Chelton Limited
Annual report and financial statements
for the year ended 31 December 2020

Registered number 00896823

Chelton Limited

Annual report and financial statements

for the year ended 31 December 2020

Contents

Directors' report for the year ended 31 December 2020

The directors have pleasure in submitting their report, together with the strategic report and the audited financial statements of Chelton Limited (the Company) for the year ended 31 December 2020. The Company is a private company limited by shares and is incorporated, registered and domiciled in England, number 00896823. The address of the registered office of the Company is The Chelton Centre, Fourth Avenue, Marlow, Buckinghamshire SL7 1TF.

At the year end, the Company was a wholly owned subsidiary of AI Convoy (Luxembourg) S.à r.l, which acquired the Cobham group in January 2020. On 5 January 2021, the Company was acquired by Transdigm European Holdings Limited (see note 28).

During the year, the Company traded under the names "Cobham Aerospace Connectivity", "Cobham Antenna Systems" and "Cobham Technical Services". Subsequent to the year end, and as a consequence of the change in ownership, the Company has been re-branded under the "Chelton" brand name.

Results and dividends

The Company's results for the year are set out in the income statement on page 12 showing a loss for the financial year after tax of £20,933,000 (2019: profit £14,284,000). At 31 December 2020, the Company had net liabilities of £20,706,000 (2019: net assets £55,220,000).

A review of the Company's business during the year and future developments, together with information on the Company's involvement in research and development, risks and uncertainties, financial risk management and events since the balance sheet date are provided in the strategic report on pages 6 to 8.

The ultimate parent undertaking, Transdigm Group Incorporated, has confirmed that it will provide financial support to the Company to enable it to meet its liabilities as they fall due.

Dividends of £58,460,000 (2019: £18,000,000) were paid during the year as set out in note 11.

Events after the balance sheet date

On 5 January 2021, Cobham Aerospace Connectivity Business Unit which included the Company was sold to Transdigm European Holdings Limited, a UK holding company wholly owned by Transdigm Group Incorporated.

This has impacted on the Company's financial statements in the following areas:

- All open derivative financial instruments with Cobham Limited were settled on the Company's behalf during the year (note 16);
- Defined benefit pension arrangements, to which the Company was a participating employer, have remained with Cobham Limited and did not transfer with the Company (note 25);
- The Company was released from its guarantor obligations and cross guarantees arising from its participation in the Cobham group banking arrangements (note 26).

Directors

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

D R Bulley – resigned 11 March 2021
M E Bealey – resigned 23 March 2021
P E Kahn – resigned 6 April 2020
S L Wynne – appointed 15 January 2021
J M Abbott – appointed 11 March 2021
T M Jones – appointed 29 June 2021

The directors benefited from a Directors' and Officers' liability insurance policy which was in place during the financial year and at the date of this report.

Statement of directors' responsibilities

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

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

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

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

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

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposures to price, credit, liquidity and cash flow risk are described in the strategic report on pages 6 to 8.

The Company has considerable financial resources together with long-term contracts and trading relationships with a number of customers and suppliers across different geographic areas and industries.

Since March 2020 and the announcement of COVID-19 as a global pandemic, the Directors have continued to review the impact on the business and the risk it poses to the Company's long term future prospects. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Company stringently followed government guidelines on safe working. The Company's core operations are based in the aerospace and defence sector and, as detailed by current UK government guidance, there are no restrictions on the continuation of manufacturing, with defence remaining a critical sector to support national security. The directors have taken extensive steps to maintain the integrity of the company's operations including requiring all non-essential employees to work remotely. Where the employee's roles were deemed critical to the continued production and supply of products to customers the company has implemented social distancing rules, enhanced cleaning procedures and health and safety measures to ensure such working could continue in a safe environment. This has ensured that business interruption due to COVID-19 has been minimal.

The Company took advantage of government backed schemes such as deferrals of payments of taxes and were able to negotiate a deferral of certain rent payments until 2021.

Going concern (continued)

The business has not seen a significant impact on its results due to COVID-19 and current estimates indicate results for the next financial year will be in line with expectations. The company has invested a significant amount of time developing a robust business plan which have been subject to sensitivity and scenario analysis. The company has already won a significant amount of orders that will be delivered in future years.

