AI Convoy (Luxembourg) S.à r.l.

Société à responsabilité limitée

Consolidated Financial Statements, Management Report and Report of the Réviseur d'Entreprises Agréé

For the year ended 31 December 2020

2-4 rue Beck
L-1222 Luxembourg (Lëtzebuerg)
Luxembourg
R.C.S. Luxembourg: B 236 989

AI Convoy (Luxembourg) S.à r.l.
Consolidated Management Report

Consolidated Management Report

Group Overview and Management Structure

History and ownership structure

Cobham was founded in 1934 by Sir Alan Cobham, becoming a public company in 1955. On 11 August 2019, Cobham's board of directors unanimously recommended an offer by AI Convoy Bidco Limited, a company incorporated in England and Wales with a registered office address at Tringham House, 580 Deansleigh Road, Bournemouth, Dorset, England, BH7 7DT and controlled by funds managed by Advent International Corporation (Advent International) to acquire Cobham plc (the Acquisition). This offer, was subsequently approved by Cobham plc's shareholders, with 93 per cent of shareholders in favour.

Following the Acquisition, an internal reorganisation was carried out to ensure that each Cobham business unit was empowered to operate effectively on a more independent basis so as to drive focus and allow for decision making as close to the customer as possible. AI Convoy (Luxembourg) S.à r.l., a société à responsabilité limitée incorporated in Luxembourg with a registered office address at 2-4 rue Beck L-1222 Luxembourg (the Company), became the indirect parent of AI Convoy Bidco Limited and now owns all of the former Cobham plc business units (in this report the Company and all of its direct and indirect subsidiaries are together referred to as the Group).

This report includes the consolidated financial statements of the Group for the year ended 31 December 2020.

Background on Advent International

Founded in 1984, Advent International is one of the largest and most experienced global private equity firms. With offices on four continents, it has a globally integrated team of more than 200 investment professionals, focused on buyouts and growth equity investments in five core sectors. Since initiating its private equity strategy in 1989, Advent International has invested $54bn in over 370 private equity investments across 42 countries and, as at 31 December 2020, managed $66bn in assets. The Advent International fund investing in Cobham is Advent International GPE IX.

During the acquisition of the Cobham Group, entities controlled by funds managed by Advent International made certain undertakings to regulatory authorities in the UK, France and Australia and continue to ensure full compliance with these commitments.

Managers

The composition of the Company's Managers is as follows:

Board Member	Represents	Background
Michael J. Ristaino (Manager/Director)	Advent International Advent International title: Vice President of Finance, Funds, based in Boston, United States	Michael joined Advent International in 1989 and is responsible for the firm's fund reporting and administration. During his tenure, Michael has led Advent International initiatives to improve financial reporting to their limited partners by leveraging technology and enhancing processes. He also serves on Advent International's Valuation Committee and contributed to the development of the firm's valuation policy and process.

		Michael started his career on the staff of KPMG. Michael received a BS in Accounting, with high honors, from Babson College. Other than directorships of direct and indirect affiliates of the Company, he has no other directorships.
Donald E. Whitt, Jr. (Manager/Director)	Advent International Advent International title: Vice President of Global Tax, based in Boston, United States	Don joined Advent International in 2019 and is responsible for the firm's global tax function. Don has over 25 years of international tax experience both in-house and in public accounting. Don previously held tax leadership roles at Micron Technology Inc. and in the tax planning group at Pfizer. Don holds a B.A. in Economics, M.S. in Taxation, and a J.D. from the University of Toledo and is a CPA. Other than directorships of direct and indirect affiliates of the Company, he has no other directorships.

The Company's indirect wholly-owned subsidiary, Cobham Limited, is the owner of all of the Group's operations other than those based in the USA. Its board of directors as of the date of this document comprises Shonnel Malani and Michael Marshall (who are representatives of Advent International), and Shaun Doherty, Gregory Bagwell and Sven Lewis (who are executive directors).

Compliance statement

The Managers consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

Overview of the Company's business model

The 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 over 8,000 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: 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 five sectors, each with differentiated capabilities and many leading market positions. Three of these (Mission Systems, Advanced Electronic Solutions, and Communications and Connectivity) design, manufacture and test intelligent hardware, primarily subsystems, with expertise in components. The other two Group businesses provide outsourced aviation services for an international customer base; one of these businesses, Aviation Services UK, was divested during the year. The Communications and Connectivity businesses can be further subdivided into Aero Connectivity, Aero Communications, Electrical and Electronic Equipment, and SATCOM.

These businesses have been given greater day to day autonomy and now operate on a standalone basis in order to allow for greater focus and to be able to unlock their full potential. Each business has full responsibility for its own strategy, and financial and operational performance.

These businesses are supported by a lean corporate centre with responsibility for specialist Group Finance, Treasury, Tax and some Group legal matters.

Development and Performance of the Business

Our strategy

The Group comprises a portfolio of highly strategic Aerospace & Defense businesses. Its reputation for pioneering solutions and innovative technologies makes Cobham the partner of choice in solving its customers' most challenging problems from deep space to the depths of the ocean.

Following the acquisition by Advent International and the renewed focus on the individual businesses within the Group, our strategy continues to focus on how best to position each business to compete for greater market share whilst considering the views of key stakeholders including our shareholders, customers, suppliers, employees and local government or regulatory authorities in the jurisdictions we operate in. The Group remains 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.

Cobham takes a strategic approach to corporate responsibility and sustainability, 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 our culture and reputation.

The global COVID-19 pandemic which commenced in 2020 is continuing to affect businesses across the world. In this context, the Group prioritises the health, safety and security of our 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.

The Group was also pleased to have participated in the response to Covid-19 through extensive efforts to successfully modify its existing hardware used for oxygen systems in military aircraft to create an air pressure regulator, which can be used within a ventilator system to precisely control the flow of oxygen to the patient. This regulator was designed to the working specifications defined by the Medicines and Healthcare products Regulatory Agency for the NHS as part of Cobham's participation in a UK based consortium answering the government's Ventilator Challenge. This reflected the Group's broader commitment to supporting the global fight against COVID-19, which includes leveraging its space pedigree in Application Specific Integrated Circuits (ASIC) to analyse the genomic sequence of the virus that causes COVID-19, to enable further insights into how COVID-19 is transmitted and evolves.

Business review and key performance indicators

Key Performance Indicators

The following financial key performance indicators ('KPIs') are used to measure the Group's performance:

	$m
Revenue	2,543
EBITDA	538
Operating cash	273

Given the diverse nature of the separate businesses and the different regulatory and business environments each operates in there are no meaningful non-financial KPIs which can be used to further assess the Group's performance. Non-financial KPIs are therefore not used by management at a Group level in order to understand the development, performance or position of the business although a range of metrics are used within each of the Group's businesses as appropriate.

Revenue & Profit

Revenue of $2,543m was generated by the Group, not including revenue generated by the Aviation Services UK business. This reflected overall strong performance across the group and 6% like-for-like revenue growth, despite the challenges of Covid-19 demonstrating the robustness of the businesses and the benefits of the changes made since the acquisition of Cobham plc.

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) was $538m for the year.

Group operating profit was $124m. Depreciation and amortisation charges in the year of $440m includes amortisation of acquired intangibles of $305m (which relate to the acquisition of the Group). EBITDA is calculated excluding profit on divestments of $154m and charges of $128m related to the unwinding of fair value adjustments required by IFRS 3, such as the fair value adjustment to inventories.

EBITDA in these financial statements may differ from EBITDA measures calculated using other bases, such as in financing agreements.

Net debt

The purchase of the Group was partly funded by first and second lien term loans of approximately $1,188m, $672m and €885m with terms of 7 years, 8 years and 7 years respectively. During 2020 capital repayments amounting to $9m were made. In 2021, under the terms of the loans, $12m of capital will be repaid. Borrowings, excluding leases, held by the Group on acquisition amounted to $414m and these were fully repaid during the first half of 2020.

Revolving credit facilities (RCF) were utilised during the year to fund the ongoing working capital needs of the Group's businesses. At 31 December 2020 the amount drawn on the RCF amounted to $252m. Cash held at 31 December 2020 amounted to $310m net of overdrafts.

Net debt, consisting of first and second lien term loans and drawn revolving credit facilities of $3,095m, lease obligations of $185m, net of cash of $310m, at 31 December 2020 was $2,970m.

Dividends

The Managers do not recommend the payment of a dividend following their approval of the 2020 consolidated accounts and no dividends were paid during 2020.

During 2020 Equity Preferred Certificates of $466m were repaid, funded by operating cash and proceeds of the divestment of businesses.

Pensions Contributions

The Group made contributions to its sponsored UK defined benefit pension schemes of $64.2m in the year (representing a significant growth vs the $7.7m contributed by Cobham plc in 2019) and significantly improving the net asset position of the pension plan.

Research and development and Capital Investment

The Group is committed to research and development by investing both in new products and enhancements to the current product base, to allow the Group to build positions where it has technical differentiation. It has invested $115m in company funded research and development activities during the year – this was in excess of amounts required under commitments given to the UK government. In addition, significant additional non-company funded research and development spending was undertaken across the group to ensure a bright future for the group across its wide range of highly advanced products. All company funded research and development expenditure is written off as it is incurred unless and until the conditions for capitalisation are met. $44m was capitalised during the year.

The group also invested $108m in physical and software assets for the long-term benefit of the group

Events after the balance sheet date

On 5 January 2021, the Aerospace Connectivity business was sold for $965m including tax benefits. This business was treated as held for sale at 31 December 2020. On 19 January 2021, Equity Preferred Certificates of $901.8m were repaid. On 1 February 2021 an agreement was signed with Eaton Corporation plc for the divestment of the Mission Systems business for $2.83bn, subject to regulatory approvals. This divestment is expected to complete in 2021.

Future developments

Cobham's differentiated technology is installed in many of the leading defence platforms that are expected to be in operation for several decades, underpinning our core business. We are well-positioned in high-growth niches within our end-markets, with exposure to areas such as defence electronics and new space. These areas are experiencing increased investment providing a wide array of new business opportunities for Cobham. We also expect to benefit from a recovery in the commercial aerospace industry as passengers return to flying post-COVID-19.

Principal risks and uncertainties

The Managers continually identify, evaluate and manage material risks and uncertainties faced by the Group which could adversely affect the business, operating results and financial position. The Managers consider the principal risks and uncertainties facing the business to comprise the following:

Continuity of operations

Disruptions of operations at the Group's key operational centres due to disasters or other business continuity events could impact the ability to meet production requirements and a failure to recover from such an event could have a material adverse impact on the business.

To mitigate this, risk management and recovery plans are in place at all operational centres. Robust supply chains are maintained and supplier risk proactively managed. In addition, the Group has a strong IT infrastructure and cyber security programme to ensure systems remain secure and operational.

Product risk

Actual, possible or perceived defects, failures or quality issues associated with the Group's products could lead to significant re-work and litigation including product liability claims or negative publicity that could materially adversely impact the Group's reputation, financial position and results.

The Group has a number of mitigating actions in place including product and control processes, a strong programme office for product development, supplier quality reviews and proactive customer relationship management. In addition, the Group invests materially in market leading research and development to ensure its technologies and products meet customer requirements and specifications. The Group's recruitment and retention policies also ensure high quality teams globally with appropriate depth of skills to support products over the long term.

