continuity of our business. The Group has implemented a series of prevention and protection measures and is constantly monitoring compliance with decisions and recommendations from local public authorities. Further details can be found in the principal risks and uncertainties section below and in the Directors' Report statement on going concern on pages 19-21.

Future developments

As noted above, following the acquisition of the Group by Advent, the boards of AI Convoy Bidco Limited and the Company have started to undertake a detailed evaluation of the Group. As originally expected this will be completed within the first six months of 2020. It will include a review of the short- and long-term objectives, strategy, capital requirements, performance and potential of each of Cobham's businesses; considering how best to position the business to compete for greater market share; and the level of overlap between each of the businesses within each of the Sectors. Any outcomes of decisions from this evaluation would only be taken in light of the views of key stakeholders including government and other customers, as well as applicable regulatory or similar conditions.

Research and development

The Group is committed to research and development by investing in both new products and enhancements to the current product base, to allow the Group to build positions where it has technical differentiation. It has invested £88.0m (2018: £103.2m) in company funded research and development activities during the year. This includes some £64.7m (2018: £74.2m) on new product development over half of which is in the Communications and Connectivity Sector, together with £11.9m (2018: 15.5m) on product improvement and £11.4m (2018: £13.5m) on sustaining engineering.

All company funded research and development expenditure is written off as it is incurred unless and until the conditions for capitalisation are met.

Non-financial information statement

Cobham takes a strategic approach to corporate responsibility and sustainability (CR&S), recognising that long-term success is not just about generating shareholder value but also about creating value for all the Group's stakeholders. Managing external impacts, capitalising on opportunities and conducting business in a responsible and sustainable way helps mitigate the Group principal risks and strengthen business relationships.

Many of Cobham's products and services provide important environmental and social benefits. This may be through enhancing aviator survival, minimising environmental impact or providing reliable communications in challenging environments.

The decisions and behaviours demonstrated by acting ethically, managing impacts, implementing innovative solutions and engendering positive business relationships also promote and enhance Company culture and reputation. In early 2019, Cobham started a journey to transform its culture which includes a new purpose 'Every Mission Matters' and accompanying values. Identifying meaningful values that resonate with employees across the Group and embedding the new culture has been a priority during the year.

Safety, health and environmental matters

Ensuring the health and safety of the Group's people is a core value. As a diverse organisation, employees are frequently required to work in different environments, and manage a range of risks. Cobham aims to eliminate occupational injury and illness through a Zero Harm strategy, with a focus on continuous improvement in safety performance. The Group also aims to continually improve environmental management to ensure efficient use of resources and minimal impacts.

A Safety, Health and Environment (SHE) policy underpins the Group's commitment to ensuring the safety and health of employees and to minimising environmental impacts. It commits to continually improving management systems, standards and performance while developing a culture of individual responsibility. Performance was regularly reviewed throughout the year by the Corporate SHE steering committee, which in turn reported to the Corporate Responsibility and Sustainability committee and Group Executive.

Greenhouse gases

Cobham is committed to addressing concerns about climate change and the environment. Reducing emissions creates efficiencies, drives innovation, helps manage long term risk and improves competiveness.

Cobham measures total carbon footprint, including Scope 1 and 2 emissions using the operational control boundary approach as set out by the World Business Council for Sustainable Development & World Resources Institute Greenhouse Gas Protocol. This ensures that the Group can effectively disclose and manage our contribution to climate change.

The majority of greenhouse gas emissions come from the Group's aviation business where, due to the nature of the services, much of the fuel use is controlled by customers. Cobham works with customers in all Sectors to achieve improvements in fuel efficiency; acknowledging the impact of the size, weight and power efficiency of Cobham products upon the fuel consumption and greenhouse gas emissions of customer aerospace platforms.

In 2018, a new five year reduction target of 15% was set for facility greenhouse gas emissions (excluding the Advanced Electronic Solutions Sector). Performance remains on track to achieve this target through a number of planned energy saving initiatives.

The Group collects greenhouse gas emission data annually from its wholly owned operational subsidiaries. Cobham uses the following standards to report its greenhouse gas emissions: the World Business Council for

Sustainable Development; the World Resources Institute Greenhouse Gas (GHG) Protocol method as of 31 December 2014; the GHG Protocol Scope 2 Guidance; the International Aerospace Environmental Group GHG Reporting Guidance for the Aerospace Industry; a supplement of the GHG Protocol; and the Carbon Disclosure Standards Board.

Cobham defines its emissions boundary as those under its direct operational control. Reported data excludes joint ventures not under the Group's operational control, sites with fewer than five people, sites leased to tenants, vacant properties awaiting disposal, and any non-reported data for businesses that have been closed or divested during the year.

Emissions **tonne CO2e**	**2019**	2018
Scope 1	**147,078**	118,957
Scope 2	**32,966**	35,927
	180,044	154,884

Emissions intensity **tonne CO2e/£m turnover**	**2019**	2018
Scope 1	**71.4**	63.8
Scope 2	**16.0**	19.3
	87.4	83.1

Scope 1 comprises direct emissions from Cobham owned and controlled plant and equipment released straight into the atmosphere. These include some aviation fuel, natural gas, heating oil, nonautomotive diesel, fugitive missions, solvent emissions and automotive fuel.

Scope 2 comprises indirect emissions from purchased renewable and non-renewable electricity using a location based or market based calculation method, and indirect emissions from purchased district heating. These are indirect emissions that are a consequence of Cobham's activities but which occur at sources we do not own or control.

Employees

Details of the Group's approach to employee engagement can be found in the Directors' Report on page 22.

The Group aims to empower a diverse workforce and build an inclusive work environment. A diverse workforce is important because people from different backgrounds and cultures think differently, helping to foster innovation and improve decision-making. Recruiting people from a range of different backgrounds can be challenging especially as there is a diminishing talent pool as the number of Science, Technology, Engineering and Maths (STEM) graduates in the UK and US decreases.

The Group is committed to providing all its employees with equal opportunities in a workplace free from discrimination, taking action to improve gender and age diversity across the workforce. Recruitment efforts aim to replenish the talent pipeline and ensure that STEM graduates recognise Cobham as an employer of choice. Recruitment, selection and career development are based on competence and job requirements, irrespective of race, sex, sexual orientation, religion or disability. Applications for employment from persons with a disability are welcomed and given full and fair consideration.

With regard to employees who become disabled, the policy is to take all reasonable steps, including retraining, to ensure that they can remain in employment and career development wherever practicable.

Gender diversity can be summarised as follows:

	2019		2018	
Board of Directors	**2/8**	**25%**	2/8	25%
Senior managers	**8/75**	**11%**	12/86	14%
Total workforce (average number of employees)	**2,820/10,185**	**28%**	2,834/10,359	27%

Senior managers in the table above are calculated in accordance with the statutory definition being employees with responsibility for planning, directing or controlling corporate activities.

Cobham publishes gender pay gap and diversity information on its website.

Social matters

Cobham is committed to helping strengthen the communities where it operates by fundraising and donating time, expertise and products.

A Group-level community involvement strategy aligned with our business strategy reinforces our focus on STEM education; ex-services personnel; causes in the communities surrounding Group sites; and disaster relief appeals.

The Group has a Corporate Responsibility and Sustainability (CR&S) strategy and is committed to act ethically, inspire employees, innovate solutions and manage environmental and social impacts directly, and through business relationships. The strategy has four core business areas, People, Processes, Places and Products. Within these four areas CR&S is integrated into business practices through corporate governance, long-range strategic plans, performance management systems, product development, and reporting & assurance processes.

The Corporate Responsibility and Sustainability Committee had oversight of the Group's strategy and key policies, was chaired by the CEO and comprised executive members representing business and operational functions. The committee had a structured agenda which reviewed the processes and performance highlighting risks and opportunities, and challenged businesses to constantly improve.

Anti-corruption and anti-bribery matters

Cobham's culture is to act ethically and with integrity at all times, protecting the Group's reputation, shareholders, stakeholders and employees.

Cobham has a reputation founded on trust, integrity and of 'doing the right thing'. To protect that reputation and to help ensure business is conducted fairly and honestly, global standards of behaviour have been adopted as set out in the Code of Business Conduct (COBC). This emphasises the importance that each employee plays in building trust - with each other, customers and partners - to ensure every Cobham employee conducts business to the same high standards of business ethics. The COBC includes a section on bribery and corruption and sets out a zero tolerance to both. It is approved by the Business Ethics & Compliance committee and signed by the CEO.

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

As the COBC cannot cover every eventuality or challenge employees may face, it is created as a resource for them to use when guidance is needed, to help them make informed decisions. Cobham offers a confidential Helpline for employees, or others, to ask questions or to raise a concern they may have, anonymously if they so wish. It also offers other alternative resources to employees, so they can raise a concern in a way they feel most comfortable.

Respect for human rights

Human rights are an important issue for the Group. There are growing requirements to comply with legislation and to respond to customer information requests on human rights issues such as modern slavery and conflict minerals. Compliance with applicable laws and regulations has been identified as a principal risk (see page 12).

Cobham supports the principles contained in the Universal Declaration of Human Rights and seeks to reflect these in the context of its business activities. Cobham also respects the rights of its employees in the International Labour Organization Declaration on Fundamental Principles and Rights at Work. Cobham demonstrates its support and respect for human rights through the principles and policies contained in the COBC, the Corporate Framework and the Group's policies and processes.

Cobham opposes modern slavery and human trafficking in all its forms and is committed to acting ethically and with integrity in all business dealings and relationships. The Group's Anti-Slavery and Human Trafficking statement, prepared in compliance with section 54 of the UK Modern Slavery Act 2015 can be found on the Group website.

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks.

The Group and each of its businesses maintain a register of Principal Risks and Uncertainties covering the strategic, operational, financial and compliance risks faced by the Group. The Group's risk management framework is structured to ensure that risks are identified promptly by management teams to ensure that they are mitigated and managed appropriately in support of the delivery of the Group's strategic plan. The risks identified are documented and measured, including the ownership of individual risks.

The risks are regularly reviewed and exposure is rated in terms of both inherent risk (before mitigations) and current risk (after mitigations), which allows the Group to identify risks that are heavily dependent on internal mitigating controls and to allocate resources appropriately. Risks are also considered in comparison to an appropriate target exposure (or risk appetite) which is established by the Board. The risk appetite is articulated as low, medium or high across the various elements of the risk framework. There is a higher appetite for areas of strategic risk including the promotion of growth, for example in business and product portfolios, and in the strategic planning processes. There is a low appetite for compliance risk – including zero tolerance for certain ethical issues such as bribery – with a medium appetite for operational and financial/reporting risks. The Group's controls, mitigation activities and associated assurance measures reflect the risk appetite for each position.

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

The principal risks identified for the year ended 31 December 2019 were as follows:

1. The Group operates within a volatile macroeconomic environment;

- Cobham's revenue and costs are dependent on a complex mix of macroeconomic, fiscal, commercial and strategic defence and security factors, arising from global defence/security and commercial markets within which it participates. 44% of the Group's revenue is derived directly or indirectly from the US Government and are therefore impacted by changes in the US defence budgets which can be difficult to predict. 25% of the Group's revenue is derived directly or indirectly from non-US defence and security markets. While heightened regional security tensions have led to an increase in demand for the Group's capabilities and know-how, the general level of public deficits and indebtedness remains high, which the Group expects will act to limit growth in defence and security investment. The Group also has some remaining exposure to commercial markets which have experienced downturns in response to weakness in commodity markets such as oil and gas, iron and steel, and precious metals.
- The impact of the UK's exit from the European Union (EU) on 31 January 2020 (Brexit) is still to be fully understood as the terms of future trade relationships, customs arrangements and regulatory framework between the UK, the EU, and other countries are still being negotiated. Depending on the ultimate outcome, Cobham may incur additional costs and other operational issues associated with the transfer of goods between the UK and the EU and third countries as a result of new tariffs, customs delays, the need to meet multiple standards and increased regulatory complexity. These additional costs could include the need for extra inventory, new or additional certifications and changes to its manufacturing strategy. Brexit could also require the Group to modify supplier and customer contracts and we may lose access to research or other funding from EU institutions.

2. The characteristics of the Group's markets and the resulting contractual environment are highly complex;

- Many of the end markets served by Cobham are highly competitive. The Group relies on its ability to win business ahead of its competitors through a combination of differentiated technology, contractual terms and price. There is no assurance that the Group will be able to maintain its current market share with respect to its products or services due to the development of competing technologies, the periodic retender and renewal of existing contracts, the inability to develop existing products due to resource constraints or the emergence of new competitors. The Group has a number of contracts which span more than one accounting period, some of which have a fixed price. If the Group is unable to or fails to accurately estimate the resources and time necessary to meet contractual milestones, the Group may be subject to claims for damages for late delivery. If the costs required for the delivery of such contracts are higher than those expected, as a result of the performance of new or developed products, schedule over-runs or other external factors (such as inflation resulting in an increase in input costs), which cannot be passed on to a customer, the profitability of a contract may be reduced, or result in it becoming loss making.
- The timing of order receipt from customers could have a material impact on the Group's performance in a given reporting period, as the amounts payable under such contracts can be individually substantial.
- The Group's existing contractual arrangements are subject to periodic renewal and retender. There can be no assurance that the Group will be able to successfully renew such contracts. Some of the Group's contracts have terms (which are not unusual in the Group's markets), that provide for unlimited liabilities for the Group or termination rights for the customer and, in some cases, damages and consequential loss exposure. Many of the Group's contracts are also across international borders, leading to increased

complexity in interpretation. The contract for aerial refuelling systems for the KC-46 aircraft is the Group's most significant example of this type of contract.

- The Group is reliant on third party manufacturers and key suppliers, to whom certain manufacturing and engineering functions are outsourced. This can result in a reduction in control over capacity allocation and quality, may result in disputes regarding the ownership of intellectual property and may place reliance on the independent financial stability of those suppliers.
- The occurrence of any or all of these factors may result in the financial performance of the Group being impaired, through reductions in revenue, increased costs or the emergence of unexpected liabilities.

3. Shortage of appropriate skills and talent;

- Key to execution of the Group's strategic plan is the recruitment, development and retention of sufficient personnel with the appropriate skills to meet the needs of the business, in engineering, technical and other specialist and managerial roles. These are amongst the most sought after skills within the worldwide labour market. This is exacerbated by nationality restrictions in certain of its markets, which prevent the Group from accessing a worldwide talent pool. Insufficient availability of personnel will generate a resource gap that will impair the Group's ability to deliver against its strategic plan. Employee retention has been and may continue to be challenging, and the Group must continue to engage with its employees with focus on its strategy and goals. Following Brexit, the ability of the Group to continue to recruit EU nationals to work in the UK may also be reduced. The resulting talent gap could lead to a reduced ability to execute on growth plans and key programmes, resulting in reduced customer confidence and an adverse impact on the Group's financial position and financial outlook.

4. Project and programme management not being effective;

- The Group designs, develops and delivers products and services that are often customised, utilising complex technologies and outsourced supply chains. It does this mainly through fixed price contracts that can be long term in nature and through internally funded research and development projects where it exploits identified market opportunities. Development projects can take place across a wide range of markets and technologies and may involve partnership with third party suppliers to provide components. The decision to outsource, and the selection of the appropriate suppliers, can add additional risk to programmes if the supply chain is not appropriately managed.
- The Group employs a system of project and programme management, the Cobham Delivery Framework, to ensure that all such projects are managed within a common framework. Cobham is currently undertaking a number of significant development projects, including the aerial refuelling development programmes within Mission Systems. Failure by the Group to execute or deliver these or other projects or programmes, gives rise to the risk of increased costs, damages, product liability claims, litigation and other financial liabilities, reduced future profitability and reputational risk. Poor operational performance could also lead to customers withholding new and existing business from the Group.

5. Customer expectations of service, quality and innovation not being met;

- It is crucial to the Group's current and future development that the expectations of its customers are fully understood and fulfilled, in areas such as the development of new products, the delivery of existing products in accordance with customer requirements and the support provided in respect of products that have already been delivered. The Group is increasingly bidding on programmes which involve more complex customer requirements. If the Group fails to understand the future requirements of its customers, to deliver solutions that meet the customers' needs, reduced ability to win new contracts and difficulty in renewing existing contracts may result. In addition, the Group may suffer financial penalties and possibly the loss of existing contracts. Customer pricing pressure may also intensify where customers perceive that the Group is not providing a level of service that is commensurate with expectations.

6. Business change programmes not being successfully executed;

- As part of its turnaround strategy, Cobham has undertaken several business change programmes that are important to the Group's future prospects, in areas such as the implementation of improved Information Technology systems, increased production at certain locations and the establishment of a more effective culture throughout the Group. If these programmes are not successfully executed, the Group's ability to deliver its strategic objectives will be impaired, which could lead to reputational damage, deteriorations in financial performance, loss of customer confidence and reduced success in winning new business from existing customers.

7. Occurrence of an event leading to a significant business interruption;

- Cobham's businesses could be impacted by natural disasters or other external events affecting its operational locations, by significant events in the supply chain or by IT systems failures (including from cyber-attack), rendering critical systems or manufacturing locations unable to function. In some cases this can be exacerbated by the historic selection of key suppliers which has created significant reliance upon the supply chain. Unscheduled interruption to business activities would result in the inability to deliver products to customers in accordance with their expectations. This would result in reduced profits, loss of customer satisfaction, potential cost outlays, and reputational impact.
- The impact of the COVID-19 pandemic is being closely monitored by the Group but the longer term, industry wide impact is not yet fully understood. However, a prolongation of the pandemic will have significant adverse impacts on global economic growth and on employees, supply chain and customers. The commercial aviation industry has been particularly impacted. Mitigating actions have been taken such as the implementation of home working where possible and ensuring adequate social distancing within facilities where it is essential that employees remain on site, or when they have been deemed key workers for defence and security contracts. The health and safety of the Group's employees remains a critical risk and focus. Supply chain and cash flow impacts are also being closely monitored. These actions are under constant review to ensure they are appropriate, proportionate and as effective as possible.

8. Failure to comply with laws and regulations;

- Cobham operates in highly regulated environments and is subject to the laws, regulations and restrictions of many jurisdictions, notably including those of the US and the UK as well as many other countries in which it operates. These include but are not limited to anti-bribery provisions, import and export controls, tax, government contracting rules, human rights, environmental, health and safety and data protection regulations. A lack of understanding of legal and regulatory restrictions in force in the jurisdictions in which it operates could lead to the Group being in contravention of applicable laws or regulations. Sanctions for failure by the Group, its sales intermediaries, or others acting on its behalf to comply with laws, regulations and restrictions could include fines, penalties, legal claims, or suspension of the Group from future government contracts for a period of time, as well as having a potentially significant impact on the Group's reputation. Such sanctions could also have an impact on the Group's financial position and future operations.
- Safety is a key priority throughout the Group, particularly within the Aviation Services Sector which conducts flying operations in support of its customers. Safety is carefully managed through Group-wide processes, but the Group recognises that an accident could have a major impact on its employees,

customers and other stakeholders. Such an incident could also result in legal claims, financial damage and reputational loss.

- Cobham's US defence business is currently managed through a Special Security Agreement (SSA), which covers the Advanced Electronic Solutions Sector, the terms of which are agreed with the US Government due to the nature of its work on classified US Department of Defence (DoD) programmes. The SSA is intended to ensure that this US defence business is not subject to the effects of Foreign Ownership, Control or Influence (FOCI). Further details of the SSA can be found in note 1 to the Group Financial Statements. The terms of the SSA may reduce the ability for the Group to effectively manage its US defence operations due to reduced visibility into the business and its performance.

9. Governance framework being poorly constructed and implemented;

- The Group's organisational structure delegates some operational autonomy and responsibility to its businesses, including the negotiation and performance of contracts with customers. The level of authority that has been delegated may not be fully consistent with the risks within the Group's operations, leading to the over or under control of those risks. This could lead to exposure to unacceptable risks in areas requiring conservatism, potentially damaging the Group's reputation and shareholder value. Conversely, it may also prevent the acceptance of risks required in order to grow the Group's business, hindering the ability to deliver an acceptable return on shareholder investment. The Group has a capital structure that is partially funded through borrowings from banks and other financial institutions. The associated banking agreements incorporate financial covenants and other provisions, breach of which may lead to potential defaults and costs associated with obtaining temporary waivers or the requirement to reduce debt through divestment or additional capital raising.

10. Information assurance, risk and security measures being insufficient to prevent data loss or corruption;

- Cobham relies upon its IT systems to store and process its data securely. In part due to the nature of its business, the Group faces various security threats, including cyber security attacks from computer hackers, viruses, malicious code and internal threats intended to gain access to proprietary or sensitive information, as well as threats to the physical security of its IT facilities and infrastructure. Although various bespoke and industry standard procedures and controls are utilised to monitor and mitigate exposure to these threats, the impact of any future attack cannot be predicted with any certainty. The Group continues to seek the maximum protection possible against any compromise of the security of intellectual property, customer and employee data and the corruption of embedded product data and data for external services. However, due to the evolving nature of these security threats the effectiveness of any such protection cannot be guaranteed. Significant data breaches or losses could also lead to litigation and fines for breaking data privacy law and other regulations. This would result in reputational damage and potentially the loss of new and existing contracts.

11. Taxation liabilities being larger than anticipated;

- Cobham is subject to corporate and other tax rules in the jurisdictions in which it conducts its business operations. Changes in tax rates, tax relief and tax laws, changes in practice or interpretation of the law by the relevant tax authorities, increasing challenges by relevant tax authorities, or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may materially adversely affect the Group's financial condition and operations. In addition, tax enforcement has become a higher priority for many tax authorities in jurisdictions in which the Group operates, which has led to an increase in tax audits, enquiries and challenges, or the testing through litigation of the boundaries of the correct interpretation of legislation. Tax authorities may also actively pursue additional taxes based on retrospective changes to tax laws and the Group may have disagreements with tax authorities which could result in a material restatement to the tax position.

- In addition, the Group continues to monitor developments relating to the EC State Aid investigations. In April 2019, the EC published a decision on the UK Government's CFC regime, stating that it partially represents State Aid. The UK Government has appealed this decision, however in the meantime it has an obligation to collect monies from UK businesses. A liability has been recorded in respect of State Aid in the current period on the basis that the Group considers it is more likely than not that there will be outflow of economic resources in connection with this matter, which was previously disclosed as a contingent liability There are a number of uncertainties associated with this issue, including the result of the UK Government's appeal, which may take some time to resolve and could result in the ultimate outcome being materially different to the amount of liability recorded.

12. The deficit within the Cobham Pension Plan may change;

- The Group maintains a number of defined benefit pension schemes which are closed to new entrants and future benefit accrual, the largest of which is the Cobham Pension Plan (CPP) in the UK. This pension scheme is in deficit, and this deficit may change in the future in response to changes in the value of assets and the present value of liabilities. The Trustees' view of the strength of the Company covenant is also taken into account in the setting of recovery plans to address the deficit.
- Actuarial valuations of the present value of the defined benefit obligations for the CPP are carried out on a triennial basis by qualified independent actuaries; the most recent valuation was as at 1 April 2018 recording a deficit of £37.8m. Subsequent to the year end and as a result of the acquisition of the Group by Advent, a new Schedule of Contributions has been agreed under which the Group will contribute £15.0m in 2020 and each subsequent year until the end of 2024. An additional contribution of £35.0m was paid in February 2020.

These principal risks are being re-evaluated in 2020 following the Advent acquisition of the Group.

The Board sets the policy for managing risk in the business. It recognises the importance of having effective processes and procedures for identifying, actively monitoring, mitigating and managing the financial and non-financial risks facing the Group. By regularly reviewing the Group Principal Risks, which are derived from the detailed risks reported across the Group by businesses, and satisfying itself that these risks are managed within the Group's risk appetite, the Board ensures that the Group's risk exposure remains appropriate and that this links to the effective delivery of its strategic objectives.

The Board has ultimate accountability for the execution of risk management and internal control system and it has delegated responsibility for the monitoring and reviewing of the effectiveness of the Group's risk management and internal control systems to the Audit Committee. Assurance over the effectiveness of these systems is provided through regular management reporting to the Audit Committee. For the Advanced Electronic Solutions Sector, which holds classified US Defence programmes and so operates under a US SSA, specific assurances and authorised assurance reports are given by the business management, which has its own Audit Committee.

The process for monitoring and controlling risk, emphasises ongoing evaluation and monitoring by the management teams at each appropriate level of the organisation.

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

The Group manages risk by operating a three lines of defence risk and control model:

1. The first line of defence consists of operational management implementing and maintaining effective risk identification, reporting, management and internal control systems.
2. The second line of defence consists of the Group functions who, in addition to supporting operational management in their own specialist areas, also maintain their own risk registers.
3. Internal Audit, which forms the third line of defence, is empowered to provide an independent assessment of the effectiveness of risk management and internal control systems, as well as identifying areas for improvement. These lines of assurance also include the Group's ethics reporting system, which enables employees to raise concerns over ethics and compliance matters.

Financial risk management

The Group's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, interest rate cash flow risk and foreign currency exchange rate risk. Cobham has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group. Further details of the Group's financial risks and risk management strategy can be found in note 24 to the Group Financial Statements.

During the year, the directors have followed the financial risk management policies set by the Board of directors of Cobham Limited which were managed by the group finance department. The Cobham Group had a written treasury policy and risk management programme that sought to limit the adverse effects on the financial performance of the Group. This included the use of foreign currency financial instruments, debt and other instruments. The Group does not trade in financial instruments.

The Directors will revisit the appropriateness of these policies during 2020 following the acquisition of Cobham plc by Advent, and will also reconsider risk management requirements should the Group's operations change in size or nature.

Credit risk

The Group has implemented policies that require appropriate credit checks on potential customers before contracts are signed and sales are made. Cobham also monitors existing customer accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk

Cobham retains sufficient cash to ensure it has available funds for operations and planned expansions and has access to revolving credit facilities under a group banking arrangement as required. See note 18 on borrowings for more details of the use of facilities during the year.

Interest rate cash flow risk

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash and bank balances and other receivables which all earn interest at a floating rate. The Group also has various borrowings with a range of maturities at both fixed and floating rates of interest. The Group monitors its exposure to movements in interest rates to bring greater stability and certainty to its borrowing costs, with the policy being to assess the proportion of borrowings that are fixed and floating in the context of prevailing market conditions. The Group is also exposed to variable interest rates through its participation in the Cobham defined benefit pension scheme. Cobham does not currently use derivative financial instruments to manage interest rate costs.

Foreign currency exchange rate risk

The Group's aim is to reduce, or eliminate, whenever practical, foreign exchange transaction risk. The US dollar/sterling and the US dollar/Danish krone exchange rates are the most significant exposures, together with a number of other, smaller foreign exchange transaction exposures, including the euro/US dollar. All foreign exchange hedging transactions are approved under delegated authority from the Board. A number of financial instruments, such as forward rate contracts, are used to manage transactional foreign exchange exposure. The Group has a policy of hedging at least 80% of estimated transactional exposure for the next 12 months, a proportion of exposures between 12 and 36 months, and firm exposures on long-term contracts. Details of these financial instruments are shown in notes 22 and 24 to the Group Financial Statements.

Price risk

The Group has no exposure to equity securities price risks as it holds no listed equity investments.

Section 172 Statement

The Directors of the Company have acted in a way they considered, in good faith, to be most likely to promote the success of the Company for the benefit of the members as a whole, and in doing so had regard, amongst other things to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining reputation for high standards of business conduct; and
- the need to act fairly as between the members of the Company.

The Board has a responsibility to oversee meaningful engagement with stakeholders, and to conduct constructive relationships in pursuit of the Company's purpose. The Strategic Report summarises the Company's efforts in: research and development; safety, health and environmental matters; and anti-corruption and anti-bribery matters. The Board receives regular updates on financial performance, risk, compliance with laws and regulations, customer and supplier engagement, staff engagement, and corporate social responsibility. Where appropriate, papers presented to the Board draw out directors duties under the Companies Act. The Group and Company engage with customers and suppliers to explore ways to minimise the environmental impact of their operations.

Cobham Limited (formerly Cobham plc)

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

The key decisions of the year under review stemmed from the unsolicited approach by Advent which ultimately led to the Board recommending the acquisition. The Board, having received briefings on their responsibilities and duties under section 172 of the Companies Act 2006 and other relevant rules from its advisors, took into account the views and interests of a wide range of stakeholders. The Chairman and CEO met with significant shareholders and relayed their views to the Board as a whole. Given the nature of the transaction all shareholders had the opportunity to express their views and vote on the transaction at specially convened Court and General meetings, with shareholders voting overwhelmingly in favour of the acquisition. In addition the directors assisted Advent in discussions with key customers and regulators in several jurisdictions in order to obtain the necessary clearances for the transaction to proceed. The Board considered the likely impact of the transaction on the Company's pension schemes and in this regard took into account the assurances obtained by them in relation to the Company's pension arrangements from Advent and referred to in the announcement of the transaction and the scheme circular. Staff were kept informed of progress of the transaction and outplacement support was put in place for head office staff directly impacted by the transaction.

Signed on behalf of the Board

S Doherty
Director
29 April 2020

Cobham Limited (formerly Cobham plc)

Directors' Report for the year ended 31 December 2019

The Directors have pleasure in submitting their report, together with the Strategic Report and the audited consolidated financial statements of Cobham Limited (the Company) and all of its subsidiaries (together, the Group) for the year ended 31 December 2019. The Company is a private company limited by shares and is incorporated, registered and domiciled in England, number 00030470. The address of the registered office of the Company is Brook Road, Wimborne, Dorset BH21 2BJ.

The Company was previously registered as Cobham plc, a public company, and re-registered as a private company on 20 January 2020.

Results and dividends

The Group's consolidated results for the year are as outlined in the Strategic Report on pages 1 to 5, together with a review of the Group's business during the year and future developments. Information about the Group's involvement in research and development, principal risks, financial risk management and events since the balance sheet date are also provided in the Strategic Report.

Accounting standard IFRS 16, Leases, has been applied for the first time in these financial statements. Full details of the impact of this new standard are set out in note 2.

An interim dividend of £0.004 per share (2018: £nil) was paid by the Company during the year as set out in note 8 to the Group Financial Statements. No final dividend is proposed for the year ended 31 December 2019.

Directors

The following Directors held office during the year and up to the date of signing these financial statements:

G J Bagwell	-	appointed 17 January 2020
S Malani	-	appointed 17 January 2020
M Marshall	-	appointed 17 January 2020
S Doherty	-	appointed 31 March 2020
D C Lockwood	-	resigned 31 March 2020
D A Mellors	-	resigned 20 January 2020
M C Blakey *	-	resigned 17 January 2020
J McAdam *	-	resigned 17 January 2020
R Médori *	-	resigned 17 January 2020
J R P Pike *	-	appointed 1 May 2019, resigned 17 January 2020
N A Schwartz *	-	resigned 17 January 2020
A J Wood *	-	resigned 17 January 2020
M P Wareing *	-	resigned 1 July 2019

* Independent Directors

During the year, D C Lockwood acted as Chief Executive Officer (CEO) and D A Mellors as Chief Financial Officer (CFO). The Directors have the benefit of a Directors' and Officers' liability insurance policy and the Company has entered into qualifying third party indemnity arrangements with them as permitted by the Companies Act 2006. The policy was in force through 2019, at the year end and continues in force at the date of this report. The Directors are permitted to take independent legal advice at the Company's expense within set limits in furtherance of their duties.

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101), and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS, as adopted by the EU, have been followed for the Group Financial Statements, and UK Accounting Standards, comprising FRS 101, have been followed for the Parent Company Financial Statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Group and Parent Company Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report. In addition, notes 1, 14, 22 and 24 to the Group Financial Statements include the Group's objectives, policies and processes for managing its capital, financial risk management, details of financial instruments and hedging activities, and its exposure to credit liquidity and other risks.

In applying the going concern basis, the Directors have considered the Group cash flow projections and assessed the robustness of the forecast through sensitivities around the key assumptions, in particular revenue growth rate, gross margin, capital expenditures and cash conversion. At the year end, the Group has considerable financial resources with liquidity available on the Balance Sheet from its cash resources (with a

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

£107m net cash balance before inclusion of lease obligations of £165m (net debt of £58m).The Group also has unused credit facilities and it has a spread of maturities on its debt as set out in note 18 to the Group Financial Statements.

Subsequent to the year end, as a result of the acquisition of the Group by Advent, the Company's private placement debt (senior notes) were repaid in February and March 2020. Similarly the loan agreements will all have been repaid either in advance of their maturity by way of a statutory prepayment process or upon maturity by 19 May 2020. Cobham Limited is committed to accede to the debt package used by Advent to help finance their acquisition by 18 June 2020 comprising:

- 1st Lien 7 year Term Loan of €885m;
- 1st Lien 7 year Term Loan of US$1,188m;
- 1st Lien 5.5 year Revolving Credit Facility of US$350m; and
- 2nd Lien 8 year Term Loan of US$672m.

Other "material" members of the Group are also required to accede to the financing, being those subsidiaries that contribute 5% or more of the EBITDA of the Group and any direct parent of such entity. By acceding to the finance documents, the entities will be required to give a guarantee and provide customary security over certain material assets in respect of the debt.