Although The Company has a substantial net liability position, it has access to considerable financial resources that includes funding from Transdigm Group Incorporated. The Company has also received a letter of support from Transdigm Group Incorporated indicating that it will receive the financial and other support necessary for the Company to continue to trade and meet its liabilities as and when they become due for a period until at least 30 April 2023.

The directors have considered the impact of the conflict and related sanctions in Ukraine, Russia and Belarus and the risk it poses to the Company. The Company's activities in these regions is immaterial resulting in minimal impact.

After making due enquiries and considering the impact of COVID-19, the Company's forecasts and the support available from the ultimate parent company, the directors have a reasonable expectation that the Company has sufficient resources to continue in operation until at least 30 April 2023. These considerations included Transdigm Group Incorporated directors' assessment of going concern and of any developments since that date that would adversely affect that conclusion.

On this basis, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Stakeholder engagement

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

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

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

Customers

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

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

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

Shareholders

Through the Company's financial and non-financial reporting including annual reports and meetings, the Company engaged with investors on a number of issues including defence budget impacts, staff and talent shortage, governance issues and risk and opportunities arising from climate change. This programme kept shareholders regularly informed of the Company's prospects and performance, together with developments as they occurred. The also ensured the directors were informed and up to date on shareholder views, which helped to inform strategic decisions and the setting of management objectives.

Regulators

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

Governments

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

Industry bodies

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

Local communities

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

Employees

The Company recognises the importance of regularly engaging with employees which supports cultural change, helps attract and retain talented employees which is critical to future growth.

Engagement occurs in different ways and at different levels. The Company holds regular 'all hands' meetings with employees to instil a sense of common purpose, to update on relevant news and developments and to respond to questions. Senior members of the management team of the ultimate parent undertaking also undertake 'all hands' meetings online and when visiting the Company's sites.

All employees have access to the Company intranet site, where they can find news, policies and procedures and a range of other materials of interest. Digital displays are used to communicate employee information and employees are given the opportunity to make suggestions for improvement using feedback boxes.

During the year, the Company's corporate communications department compiled and distributed various materials to employees including employee magazines, newsletters and online news items. Dovetailing with this, certain functions undertake more specialist engagement relevant to specific functions such as finance or procurement.

The Company is committed to providing all its employees with equal opportunities in a workplace free from discrimination. Applications for employment from persons with a disability are welcomed and given full and fair consideration. With regard to employees who become disabled during their employment, the Company takes all reasonable steps, including retraining, to enable them to continue their employment and career development within the Company.

Employees (continued)

The Company has previously supported employee share ownership through participation in the Cobham group SAYE scheme and the Cobham Share Incentive Plan which were open to all employees and which ceased during the year following the acquisition of the Cobham group by Advent International.

Environmental impact

The Company has collected data in year in line with the Streamlined Energy and Carbon Reporting (SECR) obligations to present the environmental impact of the business and the table below provides a summary of Greenhouse gas (GHG) emissions and energy data for the Company during the year.

	2020
GHG emissions (CO_2 tonnes)	**597**
Total energy consumption (kilowatt per hour)	**2,559,682**
Intensity ratio (Total emissions per employee)	**1.24**

The emissions have been calculated in accordance with the HM Government document "Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting guidance". Data was converted to tonnes of CO_2 equivalent using the UK Government Conversion factors for Company Reporting 2020 (version 1.0).

Total energy use covers our sites at Marlow, Leatherhead and Newmarket and all UK employees. The COVID-19 pandemic has had a significant positive impact on the Company's energy consumption and emissions due to lower footfall on site as well as a significant reduction in travel for business. The estimated energy use and emissions for individuals working from home has not been measured.

The Company's plans to improve energy efficiency across the business were disrupted by the COVID-19 pandemic and subsequent lockdown that was enacted by UK Government. The company has plans focused on achieving a 5% reduction in energy consumption that will be implemented after the removal of all COVID-19 pandemic restrictions.

Disclosure of information to auditors

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

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

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

By order of the board

T Jones
Director
14 April 2022

Strategic report for the year ended 31 December 2020

Business review

The results for the year and financial position at the year end are set out in the directors' report on page 1.

The Company continues to be one of the world's leading supplier of robust, high performance equipment and solutions that enable reliable connectivity anywhere, anytime, in the most demanding environments. Our solutions give our customers a competitive edge in aerospace, avionics, satellite and radio, wireless and mobile connectivity markets.