Financial charges

As in any business, possible financial charges against the Group such as tax claims, pension deficits, litigation or foreign exchange variations could result in a material impact on financial results.

The Group has financial policies and management that aim to ensure the financial health of the business. These include rigorous reviews of all positions on a frequent basis coupled with immediate appropriate action to remediate as appropriate. Specific programmes include foreign exchange hedging, proactive management of any pension deficit, constructive engagement with tax authorities where required and disciplined cash management of both suppliers and receivables.

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.

The Group has a written treasury policy and risk management programme that strives to limit the adverse effects on the financial performance of the Group. This includes the use of foreign currency financial instruments, debt and other instruments. The Group does not trade in financial instruments.

Credit risk

The Group has implemented policies that require appropriate credit checks on potential customers before contracts are signed and sales are made. The businesses also monitor existing customer accounts on an ongoing basis and take 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

The Group 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.

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, the US dollar/euro, and the US dollar/Danish krone exchange rates are the most significant exposures, together with a number of other, smaller foreign exchange transaction exposures. All foreign exchange hedging transactions are approved under delegated authority from the Managers. 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.

Price risk

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

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 Management Report. In addition, notes 1, 11, 19 and 21 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 Managers 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 $310m cash balances net of overdrafts. The Group also has unused credit facilities of $98m and its debt repayment profile is heavily biased to the medium term as set out in note 15.

There is a springing financial covenant applicable to the Revolving Credit Facility that is tested, subject to certain conditions, quarterly from 31 December 2020 if the facility, net of cash balances, 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.

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 Managers believe that the Group is ordinarily well placed to manage its business risks successfully. Additionally, the expected completion of the divestment of the Mission Systems business for $2.83bn will provide significant funds.

The Managers have reviewed detailed cash flow projections to the end of December 2022 and have applied stress tests on its cash position. These include severe but plausible downside scenarios which assume forecast net cash inflows from business operations are reduced by 25% for the entire forecast period, the divestment of the Mission Systems business does not complete, and a combination of these two scenarios. In these scenarios the Managers have confirmed that the Group would be able to operate and service the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

Accordingly, after making enquiries, the Managers 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 Financial Statements.

Employees

Cobham strives at all times to be an attractive, exciting and efficient workplace, where earnings continuously contribute to maintaining and developing a healthy business. Cobham's most important asset in achieving this goal is throughout skilled and well-trained employees who have the will and ability to take responsibility and create results.

Recruitment

Cobham aims to be an attractive workplace that offers challenging jobs and great opportunities for advancement. Through this, Cobham can attract and retain skilled employees. As part of our interview process, we assess candidates' abilities, which can also include technical or competency based assessment. Commitment to diversity and inclusion is demonstrated throughout Cobham recruitment practices.

Diversity, Inclusion and Anti-Discrimination

Cobham upholds the core tenets of equality and fairness and strives to reduce conscious and unconscious bias or discrimination in the recruitment, development, reward and promotion of employees. Organisational commitments to inclusion have been agreed and shared with employees, and surveys undertaken as to whether our employees consider Cobham an inclusive workplace. Cobham is committed to developing an inclusive workplace where employee differences are valued, enabling everyone to contribute fully.

The Group adopts diversity and inclusion and anti-discrimination policies to provide equal opportunity in employment, development and advancement for all qualified persons without regard to age, ancestry, sex/gender (including gender identity, gender expression, pregnancy, childbirth and related medical conditions), ethnicity, marital status, registered domestic partner status, medical condition, genetic characteristics, national origin, physical or mental disability, race, religion, sexual orientation, military or veteran status, or any other classification or characteristics protected by applicable law. Appropriate disciplinary action, up to and including termination of employment, may be taken against any employee violating Group policies in this regard. The Group gender diversity statistics for the reporting period are set out in the table below.[1]

[1] Note. These figures do not include the gender diversity statistics for the Aero Connectivity business unit as an agreement had been made to dispose of the Aero Connectivity business as at 31 December 2020.

	Male	Female
Managers (Board of Directors)	2	0
Senior Managers[2]	180	35
Other	5,577	2,282
Total	5,759	2,317

Health and Safety

Cobham is committed to creating a zero harm workplace for employees, contractors and visitors and enhancing the physical and mental wellbeing of our staff. The responsibility falls with the management team of each business unit for the implementation of local health and safety policies and demonstrating compliance with all legal and corporate requirements.

The Group adopts policies and practices for the purpose of reducing the likelihood of unintentional or latent errors that may be caused due to human limitations or human factors including, but not limited to, work limits, breaks from work and travel from work.

Cobham's safety, health & environment (SHE) policy is to create and embrace a safe, healthy and environmentally aware culture and framework that actively promotes employee engagement at all levels. The SHE policy addresses this by: (i) striving for Zero Harm i.e. reducing the risk of accidents, injuries, ill-health and environmental impacts arising from its operations, activities, products and services, wherever practicable; (ii) enhancing the well-being of its people and local communities; and (iii) complying with all applicable SHE legislation as a basic minimum.

To achieve the aims of the SHE policy, the Group will:

- demonstrate visible leadership and management commitment to the importance of SHE as a core value;
- ensure SHE focus is embedded in the Corporate culture as part of our company values;
- provide effective SHE planning processes that are integrated with all other business strategy planning and decision-making practices;
- identify, assess, eliminate or mitigate all significant risks associated with SHE hazards in the Group's operations, activities, products and services;
- communicate SHE expectations, risks and performance to all stakeholders in an appropriate, effective and timely manner, including active engagement with contractors, suppliers and business partners, so that they understand and respect the Company's SHE policies and standards;
- undertake root cause analyses of all significant accidents and high potential incidents, with lessons learnt shared, where appropriate;
- equip its people with the necessary experience, skills and training to achieve the required level of SHE competency and leadership, as it relates to their work activities; and

[2] Note. Senior Managers have been defined as Vice Presidents and above, responsible planning, directing or controlling corporate activities.

- ensure effective preparation for SHE emergencies that could impact the group's people, operations, products and services.

The Group also adopts policies in relation to COVID-19 and dealing with the risks of the pandemic in the workplace, including: hygiene measures, social distancing and cleaning, expectations for work-from-home arrangements and adapted office environments. Legal requirements and government guidance are considered across the Group on a continual basis and influence the creation and implementation of such policies.

Employee Consultation and Involvement with Management

Cobham utilises employee committees and representative groups (ERGs) within the business units, whose purpose is to promote and maintain good employee relations between the organisation and its employees. The ERGs create an area where issues can be examined and discussed through a genuine exchange of views to identify joint solutions of mutual concern and share business performance and operational issues. The ERGs are utilised to gain opinions on proposed changes to the business and allows the members to speak on behalf of the employees. The intention of the ERGs is to ensure that employees become part of the "team" in assisting with impactful business decisions.

Consultation is further embedded at a local level through Enterprise Agreements, Awards and engagement with Work Councils or Workers Committees.

The CEO and senior management teams of each business unit also host regular "town hall" discussions where all employees can submit questions to be discussed openly within a collaborative and public forum.

Performance Development, Training and Management Reviews

Mandatory training is allocated to new employees, including but not limited to Ethics and Compliance, IT Security, Business Unit Policies, Product Safety and Human Factors. Employees are continually issued with refresher training alongside job specific training. Additional training courses are accessible on a voluntary basis for employees to enrol into if they desire.

Employees participate in Performance Development Reviews (PDR), setting clear goals and objectives and a personalised development plan to support aspirations. The PDR is a process for setting "stretch goals" and development goals, which are evaluated and adjusted according to circumstances ongoing throughout the year. The responsibility falls with the management team of each business unit for undertaking employee PDRs and performance evaluation exercises. Discretionary employee annual bonuses are linked to the outcomes of such performance evaluations (see *Employee Benefits*, below).

Regular one to ones and are used throughout the year to record discussions between employees and their managers, facilitating regular feedback about performance. This allows development areas to be identified, success to be recognised and career progression routes to be put in place. Performance improvement plans are implemented for instances of lower than expected performance, allowing appropriate targets and timescales of improvements to be discussed. This allows individuals the opportunity to improve their performance and gain support where required.

Employee Benefits and Annual Incentive Programme

All benefits specific to job roles are included within employee contracts of employment and vary within each business unit. Benefits can include: an Annual Incentive Plan; contributions to post-retirement plans; Private Medical Insurance and company car allowances.

Employees are eligible to participate in Cobham's discretionary Annual Incentive Plan, designed to encourage specific results-oriented actions on the part of employees and to recognize and reward positive results. Results are measured against a predetermined combination of business performance targets and individual performance objectives. Therefore, the higher the level of achievement, the greater the opportunity for financial reward to participants. Personal objectives are agreed with management as part of the performance review process (see *Performance Development, Training and Management Review*, above). Business units also offer flexible benefits schemes where employees can choose elect certain additional benefits.

Social, community and human rights

Cobham is committed to acting with honesty and integrity to the highest ethical standards, in compliance with all applicable legislation. Cobham protects human rights through the principles and policies contained in the Cobham Code of Business Conduct and through company policies adopted within the business units.

The Group's fulfilment of its obligations under the Modern Slavery Act of 2015 are published in an annual Anti-Slavery and Anti-Human Trafficking policy which is published and accessible via the Cobham website, at: https://www.cobham.com/media/2194406/cobham-2020-anti-slavery-and-human-trafficking-statement-final.pdf.

All employees are expected to comply with the Anti-Slavery and Anti-Human Trafficking Policy, including due diligence checks when contracting with third parties. The Group selects suppliers who adopt high ethical standards which are consistent with our corporate beliefs and values. The Group expects its suppliers (and their subcontractors) to operate their businesses and conduct employee relations in an ethical manner and to meet the requirements stipulated by both international and regional laws and industry standards.

Environment

Cobham recognises that its operations, activities, products and services have an impact on the environment. Our impact on the environment is manifested through what we do and also what we sell. Failure to address environmental sustainability issues aligns with the Group's principal risks of significant business interruption. The Group continuously endeavour to improve its efficiency in the use of raw materials, energy and natural resources through product design, operations and supply chain management and logistics.

One significant area of environmental impact is in Aviation Services in Australia, where we look for efficiencies to improve the fuel consumption of our aircraft. We also recognise the importance of developing smaller, lighter products, helping our customers to reduce energy consumption and lower emissions. See details of our Group safety, health and environment policy above (*Health and Safety*).

A confirmation statement is requested annually from each business unit, which is certified by the CEO and CFO of the respective business unit and this statement is required to confirm that the relevant business has adopted a formal Environment, Social and Governance policy relevant to that business, including matters such as workplace safety, environmental management and product safety. Confirmation is also made by that statement that the relevant business is in compliance with all environmental laws and all environmental permits necessary in connection with the ownership and operation of the business.