There is a springing financial covenant applicable to the Revolving Credit Facility that is required to be tested, subject to certain conditions, quarterly from 31 December 2020 to the extent that the facility is over 40% drawn. The covenant requires that the leverage ratio of senior secured net debt to EBITDA of the Group does not exceed 7.6:1. Interest will be paid quarterly, with a forecast cost of between £120m to c.£150m per annum based on current LIBOR/EURIBOR. Amortisation payments are due on the 1st Lien USD Term Loan in an amount equal to 0.25% of the outstanding principal amount each quarter beginning on 30 June 2020. Cost savings in the corporate centre and the exclusion of dividend payments partly offset the additional future cash outflows arising from this financing.

The Group has a mix of shorter and longer term contracts and a number of leading market positions with customers across different geographical areas. As a consequence, the Board believes that the Group is ordinarily well placed to manage its business risks successfully.

The COVID-19 pandemic has become a worldwide crisis and at the date of this report the situation was still evolving. As a result, its medium term impact is not yet fully understood across the markets in which the Group operates. Each of the Group's business immediately initiated weekly reviews of the impact of the pandemic on people matters, customer demand, supplier availability and liquidity.

Furthermore, the Group drew down its revolving credit facility in full during March 2020, in order to ensure maximum available funding flexibility and as a precaution to avoid any possible illiquidity in the banking market. At the date of this report those drawn funds were still predominately available in full and, in particular, they were considered more than sufficient to service the Group's debt and finance obligations over the next 12 months.

The Directors had already approved a detailed financial and strategic three-year plan and were reassessing further opportunities as part of the initial review following the Advent acquisition. As a result of Covid-19, as well as the week by week business monitoring, the Group has also undertaken a reforecast of operations for the next 12 months and applied stress tests on its cash position. These have included assuming the most severe but plausible scenarios such as no net operational cash flow over the next 12 months, and no EBITDA generation from commercial aerospace revenues. In these cases the Directors have confirmed that the Group would be able to operate and serve the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

The Directors have a thorough understanding of the risks, sensitivities and judgements included in these forecasts and scenarios. However, if the situation was to develop with greater adversity, further financing are expected to be available to the Group within the terms of the senior debt package. These options include, but are not limited to, receivables financing (across a sub-set of the Group's total trade receivables which were £222.0m at 31 December 2019), government support, and secured financing using assets such as freehold property. Government support schemes potentially open to the Group include the UK's Coronavirus Business Interruption Loan Scheme which the Directors understand could provide up to a maximum of £50m of medium-term debt financing or revolving cash facility equivalent, and provisions under the US Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Accordingly, after making enquiries, the Directors have concluded at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group and Parent Company Financial Statements. Please refer to notes 1 and 31 to the Group Financial Statements for further information.

Statement of corporate governance arrangements

The Board followed the spirit of the principles of the UK Corporate Governance Code (the Code), and the main areas not complied with during the year are as follows:

- Provision 5: The Code recommends that one of three methods should be used for engagement with the workforce. The Board had planned to designate a Non-Executive Director with responsibility for engagement with the workforce, and develop existing channels of communication to ensure the views of the workforce were formally communicated to the Board and feedback provided to the workforce. However, in the context of the ongoing transaction with Advent, the Board thought it more beneficial to focus resources on ensuring effective communication with the wider workforce about developments in the transaction rather than to implement a new, likely temporary, method of employee engagement.
- Provision 21: The Code recommends that there should be a formal and rigorous annual evaluation of the performance of the Board, its committees, the chair and individual Directors. In light of the expected transaction timetable the Board decided to defer such evaluation considering that it was highly likely that it would have limited time to benefit from any findings. In addition an evaluation would have diverted resources at precisely the time that the Board would have needed to focus its attention on the demands of the recommended acquisition.
- Provisions 23, and 26: In light of the fact that the Company is now a wholly owned subsidiary this Annual Report does not seek to detail the work of the nomination and audit committees during the course of 2019.
- Provision 31: In light of the fact that the Company is no longer listed this Annual Report does not include a viability statement. As set out in the going concern statement above, the Directors have concluded at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future.

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

Employees and employee engagement

Engagement with employees is important for retention and productivity of high performing people. The Group communicates and engages with employees on strategy, ethics, health and safety, environment, talent and career development, diversity and inclusion, and community involvement.

Employee engagement occurs in different ways and at different levels. Each business holds regular 'all hands' meetings with employees to instil a sense of common purpose, to update on relevant news and developments and to respond to questions. The CEO and other members of the Group senior management team also undertake all hands meetings when visiting businesses.

A gathering of senior management was held in January 2019 to reinforce the Group's direction and priorities and to communicate key messages for dissemination across the Group. This included the launch of a cultural transformation which included a new purpose 'Every Mission Matters' and accompanying values. Identifying meaningful values that resonate with employees across the Group and embedding the new culture has been a priority during the year.

All employees have access to the Cobham Group intranet site, where they can find news, policies and procedures and a range of other materials of interest. A majority of Group sites use digital displays to communicate employee information, with many sites giving employees the opportunity to make suggestions for improvement using feedback boxes.

During the year, the Group's corporate communications department compiled and distributed various materials to employees including a quarterly employee magazine, online news items and senior management 'blogs'. Dovetailing with this, certain group functions undertook more specialist engagement relevant to specific functions such as finance and procurement.

During the year, the Group supported employee share ownership through participation in the Cobham Group Long Term Incentive Plan and, in the UK, a Save As You Earn and Share Incentive Plan were open to all UK employees. A project to widen the offer of employee share plans to other countries where we have large numbers of employees was started during the year.

Stakeholder engagement

Cobham defines stakeholders as the people and groups who influence or have an interest in the business.

Engaging with the Group's stakeholders helps identify the issues most important to them and develop mutually beneficial relationships. Understanding their issues informs the Group's materiality process, the challenges to be focussed on and the overall CR&S strategy. This approach and progress is shared with key stakeholders and their opinions and feedback are sought to inform the continued development of Group strategy.

The stakeholder groups and their relevant issues are summarised below. Details of employee engagement are shown above.

Customers

One of the Group's key priorities during the year has been to foster closer relationships with customers at all levels.

Customer feedback influences product and service delivery. The Group engages on issues such as technological innovation, quality, cost and delivery, through-life costs, ethics and supply chain management including social and environmental risks and opportunities.

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

This helps Cobham provide value for money and high performance technical solutions for customers' most pressing needs. This can take the form of close partnering or collaborative engagement in technology development and production. Cobham actively engages with its customers to exchange technology roadmaps to closely align research and development and engineering resources with customers' technology and market objectives. Presentations have been made to key customers to increase awareness of the full range of the Group's capabilities across the organisation and to improve understanding of customers' needs.

Shareholders and the wider investment community

Through the Group's financial and non-financial reporting including annual reports, meeting and surveys, Cobham engaged with investors on a number of issues including defence budget impacts, staff and talent shortage, governance issues and risks and opportunities arising from climate change. An investor relations programme was run to keep shareholders regularly informed of the Group's prospects and performance, together with developments as they occurred. This also ensured that Cobham's Board were informed and up to date on shareholder views, which helped to inform strategic decisions and the setting of management objectives.

Shareholders were fully informed of the offer made by Advent, which was first notified in July 2019, and kept up to date through the following months. Updates were issued during August 2019 with the General Meeting to approve the Scheme of Arrangement being held on 16 September 2019. Further updates were issued on progression of the regulatory approvals through October and November, with details of the final approval and undertakings made being announced on 23 December 2019. Throughout this process the CEO and CFO and other Board members continued to meet with significant shareholders to keep them informed of progress on the transaction.

Information was shared with shareholders through a dedicated investor relations website at www.cobhaminvestors.com and the various shareholder meetings provided opportunities for face to face interaction between shareholders and the Board.

Regulators

Cobham recognises that its operations and activities have social, economic and environmental impacts. These impacts are becoming the focus of legislation in countries in which we operate and we will continue to ensure legal compliance.

Governments

National governments are some of the largest end users of Cobham's products and services and there is regular engagement through government affairs teams and industry association memberships to ensure their priorities are understood. Future military spending, contribution to local communities and contribution to technological innovation are all important engagement issues.

Industry bodies

Cobham meets regularly with peers to gain industry insights, share good practice, understand the impacts of current and pending legislation, engage in industry environmental initiatives, as well as understand and input into the industry's position on key issues.

Local communities

The Group's business units engage with their local communities through charitable support as outlined above and regular communications. Key issues are around STEM, job creation and the Group's overarching licence to operate.

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

Independent auditors

During the year PricewaterhouseCoopers LLP resigned as auditors to the Group and Company, and the Directors appointed Ernst & Young LLP to fill the casual vacancy. Ernst & Young LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

J G du Plessis
Company secretary
29 April 2020

Cobham Limited (formerly Cobham plc)

Directors' Remuneration Report for the year ended 31 December 2019

As discussed elsewhere in this Annual Report, Cobham was acquired by Advent on 17 January 2020, and ceased to be a listed company on 20 January 2020.

At all times, the Remuneration Committee (the Committee) has sought to ensure that the remuneration framework for the Group's Executive Directors and senior management team is aligned with Cobham's key strategic goals, and that outcomes appropriately reflect the overall performance of the Group and the experience of shareholders.

Remuneration outcomes for 2019

The uncertainty and circumstances around the acquisition by Advent meant that the Committee was required to exercise its judgement and discretion in determining performance against the financial elements of the 2019 Annual Incentive Plan (AIP), targets for which had initially been set at the start of the year. After considering performance in the round and making discretionary adjustments for costs related to the transaction and other factors, performance against the underlying operating profit and operating cash flow targets was above the maximum end of the performance range. Coupled with outstanding individual contributions from the Executive Directors, the 2019 AIP paid out at 100% of maximum. Given the acquisition of Cobham by Advent, the AIP was paid out to the Executive Directors fully in cash in January 2020 and no amount was deferred into shares.

The 2017 Performance Share Plan (PSP) award was subject to equally-weighted earnings per share (EPS) and relative total shareholder return (TSR) performance conditions. It was tested for performance at the end of 2019, and based on Cobham's financial and share price performance over this period, the award vested at 100% of maximum. These results are reflective of a level of discretion applied by the Committee to take into account impacts for divestments, settlements and the acquisition during the measurement period, which were not originally captured in the targets. The Committee was provided with independent verification that all the performance conditions associated with the 2017 PSP were deemed to have been met by the reference to the Advent offer price of £1.65p per share, which was significantly higher than the previously traded price of £1.2275p.

The Committee assessed whether these incentive outcomes could be justified based on Cobham's overall performance and was satisfied that this was the case and that no further adjustments were necessary.

Advent transaction

During 2019, the Committee discussed at length the implications of the transaction for remuneration purposes. In particular, the Committee considered the impact on the outstanding 2018 and 2019 PSP awards. Both awards were subject to equally-weighted underlying EPS and free cash flow performance conditions. As the transaction resulted in an abridged performance period, the Committee was required to apply its judgement in determining the extent to which the performance conditions were satisfied. In doing so, the Committee took into account:

- Cobham's financial and strategic performance up to the date of the transaction;
- the nature of the transaction; and
- the price achieved for shareholders.

As a result, the Committee determined that the EPS and free cash flow performance conditions on the 2018 and 2019 PSP awards had been met in full.

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

The Remuneration Committee was provided with independent verification that all the performance conditions associated with the 2018 and 2019 PSP awards had deemed to be met by reference to the Advent total offer price of £1.6500 per share. As a result, the Committee determined that the EPS and free cash flow performance conditions on the 2018 and 2019 PSP awards had been met in full. The Committee also considered to what extent the awards should be time pro-rated to reflect the abridged performance period. The Committee applied time pro-rating to both awards, using their discretion to determine an appropriate percentage of the award to be capable of vesting.

Looking ahead to 2020

Following the acquisition, the Remuneration Committee was disbanded and remuneration arrangements for Cobham's senior executives for 2020 onwards will now be a matter for Advent.

J G du Plessis
Company secretary
29 April 2020

Annual Report on Directors' Remuneration

This report contains details of the remuneration paid and awarded to Directors during the financial year ended 31 December 2019. This report has been prepared in accordance with the provisions of the Companies Act 2016 and the Regulations.

Single figure of remuneration table

The remuneration of Executive Directors showing the breakdown between components is shown below. Further information on the component elements is provided in subsequent sections.

	David Lockwood		David Mellors	
£k	**2019**	2018	**2019**	2018
Base salary	**702**	690	**529**	520
Benefits	**23**	24	**36**	49
Pension	**175**	173	**106**	104
AIP	**1,056**	705	**796**	531
PSP	**1,617**	-	**914**	-
Buy-out awards	**-**	522	**-**	329
Total	**3,573**	2,114	**2,381**	1,533

The PSP figures shown above relate to the value received from the 2017 PSP award, which vested in full on 15 January 2020. The share price used to value these awards was £1.6460, the share price at which the Advent acquisition completed on 17 January 2020.

The proportion of the 2019 total remuneration figures attributable to share price growth is 7% (£236,700) for David Lockwood and 6% (£133,800) for David Mellors.

The Company has obtained written confirmation from both Executive Directors that they have disclosed all other items in the nature of remuneration.

Further information on the single figure of remuneration table

Salary

Salaries are typically reviewed annually with changes effective from 1 March. The review in 2019 resulted in David Lockwood's salary being increased by 2% to £703,800 and David Mellors' salary being increased by 2% to £530,400. The level of percentage increase is in line with the typical increase across the broader employee workforce for 2019.

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

Benefits

The taxable benefits figures for the Executive Directors for 2019 are as follows:

£	David Lockwood	David Mellors
Car	15,000	15,000
Petrol	837	4,149
Private medical insurance and medical fees	1,718	2,808
Life insurance	3,012	7,404
Income protection	1,935	1,459
Financial advice	-	1,400
Travel and subsistence [1]	-	4,271
Total	22,502	36,491

[1] On appointment, the Committee agreed to provide funding to support David Mellors' costs of working from Wimborne as he was not in a position to relocate. This was due to be reviewed by the Committee in 2020.

Pension

Pension contributions for both Executive Directors are paid as cash in lieu of participation. David Lockwood's pension contributions of £175,375 equated to 25% of his base salary, while David Mellors' pension contributions of £105,734 equated to 20% of his base salary.

2019 Annual Incentive Plan

The 2019 AIP was based on performance measures aligned to key financial measures and strategic objectives for the Group. As a result of the uncertainty and circumstances of the acquisition by Advent, the Committee was required to exercise its judgement and discretion in determining performance against these targets. Considering performance in the round and making discretionary adjustments for costs related to the acquisition and other factors, the Committee considered that:

- maximum bonus had been earned under the Operating Cash Flow element (40%), as the 2019 forecast out-turn exceeded the maximum target of £104.9m;
- maximum bonus had been earned under the Operating Profit element (40%), as the 2019 forecast out-turn almost achieved the maximum target of £241.0m, despite significant disruption from the transaction during the final half of the year; and
- Executive Directors had earned the personal element (20%) of their AIP in full, based on performance against their objectives, the views of the Chairman as to their performance, and their substantial contribution to the success of the transaction.

The table below sets out the final outcome and annual bonus earned by the Executive Directors for 2019.

	David Lockwood	David Mellors
Bonus opportunity (% of salary)	150%	150%
Salary eligible for 2019 bonus	£703,800	£530,400
Outcome		
- As % of maximum bonus	100%	100%
- As % of salary	150%	150%
- As £ amount	£1,055,700	£795,600

Given the acquisition of Cobham by Advent International, the AIP was paid out to the Executive Directors fully in cash.

Cobham Limited (formerly Cobham plc)

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

2017 PSP

The Long-Term Incentive Plan values shown in the single figure table for 2019 relate to the vesting of PSP awards made in 2017. The targets attached to the 2017 PSP awards are set out below.

Measure	Weighting	Threshold (16.7% vesting)	Maximum (100% vesting)
Relative TSR vs. FTSE 250 excluding Investment Trusts and Financial Services companies	50%	Median	Upper quartile
2019 EPS	50%	6.1p	8.2p
		Straight-line vesting between threshold and maximum	

As noted in the Directors' Remuneration Report, the Remuneration Committee was provided with independent verification that all the performance conditions associated with the 2017 PSP were deemed to be met by the reference to the Advent total offer price of £1.6500 per share which was significantly higher than the previously traded price of £1.2275.

Share awards granted during 2019

The table below sets out share awards made to the Executive Directors during 2019.

	David Lockwood		David Mellors	
	PSP	DBP	PSP	DBP
Grant date	8 April 2019	25 March 2019	8 April 2019	25 March 2019
Face value of award	1,407,600	93,364	795,600	70,361
Opportunity (% of salary)	200%	-	150%	-
Shares awarded	1,243,462	83,900	702,826	63,288
% vesting at threshold performance	16.7%	–	16.7%	–
% vesting at threshold performance	100%	100%	100%	100%
Performance conditions	See below	None	See below	None

The number of PSP shares under award was calculated based on a share price of £1.1320, the average price measured over three days prior to grant. The awards were initially due to vest on 11 March 2022, being the third anniversary of the award date, subject to continuous employment and performance against the relevant conditions. However, as a result of the acquisition by Advent, the awards were tested for performance in January 2020, time pro-rated to reflect the proportion of the performance period served, and vested on 15 January 2020.

Under the Deferred Bonus Plan (DBP), 25% of each Executive Directors' AIP is deferred in shares. The DBP awards shown above were granted in respect of the annual bonus for the 2018 financial year. The number of DBP shares under award was calculated based on a share price of £1.1128, the average price measured over three days prior to grant. The awards were initially due to vest on 25 March 2022, being the third anniversary of the award date, subject to continuous employment. However, as a result of the acquisition by Advent, the awards vested in full and were released on 15 January 2020.

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

Long-Term Incentive Plan

The Committee determined that the 2019 PSP (granted prior to the acquisition process was initiated) should be based on the same measures as the 2018 cycles, namely 50% underlying EPS and 50% free cash flow. Both represent key financial indicators of success for Cobham. The table below provides the performance targets attached to the awards.

Measure	Weighting	Threshold (16.7% vesting)	Maximum (100% vesting)
Underlying EPS	50%	8.2p	9.0p
Free cash flow	50%	£400m	£500m
		Straight-line vesting between threshold and maximum	

Shareholdings and share interests

Shareholding guidelines

During 2019, Executive Directors were subject to a share ownership policy. These required the CEO to retain a holding of at least 200% of his base salary, and the CFO to retain a holding of at least 100% of base salary. Until this requirement was met, Executive Directors were required to retain at least half of any net vested PSP shares. There was no formal timeframe over which the requirements were to be met, but the Remuneration Committee received regular reports on individuals' progress against the requirements. David Lockwood joined the Company in 2016 and was making progress towards his shareholding.

Share interests

Executive Directors' share interests as at 31 December 2019 are set out below.

	David Lockwood	David Mellors
Shares owned outright as at 31 December 2019	475,338	466,685
% of base salary	111%	145%
Shareholding requirement met	No	Yes
Share interests subject to performance conditions	3,392,029	1,917,233
Share interests not subject to performance conditions	200,710	156,730
Shares owned outright as at 31 December 2018	134,540	278,534

Shares owned outright includes shares held directly or indirectly by connected persons. At the date of signing of this report, the acquisition of Cobham by Advent means that the Executive Directors no longer hold any shares in Cobham.

Cobham Limited (formerly Cobham plc)

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

Executive Directors' service contracts and external appointments

Executive Directors have rolling contracts, terminable by either party giving the appropriate notice.

	Contract date	Arrangement	Notice period
David Lockwood	2 September 2016	Service contract	12 months
David Mellors	30 June 2016	Service contract	12 months

Payments for loss of office

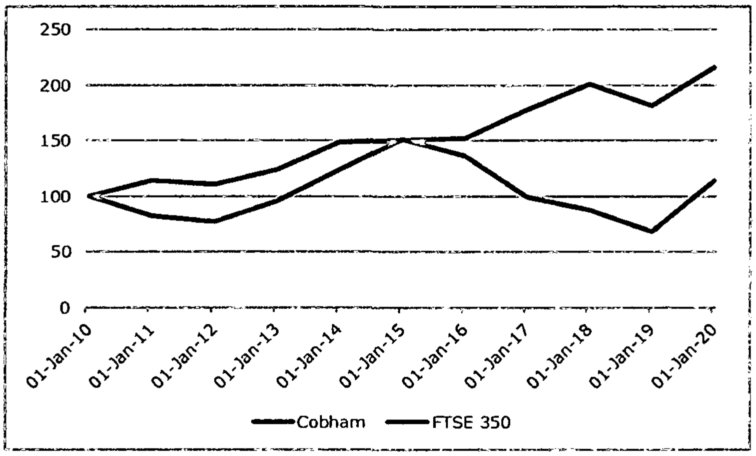
Upon retiring as a Non-Executive Director and Chairman on 1 July 2019, Michael Wareing received £22,500 contractual pay in lieu of his period notice.

Payments to past directors

No payments to past directors were made during 2019.

Summary of performance

The chart below shows the value of £100 invested in Cobham plc since 1 January 2010 compared with the value of £100 invested in the FTSE 350 index. The FTSE 350 index has been chosen as it is a broad equity market index, of which Cobham plc was a member up until its shares were delisted on 20 January 2020.



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

Historic CEO total remuneration

The table below shows historic CEO total remuneration calculated on the same basis as that used in the single figure table above.

Year	CEO	CEO single figure of remuneration (£k)	Annual bonus outcome (% of maximum opportunity)	Long-term incentive vesting (% of maximum opportunity)
2019	David Lockwood	3,573	100%	100%
2018	David Lockwood	2,114	68.1%	n/a
2017	David Lockwood	2,125	81.1%	n/a
2016	David Lockwood	60	0.0%	n/a
	Robert Murphy	1,518	0.0%	n/a
2015	Robert Murphy	1,364	18.4%	n/a
2014	Robert Murphy	1,196	0.0%	n/a
2013	Robert Murphy	2,058	34.3%	n/a
2012	Robert Murphy	753	48.5%	n/a
	Andrew Stevens	1,283	45.0%	58.0%
2011	Andrew Stevens	1,916	92.5%	85.0%
2010	Andrew Stevens	1,478	33.5%	87.0%

Source: Datastream

Implementation of the remuneration policy for Executive Directors in 2020

Following the acquisition, the Remuneration Committee at Cobham was disbanded and remuneration arrangements for Cobham's senior executives for 2020 onwards will now be a matter for Advent.

Consideration of colleague and stakeholder views

When setting the remuneration of the Executive Directors, the Committee considered the remuneration of other senior managers and colleagues in the Group more generally to ensure that arrangements for Executive Directors were appropriate in this context. When determining salary increases for Executive Directors, the Committee considered the outcome of the wider pay review for the Group. While the Committee has not expressly sought the views of employees, through the Board, the Committee was kept updated as to employee views on pay and conditions more generally.

CEO pay ratio

The first table below sets out the ratio at median, 25th and 75th percentile of the total remuneration received by the CEO compared to the total remuneration received by our UK employees, while the second provides further information on the total pay figure used for each quartile employee, and the salary component within this.

	Method	25th percentile	50th percentile	75th percentile
2019 CEO pay ratio (£3,573k)	Option B	118:1	66:1	51:1

UK employees – pay element	25th percentile	50th percentile	75th percentile
– Salary	£27,447	£41,599	£55,412
– Total remuneration	£30,261	£53,883	£69,423

Note:

- Option B is considered to provide the most readily achievable pay ratio, given the available data using a 2018 whole company gender pay report.
- The lower quartile, median and upper quartile employees were identified using the 2018 gender pay report. For the upper quartile employee, a next identifiable employee with the closest match was used, as the previously reported upper quartile employee had left the organisation. For the three identified employees their total earnings for 2019 was calculated using the same methodology as the CEO and any pro-rations increased to represent full-time equivalent data for the year ending 31 December 2019.
- In reviewing the employee pay data, the Committee was comfortable that the 25th percentile, 50th percentile and 75th percentile individuals identified appropriately reflect the employee pay profile at those quartiles.

It should also be noted that CEO total remuneration single figure includes a significant increase over previous years due to the maximum levels achieved in pay outs aligned to AIP and PSP incentives related to 2019 performance as described. Notwithstanding the CEO increased values, the overall picture presented by the ratios is consistent with our pay, reward and progression policies for UK employees.

Percentage change in remuneration of the CEO and all employees

The following table sets out the percentage change in remuneration between 2018 and 2019 for the CEO and for UK-based management employees, which we believe represents the most appropriate comparator group for reward purposes.

Remuneration element	CEO % change	All employee % change
Salary	+2%	+2%
Taxable benefits	+1%	+2%
AIP	+47%	+41%

Relative importance of the spend on pay

The table below sets out the overall spend on pay for all employees compared with the returns distributed to shareholders.

£m	**2019**	2018	% change
Staff costs	**710.5**	702.7	+1%
Dividends paid	**9.5**	-	n/a

Shareholder voting and consideration of shareholder views

The Committee was intending to consult extensively with shareholders as part of the review of the remuneration policy, ahead of its planned renewal at the 2020 AGM. Ultimately, this was overtaken by events due to the acquisition of the Company by Advent.

The 2018 Chairman's Annual Statement and the Annual Report on Remuneration were subject to an advisory vote at the Annual General Meeting (AGM) on 25 April 2019. The Directors' Remuneration Policy was most recently put to a binding vote at the General Meeting on 14 December 2017. Votes 'for' include discretionary votes given to the Chairman of the Board.

Cobham Limited (formerly Cobham plc)

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

Resolution	To approve the 2018 DRR		To approve the 2017 Policy Report	
Date	25 April 2019		27 April 2017	
Votes for	43,055,056	97.3%	32,316,198	93.6%
Votes against	1,183,836	2.7%	2,200,906	6.4%
Votes cast in total	44,238,892	100.0%	34,517,104	100.0%
Votes withheld	7,201,873		2,542	

Chairman and Non-Executive Directors (audited)

Single figure of remuneration table

The remuneration of Executive Directors showing the breakdown between components is shown below.

£k	2019	2018
Jamie Pike (Chairman) [1]	**160**	-
Michael Wareing [2]	**135**	216
John McAdam	**73**	109
Alison Wood	**74**	65
René Médori	**74**	63
Norton Schwartz	**74**	63
Marion Blakey	**72**	26

[1] Jamie Pike was appointed as a non-executive director and Chairman elect on 1 May 2019, becoming Chairman on 1 July 2019.

[2] Michael Wareing retired as a non-executive director and Chairman on 1 July 2019. He received taxable benefits of £8,876 during the year related to reimbursed travel expenses to the London and Wimborne offices which were considered to be his permanent places of work (2018: £8,314). He received an additional £22,500 contractual pay in lieu of notice.

Fee structure

The table below sets out the fee structures for 2019 for the Non-Executive Directors and the Chairman of the Board.

	As at 1 January 2019
Chairman	£270,000
Non-Executive Director base fee	£60,000
Audit and Remuneration Committee Chairs and Senior Independent Director fee	£12,500
Travel allowance payable to Directors travelling from the US	£2,000 per trip

Letters of appointment

Non-Executive Directors were appointed under letters of appointment and as such did not have service contracts. All Non-Executive Directors were subject to annual re-election at the Company's AGM. All service contracts and letters of appointment are available for viewing at the Company's registered office and at the AGM.

Cobham Limited (formerly Cobham plc)

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

	Contract date
Jamie Pike	24 April 2019
Michael Wareing	9 November 2010
John McAdam	27 July 2017
Alison Wood	3 June 2011
René Médori	11 December 2017
Norton Schwartz	21 December 2017
Marion Blakey	30 July 2018

Share interests

Non-Executive Directors are required to acquire and hold a shareholding of 5,000 ordinary shares within six months of election to the Board. Non-Executive Directors' share interests as at 31 December 2019 are set out below.

	Shares owned outright as at 31 December 2019	Shares owned outright as at 31 December 2018
Jamie Pike	87,420	-
Michael Wareing [1]	60,500	60,500
John McAdam	5,000	5,000
Alison Wood	10,500	10,500
René Médori	5,000	5,000
Norton Schwartz	5,000	5,000
Marion Blakey	5,000	5,000

[1] Shareholding at date of retirement of 1 July 2019.

Shares owned outright includes shares held directly or indirectly by connected persons. At the date of signing of this report, the acquisition of Cobham by Advent means that the Non-Executive Directors no longer hold any shares in the Company.

The Remuneration Committee

Membership

	Independent	Number of meetings held in year during tenure	Meetings attended
Alison Wood	Yes	3	3
John McAdam	Yes	3	3
Norton Schwartz	Yes	3	3

None of the Committee members or attendees were involved in any Committee decisions from which they may financially benefit personally (other than as shareholders) in the decisions made by the Committee. The CEO, CFO, Group HR Director and the SVP Group Human Resources attended meetings at the invitation of the Committee but were not present when their own remuneration was being discussed. The Company Secretary acted as the secretary to the Committee.

Cobham Limited (formerly Cobham plc)

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

Role and focus

The Committee was responsible for recommending to the Board the remuneration policy for Executive Directors and the senior management, and for setting the remuneration packages for each Executive Director and for the Chairman of the Board. The Committee also had oversight of the remuneration policy for all employees. The written Terms of Reference of the Committee are available on the Cobham website and from the Company on request.

During the year, there were 3 scheduled Committee meetings. The matters covered included:

- determining the impact of the acquisition by Advent on remuneration arrangements, including the treatment of outstanding incentive awards;
- approving the 2019 AIP targets;
- approving of the 2019 PSP awards and their associated performance measures and targets;
- initial review of the remuneration framework ahead of the policy renewal due in 2020; and
- determining the pay-outs from the annual bonus arrangements for 2019.

Advisors

Advisors were appointed independently by the Remuneration Committee, which reviews its selection periodically and was satisfied that the advice it received was independent, objective and free from conflicts of interest. The total fees paid to Deloitte LLP in respect of 2019 was £33,146, calculated on a time and materials basis. Deloitte LLP also provided various other immigration, international mobility and corporate tax advisory services to the Company in 2019. Deloitte are signatories to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com.

J G du Plessis
Company secretary
29 April 2020

Cobham Limited (formerly Cobham plc)

Independent Auditor's Report to the members of Cobham Limited

Opinion

In our opinion:

- Cobham Limited's Group Financial Statements and Parent Company Financial Statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Cobham Limited which comprise:

Group	Parent Company
Consolidated Balance Sheet as at 31 December 2019	Balance Sheet as at 31 December 2019
Consolidated Income Statement for the year then ended	Statement of Changes in Equity for the year then ended
Consolidated Statement Of Comprehensive Income for the year then ended	Related Notes 1 to 19 to the Financial Statements including a summary of significant accounting policies
Consolidated Statement of Changes in Equity for the year then ended	
Consolidated Statement of Cash Flows for the year then ended	
Related Notes 1 to 32 to the Financial Statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101, Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Revenue recognition. • Carrying value of goodwill, intangibles (Group) and investments in subsidiary undertakings (Parent Company only). • Uncertain tax positions. • Impact of COVID-19 on going concern basis used in preparation of the Annual Report and Financial Statements.
Audit scope	• We performed an audit of the complete financial information of 12 components and audit procedures on specific balances for a further 10 components. • The components where we performed full or specific audit procedures accounted for 84% of adjusted underlying profit before tax, 85% of revenue and 99% of total assets.
Materiality	• Overall Group materiality of £10.7m which represents 5% of adjusted underlying profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition (FR) The Group has reported revenues of £2,059.6m (2018: £1,863.3m). For revenue recognised under long-term contracts, some of them including development work, judgement is exercised by management to determine the revenue, costs and margin at completion, and in determining the percentage of completion at year end. There is a risk that such judgements may lead to inappropriate revenue recognition. For revenue arising from the sale of goods, revenue transactions recorded in the period prior to year-end may not have been recognised appropriately and in accordance with relevant contractual terms. Furthermore, pressure on management to meet certain targets may result in inappropriate recognition of revenue relating to transactions completed closer to the year end.	We performed full and specific scope audit procedures over this risk area in 18 locations, which covered 85% of Group reported revenue. For revenue in each full and specific scope audit location: We performed walkthroughs of significant classes of revenue transactions to understand significant processes and identify and assess the design effectiveness of key controls; For a sample of transactions in each location, we agreed revenue recognised to sales contracts and approved change orders. This included recalculating revenue allocations, agreeing revenue to cash receipts and, where appropriate, testing whether revenue had been deferred correctly at year end; We tested revenue transactions close to year end to establish whether they were recognised in the correct period, through agreement to external shipping evidence, shipping terms and authorised milestone documentation with customer acceptance where appropriate; We assessed the basis of profit or loss recognition on the Group's significant long-term contracts and other contracts based on representative samples, and we read the key contract terms and any change clauses or amendments agreed in the year; We challenged the reasonableness of the assumptions underlying variable consideration included in revenue recognised and estimated costs to complete. This involved meeting with project teams to enquire about project estimates, checking the basis of overhead rates used and, on a sample basis, checking purchase orders for materials. We also inspected risk registers and the process by which risk was included within the cost to complete estimate; We assessed the recoverability of the contract assets held by reference to agreements with customers regarding payment or billing profiles. We performed detailed testing of the completeness and valuation of contract assets and liabilities and other associated balance sheet accounts by selecting a sample of	Based on our audit procedures we have concluded that revenue is appropriately recognised, and that there was no evidence of management override.

	transactions included within these balances to ensure they have been recognised in accordance with Group accounting policies and IFRS; We tested a sample of journal entries made to revenue specifically focusing on significant manual or unusual journal entries to ensure each entry is supported by an appropriate, underlying business rationale, is properly authorised, accounted for correctly and properly recorded in the correct period; and We also considered the adequacy of the Group's disclosures in respect of the accounting policies for revenue recognition as disclosed in note 1.5.2 and the critical judgement and estimates in note 1.2.	
Impairment of goodwill and other intangible assets in the Group Financial Statements **Impairment of investments on the Parent Company Financial Statements** The Group has goodwill at a carrying value of £632.0m (2018: £653.2m) and intangibles with a carrying value of £73.7m (2018: £168.0m). The Company has investments in subsidiary undertakings with a carrying value of £3,308.9m (2018: £3,231.3m). The Group has significant goodwill and other non-current assets across its sectors. Management applies judgement in determining whether these assets are impaired, particularly in estimating future cash flows and appropriate discount rates	Procedures on the carrying value of Group goodwill and intangibles, and investments in subsidiary undertaking in the Parent Company Financial Statements, were performed centrally by the Group team: We gained an understanding through a walkthrough of the process and controls management has in place over the impairment testing process, including evaluating the approach to determine and approve cash flow forecasts supporting the impairment test. This included confirming that the forecasts were consistent with the latest Board approved budgets and the mathematical accuracy of the underlying calculations in the impairment model; With the support of our valuation specialists, we assessed the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against comparable organisations and market data; We validated the short term and long term growth rates assumed by comparing them to economic and industry forecasts; We sought and assessed the impact of contra evidence on management's forecasts; We challenged management on the achievability of the cash flow forecasts and we assessed the projected financial information against original forecasts and other market data to assess the robustness of management's forecasting process;	Based on our audit procedures we have concluded that the carrying value of goodwill and other intangible assets in the Group Financial Statements is supported at 31 December 2019, and appropriate disclosures have been provided. Also based on our audit procedures we have concluded that the carrying value of investments in the Parent Company Financial Statements at 31 December 2019 is supported and appropriate disclosures have been provided.

used in performing value in use calculations.	We analysed the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on experience; We performed sensitivity analyses by testing key assumptions in the management's impairment model to recalculate a range of potential outcomes; and We considered the appropriateness of the related disclosures provided in note 10 to the Group Financial Statements and in note 6 of the Parent Company Financial Statements.	
Uncertain tax positions The global nature of the Group's operations results in complexities in the payment of and accounting for tax. Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws. Management judgement is used to determine provisions for uncertain tax positions in relation to cross border trading transactions and operational structures that have been implemented across the Group.	We gained an understanding of the process and controls management has in place over uncertain tax positions. We discussed with management the uncertain tax positions and read correspondence from tax authorities, management's tax advisors and external legal counsel on open tax enquiries, where relevant. We assessed the adequacy of the taxation provisions by considering factors such as the risk profile of each matter and whether the provision addresses possible penalties and interest. With support from our international tax experts, we understood management's interpretation and application of relevant tax law and formed our own view in relation to provisions and contingent liabilities, searching for contrary evidence and using of all available information. We reviewed the disclosures made in respect of tax, in particular key estimation uncertainties and are satisfied that the disclosures made are appropriate.	Based on our audit procedures we have concluded that management's judgements in relation to uncertain tax positions are appropriate and properly disclosed in the financial statements.
Impact of COVID-19 on going concern basis used in preparation of the Annual Report and Financial Statements Refer to the Directors' Report pages 19 to 21, and to notes 1.1.1 and 31 of the Group Financial Statements. The Company's Annual Report and Financial	The audit partner and other senior members of the team spent significant time performing the following procedures in respect of this matter: - Understanding the process involved in management's going concern assessment including the impact of the COVID-19 pandemic; - Obtaining the latest forecast prepared by the Company based on March 2020 actuals and testing its mathematical accuracy and the input to the model, including cash on hand, operating cash generation and financing commitments;	Based on the audit procedures performed, we concur with the Company's assessment that there is no material uncertainty on going concern and that the related disclosures are appropriate.