On 17 January 2020, the entire issued share capital of Cobham Limited (formerly Cobham plc), the Company's ultimate parent undertaking at that time, was acquired by AI Convoy Bidco Limited, a wholly owned indirect subsidiary of funds managed by Advent International Corporation. Following the acquisition, an internal reorganisation of the Cobham group was carried out to ensure that each Cobham business unit (including the Company) 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 subsequently became the ultimate parent undertaking.

On 5 January 2021, Cobham Aerospace Connectivity Business Unit which includes the Company was sold to Transdigm European Holdings Limited, a UK holding company wholly owned by Transdigm Group Incorporated.

Despite the increase in revenue seen during the year, results for the year ended 31 December 2020 were significantly below directors' expectations.

The increase in revenue was driven largely as a result of the first full year of contribution from the Emergency Services Mobile Communications (ESMCP) programme and will continue for a number of years. The business continued to see a strong performance in its defence markets however it did experience some weakness in commercial markets as a result of the COVID-19 pandemic which is expected to recover as and when commercial aircraft production rates return to normal levels.

A charge of £43,953,000 has been taken against the estimate of the fixed price contract profitability in relation to NATO Joint Electronic Warfare Core Staff (JEWCS) programme. This charge reflects increased estimates of costs to complete and lower recovery from the customer.

The directors continue to take steps to control costs, safeguard cash and manage working capital.

During the year, a fellow subsidiary undertaking of Cobham Limited was sold which has resulted in the Company writing down non-current assets by £916,000 and recognising bad debt and property related provisions of £950,000, as described in note 3.

The COVID-19 outbreak was declared a pandemic by the World Health Organisation in March 2020. The financial statements have been prepared based upon conditions existing at 31 December 2020.

The Directors' assessment is that due to the nature of the core business, the likelihood of a significant impact from COVID-19 is considered low for the Company. There are no current indicators that the level of work will decrease, notwithstanding the pandemic makes predicting cash flows for the business in the short to medium term difficult to be certain.

Key Performance Indicators

The directors assess the performance of the business using key performance indicators, including:

	2020	2019	Change
Organic revenue % growth	**31.8%**	6.2%	+2,560 bps
Gross profit margin	**36.6%**	52.2%	-1,560 bps
Operating profit/(loss) margin	**-23.6%**	22.9%	-4,650 bps

Strategic report for the year ended 31 December 2020 (continued)

Future developments

The directors are confident that the business will continue to be profitable in 2021 based on the order book backlog, forward looking customer forecasts and increases in investment defence budgets globally that will provide further opportunities for growth.

The World Health Organisation declared the outbreak of COVID-19 a pandemic in March 2020. This has not significantly impacted the Company's future prospects and business interruption thus far has been minimal.

Research and development

The Company is committed to research and development that allows the Company to build positions where it has technical differentiation and has invested £7,193,000 (2019: £5,727,000) in activities during the year. The Company has capitalised £559,000 of this development expenditure in 2020 where IAS 38 conditions for capitalisation have been met.

Principal risks and uncertainties

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

The key business risks and uncertainties affecting the Company are considered to relate to competition from other suppliers in similar geographical and technological markets, market characteristics, macroeconomic and contracting environment, recruitment and retention of key personnel, major operational problems, not meeting customer expectations of service, quality and innovation, and poor execution or failure to complete key programmes and projects. The impact of the unprecedented COVID-19 pandemic has brought an element of uncertainty. However, the Company has regularly reviewed and monitored the ongoing situation and mitigated these risks. Principal risks, in the context of the Cobham group as a whole for the year ended 31 December 2020, are provided within the AI Convoy (Luxembourg) S.à r.l 2020 Annual Report and Accounts which do not form part of this report.

Financial risk

The Company'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 Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company.

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

The directors will revisit the appropriateness of these policies during 2021 as the Company aligns with the policies and procedures of Transdigm Group Incorporated and will also reconsider risk management requirements should the Company's operations change in size or nature.

Price risk

The Company is exposed to price risk as a result of its operations. However, given the size of the Company's operations, the costs of managing exposure to price risk exceed any potential benefits. The Company has no exposure to equity securities price risks as it holds no listed or other equity investments.