Signed on behalf of the board

Michael J. Ristaino
Manager
12 April 2021

Building a better working world

Ernst & Young
Société anonyme

35E, Avenue John F. Kennedy
L-1855 Luxembourg

Tel: +352 42 124 1

www.ey.com/luxembourg

B.P. 780
L-2017 Luxembourg

R.C.S. Luxembourg B 47 771
TVA LU 16063074

Independent auditor's report

To the Shareholders of
AI Convoy (Luxembourg) S.à r.l.
2-4 rue Beck
L-1222 Luxembourg

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of AI Convoy (Luxembourg) S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Group as at 31 December 2019 and for the year then ended were not audited.

Building a better working world

Other information

The Board of Managers is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers and those charged with governance for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers.
- Conclude on the appropriateness of Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Alban Aubrée

Luxembourg, 12 April 2021

Consolidated Income Statement
For the year ended 31 December 2020

$m	Note	2020	17 July 2019 to 31 December 2019
Continuing operations			
Revenue	2	**2,542.8**	-
Cost of sales		**(1,860.3)**	-
Gross profit		**682.5**	-
Operating costs		**(713.3)**	-
Profit on divestments	25	**154.3**	-
Operating profit		**123.5**	-
Finance income	4	**3.4**	-
Finance costs	4	**(185.9)**	-
Loss before taxation		**(59.0)**	-
Taxation	5	**99.9**	-
Profit from continuing operations		**40.9**	-
Loss from discontinued operations	25	**(17.0)**	
Profit for the year		**23.9**	
Attributable to:			
Owners of the parent		**23.7**	-
Non-controlling interests		**0.2**	-
		23.9	-

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

$m	Note	2020	17 July 2019 to 31 December 2019
Profit for the year		**23.9**	-
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit retirement benefit obligations	20	**(3.7)**	-
Actuarial loss on other retirement benefit obligations	20	**(0.6)**	-
Tax effects	5	**0.8**	-
		(3.5)	-
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries	23	**(25.3)**	-
Reclassification of cash flow hedge fair values	23	**(0.9)**	-
Hedge accounted derivative financial instruments	23	**-**	-
Tax effects	5	**-**	-
		(26.2)	-
Other comprehensive expense for the year		**(29.7)**	-
Total comprehensive expense for the year		**(5.8)**	-
Attributable to:			
Owners of the parent		**(6.0)**	-
Non-controlling interests		**0.2**	-
		(5.8)	-
Attributable to:			
Continuing operations		**(5.8)**	-
Discontinued operations		**-**	-
		(5.8)	-

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

AI Convoy (Luxembourg) S.à r.l.

Consolidated Statement of Financial Position

As at 31 December 2020

$m	Note	2020	2019
Assets			
Non-current assets			
Intangible assets	7	**4,152.8**	-
Property, plant and equipment	8	**670.5**	-
Investment properties	9	**2.8**	-
Investments in joint ventures and associates		**3.4**	-
Contract assets	12	**55.5**	-
Trade and other receivables	13	**13.8**	-
Retirement benefits asset	20	**40.6**	
Deferred tax	5	**0.1**	-
Derivative financial instruments	19	**5.8**	-
		4,945.3	-
Current assets			
Inventories	10	**315.1**	-
Contract assets	12	**164.1**	-
Trade and other receivables	13	**333.3**	-
Current tax receivables	5	**0.2**	-
Derivative financial instruments	19	**10.8**	-
Cash and cash equivalents	15	**389.4**	-
Assets classified as held for sale	14	**719.8**	-
		1,932.7	-
Liabilities			
Current liabilities			
Borrowings	15	**(343.0)**	-
Lease obligations	16	**(27.4)**	-
Contract liabilities	12	**(181.7)**	-
Trade and other payables	17	**(437.4)**	-
Provisions	18	**(107.8)**	-
Current tax liabilities	5	**(112.6)**	-
Derivative financial instruments	19	**(5.7)**	-
Liabilities associated with assets classified as held for sale	14	**(136.1)**	-
		(1,351.7)	-
Non-current liabilities			
Borrowings	15	**(2,831.6)**	-
Lease obligations	16	**(157.4)**	-
Trade and other payables	17	**(15.5)**	-
Provisions	18	**(53.3)**	-
Retirement benefits liabilities	20	**(21.1)**	
Deferred tax	5	**(423.1)**	-
Derivative financial instruments	19	**(1.3)**	-
		(3,503.3)	-
Net assets		**2,023.0**	-
Equity			
Issued capital	22	**1.5**	-
Share premium	22	**1,064.4**	-
Equity Preferred Certificates	22	**958.0**	
Other reserves	23	**(22.6)**	-
Retained earnings		**19.3**	-
Total equity attributable to owners of the parent		**2,020.6**	-
Non-controlling interests in equity		**2.4**	-
Total equity		**2,023.0**	-

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements. The financial statements on pages 16 to 56 were approved by the Board of Managers on 12 April 2021 and signed on its behalf by:

Donald E. Whitt, Jr.
Manager

AI Convoy (Luxembourg) S.à r.l.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

$m	Issued capital (note 22)	Share premium (note 22)	Equity preferred certificates (note 22)	Other reserves (note 23)	Retained earnings	Total attribut-able to owners of the parent	Non-controlling interests	Total equity
Total equity at 31 December 2019						-		-
Profit for the year	-	-	-	-	23.7	23.7	0.2	23.9
Other comprehensive (expense)/income	-	-	-	(26.2)	(3.5)	(29.7)	-	(29.7)
Total comprehensive (expense)/income for the year	-	-	-	(26.2)	20.2	(6.0)	0.2	(5.8)
Issue of ordinary shares	1.5	1,064.4	-	-	-	1,065.9	-	1,065.9
Issue of equity preferred certificates	-	-	1,424.0	-	-	1,424.0	-	1,424.0
Repayment of equity preferred certificates	-	-	(466.0)	-	-	(466.0)	-	(466.0)
Acquisition of non-controlling interest	-	-	-	-	-	-	2.1	2.1
Reclassification of foreign exchange on divestment of overseas operations	-	-	-	2.7	-	2.7	-	2.7
Transfer of other reserves to retained earnings	-	-	-	0.9	(0.9)	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	0.1	0.1
Total equity at 31 December 2020	1.5	1,064.4	958.0	(22.6)	19.3	2,020.6	2.4	2,023.0

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020

$m	Note	2020	17 July 2019 to 31 December 2019
Cash generated from operations		**272.6**	-
Tax paid		**(0.9)**	-
Interest paid		**(164.3)**	-
Interest received		**3.4**	-
Net cash from operating activities	6	**110.8**	-
Cash flows from investing activities			
Purchase of property, plant and equipment		**(99.4)**	-
Purchase of intangible assets		**(6.7)**	-
Capitalised expenditure on intangible assets		**(40.8)**	-
Proceeds on disposal of property, plant and equipment and intangible assets		**4.8**	-
Acquisition of subsidiaries net of cash acquired	24	**(4,627.6)**	-
Proceeds from business divestments	25	**184.8**	-
Proceeds from sale of financial investment	3	**114.8**	-
Net cash used in investing activities		**(4,470.1)**	-
Cash flows from financing activities			
Issue of share capital	22	**1,065.9**	-
Issue of equity preferred certificates	22	**1,424.0**	
Repayment of equity preferred certificates	22	**(466.0)**	
New borrowings	15	**3,751.8**	-
Repayment of bank and other borrowings	15	**(1,044.8)**	-
Lease capital payments	15	**(32.1)**	-
Net cash from financing activities		**4,698.8**	-
Net increase in cash and cash equivalents		**339.5**	-
Exchange movements		**(29.3)**	-
Cash and cash equivalents at start of year		**-**	-
Cash and cash equivalents at end of year		**310.2**	-

Reconciliation of cash and cash equivalents and net debt

£m	Note	2020	17 July 2019 to 31 December 2019
Cash and cash equivalents per Cash Flow Statement		**310.2**	-
Bank overdrafts	15	**79.2**	-
Cash and cash equivalents per Balance Sheet		**389.4**	-
Bank and other borrowings	15	**(3,174.6)**	-
Lease obligations	15	**(184.8)**	-
Net debt at 31 December		**(2,970.0)**	-

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

1. Authorisation of financial statements and statement of compliance with IFRS

The consolidated financial statements of AI Convoy (Luxembourg) S.à r.l. (the "parent company") and all its subsidiaries (the 'Group') for the year ended 31 December 2020 were authorised for issue by the Board of Managers on 12 April 2021 and the Statement of Financial Position was signed on the Board's behalf by Michael J. Ristano and Donald E. Whitt, Jr. Under Luxembourg law, the consolidated financial statements are approved by the Shareholders during the Annual General Meeting.

AI Convoy (Luxembourg) S.à r.l. is registered with the Trade and Companies Register of Luxembourg with the number B236989 and has its registered office at 2-4 Rue Beck L-1222 Luxembourg.

On 17 January 2020 Cobham plc ('Cobham') was acquired by the Group (note 24). Cobham is a leading global defence and aerospace company, offering an innovative range of technologies and services to solve challenging problems in commercial, defence and security markets around the world.

The Cobham group is ultimately owned by funds managed by Advent International Corporation, a global private equity investor.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and interpretations of the IFRS Interpretations Committee.

The Group has not prepared consolidated financial statements in the past and the financial statements as at 31 December 2020 are the first set of consolidated financial statements that comply with IFRSs applicable as at 31 December 2020. In preparing these financial statements, the Group's opening statement of financial position was prepared as at the date of incorporation on 17 July 2019.

Although the Cobham group was acquired on 17 January 2020, these Group accounts have adopted a date of convenience and consolidated the results of the group from 1 January 2020.

Accounting policies

1.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and pension assets which have been measured at fair value. 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 consolidated financial statements are presented in US$ and all values are rounded to the nearest 100,000 ($0.1m), except where indicated otherwise.

1.2 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, Management has 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 $310m cash balances net of overdrafts. The Group also has unused credit facilities of $98m and its debt repayment profile is heavily biased to the medium term as set out in note 15.

There is a springing financial covenant applicable to the Revolving Credit Facility that is tested, subject to certain conditions, quarterly from 31 December 2020 if the facility, net of cash balances, 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.

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 Managers believe that the Group is ordinarily well placed to manage its business risks successfully. Additionally, the expected completion of the divestment of the Mission Systems business for $2.83bn will provide significant funds.

The Managers have approved a detailed financial and strategic five-year plan and have applied stress tests on its cash position. These have included assuming severe but plausible scenarios such as a 25% reduction in operational cash flow over the period to 31 December 2022, a delay in the divestment of the Mission Systems business, and a combination of both of these scenarios. In these cases the Managers have confirmed that the Group would be able to operate and service the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

Accordingly, after making enquiries, the Managers have concluded at the time of approving the financial statements that it is their expectation that the Group 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 Group Financial Statements.

1.3 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.