Statements are prepared on the going concern basis of accounting. This basis is dependent on a number of factors, including the Group's financial performance, its continued access to liquidity and its ability to operate within its financial covenants. The COVID-19 pandemic is of an unprecedented scale and there is a significant level of uncertainty about the future spread of the virus and the impact on the world economy. A prolongation of the COVID-19 pandemic could have significant adverse impacts on the Company's growth and on employees, supply chain and customers. The Directors have considered the latest forecast prepared by management and a stress test of a most severe but plausible scenario and concluded that no material uncertainty over going concern exists.	- Challenging the reasonableness of the key assumptions used in management forecast, by comparing with the three year plan used for impairment testing and with the actual performance as of end March 2020 and considering contra-indicators from industry trends; - Reviewing the new financing agreements in place since the acquisition of the Company by Advent and verifying that the related obligations are properly reflected in the going concern model - Performing independent sensitivity analysis, including further downside risks, to test the plausibility of management downside scenario and assess the headroom available in terms of liquidity and compliance with covenants; - Assessing the further mitigations available and whether management has the ability to effect these during the going concern period; and - Reviewing the disclosures to ensure sufficient information is provided regarding the key assumptions on which going concern was confirmed.	

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 65 reporting components of the Group, we selected 22 components covering entities within the United Kingdom, United States of America, Australia, France and Denmark, which represent the principal business units within the Group.

Of the 22 components selected, we performed an audit of the complete financial information of 12 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining ten components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Reporting components	Number	% of Group adjusted underlying profit before tax*	% of Group revenue	% of Group assets	Note
Full scope	12	67%	62%	44%	1,2
Specific scope	10	17%	23%	45%	3
Full and specific scope coverage	**22**	**84%**	**85%**	**99%**	
Remaining components	43	16%	15%	1%	4
Total reporting components	**65**	**100%**	**100%**	**100%**	

* Profit before tax adjusted for non-recurring items a defined in the 'Our application of materiality' section of this Report.

Note 1
The Group audit risk in relation to the carrying value of goodwill was subject to full scope audit procedures by the Group audit team on the entire balance.
Note 2
The Group audit risk in relation to the uncertain tax positions was subject to full scope audit procedures by the Group audit team on the entire balance.
Note 3
One of the specific scope components relates to the corporate division of the Parent Company, which includes goodwill, fair value investments and pension.
Note 4
Of the remaining components, in addition to consolidation and elimination adjustments, that together represent 16% of the Group's profit before tax adjusted for non-recurring items, none are individually greater than 5% of the Group's profit before tax adjusted for non-recurring items, excluding loss-making components. For these components, we performed other procedures, including analytical review procedures and specified procedures to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the twelve full scope components, audit procedures were performed on two of these directly by the Group audit team with the other ten performed by component audit teams. Of the ten specific scope components audit procedures were performed on four of these directly by the Group audit team and the other six by component audit teams. Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

At the start of the audit, a Global Team Planning event was held in the UK with representatives from all full and specific scope component audit teams in attendance. Detailed instructions were sent to all auditors in these locations. These instructions covered the significant areas that should be addressed by the component team auditors (which included the relative risks of material misstatement detailed above) and set out the information to be reported back to the Group audit team. In addition, the Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits material or high risk locations on a rotational basis. During the current year's audit cycle, visits were undertaken by the Group audit team to the component teams in the United Kingdom and United States of America. These visits involved meeting with our component team to discuss and direct their planned audit approach, holding meetings with local management and reviewing procedures performed to date on the Group risk areas. Our planned visit to the component team in Australia, France and Denmark was cancelled due to travel restrictions as a result of Coronavirus (COVID-19); however, no change was made to the extent of our oversight of the component, nor to the extent of the work performed by the component. We held numerous meetings with our component team, including via video conference, and performed a remote review of the key workpapers associated with the component team's audit.

The Group team interacted regularly with the component teams where appropriate during various stages of the audit, including attendance at all closing meetings by phone, review of key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group Financial Statements.

Our application of materiality

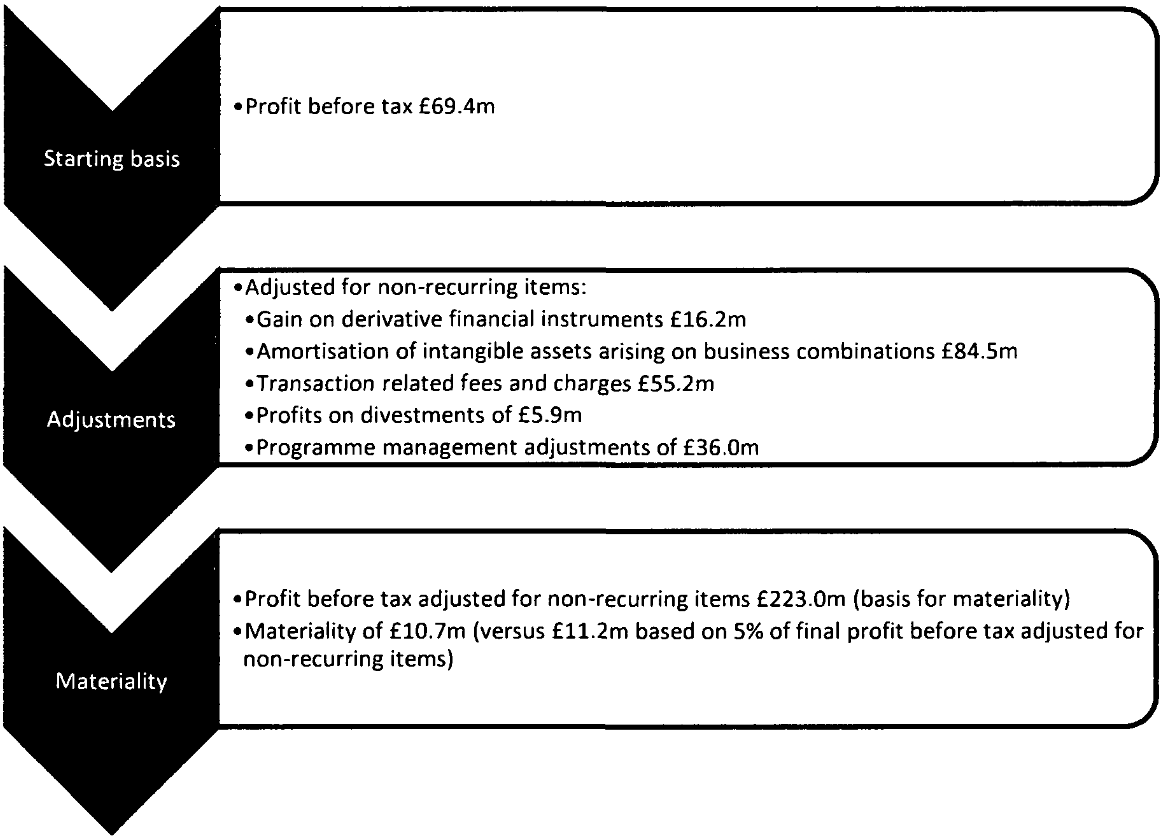
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £10.7m, which is 5% of adjusted underlying profit before tax.

We consider that adjusted underlying profit before tax provides us a basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity. Detailed audit procedures are performed on material items that are adjusted to create the underlying profit before tax reporting measure.

We determined materiality for the Parent Company to be £26.9m, which is 1% of total equity.



Management adjust profit before tax to arrive at underlying profit before tax, the measure used by the directors to evaluate the overall performance of the Group and basis for materiality. These adjustments include derivative financial instrument gains of £16.2m, amortisation of intangible assets arising on business combinations of £84.5m, transaction fee and related charges of £55.2m and profits on divestments of £5.9m. These adjustments result in an underlying profit before tax of £187.0m. In our materiality calculation, we used adjusted underlying profit before tax and removed a programme management adjustment of £36.0m. We have included these items within our basis for materiality.

During the course of our audit, we reassessed initial materiality and actual profit before tax adjusted for non-reoccurring items was higher than the Group's initial estimates. However, due to the status of our procedures we did not change our materiality assessment to reflect this.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £5.4m. We have set performance materiality at this percentage to ensure that total detected and undetected audit differences do not exceed our planning materiality of £10.7m for the financial statements as a whole.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.6m to £0.8m.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 36, other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of 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, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with 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 Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the 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:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited 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 statement of Directors' responsibilities set out on page 19, 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 Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent 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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. 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 Group and determined that the most significant frameworks that are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101 and the Companies Act 2006) and the relevant tax compliance regulations in the jurisdictions in which the Group operates;

- we understood how Cobham Limited is complying with those frameworks by making enquires of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit Committee;

- we assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls;

- based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of Legal Counsel, Group management, Internal Audit, and component management. Where the risk was considered to be higher, we performed audit procedures to address the identified fraud risk as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Financial Statements with the requirements of the relevant accounting standards and UK legislation.

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.

Other matters we are required to address

- We were appointed by the Company on 12 June 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

- The audit opinion is consistent with the additional report to the Audit Committee.

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.

Ernst & Young LLP

Sarah Kokot (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
1 May 2020

Notes:

1. The maintenance and integrity of the **Cobham Limited** web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement
For the year ended 31 December 2019

£m	Note	2019	2018 (restated)
Revenue	4	**2,059.6**	1,863.3
Cost of sales		**(1,513.8)**	(1,536.5)
Gross profit		**545.8**	326.8
Operating costs		**(468.5)**	(434.7)
Profit on divestments	28	**5.9**	227.1
Operating profit		**83.2**	119.2
Finance income	6	**11.8**	10.5
Finance costs	6	**(25.6)**	(58.2)
Profit before taxation		**69.4**	71.5
Taxation	7	**(6.0)**	2.6
Profit after taxation for the year		**63.4**	74.1
Attributable to:			
Owners of the parent		**63.3**	73.9
Non-controlling interests		**0.1**	0.2
		63.4	74.1

Further details of the restatement of the 2018 Income Statement, due to the implementation of IFRS 16, Leases, can be found in note 2.

	Note	2019	2018
Earnings per ordinary share	8		
Basic		**2.7p**	3.1p
Diluted		**2.6p**	3.1p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2019

£m	Note	2019	2018 (restated)
Profit after taxation for the year		**63.4**	74.1
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of fair value of other financial assets	17	**1.2**	(5.6)
Remeasurement of defined benefit retirement benefit obligations	23	**6.8**	8.9
Actuarial loss on other retirement benefit obligations	23	**-**	(1.0)
Tax effects	7	**(1.3)**	(1.6)
		6.7	0.7
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries	26	**(51.0)**	56.6
Reclassification of foreign exchange on divestment of overseas operations	26	**-**	(15.8)
Reclassification of cash flow hedge fair values	26	**(0.1)**	(0.3)
Hedge accounted derivative financial instruments	26	**-**	(0.8)
Tax effects	7	**(0.1)**	(0.1)
		(51.2)	39.6
Other comprehensive (expense)/income for the year		**(44.5)**	40.3
Total comprehensive income for the year		**18.9**	114.4
Attributable to:			
Owners of the parent		**18.8**	114.4
Non-controlling interests		**0.1**	0.2
		18.9	114.6

Cobham Limited (formerly Cobham plc)

Consolidated Balance Sheet
As at 31 December 2019

£m	Note	2019	2018 (restated)	1 January 2018 (restated)
Assets				
Non-current assets				
Intangible assets	10	**705.7**	821.2	893.8
Property, plant and equipment	11	**473.6**	488.1	490.4
Investment properties	12	**2.1**	2.3	2.4
Investments in joint ventures and associates		**4.4**	4.1	3.6
Contract assets	15	**37.2**	55.9	64.3
Trade and other receivables	16	**25.3**	28.4	28.5
Other financial assets	17	**40.7**	39.5	45.1
Deferred tax	7	**90.3**	92.4	64.3
Derivative financial instruments	22	**1.8**	23.0	25.0
		1,381.1	1,554.9	1,617.4
Current assets				
Inventories	13	**269.7**	276.0	254.2
Contract assets	15	**125.0**	131.0	125.9
Trade and other receivables	16	**283.0**	321.1	293.3
Current tax receivables	7	**1.0**	7.8	7.2
Derivative financial instruments	22	**18.7**	1.6	10.4
Cash and cash equivalents	18	**419.0**	406.9	451.9
Assets classified as held for sale		**-**	-	171.7
		1,116.4	1,144.4	1,314.6
Liabilities				
Current liabilities				
Borrowings	18	**(141.1)**	(56.7)	-
Lease obligations	19	**(20.7)**	(16.8)	(17.1)
Contract liabilities	15	**(153.7)**	(180.9)	(105.2)
Trade and other payables	20	**(340.7)**	(376.7)	(347.8)
Provisions	21	**(107.2)**	(93.1)	(121.7)
Current tax liabilities	7	**(65.2)**	(136.7)	(135.8)
Derivative financial instruments	22	**(23.1)**	(16.4)	(12.2)
Liabilities associated with assets classified as held for sale		**-**	-	(49.1)
		(851.7)	(877.3)	(788.9)
Non-current liabilities				
Borrowings	18	**(171.3)**	(327.1)	(835.1)
Lease obligations	19	**(144.0)**	(134.4)	(131.6)
Trade and other payables	20	**(17.5)**	(11.9)	(5.3)
Provisions	21	**(72.0)**	(101.7)	(24.1)
Deferred tax	7	**(0.1)**	(1.6)	(5.8)
Derivative financial instruments	22	**(2.2)**	(27.8)	(27.2)
Retirement benefit obligations	23	**(32.9)**	(46.6)	(63.2)
		(440.0)	(651.1)	(1,092.3)
Net assets		**1,205.8**	1,170.9	1,050.8
Equity				
Share capital	25	**61.7**	61.7	61.7
Share premium		**1,257.9**	1,257.9	1,257.9
Other reserves	26	**4.4**	31.7	(9.6)
Retained earnings		**(119.8)**	(181.9)	(260.5)
Total equity attributable to owners of the parent		**1,204.2**	1,169.4	1,049.5
Non-controlling interests in equity		**1.6**	1.5	1.3
Total equity		**1,205.8**	1,170.9	1,050.8

Further details of the restatement of the comparative Balance Sheets, due to the implementation of IFRS 16, Leases, can be found in note 2.

The financial statements on pages 49 to 106 were approved by a duly appointed and authorised committee of the Board on 29 April 2020 and signed on its behalf by:

S Doherty
Director

G J Bagwell
Director

Cobham Limited (formerly Cobham plc)

Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

£m	Share capital	Share premium	Other reserves (note 26)	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
Total equity at 31 December 2018 (as originally stated)	**61.7**	**1,257.9**	**32.3**	**(161.7)**	**1,190.2**	**1.5**	**1,191.7**
Change in accounting policy - IFRS 16 (note 2)	-	-	**(0.6)**	**(20.2)**	**(20.8)**	-	**(20.8)**
Total equity at 31 December 2018 (restated)	**61.7**	**1,257.9**	**31.7**	**(181.9)**	**1,169.4**	**1.5**	**1,170.9**
Profit for the year	-	-	-	**63.3**	**63.3**	**0.1**	**63.4**
Other comprehensive (expense)/income	-	-	**(51.2)**	**6.7**	**(44.5)**	-	**(44.5)**
Total comprehensive income/(expense) for the year	-	-	**(51.2)**	**70.0**	**18.8**	**0.1**	**18.9**
Dividends (note 8)	-	-	-	**(9.5)**	**(9.5)**	-	**(9.5)**
Share based payments (note 27)	-	-	**23.1**	-	**23.1**	-	**23.1**
Transfer of other reserves to retained earnings	-	-	**(1.6)**	**1.6**	-	-	-
Tax effects (note 7)	-	-	**2.4**	-	**2.4**	-	**2.4**
Total equity at 31 December 2019	**61.7**	**1,257.9**	**4.4**	**(119.8)**	**1,204.2**	**1.6**	**1,205.8**
Total equity at 1 January 2018 (as originally stated)	61.7	1,257.9	(9.6)	(239.9)	1,070.1	1.3	1,071.4
Change in accounting policy - IFRS 16 (note 2)	-	-	-	(20.6)	(20.6)	-	(20.6)
Total equity at 1 January 2018 (restated)	61.7	1,257.9	(9.6)	(260.5)	1,049.5	1.3	1,050.8
Profit for the year (restated)	-	-	-	73.9	73.9	0.2	74.1
Other comprehensive income (restated)	-	-	39.6	0.7	40.3	-	40.3
Total comprehensive income for the year (restated)	-	-	39.6	74.6	114.2	0.2	114.4
Share based payments (note 27)	-	-	5.8	-	5.8	-	5.8
Transfer of other reserves to retained earnings	-	-	(4.0)	4.0	-	-	-
Tax effects (note 7)	-	-	(0.1)	-	(0.1)	-	(0.1)
Total equity at 31 December 2018 (restated)	61.7	1,257.9	31.7	(181.9)	1,169.4	1.5	1,170.9

Cobham Limited (formerly Cobham plc)

Consolidated Cash Flow Statement
For the year ended 31 December 2019

£m	Note	2019	2018 (restated)
Cash generated from operations		**283.7**	210.2
Tax paid		**(69.4)**	(25.5)
Interest paid		**(37.6)**	(50.3)
Interest received		**11.4**	8.2
Net cash from operating activities	9	**188.1**	142.6
Cash flows from investing activities			
Purchase of property, plant and equipment		**(73.4)**	(63.4)
Purchase of intangible assets		**(5.8)**	(6.1)
Proceeds on disposal of property, plant and equipment and intangible assets		**13.8**	6.8
(Costs of)/proceeds from business divestments		**(3.3)**	324.7
Net cash (used in)/from investing activities		**(68.7)**	262.0
Cash flows from financing activities			
Dividends paid	8	**(9.5)**	-
Repayment of bank and other borrowings	18	**(46.0)**	(469.0)
Lease capital payments	18	**(19.7)**	(19.0)
Net cash used in financing activities		**(75.2)**	(488.0)
Net increase/(decrease) in cash and cash equivalents		**44.2**	(83.4)
Exchange movements		**(21.9)**	28.2
Cash and cash equivalents at start of year		**396.7**	451.9
Cash and cash equivalents at end of year		**419.0**	396.7

Reconciliation of cash and cash equivalents and net debt

£m	Note	2019	2018 (restated)
Cash and cash equivalents per Cash Flow Statement		**419.0**	396.7
Bank overdrafts		**-**	10.2
Cash and cash equivalents per Balance Sheet		**419.0**	406.9
Bank and other borrowings	18	**(312.4)**	(383.8)
Lease obligations	18	**(164.7)**	(151.2)
Net debt at 31 December		**(58.1)**	(128.1)

Further details of the restatement of the comparative Cash Flow Statement, due to the implementation of IFRS 16, Leases, can be found in note 2.

A reconciliation of the movements in net debt can be found in note 18.

Note 14 includes details of the offsetting of overdrafts with cash and cash equivalents and other financial instruments.

Cobham Limited (formerly Cobham plc)

Notes to the Group Financial Statements for the year ended 31 December 2019

1. Accounting policies and related information

1. 1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, interpretations of the IFRS Interpretations Committee and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest million (£m), except where indicated otherwise.

1. 1. 1 Going concern

These financial statements have been prepared on the going concern basis under the historical cost convention, unless otherwise stated.

In applying the going concern basis, the Directors have considered the Group cash flow projections and assessed the robustness of the forecast through sensitivities around the key assumptions, in particular revenue growth rate, gross margin, capital expenditures and cash conversion. At the year end, the Group has considerable financial resources with liquidity available on the Balance Sheet from its cash resources, with a £107m net cash balance before inclusion of lease obligations of £165m (net debt of £58m). The Group also has unused credit facilities and it has a spread of maturities on its debt as set out in note 18.

Subsequent to the year end, as a result of the acquisition of the Group by Advent, the Company's private placement debt (senior notes) were repaid in February and March 2020. Similarly the loan agreements will all have been repaid either in advance of their maturity by way of a statutory prepayment process or upon maturity by 19 May 2020. Cobham Limited is committed to accede to the debt package used by Advent to help finance their acquisition by 18 June 2020 comprising:

- 1st Lien 7 year Term Loan of €885m;
- 1st Lien 7 year Term Loan of US$1,188m;
- 1st Lien 5.5 year Revolving Credit Facility of US$350m; and
- 2nd Lien 8 year Term Loan of US$672m.

Other "material" members of the Group are also required to accede to the financing, being those subsidiaries that contribute 5% or more of the EBITDA of the Group and any direct parent of such entity. By acceding to the finance documents, the entities will be required to give a guarantee and provide customary security over certain material assets in respect of the debt.

There is a springing financial covenant applicable to the Revolving Credit Facility that is required to be tested, subject to certain conditions, quarterly from 31 December 2020 to the extent that the facility is over 40% drawn. The covenant requires that the leverage ratio of senior secured net debt to EBITDA of the Group does not exceed 7.6:1. Interest will be paid quarterly, with a forecast cost of between £120m to c.£150m per annum based on current LIBOR/EURIBOR. Amortisation payments are due on the 1st Lien USD Term Loan in an amount equal to 0.25% of the outstanding principal amount each quarter beginning on 30 June 2020. Cost savings in the corporate centre and the exclusion of dividend payments partly offset the additional future cash outflows arising from this financing.

The Group has a mix of shorter and longer term contracts and a number of leading market positions with customers across different geographical areas. As a consequence, the Board believes that the Group is ordinarily well placed to manage its business risks successfully.

The COVID-19 pandemic has become a worldwide crisis and at the date of this report the situation was still evolving. As a result, its medium term impact is not yet fully understood across the markets in which the Group operates. Each of the Group's business immediately initiated weekly reviews of the impact of the pandemic on people matters, customer demand, supplier availability and liquidity.

Notes to the Group Financial Statements (continued)

Furthermore, the Group drew down its revolving credit facility in full during March 2020, in order to ensure maximum available funding flexibility and as a precaution to avoid any possible illiquidity in the banking market. At the date of this report those drawn funds were still predominately available in full and, in particular, they were considered more than sufficient to service the Group's debt and finance obligations over the next 12 months.

The Directors had already approved a detailed financial and strategic three-year plan and were reassessing further opportunities as part of the initial review following the Advent acquisition. As a result of Covid-19, as well as the week by week business monitoring, the Group has also undertaken a reforecast of operations for the next 12 months and applied stress tests on its cash position. These have included assuming the most severe but plausible scenarios such as no net operational cash flow over the next 12 months, and no EBITDA generation from commercial aerospace revenues. In these cases the Directors have confirmed that the Group would be able to operate and serve the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

The Directors have a thorough understanding of the risks, sensitivities and judgements included in these forecasts and scenarios. However, if the situation was to develop with greater adversity, further financing are expected to be available to the Group within the terms of the senior debt package. These options include, but are not limited to, receivables financing (across a sub-set of the Group's total trade receivables which were £222.0m at 31 December 2019), government support, and secured financing using assets such as freehold property. Government support schemes potentially open to the Group include the UK's Coronavirus Business Interruption Loan Scheme which the Directors understand could provide up to a maximum of £50m of medium-term debt financing or revolving cash facility equivalent, and provisions under the US Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Accordingly, after making enquiries, the Directors have concluded at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group and Parent Company Financial Statements.

1.2 Management judgement and estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of judgements and estimates that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses.

These judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The current economic conditions have been considered when evaluating accounting judgements and estimates, including the application of the going concern basis of preparation. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

1. 2. 1 Significant judgements in applying accounting policies

The following are the judgements, apart from those involving estimations, that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

a. Consolidation of Cobham Advanced Electronic Solutions Sector
   The Cobham Advanced Electronic Solutions Sector operates under an SSA with the US Government due to the nature of its work on classified DoD programmes. The results of this Sector have been consolidated based on a judgement that, whilst the day to day operation of this Sector is managed by the SSA Board, the Cobham Board retains the right to variable returns and the ability to affect those returns. Further details can be found at section 1.6.1 below.

b. Revenue recognition and contract accounting
The Group has a number of contracts related to long term development programmes. For the majority of these contracts revenue is recognised over time on a percentage of completion basis. This is where a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion. There are three principal judgements associated with this method of contract accounting:
- Performance obligations: Judgement is applied in determining how many performance obligations there are within each contract and whether the development phase represents a separate obligation. In most cases, the development phase is not considered to be distinct as the customer does not benefit from the development activities alone. It is instead combined with the early contracted production phases such as low rate initial production (LRIP) which are considered a key part of the development cycle.
- Modifications and claims: Judgement is applied in determining whether claims to or from the customer are likely to be successful. Estimation techniques are then used to quantify the impact (see 1.3.2d below).
- Costs to fulfil a contract: For some contracts, where revenue is recognised at a point in time (rather than over time), the Group incurs development costs in order to meet its performance obligations and these costs are recognised as an asset. The asset is then amortised to cost of sales as revenue is recognised. Judgement is applied in assessing whether these costs are costs to fulfil a contract or internally generated intangible assets. This judgement will depend on management's assessment of the nature of the underlying costs and whether they principally relate to a particular contract.

c. Capitalisation of development costs
The Group undertakes significant levels of development work which is largely expensed to the Income Statement. Judgement is exercised in determining whether the criteria for capitalisation as described in IAS 38, Intangible Assets are met; in particular in applying the appropriate level of caution to the requirement for the product to be technically feasible and capable of generating a financial return. If these tests are met, further costs are capitalised as an intangible asset until the intangible asset is readily available for use and is then be amortised.

1. 2. 2 Assumptions and estimation uncertainties

Management consider that there are a number of assumptions concerning the future and other major sources of estimation uncertainty at the balance sheet date, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Those key assumptions and estimation uncertainties are as follows:

a. Uncertain tax positions and deferred tax assets (note 7)
Recognition and measurement of amounts provided in respect of uncertain tax positions are included within net current tax liabilities in the Balance Sheet. The recoverability of deferred tax assets is assessed by reference to estimated future profits in each territory;

b. Impairment of goodwill and intangible assets (note 10)
Determination of the value in use of Cash Generating Units (CGUs) as assessed in relation to the annual review of goodwill and any subsequent impairment of goodwill and intangible assets, or reversal of previously impaired intangible assets relies on estimated cash flows, discounted to present value;

c. Inventory provisions (note 13)
Recognition and measurement of provisions for obsolete, slow moving and defective items of inventory;

d. Revenue recognition (note 4), contract assets and liabilities (note 15) and contract loss provisions (note 21)
Recognition and measurement of revenue on long term contracts, associated contract assets and liabilities and contract loss provisions including those relating to the KC-46 programme requires estimation of the costs to complete the contracts including some contingencies for the risks identified, the final costs of technical solutions, the outcome of negotiations with customers (including modifications) and the amounts recoverable under these contracts;

e. Pension assets and liabilities (note 23)
Assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates; and

f. Valuation of the Parent Company's minority shareholdings (note 17)
Fair value is determined based on the estimated cash flows expected to be received, discounted to present value.

1. 2 Underlying measures (note 3)

Definitions and a description of the use of the non-GAAP measures can be found in note 3.

1. 3 Operating segments (note 4)

The chief operating decision making body for the Group during the year has been identified as the Board. It reviews the Group's internal reporting in order to assess performance and allocate resources. Details of the composition of the Board can be found in the Directors' Report.

During the current and prior years, the Group reported the revenue and results of four operating segments to the Board. These are the Communications and Connectivity, Mission Systems, Advanced Electronic Solutions and Aviation Services Sectors. All operating segments meet the definition of reportable segments as defined in IFRS 8. Costs of the corporate head office and Group functions are allocated across the operating segments.

The Board assessed the trading performance of operating segments based on revenue and underlying operating profit as defined in note 3. Finance income, finance costs and taxation are not segmented and were reviewed by the Board on a consolidated basis. Segment net assets are disclosed in note 4 and include intangible assets, property, plant and equipment (including right of use assets), investment properties, inventory, contract assets and liabilities, trade and other receivables, trade and other payables, lease obligations and provisions. They do not include tax, net cash/(debt), derivative financial instruments, contingent consideration payable or retirement benefit obligations.

1. 4 Principal accounting policies

The principal accounting policies, which have been consistently applied unless otherwise stated, are as set out below.

1.4.1 Basis of consolidation

The Group Financial Statements include the financial statements of the Parent Company, Cobham Limited, and of all its subsidiaries.

Subsidiaries are all entities over which the Group has control, which is defined as the right to variable returns and the ability to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases. Joint ventures and associates are not consolidated but are accounted for using the equity method.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

As noted in section 1.2.1 above, the consolidation of the Cobham Advanced Electronic Solutions Sector is the subject of a significant judgement.

This Sector participates in classified US Defence programmes. It therefore operates under a US DoD SSA as required by the US National Industrial Security Program. The SSA is designed to mitigate the effects of Foreign Ownership, Control or Influence (FOCI) so that Cobham Advanced Electronic Solutions can maintain the required facility security clearances to participate in certain US Government, including DoD, programmes. The SSA restricts the level of participation that Cobham can have in certain CAES activities and Cobham maintains its involvement in Cobham Advanced Electronic Solutions activities primarily through participation of Cobham's CEO and CFO (as Inside Directors) in the deliberations and decisions of the Cobham Advanced Electronic Solutions Board and authorised committees, or interactions through a series of shared services provided pursuant to an Affiliate Operations Plan (AOP). All Cobham Advanced Electronic Solutions Board Directors have a fiduciary duty to Cobham Limited, as shareholder, and the Outside Directors (who have no prior relationship with Cobham Limited) need to perform their duties reasonably and in good faith in a manner believed to be in the best interests of the shareholder but consistent with the national security concerns of the US.

Cobham Limited, as shareholder, retains the right to remove or replace any member of the Cobham Advanced Electronic Solutions Board, subject to clearance from the US DSS in the case of an Outside Director. In addition, under the current SSA, the Cobham Advanced Electronic Solutions Board cannot carry out a number of actions without Cobham's express approval. During the year, Cobham Advanced Electronic Solutions was also required to act in a manner which is compliant with Cobham's obligations as a UK listed company.