Credit risk

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

Liquidity risk

The Company retains sufficient cash to ensure it has available funds for operations and planned expansions and has access to overdraft facilities under a group banking arrangement as required. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate cash flow risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only bank balances, all of which earn interest at a floating rate. The Company is also exposed to variable interest rates through its participation in the Cobham defined benefit pension scheme. In order to ensure stability of cash outflows and hence manage interest rate risk, the Company has access to fixed interest rate loans from its ultimate parent undertaking. The Company does not use derivative financial instruments to manage interest rate costs.

Foreign currency exchange rate risk

The Company has a policy to minimise foreign currency exchange rate risk through the regular monitoring of foreign currency flows and putting in place where appropriate forward currency exchange rate contracts with the ultimate parent undertaking.

Section 172 Statement

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

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

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

By order of the board

T Jones
Director
14 April 2022

Independent auditors' report to the members of Chelton Limited

Opinion

We have audited the financial statements of Chelton Limited (the 'company') for the year ended 31 December 2020 which comprise Income Statement, the Balance Sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 29, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period through to 30 April 2023 and therefore cover a period of 12 months from when the financial statements are authorised for issue.

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditors' report to the members of Chelton Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditors' report to the members of Chelton Limited (continued)

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)), the Companies Act 2006, and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, employees and GDPR.

We understood how the Company is complying with those frameworks by verifying that material transactions are recorded in compliance with United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice) and the Companies Act 2006. Compliance with other operational laws and regulations was covered through inquiry with management and the Directors, reading of board minutes and correspondence with relevant authorities with no indication of non-compliance identified.

We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur through internal team conversations and meetings with management and those charged with governance to understand where they considered there was a susceptibility to fraud. We identified fraud risks relating to the overstatement of revenue arising from early recognition on long-term contracts and a cut off risk around period end.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved entity level controls assessment, inquiries of management, those charged with governance and those responsible for legal and compliance, review of material long-term contract agreements, detailed testing on a sample of revenue transactions recognised around the period end, testing of journals identified by specific risk criteria, review of board minutes and ensuring that dividend payments complied with the relevant accounting and legal requirements. Procedures were also performed to identify any reported incidents of non-compliance including review of board minutes and enquiries of management. For any potential non-compliance matter noted we evaluated management's assessment and involved EY specialists where appropriate.

Use of our report

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

Ernst & Young LLP

David Hales (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

14 April 2022

Income statement for the year ended 31 December 2020

	Note	**2020** **£000**	2019 £000
Revenue	2	**108,314**	82,202
Cost of sales		**(68,637)**	(39,265)
Gross profit		**39,677**	42,937
Distribution costs		**(7,811)**	(9,156)
Administrative expenses		**(13,472)**	(14,919)
Exceptional items	4	**(43,953)**	-
Operating (loss)/profit	3	**(25,559)**	18,862
Finance income	5	**475**	211
Finance costs	6	**(1,071)**	(1,258)
(Loss)/profit on ordinary activities before taxation		**(26,155)**	17,815
Tax on (loss)/profit on ordinary activities	7	**5,222**	(3,531)
(Loss)/profit after taxation for the year		**(20,933)**	14,284

All the Company's activities are classed as continuing in the current and comparative year.

Statement of comprehensive income for the year ended 31 December 2020

	Note	**2020** £000	2019 £000
(Loss)/profit after taxation for the year		**(20,933)**	14,284
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	25	**5,103**	1,001
Tax effects	7	**(970)**	(191)
Other comprehensive income for the year		**4,133**	810
Total comprehensive (expenditure)/income for the year		**(16,800)**	15,094

Chelton Limited

Balance sheet as at 31 December 2020

	Note	**2020 £000**	2019 £000
Assets			
Non-current assets			
Intangible assets	13	**6,384**	5,731
Property, plant and equipment	14	**27,288**	29,229
Retirement benefit obligations	25	**3,789**	-
Deferred taxation	15	**6,000**	3,086
Derivative financial instruments	16	-	252
		43,461	38,298
Current assets			
Inventories	17	**7,102**	10,069
Contract assets	18	**1,105**	1,167
Trade and other receivables	19	**21,809**	17,590
Derivative financial instruments	16	-	493
Cash and cash equivalents		**12,650**	51,211
		42,666	80,530
Liabilities			
Current liabilities			
Trade and other payables	20	**(25,040)**	(20,833)
Lease obligations	21	**(1,132)**	(1,322)
Contract liabilities	22	**(10,369)**	(11,718)
Provisions	23	**(10,597)**	-
Derivative financial instruments	16	-	(39)
		(47,138)	(33,912)
Non-current liabilities			
Lease obligations	21	**(25,339)**	(26,162)
Provisions	23	**(34,356)**	(1,550)
Derivative financial instruments	16	-	(105)
Retirement benefit obligations	25	-	(1,879)
		(59,695)	(29,696)
Net (liabilities)/assets		**(20,706)**	55,220