1.3.1 Significant judgements in applying accounting policies

The following are the judgements, apart from those involving estimations, that Management has 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. 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.
   - 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.

b. Capitalisation of development costs

   The Group undertakes significant levels of development work. 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 amortised.

c. Cash generating units (CGUs)

   A CGU is the smallest group of assets that generates cash flows that are largely independent of cash flows generated by other assets. Management reporting and decision making are undertaken at this level of asset grouping. After consideration by management, the CGUs appropriate to the group are as shown in the Revenue Segmental Analysis (note 2).

d. Share based compensation

   Employees (including senior executives) of the Group participate in a share-based arrangement by subscribing to the share options in the shareholding structure of the Group, whereby the Shareholder of the Group has the obligation to compensate the employees in case of a Put or Call option. The Group treats the arrangement as equity settled, since the transaction is settled by the Shareholder based on the fair value of the Group's shares. The Group records the cost in employee benefits expense only if the fair value differs from the subscription value at the grant date (subscription date). The Group considers that the fair value does not materially differ from the subscription value.

e. Equity Preferred Certificates

   Under the terms and conditions of the preference shares issued by the Group, the shares are redeemable in cash only at the option of the issuer and therefore do not satisfy the definition of a financial liability in IAS 32. In addition they are interest and dividend free and redemption of the shares is at the discretion of the issuer. As a result, the preference shares are classified as equity and recognised at nominal value.

1.3.2 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 5)

   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. Business Combinations, Goodwill and Intangible Assets

   IFRS 3 (revised) 'Business Combinations' requires that goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 (revised) also requires the identification and valuation of other separable intangible assets at acquisition, based on fair values attributed to each class of asset. The assumptions involved in establishing the fair values require the use of management estimates. The estimates made in relation to acquired intangible assets include identification of relevant assets, future growth rates, expected inflation rates and the discount rate used. Management also make estimates of the useful economic lives of the intangible assets.

   Goodwill and intangible assets are allocated to CGUs based on which one is expected to benefit most from that specific asset. The allocation is normally straightforward, but in some instances there may be a need for a multiple allocation for an individual asset, based on management's estimates of future benefits arising for that asset in two or more CGUs.

c. Impairment of goodwill and intangible assets (note 7)

Determination of the value in use of 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. The COVID-19 pandemic has increased the level of estimation uncertainty on future cash flows as the impact on countries and markets continues to be uncertain. However, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets.

d. Inventory provisions (note 10)

Recognition and measurement of provisions for obsolete, slow moving and defective items of inventory;

e. Revenue recognition (note 2), contract assets and liabilities (note 12) and contract loss provisions (note 18)

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; and

f. Pension assets and liabilities (note 20)

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.

g. Incremental borrowing rates (IBR)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. If the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay'. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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, AI Convoy (Luxembourg) S.à r.l., and of all its subsidiaries.

Subsidiaries are all entities over which the Group has control, which is defined as the right to direct the relevant activities of that subsidiary, rights 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. The Group reassesses whether or not it controls a subsidiary if facts or circumstances indicate that there are changes in any of the elements of control as defined above. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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.

1.5 Foreign currencies

The presentation currency of the Group is US Dollars. 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.

1.6 Revenue recognition (note 2)

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 obligation using either standard list sales prices or an estimated costs methodology.

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 liability 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.

1.7 Taxation (note 5)

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted in the countries where the Group operates and generates taxable income.

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.

1.8 Intangible assets (note 7)

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.

1.9 Property, plant and equipment (note 8)

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.

1.10 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, relevant to the class of right-of-use asset as shown in 2.4.5 above. The right-of-use asset is tested for impairment where appropriate.

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

1.11 Investment properties (note 9)

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.

1.12 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.

1.13 Inventories (note 10)

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.

1.14 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 following hierarchy has been used by the Group for determining and disclosing fair value in accordance with IFRS 13, Fair Value Measurement.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Techniques which use inputs that have a significant effect on the recorded fair value that are based on observable market data.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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.

For financial assets and liabilities which are not held at fair value in the Statement of Financial Position, the carrying values of these items are assumed to approximate to fair value.

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.

1.15 Financial instruments (note 11)

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 11)

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 classifies in this category cash, trade and other receivables, contract assets and loans receivable. 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 presents subsequent changes in the investment's fair value through profit or loss. 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.

Financial liabilities (note 11)

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 12 and 13)

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.

The Group uses a non-recourse factoring scheme for certain of its receivables. The program was gradually implemented during 2020 and receivables subject to this arrangement are fully derecognised from the Balance Sheet as soon as their acceptance is validated by the factoring company and all risks and rewards are transferred. Subsequently they are recorded off-balance sheet and subject to disclosure only.

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 15)

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 17)

Trade payables do not carry any interest and are stated at their nominal value.

Derivative financial instruments and hedge accounting (note 19)

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.

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.

1.16 Lease obligations (note 16)

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.

1.17 Provisions (note 18)

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 where 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.

1.18 Retirement benefit schemes (note 20)

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.

1.19 Share based compensation (note 22)

Employees (including senior executives) of the Group participate in a share-based arrangement by subscribing to the share options in the shareholding structure of the Group, whereby the Shareholder of the Group has the obligation to compensate the employees in case of a Put or Call option. The Group treats the arrangement as equity settled, since the transaction is settled by the Shareholder based on the fair value of the Group's shares. The Group records the cost in employee benefits expense only if the fair value differs from the subscription value at the grant date (subscription date).

1.20 Equity Preferred Certificates (note 22)

Under the terms and conditions of the preference shares issued by the Group, the shares are redeemable in cash only at the option of the issuer and therefore do not satisfy the definition of a financial liability in IAS 32. In addition they are interest and dividend free and redemption of the shares is at the discretion of the issuer. As a result, the preference shares are classified as equity and recognised at nominal value.

1.21 Business combinations (note 24)

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives (if any) in host contracts by the acquiree.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

1.22 Divestments

When the Group loses control over a subsidiary, for example through divestment, it derecognises the related assets and liabilities from the date of loss of control, with any resultant gain or loss on divestment recognised in profit or loss.

1.23 Held for Sale assets and liabilities

Assets and liabilities are classified as Held for Sale where actions to complete the sale have been initiated and the sale is expected to be completed within one year from the date of initial classification. Furthermore, a potential buyer has been identified and negotiations at the reporting date are at an advanced stage. The assets and liabilities are available for immediate sale and can be sold to a potential buyer in their current condition. Amortisation and depreciation on held for sale assets ceases from the date those assets are classified as held for sale.

1.24 Non-controlling interests in equity

Non-controlling interests represent the share of net assets in a subsidiary which are not attributable, directly or indirectly, to the group. The non-controlling interest is reported as part of equity of the consolidated group, recorded separately from the parent's interests and clearly distinguished separately from other components of the parent's equity.

1.25 Future accounting developments

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 2021 or later years:

- IFRS 17: *Insurance Contracts*
- Amendments to IAS 1: *Classification of Liabilities as Current or Non-Current*
- Amendments to IFRS 3: *Reference to the Conceptual Framework*
- Amendments to IAS 16: *Property, Plant and Equipment – Proceeds before intended use*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendments to IAS 1: *Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies*
- Amendments to IAS 8: *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*

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.

2. Revenue

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

	Continuing Operations					Discontinued Operation	
$m	Communications and Connectivity	Mission Systems	Advanced Electronic Solutions	Aviation Services Australia	Total	Aviation Services UK	Total 2020
Goods transferred at a point in time	**527.0**	**552.2**	**499.2**	**-**	**1,578.4**	**-**	**1,578.4**
Goods transferred over time	**17.0**	**113.1**	**371.5**	**-**	**501.6**	**-**	**501.6**
Services transferred at a point in time	**52.0**	**54.8**	**2.7**	**-**	**109.5**	**-**	**109.5**
Services transferred over time	**56.2**	**22.9**	**29.6**	**244.6**	**353.3**	**82.1**	**435.4**
	652.2	**743.0**	**903.0**	**244.6**	**2,542.8**	**82.1**	**2,624.9**

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied, as at 31 December 2020 was as follows:

$m	2021	2022	Later	Total
Communications and Connectivity	307.6	54.7	47.7	410.0
Mission Systems	554.0	272.8	68.5	895.3
Advanced Electronic Solutions	736.5	316.5	250.7	1,303.7
Aviation Services Australia	134.4	54.3	260.1	448.8
	1,732.5	698.3	627.0	3,057.8

3. Other income statement disclosures

The following costs are included in operating profit:

$m	2020	2019
Materials costs within cost of sales	965.1	-
Company funded research and development	71.2	-

Operating profit also includes the gain on sale of the Group's minority shareholdings in Air Tanker Holdings Limited and Air Tanker Services Limited, which were related to the Voyager (FSTA) project and were sold in November 2020.

Employment costs and employee numbers

The aggregate employment costs are as follows:

$m	Note	2020	2019
Wages and salaries		732.2	-
Social security costs		60.6	-
Pension costs	20	43.1	-
		835.9	-

Employee numbers, analysed by segment, are as follows:

	Monthly average number of employees		As at 31 December	
	2020	2019	2020	2019
Communications and Connectivity	2,403	-	2,298	-
Mission Systems	2,076	-	2,049	-
Advanced Electronic Solutions	3,622	-	3,616	-
Aviation Services	983	-	813	-
Centralised IT, Head office and other activities	67	-	47	-
Continuing operations	9,151	-	8,823	-
Discontinued operations	745	-	-	-
Total Group	9,896	-	8,823	-

Compensation of key management personnel

During the year, no remuneration was paid to key management personnel from within this Group and therefore no key management personnel compensation is disclosable.

Audit fees

During the year, the Group obtained the following services from the Company's auditors, Ernst & Young LLP (2019: $nil) and its associates:

$m	2020	2019
Annual audit of the Parent Company and Group Financial Statements	1.4	-
Audit of the Company's subsidiaries	1.4	-
Fees payable for audit services	2.8	-
Other assurance services	0.3	-
Fees payable for other services	0.3	-
Total fees payable to the auditors	3.1	-

4. Finance income and costs (continuing operations)

$m	Note	2020	2019
Bank interest		1.1	-
Other finance income		2.3	-
Total finance income		3.4	-
Interest on bank overdrafts and loans		(169.7)	-
Interest on lease obligations		(11.8)	-
Interest on net pension scheme liabilities	20	(0.5)	-
Other finance expense		(3.9)	-
Total finance costs		(185.9)	-
Net finance costs		(182.5)	-

5. Taxation

Tax included in Income Statement (continuing operations)

$m	2020	2019
Charge for the year	(33.0)	-
Current tax	(33.0)	-
Credit for the year	132.9	-
Deferred tax	132.9	-
Total tax credit for the year	99.9	-

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 can be reconciled to the accounting result as follows:

	2020	2019
$m	Total	Total
Loss before tax from continuing operations	(59.0)	-
Tax thereon at the Luxembourg tax rate of 24.94%	14.7	-
Effect of differences in overseas tax rates and State Tax	7.4	-
Impact of tax treatment of divestments	38.5	-
Expenditure qualifying for additional R&D tax relief	31.7	-
Impact of other items	7.6	-
Total tax credit for the year	99.9	-

Tax included in OCI

$m	2020	2019
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain on retirement benefit obligations	(0.8)	-
	(0.8)	-

Current tax assets and liabilities

$m	2020	2019
Current tax receivables	0.2	-
Current tax liabilities	(112.6)	-
	(112.4)	-

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 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, including those acquired by the Group during the year. A liability has been recorded in respect of State Aid including the amount paid to the UK tax authorities in March 2021. 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 $101.4m (2019: $nil) in respect of uncertain tax positions in the UK, US and other tax jurisdictions, together with $8.9m (2019: $nil) related to interest on uncertain tax positions as shown in note 17. 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	2020	2019
Deferred tax assets		
Recoverable within one year	(0.1)	-
Recoverable after one year	-	-
	(0.1)	-
Deferred tax liabilities		
Falling due within one year	359.1	-
Falling due after one year	64.0	-
	423.1	-
Net deferred tax liabilities	423.0	-

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 liability/ (asset)
At 31 December 2019	-	-	-	-	-	-
(Credit)/charge to income statement - continuing operations	(94.8)	(0.6)	11.8	(2.5)	(46.8)	(132.9)
(Credit)/charge to income statement - discontinued operations	-	-	-	-	0.3	0.3
Credit to OCI	-	-	(0.8)	-	-	(0.8)
Business combinations	802.8	30.6	(9.3)	(28.4)	(191.9)	603.8
Business divestments	(0.1)	(0.4)	0.8	0.8	(10.0)	(8.9)
Reclassified as held for sale	(51.2)	0.1	-	-	0.5	(50.6)
Foreign exchange adjustments	12.3	1.2	0.6	(1.4)	(0.6)	12.1
At 31 December 2020	669.0	30.9	3.1	(31.5)	(248.5)	423.0

Other deferred tax assets and liabilities shown above include balances arising from temporary differences in relation to provisions and accruals of $70.3m (2019: $nil) and disallowed interest of $16.5m (2019: $nil).