The effectiveness of governance and assurance procedures between the Group and the Cobham Advanced Electronic Solutions Sector is regularly reviewed.

1.5.1 Foreign currencies

The presentation currency of the Group is sterling. Most Group companies, including the Parent Company, use their local currency as their functional currency. Transactions in currencies other than the functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date and any exchange differences arising are taken to the Income Statement.

For consolidation purposes, the assets and liabilities of foreign operations are translated at closing exchange rates. Income statements of such undertakings are consolidated at average rates of exchange as an approximation for actual rates during the year. Exchange differences arising on these translations are accounted for in the translation reserve in Other Comprehensive Income (OCI). On divestment, these exchange differences are reclassified from the translation reserve to the Income Statement.

1.5.2 Revenue recognition

Revenue is accounted for in accordance with IFRS 15, Revenue from Contracts with Customers.

A five-step process must be applied before revenue can be recognised:

1. Identify contracts with customers;
2. identify the separate performance obligations;
3. Determine the transaction price of the contract;
4. Allocate the transaction price to each of the separate performance obligations; and
5. Recognise the revenue as each performance obligation is satisfied.

The transaction price is measured based on the consideration specified in a contract with a customer and, where applicable, the best estimate of any consideration related to modifications to the contract which has yet to be agreed. Any amounts expected to be paid to the customer, such as penalties for late delivery, are deducted from the consideration. Where a transaction price has to be allocated between multiple performance obligations, this is generally achieved through allocating a proportion of total price against each using either standard list sales prices or an estimated costs methodology.

Notes to the Group Financial Statements (continued)

Revenue related to the sale of short cycle catalogue items, mostly seen in the Communications and Connectivity Sector, is recognised when control of the product passes to the customer. This may be on delivery or on dispatch depending on the specific terms of the contract. There is generally a low level of returns experienced across the short cycle businesses and therefore no returns provision is recorded.

Most of the revenue in the Aviation Services Sector is generated from providing services to customers. Revenue is recognised over time as the services are enjoyed. Contracts within this Sector can include variable consideration associated with the level of services provided, for example, flying hours. This is generally straightforward to estimate and is invoiced to the customer on a regular basis.

The Group has a number of long term development programmes, particularly within the Mission Systems Sector. For the majority of these contracts revenue is recognised over time on a percentage of completion basis. This is where a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion. This method is considered to most faithfully depict the transfer of goods and services to the customer over the life of the performance obligation. As these products come out of the development phase and into full rate production, revenue is recognised at a point in time where there is an alternative use.
For some programme specific products, markets may not be sufficiently mature to offer an alternative use and in these circumstances, where there is also a right to payment at all times, revenue is recognised over time based on a percentage of completion basis using costs as the measure of progress. For development and production contracts where there is not considered to be a right to payment at all times through the contract, these are accounted for at a point in time, with revenue recognised when control transfers to the customer, typically on delivery of the production units.

The Group has a number of contracts with government bodies, in particular within the Advanced Electronic Solutions Sector, for which control is transferred to the customer as the product is being manufactured or as the services are being provided. For these contracts, revenue is recognised over time on a percentage of completion basis, using cost to measure progress (as above for Mission Systems contracts). For 'cost-plus' contracts (typically with government departments and agencies), revenue is recognised to the extent of reimbursable costs incurred, plus a proportionate amount of the estimated fee earned.

The timing of payment from customers is generally aligned to revenue recognition, subject to agreed invoice terms. The majority of development programmes have payment terms based on contractual milestones, which are not necessarily aligned to when revenue is recognised, particularly for those contracts recognised over time using percentage of completion methodology. This generally leads to recognition of revenue in advance of customer billings, for which a contract asset is recognised. Where cash is received from the customer in advance of recognising revenue under a contract, a contract liability is recorded (advance payments from customers).

The practical expedient available under IFRS 15 has been taken whereby any financing element of the contract price has been ignored if the timing difference between the satisfaction of the obligations under the contract and the receipt of payment due under the contract are expected to be one year or less.

Where incremental costs of obtaining a contract are incurred, such as sales commissions, the Group has taken advantage of the practical expedient to recognise these costs as expense when incurred rather than capitalising them as an asset, on the basis that the amortisation period would typically be one year or less. Other costs to obtain a contract, such as bid costs that would have been incurred regardless of whether the contract was awarded, are expensed as incurred because they are not recoverable from the customer in the event of an unsuccessful bid.

Costs incurred in fulfilling a contract with a customer are capitalised where they are directly related to a contract; they generate or enhance the resources of the Group in fulfilling the contract; and they are recoverable. Such costs are then amortised to cost of sales over a consistent period as the associated revenue is recognised.

Notes to the Group Financial Statements (continued)

1.5.3 Taxation (note 7)

The tax expense is the sum of current tax and deferred tax. Tax is charged or credited to the Income Statement except when it relates to items recognised in OCI or directly in equity, in which case the tax is also dealt with in OCI or in equity respectively.

Current tax is provided at the amounts expected to be paid, using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. It is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

1.5.4 Intangible assets (note 10)

Goodwill
Goodwill arises on business combinations and represents the excess of the fair value of consideration transferred over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is allocated at acquisition to the CGUs that are expected to benefit from that business combination. CGUs represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

On divestment of a business the attributable amount of goodwill is included in the determination of the profit or loss on divestment.

Other intangible assets
Intangible assets other than goodwill which are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. These include customer relationships, technology and software, trademarks, licences and patents. The only internally generated intangible assets are development costs which are capitalised as described below and internally developed software where asset recognition criteria are met.

These intangible assets are amortised over the asset's estimated useful life on a straight-line basis as follows:

Customer relationships	5 to 15 years
Technology based assets	5 to 15 years
Development costs	2 to 10 years
Order book and trade names	6 months to 10 years
Software and other	2 to 10 years

Useful lives are assessed for each asset on an individual basis, taking into account the specific characteristics of the asset.

Research and development
Development costs are capitalised when it can be demonstrated that the conditions for capitalisation as described in IAS 38, Intangible Assets are met, paying particular attention to the requirements for the product to be technically feasible and capable of generating a financial return. At that point, further costs are capitalised as an intangible asset until the intangible asset is readily available for use and it is then amortised as described above. All development costs not capitalised are written off as incurred together with all research costs.

1.5.5 Property, plant and equipment (note 11)

Freehold and leasehold land and buildings, plant and machinery, and fixtures, fittings, tools and equipment are held at historic cost less accumulated depreciation and any recognised impairment losses. Cost comprises the purchase price and any costs directly attributable to the asset.

All property, plant and equipment other than land and assets under construction is depreciated on a straight-line basis to the estimated residual values over the estimated useful lives. These lives are as follows:

Freehold buildings	50 years
Leasehold properties	Period to next break clause
Plant and machinery	3 to 15 years
Fixtures, fittings, tools and equipment	3 to 15 years

Estimated residual values and the estimated useful lives are reviewed annually and adjusted where necessary. Freehold land is not depreciated, and is reviewed for impairment at least annually.

Assets under construction are held at cost and transferred to the appropriate category of property, plant and equipment once construction is complete and they enter into service. They are depreciated from this point in accordance with the policies described above.

Major overhaul expenditure on owned aircraft is capitalised when incurred and the resultant property, plant and equipment is depreciated over its useful economic life.

1.5.6 Right-of-use assets (note 11)

Right-of-use assets are reported within property, plant and equipment on the Balance Sheet.

The initial cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, expected asset restoration costs and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the useful economic life of the asset. The right-of-use asset is tested for impairment where appropriate.

1.5.7 Investment properties (note 12)

Investment properties, which are properties held to earn rentals or for capital appreciation, are stated at cost in the Balance Sheet. They are depreciated on a straight-line basis to their estimated residual value over their estimated useful lives of up to 50 years.

Rental income is recognised as revenue on a straight-line basis.

1.5.8 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. Where there is an indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised where the recoverable amount of an asset is lower than its carrying amount. All impairment losses are recognised in operating costs in the Income Statement.

An impairment loss, other than arising on goodwill, is reversed only after a change in the estimates used to assess the recoverable amount is identified and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Any reversal is recognised in operating costs in the Income Statement.

1.5.9 Inventories (note 13)

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective items.

1.5.10 Fair values

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date. Fair value measurements are used on a recurring basis except where used in the measurement of net assets classified as held for sale and in the valuation of assets and liabilities in a business combination.

The fair values of derivative financial instruments have been determined by the use of valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities, which includes net assets classified as held for sale, are based on observable market prices or rates. For non-financial assets, the fair value takes into account the highest and best use of the assets. These measurements fall within Level 2 of the fair value hierarchy as described in IFRS 13.

For financial assets and liabilities which are not held at fair value in the Balance Sheet, the carrying values of these items are assumed to approximate to fair value due to their short term nature.

There have been no changes to the valuation techniques used during the year. The Group's policy is to recognise transfers in and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer, although there have been no such transfers during the current or comparative periods.

Notes to the Group Financial Statements (continued)

1.5.11 Financial instruments (note 14)

Financial instruments are accounted for in accordance with IFRS 9, Financial Instruments and are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value at trade date.

All financial assets and liabilities are classified as current or non-current dependent upon the maturity date of the instruments. Financial assets and liabilities are presented on an offset basis when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets (note 14)
On initial recognition, financial assets are classified as being subsequently measured at either amortised cost or fair value dependent upon the Group's business model for managing the asset and its cash flow characteristics. Financial assets are not reclassified following initial recognition unless the Group changes its business model for managing financial assets.

Financial assets are deemed to be held under one of three business models:

1. Hold to collect, where the business objective is to hold the asset to collect the contractual cash flows;
2. Hold to collect and sell, where the business objective is to hold the asset to collect the contractual cash flows and to sell the financial assets; and
3. Other.

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Financial assets held within a hold to collect and sell business model are measured at fair value though OCI if the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group does not currently have any such assets.

Equity investments not held for trading (such as the Group's AirTanker investments) are held at fair value and the Group has elected to present subsequent changes in the investment's fair value in OCI. Dividends on these investments are recognised in profit or loss when the Group's right to receive the dividends is established, it is probable that they will be paid and the amount can be measured reliably. This dividend income is included in operating costs in the Income Statement.

All other financial assets, including derivative financial instruments, are held at fair value though profit or loss.

Amortised cost is measured using the effective interest method. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Income Statement.

Impairment of financial assets
The Group recognises lifetime expected credit losses at the point of initial recognition for trade receivables, contract assets (under IFRS 15) and lease receivables. These are assessed with reference to past default rates, also reflecting forward looking information such as local economic or market conditions and using a provision matrix where appropriate.

For other financial assets, a loss allowance is recognised for expected credit losses taking into account changes in the level of credit risk. Where credit risk is considered to be low, the loss allowance is limited to expected losses arising from default events that are possible within 12 months from the balance sheet date.

No impairment loss is recognised for investments in equity instruments.

Impairments are charged to operating costs in the Income Statement.

Notes to the Group Financial Statements (continued)

Financial liabilities (note 14)
Subsequent to initial recognition, financial liabilities are classified as measured at fair value through profit or loss, or at amortised cost using the effective interest method.

Trade and other receivables including contract assets (notes 15 and 16)
Trade and other receivables and contract assets are stated at their amortised cost, net of impairment loss allowances. All trade receivables which are more than six months overdue are provided for by reference to past default experience. Where there is clear evidence that the receivable will not be recovered, and generally where receivables are in excess of 12 months old, the balance is written off in full.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and bank deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

Bank borrowings (note 18)
Interest bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of direct issue costs. Borrowing costs, net of amounts capitalised, are accounted for on an accruals basis and charged to the Income Statement as incurred. Premiums payable on settlement or redemption and direct issue costs are capitalised and amortised over the period of the facility. Borrowing costs that are directly attributable to relevant property, plant and equipment are capitalised as part of the cost of that asset.

Trade payables (note 20)
Trade payables do not carry any interest and are stated at their nominal value.

Derivative financial instruments and hedge accounting (note 22)
The majority of foreign exchange contracts entered into by the Group are used to mitigate foreign exchange impacts of trading in non-functional currencies. These are not accounted for using hedge accounting principles.

A limited number of specific foreign exchange contracts are designated as hedging instruments in cash flow and net investment hedges and hedge accounting is applied.

The effective portion of changes in fair value is recognised in OCI through the hedge reserve and the gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in OCI are reclassified to finance income or finance costs in the Income Statement in the periods when the hedged item affects profit or loss.

Notes to the Group Financial Statements (continued)

Foreign currency borrowings are also used to hedge the effects of changes in the Group's net investment in foreign operations. These borrowings either provide a natural economic hedge through the use of intercompany debt or are designated as net investment hedges. Where net investment hedging applies, the borrowings are designated as fair value hedges of the foreign currency risk attributable to the foreign equity investment. The exchange differences arising are recognised in OCI and through profit and loss on disposal of the foreign operation.

Where hedge accounting is not applied, movements in fair value of the derivative instruments are included in the Income Statement within operating costs.

The fair value of derivative financial instruments is classified as a current or non-current asset or liability dependent upon the maturity date of the financial instrument or hedged item as appropriate.

1.5.12 Lease obligations (note 19)

Lease obligations are recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Group. The lease obligation is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and reduced by lease payments made, with interest charged to finance costs. In addition, the carrying amount of lease obligations is re-measured if there is a modification, for example a change in the lease term or non-fixed lease payments.

The option not to apply IFRS 16 to leases with a term of 12 months or less and low value leases has been taken.

1.5.13 Provisions (note 21)

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required and where the amount can be reliably measured. No provision is recognised where the existence of an obligation is possible but will only be confirmed by uncertain future events.

Contract loss provisions are recognised for onerous contracts when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Restructuring provisions are made where there is an approved and detailed formal plan. There will also be a valid expectation in those affected that the restructuring will be carried out because it has been started or announced. The amount provided includes only the direct expenditures arising from the restructuring.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at management's best estimate of the expenditure required to settle the Group's liabilities, based on past experience and industry averages for defective products.

Provisions for claims made against the Group and commitments made under performance guarantees are recognised at management's best estimate of the expenditure required to settle the Group's liabilities.

Right-of-use asset provisions are made assets are leased and there is an obligation to return the asset to the lessor in a specific condition or to restore the site on which the asset is located. In these cases, at initial recognition of the lease, the estimated restoration or remediation costs are included in the right-of-use asset and a provision is recognised.

Provisions are discounted at an appropriate risk free rate when the impact is material.

Notes to the Group Financial Statements (continued)

1.5.14 Retirement benefit schemes (note 23)

For defined benefit schemes, current service costs and costs related to the administration of the schemes are charged to operating profit. Gains and losses on settlements and curtailments arising on a business divestment are included in profit on divestment. Past service costs are recognised in the Income Statement. The interest on net assets or liabilities is shown within finance income and costs. Actuarial remeasurements are recognised in OCI.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the Balance Sheet.

For defined contribution schemes, contributions are charged to the Income Statement as they fall due.

1.5.15 Treasury shares (note 25)

When ordinary share capital recognised as equity is acquired by the Company the shares are held as treasury shares.

1.5.16 Share based payments (note 27)

For grants made under the Group's equity settled share based payment schemes, amounts which reflect the fair value of awards at the time of grant are charged to the Income Statement over the relevant vesting periods, taking into account management's best estimate of the number of awards expected to vest. The Group reviews and updates the vesting estimate, which includes progress against non-market related performance conditions, at each balance sheet date.

The valuation methodology for all schemes is based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

1.6 Current and future accounting developments

The Group adopted IFRS 16, Leases, on 1 January 2019. As detailed further in note 2, comparatives have been restated using the fully retrospective approach.

IFRIC 23, Uncertainty over Income Tax Treatments, has also been adopted from 1 January 2019. No new disclosure requirements were introduced by this interpretation and, following a review, the Group has confirmed that the additional guidance has not had a material impact on the Group's financial reporting.

Whilst there were a number of other amendments to standards effective 1 January 2019, including Annual Improvements, there were no other changes to previously published accounting policies or disclosures required as a result.

Future changes

There are a number of amendments to existing standards including Annual Improvements and interpretations which, once endorsed by the EU, will be effective from 1 January 2020 or later years.

These include amendments to IAS 1 and IAS 8, Definition of Material, which aligns the definition of 'material' across accounting standards, clarifies certain aspects of the definition and introduces the term 'obscuring information'.

Management are currently assessing the impact of all changes however none of these amendments is expected to have a material impact on the Group's financial reporting.

Notes to the Group Financial Statements (continued)

2. Impact of new accounting standard, IFRS 16, Leases

As described in note 1, the Group adopted IFRS 16, Leases, on 1 January 2019.

The Group has lease contracts for various properties, aircraft, plant and machinery and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases as either a finance lease or an operating lease. The Group only had a very small number of finance leases, where an asset and liability were recorded on the balance sheet, with the rest accounted for as operating leases. For operating leases, the leased assets were not capitalised and the lease payments were recognised over the lease term as rental expense in the income statement. This distinction between operating and finance leases has now been removed and right-of-use assets and lease obligations are recognised on the balance sheet.

The accounting standard has been applied fully retrospectively with a date of initial application of 1 January 2019, and therefore comparative information presented in these financial statements has been restated as disclosed in the tables below.

Impact on Balance Sheet at 31 December 2018

The main restatement impacts to the Balance Sheet related to the recognition of right-of-use assets and additional lease obligations. IFRS 16 adjustments to lease obligations also included the restatement of amounts previously reported as finance lease obligations within borrowings and net debt. Trade and other receivables and trade and other payables have been restated to remove balances related to leases such as lease incentives, advance payments and accrued liabilities. Provisions were restated to remove onerous lease provisions.

			At 1.1.18			**At 31.12.18**
£m	As originally stated	IFRS 16 adjustments	Restated	As originally stated	IFRS 16 adjustments	Restated
Assets						
Property, plant and equipment	380.9	109.5	490.4	388.2	99.9	488.1
Deferred tax	58.8	5.5	64.3	89.8	2.6	92.4
Other assets	2,377.8	(0.5)	2,377.3	2,119.9	(1.1)	2,118.8
	2,817.5	114.5	2,932.0	2,597.9	101.4	2,699.3
Liabilities						
Bank and other borrowings	(835.4)	0.3	(835.1)	(396.6)	12.8	(383.8)
Lease obligations	-	(148.7)	(148.7)	-	(151.2)	(151.2)
Trade and other payables	(359.4)	6.3	(353.1)	(395.4)	6.8	(388.6)
Provisions	(152.3)	6.5	(145.8)	(200.7)	5.9	(194.8)
Deferred tax	(6.3)	0.5	(5.8)	(5.1)	3.5	(1.6)
Other liabilities	(392.7)	-	(392.7)	(408.4)	-	(408.4)
	(1,746.1)	(135.1)	(1,881.2)	(1,406.2)	(122.2)	(1,528.4)
Net assets	1,071.4	(20.6)	1,050.8	1,191.7	(20.8)	1,170.9
Equity						
Retained earnings	(239.9)	(20.6)	(260.5)	(161.7)	(20.2)	(181.9)
Other	1,310.0	-	1,310.0	1,351.9	(0.6)	1,351.3
Total equity attributable to owners of the parent	1,070.1	(20.6)	1,049.5	1,190.2	(20.8)	1,169.4
Non-controlling interests in equity	1.3	-	1.3	1.5	-	1.5
Total equity	1,071.4	(20.6)	1,050.8	1,191.7	(20.8)	1,170.9

Impact on Income Statements

There was a small impact to the Income Statement as a result of adopting IFRS 16. Operating profit increased, reflecting the removal of lease payments previously charged to profit, partially offset by depreciation of the right-of-use assets. This impact is split between cost of sales and operating costs depending on how the leased item was utilised within the business.

			Year to 31.12.18
£m	As originally stated	IFRS 16 adjustments	Restated
Revenue	1,863.3	-	1,863.3
Cost of sales	(1,539.9)	3.4	(1,536.5)
Gross profit	323.4	3.4	326.8
Operating costs	(438.5)	3.8	(434.7)
Profit on divestments	227.0	0.1	227.1
Operating profit	111.9	7.3	119.2
Finance income	10.5	-	10.5
Finance costs	(51.4)	(6.8)	(58.2)
Profit before taxation	71.0	0.5	71.5
Taxation	2.7	(0.1)	2.6
Profit after taxation for the period	73.7	0.4	74.1
Attributable to:			
Owners of the parent	73.5	0.4	73.9
Non-controlling interests	0.2	-	0.2
	73.7	0.4	74.1
Earnings per ordinary share			
Basic	3.1p		3.1p
Diluted	3.1p		3.1p

Details of underlying measures are shown in note 3.

Notes to the Group Financial Statements (continued)

Impact on Cash Flow Statement

Net cash flow was not impacted by the adoption of IFRS 16, however the line item presentation has been updated as appropriate.

	Year to 31.12.18		
£m	As originally stated	IFRS 16 adjustments	Restated
Operating profit	111.9	7.3	119.2
Non-cash items:			
Depreciation and amortisation	169.2	17.2	186.4
Profit recognised on lease cancellations and modifications	-	(1.6)	(1.6)
Profit on divestments	(227.0)	(0.1)	(227.1)
Other non-cash items	12.8	-	12.8
Operating cash movements:			
Decrease in working capital	71.8	0.3	72.1
Increase in provisions	47.4	1.0	48.4
Cash generated from operations	186.1	24.1	210.2
Tax paid	(25.5)	-	(25.5)
Net interest paid	(35.3)	(6.8)	(42.1)
Net cash from operating activities	125.3	17.3	142.6
Net cash generated from investing activities	262.0	-	262.0
Cash flows from financing activities			
Repayment of bank and other borrowings	(470.3)	1.3	(469.0)
Lease capital payments	-	(19.0)	(19.0)
Net cash used in financing activities	(470.3)	(17.7)	(488.0)
Net decrease in cash and cash equivalents	(83.0)	(0.4)	(83.4)
Foreign exchange adjustments	27.8	0.4	28.2
Cash and cash equivalents at start of period	451.9	-	451.9
Cash and cash equivalents at end of period	396.7	-	396.7

Impact on cash and cash equivalents and net debt

	Year to 31.12.18		
£m	As originally stated	IFRS 16 adjustments	Restated
Cash and cash equivalents per Cash Flow Statement	396.7	-	396.7
Bank overdrafts	10.2	-	10.2
Cash and cash equivalents	406.9	-	406.9
Bank and other borrowings	(396.6)	12.8	(383.8)
Lease obligations	-	(151.2)	(151.2)
Net debt	10.3	(138.4)	(128.1)

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Notes to the Group Financial Statements (continued)

3. Underlying measures and specific adjusting items

Use of underlying measures

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP alternative performance measures including underlying operating profit.

The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

During the year, management used underlying measures to assess the operating performance of the Group, having adjusted for specific items as defined below. They formed the basis of internal management accounts and were used for decision making including capital allocation, and a subset also formed the basis of internal incentive arrangements. By using underlying measures in our segmental reporting, this further ensures readers of the financial statements can recognise how incentive performance is targeted. Underlying measures are also presented in this report because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by users of the financial statements.

Definitions of underlying measures

All underlying measures include the operational results of all businesses including those held for sale until the point of sale. These definitions are applied consistently on a year to year basis.

Underlying operating profit

Underlying operating profit has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments and other items deemed by the Directors to be of a non-operating nature including the impairment of intangible assets. Changes in items previously treated as exceptional in 2016 are also adjusted.
Note that underlying profit before tax for 2019 includes a programme margin adjustment of £36m.

Underlying profit before taxation

Underlying profit before taxation is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and specific finance costs.

Income Statement including underlying results

			2019				2018 (restated)
£m	Note	**Underlying**	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Revenue	4	**2,059.6**	**-**	**2,059.6**	1,863.3	-	1,863.3
Cost of sales		**(1,513.8)**	**-**	**(1,513.8)**	(1,336.5)	(200.0)	(1,536.5)
Gross profit		**545.8**	**-**	**545.8**	526.8	(200.0)	326.8
Operating costs		**(345.0)**	**(123.5)**	**(468.5)**	(323.5)	(111.2)	(434.7)
Profit on divestments	28	**-**	**5.9**	**5.9**	-	227.1	227.1
Operating profit/(loss)		**200.8**	**(117.6)**	**83.2**	203.3	(84.1)	119.2
Finance income	6	**11.8**	**-**	**11.8**	10.5	-	10.5
Finance costs	6	**(25.6)**	**-**	**(25.6)**	(58.2)	-	(58.2)
Profit/(loss) before taxation		**187.0**	**(117.6)**	**69.4**	155.6	(84.1)	71.5

Details of the restatement can be found in note 2.

Details of specific adjusting items

The specific adjusting items excluded from underlying profit can be analysed as follows:

£m	Note	**2019**	2018
Cost of sales			
Estimates of fixed price contract profitability		**-**	200.0
Operating costs			
Derivative financial instruments	22	**(16.2)**	19.7
Net pension adjustments		**-**	3.4
Business acquisition and divestment related items			
Amortisation of intangible assets arising on business combinations	10	**84.5**	89.8
Transaction related fees and charges			
Contingent advisor and legal fees	31	**24.5**	-
Non-contingent legal fees		**8.3**	-
Early settlement of share based payment awards including social security costs	27	**16.7**	-
Employee costs	31	**5.7**	-
Other items provided as exceptional items at 31 December 2016		**-**	(1.7)
		123.5	111.2
Profit on divestments			
Profit on divestments (restated)	28	**(5.9)**	(227.1)

Explanation of specific adjusting items
Derivative financial instruments

The impact of derivative financial instruments excluded from underlying results includes changes in the marking to market of non-hedge accounted derivative financial instruments other than fair value gains or losses arising on currency swaps which offset movements in currency balances held. These amounts relate to foreign currency exchange contracts and would not impact operating results had the Group chosen to comply with IFRS 9 requirements to enable these contracts to be hedge accounted. These impacts are excluded as market volatility can result in material changes in fair value, both positive and negative, which distort the underlying results.

Business acquisition and divestment related items

Accounting adjustments that arise as a result of business combinations and divestments are not considered to result from the underlying business activity and have therefore been excluded from underlying measures.

These adjustments include the amortisation of intangible assets arising on business combinations, gains or losses arising on business divestments and other direct costs associated with business combinations. Amortisation of intangible assets arises as a result of the purchase price allocation on business combinations and includes customer lists, technology based assets, and order book and trade names. It is excluded from underlying measures because it does not relate to the in year operational performance of the business, being driven by the timing and amount of investment in business combinations. Likewise, impairments of goodwill and other intangible assets arising on business combinations, together with any reversal of impairment of intangible assets, are treated as specific adjusting items as these assets arose from business acquisitions in prior periods. The amortisation of internally generated intangible assets such as software and development costs is included within underlying measures.

Transaction related fees and charges

At the balance sheet date, the Group was committed to certain fees and costs contingent upon completion of the acquisition by Advent. These have crystallised since the year end and further details are set out in note 31. These costs, together with legal and other fees related to the Advent transaction, have been excluded from underlying measures on the basis that they are highly unusual and do not relate to the in year operational performance of the business.

2018 items

The comparative figures above include a number of items that arose from the Group's January 2017 Balance Sheet review. These exceptional items were adjusted for and excluded from underlying measures due to their unusual size and incidence. These adjustments included revisions to the carrying value of assets, additional contract loss provisions, and legal and other provisions. Where relevant, updates to and the final outcome of, these items are presented consistently with this treatment as exceptional charges or credits as appropriate.

Estimates of fixed price contract profitability

In 2018, a charge of £200m was taken against increased estimates of cost to complete and their recovery on the KC-46 contract. This included the settlement of damage assertions agreed with Boeing, our customer on the contract in February 2019, which gave rise to a cash payment to them of £48.7m in March 2019.

This charge reflects an adjustment to an item previously disclosed as exceptional and hence was presented as a specific adjusting item. The Board recognises that making estimates on complex contracts is inherently judgemental and therefore whilst it has made a best estimate of contract positions at present, the final outcome of the contracts could be more or less favourable than the position taken.

The remaining key judgement in estimating the costs to complete on the KC-46 contract is qualification of the Wing Aerial Refuelling Pod (WARP). Testing and qualification progressed during 2019 and has remained in line with the rebased schedule agreed with the customer. As a result, there has been no further change to the overall estimate of cost to complete on the programme.

Pension adjustments

Pension adjustments in 2018 relate to two events which were considered to be unusual and therefore requiring separate disclosure: the English High Court ruling that UK defined benefit pension schemes with Guaranteed Minimum Pensions (GMP) must be equalised between men and women; and a gain on curtailment on closure of the US defined benefit pension scheme to future accrual.

Other items provided as exceptional items at 31 December 2016

The assessment of legal and other provisions of £1.7m in 2018 relates to provisions made at 31 December 2016 which were reassessed and, in some instances, settled. These provision releases are treated as adjusting items consistent with the treatment of the original provisions.

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Notes to the Group Financial Statements (continued)

4. Revenue and segmental information

Revenue

Revenue comprises income from the sale of goods and services during the year and can be analysed as follows:

£m	Communications and Connectivity	Mission Systems	Advanced Electronic Solutions	Aviation Services	Total 2019
External revenue by market					
US defence/security	**43.2**	**309.7**	**548.9**	**-**	**901.8**
UK, RoW defence/security	**106.4**	**197.6**	**29.5**	**174.1**	**507.6**
Commercial	**365.6**	**52.6**	**84.1**	**147.9**	**650.2**
	515.2	**559.9**	**662.5**	**322.0**	**2,059.6**
External revenue by customer geography					
USA	**161.0**	**400.6**	**618.3**	**-**	**1,179.9**
UK	**40.4**	**30.5**	**7.4**	**60.3**	**138.6**
Other EU	**198.9**	**86.8**	**9.0**	**9.6**	**304.3**
Australia	**3.2**	**3.0**	**0.5**	**214.3**	**221.0**
Asia	**77.7**	**24.3**	**16.0**	**30.7**	**148.7**
Rest of the world	**34.0**	**14.7**	**11.3**	**7.1**	**67.1**
	515.2	**559.9**	**662.5**	**322.0**	**2,059.6**
External revenue by revenue recognition category					
Goods transferred at a point in time	**458.2**	**443.2**	**350.6**	**-**	**1,252.0**
Goods transferred over time	**17.2**	**45.7**	**280.1**	**-**	**343.0**
Services transferred over time	**17.0**	**41.0**	**27.2**	**315.5**	**400.7**
Services transferred at a point in time	**22.8**	**30.0**	**4.6**	**6.5**	**63.9**
	515.2	**559.9**	**662.5**	**322.0**	**2,059.6**

Revenue by customer geography is revenue from external customers analysed by their geographic location, irrespective of the origin of the goods and services. Revenue from customers in individual countries within the EU (except the UK) and the rest of the world is not considered to be individually material.

£m	Communications and Connectivity	Mission Systems	Advanced Electronic Solutions	Aviation Services	Total 2018
External revenue by market					
US defence/security	43.1	195.0	471.6	-	709.7
UK, RoW defence/security	109.6	162.4	31.7	171.3	475.0
Commercial	398.4	45.3	91.3	143.6	678.6
	551.1	402.7	594.6	314.9	1,863.3
External revenue by customer geography					
USA	155.6	288.9	546.2	-	990.7
UK	35.2	21.5	7.7	78.5	142.9
Other EU	219.7	59.2	13.3	5.6	297.8
Australia	5.8	5.0	0.4	206.1	217.3
Asia	91.0	19.2	15.6	17.9	143.7
Rest of the world	43.8	8.9	11.4	6.8	70.9
	551.1	402.7	594.6	314.9	1,863.3
External revenue by revenue recognition category					
Goods transferred at a point in time	485.3	346.7	339.5	-	1,171.5
Goods transferred over time	14.1	(11.3)	227.6	-	230.4
Services transferred over time	31.2	35.9	19.4	308.8	395.3
Services transferred at a point in time	20.5	31.4	8.1	6.1	66.1
	551.1	402.7	594.6	314.9	1,863.3

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied, as at 31 December 2019 was as follows:

£m	2020	2021	Later	Total
Communications and Connectivity	**238.6**	**60.4**	**75.8**	**374.8**
Mission Systems	**450.4**	**221.2**	**63.7**	**735.3**
Advanced Electronic Solutions	**546.4**	**119.2**	**45.3**	**710.9**
Aviation Services	**211.4**	**182.2**	**520.8**	**914.4**
	1,446.8	**583.0**	**705.6**	**2,735.4**

Notes to the Group Financial Statements (continued)

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied, as at 31 December 2018 was as follows:

£m	2019	2020	Later	Total
Communications and Connectivity	215.1	40.7	22.1	277.9
Mission Systems	397.3	147.9	202.3	747.5
Advanced Electronic Solutions	477.4	152.1	24.2	653.7
Aviation Services	248.9	204.5	537.4	990.8
	1,338.7	545.2	786.0	2,669.9

Operating segments

	Total revenue		**Underlying operating profit**		**Segment net assets**	
£m	**2019**	2018	**2019**	2018 (restated)	**2019**	2018 (restated)
Communications and Connectivity	**516.3**	552.0	**66.9**	56.8	**331.8**	368.3
Mission Systems	**559.9**	402.7	**95.1**	75.5	**129.5**	78.2
Advanced Electronic Solutions	**662.7**	595.0	**31.6**	55.7	**435.5**	558.3
Aviation Services	**322.4**	315.1	**4.8**	15.3	**183.8**	194.7
Elimination of inter-segment items and head office	**(1.7)**	(1.5)	**2.4**	-	**31.8**	66.9
Total Group	**2,059.6**	1,863.3	**200.8**	203.3	**1,112.4**	1,266.4
Interests in joint ventures and associates					**4.4**	4.1
Unallocated assets/(liabilities)					**89.0**	(99.6)
Total net assets					**1,205.8**	1,170.9

Details of the restatement can be found in note 2.