Balance sheet as at 31 December 2020 (continued)

	Note	**2020**	2019
		£000	£000
Equity			
Share capital	24	**-**	-
Other reserve	24	**-**	4,271
Retained earnings		**(20,706)**	50,949
Total equity		**(20,706)**	55,220

The financial statements on pages 12 to 42 inclusive were approved by the board on 14 April 2022 and were signed on its behalf by:

T M Jones
Director

Statement of changes in equity
for the year ended 31 December 2020

	Share capital £000	Other reserve £000	Retained earnings £000	Total equity £000
Total equity at 1 January 2019	-	2,152	53,855	56,007
Profit for the year	-	-	14,284	14,284
Other comprehensive expense	-	-	810	810
Total comprehensive income for the year	-	-	15,094	15,094
Share based payments - capital contribution (note 10)	-	1,840	-	1,840
Capital contribution repaid (note 10)	-	(327)	-	(327)
Tax credit relating to share based payments	-	606	-	606
Dividends paid (note 11)	-	-	(18,000)	(18,000)
Total equity at 31 December 2019	-	4,271	50,949	55,220
Loss for the year	**-**	**-**	**(20,933)**	**(20,933)**
Other comprehensive income	**-**	**-**	**4,133**	**4,133**
Total comprehensive loss for the year	**-**	**-**	**(16,800)**	**(16,800)**
Tax charge relating to share based payments	**-**	**(666)**	**-**	**(666)**
Release of other reserve (note 24)	**-**	**(3,605)**	**3,605**	**-**
Dividends paid (note 11)	**-**	**-**	**(58,460)**	**(58,460)**
Total equity at 31 December 2020	**-**	**-**	**(20,706)**	**(20,706)**

Notes to the financial statements for the year ended 31 December 2020

1. Statement of accounting policies

Basis of preparation

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

The financial statements have been prepared on the going concern basis, under the historical cost convention unless as otherwise stated and in accordance with the Companies Act 2006 as applicable to companies applying FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

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

- a cash flow statement and related notes (IAS 7, Statement of Cash Flows and paragraphs 10(d) and 111 of IAS 1, Presentation of Financial Statements);
- Paragraph 38 of IAS 1, Presentation of Financial Statements comparative period reconciliations in respect of:
    i. paragraph 79(a)(iv) of IAS 1 (number of shares outstanding);
    ii. paragraph 73(e) of IAS 16, Property, plant and equipment; and
    iii. paragraph 118(e) of IAS 38, Intangible assets
- additional comparative information as required by paragraphs 38A to 38D of IAS 1, Presentation of Financial Statements;
- capital management disclosures required by paragraphs 134 to 136 of IAS 1;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors concerning the effects of new but not yet effective IFRSs;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a)–(c), 120–127 and 129 of IFRS 15, Revenue from Contracts with Customers;
- the requirements of paragraphs 52 and 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- details of compensation of key management personnel required by paragraph 17 and 18A of IAS 24, Related Party Disclosures; and
- the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group.

In addition, as the consolidated financial statements of AI Convoy (Luxembourg) S.à r.l include the equivalent disclosures, the following exemption under FRS 101 has also been taken:

- Financial instrument information required by IFRS 7, Financial Instruments: Disclosures and paragraphs 91 to 99 of IFRS 13, Fair value measurement except those which are relevant for the financial instruments which are held at fair value are and neither held as part of a trading portfolio or derivatives.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

The financial statements contain information about Chelton Limited as an individual company and do not contain consolidated financial information as the parent undertaking of a group. The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it, and its subsidiary undertakings, are included by full consolidation in the consolidated financial statements of AI Convoy (Luxembourg) S.à r.l, (see note 29).