Tax losses (key estimation uncertainty)

Tax losses of $2.5m (2019: $nil) arising in the US, $16.0m (2019: $nil) arising in the UK and $13.0m (2019: $nil) arising in Denmark have been recognised on the basis of forecasted future taxable profits. 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.

Unremitted earnings

The unprovided tax on unremitted earnings as at 31 December 2020 is considered to be immaterial.

6. Cash flow from operations

$m	Note	2020	2019
Operating profit			
Operating profit from continuing operations		**123.5**	-
Operating loss from discontinued operation		**(21.2)**	-
Non-cash items:			
Share of post-tax results of joint ventures and associates		**(0.2)**	-
Depreciation and amortisation		**440.1**	-
Loss on sale of property, plant and equipment and intangible assets		**2.7**	-
Profit on divestments of subsidiary undertakings	25	**(154.3)**	-
Profit on divestment of financial investment		**(17.8)**	
Derivative financial instruments	19	**(14.5)**	-
Pension contributions in excess of pension charges		**(64.3)**	-
Operating cash movements:			
Decrease in inventories		**14.9**	-
Increase in contract assets		**(11.5)**	-
Increase in trade and other receivables		**(21.2)**	-
Increase in contract liabilities		**17.3**	-
Increase in trade and other payables		**54.0**	-
Decrease in provisions		**(74.9)**	-
Cash generated from operations		**272.6**	-
Tax paid		**(0.9)**	-
Interest paid		**(164.3)**	-
Interest received		**3.4**	-
Net cash from operating activities		**110.8**	-

7. Intangible assets

$m	Goodwill	Customer relationships	Technology based assets	Order book and trade names	Develop-ment costs	Software and other	Total
Cost							
At 31 December 2019	-	-	-	-	-	-	-
Recognised on business combinations	**1,580.7**	**1,574.7**	**1,166.6**	**593.6**	-	**48.2**	**4,963.8**
Additions	-	-	-	-	**43.5**	**7.6**	**51.1**
Business divestments	**(24.5)**	**(2.2)**	-	**(7.9)**	-	**(0.3)**	**(34.9)**
Reclassified as held for sale	**(288.9)**	**(142.8)**	**(129.5)**	**(77.1)**	**(5.8)**	**(5.9)**	**(650.0)**
Derecognitions and disposals	-	-	-	-	-	**(3.5)**	**(3.5)**
Foreign exchange adjustments	**32.6**	**39.2**	**2.9**	**1.1**	**2.1**	**4.3**	**82.2**
Reclassifications	-	-	-	-	**2.0**	**(2.4)**	**(0.4)**
At 31 December 2020	**1,299.9**	**1,468.9**	**1,040.0**	**509.7**	**41.8**	**48.0**	**4,408.3**
Accumulated amortisation and impairment							
At 31 December 2019	-	-	-	-	-	-	-
Amortisation charge for the year	-	**79.4**	**91.4**	**109.4**	**0.4**	**23.9**	**304.5**
Eliminated on business divestments	-	**(0.1)**	-	**(0.5)**	-	**(0.3)**	**(0.9)**
Reclassified as held for sale	-	**(9.3)**	**(15.8)**	**(21.3)**	**(0.4)**	**(4.1)**	**(50.9)**
Derecognitions and disposals	-	-	-	-	-	**(1.2)**	**(1.2)**
Foreign exchange adjustments	-	-	-	-	-	**3.8**	**3.8**
Reclassifications	-	-	-	-	-	**0.2**	**0.2**
At 31 December 2020	-	**70.0**	**75.6**	**87.6**	-	**22.3**	**255.5**
Carrying amount							
At 31 December 2020	**1,299.9**	**1,398.9**	**964.4**	**422.1**	**41.8**	**25.7**	**4,152.8**
At 31 December 2019	-	-	-	-	-	-	-

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.

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	2020	2019
Communications and Connectivity	221.8	-
Mission Systems	414.7	-
Advanced Electronic Solutions	564.8	-
Aviation Services Australia	98.6	-
Total	1,299.9	-

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 five 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 2.1% 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 8.9% to 10.3%; and
- Cash flows include the impact of working capital and fixed asset requirements.

Sensitivity analysis

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

CGU	Key financial assumptions	Cash flow dependencies	Sensitivity analysis
Communications and Connectivity	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 10.1%.	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	Projected cash flows for the next three years, with subsequent growth assumed at a rate of 2.2% were discounted at a pre-tax rate of 9.7%.	Cash flow projections assume that major cash outflows associated with development programmes will 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.

CGU	Key financial assumptions	Cash flow dependencies	Sensitivity analysis
Advanced Electronic Solutions			
	Projected cash flows for the next three years, with subsequent growth assumed at a rate of 2.3% were discounted at a pre-tax rate of 10.1%.	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 impairment losses of up to $233m would arise.
Aviation Services			
	Projected cash flows for the next three years, with subsequent growth assumed at a rate of 2.5% were discounted at a pre-tax rate of 8.9%.	Cash flow projections assume that major contract bids or extensions, including 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.

8. Property, plant and equipment

$m	**2020**	2019
Owned property, plant and equipment	**505.8**	-
Right-of-use assets	**164.7**	-
	670.5	-

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 31 December 2019	**-**	**-**	**-**		**-**
Additions	**17.9**	**29.8**	**18.9**	**33.4**	**100.0**
Acquired with business combinations	**170.0**	**335.6**	**40.0**	**42.8**	**588.4**
Business divestments	**(19.1)**	**(48.8)**	**(1.2)**	**(2.0)**	**(71.1)**
Disposals	**(8.0)**	**(18.9)**	**(12.8)**	**(1.5)**	**(41.2)**
Reclassified as held for sale	**(21.8)**	**(24.9)**	**(4.2)**	**(1.2)**	**(52.1)**
Foreign exchange adjustments	**3.5**	**41.5**	**4.0**	**(0.1)**	**48.9**
Reclassifications	**15.8**	**9.6**	**3.5**	**(28.9)**	**-**
At 31 December 2020	**158.3**	**323.9**	**48.2**	**42.5**	**572.9**
Accumulated depreciation					
At 31 December 2019	**-**	**-**	**-**	**-**	**-**
Depreciation charge for the year	**19.5**	**61.9**	**19.9**	**-**	**101.3**
Eliminated on business divestments	**(6.6)**	**(0.5)**	**1.0**	**-**	**(6.1)**
Eliminated on disposals	**(2.2)**	**(18.9)**	**(12.1)**	**-**	**(33.2)**
Reclassified as held for sale	**(2.1)**	**(20.2)**	**(1.4)**	**-**	**(23.7)**
Foreign exchange adjustments	**2.2**	**23.9**	**2.7**	**-**	**28.8**
Reclassifications	**-**	**0.2**	**(0.2)**	**-**	**-**
At 31 December 2020	**10.8**	**46.4**	**9.9**	**-**	**67.1**
Carrying amount					
At 31 December 2020	**147.5**	**277.5**	**38.3**	**42.5**	**505.8**
At 31 December 2019	-	-	-	-	-

Land and buildings above include freehold land and buildings with a carrying value of $122.5m (2019: $nil) and improvements to leasehold land and buildings of $25.0m (2019: $nil) respectively.

At 31 December 2020, the Group had commitments for the acquisition of property, plant and equipment of $23.4m (2019: $nil).

Right-of-use assets

$m	Land and buildings	Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Total
Carrying amount at 31 December 2019	-	-	-	-
Additions	**21.9**	**19.8**	**0.3**	**42.0**
Acquired with business combinations	**158.6**	**32.9**	**0.8**	**192.3**
Business divestments	**(9.1)**	**-**	**-**	**(9.1)**
Disposals	**(0.8)**	**(0.8)**	**-**	**(1.6)**
Reclassified as held for sale	**(30.6)**	**(0.5)**	**(0.2)**	**(31.3)**
Depreciation	**(24.4)**	**(9.6)**	**(0.3)**	**(34.3)**
Foreign exchange adjustments	**2.5**	**4.0**	**0.2**	**6.7**
At 31 December 2020	**118.1**	**45.8**	**0.8**	**164.7**

9. Investment properties

$m	2020	2019
Carrying amount at 1 January	**-**	-
Acquired with business combinations	**2.8**	-
Depreciation	**(0.1)**	-
Foreign exchange adjustments	**0.1**	-
Carrying amount at 31 December	**2.8**	-

The fair value of the Group's investment properties has been assessed to be $2.8m. 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 $0.8m, which is net of all direct costs associated with leasing the properties other than depreciation. The buildings held at 31 December 2020 are leased to commercial users under an operating lease with a 25 year term which expires in 2023.

10. Inventories

$m	2020	2019
Raw materials and consumables	**179.3**	-
Work in progress	**135.3**	-
Finished goods and goods for resale	**34.4**	-
Allowance for obsolescence	**(33.9)**	-
	315.1	-

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.

An obsolescence provision of $33.9m was charged during the year, of which $nil has been utilised during the year.

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 $3m.