Underlying operating profit is reconciled to the profit before taxation as follows:

£m	Note	2019	2018 (restated)
Underlying operating profit		**200.8**	203.3
Specific adjusting items included within:			
Cost of sales	3	**-**	(200.0)
Operating costs	3	**(123.5)**	(111.2)
Profit on divestments	3	**5.9**	227.1
Net finance costs	6	**(13.8)**	(47.7)
Profit before taxation		**69.4**	71.5

Depreciation of property, plant and equipment (including right-of-use assets) investment properties and amortisation of internally generated intangibles included in the calculation of underlying operating profit can be analysed by segment as follows:

£m	2019	2018 (restated)
Communications and Connectivity	**14.0**	15.9
Mission Systems	**9.8**	8.7
Advanced Electronic Solutions	**23.6**	20.1
Aviation Services	**50.0**	40.1
Head office and other activities	**12.3**	11.8
Total Group	**109.7**	96.6

Details of the restatement can be found in note 2.
Details of employees analysed by operating segment can be found in note 5.

Geographical information
Non-current assets are analysed by the physical location of the assets and exclude financial instruments and deferred tax assets.

£m	2019	2018 (restated)
USA	**502.1**	668.6
UK	**160.4**	179.7
Other EU	**264.5**	291.3
Australia	**244.0**	155.1
Rest of the world	**14.8**	21.0
	1,185.8	1,315.7

Notes to the Group Financial Statements (continued)

5. Other income statement disclosures

The following costs are included in operating profit:

£m	Note	2019	2018
Materials costs within cost of sales		**709.0**	596.3
Restructuring costs included within underlying profit		**4.9**	12.3
Company funded research and development		**88.0**	103.2

Operating profit also includes dividends of £3.5m (2018: £9.9m) received from the AirTanker investments, see note 17.

Employment costs and employee numbers

The aggregate employment costs are as follows:

£m	Note	2019	2018
Wages and salaries		**609.0**	614.1
Social security costs		**50.2**	47.0
Pension costs	23	**28.2**	35.8
Share based payments	27	**23.1**	5.8
		710.5	702.7

In addition to the pension schemes outlined in note 23, the Group also operates a deferred compensation plan in the US which allows certain employees to make additional provision for retirement, through the deferral of salary with matching company contributions. Employees can draw down on the plan in certain limited circumstances during their employment. The assets of the plan are held in a company-owned trust which is considered to be a separate entity as the relevant activity of the trust, being the investment of the funds in the trust, is directed by the participating employees of the plan and the company has no exposure to the gains and losses resulting from those investment decisions. The assets of the trust are held solely for the benefit of the participating employees and to pay plan expenses, other than in the case of a company insolvency in which case they can be claimed by the general creditors of the company. At 31 December 2019, the trust had assets with a fair value of US$10.9m (2018: US$9.7m), corresponding to the obligations to the employees.

Employee numbers, analysed by segment, are as follows:

	Monthly average number of employees		As at 31 December	
	2019	2018	**2019**	2018
Communications and Connectivity	**2,494**	2,726	**2,464**	2,394
Mission Systems	**2,071**	1,896	**2,038**	1,981
Advanced Electronic Solutions	**3,493**	3,543	**3,535**	3,602
Aviation Services	**1,767**	1,826	**1,704**	1,718
Head office and other activities	**360**	368	**296**	374
Total Group	**10,185**	10,359	**10,037**	10,069

Compensation of key management personnel

In 2019, the Group Executive (GE) were determined to be the key management personnel for the Group. The GE reviewed the performance of the Company (and of individual Business Units, Sectors, and functions) against the financial budgets and operational targets approved by the Board; retained accountability for the effective management of operational risks, including mitigating actions, controls, ownership and risk register maintenance; monitored SHE performance and customer metrics; and promoted a corporate risk culture, through the raising of risk awareness and sharing knowledge and best practice. The GE also had oversight, at a strategic level, of the process to identify, develop and retain key talent in the business, feeding in to the Nomination Committee as appropriate.

The remuneration of the GE was as follows:

£m	2019	2018
Salaries and short term employee benefits	**10.2**	7.4
Post-employment benefits	**0.4**	0.2
Termination benefits	**0.1**	0.7
Share based payments	**6.6**	1.5
	17.3	9.8

Notes to the Group Financial Statements (continued)

Audit fees

During the year, the Group obtained the following services from the Company's auditors, Ernst & Young LLP (2018: PricewaterhouseCoopers LLP) and its associates:

£m	2019	2018
Annual audit of the Parent Company and Group Financial Statements	**1.2**	1.0
Audit of the Company's subsidiaries	**1.0**	0.9
Fees payable for audit services	**2.2**	1.9
Other assurance services	**0.3**	0.7
Fees payable for other services	**0.3**	0.7
Total fees payable to the auditors	**2.5**	2.6

In 2018, other assurance services include £0.6m relating to work undertaken to support the regulatory filings by Viavi following their acquisition of the Group's AvComm and Wireless test and measurement businesses, for which Cobham received reimbursement in full.

6. Finance income and costs

£m	Note	2019	2018 (restated)
Bank interest		**5.1**	4.5
Other finance income		**6.7**	6.0
Total finance income		**11.8**	10.5
Interest on bank overdrafts and loans		**(14.7)**	(20.1)
Interest on lease obligations		**(7.8)**	(7.2)
Interest on net pension scheme liabilities	23	**(1.0)**	(1.5)
Other finance expense		**(2.1)**	(29.4)
Total finance costs		**(25.6)**	(58.2)
Net finance costs		**(13.8)**	(47.7)

Other finance expense for 2018 includes £20.4m of make-whole fees payable in connection with the early repayment of borrowings during the year as detailed in note 18, together with £7.8m related to interest on uncertain tax positions as shown in note 20.

Cobham Limited (formerly Cobham plc)

Notes to the Group Financial Statements (continued)

7. Taxation

Tax included in Income Statement

£m	2019	2018 (restated)
Charge for the year	**28.7**	6.9
Adjustments to tax charge in respect of prior years	**(23.1)**	24.4
Current tax	**5.6**	31.3
Credit for the year	**(5.2)**	(17.2)
Impact of change in tax rates	**(0.3)**	(0.8)
Adjustments to tax charge in respect of prior years	**5.9**	(15.9)
Deferred tax	**0.4**	(33.9)
Total tax charge/(credit) for the year	**6.0**	(2.6)

Details of the restatement can be found in note 2.

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction. The total tax credit for the year includes a credit of £6.5m (2018: £4.8m) for the UK.

The total tax charge/(credit) for the year can be reconciled to the accounting result as follows:

	2019			2018 (restated)		
£m	**Underlying**	**Specific adjusting items***	**Total**	Underlying	Specific adjusting items*	Total
Profit/(loss) before tax	**187.0**	**(117.6)**	**69.4**	155.6	(84.1)	71.5
Tax thereon at the UK income tax rate of 19% (2018: 19%)	**35.5**	**(22.3)**	**13.2**	29.6	(16.0)	13.6
Effect of differences in overseas tax rates	**8.3**	**(1.4)**	**6.9**	7.6	(2.6)	5.0
Impact of tax treatment of divestments	**-**	**(0.4)**	**(0.4)**	-	(31.6)	(31.6)
Impact of change in tax rates	**(0.3)**	**-**	**(0.3)**	(0.8)	-	(0.8)
Expenditure qualifying for additional R&D tax relief	**(2.4)**	**-**	**(2.4)**	(2.0)	-	(2.0)
Adjustments to tax charge in respect of prior years	**(17.2)**	**-**	**(17.2)**	8.5	-	8.5
Impact of other items	**2.8**	**3.4**	**6.2**	(7.2)	11.9	4.7
Total tax charge/(credit) for the year	**26.7**	**(20.7)**	**6.0**	35.7	(38.3)	(2.6)
Effective tax rate	**14.3%**		**8.6%**	23.0%		(3.6%)

* Details of specific adjusting items can be found in note 3.

Adjustments to tax charge in respect of prior years arise from differences in the filed tax returns compared to the estimates made in December 2018.

Tax included in OCI

£m	2019	2018
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain on retirement benefit obligations	**1.3**	1.7
Actuarial loss on other retirement benefit obligations	**-**	(0.1)
	1.3	1.6
Items that may subsequently be reclassified to profit or loss		
Hedge accounted derivative financial instruments	**0.1**	0.1

Tax included in equity

£m	2019	2018
Share based payments	**(2.4)**	0.1

Current tax assets and liabilities

£m	2019	2018
Current tax receivables	**1.0**	7.8
Current tax liabilities	**(65.2)**	(136.7)
	(64.2)	(128.9)

Notes to the Group Financial Statements (continued)

Current tax risks (key estimation uncertainty)

The Group is subject to corporate and other tax rules in the jurisdictions where it conducts its business operations. Changes in tax rates, tax reliefs and tax laws, changes in practice or interpretation of the law by the relevant tax authorities, increasing challenges by relevant tax authorities on transfer pricing and other matters, or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may materially adversely affect the Group's financial condition and results of operations.

In addition, tax enforcement has become a higher priority for many tax authorities in jurisdictions in which the Group operates, which has led to an increase in tax audits, enquiries and challenges, or the testing through litigation of the boundaries of the correct interpretation of legislation. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws and the Group may have disagreements with tax authorities which could result in a material reassessment of the tax position.

In May 2019, the Group announced that it had reached an agreement with the UK tax authorities in respect of a dispute in connection with the availability of interest deductions on one of the Group's internal financing arrangements. This resulted in a one-off net payment of £55.2m, together with a one-off interest payment of £14.3m, to finally settle the Group's exposure to this matter.

The Group continues to monitor developments relating to the European Commission (EC) State Aid investigations. In April 2019, the EC published a decision on the UK Government's CFC regime, stating that it partially represents State Aid. The UK Government has appealed this decision, however in the meantime it has an obligation to collect monies from UK businesses. A liability has been recorded in respect of State Aid in the current period on the basis that the Group considers it is more likely than not that there will be an outflow of economic resources in connection with this matter, which was previously disclosed as a contingent liability. There are a number of uncertainties associated with this issue, including the result of the UK Government's appeal, which may take some time to resolve and could result in the ultimate outcome being materially different to the amount of liability recorded.

The Group has accrued £72.2m (2018: £146.8m) in respect of uncertain tax positions in the UK, US and other tax jurisdictions, together with £5.9m (2018: £18.4m) related to interest on uncertain tax positions as shown in note 20. Final resolutions will affect the amounts settled and the timing of any settlements. Whilst resolution remains uncertain, these amounts are included in current liabilities.

Deferred tax assets and liabilities

£m	**2019**	2018 (restated)	1 January 2018 (restated)
Deferred tax assets			
Recoverable within one year	**(86.2)**	(66.5)	(60.3)
Recoverable after one year	**(4.1)**	(25.9)	(4.0)
	(90.3)	(92.4)	(64.3)
Deferred tax liabilities			
Falling due within one year	**0.1**	1.6	3.2
Falling due after one year	**-**	-	2.6
	0.1	1.6	5.8
Net deferred tax assets	**(90.2)**	(90.8)	(58.5)

Further details of the restatement of the comparative Balance Sheets, due to the implementation of IFRS 16, Leases, can be found in note 2.

The following are the major deferred tax assets and liabilities recognised by the Group and the movements thereon:

£m	Intangible assets	Owned property, plant and equipment	Retirement benefit obligations	Tax losses	Other	Total
At 31 December 2017 (as previously stated)	72.3	19.3	(13.1)	(46.4)	(84.6)	(52.5)
Change in accounting policy - IFRS 16 (note 2)	-	-	-	-	(6.0)	(6.0)
At 1 January 2018 (restated)	72.3	19.3	(13.1)	(46.4)	(90.6)	(58.5)
(Credit)/charge to income statement	(12.8)	4.0	1.8	(21.6)	(5.4)	(34.0)
Credit to OCI	-	-	1.6	-	0.2	1.8
Charge to equity	-	-	-	-	0.1	0.1
Business divestments	4.3	0.2	-	-	(4.9)	(0.4)
Foreign exchange adjustments	4.1	0.3	(0.1)	(0.4)	(3.7)	0.2
At 31 December 2018 (restated)	**67.9**	**23.8**	**(9.8)**	**(68.4)**	**(104.3)**	**(90.8)**
(Credit)/charge to income statement	**(10.7)**	**0.2**	**1.5**	**15.2**	**(5.8)**	**0.4**
Charge to OCI	**-**	**-**	**1.3**	**-**	**(2.4)**	**(1.1)**
Charge to equity	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Foreign exchange adjustments	**(2.5)**	**(0.9)**	**-**	**1.6**	**3.0**	**1.2**
At 31 December 2019	**54.7**	**23.1**	**(7.0)**	**(51.6)**	**(109.4)**	**(90.2)**

Other deferred tax assets and liabilities shown above include balances arising from temporary differences in relation to provisions and accruals of £59.1m (2018: £47.8m) and disallowed interest of £30.0m (2018: £41.3m).

Tax losses (key estimation uncertainty)

Tax losses of £42.6m (2018: £51.5m) arising in the UK and £4.0m (2018: £10.5m) arising in Denmark have been recognised on the basis of UK and Danish forecasted future taxable profits, using projections prepared by management and reviewed by the Board. The recognition of these tax losses can be sensitive to movement in these forecasted profits. As an indication of sensitivity, a 33% reduction in the estimated profits would not impact the recognition of these tax losses.

At the balance sheet date, the Group has unused capital losses of £58.8m (2018: £61.1m) potentially available for offset against future capital profits in certain circumstances. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future qualifying profit streams. These losses can be carried forward indefinitely.

Unremitted earnings
The unprovided tax on unremitted earnings as at 31 December 2019 is considered to be immaterial.

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Notes to the Group Financial Statements (continued)

8. Dividends and earnings per share

Dividends

£m	2019
Interim dividend paid of £0.004 per share for 2019	9.5

Earnings per share

		2019	2018 (restated)
Basic EPS			
Earnings attributable to owners of the parent	£m	**63.3**	73.9
Weighted average number of shares	million	**2,382.6**	2,379.8
Basic EPS	pence	**2.7**	3.1
Diluted EPS			
Earnings attributable to owners of the parent	£m	**63.3**	73.9
Weighted average number of shares	million	**2,382.6**	2,379.8
Effect of dilutive securities	million	**22.5**	4.3
Diluted weighted average number of shares	million	**2,405.1**	2,384.1
Diluted EPS	pence	**2.6**	3.1

Potentially dilutive securities are unvested awards under the Group's share based payment schemes described in note 27.
Details of the restatement of earnings attributable to owners of the parent can be found in note 2.

9. Cash flow from operations

£m	Note	2019	2018 (restated)
Operating profit		**83.2**	119.2
Non-cash items:			
Share of post-tax results of joint ventures and associates		**(0.5)**	(0.5)
Depreciation and amortisation		**194.2**	186.4
Profit on sale of property, plant and equipment and intangible assets		**(0.5)**	(0.4)
Profit recognised on lease cancellations and modifications		**-**	(1.6)
Profit on divestments	28	**(5.9)**	(227.1)
Derivative financial instruments	22	**(16.2)**	19.7
Assessment of legal and other provisions	3	**-**	(1.7)
Pension contributions in excess of pension charges		**(7.3)**	(10.1)
Share based payments	27	**23.1**	5.8
Operating cash movements:			
Increase in inventories		**(2.3)**	(10.9)
Decrease in contract assets		**19.0**	8.2
Decrease/(increase) in trade and other receivables		**29.8**	(13.4)
(Decrease)/increase in contract liabilities		**(28.1)**	67.7
(Decrease)/increase in trade and other payables		**(2.0)**	20.5
(Decrease)/increase in provisions		**(2.8)**	48.4
Cash generated from operations		**283.7**	210.2
Tax paid		**(69.4)**	(25.5)
Interest paid (including make-whole fees in 2018)		**(37.6)**	(50.3)
Interest received		**11.4**	8.2
Net cash from operating activities		**188.1**	142.6

Further details of the restatement of the 2018 comparatives, due to the implementation of IFRS 16, Leases, can be found in note 2.

Notes to the Group Financial Statements (continued)

10. Intangible assets

£m	Goodwill	Arising on business combinations: Customer relationships	Technology based assets	Order book and trade names	Software and other	Total
Cost						
At 1 January 2018	1,074.9	478.4	144.1	4.4	104.6	1,806.4
Additions	-	-	-	-	6.6	6.6
Business divestments	(2.2)	-	-	-	(0.6)	(2.8)
Derecognitions and disposals	-	(74.4)	-	(0.3)	(3.5)	(78.2)
Foreign exchange adjustments	41.9	20.7	8.7	0.2	2.0	73.5
Reclassifications	-	-	-	-	1.5	1.5
At 31 December 2018	**1,114.6**	**424.7**	**152.8**	**4.3**	**110.6**	**1,807.0**
Additions	-	-	-	-	**5.2**	**5.2**
Derecognitions and disposals	-	**(209.7)**	**(1.2)**	**(2.6)**	**(2.1)**	**(215.6)**
Foreign exchange adjustments	**(25.2)**	**(10.9)**	**(5.9)**	**(0.1)**	**(2.7)**	**(44.8)**
Reclassifications	-	-	-	-	**2.9**	**2.9**
At 31 December 2019	**1,089.4**	**204.1**	**145.7**	**1.6**	**113.9**	**1,554.7**
Accumulated amortisation and impairment						
At 1 January 2018	437.9	336.5	80.7	3.2	54.3	912.6
Amortisation charge for the year	-	67.5	21.6	0.7	13.9	103.7
Eliminated on business divestments	-	-	-	-	(0.1)	(0.1)
Derecognitions and disposals	-	(74.4)	-	(0.4)	(3.2)	(78.0)
Foreign exchange adjustments	23.5	16.1	5.9	0.3	1.8	47.6
At 31 December 2018	**461.4**	**345.7**	**108.2**	**3.8**	**66.7**	**985.8**
Amortisation charge for the year	-	**66.6**	**17.6**	**0.3**	**12.4**	**96.9**
Derecognitions and disposals	-	**(209.7)**	**(1.2)**	**(2.6)**	**(1.9)**	**(215.4)**
Foreign exchange adjustments	**(4.0)**	**(9.8)**	**(4.8)**	**(0.1)**	**(1.8)**	**(20.5)**
Reclassifications	-	-	-	-	**2.2**	**2.2**
At 31 December 2019	**457.4**	**192.8**	**119.8**	**1.4**	**77.6**	**849.0**
Carrying amount						
At 31 December 2019	**632.0**	**11.3**	**25.9**	**0.2**	**36.3**	**705.7**
At 31 December 2018	653.2	79.0	44.6	0.5	43.9	821.2
At 1 January 2018	637.0	141.9	63.4	1.2	50.3	893.8

Customer relationships represent customer lists, customer contracts and the associated benefits of customer relationships recognised on acquisition. Technology based assets represent trade secrets and processes, patented and unpatented technology, and know-how recognised on acquisition.

Derecognition of intangible assets recognised on business combinations occurs when assets are fully amortised.
Amortisation charged during the year relating to intangible assets recognised on business combinations was £84.5m (2018: £89.8m). This amortisation has been excluded from underlying measures as described in note 3. All amortisation charges are included within operating costs in the Income Statement.

Notes to the Group Financial Statements (continued)

Goodwill
Goodwill represents the premium paid on acquisitions in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised, such as the value of the workforce, and is the only indefinite life intangible asset held by the Group. Goodwill must be allocated to CGUs for the purposes of reporting and accounting. CGUs are defined at the Sector level.

The carrying value of goodwill is allocated to the following Sectors:

£m	2019	2018
Communications and Connectivity	**273.2**	279.1
Mission Systems	**90.4**	91.5
Advanced Electronic Solutions	**223.3**	237.3
Aviation Services	**45.1**	45.3
Total	**632.0**	653.2

Annual impairment review (key estimation uncertainty)
A review of the carrying value of goodwill is completed at least once a year to ensure that it is not impaired. This requires estimation of the recoverable amounts of the CGUs to which the goodwill is allocated. This is determined from value in use calculations unless specific conditions at a CGU dictate otherwise.

Impairment tests on other intangible assets are undertaken if events occur which may indicate that these assets may be impaired. The carrying value of intangible assets is considered annually as part of the goodwill impairment exercise with reference to the value in use calculation of each CGU.

Estimating value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. This is considered to be a source of estimation uncertainty at the balance sheet date, which may have a significant risk of causing a material adjustment to the carrying amount of intangible assets within the next financial year.

Key assumptions
The calculation of recoverable value for CGUs based on value in use includes the following key assumptions:
- Cash flow forecasts prepared by management and reviewed by the Board covering a three year period, updated where appropriate for more recent forecasts. These forecasts take into account the current and expected economic environment including factors such as continued uncertainty, within some markets in which we operate. They also make assumptions about the demand for our products in our primary geographical markets, based on historic experience, available government spending and key current and future programme platforms. These cash flow projections do not include benefits or costs expected to arise from future restructuring or initiatives to enhance performance which have not yet commenced;
- Growth rates assumed after this period are based on long term GDP projections of the primary market for each business. The long term projections used are in the range 1.9% to 2.5% (2018: 1.6% to 2.5%);
- Cash flows are discounted using the Group's WACC, adjusted for country, cash flow and currency risks in the principal territories in which the CGU operates. These pre-tax discount rates are within the range 8.8% to 10.4% (2018: 8.6% to 10.7%);
- Cash flows include the impact of working capital and fixed asset requirements; and
- Cash flows include management charges which allocate central overheads to the CGUs.

There were no impairments in 2019 or 2018.

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Notes to the Group Financial Statements (continued)

Sensitivity analysis

Sensitivity analysis has been performed on the CGUs, as described below:

CGU	Background	Key financial assumptions	Cash flow dependencies	Sensitivity analysis
Communications and Connectivity				
	The largest elements of goodwill in Communications and Connectivity arose on the acquisition of Thrane & Thrane in 2012 and a number of Aerospace Communications businesses.	Projected cash flows for the next three years, with subsequent growth assumed at a rate of 2.0% were discounted at a pre-tax rate of 9.2%.	Cash flow projections assume growth in the satellite communications market for maritime products driven by availability of satellite capacity and aerospace products from regulatory changes and passenger connectivity demands.	If cash flows reduced by 20%, the discount rate increased by 200 basis points, or if the growth rate was zero, then no impairment losses would arise.
Mission Systems				
	Mission Systems' goodwill primarily arose on the acquisition of Carleton Technologies in 1987, Conax in 1998 and Koch in 2005	Projected cash flows for the next three years, with subsequent growth assumed at a rate of 2.1% were discounted at a pre-tax rate of 10.0%.	Cash flow projections assume that major cash outflows associated with development programmes will finish within the next few years and be replaced with cash inflows from full rate production.	If cash flows reduced by 20%, the discount rate increased by 200 basis points, or if the growth rate was zero, then no impairment losses would arise.
Advanced Electronic Solutions				
	Advanced Electronic Solutions' goodwill includes part of the Aeroflex business acquired in 2014, the Trivec business acquired in 2011, the Lansdale business and the former M/A-COM businesses acquired in 2008 and the REMEC business acquired in 2005.	Projected cash flows for the next three years, with subsequent growth assumed at a rate of 2.1% were discounted at a pre-tax rate of 10.4%.	Cash flow projections assume a production ramp up on development programmes and successful execution of order backlog.	If cash flows reduced by 20%, the discount rate increased by 200 basis points, or if the growth rate was zero, then no impairment losses would arise.
Aviation Services				
	Aviation Services' goodwill includes that arising on the acquisition of FR Aviation together with the remaining goodwill, after the impairment charge made in 2017, that arose on the acquisition of the FB Group in 2013.	Projected cash flows for the next three years, with subsequent growth assumed at a rate of 2.4% were discounted at a pre-tax rate of 8.8%.	Cash flow projections assume that major contract bids or extensions, including Operational Awareness Training in the UK and Coastwatch in Australia are successful.	If cash flows reduced by 20%, the discount rate increased by 200 basis points, or if the growth rate was zero, then no impairment losses would arise.

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Notes to the Group Financial Statements (continued)

11. Property, plant and equipment

£m	2019	2018 (restated)
Owned property, plant and equipment	**345.7**	375.7
Right-of-use assets	**127.9**	112.4
	473.6	488.1

Owned property, plant and equipment

£m	Land and buildings	Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Assets under construction	Total
Cost					
At 1 January 2018	140.5	749.4	99.2	29.9	1,019.0
Additions (restated)	4.7	27.6	5.4	26.9	64.6
Business divestments	(0.8)	(0.1)	(0.2)	(0.1)	(1.2)
Disposals	(0.2)	(38.3)	(6.9)	(0.3)	(45.7)
Foreign exchange adjustments	5.0	(1.9)	1.4	0.9	5.4
Reclassifications	4.5	9.3	4.2	(19.5)	(1.5)
At 31 December 2018 (restated)	**153.7**	**746.0**	**103.1**	**37.8**	**1,040.6**
Additions	**2.3**	**50.5**	**6.4**	**13.4**	**72.6**
Disposals	**(5.6)**	**(26.4)**	**(7.9)**	**-**	**(39.9)**
Foreign exchange adjustments	**(4.8)**	**(21.1)**	**(3.0)**	**(1.1)**	**(30.0)**
Reclassifications	**4.0**	**13.4**	**(1.6)**	**(18.7)**	**(2.9)**
At 31 December 2019	**149.6**	**762.4**	**97.0**	**31.4**	**1,040.4**
Accumulated depreciation					
At 1 January 2018	63.8	501.2	73.1	-	638.1
Depreciation charge for the year (restated)	5.8	47.7	10.4	-	63.9
Eliminated on business divestments	(0.7)	(0.1)	(0.2)	-	(1.0)
Eliminated on disposals	(0.2)	(32.8)	(6.6)	-	(39.6)
Foreign exchange adjustments	2.1	0.3	1.1	-	3.5
At 31 December 2018 (restated)	**70.8**	**516.3**	**77.8**	**-**	**664.9**
Depreciation charge for the year	**6.0**	**63.8**	**7.6**	**-**	**77.4**
Eliminated on disposals	**(2.4)**	**(16.0)**	**(7.5)**	**-**	**(25.9)**
Foreign exchange adjustments	**(2.3)**	**(14.1)**	**(2.1)**	**-**	**(18.5)**
Reclassifications	**(0.2)**	**1.8**	**(4.8)**	**-**	**(3.2)**
At 31 December 2019	**71.9**	**551.8**	**71.0**	**-**	**694.7**
Carrying amount					
At 31 December 2019	**77.7**	**210.6**	**26.0**	**31.4**	**345.7**
At 31 December 2018	82.9	229.7	25.3	37.8	375.7
At 1 January 2018	76.7	248.2	26.1	29.9	380.9

Land and buildings above include freehold land and buildings with a carrying value of £61.2m (2018: £64.6m) and improvements to leasehold land and buildings of £16.5m (2018: £18.3m) respectively.

At 31 December 2019, the Group had commitments for the acquisition of property, plant and equipment of £13.0m (2018: £13.6m).

Right-of-use assets

£m	Land and buildings	Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Total
Carrying amount at 1 January 2018	98.5	8.9	2.1	109.5
Additions	7.5	15.5	0.1	23.1
Disposals	-	(3.7)	-	(3.7)
Depreciation	(14.4)	(3.8)	(0.5)	(18.7)
Foreign exchange adjustments	2.6	(0.4)	-	2.2
Carrying amount at 31 December 2018	**94.2**	**16.5**	**1.7**	**112.4**
Additions	**25.6**	**14.6**	**(0.6)**	**39.6**
Disposals	**-**	**(0.2)**	**-**	**(0.2)**
Depreciation	**(14.2)**	**(5.1)**	**(0.4)**	**(19.7)**
Foreign exchange adjustments	**(3.2)**	**(0.9)**	**(0.1)**	**(4.2)**
At 31 December 2019	**102.4**	**24.9**	**0.6**	**127.9**

Further details of the restatement of the 2018 comparatives, due to the implementation of IFRS 16, Leases, can be found in note 2.

Notes to the Group Financial Statements (continued)

12. Investment properties

£m	2019	2018
Carrying amount at 1 January	**2.3**	2.4
Depreciation	**(0.2)**	(0.1)
Carrying amount at 31 December	**2.1**	2.3

The fair value of the Group's investment properties has been assessed to be £4.4m (2018: £5.0m). These values are based on management estimates using observable market data, taking into account current lease terms.

Property rental income earned by the Group from its investment properties amounted to £0.5m (2018: £0.5m), which is net of all direct costs associated with leasing the properties other than depreciation. The buildings held at 31 December 2019 are leased to commercial users under an operating lease with a 25 year term which expires in 2023.

13. Inventories

£m

	2019	2018
Raw materials and consumables	**176.4**	174.5
Work in progress	**130.5**	141.2
Finished goods and goods for resale	**38.0**	48.1
Allowance for obsolescence	**(75.2)**	(87.8)
	269.7	276.0

All inventory is expected to be realised within the normal operating cycle of the businesses.

Obsolescence provision (key estimation uncertainty)

The nature of much of the Group's business means that inventory held can become technically obsolete. It is also necessary to hold additional spare parts in order to support key customers and programmes. Assessing the level of provision required for obsolete, slow moving and defective items of inventory is an area of estimation uncertainty which may have a significant effect on the carrying amount of inventory within the next financial year.

This allowance is reviewed by management on a regular basis and further amounts are provided or released as considered necessary. The amounts are generally determined based on factors which include ageing and known demand, reflecting assumptions concerning future orders and revenue streams. Subsequent events may give rise to these estimates being revised and, consequently, to the reversal of amounts previously provided.

During the year, £10.4m (2018: £14.2m) was provided, £5.5m (2018: £8.7m) was utilised and £13.8m (2018: £6.0m) of the allowance for obsolescence was reversed.

The amount provided in the year represents the outcome of the key sensitivity, being changes in forecast customer demand against which production has been planned or undertaken. A 10% deterioration in the assumed immediate forecast demand would lead to an increased provision in the order of £4m (2018: £5m).

14. Financial instruments

The Group's financial assets and liabilities are categorised as follows:

£m	Note	At amortised cost	Fair value through profit or loss	At fair value through OCI	Derivatives used for hedging	Total carrying amount	Fair value
Financial assets							
Contract assets	15	**162.2**	-	-	-	**162.2**	**162.2**
Trade receivables	16	**222.0**	-	-	-	**222.0**	**222.0**
Loans and other receivables	16	**52.7**	-	-	-	**52.7**	**52.7**
Cash and cash equivalents	19	**419.0**	-	-	-	**419.0**	**419.0**
Derivative contracts (not hedge accounted)	22	-	**4.0**	-	-	**4.0**	**4.0**
Other financial assets	17	-	-	**40.7**	-	**40.7**	**40.7**
Financial liabilities							
Borrowings	18	**(312.4)**	-	-	-	**(312.4)**	**(327.6)**
Lease obligations	19	**(164.7)**	-	-	-	**(164.7)**	**(164.7)**
Contract liabilities	15	**(153.7)**	-	-	-	**(153.7)**	**(153.7)**
Trade payables	20	**(122.9)**	-	-	-	**(122.9)**	**(122.9)**
Accruals	20	**(162.4)**	-	-	-	**(162.4)**	**(162.4)**
Other financial liabilities	20	**(46.8)**	-	-	-	**(46.8)**	**(46.8)**
Derivative contracts (not hedge accounted)	22	-	**(8.3)**	-	-	**(8.3)**	**(8.3)**
Hedging instruments							
Assets	22	-	-	-	**16.5**	**16.5**	**16.5**
Liabilities	22	-	-	-	**(17.0)**	**(17.0)**	**(17.0)**
Net financial liabilities at 31 December 2019						**(71.1)**	**(86.3)**
Financial assets							
Contract assets	15	186.9	-	-	-	186.9	186.9
Trade receivables	16	259.1	-	-	-	259.1	259.1
Loans and other receivables	16	62.6	-	-	-	62.6	62.6
Cash and cash equivalents	19	406.9	-	-	-	406.9	406.9
Derivative contracts (not hedge accounted)	22	-	1.8	-	-	1.8	1.8
Other financial assets	17	-	-	39.5	-	39.5	39.5
Financial liabilities							
Borrowings	18	(396.6)	-	-	-	(396.6)	(409.0)
Lease obligations	19	(151.2)	-	-	-	(151.2)	(151.2)
Contract liabilities	15	(180.9)	-	-	-	(180.9)	(180.9)
Trade payables	20	(171.8)	-	-	-	(171.8)	(171.8)
Accruals	20	(127.3)	-	-	-	(127.3)	(127.3)
Other financial liabilities	20	(67.7)	-	-	-	(67.7)	(67.7)
Derivative contracts (not hedge accounted)	22	-	(20.8)	-	-	(20.8)	(20.8)
Hedging instruments							
Assets	22	-	-	-	22.8	22.8	22.8
Liabilities	22	-	-	-	(23.4)	(23.4)	(23.4)
Net financial liabilities at 31 December 2018						(160.1)	(172.5)

Borrowings are held at amortised cost which equates to fair value except for the Group's fixed rate borrowings. At 31 December 2019, the fair value of those borrowings was £183.1m (2018: £233.6m) compared to their book value of £167.9m (2018: £221.2m). The fair value of the fixed rate borrowings and derivative financial instruments have been determined by reference to observable market prices and rates.

Gains and losses on derivative financial assets and liabilities held at fair value through profit or loss are shown in note 22.

Notes to the Group Financial Statements (continued)

Offsetting financial assets and liabilities

Cash and cash equivalents as shown in the Balance Sheet include overdraft balances on currency cash pooling accounts which have been offset as the accounts will be settled on a net basis as described in note 24. Master netting agreements also cover all bank balances and derivative balances with the same counterparty. These do not meet the criteria for offsetting because the right to offset is only enforceable on the occurrence of future events such as a default and amounts presented in the Balance Sheet are therefore presented on a gross basis.
If full offsetting by counterparty were to be applied, the resulting net amounts would be as follows:

£m	Gross amounts before set off	Amounts set off in the Balance Sheet	Amounts as presented in the Balance Sheet	Amounts not set off in the Balance Sheet	Net amount
Financial assets					
Cash and cash equivalents	**967.4**	**(548.4)**	**419.0**	**(1.9)**	**417.1**
Derivative financial assets	**20.5**	**-**	**20.5**	**(18.9)**	**1.6**
Financial liabilities					
Bank overdrafts	**(548.4)**	**548.4**	**-**	**-**	**-**
Derivative financial liabilities	**(25.3)**	**-**	**(25.3)**	**20.8**	**(4.5)**
At 31 December 2019	**414.2**	**-**	**414.2**	**-**	**414.2**
Financial assets					
Cash and cash equivalents	832.2	(425.3)	406.9	(17.4)	389.5
Derivative financial assets	24.6	-	24.6	(24.6)	-
Financial liabilities					
Bank overdrafts	(435.5)	425.3	(10.2)	10.2	-
Derivative financial liabilities	(44.2)	-	(44.2)	31.8	(12.4)
At 31 December 2018	377.1	-	377.1	-	377.1

15. Contract balances

Contract assets

£m	2019	2018
Within current assets	**125.0**	131.0
Within non-current assets	**37.2**	55.9
	162.2	186.9

£m	2019	2018
Unbilled amounts related to goods and services transferred	**145.3**	159.6
Costs to fulfil a contract	**16.9**	27.3
	162.2	186.9

Unbilled amounts related to goods and services transferred are included in contract balances until they become unconditional, at which point they are transferred to trade receivables. Unbilled amounts arise when revenue is recognised prior to an invoice being raised to the customer; typically this arises when revenue is recognised over time as payments often have milestone payments conditional on customer acceptances on progress. During the year, £115.2m (2018: £114.3m) of the opening contract asset was transferred to trade receivables; additional amounts of £104.2m were recognised as a contract asset during the year (2018: £103.8m) as a result of changes in the measure of progress of the satisfaction of performance obligations.

Costs to fulfil a contract relate to costs incurred in advance of the commencement of delivering performance obligations to the customer, principally in respect of certain air-to-air refuelling contracts and additional provisioning on service delivery contracts.

Contract liabilities

£m	2019	2018
Advance payments from customers	**150.3**	180.9
Expected refunds to customers	**3.4**	-
	153.7	180.9

Advance payments from customers relate to amounts received prior to transferring goods or services to the customer. Of the amount recognised at 31 December 2019, £104.4m (2018: £55.6m) has been recognised in revenue during the year. Advance payments of £75.1m (2018: £125.4m) have been recognised during the year and are included in the Balance Sheet.

16. Trade and other receivables

Current

£m	2019	2018 (restated)	1 January 2018 (restated)
Trade receivables (net of allowance for expected credit losses)	**222.0**	259.1	235.7
Accrued income	**-**	-	5.6
Loans and other receivables	**27.4**	34.2	26.6
Prepayments	**33.6**	27.8	25.4
	283.0	321.1	293.3

Details of the restatement of trade and other receivables can be found in note 2.

Non-current

£m	2019	2018
Loans and other receivables	**25.3**	28.4

Impairment of trade receivables

£m	2019	2018
Trade receivables	**226.1**	266.2
Allowance for expected credit losses	**(4.1)**	(7.1)
Net trade receivables	**222.0**	259.1

Movements in the allowance for expected credit losses for trade receivables during the year are as follows:

£m	2019	2018
At 1 January	**7.1**	4.8
Additional provision for expected credit losses	**3.7**	6.6
Trade receivables written off during the year	**(2.2)**	(3.8)
Unused amounts reversed	**(4.4)**	(0.6)
Foreign exchange adjustments	**(0.1)**	0.1
At 31 December	**4.1**	7.1

Provisions for credit losses were recognised during the year in relation to amounts receivable from specific customers. Where there has been a significant increase in the risk that amounts past due will not be paid, full provision for additional credit losses is made.

The Group has limited exposure to credit risk and has not experienced significant levels of credit losses during the current or previous years. At 31 December 2019, provisions for expected credit losses were required for 8% (2018: 3%) of gross trade receivables. Information concerning management of credit risk is shown in note 24. A significant proportion of the Group's business is directly with government agencies or in respect of large government funded military programmes, where credit risk is considered to remain low.

Other classes of financial assets within trade and other receivables do not include any overdue or impaired assets.

17. Other financial assets

£m	2019
At 1 January 2018	**45.1**
Revaluation losses recognised in OCI	**(5.6)**
At 31 December 2018	**39.5**
Revaluation gains recognised in OCI	**1.2**
At 31 December 2019	**40.7**

Other financial assets represent Cobham plc's investments in the equity of AirTanker Holdings Limited and AirTanker Services Limited which relate to the Voyager (FSTA) project. These are minority shareholdings which are not held for trading and as such as are held at fair value. The Group has elected to present subsequent changes in fair value in OCI.

The fair value of these assets has been assessed using a present value methodology. The inputs to this calculation are not based on observable market data and hence they fall within level 3 of the IFRS 13 fair value hierarchy.

Valuation of other financial assets (key estimation uncertainty)
Fair value is determined based on the estimated cash flows expected to be received, discounted to present value. The estimated cash flows are calculated using an income approach reflecting the cash flows available to the Company after repayment of debt capital and interest, taking into account operating and financing cash flows. The most significant assumptions concern the anticipated usage of aircraft, including the number and types of sorties flown, and the discount rate applied. The fair value would decrease with lower than anticipated usage of the aircraft or a higher discount rate. A 10% decrease in flying hours would result in a 4% reduction in fair value and a 1% increase in discount rate would reduce the fair value by 6%. Other assumptions include interest and inflation rates, repayment of debt and the residual value of the aircraft.

Notes to the Group Financial Statements (continued)

18. Borrowings

£m	2019	2018 (restated)	1 January 2018 (restated)
Current borrowings			
Bank overdrafts	-	10.2	-
Bank loans	**141.1**	-	-
Senior notes	-	46.5	-
	141.1	56.7	-
Non-current borrowings			
Bank loans	**3.4**	152.4	204.3
Senior notes	**167.9**	174.7	630.8
	171.3	327.1	835.1
Total borrowings	**312.4**	383.8	835.1

Details of the restatement can be found in note 2.

Bank loans and overdrafts

Bank loans comprise the following:

£m	Agreement date	Maturity date	Amount drawn 2019	Amount drawn 2018	Undrawn facilities 2019	Undrawn facilities 2018
Floating rates						
€131m and US$40m loan agreements	May 2015	May 2020	**141.1**	148.8	-	-
€4m loan agreement	May 2015	May 2022	**3.4**	3.6	-	-
US$45m multi-currency revolving facility	December 2017	December 2022	-	-	**34.0**	35.3
US$450m multi-currency revolving facility	December 2017	December 2023	-	-	**339.7**	353.3
DKK320m multi-currency revolving facility	December 2017	December 2023	-	-	**36.3**	38.5
			144.5	152.4	**410.0**	427.1

Floating rate bank loans accrue interest at LIBOR or other appropriate benchmark plus margin.

As a result of the acquisition of the Group by Advent, the multi-currency revolving facilities were cancelled undrawn in January 2020 and the other loans are expected to be fully repaid by May 2020. A new US$350m intercompany revolving credit facility from one of the new intermediate holding companies was made available in January 2020. In addition, Cobham Limited is committed to accede to the debt package used by Advent to help finance their acquisition by 18 June 2020.

Bank overdrafts are repayable on demand and accrue interest at floating rates.

Senior notes

At 31 December 2019, senior notes with a total principal value of US$222.8m (£167.9m) (2018: US$282.2m; £221.2m) were outstanding as set out below:

£m	Issue date	Maturity date	2019	2018
US$930m fixed rate original amount comprising:	October 2014			
US$59.4m (originally US$180m)		October 2019	-	46.5
US$82.5m (originally US$250m)		October 2021	**62.2**	64.7
US$140.3m (originally US$425m)		October 2024	**105.7**	110.0
			167.9	221.2

The senior notes were repaid in February and March 2020 following the acquisition of the Group by Advent.

Reconciliation of movements in net debt

Net debt is defined as the net of borrowings less cash and cash equivalents at the balance sheet date.

£m	Cash and cash equivalents	Bank overdrafts	Liabilities from financing activities: Bank loans	Senior notes	Lease obligations	Net debt
At 1 January 2018 (restated)	451.9	-	(204.3)	(630.8)	(148.7)	(531.9)
Cash flows	(73.2)	(10.2)	-	-	-	(83.4)
New finance leases	-	-	-	-	(23.1)	(23.1)
Repayment of borrowings	-	-	53.6	415.1	19.0	487.7
Other lease changes	-	-	-	-	5.3	5.3
Borrowings of undertakings sold	-	-	-	-	0.3	0.3
Foreign exchange adjustments	28.2	-	(1.7)	(5.5)	(4.0)	17.0
At 31 December 2018 (restated)	**406.9**	**(10.2)**	**(152.4)**	**(221.2)**	**(151.2)**	**(128.1)**
Cash flows	**34.0**	**10.2**	-	-	-	**44.2**
New finance leases	-	-	-	-	**(39.7)**	**(39.7)**
Repayment of borrowings	-	-	-	**46.0**	**19.7**	**65.7**
Other lease changes	-	-	-	-	**1.2**	**1.2**
Foreign exchange adjustments	**(21.9)**	-	**7.9**	**7.3**	**5.3**	**(1.4)**
At 31 December 2019	**419.0**	-	**(144.5)**	**(167.9)**	**(164.7)**	**(58.1)**

Financial covenants

The various borrowing agreements include both financial and non-financial covenants but do not contain any provisions for charges over Group assets. Terms of the financial covenants are based on adjusted IFRS results, as defined in the agreements. There have been no breaches of the terms of the borrowing agreements or defaults during the current or prior year.

19. Lease obligations

The Group had the following lease obligations as lessee:

£m	2019	2018 (restated)	1 January 2018 (restated)
Current	**20.7**	16.8	17.1
Non-current	**144.0**	134.4	131.6
	164.7	151.2	148.7

Other information related to leases:

£m	2019	2018
Interest on lease liabilities	**7.8**	7.2
Variable lease payments not included in the measurement of lease liabilities	**0.1**	0.1
Income from sub-leasing right-of-use assets	**0.1**	0.1
Expenses related to short-term leases	**1.1**	0.8
Expenses related to leases of low value assets	**0.7**	0.6

Three leases for aircraft include residual value guarantees of AUS$4m per aircraft which reflect the option to buy the aircraft.
The Group has no material leases which include extension or termination options.

20. Trade and other payables

Current liabilities

£m	2019	2018	1 January 2018
Trade payables	**115.7**	171.8	140.2
Other taxes and social security	**26.1**	28.6	25.4
Accruals	**156.0**	118.9	134.4
Other liabilities	**42.9**	57.4	47.8
	340.7	376.7	347.8

Included in other liabilities is £5.9m (2018: £18.4m) related to interest on uncertain tax positions.

Non-current liabilities

£m	2019	2018 (restated)	1 January 2018 (restated)
Trade payables	**7.2**	-	-
Accruals	**6.4**	1.6	0.2
Other liabilities	**3.9**	10.3	5.1
	17.5	11.9	5.3

Details of the restatement can be found in note 2.

Notes to the Group Financial Statements (continued)

21. Provisions

£m	2019	2018 (restated)	1 January 2018 (restated)
Current liabilities	**107.2**	93.1	121.7
Non-current liabilities	**72.0**	101.7	24.1
	179.2	194.8	145.8

Movements in provisions during the year are as follows:

£m	Contract loss provisions	Provisions related to businesses divested	Restructuring provisions	Warranty claims	Other	Total
At 1 January 2019 (as originally stated)	**141.3**	**6.5**	**19.7**	**14.8**	**18.4**	**200.7**
Change in accounting policy - IFRS 16	**-**	**-**	**(7.4)**	**-**	**1.5**	**(5.9)**
At 1 January 2019 (restated)	**141.3**	**6.5**	**12.3**	**14.8**	**19.9**	**194.8**
Additional provisions in the year	**39.9**	**-**	**0.7**	**6.9**	**7.0**	**54.5**
Utilisation of provisions	**(36.3)**	**(0.1)**	**(4.3)**	**(3.3)**	**(4.4)**	**(48.4)**
Provisions released	**(5.1)**	**(5.9)**	**(0.5)**	**(0.6)**	**(2.0)**	**(14.1)**
Reclassifications	**(6.1)**	**-**	**0.6**	**0.3**	**0.6**	**(4.6)**
Foreign exchange adjustments	**(1.5)**	**-**	**(0.5)**	**(0.5)**	**(0.5)**	**(3.0)**
At 31 December 2019	**132.2**	**0.5**	**8.3**	**17.6**	**20.6**	**179.2**

Details of the restatement can be found in note 2.

Contract loss provisions (key estimation uncertainty)

Contract loss provisions are recognised for onerous contracts when the expected benefits to be derived by the Group are lower than the forecasted unavoidable cost of meeting the related contractual obligations. The assessment of the amount provided is a source of estimation uncertainty which may have a significant effect on the carrying amount of these provisions within the next financial year. The estimated costs to complete including contingencies to cover the risks identified, the outcome of negotiations with customers, the amounts recoverable under these contracts and the risk of incurring penalties for not meeting challenging delivery schedules are all areas requiring management judgement and the Group may take account of the advice of experts in quantifying the expected costs of future adverse outcomes. Due to the inherent uncertainty associated with such matters, the timing and determination of the total costs or amount of any payments under any claims could differ from the amounts provided. These provisions are expected to be utilised within four years although, where there are uncertainties surrounding the timing of utilisation, they have been disclosed as current liabilities.

There are multiple sensitivities to be considered in assessing contract loss provisions, in particular the ability to achieve development milestone dates, the accuracy of cost estimates to complete contractual work and the ability to successfully invoice and collect cash from the end customer. It is not considered practical to provide sensitivities for each of these items, and potentially misleading to suggest each one can be considered separately, so this risk is disclosed as part of our contingent liabilities in note 29.

Other categories of provisions

Provisions related to businesses divested relate to longer term warranties given on the divestments completed in 2005 and during the year. These items have been released during 2019.

Restructuring provisions relate to restructuring projects announced in the year and prior periods including onerous lease commitments. Amounts carried forward are not expected to be fully settled until 2025.

Provisions for warranty claims are expected to be utilised within three years.

Other provisions include amounts provided in respect of aircraft maintenance provisions, legal claims and environmental obligations and are mostly expected to be settled within one year. Other provisions also include longer term right-of-use asset provisions.

Notes to the Group Financial Statements (continued)

22. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

£m	Foreign exchange derivatives - not hedged	Foreign exchange derivatives - hedging instruments	Inflation swap	Total
Non-current assets	**1.8**	-	-	**1.8**
Current assets	**2.2**	**16.5**	-	**18.7**
Current liabilities	**(6.1)**	**(17.0)**	-	**(23.1)**
Non-current liabilities	**(2.2)**	-	-	**(2.2)**
Fair value at 31 December 2019	**(4.3)**	**(0.5)**	-	**(4.8)**
Non-current assets	0.2	22.8	-	23.0
Current assets	1.6	-	-	1.6
Current liabilities	(16.4)	-	-	(16.4)
Non-current liabilities	(4.4)	(23.4)	-	(27.8)
Fair value at 31 December 2018	(19.0)	(0.6)	-	(19.6)

The movements in the fair values of derivative financial instruments during the year and their impact on the income statement and equity are as follows:

£m	Foreign exchange derivatives - not hedged	Foreign exchange derivatives - hedging instruments	Inflation swap	Total
At 1 January 2018	(3.8)	0.2	(0.4)	(4.0)
(Loss)/gain through income statement - not hedged	(15.2)	0.2	0.4	(14.6)
Loss reclassified to income statement	-	(0.3)	-	(0.3)
Ineffectiveness of net investment hedge through income statement	-	0.1	-	0.1
Loss through OCI - hedged items	-	(0.8)	-	(0.8)
At 31 December 2018	**(19.0)**	**(0.6)**	-	**(19.6)**
Gain through income statement - not hedged	**14.7**	**0.1**	-	**14.8**
Loss reclassified to income statement	-	**(0.1)**	-	**(0.1)**
Ineffectiveness of net investment hedge through income statement	-	**0.1**	-	**0.1**
At 31 December 2019	**(4.3)**	**(0.5)**	-	**(4.8)**

The majority of foreign exchange derivatives and the inflation swap are not accounted for using hedge accounting and movements in fair values are recorded in the Income Statement within operating costs. These fair value movements are excluded from underlying measures as described in note 3, except for losses of £1.4m (2018: £4.9m gain) arising from the movement in fair values of currency swaps which offset movements in currency balances held.

A small number of specific foreign exchange derivatives as detailed below are designated as cash flow hedging instruments or as hedging instruments for net investment hedging purposes, and hedge accounting is applied. The foreign currency forward contracts were de-designated as hedging instruments during the year. Ineffectiveness in the cash flow hedge and net investment hedge occurs when the critical terms do not match exactly with the critical terms of the hedging instrument, this is calculated using the hypothetical derivative method.

The foreign exchange derivatives which are designated as hedging instruments are included in the Balance Sheet as follows:

£m	Cross-currency swaps - net *investment hedge*	Cross-currency swaps - cash *flow hedge*	Total
Current assets	-	**16.5**	**16.5**
Current liabilities	**(17.0)**	-	**(17.0)**
Fair value at 31 December 2019	**(17.0)**	**16.5**	**(0.5)**
Non-current assets	-	22.8	22.8
Non-current liabilities	(23.4)	-	(23.4)
Fair value at 31 December 2018	(23.4)	22.8	(0.6)
Notional amount - currency	DKK977.7m	EUR131.0m	
Notional amount - sterling	£95m	£94.9m	

There have been no changes in the cross-currency swap contracts designated as hedging instruments during the year.

The Group uses net investment hedging to manage its exposure to DKK/GBP foreign exchange risk arising on its Danish kroner functional currency foreign operations. The hedging instrument comprises cross-currency swaps (pay DKK, receive GBP) with the hedged item being the total Danish kroner net assets of the Group's operations in Denmark. There is an economic relationship between the hedged item and the hedge instrument as the net investment hedge creates a translation risk that will match the foreign exchange risk on the currency borrowing. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is broadly the same as the hedged risk component.

The Group also has in place a cash flow hedge to manage the foreign exchange risk arising out of its foreign currency borrowings. The hedging instrument comprises a cross-currency swap (pay GBP, receive EUR) with the same principal term as the borrowings. The hedge item is the €131m floating rate borrowing and the hedge ratio is 1:1.

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the accounting policies in note 1 and in note 24, financial risk management.

23. Retirement benefit schemes

£m	2019	2018
Defined benefit scheme assets	**819.3**	746.4
Defined benefit obligations	**(852.2)**	(793.0)
	(32.9)	(46.6)

Pension expense included in employment costs in note 5 are as follows:

£m	2019	2018
Defined benefit schemes	**-**	4.1
Defined contribution schemes	**28.2**	31.7
	28.2	35.8

Within the expense amounts above, £0.5m (2018: £0.5m) was outstanding in respect of defined benefit schemes but not due for payment at 31 December 2019. In addition, £1.9m (2018: £0.5m) was outstanding in respect of defined contribution schemes but not due for payment at 31 December 2019.

Defined contribution schemes

The Group operates a number of defined contribution pension arrangements. Under a defined contribution pension arrangement the Group's contribution is fixed at a set percentage of employees' pay. The contributions are recognised as an employee benefit expense as the employee provides service to the Group. There is no legal or constructive obligation to pay any additional amounts into the funds.

Defined benefit schemes

The Group also operates a number of funded defined benefit schemes (where benefits are based on employees' length of service and average final salary), the most significant being the Cobham Pension Plan (CPP). The assets of all of these schemes are held separately from those of the Group in funds under the control of trustees. However, the Group is ultimately responsible for funding any shortfall in the obligations of the schemes to their members. All defined benefit schemes have been closed to new members since 2003 and the UK schemes were closed to future accrual from 1 April 2016.

Key events

The amount recognised in the Income Statement for the year to 31 December 2018 includes a charge of £5.5m related to the equalisation of Guaranteed Minimum Pensions (GMP) and a credit of £2.1m following the closure to future accrual of the US pension scheme. Both of these amounts were presented as specific adjusting items within note 3 and further detail is provided in that note.

Subsequent to the year end and as a result of the acquisition of the Group by Advent, a new Schedule of Contributions has been agreed under which the Group will contribute £15.0m in 2020 and each subsequent year until the end of 2024. In addition, a further contribution of £35.0m was paid in February 2020.

Risk management

The defined benefit schemes expose the Group to a number of risks, as described below:

- Volatility of investment returns. If the investment return is lower then future funding obligations from the Company will increase;
- Inflation risk. Deferred pensions and pensions in payment are subject to inflationary increases. A higher inflation rate will lead to higher defined benefit obligations;
- Changes in bond yields. Volatility in the financial markets can have a significant impact on corporate bond yields which are used to generate a discount rate assumption. Lower corporate bond yields will lead to higher defined benefit obligations; and
- Life expectancy risk. The schemes' obligations are to provide benefits for the life of the member and therefore increases in life expectancy will lead to higher defined benefit obligations.

The trustees seek to mitigate these risks and have entered into a number of buy-in arrangements where assets are transferred to an insurance company in return for a qualifying insurance policy which provides an income stream equivalent to the obligations to pensioners covered by the arrangement. The most significant buy-in arrangement relates to pensioners of the CPP as at 1 July 2013. This eliminates all of the above risks in relation to these liabilities except for the credit risk related to the insurance provider. In addition, the trustees have invested in liability driven investments that mitigate most of the remaining bond yield and inflation risks, on a technical provision basis. This is achieved by using a portfolio of gilts and swaps supported with investment grade credit instruments. These investments introduce the risk that a call for further investment may be made if inflation decreases or the bond yield increases, which is managed by maintaining sufficient liquid investments. Leverage and counterparty risks are managed by the fund investment managers. The remaining assets include significant investment in diversified growth funds which seek to manage investment risks.

Actuarial valuations

Actuarial valuations of the present value of the defined benefit obligations for the CPP are carried out on a triennial basis by qualified independent actuaries; the most recent valuation was as at 1 April 2018 recording a deficit of £37.8m. Actuarial valuations of other schemes have been carried out at regular intervals as required by the applicable country regulations. In the UK, within 15 months of each triennial valuation, the employer and the trustees are required to agree a schedule of contributions to ensure that the plan is fully funded over time on a suitably prudent basis. The valuation of plan liabilities for triennial valuations are on a more prudent basis than that required by IAS 19 and therefore the schedule of contributions will address a higher deficit than that recorded on an IAS 19 basis. A new schedule of contributions has been agreed subsequent to the year end for the CPP as explained in the events section above. The Group expects to contribute £50.0m to its defined benefit pension schemes in 2020 and, under the current schedules of contributions, £15.0m each year until December 2024.

The actuarial valuations for all schemes were updated for accounting purposes to 31 December 2019 by qualified independent actuaries.

Notes to the Group Financial Statements (continued)

Assumptions (source of estimation uncertainty)

A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates. These are considered to be major sources of estimation uncertainty as comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements within the next financial year. The Group uses published indices and independent actuarial advice to select the values of critical assumptions.

The principal financial assumptions used for the purpose of the actuarial valuations were as follows:

	2019		2018	
	UK schemes	USA scheme	UK schemes	USA scheme
RPI inflation assumption (rate of increase in pensions in payment unless overridden by specific scheme rules)	**3.15%**	**N/A**	3.45%	3.00%
CPI inflation assumption (rate of increase in deferred pensions)	**2.15%**	**N/A**	2.45%	2.00%
Discount rate	**2.00%**	**3.06%**	2.70%	4.11%

The mortality assumptions used for the CPP are based upon actuarial tables which reflect actual recent mortality experience and also allow for future mortality improvements. The mortality tables used to estimate life expectancy are known as 'SAPS CMI 18' (2018: SAPS CMI 17). In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Life expectancy
Male	1954	2019	87 years
Female	1954	2019	89 years

At 31 December 2019, it has been assumed that members will commute on average 25% (2018: 25%) of their pension for cash at retirement.

Sensitivity analysis

The sensitivity of scheme liabilities to changes in certain key assumptions, after adjusting for liabilities covered by insurance contracts, is provided below:

	Change in assumption	Change in liabilities
Discount rate	Increase by 1.0%	-10%
Inflation rate (both RPI and CPI)	Increase by 0.5%	+2%
Life expectancy	Increase by one year	+2%

If the change in assumptions were in the opposite direction to that shown above, the impact would be approximately symmetrical.

Movements in scheme assets and scheme liabilities

A summary of the movements in the net liability and the amounts recognised in the Income Statement and OCI are as follows:

	2019			2018		
£m	Scheme assets	Defined benefit obligations	Total	Scheme assets	Defined benefit obligations	Total
Current service cost included in administrative expenses	-	-	-	-	(0.7)	(0.7)
Past service cost included in administrative expenses	-	-	-	-	(5.5)	(5.5)
Gain on curtailment included in administrative expenses	-	-	-	-	2.1	2.1
Scheme administration expenses	**(0.2)**	-	**(0.2)**	(0.2)	-	(0.2)
Amounts recognised in operating profit	**(0.2)**	-	**(0.2)**	(0.2)	(4.1)	(4.3)
Net interest	**20.3**	**(21.3)**	**(1.0)**	19.2	(20.7)	(1.5)
Amounts credited/(charged) to other finance expense	**20.3**	**(21.3)**	**(1.0)**	19.2	(20.7)	(1.5)
Actual return less interest income on pension scheme assets	**78.0**	-	**78.0**	(63.5)	-	(63.5)
Experience gains and losses arising on scheme liabilities	-	**(0.2)**	**(0.2)**	-	17.3	17.3
Actuarial gains and losses arising from changes in financial assumptions	-	**(78.8)**	**(78.8)**	-	41.4	41.4
Actuarial gains arising from changes in demographic assumptions	-	**7.8**	**7.8**	-	13.7	13.7
Amounts recognised in OCI	**78.0**	**(71.2)**	**6.8**	(63.5)	72.4	8.9
Employer contributions	**7.5**	-	**7.5**	14.4	-	14.4
Settlements	-	-	-	(4.3)	4.3	-
Benefits paid	**(32.1)**	**32.1**	-	(36.5)	36.5	-
Amounts included in Cash Flow Statement	**(24.6)**	**32.1**	**7.5**	(26.4)	40.8	14.4
Exchange differences	**(0.6)**	**1.2**	**0.6**	1.0	(1.9)	(0.9)
Net movement in the year	**72.9**	**(59.2)**	**13.7**	(69.9)	86.5	16.6
Balance at start of year	**746.4**	**(793.0)**	**(46.6)**	816.3	(879.5)	(63.2)
Net liability at end of year	**819.3**	**(852.2)**	**(32.9)**	746.4	(793.0)	(46.6)
UK schemes	**801.2**	**(819.8)**	**(18.6)**	731.2	(764.2)	(33.0)
US scheme	**18.1**	**(32.4)**	**(14.3)**	15.2	(28.8)	(13.6)
Net liability at end of year	**819.3**	**(852.2)**	**(32.9)**	746.4	(793.0)	(46.6)

Notes to the Group Financial Statements (continued)

The cumulative amount of actuarial losses recognised in OCI since transition to IFRS is £225.4m (2018: £232.2m).
Of the net actuarial gain recognised in the year, the loss from changes in financial assumptions is primarily driven by the movements in the discount rate, while the gain from changes in demographic assumptions arises from the use of the latest mortality tables.

The actual gain on scheme assets was £98.3m (2018: loss £44.3m).
The gain in 2019 reflects the use of liability driven investments which increased significantly in value as the pension liabilities increase, and the impact of the increased value of the insurance contracts which are linked to the value of the underlying insured liabilities. The weighted average duration of the scheme liabilities is estimated to be 17 years.

Settlements in 2018 relate to the purchase of annuities for certain members of the US pension plan.

Scheme assets
The fair value of major categories of scheme assets, and as a percentage of total scheme assets, is as follows:

	2019		2018	
	£m	**%**	£m	%
UK equity instruments	**13.0**	**1.6%**	11.0	1.5%
Global equities	**92.8**	**11.3%**	87.3	11.7%
Liability driven investments	**124.9**	**15.2%**	113.9	15.3%
Corporate bonds	**75.9**	**9.3%**	76.2	10.2%
Private credit	**32.5**	**4.0%**	34.2	4.6%
Diversified growth funds	**119.5**	**14.6%**	119.2	15.9%
Insurance contracts	**282.2**	**34.4%**	274.9	36.8%
Other assets including cash	**78.4**	**9.6%**	29.7	4.0%
	819.2	**100.0%**	746.4	100.0%

Scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by the Group. None of the scheme assets are quoted in an active market. The above, except for the insurance contracts assets, are pooled investment vehicles and are valued based on bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads based on valuations provided by the investment manager. Insurance contracts are valued based on the valuation of the liabilities insured.

Other retirement benefit schemes
The assets and liabilities of other immaterial retirement benefit schemes are as follows:

	2019		2018	
£m	Assets	Liabilities	Assets	Liabilities
French indemnity schemes	**-**	**(6.2)**	-	(6.2)
German based schemes	**-**	**-**	-	0.0
Norwegian based schemes	**3.6**	**(4.1)**	4.0	(4.3)
	3.6	**(10.3)**	4.0	(10.5)

Given their relative values, disclosure of the full reconciliation of movements in assets and liabilities is not provided. The actuarial loss for these schemes in the year to 31 December 2019, recognised in OCI, was £nil (2018: £1.0m). The net liabilities are included in other liabilities in note 20.

24. Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks which include the effects of changes in foreign currency exchange rates, interest rates, liquidity risk and credit risk. During the year, the Group had in place a risk management programme that sought to limit the adverse effects on the financial performance of the Group by using foreign currency financial instruments, debt and other instruments. Other derivative financial instruments were used from time to time to manage exposures such as inflation risk. The Group does not trade in financial instruments. The financial risk management policies agreed by the Board did not change during the year and are summarised below.

The Directors will revisit the appropriateness of this these policies during 2020 following the acquisition of the Group by Advent and will also reconsider risk management requirements to accomodate anticipated future changes to the financial structure of the Group.

Foreign currency risk
Foreign currency risk exposure and risk management strategy

The Group is based in the UK, currently reports in sterling and has significant investment in overseas operations in the USA, Australia and other European countries. As a result, the Group's Balance Sheet, including the net debt position, can be affected by movements in these countries' exchange rates. The Group's policy is to reduce, or eliminate where practical, both structural and transactional foreign exchange risk and, consequently, the net foreign exchange gains and losses included in the Income Statement amounted to a gain of £12.7m (2018: £6.6m loss). The Group undertakes to manage the currency mix of debt and EBITDA so that they are broadly in line to mitigate the impact of currency fluctuations on the net debt to EBITDA financial covenant. All currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Cobham plc management.

The Group has the following exposure to foreign currency denominated monetary assets and monetary liabilities in the Balance Sheet, translated into sterling at the relevant year-end exchange rates:

£m	Monetary assets **2019**	Monetary liabilities **2019**	Monetary assets 2018	Monetary liabilities 2018
US dollars	**533.6**	**(434.6)**	622.9	(298.7)
Euro	**132.5**	**(145.9)**	99.9	(152.3)
Australian dollars	**44.5**	**(19.6)**	52.0	(20.0)
Danish kroner	**3.6**	**(14.8)**	11.9	(10.9)
Other currencies	**29.7**	**(19.3)**	26.7	(5.1)
	743.9	**(634.2)**	813.4	(487.0)
Sterling denominated monetary assets and liabilities	**151.9**	**(258.8)**	129.9	(171.8)
	895.8	**(893.0)**	943.3	(658.8)

Foreign currency borrowings are used to mitigate the impact of foreign currency exchange differences arising from the Group's overseas net assets. Monetary liabilities in the table above include US dollar borrowings of £198.4m (2018: £253.0m) which match exposures arising from currency denominated net assets.

On consolidation, the net assets of overseas subsidiaries (which include the monetary assets and liabilities shown in the table above) are translated at closing exchange rates and exchange differences arising are accounted for in OCI through the translation reserve (note 26).
Foreign currency derivative contracts are also used to manage exposure to currency risks as detailed below.

The Group is exposed to foreign currency risk in the Income Statement where individual subsidiaries hold non-functional currency monetary assets and liabilities and when an operating unit makes sales and purchases in currencies other than its own functional currency. The Group undertakes a formal process to actively manage and mitigate this exposure through a combination of matching non-functional currency revenues and costs, matching non-functional currency monetary assets and liabilities and through the use of forward contracts.