11. Financial instruments

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

	Note	At amortised cost	Fair value through profit or loss	Total carrying amount	Fair value
Financial assets					
Contract assets	15	**219.6**	-	**219.6**	**219.6**
Trade receivables	16	**259.9**	-	**259.9**	**259.9**
Loans and other receivables	16	**50.7**	-	**50.7**	**50.7**
Cash and cash equivalents	19	**389.4**	-	**389.4**	**389.4**
Derivative contracts (not hedge accounted)	22	-	**16.6**	**16.6**	**16.6**
Financial liabilities					
Borrowings	18	**(3,174.6)**	-	**(3,174.6)**	**(3,174.6)**
Lease obligations	19	**(184.8)**	-	**(184.8)**	**(184.8)**
Contract liabilities	15	**(181.7)**	-	**(181.7)**	**(181.7)**
Trade payables	20	**(155.7)**	-	**(155.7)**	**(155.7)**
Accruals	20	**(149.3)**	-	**(149.3)**	**(149.3)**
Other financial liabilities	20	**(107.8)**	-	**(107.8)**	**(107.8)**
Derivative contracts (not hedge accounted)	22	-	**(7.0)**	**(7.0)**	**(7.0)**
Hedging instruments					
Assets	22	-	-	-	-
Liabilities	22	-	-	-	-
Net financial liabilities at 31 December 2020		**(3,034.3)**	**9.6**	**(3,024.7)**	**(3,024.7)**
Financial assets					
Contract assets	15	-	-	-	-
Trade receivables	16	-	-	-	-
Loans and other receivables	16	-	-	-	-
Cash and cash equivalents	19	-	-	-	-
Derivative contracts (not hedge accounted)	22	-	-	-	-
Other financial assets	17	-	-	-	-
Financial liabilities					
Borrowings	18	-	-	-	-
Lease obligations	19	-	-	-	-
Contract liabilities	15	-	-	-	-
Trade payables	20	-	-	-	-
Accruals	20	-	-	-	-
Other financial liabilities	20	-	-	-	-
Derivative contracts (not hedge accounted)	22	-	-	-	-
Hedging instruments					
Assets	22	-	-	-	-
Liabilities	22	-	-	-	-
Net financial liabilities at 31 December 2019					

Borrowings are held at amortised cost which equates to fair value for the Group's floating rate borrowings. The fair value of derivative financial instruments have been determined by reference to observable market prices and rates. Fair value approximates the carrying amount as shown in the table above. The above assets and liabilities fall within Level 2 of the fair value hierarchy as described in IFRS 13, Fair Value Measurement.

Gains and losses on derivative financial assets and liabilities held at fair value through profit or loss are shown in note 19.

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 21. 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:

	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	**934.2**	**(544.8)**	**389.4**	**(0.8)**	**388.6**
Derivative financial assets	**16.6**	**-**	**16.6**	**(4.1)**	**12.5**
Financial liabilities					
Bank overdrafts	**(624.0)**	**544.8**	**(79.2)**	**-**	**(79.2)**
Derivative financial liabilities	**(7.0)**	**-**	**(7.0)**	**4.9**	**(2.1)**
At 31 December 2020	**319.8**	**-**	**319.8**	**-**	**319.8**
Financial assets					
Cash and cash equivalents	-	-	-	-	-
Derivative financial assets	-	-	-	-	-
Financial liabilities					
Bank overdrafts	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-
At 31 December 2019	-	-	-	-	-

12. Contract balances

Contract assets

$m	2020	2019
Within current assets	**164.1**	-
Within non-current assets	**55.5**	-
	219.6	-

$m	2020	2019
Unbilled amounts related to goods and services transferred	**201.7**	-
Costs to fulfil a contract	**17.9**	-
	219.6	-

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, $12.4m of the contract asset acquired through the business combination was transferred to trade receivables; additional amounts of $54.2m were recognised as a contract asset during the year 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	2020	2019
Advance payments from customers	**176.2**	-
Expected refunds to customers	**5.5**	-
	181.7	-

Advance payments from customers relate to amounts received prior to transferring goods or services to the customer. Advance payments of $11.1m (2019: $nil) have been recognised during the year and are included in the Balance Sheet.

13. Trade and other receivables

Current $m	2020	2019
Trade receivables (net of allowance for expected credit losses)	259.8	-
Loans and other receivables	37.0	-
Prepayments	36.5	-
	333.3	-

Non-current $m	2020	2019
Trade receivables (net of allowance for expected credit losses)	0.1	-
Loans and other receivables	13.7	-
	13.8	-

Impairment of trade receivables

$m	2020	2019
Trade receivables	263.5	-
Allowance for expected credit losses	(3.6)	-
Net trade receivables	259.9	-

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

$m	2020	2019
At 1 January	-	-
Additional provision for expected credit losses	(4.1)	-
Business divestments	0.3	-
Foreign exchange adjustments	0.2	-
At 31 December	(3.6)	-

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 2020, provisions for expected credit losses were required for 1% (2019: nil) of gross trade receivables. Information concerning management of credit risk is shown in note 21. A significant proportion of the Group's business is directly with government agencies or in respect of large government funded defence and security 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.

The Group is using a non-recourse factoring scheme for certain of its receivables. The program was gradually implemented during 2020 and receivables subject to this arrangement are fully derecognised from the Balance Sheet as soon as their acceptance is validated by the factoring company and all risks and rewards are transferred.

As at 31 December 2020, the balances of derecognised factored receivables of the Group amounted to $40.1m and they were structured by currency as follows:

$m	2020
US Dollars	13.9
Euro	21.8
Sterling	4.4
	40.1

14. Non-current assets and disposal groups held for sale

In November 2020, an agreement to sell the Aero Connectivity businesses was arranged with a third party, subject to regulatory approvals. As a result the assets and liabilities of the Aero Connectivity business were classified as held for sale. They were measured on a non-recurring basis at amortised cost.

$m	2020
Property, plant and equipment	59.7
Intangible assets	599.1
Deferred tax	0.9
Inventories	19.4
Trade and other receivables	40.7
Total assets classified as held for sale	719.8
Trade payables and other liabilities	(79.4)
Current tax	(3.2)
Deferred tax	(51.5)
Provisions	(2.0)
Total liabilities associated with assets classified as held for sale	(136.1)
Total held for sale	583.7

The Aero Connectivity business was not treated as a separate Cash Generating Unit nor considered by the Group as a separate major line of business. Accordingly, Aero Connectivity has not been presented as a discontinued operation in the Consolidated Income Statement.

15. Borrowings

$m	2020	2019
Current borrowings		
Bank overdrafts	79.2	-
Bank loans	11.8	-
Other borrowings	252.0	-
	343.0	-
Non-current borrowings		
Bank loans	2,831.6	-
	2,831.6	-
Total borrowings	3,174.6	-

Bank loans

Bank loans comprise the following:

$m	Agreement date	Maturity date	2020	2019
Floating rates				
1st Lien 7 year Term Loan of US$1,188m	17 January 2020	17 January 2027	1,142.6	-
1st Lien 7 year Term Loan of €885m	17 January 2020	17 January 2027	1,061.4	-
2nd Lien 8 year Term Loan of US$672m	17 January 2020	17 July 2028	639.4	-
			2,843.4	-

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

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

Other borrowings

Other borrowings comprise the following:

			Amount drawn		Undrawn facilities	
$m	Agreement date	Maturity date	2020	2019	2020	2019
Floating rates						
1st Lien 5.5 year Revolving Credit Facility of US$350m	17 January 2020	17 July 2025	252.0	-	98.0	-
			252.0	-	98.0	-

The senior notes previously held by Cobham plc, totalling $222.8m, together with bank loans totalling $191.1m, were repaid between February and May 2020.

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: Senior Notes	Bank loans	Other borrowings	Lease obligations	Net debt
At 31 December 2019	-	-	-	-	-	-	-
Acquired on business combination	-	-	**(222.8)**	**(191.1)**	-	**(208.7)**	**(622.6)**
Divested	-	-	-	-	**41.1**	**10.0**	**51.1**
Net flows cash and cash equivalents and bank overdrafts	**418.7**	**(79.2)**	-	-	-	-	**339.5**
New borrowings	-	-	-	**(3,093.9)**	**(657.9)**	**(40.7)**	**(3,792.5)**
Repayment of borrowings	-	-	**222.8**	**191.1**	**630.9**	**32.1**	**1,076.9**
Other lease changes	-	-	-	-	-	**36.0**	**36.0**
Foreign exchange adjustments	**(29.3)**	-	-	**(1.5)**	**(14.1)**	**(13.5)**	**(58.4)**
At 31 December 2020	**389.4**	**(79.2)**	-	**(3,095.4)**	-	**(184.8)**	**(2,970.0)**

Cash and cash equivalents

Cash and cash equivalents comprise balances at banks which earn interest based on floating daily bank rates.

Financial covenants

The various borrowing agreements include both financial and non-financial covenants and are secured by various 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 year.

16. Lease obligations

The Group had the following lease obligations as lessee:

$m	2020	2019
Current	**27.4**	-
Non-current	**157.4**	-
	184.8	-

Other information related to leases:

$m	2020	2019
Interest on lease liabilities	**11.8**	-
Variable lease payments not included in the measurement of lease liabilities	**0.1**	-
Expenses related to short-term leases	**1.5**	-
Expenses related to leases of low value assets	**1.1**	-

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.

17. Trade and other payables

Current liabilities

$m	2020	2019
Trade payables	**152.4**	-
Other taxes and social security	**36.7**	-
Accruals	**141.9**	-
Other liabilities	**106.4**	-
	437.4	-

Included in other liabilities are interest accruals of $50.4m comprising $41.5m (2019:$nil) on borrowings and $8.9m (2019: $nil) related to interest on uncertain tax positions.

Non-current liabilities

$m	2020	2019
Trade payables	**3.3**	-
Accruals	**7.4**	-
Other liabilities	**4.8**	-
	15.5	-

18. Provisions

$m	2020	2019
Current liabilities	107.8	-
Non-current liabilities	53.3	-
	161.1	-

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 2020	-	-	-	-	-	-
Additional provisions in the year	38.4	-	5.9	4.1	9.3	57.7
Acquired with business combinations	175.1	0.7	11.0	25.4	27.3	239.5
Utilisation of provisions	(105.4)	0.4	(1.5)	(5.2)	(9.5)	(121.2)
Provisions released	(0.5)	0.2	-	(2.9)	(4.2)	(7.4)
Business divestments	-	-	-	(3.5)	(2.8)	(6.3)
Reclassified as held for sale	-	(0.2)	-	-	(1.8)	(2.0)
Foreign exchange adjustments	0.2	(0.2)	0.4	(0.5)	0.9	0.8
At 31 December 2020	107.8	0.9	15.8	17.4	19.2	161.1

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. The utilisation of provisions relates primarily to provisions that were provided in previous years and included in the amount shown as acquired with business combinations. £105.4m of these provisions have been utilised during the year as progress is made on significant contracts such as the KC-46 Tanker programme, and the balance is 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 26.

Other categories of provisions

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.

19. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

$m	Foreign exchange derivatives - not hedged	Foreign exchange derivatives - hedging instruments	Total
Non-current assets	5.8	-	5.8
Current assets	10.8	-	10.8
Current liabilities	(5.7)	-	(5.7)
Non-current liabilities	(1.3)	-	(1.3)
Fair value at 31 December 2020	9.6	-	9.6
Non-current assets	-	-	-
Current assets	-	-	-
Current liabilities	-	-	-
Non-current liabilities	-	-	-
Fair value at 31 December 2019	-	-	-

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	Total
On business combination	**(5.7)**	**(0.6)**	**(6.3)**
Gain through income statement - not hedged	**14.5**	**-**	**14.5**
Gain through reserves	**-**	**1.6**	**1.6**
Loss reclassified to income statement	**-**	**(0.9)**	**(0.9)**
Settlement of hedge accounted derivatives	**-**	**(0.2)**	**(0.2)**
Foreign exchange adjustments	**0.8**	**0.1**	**0.9**
At 31 December 2020	**9.6**	**-**	**9.6**

The Cobham Group had net foreign exchange derivative hedging instruments totalling $0.6m at the date of acquisition which have since been settled and there were no such hedging instruments remaining at 31 December 2020.