Group policy is that at least 80% of the next 12 months' forecast cash flows in non-functional currencies are covered by forward foreign exchange contracts. For shorter cycle businesses, the profile of hedging is based on customer commitments which are subject to approval by the Group CFO. Where forecasted currency cash flows do not arise this will result in increased income statement exposure to foreign currency exchange differences. These are however managed at a Group level and mitigating action is taken where possible. Hedge accounting is not applied for these forward foreign exchange contracts.

The most important exchange rates for the Group are sterling/US dollar and Danish krone/US dollar. The Group has the following forward foreign currency contracts outstanding for net sales of US dollars for sterling and Danish kroner:

	US$m amount **2019**	US$m amount 2018	Average US$: £ exchange rate **2019**	Average US$: £ exchange rate 2018
Expiring within one year	**51.3**	98.9	**1.35**	1.37
Expiring within one to two years	**33.9**	28.4	**1.39**	1.38
Expiring after two years	**24.2**	25.1	**1.41**	1.49
US$/sterling contracts outstanding at 31 December	**109.4**	152.4	**1.37**	1.39

Notes to the Group Financial Statements (continued)

	US$m amount		Average US$: DKK exchange rate	
	2019	2018	**2019**	2018
Expiring within one year	**103.1**	74.7	**6.42**	5.93
Expiring within one to two years	**39.1**	0.6	**6.42**	6.08
Expiring after two years	**-**	0.6	**-**	5.95
US$/DKK contracts outstanding at 31 December	**142.2**	75.9	**6.42**	5.93

The latest expiry date of forward foreign currency contracts for sales of US dollars is June 2023 and it is the Group's current belief that the net dollar receipts by subsidiaries will exceed the level of the outstanding commitments.

Sensitivity analysis

Financial instruments denominated in a currency other than the functional currency in which they are measured create exposure to foreign currency exchange rate risk. These financial instruments include the monetary assets and liabilities and the forward foreign currency contracts shown in the tables above. The sensitivity arising on these financial instruments from a weakening in sterling against the respective foreign currency at the balance sheet date is set out below, with a negative number indicating a reduction in profit after taxation or total equity.

			2019			2018
£m	Sensitivity	Profit or loss	Total equity	Sensitivity	Profit or loss	Total equity
US dollars to sterling	**12%**	**(25.1)**	**(25.1)**	12%	(19.4)	(19.4)
US dollars to Danish kroner	**10%**	**(7.8)**	**(7.8)**	12%	(1.7)	(1.7)
Euro to sterling	**13%**	**(5.4)**	**(5.4)**	13%	(7.9)	(7.9)

The sensitivities used represent management's assessment of the possible changes in foreign exchange rates, based on experience over the previous five years. These potential changes are, however, hypothetical and actual rates in future may differ significantly as a result of developments in global financial markets. This sensitivity analysis has been based on the assumption that all other variables, including interest rates, remain constant.

Use of hedging

As detailed in note 22, the Group uses net investment hedging to manage its exposure to DKK/GBP foreign exchange risk arising on its DKK functional currency foreign operations. Exposure to foreign exchange risk arising out of the Group's foreign currency borrowings is also managed using cross-currency swaps designated as hedging instruments in a cash flow hedge. Further details on the use of foreign exchange derivative financial instruments in hedge relationships can be found in note 22.

Interest rate risk

The Group has borrowings with a range of maturities at both fixed and floating rates of interest. In managing its borrowing costs, the Group monitors its exposure to movements in interest rates, having regard to prevailing market conditions and, where necessary, uses interest rate swaps to manage the interest rate risk. At 31 December 2019, the Group does not have any interest rate swaps outstanding.
All floating rate borrowings have regular repricing dates.

£m	**2019**	2018 (restated)
Fixed rate borrowings		
Senior notes	**167.9**	221.2
Floating rate borrowings		
Bank loans and overdrafts	**144.5**	162.6
Total borrowings	**312.4**	383.8

Surplus funds are placed on short term fixed rate deposit and as such also give rise to interest rate exposure. There was no material sensitivity to changes in interest rates at the year end.

Liquidity risk

The Group's policy on managing liquidity risk throughout the year has been to maintain a mix of short, medium and long term borrowings with lenders. Overdraft and revolving credit facilities provide short term flexibility whilst the revolving credit facilities provide longer term committed funding.

As shown in note 18, at 31 December 2019, undrawn committed borrowing facilities of £410.0m (2018: £427.1m) were available to the Group in various currencies.

At an operating level, the Group has a positive cash flow from operating activities and where practical the funds generated by business units are managed on a regional basis. In the UK and USA, most business units utilise local banking facilities within a UK or US group arrangement. This allows a balance to be maintained between continuity of funding, security and flexibility.

The table below summarises the remaining contractual maturity for the Group's borrowings and other financial liabilities. The amounts shown are the contractual undiscounted cash flows which include interest, analysed by contractual maturity. The difference between the contractual cash flows and the carrying amount of these liabilities reflects the effects of interest not included in the carrying amount and discounting applied in assessing fair value.

£m	Within one year	1-2 years	2-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Borrowings	**153.4**	**70.3**	**124.8**	**3.8**	**352.3**
Lease obligations	**25.5**	**28.4**	**64.8**	**90.6**	**209.3**
Trade and other payables	**438.5**	**24.0**	**13.1**	**8.7**	**484.3**
At 31 December 2019	**617.4**	**122.7**	**202.7**	**103.1**	**1,045.9**
Derivative liabilities					
Foreign exchange derivatives					
Gross cash outflows	**562.6**	**27.1**	**10.6**	**-**	**600.3**
Gross cash inflows	**(544.9)**	**(25.9)**	**(9.6)**	**-**	**(580.4)**
At 31 December 2019	**17.7**	**1.2**	**1.0**	**-**	**19.9**
Non-derivative financial liabilities					
Borrowings	69.9	157.1	84.9	114.0	425.9
Lease obligations	26.5	20.2	60.7	98.5	205.9
Trade and other payables	490.2	22.9	23.1	9.6	545.8
At 31 December 2018 (as restated)	586.6	200.2	168.7	222.1	1,177.6
Derivative liabilities					
Foreign exchange derivatives					
Gross cash outflows	417.1	181.7	23.5	-	622.3
Gross cash inflows	(400.7)	(156.9)	(21.0)	-	(578.6)
At 31 December 2018	16.4	24.8	2.5	-	43.7

As described in note 18, following the acquisition of the group by Advent, borrowing facilities have been re-negotiated and all borrowings shown above are expected to be fully repaid by May 2020.
Details of the restatement can be found in note 2.

Credit risk

The Group's principal financial assets are bank balances, contract assets, trade and other receivables and derivative financial instruments. There are no significant concentrations of credit risk. The Group is exposed to credit risk on these balances through its operating activities as the counterparties involved may not meet their obligations under the contract or financial instrument, leading to a financial loss.

The Group has a conservative policy towards the credit risk related to liquid funds and derivative financial instruments with balances currently spread across a range of reputable financial institutions. The levels of credit risk are monitored through the Group's ongoing risk management processes, which include a regular review of the banks' credit ratings. Risk in this area is limited further by setting a maximum level for term deposits with any one counterparty.

Concentrations of credit risk with respect to trade receivables are limited due to the Group having a large customer base. Customers are typically large global companies or government agencies with long term trading relationships. The Group also has in place procedures that require appropriate credit checks on potential customers before sales are made and any requests for extended credit are approved by senior management. Letters of credit are obtained where necessary from reputable banks and financial institutions. Existing customer accounts are monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. No further credit risk provision is required in excess of the provision for impaired receivables shown in note 14.

Group management monitors debtor days and the ageing of all overdue receivables on a regular basis. At 31 December 2019, 21.4% (2018: 23.5%) of gross trade receivables were overdue including 7.4% (2018: 6.8%) which were overdue by one month or more.
The maximum exposure to credit risk at 31 December 2018 is the fair value of financial assets as disclosed in note 14. Group assets have not been pledged in respect of the Group's primary borrowing facilities or other financial liabilities.

Bank term balances totalling £5.4m (2018: £5.8m) have been pledged against the residual value of leased assets under an agreement which expires in 2020.

The Group has master netting arrangements in respect of bank balances in the UK. In the normal course of business, these bank accounts are settled on a net basis within each currency and as such are presented net in the Balance Sheet as shown in note 16. In the event of an automatic enforcement event, the bank balances are set off against each other to achieve a net position. Derivatives can also be offset by counterparties in the event of a default; net amounts that result on this basis are also shown in note 16.

Inflation risk

The Group's exposure to inflation is considered to be a general business risk which is mitigated through normal commercial activity. The Group has previously used an inflation swap contract to manage the inherent inflation risk in a specific operational contract which was completed during 2018. The fair value of this swap contract is included in derivative financial instruments shown in note 22.

Capital risk management

Capital is defined as total equity excluding non-controlling interests and amounted to £1,204.2m at 31 December 2019 (2018: £1,169.4m restated).

During 2019, the Board agreed a capital allocation policy for the Group which embodied a disciplined approach to investment and value creation. Priorities for capital allocation were as follows:

1. **Organic investment.** Investing in businesses we know and understand is the best way to deliver shareholder value. We will invest for capability enhancement and growth, including in technology and people and on capital expenditure for equipment and infrastructure, as well as for the resolution of legacy items;
2. **Dividends.** The Board reinstated an ordinary dividend payment with the 2019 interim results. It intended to follow a progressive policy which would take into consideration the profitability and underlying growth of Cobham's businesses and its capital requirements, while ensuring an appropriate level of earnings and free cash flow cover;
3. **Mergers and acquisitions.** We will carefully consider bolt-on size business acquisitions and other investments where there is a strong strategic fit and management bandwidth to properly integrate;
4. **Shareholder returns.** If, after such investments and distributions there is surplus capital, the Board would look to return cash to shareholders.

The Board has previously set a net debt/EBITDA threshold of 1.5x. This was considered to be the appropriate target in order to maintain the strength of the Balance Sheet.

25. Share capital

	Number of shares	**2019 £m**	Number of shares	2018 £m
Issued and fully paid				
Ordinary shares of par value 2.5p	**2,466,961,115**	**61.7**	2,466,961,115	61.7
6% second cumulative preference shares of £1	**19,700**	**-**	19,700	-

As at 31 December 2019, 83,915,050 (2018: 85,300,412) ordinary shares were held in treasury including 7,963,326 (2018: 9,348,688) shares held in the Cobham Employee Benefit Trust. At 31 December 2019, the market value of treasury shares was £137.8m (2018: £83.4m), including shares with a market value of £13.1m (2018: £9.1m) held by the Cobham Employee Benefit Trust.

Treasury shares held in the EBT are used to satisfy awards and options under the Group's share based payment schemes. Receipts from option exercises are included in retained earnings and total equity. Subsequent to the year end, 18,724,948 ordinary shares held in treasury were transferred to the EBT and used in settlement of oustanding share based payment scheme awards and options.

26. Other reserves

£m	Note	Translation reserve	Hedge reserve	Share based payment reserve	Total other reserves
At 1 January 2018		(34.3)	0.4	24.3	(9.6)
Foreign exchange differences on translation of overseas operations (restated)		56.6	-	-	56.6
Reclassification of foreign exchange on divestment of overseas operation		(15.8)	-	-	(15.8)
Movements on cash flow hedges - foreign exchange contracts		(0.3)	(0.5)	-	(0.8)
Reclassification of fair value of cash flow hedges to income statement		-	(0.3)	-	(0.3)
Share based payments recognised in reserves	27	-	-	5.8	5.8
Transfer of share based payment reserve on exercise		-	-	(4.0)	(4.0)
Tax effects		(0.2)	0.1	(0.1)	(0.2)
At 31 December 2018 (restated)		**6.0**	**(0.3)**	**26.0**	**31.7**
Foreign exchange differences on translation of overseas operations		**(51.0)**	**-**	**-**	**(51.0)**
Movements on cash flow hedges - foreign exchange contracts		**(1.3)**	**1.3**	**-**	**-**
Reclassification of fair value of cash flow hedges to income statement		**-**	**(0.1)**	**-**	**(0.1)**
Share based payments recognised in reserves	27	**-**	**-**	**23.1**	**23.1**
Transfer of share based payment reserve on exercise		**-**	**-**	**(1.6)**	**(1.6)**
Tax effects		**0.1**	**(0.2)**	**2.4**	**2.3**
At 31 December 2019		**(46.2)**	**0.7**	**49.9**	**4.4**

Details of the restatement can be found in note 2.

The translation reserve comprises all foreign exchange differences arising on the results and financial position of subsidiaries whose functional currencies differ from the Group's reporting currency together with foreign exchange movements arising on foreign exchange derivatives designated as hedge instruments.

The hedge reserve reflects movements in fair values on cash flow hedging derivatives as detailed in notes 22 and 24.

The share based payment reserve includes the cost of awards as assessed under IFRS 2 and detailed in note 27, together with related deferred tax provided under IAS 12. The appropriate proportion of this reserve is transferred to retained earnings following vesting or exercise.

27. Share based payments

The Group has offered a number of long term incentive schemes which provided a mix of performance based incentive and retention awards as described below. All schemes are equity settled.

As a result of the acquisition of Cobham plc by Advent all employee share schemes vested on 15 January 2020 and the schemes ceased. The final vesting proportions were determined by the Cobham plc Remuneration Committee in December 2019. In accordance with IFRS 2, the charges which would have been recognised over the remainder of the vesting periods have been accelerated and recognised in the financial statements for the year ended 31 December 2019, and reported as a non-underlying expense.

The Long Term Incentive Plan was offered to senior executives across the Group and allowed for annual grants of Performance Share Plan (PSP) or Restricted Share Plan (RSP) awards. PSP awards are conditional shares and nil-cost options with vesting conditions based on the Group's financial performance, taking into account non-market based measures such as underlying profit, EPS and cash conversion. In previous years, awards have also included market based conditions such as TSR growth. The scheme includes retention awards granted from time to time to specific personnel and buy-out awards granted to key new starters, vesting after a maximum of three years conditional only upon continued employment within the Group. RSP awards provide conditional shares which vest solely on continued employment within the Group over a maximum of four years.

The Group also operated a Save AS You Earn (SAYE) scheme which was open to all UK employees and it has previously offered share options under the Cobham Employee Share Option Scheme (ESOS). These are fully vested with exercise prices in the range £1.613 to £1.826.

The total amount included in the Income Statement arising from share based payment schemes is as follows:

	2019			2018
£m	Basic charge	Additional charge	Total	Total
PSP	**7.9**	**14.0**	**21.9**	3.2
RSP	**0.8**	**0.1**	**0.9**	2.0
SAYE	**0.3**	**-**	**0.3**	0.6
	9.0	**14.1**	**23.1**	5.8

The additional charge reflects the reassessment of vesting expectations and the early vesting of awards following a decision by the Remuneration Committee in December 2019. In accordance with IFRS 2, this resulted in an additional share based payment charge of £14.1m as shown above, together with a further £2.6m of social security costs due in connection with the vesting of these awards.

The number of awards outstanding at 31 December under each scheme are as follows:

Number of awards (thousands of shares)	**2019**	2018
PSP	**21,749**	18,484
RSP	**1,812**	2,692
SAYE	**3,022**	5,388
ESOS	**490**	2,675
At 31 December	**27,073**	29,239

All awards shown above as outstanding at 31 December 2019 vested on 17 January 2020.

PSP

Number of awards (thousands of shares)	**2019**	2018
At 1 January	**18,484**	13,597
Awards granted	**16,515**	11,918
Awards forfeit, cancelled or expired	**(3,712)**	(6,274)
Exercised	**(649)**	(757)
Lapsed	**(8,889)**	-
At 31 December	**21,749**	18,484

Weighted average share price at date of exercise	**£1.163**	£1.220
Weighted average remaining contractual life of PSP awards outstanding	**1.2 years**	1.8 years
Number of PSP awards exercisable at 31 December (thousands)	**434**	34

Awards granted in the year under the PSP scheme were mainly granted in May and June 2019 with an average fair value of £1.046 (2018 awards: £1.218). There is no exercise price for these awards. Fair values are calculated using the Black-Scholes option pricing model. The weighted average inputs into the model were as follows:

	2019	2018
Weighted average share price	**£1.046**	£1.218
Expected life	**2.7 years**	3.0 years
Expected employee cancellation rate	**6.0%**	5.0%
Risk free rate	**n/a**	n/a

The expected lives used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability and behavioural considerations. The expected employee cancellation rates are based on assessments of historic rates of voluntary cancellations of contracts by employees.

Notes to the Group Financial Statements (continued)

RSP

RSP awards provide conditional shares based solely on continued employment within the Group over a maximum of four years.

Number of awards (thousands of shares)	2019	2018
At 1 January	**2,692**	5,052
Awards granted	**174**	372
Awards forfeit, cancelled or expired	**(440)**	(691)
Exercised	**(470)**	(2,041)
Lapsed	**(144)**	
At 31 December	**1,812**	2,692

	2019	2018
Weighted average share price at date of exercise	**£1.342**	£1.059
Weighted average remaining contractual life of RSP awards outstanding	**0.3 years**	1.1 years
Number of RSP awards exercisable at 31 December (thousands)	**55**	153

Awards granted in the year under the RSP scheme were granted in May and June 2019 with an average fair value of £1.019 (2018 awards: £1.240) to specific senior management. Fair values are calculated using the Black-Scholes option pricing model and equate to the market price on the date of grant.

28. Business divestments

In March 2018, the Group completed the divestment of its AvComm and Wireless test and measurement businesses, part of the Communications and Connectivity Sector, together with two smaller businesses in the same Sector.

£m	2019	2018 (restated)
AvComm and Wireless	**(0.1)**	218.5
Opera and Lightning Test	**-**	7.1
Additional profit on other divestments in prior years	**5.8**	1.5
	5.9	227.1

The £6.0m additional profit on other divestments in prior years relates to the release of provisions for longer term warranties given on divestments completed in 2005 which are now time-expired. The profit on divestments has been excluded from underlying operating profit as disclosed in note 3.

29. Contingent liabilities

The Group makes provisions when it is probable there will be a cash outflow to settle liabilities and it can be reliably estimated. Contingent liabilities are potential future cash outflows which are less certain or cannot be measured reliably. The disclosure below is intended to highlight potential risks that are not provided for in the Balance Sheet.
At 31 December 2019, the Company and the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the Group Financial Statements.

The Company and various of its subsidiaries are, from time to time, parties to various legal proceedings and claims and management do not anticipate that the outcome of these, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain and could materially impact the Group's future reported earnings. In particular, on fixed price and fixed fee development contracts, costs incurred and anticipated can significantly exceed amounts estimated as a result of material enhancements to the specifications originally agreed under the contracts. Also, there are onerous contract terms and challenging delivery schedules on air to air refuelling development contracts. The Group may take account of the advice of experts as required in making judgements on contractual issues and whether the outcome of negotiations will result in an appropriate recovery of costs. Judgement is therefore required as regards the estimated costs to complete, the outcome of negotiations with customers and the amounts recoverable under these contracts. The amount recoverable may be subject to direct damages due to the customer and damages or penalties they incur from their own end users. In the case where the Group is undertaking development activity at its own cost, including production and service readiness, and has given performance undertakings to prospective customers, then a liability for losses consequent upon the failure to meet such undertakings could exist.

The Group is subject to corporate and other tax rules in the jurisdictions where it conducts its business operations. Changes in tax rates, tax reliefs and tax laws, changes in practice or interpretation of the law by the relevant tax authorities, increasing challenges by relevant tax authorities on transfer pricing and other matters, or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may materially adversely affect the Group's financial condition and results of operations.

In addition, tax enforcement has become a higher priority for many tax authorities in jurisdictions in which the Group operates, which has led to an increase in tax audits, enquiries and challenges, or the testing through litigation of the boundaries of the correct interpretation of legislation. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws and the Group may have disagreements with tax authorities which could result in a material reassessment of the tax position.

The Group continues to monitor developments relating to the European Commission (EC) State Aid investigations. In April 2019, the EC published a decision on the UK Government's CFC regime, stating that it partially represents State Aid. The UK Government has appealed this decision, however in the meantime it has an obligation to collect monies from UK businesses. A liability has been recorded in respect of State Aid in the current period on the basis that the Group considers it is more likely than not that there will be outflow of economic resources in connection with this matter, which was previously disclosed as a contingent liability There are a number of uncertainties associated with this issue, including the result of the UK Government's appeal, which may take some time to resolve and could result in the ultimate outcome being materially different to the amount of liability recorded.

Notes to the Group Financial Statements (continued)

30. Related party transactions

Transactions between Cobham Limited and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed. There were no material related party transactions during the periods covered by these Financial Statements.

Details of the compensation of key management personnel can be found in note 5.

The Directors of Cobham Limited had no material transactions with the Company during the year, other than as a result of service agreements. Details of Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 25 to 36.

31. Events after the balance sheet date

Advent acquisition

On 25 July 2019, the Board announced it had reached agreement with Advent for the acquisition of the entire share capital of the Group (the Transaction), to be implemented by means of a Court-sanctioned scheme of arrangement (the Scheme) under Part 26 of the Companies Act. A General Meeting was held on 16 September 2019 where the Scheme was duly approved by the Group's shareholders. Court approval to enact the Scheme was received on 15 January 2020 resulting in the closing of the Transaction on 17 January 2020.

At the balance sheet date, the Group had a number of commitments that were contingent upon completion of the Transaction, and crystallisation of the following commitments:

- The Board were independently advised on the Transaction, for which fees were payable on completion of £24.0m. In addition, a further £0.5m of contingent advisor fees were incurred up to the balance sheet date;

- The Remuneration Committee exercised its discretion in December 2019 to allow the early vesting of certain outstanding long term incentive plan awards, to take effect on Court Sanction. In accordance with IFRS 2, Share Based Payments, this decision led to a reassessment of the outcome of vesting expectations and acceleration of charges originally allocated to future years of £14.1m as shown in note 27 (plus related social security costs of £2.6m); and

- Certain employee contractual obligations became payable on change of control totalling £5.7m.

Each of these pre-existing commitments have been treated as an adjusting post balance sheet event in these financial statements and the costs have been included as specific adjusting items as set out in note 3.

With regards to the Group's UK defined benefit pension obligations, prior to 17 January 2020, Advent and the Trustees agreed specific arrangements including annual deficit funding of £15m until December 2024, payable monthly, together with an upfront contribution of £35m.

On completion of the Transaction, the Group has a new ultimate controlling party being funds managed by Advent International Corporation. The intermediate parent company will be AI Convoy Bidco Limited, a company registered in England and Wales. A number of the Group's contractual arrangements include change of control clauses which will be enacted, none of which had a material impact on the financial position as at 31 December 2019.

Cobham announced on 20 December 2020 that a series of legally binding UK undertakings were made during the regulatory approvals process for the Advent acquisition, to reflect its commitment to the UK and to safeguard the important role Cobham plays in the UK economy and the defence sector. These became effective on 17 January 2020, and relate to:

- maintenance a headquarters in the UK for each of the Communications & Connectivity, Aviation Services UK and Missions Systems UK businesses;
- research and development spending in the UK;
- continued use of the Cobham registered name in the UK; and
- the level of employees in the UK.

Future compliance and monitoring will, in some cases, be subject to external audit procedures and in all cases will be subject to the responsibility of a specific officer of the Cobham Board.

In addition, and as described in note 18, the Group's revolving credit facility (which was undrawn at 31 December 2019) has been cancelled, and existing bank loans and senior debt repaid, in line with change of control provisions (with a final balance on the loans payable in May 2020). The Group will also accede to the new senior debt arrangements used for acquisition financing on 18 June 2020. The financial covenants included in the borrowings outstanding at year end have therefore also been extinguished after the balance sheet date.

Notes to the Group Financial Statements (continued)

COVID-19

The beginning of 2020 is affected by the global COVID-19 pandemic. In this context, the Group's priority is the health, safety and security of its employees as well as the continuity of our business. The Group has implemented a series of prevention and protection measures and is constantly monitoring compliance with decisions and recommendations from local public authorities.

COVID-19 reinforces uncertainties in the global economic context and markets; the long term impact for the Group is difficult to assess and will depend on the magnitude, duration and geographic extent of this pandemic. Each business is now undertaking weekly reviews of the impact of the pandemic on liquidity, customer demand, supplier availability and people matters. A key measure for the business is to remain cash positive or cash neutral at the operational cash level during the period of disruption from the pandemic; a measure that has been achieved at the date of this report.

The Group derives almost 70% of its revenues from defence and security contracts; many of these are of a multi-year long term nature, often with subsequent new lot awards, and defence spending remains a priority for the majority of governments. In addition all of the Group's sites have largely remained operational to the date of this report, supporting ongoing customer demand with only small impacts being experienced from supply chain disruption. Short term site closures have only been necessary to ensure appropriate cleaning and preparation for working within social distancing guidelines. The situation is under constant review and, whilst order intake has largely remained in line with expectations at the start of the year, we do expect reduced demand from commercial aerospace markets.

Looking forward, the greatest market uncertainty is the timing, phasing and quantum of future production volumes by commercial aerospace manufacturers for new builds and after-market associated with airline flying. Mitigating actions are being considered to appropriately respond to this uncertainty as and when changes occur. In addition the credit risk of continuing to supply to customers who may also face the same uncertainties is, as always, reviewed on a routine basis. To date there has been no material change in adherence to normal payment terms by customers, or associated contractual conditions and we are maintaining adherence to our normal terms of trade with our suppliers.

Based upon our best knowledge at the date of this report, we expect that the COVID-19 pandemic will not represent a significant risk on our liquidity: the impact on our revenues and operating profit has been limited at this stage and the Group is expected to be able to operate within the level of its currently available funding under the stress test prepared to assess the going concern assumption.

Should the magnitude and duration of the COVID-19 pandemic be significantly worse than currently expected, some of the Group's critical accounting estimates might need to be revised, in particular the recoverable value of intangible and tangible assets, and the margin at completion on some long-term contracts. The impact of such revisions, if any, will be reflected in the results for the year ending 31 December 2020.

Contract variation

On 27 March 2020, within the Aviation Services business in Australia, a variation to the contract was agreed with Qantas for the operation of their Boeing 717 aircraft in order to manage the stand down of personnel related to the COVID-19 pandemic, for which Cobham are receiving appropriate funding. As part of that variation, Cobham also established non-binding terms with Qantas for them to potentially acquire those subsidiaries responsible for the operation of that contract. This remains under review with the Board as at the date of approving these financial statements.

Disposal of subsidiary undertaking

On 6 April 2020, the Company disposed of its indirect subsidiary Cobham Holdings Inc. (and its subsidiaries) to an intermediate holding company, AI Convoy HoldCo Limited, in exchange for a loan note of US$1,900m.

32. Subsidiaries and other related undertakings

The Group operates through a number of subsidiary undertakings and a full listing of these as at 31 December 2019 is provided below. The Group owns 100% of the share capital of all subsidiaries with the exception of TEAM SA (98.7% owned).

The Group also has interests in a small number of joint ventures and one associated undertaking which are included in the list below. The joint ventures and associates all have share capital consisting solely of ordinary shares, which are indirectly held, and the country of incorporation or registration is also their principal place of operation. No further disclosures are provided concerning the assets and results of the joint ventures or associated undertaking on the basis of materiality.

Name of undertaking	Address of registered office or equivalent
Aedion Investments Unit Trust	26 New Street, St Helier, Jersey JE2 3RA
Aeroflex Holding Corp.	Wilmington, USA
Aeroflex Incorporated	Wilmington, USA
Aeroflex Test Solutions Limited	Wimborne, England
Asia Pacific Airlines (Papua New Guinea) Pty Limited	Blake Dawson, 4th Floor, Mogoru Moto Building, Champion Parade, Port Moresby, National Capital District, Papua New Guinea
Asia Pacific Airlines Pty Limited	Adelaide, Australia
Avenue 64 Limited	Wimborne, England
Aviation Défense Service SA (45% joint venture) [1]	Zone Aéroportuaire Nîmes Arles Camargue, 30800 Saint Gilles, France
A-xell Wireless AB	Torhamnsgatan 30F, 164 40 Kista, Sweden
Axell Wireless Asia Pte Limited	21 Media Circle, Infinite Studios, #06-04 & #05-01, Singapore 138562, Singapore
Axell Wireless Israel Limited	6 Bareket St., Petah-Tikva 49002, Israel, P.O.Box: 2506 4912501, Israel
Axell Wireless Limited	Wimborne, England
Axell Wireless, Inc.	Wilmington, USA
Chelton Antennas SA	7 chemin de Vaubesnard, 91410 Dourdan, France
Chelton Avionics, Inc	Wilmington, USA
Chelton Limited	Wimborne, England
Chelton, Inc	Corporation Service Company d/b/a CSC-Lawyers Inco, 211 E. 7th Street, Suite 620, Austin, TX 78701, USA
Cobham Advanced Electronic Solutions Mexico, S.A. de C.V.	Baker & McKenzie Abogados, S.C., Pedregal 24, Lomas Virreyes, 11040 Ciudad de México, D.F., Mexico
Cobham Advanced Electronic Solutions, Inc.	Wilmington, USA
Cobham AES Holdings Inc.	Wilmington, USA
Cobham Aviation Services Australia Pty Ltd	Adelaide, Australia
Cobham Aviation Services Engineering Pty Limited	Adelaide, Australia
Cobham Aviation Services International Limited	Wimborne, England
Cobham Colorado Springs Inc.	Wilmington, USA
Cobham Defence Communications Limited	Wimborne, England
Cobham Defense Products, Inc.	Wilmington, USA
Cobham Exeter Inc	Corporation Service Company, 84 State Street, Boston, MA 02109, USA
Cobham Fleet Support Pty Ltd	Adelaide, Australia
Cobham Flight Inspection Limited	Wimborne, England
Cobham France SAS (formerly Air Précision SAS)	5 avenue Denis Papin, BP 36, 92353 Le Plessis Robinson, France
Cobham Gaisler AB	Kungsgatan 12, SE-411, 19 Göteborg, Sweden
Cobham Glyndale Pty Limited	Adelaide, Australia
Cobham Ground Handling Pty Ltd	Adelaide, Australia
Cobham Helicopters Cyprus Limited	12 Kennedy Avenue, Kennedy Business Centre, 2nd Floor, Office 203, P.C. 1087, Nicosia, Cyprus
Cobham Heliservices Curacao N.V.	Kaya W.F.G. (Jombi), Mensing 36, Curacao
Cobham Holdings Inc.	Wilmington, USA
Cobham India Private Limited [4]	4th Floor, Statesman House, Barakhamba Road, New Delhi - 110001, India
Cobham Leasing Limited	Wimborne, England
Cobham Long Island Inc.	Wilmington, USA
Cobham Management Services Inc.	Wilmington, USA
Cobham Microelectronic Solutions Inc.	CSC-Lawyers Incorporating Service (Company), 601 Abbot Road, East Lansing, MI 48823, USA
Cobham Microwave SAS (formerly Chelton Telecom and Microwave SAS)	31 avenue de la Baltique, 91140 Villebon sur Yvette, France
Cobham Mission Systems Davenport AAR Inc (formerly Sargent Fletcher Inc.)	Wilmington, USA
Cobham Mission Systems Davenport LSS Inc (formerly Carleton Life Support Systems, Inc)	Wilmington, USA
Cobham Mission Systems FWB Inc (formerly Cobham Mission Equipment Inc.)	Wilmington, USA
Cobham Mission Systems Orchard Park Inc (formerly Carleton Technologies, Inc)	Wilmington, USA
Cobham Mission Systems Wimborne Limited (formerly Flight Refuelling Limited) [2]	Wimborne, England
Cobham NAS Pty Ltd	Adelaide, Australia
Cobham NAS Services Pty Limited	Adelaide, Australia
Cobham New Jersey Inc.	CSC-Lawyers Incorporating Service (Company), 601 Abbot Road, East Lansing, MI 48823, USA
Cobham NIAP Pty Ltd	Adelaide, Australia
Cobham NJOS Pty Limited	Adelaide, Australia
Cobham RAD Europe Limited	Wimborne, England

Name of undertaking	Address of registered office or equivalent
Cobham RAD Inc.	Corporation Service Company, 80 State Street, Albany, New York 12207-2543, USA
Cobham SAR Services Pty Limited	Adelaide, Australia
Cobham Slip Rings Naples Inc.	Wilmington, USA
Cobham Slip Rings SAS (formerly Label SAS)	10 allée de Montréal, 74108 Annemasse, France
Cobham (Thailand) Limited	24F Interchange Building, 399 Sukhumvit Road, Bangkok 10110, Thailand
Cobham Trivec-Avant Inc	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
Comant Industries, Incorporated	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
FB Heliservices Limited	Wimborne, England
FB Leasing Limited	Wimborne, England
FBS Limited	Wimborne, England
Flight Refuelling Limited (formerly Lockman Properties Limited) [2]	Wimborne, England
FR Aviation Group Limited [2]	Wimborne, England
FR Aviation Limited	Wimborne, England
FR Aviation Services Limited	Wimborne, England
Groupement Troyen d'Electronique	rue Catherine et William Booth, 10000 Troyes, France
IFR Finance Inc.	10200 West York Street, Wichita, KS 67215-8999, USA
IFR Finance Limited Partnership [3]	Wimborne, England
Lock Financing Limited	12 Merrion Square, Dublin 2, Ireland
Lockman Electronic Holdings Limited [2]	Wimborne, England
Lockman Investments Limited [2]	Wimborne, England
Lockwash Investments LLC	Wilmington, USA
Manlock Investments Limited [2]	Wimborne, England
Mastsystem International Oy	Muovilaaksontie 8, 82110 Heinävaara, Joensuu, Finland
Micro-Mesh SARL	35 rue de Montlhéry, BP 20191, 94563 Rungis, France
NAT Seattle Inc.	Wilmington, USA
National Jet Express Pty Limited	Adelaide, Australia
National Jet Systems Pty Limited	Adelaide, Australia
Northrop Grumman Cobham Intercoms LLC (50% joint venture)	CT Corporation System, 1209 Orange Street, Wilmington, DE 19801, USA
Omnipless Manufacturing (Pty) Limited	Westlake Drive, Westlake Business Park, Westlake 7945, South Africa
Philtech Co., Ltd (associate owned 30%)	Sujeong-gu, Seongnam-si, Gyeonggi-do, South Korea
Precision Aviation Industries SARL	5 avenue Denis Papin, BP 36, 92353 Le Plessis Robinson, France
Satori Air Services Inc	4105 Cousens Street, Saint-Laurent, Quebec H4S 1V6, Canada
Sea Tel, Inc	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
Sivers Lab AB	Torhamnsgatan 30F, 164 40 Kista, Sweden
Société de Marquage et Signalisation SAS	174-178 Quai de Jemmapes, 75010 Paris, France
Surveillance Australia Pty Limited	Adelaide, Australia
TEAM SA	35 rue de Montlhéry, BP 20191, 94563 Rungis, France
Thrane & Thrane A/S	Lundtoftegårdsvej 93 D, DK-2800 Kongens Lyngby, Denmark
Thrane & Thrane Inc.	CT Corporation System, 4701 Cox Road, Suite 285, Glen Allen, VA 23060, USA
Thrane & Thrane Norge A/S	Cort Adelers gate 16, 0254 Oslo, Norway
Dormant entities	
Aeroflex Bloomingdale, Inc.	Corporation Service Company, 80 State Street, Albany, New York 12207-2543, USA
AFI Flight Inspection GmbH	Hermann-Blenk-Straße 8a, 38108 Braunschweig, Germany
AFI Flight Inspection Holding GmbH	Hermann-Blenk-Straße 8a, 38108 Braunschweig, Germany
Atlantic Microwave Corporation	Wilmington, USA
Cobham Aviation SDN BHD	Level 8 Symphony House, Block D13 Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia
Cobham CTS Limited	Wimborne, England
Cobham Helicopter Services Trinidad Ltd	5-7 Sweet Briar Road, St Clair, Port of Spain, Trinidad & Tobago
Cobham NJRS Pty Ltd	Adelaide, Australia
Cobham Whiteley Limited	Wimborne, England
Credowan Limited	Wimborne, England
European Antennas Limited	Wimborne, England
Falcon Special Air Services SDN BHD	Level 8 Symphony House, Block D13 Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia
FB Heliservices Kenya Limited	PO Box 764, 00606, Nairobi, Kenya
Grenedere Limited	Wimborne, England
IFR Systems, Inc.	Wilmington, USA
Lockman Finance Limited	Wimborne, England
Lockman Financing Limited	Wimborne, England
Lockman Financing S.à r.l	20 rue des Peupliers, L-2328, Luxembourg
Lockwash US Limited	Wimborne, England
ML Aviation Limited	Wimborne, England
Racal Antennas Limited	Wimborne, England
Strabor (Aircraft) Limited [2]	Wimborne, England
Strabor Investments Limited	Wimborne, England
W.E.S. (Manufacturing) Limited	Wimborne, England
W.E.S. Investments Limited	Wimborne, England

Full registered office addresses are:

Wimborne, England	Brook Road, Wimborne, Dorset BH21 2BJ, England.
Wilmington, USA	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA.
Adelaide, Australia	National Drive, Adelaide Airport SA 5950, Australia.

[1] The 45% investment in Aviation Défense Service SA is treated as a joint venture because the governance structure means that the Group has joint control with its partner.

[2] Shares in Cobham Mission Systems Wimborne Limited, Flight Refuelling Limited, FR Aviation Group Limited, Lockman Electronic Holdings Limited, Manlock Investments Limited, Strabor (Aircraft) Limited and Lockman Investments Limited are held directly by, or on behalf of, Cobham plc. Shares in all other entities listed are held by or on behalf of one of these subsidiaries.

[3] Advantage has been taken of the exemption conferred by regulation 7 of the Partnership Accounts Regulations 2008 from the requirements to prepare and publish audited accounts for IFR Finance Limited Partnership.

[4] All companies have co-terminous reporting dates with the exception of Cobham India Private Limited, which draws up its accounts to 31 March in accordance with local laws and regulations.

Cobham Limited (formerly Cobham plc)

Parent Company Balance Sheet
As at 31 December 2019

£m	Note	2019	2018 (restated)
Assets			
Non-current assets			
Investments in Group undertakings	6	**3,308.9**	3,231.3
Other investments	7	**40.7**	39.5
Property, plant and equipment	8	**2.3**	1.7
Derivative financial instruments	13	**3.5**	28.8
Other receivables	9	**18.3**	18.3
		3,373.7	3,319.6
Current assets			
Derivative financial instruments	13	**22.7**	12.4
Trade and other receivables	9	**320.1**	326.2
Cash and cash equivalents		**98.2**	81.4
		441.0	420.0
Liabilities			
Current liabilities			
Borrowings	10	**(566.4)**	(258.9)
Trade and other payables	11	**(766.7)**	(685.1)
Provisions	12	**-**	(6.2)
Derivative financial instruments	13	**(22.8)**	(10.9)
		(1,355.9)	(961.1)
Non-current liabilities			
Borrowings	10	**(171.9)**	(327.8)
Derivative financial instruments	13	**(3.5)**	(27.7)
Retirement benefit obligations	14	**(10.0)**	(18.1)
		(185.4)	(373.6)
Net assets		**2,273.4**	2,404.9
Equity			
Share capital	15	**61.7**	61.7
Share premium		**1,257.9**	1,257.9
Other reserves		**40.9**	18.4
Retained earnings		**912.9**	1,066.9
Total equity		**2,273.4**	2,404.9

Details of the restatement of the comparative Balance Sheet due to the implementation of IFRS 16, Leases can be found in note 19.

Profit for the financial year

In accordance with the concession granted under Section 408 of the Companies Act 2006, the Income Statement of Cobham plc has not been separately presented in these financial statements. The Company's result for the year ended 31 December 2019 was a *loss of £151.4m (2018: loss of £180.9m).*

The financial statements on pages 107 to 121 were approved by a duly appointed and authorised committee of the Board on 29 April 2020 and signed on its behalf by:

S Doherty
Director

G J Bagwell
Director

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

£m	Note	Share capital	Share premium	Other reserves: Hedge reserve	Other reserves: Share based payment reserve	Retained earnings	Total equity
At 1 January 2019		**61.7**	**1,257.9**	**(0.3)**	**18.7**	**1,066.9**	**2,404.9**
Loss for the year		-	-	-	-	**(151.4)**	**(151.4)**
Other comprehensive income/(expense)							
Remeasurements of other investments	7	-	-	-	-	**1.2**	**1.2**
Movements in hedge accounted derivative financial instruments	13	-	-	**1.2**	-	-	**1.2**
Remeasurements of defined benefit retirement benefit obligations	14	-	-	-	-	**5.2**	**5.2**
Tax effects		-	-	**(0.2)**	-	**(1.1)**	**(1.3)**
Total comprehensive income/(expense) for the year		-	-	**1.0**	-	**(146.1)**	**(145.1)**
Dividends (note 2)		-	-	-	-	**(9.5)**	**(9.5)**
Share based payments		-	-	-	**23.1**	-	**23.1**
Transfer of share based payment reserve		-	-	-	**(1.6)**	**1.6**	-
At 31 December 2019		**61.7**	**1,257.9**	**0.7**	**40.2**	**912.9**	**2,273.4**
At 1 January 2018		61.7	1,257.9	0.3	16.9	1,245.8	2,582.6
Loss for the year		-	-	-	-	(180.9)	(180.9)
Other comprehensive income/(expense)							
Remeasurements of other investments	7	-	-	-	-	(5.6)	(5.6)
Movements in hedge accounted derivative financial instruments	13	-	-	(0.7)	-	-	(0.7)
Remeasurements of defined benefit retirement benefit obligations	14	-	-	-	-	4.4	4.4
Tax effects		-	-	0.1	-	(0.8)	(0.7)
Total comprehensive expense for the year		-	-	(0.6)	-	(182.9)	(183.5)
Share based payments		-	-	-	5.8	-	5.8
Transfer of share based payment reserve		-	-	-	(4.0)	4.0	-
At 31 December 2018		61.7	1,257.9	(0.3)	18.7	1,066.9	2,404.9

The share based payment reserve includes the cost of awards granted to employees of the Company and Group as assessed under IFRS 2. Where awards which gave rise to charges under IFRS 2 have vested or been exercised, the appropriate proportion of the reserve is transferred to retained earnings.

Distributable reserves at 31 December 2019 amounted to £874.9m (2018: £1,008.6m).

Cobham Limited (formerly Cobham plc)

Notes to the Parent Company Financial Statements (continued)

1. Parent Company accounting policies

These financial statements are the financial statements for Cobham Limited (formerly Cobham plc), the parent company of the Cobham Group, which operates as a group holding company.

1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101).

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- A cash flow statement and related notes (IAS 7, Statement of Cash Flows and paragraphs 10(d) and 111 of IAS 1, Presentation of Financial Statements);
- Comparative period reconciliations of the number of shares outstanding (Paragraph 38 of IAS 1, Presentation of Financial Statements in respect of paragraph 79(a)(iv) of IAS 1);
- Additional comparative information as required by paragraphs 38A to 38D of IAS 1, Presentation of Financial Statements;
- Capital management disclosures required by paragraphs 134 to 136 of IAS 1;
- The requirements of paragraphs 52 and 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- The requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors concerning the effects of new but not yet effective IFRS;
- Details of compensation of key management personnel required by paragraph 17 and 18A of IAS 24, Related Party Disclosures; and
- The requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group.

In addition, as the consolidated financial statements of Cobham Limited include the equivalent disclosures, the following exemptions under FRS 101 have also been taken:

- Share based payment disclosures under paragraphs 45(b) and 46-52 of IFRS 2, Share Based Payment in respect of group settled share based payments; and
- Financial instrument information required by IFRS 7, Financial Instruments: Disclosures and paragraphs 91 to 99 of IFRS 13, Fair Value Measurement.

The financial statements have been prepared on the going concern basis, under the historical cost convention as modified to include the revaluation of derivative financial assets and liabilities measured at fair value through profit or loss and in accordance with the Companies Act 2006.

In considering the use of the going concern basis of preparation, the Directors have considered cash flow projections and sensitivity analysis and have also completed stress testing of the forecasts and projections in light of the COVID-19 pandemic. Further details can be found in the Director's Report on pages 20 and 21, and in note 1, Accounting policies, in the Group Financial Statements. Accordingly, after making enquiries, the Directors have concluded at the time of approving the financial statements that it is their expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Parent Company Financial Statements.

Notes to the Parent Company Financial Statements (continued)

1.2 Accounting developments

IFRS 16, Leases has been adopted from 1 January 2019 although this did not have a material impact on the Company. Comparatives have been restated and details can be found in note 19.

IFRIC 23, Uncertainty over Income Tax Treatments has also been adopted from 1 January 2019 but has had no impact on the Company's accounting policies. There were no changes to previously published accounting policies or other adjustments required on the adoption of these standards, amendments and interpretations.

A number of other amendments to standards and interpretations of the IFRS Interpretations Committee have been adopted with effect from 1 January 2019. No changes to previously published accounting policies or other adjustments were required on the adoption of these amendments and interpretations.

1.3 Management judgement and estimation uncertainty

The preparation of financial statements in conformity with Financial Reporting Standards requires the use of judgements and estimates that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses.

These judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The current economic conditions have been considered when evaluating accounting judgements and estimates, including the application of the going concern basis of preparation. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Significant judgements in applying accounting policies

There were no significant judgements, apart from those involving estimations, that the Directors made in the process of applying the Group's accounting policies which require separate disclosure in these financial statements.

Assumptions and estimation uncertainties

Management considers that there are a number of assumptions concerning the future and other major sources of estimation uncertainty at the balance sheet date, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Information concerning these assumptions and estimation uncertainties is provided as follows:

a. Carrying value of investments (note 6)

A review of the carrying value of investments is completed as required to ensure that it is not impaired. This requires an estimate of the expected future cash flows from subsidiary undertakings and also a suitable discount rate in order to calculate the present value of those cash flows.

b. Valuation of other investments (note 7)

Fair value is determined based on the estimated cash flows expected to be received, discounted to present value.

c. Pension assets and liabilities (note 14)

Assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates.

Notes to the Parent Company Financial Statements (continued)

1.4 Principal accounting policies

The principal accounting policies, which have been consistently applied, are as set out below.

1.4.1 Dividends (note 2)

Dividends payable are recognised as a liability in the period in which they are fully authorised. Dividend income is recognised when the shareholders' right to receive payment has been established.

1.4.2 Retirement benefit obligations (notes 3 and 14)

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The plans are funded defined benefit schemes and assets are held in separate trustee administered funds. The assets and liabilities of the CPP have been allocated to the contributing companies based on the proportional number of members. The Company also operates and contributes to a defined contribution scheme.

For the defined benefit schemes, service costs and costs related to the administration of the schemes are recognised in the income statement. The interest on net assets or liabilities is also included in the income statement. Actuarial remeasurements are recognised in OCI.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the Balance Sheet.

For the defined contribution scheme, the amount charged to the income statement in respect of pension costs and other post-retirement benefits are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are recorded as either accruals or prepayments in the Balance Sheet.

1.4.3 Share based payments (note 5)

For grants made to employees of the Company under the Group's equity share based payment schemes, amounts which reflect the fair value of awards as at the time of grant are charged to the income statement over the vesting period, taking into account management's best estimate of the number of awards expected to vest. The vesting estimate, which includes progress against non-market related performance conditions, is reviewed and updated at each balance sheet date. The fair value of awards made to employees of subsidiary undertakings, net of amounts recovered as management charges, is recognised as a capital contribution and recorded in investments.

1.4.4 Taxation

The tax expense is the sum of current tax and deferred tax. Tax is charged or credited to the income statement except when it relates to items recognised in OCI or directly in equity, in which case the tax is also recognised in OCI or directly in equity respectively.

Current tax is provided at the amounts expected to be paid using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. It is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and that are expected to apply in the period when the asset is realised or the liability is settled.
Deferred tax is measured on an undiscounted basis and deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Notes to the Parent Company Financial Statements (continued)

1.4.5 Investments in Group undertakings (note 6)

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value and include the fair value at the date of grant of share based payment awards to employees of subsidiary undertakings, net of amounts recovered as management charges.

The carrying amounts of the investments are reviewed at least annually to determine whether there is any indication of impairment.

Where there is an indication of impairment, the recoverable amount is estimated. This is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. This is prepared with reference to cash flow forecasts prepared by management and reviewed by the Board which cover a three year period. The growth rates used after this period are based on long term GDP projections of the primary market for each investment.

1.4.6 Other investments (note 7)

Other financial assets such as equity investments not held for trading (the Company's AirTanker investments) are held at fair value, which has been determined based on the estimated cash flows expected to be received, discounted to present value. The estimated cash flows are calculated using an income approach reflecting the cash flows available to the Company after repayment of debt capital and interest, taking into account operating and financing cash flows. The inputs to this calculation are not based on observable market data and hence they fall within level 3 of the IFRS 13 fair value hierarchy. The Company has elected to present subsequent changes in fair value in OCI.

Dividends on these investments are recognised in profit or loss when the Group's right to receive the dividends is established, it is probable that they will be paid and the amount can be measured reliably.

1.4.7 Property, plant and equipment (note 8)

Fixtures and fittings are initially recognised at cost and depreciated on a straight-line basis to their estimated residual values over their estimated useful lives of up to five years.

1.4.8 Right-of-use assets (note 8)

Right-of-use assets are reported within property, plant and equipment on the Balance Sheet.

The initial cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, expected asset restoration costs and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the useful economic life of the asset. The right-of-use asset is tested for impairment where appropriate.

Notes to the Parent Company Financial Statements (continued)

1.4.9 Provisions (note 12)

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. No provision is recognised where the existence of an obligation is possible but will only be confirmed by uncertain future events.

1.4.10 Share capital (note 15)

Ordinary share capital is classified as equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the preference shareholders or if dividend payments are not discretionary.

1.4.11 Financial instruments

The policies disclosed in note 1 to the Group Financial Statements at section 1.5.12 for the recognition, measurement and presentation of financial instruments are applicable to the Parent Company Financial Statements.

Amounts receivable from and owed to subsidiaries are recognised at amortised cost using the effective interest method and are reduced by allowances for expected credit losses.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently held at amortised cost. Interest is accounted for on an accruals basis in the income statement. Premiums payable on settlement or redemption and direct issue costs are capitalised and amortised over the period of the facility.

1.4.12 Lease obligations (note 10)

Lease obligations are recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Company. The lease obligation is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and reduced by lease payments made, with interest charged to finance costs. In addition, the carrying amount of lease obligations is re-measured if there is a modification, for example a change in the lease term or non-fixed lease payments.

The option not to apply IFRS 16 to leases with a term of 12 months or less and low value leases has been taken.

1.4.13 Foreign currencies

The functional currency of the Company is sterling.

Transactions in currencies other than sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date. Non-monetary items (such as investments) that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency (such as some derivative financial instruments) are translated using the exchange rates at the date when the fair value was determined.

All exchange differences arising are recognised in the income statement.

Notes to the Parent Company Financial Statements (continued)

2. Dividends

£m	2019	2018
Interim dividend paid in current year of £0.004 per share (2018: nil)	**9.5**	-

3. Employees and Directors' emoluments

Employees
The monthly average number of employees, including Directors, during the year was 177 (2018: 167). All staff were employed in administrative functions. Costs for these employees were as follows:

£m	2019	2018
Wages and salaries	**16.3**	16.9
Social security costs	**2.2**	1.7
Pension costs	**3.6**	7.8
Share based payments	**9.1**	1.6
	31.2	28.0

Disclosures in respect of the emoluments of Directors and key management personnel can be found in the Directors' Remuneration Report on pages 25 to 36 and in note 5 to the Group Financial Statements.

4. Audit fees
The audit fee in respect of the Parent Company Financial Statements was £45,000 (2018: £45,000).

5. Share based payments
Employees of the Company participated in equity settled share based payment schemes which were operated by the Group for senior executives and also in the Group's SAYE scheme which was open to all UK employees. As a result of the acquisition of the Company by Advent all employee share schemes vested in January 2020 and the schemes ceased.

At 31 December, the following awards were outstanding under each scheme:

Number of awards (thousands of shares)	2019	2018
PSP	**9,326**	7,137
RSP	**484**	776
SAYE	**331**	635
ESOS	**5**	84
	10,146	8,632

Options outstanding under the SAYE scheme had a weighted average remaining contractual life of 1.3 years (2018: 2.2 years) and exercise prices which range from £1.10 to £1.78 (2018: £1.10 to £1.78). Options outstanding under the ESOS scheme had a weighted average remaining contractual life of 1.2 years (2018: 0.3 years) and exercise price of £1.72 (2018: range from £1.36 to £1.72).

Exercises of awards under the SAYE schemes were made at various times throughout the year. The average share price in that period was £1.326 (2018: £1.190).

Further details of these schemes can be found in note 27 to the Group Financial Statements.

Notes to the Parent Company Financial Statements (continued)

6. Investments in Group undertakings

£m	Shares	Share based payments	Total
Cost			
At 1 January 2019	**3,488.6**	**16.5**	**3,505.1**
Additions	**67.6**	**10.0**	**77.6**
At 31 December 2019	**3,556.2**	**26.5**	**3,582.7**
Accumulated impairment			
At 1 January 2019 and at 31 December 2019	**273.8**	**-**	**273.8**
Carrying amount			
At 31 December 2019	**3,282.4**	**26.5**	**3,308.9**
At 31 December 2018	3,214.8	16.5	3,231.3

During the year, the Company subscribed for additional shares in two of its subsidiary undertakings at a total cost of £67.6m. In addition, share based payment awards were granted to employees of Group undertakings which are recorded at fair value net of recoveries.

In the opinion of the Directors, the value of investments in subsidiary undertakings is not less than the aggregate amount at which they are shown above.

A list of all subsidiaries is provided in note 32 to the Group Financial Statements. The market capitalisation of the Group at 31 December 2019 was £4,052.0m (2018: £2,411.0m).

7. Other investments

At 1 January 2018	**45.1**
Revaluation losses recognised in OCI	**(5.6)**
At 31 December 2018	**39.5**
Revaluation gains recognised in OCI	**1.2**
At 31 December 2019	**40.7**

Other investments represent the Company's investments of 13.33% of the issued share capital of AirTanker Holdings Limited and 5.0% of the issued share capital of AirTanker Services Limited in connection with the Voyager (FSTA) project.

During the year ended 31 December 2019, dividends of £3.5m (2018: £9.9m) were received.

8. Property, plant and equipment (restated)

£m	Fixtures and fittings	Right-of-use assets	Total
Cost			
At 1 January 2019	**1.2**	**1.3**	**2.5**
Additions	**0.9**	**0.1**	**1.0**
Disposals	**-**	**(0.2)**	**(0.2)**
At 31 December 2019	**2.1**	**1.2**	**3.3**
Accumulated depreciation			
At 1 January 2019	**0.4**	**0.4**	**0.8**
Charge for the year	**0.1**	**0.3**	**0.4**
Disposals	**-**	**(0.2)**	**(0.2)**
At 31 December 2019	**0.5**	**0.5**	**1.0**
Net book amount			
At 31 December 2019	**1.6**	**0.7**	**2.3**
At 31 December 2018	0.8	0.9	1.7

Details of the restatement can be found in note 19.

Notes to the Parent Company Financial Statements (continued)

9. Trade and other receivables

Current assets

£m	2019	2018
Amounts owed by Group undertakings	**301.0**	295.4
Corporation tax receivable	**-**	10.3
Deferred tax assets	**6.8**	7.3
Prepayments and accrued income	**12.3**	13.2
	320.1	326.2

Amounts owed by Group undertakings are unsecured and repayable on demand. All such balances, excluding trading balances, are interest bearing.

The net deferred tax asset can be analysed as follows:

£m	2019	2018
Derivative financial instruments	**0.5**	3.1
Retirement benefit obligations	**2.3**	3.8
Share based payments	**3.0**	0.3
Other	**1.0**	0.1
	6.8	7.3

Movements in the net deferred tax asset are as follows:

£m	
At 1 January 2019	**7.3**
Charge to Income Statement	**0.7**
Charge to reserves	**(1.2)**
At 31 December 2019	**6.8**

Non-current assets

£m	2019	2018
Other receivables - loan notes	**18.3**	18.3

Loan notes are due from AirTanker Holdings Limited. They are interest bearing and due for repayment in 2035.

10. Borrowings

Current liabilities

£m	2019	2018 (restated)
Bank overdrafts	**425.0**	212.2
Lease obligations	**0.3**	0.2
Bank loans	**141.1**	-
Senior notes	**-**	46.5
	566.4	258.9

Details of the restatement can be found in note 19.
Bank overdrafts are repayable on demand and accrue interest at floating rates.

Non-current liabilities

£m	2019	2018 (restated)
Bank loans	**3.4**	152.4
Lease obligations	**0.6**	0.7
Senior notes	**167.9**	174.7
	171.9	327.8

Details of the restatement can be found in note 19.

Notes to the Parent Company Financial Statements (continued)

The loans falling due after more than one year are due for repayment as follows:

£m	2019	2018
Between one and two years	-	148.8
Between two and five years	3.4	3.6
	3.4	152.4

Senior notes falling due after more than one year mature as follows:

£m	2019	2018
Between one and two years	62.2	-
Between two and five years	105.7	64.7
After five years, maturing in 2024	-	110.0
	167.9	174.7

The multi-currency revolving facilities were cancelled undrawn in January 2020 and the other loans are expected to be fully repaid by May 2020. New facilities are available to provide access to funding as required.

Further details of the Company's principal borrowing facilities are disclosed in notes 14 and 18 to the Group Financial Statements.

The contractual undiscounted and discounted cash flows for leases are as follows:

£m	2019	2018 (restated)
Between one and two years	0.3	0.2
Between two and five years	0.6	0.7
	0.9	0.9

11. Trade and other payables

£m	2019	2018
Trade payables	1.2	1.5
Amounts owed to Group undertakings	674.3	666.6
Corporation tax payable	29.5	-
Other tax and social security	4.2	2.8
Accruals and deferred income	57.5	14.2
	766.7	685.1

Amounts owed to Group undertakings include £85.4m (2018: £87.1m) on which interest is charged at rates of between 0.4% and 9.0% (2018: 0.4% and 9.0%). The remaining amount owed by Group undertakings is interest free. All amounts are unsecured and are repayable on demand.

Notes to the Parent Company Financial Statements (continued)

12. Provisions

£m	Legal claims	Other provisions	Total
At 1 January 2019	**0.2**	**6.0**	**6.2**
Utilisation of provisions	**(0.1)**	**-**	**(0.1)**
Provisions released	**(0.1)**	**(6.0)**	**(6.1)**
At 31 December 2019	**-**	**-**	**-**

Other provisions relate to longer term warranties given on divestments completed in 2005 which are now expired.

13. Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange contracts to reduce these exposures and does not use derivative financial instruments for speculative purposes.

The fair values of derivative financial instruments are as follows, these are financial assets and financial liabilities measured at fair value through profit or loss:

£m	
Non-current assets	**3.5**
Current assets	**22.7**
Current liabilities	**(22.8)**
Non-current liabilities	**(3.5)**
At 31 December 2019	**(0.1)**
Non-current assets	28.8
Current assets	12.4
Current liabilities	(10.9)
Non-current liabilities	(27.7)
At 31 December 2018	2.6

The movements in the fair values of derivative financial instruments during the year are as follows:

£m	
At 1 January 2018	0.5
Gain through Income Statement - not hedged	2.7
Ineffectiveness of net investment hedge through Income Statement	0.1
Loss reclassified to Income Statement	(0.3)
Loss through OCI - hedged items	(0.4)
At 31 December 2018	**2.6**
Loss through Income Statement - not hedged	**(4.0)**
Ineffectiveness of net investment hedge through Income Statement	**0.1**
Loss reclassified to Income Statement	**(0.1)**
Gain through OCI - hedged items	**1.3**
At 31 December 2019	**(0.1)**

The majority of foreign exchange derivative financial instruments are not accounted for using hedge accounting and movements in fair values are recorded in the Income Statement. The Company has a small number of cross-currency swaps which have been designated as hedging instruments, further details can be found in note 22 to the Group Financial Statements.

The most significant assumptions in valuing the derivatives are the exchange rates for GBP: US$, GBP: DKK and GBP: EUR.

Notes to the Parent Company Financial Statements (continued)

14. Retirement benefit obligations

Retirement benefit obligations in the Balance Sheet comprise:

£m	2019	2018
Defined benefit scheme assets	**440.3**	399.4
Defined benefit obligations	**(450.3)**	(417.5)
	(10.0)	(18.1)

Defined benefit pension schemes

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The plans are funded defined benefit schemes (where benefits are based on employees' length of service and average final salary) and assets are held in separate trustee administered funds. The plans have been closed to new members since 2003 and were closed to future accrual from 1 April 2016.

Details of actuarial valuation processes and risks, assumptions and sensitivities relating to the CPP and CEPP are not significantly different to those disclosed in note 23 to the Group Financial Statements.

The Company expects to contribute £12.1m to its defined benefit pension schemes in 2020 and future years. A one-off contribution of £35.0m was made in January 2020 following the acquisition of the Company by Advent International. At 31 December 2019, £0.5m (2018: £0.5m) of contributions were outstanding.

Changes in the fair value of scheme assets are as follows:

£m	2019	2018
At 1 January	**399.4**	431.4
Interest	**10.8**	10.0
Actuarial gains/(losses)	**44.4**	(29.4)
Employer contributions	**3.1**	6.7
Benefits paid	**(17.4)**	(19.3)
At 31 December	**440.3**	399.4

Changes in the present value of the defined benefit obligations are as follows:

£m	2019	2018
At 1 January	**417.5**	457.2
Past service cost	**-**	2.8
Interest cost	**11.0**	10.6
Actuarial losses/(gains) arising from changes in financial assumptions	**43.5**	(26.4)
Actuarial gains arising from changes in demographic assumptions	**(4.3)**	(7.4)
Benefits paid	**(17.4)**	(19.3)
At 31 December	**450.3**	417.5

The actual return on scheme assets was £55.2m (2018: £19.4m). The weighted average duration of the scheme liabilities is estimated to be 17 years.

The fair value of major categories of scheme assets, and as a percentage of total scheme assets, is as follows:

	2019		2018	
	£m	**%**	£m	%
Global equities	**49.1**	**11.2%**	45.9	11.5%
Liability driven investments	**66.1**	**15.0%**	59.9	15.0%
Corporate bonds	**37.6**	**8.5%**	37.9	9.5%
Private credit	**17.2**	**3.9%**	18.0	4.5%
Insurance contracts	**166.0**	**37.7%**	160.2	40.1%
Diversified growth funds	**63.2**	**14.4%**	62.7	15.7%
Other assets	**41.1**	**9.3%**	14.8	3.7%
	440.3	**100.0%**	399.4	100.0%

Scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by the Company.

Defined contribution pension schemes

The Company also operates and participates in the Cobham Personal Pension Plan, a defined contribution scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The pension cost charged represents contributions payable by the Company to the funds and amounted to £0.5m (2018: £1.2m). No contributions were outstanding at the end of 2019 or 2018.

Notes to the Parent Company Financial Statements (continued)

15. Share capital

£m	2019	2018
Allotted, issued and fully paid		
Equity		
2,466,961,115 (2018: 2,466,961,115) 2.5p ordinary shares	**61.7**	61.7
Non-equity		
19,700 (2018: 19,700) 6% second cumulative preference shares of £1	**-**	-

Preference shares with a value of £19,700 are classified as borrowings.
Further details of the share capital of Cobham plc can be found in note 25 to the Group Financial Statements.

16. Contingent liabilities and commitments

The Company has contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business entered into for, or on behalf of, certain Group undertakings.

Further details of contingent liabilities related to the Company, including risks related to uncertain tax positions and the nature of contract risks supported by performance guarantees, can be found in note 29 to the Group Financial Statements.
The Company had no capital commitments at 31 December 2019 (2018: £nil).

17. Related party transactions

During the year, the Company entered into transactions, in the ordinary course of business, with related parties that are part of the Cobham Group or investees of the Group. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 from disclosing related party transactions with its wholly owned subsidiary undertakings. The only transactions with non-wholly owned subsidiaries relate to the receipt of management and brand charges totalling £1.3m (2018: £1.3m) from TEAM SA which is 98.7% owned within the Cobham Group. No amounts were outstanding at the current or prior year end.

There were no material transactions with the Directors, their close family members or other connected parties to be reported during the year, other than arising from Directors' service agreements. Details of Directors' remuneration are disclosed in note 3.

18. Events after the balance sheet date

Subsequent to 31 December 2019, the Company was acquired by Advent on 17 January 2020. In addition, the Company disposed of its indirect subsidiary Cobham Holdings Inc. on 6 April 2020. Further details of the impacts of these events can be found in note 31 to the Group Financial Statements.

Notes to the Parent Company Financial Statements (continued)

19. Impact of new accounting standards

As outlined in note 1, the Company adopted IFRS 16, Leases on 1 January 2019.

This new standard has been applied retrospectively with a date of initial application of 1 January 2019 and therefore comparative information presented in these financial statements has been restated as disclosed in the tables below.

The Company has lease contracts for various property, office equipment and vehicles. Before the adoption of IFRS 16, the Company classified each of its leases as either a finance lease or an operating lease. The Company did not have any leases classified as finance leases where an asset and liability were recorded on the balance sheet. For operating leases, the leased assets were not capitalised and the lease payments were recognised over the lease term as rental expense in the income statement. This distinction between operating and finance leases has now been removed.

Under IFRS 16 a liability is recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Company. The lease liability is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and reduced by lease payments made, with interest charged to finance costs. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, for example a change in the lease term or non-fixed lease payments.

The initial cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, expected asset restoration costs and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the useful economic life of the asset. The right-of-use asset is tested for impairment where appropriate.

The impact to the Income Statement as a result of adopting IFRS 16 was £37,000, reflected in an increase in profit, reflecting the removal of operating lease payments previously charged to administrative expenses, partially offset by depreciation of the right-of-use assets. In these financial statements, the adoption of IFRS 16 has no impact on the revenue, results or retained earnings of the Company.

The restatement impacts to the Balance Sheet related to the recognition of right-of-use assets and additional lease obligations. The impact on the Balance Sheet at 31 December 2018 is as below:

£m	As originally stated	IFRS 16 adjustments	Restated
Assets			
Property, plant and equipment	0.8	0.9	1.7
Other assets	3,737.9	-	3,737.9
	3,738.7	0.9	3,739.6
Liabilities			
Borrowings - lease obligations	-	(0.9)	(0.9)
Other liabilities	(1,333.8)	-	(1,333.8)
	(1,333.8)	(0.9)	(1,334.7)
Net assets	2,404.9	-	2,404.9