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 21, financial risk management.

20. Retirement benefit schemes

$m	2020	2019
Defined benefit scheme assets	**1,283.9**	-
Defined benefit obligations	**(1,264.4)**	-
	19.5	-

The net retirement benefits asset is disclosed on the balance sheet as follows:		
Retirement benefits asset	**40.6**	-
Retirement benefits liability	**(21.1)**	-
	19.5	-

Pension expense included in employment costs in note 3 are as follows:

$m	2020	2019
Defined benefit schemes	**0.5**	-
Defined contribution schemes	**42.6**	-
	43.1	-

Within the expense amounts above, $1.5m (2019: $nil) was outstanding in respect of defined benefit schemes but not due for payment at 31 December 2020. In addition, $2.8m (2019: $nil) was outstanding in respect of defined contribution schemes but not due for payment at 31 December 2020.

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 acquired a number of funded defined benefit schemes (where benefits are based on employees' length of service and average final salary) with the purchase of Cobham plc, the most significant being the Cobham Pension Plan (CPP) which had a significant historic actuarial deficit. 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

During the year a new Schedule of Contributions for the UK Cobham Pension Plan has been agreed under which the Group contributed £15.0m ($19.3m) in 2020 and will contribute the same amount each subsequent year until the end of 2024. In addition, a further contribution of $44.9m was paid in February 2020 as the Group sought to more rapidly address the historic actuarial deficit.

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 $52.1m. 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. Under a schedule of contributions agreed on 23 January 2020, the Group expects to contribute $23m to its defined benefit pension schemes in each year 2021 to 2024.

The actuarial valuations for all schemes were updated for accounting purposes to 31 December 2020 by qualified independent actuaries.

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:

	2020		2019	
	UK schemes	USA scheme	UK schemes	USA scheme
RPI inflation assumption (rate of increase in pensions in payment unless overridden by specific scheme rules)	**2.90%**	**N/A**	N/A	N/A
CPI inflation assumption (rate of increase in deferred pensions)	**2.25%**	**N/A**	N/A	N/A
Discount rate	**1.40%**	**2.26%**	N/A	N/A

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 19'. In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Life expectancy
Male	1955	2020	87 years
Female	1955	2020	89 years

At 31 December 2020, it has been assumed that members will commute on average 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%	-11%
Inflation rate (both RPI and CPI)	Increase by 0.5%	+6%
Life expectancy	Increase by one year	+3%

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:

$m	2020 Scheme assets	Defined benefit obligations	Total
Past service cost included in administrative expenses	**-**	**(0.5)**	**(0.5)**
Scheme administration expenses	**(0.3)**	**-**	**(0.3)**
Amounts recognised in operating profit	**(0.3)**	**(0.5)**	**(0.8)**
Net interest	**21.6**	**(22.0)**	**(0.4)**
Amounts credited/(charged) to other finance expense	**21.6**	**(22.0)**	**(0.4)**
Actual return less interest income on pension scheme assets	**109.9**	**-**	**109.9**
Actuarial gains and losses arising from changes in financial assumptions	**-**	**(115.9)**	**(115.9)**
Actuarial gains arising from changes in demographic assumptions	**-**	**2.3**	**2.3**
Amounts recognised in OCI	**109.9**	**(113.6)**	**(3.7)**
Employer contributions	**64.6**	**-**	**64.6**
Benefits paid	**(41.1)**	**41.1**	**-**
Amounts included in Cash Flow Statement	**23.5**	**41.1**	**64.6**
Exchange differences	**43.9**	**(40.5)**	**3.4**
Net movement in the year	**198.6**	**(135.5)**	**63.1**
Acquired with business combinations	**1,085.3**	**(1,128.9)**	**(43.6)**
Net asset at end of year	**1,283.9**	**(1,264.4)**	**19.5**
UK schemes	**1,258.2**	**(1,217.6)**	**40.6**
US scheme	**25.7**	**(46.8)**	**(21.1)**
Net asset at end of year	**1,283.9**	**(1,264.4)**	**19.5**

The actual gain on scheme assets was $131.5m.

The gain in 2020 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.

Scheme assets

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

	2020 $m	%
UK equity instruments	**19.5**	**1.5%**
Global equities	**127.8**	**10.0%**
Liability driven investments	**405.4**	**31.6%**
Corporate bonds	**69.4**	**5.4%**
Private credit	**98.7**	**7.7%**
Diversified growth funds	**152.1**	**11.9%**
Insurance contracts	**407.1**	**31.7%**
Other assets including cash	**3.9**	**0.2%**
	1,283.9	**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:

$m	2020 Assets	Liabilities
French indemnity schemes	**-**	**(8.5)**
US based schemes (Rabbi Trusts)	**1.3**	**(1.3)**
	1.3	**(9.8)**

21. 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 are 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.

Foreign currency risk

Foreign currency risk exposure and risk management strategy

The Group reports in US Dollars and has significant investment in overseas operations in the UK, other European countries and Australia. 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 $18.6m (2019: $nil). 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 appropriate 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:

		2020		2019
$m	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
UK Sterling	**153.1**	**(176.5)**	-	-
Euro	**116.0**	**(1,177.2)**	-	-
Australian dollars	**67.1**	**(91.9)**	-	-
Danish kroner	**3.0**	**(36.8)**	-	-
Other currencies	**15.5**	**(7.7)**	-	-
	354.7	**(1,490.1)**	-	-
Dollar denominated monetary assets and liabilities	**607.5**	**(2,517.5)**	-	-
	962.2	**(4,007.6)**	-	-

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 Euro borrowings of $1,061.2m (2019: $nil) 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 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$m amount		Average US$: £ exchange rate	
	2020	2019	**2020**	2019
Expiring within one year	**45.4**	-	**1.36**	-
Expiring within one to two years	**35.3**	-	**1.36**	-
Expiring after two years	**12.9**	-	**1.28**	-
US$/sterling contracts outstanding at 31 December	**93.6**	-	**1.35**	-

	US$m amount		Average US$: DKK exchange rate	
	2020	2019	**2020**	2019
Expiring within one year	**39.1**	-	**6.42**	-
Expiring within one to two years	**-**	-	**-**	-
Expiring after two years	**-**	-	**-**	-
US$/DKK contracts outstanding at 31 December	**39.1**	-	**6.42**	-

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 USD 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.

			2020			2019
$m	Sensitivity	Profit or loss	Total equity	Sensitivity	Profit or loss	Total equity
US dollars to sterling	**11%**	**8.7**	**8.7**	0%	-	-
US dollars to Danish kroner	**10%**	**5.4**	**5.4**	0%	-	-

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 19, the Group uses net investment hedging to manage its exposure to DKK/USD 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 19.

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 2020, the Group does not have any interest rate swaps outstanding.
All floating rate borrowings have regular repricing dates.

$m	**2020**	2019
Floating rate borrowings		
Bank loans and overdrafts	**79.2**	-
Revolving credit facility	**252.0**	
Senior notes	**2,843.4**	-
Total borrowings	**3,174.6**	-

If interest rates increased, or decreased by one percentage point, the Group's net interest expense would increase, or decrease by approximately $32m pa.

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 15, at 31 December 2020, undrawn committed borrowing facilities of $98.0m (2019: $nil) 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	**494.0**	**169.2**	**504.2**	**3,020.9**	**4,188.3**
Lease obligations	**29.9**	**39.3**	**71.6**	**61.3**	**202.1**
Trade and other payables	**550.3**	**31.2**	**8.3**	**3.3**	**593.1**
At 31 December 2020	**1,074.2**	**239.7**	**584.1**	**3,085.5**	**4,983.5**
Derivative liabilities					
Foreign exchange derivatives					
Gross cash outflows	**164.8**	**19.7**	**0.8**	**-**	**185.3**
Gross cash inflows	**(159.1)**	**(18.5)**	**(0.8)**	**-**	**(178.4)**
At 31 December 2020	**5.7**	**1.2**	**-**	**-**	**6.9**
Non-derivative financial liabilities					
Borrowings	-	-	-	-	-
Lease obligations	-	-	-	-	-
Trade and other payables	-	-	-	-	-
At 31 December 2019	-	-	-	-	-
Derivative liabilities					
Foreign exchange derivatives					
Gross cash outflows	-	-	-	-	-
Gross cash inflows	-	-	-	-	-
At 31 December 2019	-	-	-	-	-

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 11.

Group management monitors debtor days and the ageing of all overdue receivables on a regular basis. At 31 December 2020, 24.8% (2019: nil) of gross trade receivables were overdue including 7.4% (2019: nil) which were overdue by one month or more.

The maximum exposure to credit risk at 31 December 2020 is the fair value of financial assets as disclosed in note 11. Group assets have not been pledged in respect of the Group's primary borrowing facilities or other financial liabilities.

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 15. 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 15.

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 a historic 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 19.

Capital risk management

Capital is defined as total equity excluding non-controlling interests and amounted to $2,017.7m at 31 December 2020 (2019: $15,000).

The Managers have a capital allocation policy for the Group which embodies a disciplined approach to investment and value creation.
For the purpose of the Group's capital management, capital includes issued capital, convertible preference shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

In order to achieve the overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings. Breaches in meeting the financial covenants would allow the lenders to immediately call loans and borrowings after a certain period within which the Group is allowed to rectify the breach. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

22. Issued capital

	2020	2019
Ordinary shares	**$m**	$m
Issued and fully paid		
1,500,100 shares of a nominal value of $1	**1.5**	-

	Number of shares	Share capital $m	Share premium $m
At 1 January 2020	**15,000**	**-**	**-**
Issued in the year	**1,485,100**	**1.5**	**1,064.4**
At 31 December 2020	**1,500,100**	**1.5**	**1,064.4**

	2020 $m	2019 $m
Equity Preferred Certificates		
Issued and fully paid		
958,004,535 shares of $1 par value	**958.0**	-
At 1 January 2020		**-**
Issued in the year	**1,424.0**	**-**
Repaid in the year	**(466.0)**	**-**
At 31 December 2020	**958.0**	**-**

Share based compensation

Under the Management Equity Plan (MEP), share options in the shareholding structure of the Group are granted to Managers of the Group entities to participate in the acquisition of the operating Group along with other shareholders.

The exercise price of the share options is not materially different from the market price of the underlying shares on the date of grant. The share options were fully vested at the time of their subscription.

There are no cash settlement alternatives. The Group does not have a practice of cash settlement for these share options. The Group accounts for the MEP as an equity-settled plan.

No expense was recognized for employee services received during 2020 as the Company has determined that the subscription value of the share options does not differ materially from their market value.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	Number	WAEP ($)
Outstanding at 1 January	**-**	**-**
Granted during the year	**532,874**	**0.34**
Forfeited during the year	**-**	**-**
Repurchased during the year	**-**	**-**
Expired during the year	**-**	**-**
At 31 December 2020	**532,874**	**0.34**
Exercisable at 31 December	**532,874**	**0.34**

There were no cancellations or modifications to the awards in 2020.

23. Other reserves

$m	Note	Translation reserve	Hedge reserve	Total other reserves
As at 1 January 2020		-	-	-
Foreign exchange differences on translation of overseas operations		(25.3)	-	(25.3)
Reclassification of foreign exchange on divestment of overseas operations	28	2.7	-	2.7
Reclassification of fair value of cash flow hedges to income statement		-	(0.9)	(0.9)
Transfer of hedge reserve to retained earnings		-	0.9	0.9
Foreign exchange adjustments		-	-	-
At 31 December 2020		(22.6)	-	(22.6)

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 19 and 21.

24. Business combinations

Businesses acquired during the year

On 17 January 2020 Cobham plc ('Cobham') was acquired by various funds controlled by Advent International, a global private equity investor, following a public offer. Cobham is a leading global defence and aerospace company, offering an innovative range of technologies and services to solve challenging problems in commercial, defence and security markets around the world.

Fair value information

The fair value of the business combination can be analysed as follows:

$m	Total
Cash consideration paid	5,182.6
	5,182.6

A summary of the fair values of the net assets acquired are as follows:

$m	Total
Intangible assets	3,383.1
Property, plant and equipment	780.7
Investment properties	2.8
Investments in joint ventures and associates	5.8
Contract assets	49.3
Trade and other receivables	33.5
Other financial assets	53.9
Derivative financial instruments	2.4
Non-current assets	4,311.5
Inventories	469.6
Contract assets	165.6
Trade and other receivables	374.9
Current tax receivables	1.3
Derivative financial instruments	24.8
Cash and cash equivalents	555.0
Current assets	1,591.2
Borrowings	(186.9)
Trade and other payables	(451.3)
Lease obligations	(18.0)
Contract liabilities	(178.1)
Provisions	(144.1)
Current tax liabilities	(81.5)
Derivative financial instruments	(30.6)
Current liabilities	(1,090.5)
Borrowings	(248.6)
Trade and other payables	(23.2)
Lease obligations	(190.8)
Provisions	(95.4)
Deferred tax	(603.7)
Derivative financial instruments	(2.9)
Retirement benefit obligations	(43.6)
Non-current liabilities	(1,208.2)
Net assets acquired	3,604.0
Less non-controlling interest in the above	(2.1)
Goodwill	1,580.7
	5,182.6

All intangible assets were recognised at their respective fair values. The residual excess of the total cost over the fair value of the net assets acquired is recognised as goodwill in the financial statements. Goodwill represents the premium paid 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. Goodwill is not anticipated to be deductible for tax purposes.

The gross value of acquired trade and other receivables is $408.4m. These are included in the table above at their fair value of $408.4m.

Contingent liabilities recognised as provisions and included in the table above include amounts relating to outstanding legal settlements and environmental remediation provisions in respect of a number of Cobham businesses. The majority of these are expected to be settled within one year although some are longer term provisions.

Results of business combinations

Third party revenue of the former Cobham plc, since the date of acquisition, was $2,542.8m. The post-acquisition loss after tax was $38m, including the impacts of amortisation of the intangible assets which are recognised as a result of the business combination and writing off the pre-acquisition profit element of inventory written up on acquisition.

The net cash flows resulting from business combinations are as follows:

$m	Total
Cash consideration paid	5,182.6
Net cash acquired	(555.0)
	4,627.6

25. Business divestments and discontinued operations

The Group completed the divestment of its Wireless Distributed Antenna business in June 2020, RAD Inc in August 2020 and its Aviation Services UK business in September 2020, realising a total profit on divestments of $154.3m as follows:

$m	Aviation Services UK	Wireless	RAD Inc	Total
Gross consideration	238.0	-	0.7	238.7
Net assets at date of divestment	(46.3)	(14.1)	(0.4)	(60.8)
Expenses of sale	(12.3)	(6.9)	(0.3)	(19.5)
Provisions created on divestment	-	-	(1.1)	(1.1)
Foreign exchange adjustments	(3.8)	0.8	-	(3.0)
Net profit on divestments before tax	175.6	(20.2)	(1.1)	154.3
Tax charge on net profit on divestments	-	-	-	-
Net profit on divestments after tax	175.6	(20.2)	(1.1)	154.3

The net cash impact of the divestments during the year is as follows:

$m	Aviation Services UK	Wireless	RAD Inc	Total
Cash consideration	238.0	-	0.7	238.7
Expenses of sale	(12.3)	(6.9)	(0.3)	(19.5)
Cash disposed	(32.4)	(2.0)	-	(34.4)
	193.3	(8.9)	0.4	184.8

The net assets at the date of divestment were as follows:

$m	Aviation Services UK	Wireless	RAD Inc	Total
Intangible assets	34.0	-	-	34.0
Property, plant and equipment	69.4	0.9	3.3	73.6
Investments in Joint ventures	3.0	-	-	3.0
Contract assets	6.7	-	0.2	6.9
Inventories	6.2	8.8	0.7	15.7
Trade and other receivables	7.8	12.2	0.7	20.7
Corporate tax receivable	0.8	7.0	0.1	7.9
Cash and cash equivalents	32.4	2.0	-	34.4
Borrowings	(50.9)	(0.2)	-	(51.1)
Trade and other payables	(19.3)	(7.6)	(4.6)	(31.5)
Contract liabilities	(34.5)	(2.5)	-	(37.0)
Current tax liabilities	(0.8)	-	-	(0.8)
Provisions	-	(6.3)	-	(6.3)
Deferred tax liabilities	(8.5)	(0.2)	-	(8.7)
Net assets divested	46.3	14.1	0.4	60.8

Discontinued operations

The loss for the year from the Aviation Services UK business (discontinued operation) was $17.0m as follows:

$m	2020
Continuing operations	
Revenue	82.1
Cost of sales	(62.3)
Gross profit	19.8
Operating costs	(41.0)
Profit on divestments	-
Operating profit	(21.2)
Finance income	0.6
Finance costs	(1.5)
Loss before taxation	(22.1)
Taxation	5.1
Loss for the year	(17.0)
Attributable to:	
Owners of the parent	(17.0)
Non-controlling interests	-
	(17.0)

The contribution to the Group's cash flows from discontinued operations was as follows:

$m	2020
Cash generated from operations	35.6
Net cash used in investing activities	(9.0)
Net cash from operating activities	32.0
Net cash from financing activities	38.2

26. 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 2020, 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.

27. Related party transactions

Transactions between AI Convoy (Luxembourg) S.à r.l. and its subsidiaries and parent undertakings, 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 3.

The Managers of AI Convoy (Luxembourg) S.à r.l. had no material transactions with the Company during the year, other than as a result of service agreements.

28. Events after the balance sheet date

On 5 January 2021, the Aerospace Connectivity business was sold for $965m including tax benefits. This business was treated as held for sale at 31 December 2020.

On 19 January 2021, Equity Preferred Certificates of $901.8m were repaid.

On 1 February 2021 an agreement was signed with Eaton for the divestment of the Mission Systems business for $2.83bn, subject to regulatory approvals. This divestment is expected to complete in 2021.

29. Subsidiaries and other related undertakings

The Group operates through a number of subsidiary undertakings and a full listing of these as at 31 December 2020 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 venture has 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 venture on the basis of materiality.

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	Bournemouth, England
AI Convoy Bidco Limited	Bournemouth, England
AI Convoy Holdco Limited	Bournemouth, England
AI Convoy Borrower LLC	Corporation Trust Center, 1209 Orange St, Wilmington, DE 19801, USA
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
Aviation Défense Service SA (45% joint venture) [1]	Zone Aéroportuaire Nîmes Arles Camargue, 30800 Saint Gilles, France
Chelton Antennas SA	7 chemin de Vaubesnard, 91410 Dourdan, France
Chelton Avionics, Inc	Wilmington, USA
Chelton Limited	Wimborne, England
Chelton Avionics Holdings, 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 Aerospace ApS	Lundtoftegårdsvej 93 D, DK-2800 Kongens Lyngby, Denmark
Cobham Aerospace SAS	174 - 178 quai de Jemmapes, Paris, France.
Cobham Aerospace Holding Sarl	9 All Scheffer 99137 Luxembourg
Cobham AES Holdings Inc.	Wilmington, USA
Cobham Aviation Services Australia Pty Ltd	Adelaide, Australia
Cobham Aviation Services Engineering Pty Limited	Adelaide, Australia
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 France SAS	5 avenue Denis Papin, BP 36, 92353 Le Plessis Robinson, France
Cobham Gaisler UK Limited	Highlands House, Basingstoke Road, Reading, Berkshire, England
Cobham Gaisler AB	Kungsgatan 12, SE-411, 19 Göteborg, Sweden
Cobham Glyndale Pty Limited	Adelaide, Australia
Cobham Holdings Inc.	Wilmington, USA
Cobham India Private Limited [4]	4th Floor, Statesman House, Barakhamba Road, New Delhi - 110001, India
Cobham Limited	Bournemouth, 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	31 avenue de la Baltique, 91140 Villebon sur Yvette, France
Cobham Mission Systems Davenport AAR Inc	Wilmington, USA
Cobham Mission Systems Davenport LSS Inc	Wilmington, USA
Cobham Mission Systems FWB Inc	Wilmington, USA
Cobham Mission Systems Orchard Park Inc (formerly Carleton Technologies, Inc)	Wilmington, USA
Cobham Mission Systems Wimborne Limited	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 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
Comant Industries, Incorporated	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
FR Aviation Group Limited	Bournemouth, 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	Bournemouth, England
Lockman Investments Limited	Bournemouth, England
Lockman Properties Limited (formerly Flight Refuelling Limited)	Bournemouth, England
Lockwash Investments LLC	Wilmington, USA
Manlock Investments Limited	Bournemouth, England
Mastsystem International Oy	Muovilaaksontie 8, 82110 Heinävaara, Joensuu, Finland
Flight Refuelling Limited (formerly ML Aviation Limited)	Wimborne, England
Micro-Mesh SARL	35 rue de Montlhéry, BP 20191, 94563 Rungis, France
NAT Seattle Inc.	Wilmington, USA
National Jet Express Pty Limited	Adelaide, Australia
Omnipless Manufacturing (Pty) Limited	Westlake Drive, Westlake Business Park, Westlake 7945, South Africa
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
Atlantic Microwave Corporation	Wilmington, USA
Cobham CTS Limited	Wimborne, England
Cobham NJRS Pty Ltd	Adelaide, Australia
Cobham Whiteley Limited	Bournemouth, England
Credowan Limited	Bournemouth, England
European Antennas Limited	Wimborne, England
Grenedere Limited	Bournemouth, 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	Bournemouth, England
Racal Antennas Limited	Wimborne, England
Strabor (Aircraft) Limited	Bournemouth, England
Strabor Investments Limited	Bournemouth, England
W.E.S. (Manufacturing) Limited	Bournemouth, England
W.E.S. Investments Limited	Bournemouth, England

Full registered office addresses are:

Bournemouth, England	Tringham House, 580 Deansleigh Rd., Bournemouth, Dorset, UK. BH7 7DT

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 AI Convoy Holdco Limited are held directly by AI Convoy (Luxembourg) S.à r.l. Shares in all other entities listed are held directly or indirectly by AI Convoy Holdco Limited.

[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.