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposures to price, credit, liquidity and cash flow risk are described in the strategic report on pages 6 to 8.

The Company has considerable financial resources together with long-term contracts/trading relationships with a number of customers and suppliers across different geographic areas and industries.

Since March 2020 and the announcement of COVID-19 as a global pandemic, the Directors have continued to review the impact on the business and the risk it poses to the Company's long term future prospects. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Company stringently followed government guidelines on safe working. The Company's core operations are based in the aerospace and defence sector and, as detailed by current UK government guidance, there are no restrictions on the continuation of manufacturing, with defence remaining a critical sector to support national security. The directors have taken extensive steps to maintain the integrity of the company's operations including requiring all non-essential employees to work remotely. Where the employee's roles were deemed critical to the continued production and supply of products to customers the company has implemented social distancing rules, enhanced cleaning procedures and health and safety measures to ensure such working could continue in a safe environment. This has ensured that business interruption due to COVID-19 has been minimal.

The Directors took advantage of government backed schemes such as deferrals of payments of taxes and were able to negotiate a deferral of certain rent payments until 2021.

The business has not seen a significant impact on its results due to COVID-19 and current estimates indicate results for the next financial year will exceed expectations. The company has invested a significant amount of time developing a robust business plan for the next 5 years which have been subject to sensitivity and scenario analysis. The company has already won a significant amount of orders that will be delivered in future years.

Although The Company has a substantial net liability position, it has access to considerable financial resources that includes funding from Transdigm Group Incorporated. The Company has also received a letter of support from Transdigm Group Incorporated indicating that it will receive the financial and other support necessary for the Company to continue to trade and meet its liabilities as and when they become due for a period until at least 30 April 2023.

After making due enquiries and considering the impact of COVID-19, the Company's forecasts and the support available from the ultimate parent company, the directors have a reasonable expectation that the Company has sufficient resources to continue in operation until at least 30 April 2023. These considerations included Transdigm Group Incorporated directors' assessment of going concern and of any developments since that date that would adversely affect that conclusion.

On this basis, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

Management judgement and estimation uncertainty

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

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

Significant judgements in applying accounting policies

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

Assumptions and estimation uncertainties

The directors 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. *Revenue recognition (note 2), exceptional items (note 4), contract assets and liabilities (notes 18 and 22) and onerous contract provisions (note 23)*
   Recognition and measurement of revenue on long term contracts, associated contract assets and liabilities and contract loss provisions 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;
b. *Impairment of goodwill and intangible assets (note 13)*
   Determination of the value in use of Cash Generating Units (CGUs) as assessed in relation to the annual review of goodwill and any subsequent impairment of goodwill and intangible assets, or reversal of previously impaired intangible assets;
c. *Inventory provisions (note 17)*
   Recognition and measurement of provisions for obsolete, slow moving and defective items of inventory;
d. *Pension assets and liabilities (note 25)*
   Assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

Significant accounting policies

The principal accounting policies, which have been applied consistently throughout the year are set out below.

Revenue

Revenue is accounted for in accordance with IFRS 15, Revenue from Contracts with Customers. A five-step process must be applied before revenue can be recognised:

1. identify contracts with customers;
2. identify the separate performance obligations;
3. determine the transaction price of the contract;
4. allocate the transaction price to each of the separate performance obligations; and
5. recognise the revenue as each performance obligation is satisfied.

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

Revenue related to the sale of short-cycle catalogue items 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. The Company generally has a low level of returns and therefore no returns provision is recorded.

The Company has a number of 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. 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 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 (advanced payments from customers).

Where incremental costs of obtaining a contract are incurred, such as sales commissions, the Company 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 as they are not recoverable from the customer in the event of an unsuccessful bid.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

Current and deferred taxation

The tax expense is the sum of current tax and deferred tax. Tax is charged or credited to the income statement except when it relates to items recognised in other comprehensive income (OCI) or directly in equity, in which case the tax is also recognised in OCI or directly in equity respectively.

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

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

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.

Investments

Investments are stated at cost, less any provision for impairment in value. As the investments are held at nominal value only, no review of impairment indicators is considered necessary.

Intangible assets - goodwill

Goodwill arises on business combinations and represents the excess of the fair value of consideration transferred over the fair value of the Company's share of the identifiable net assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

Goodwill is tested for impairment annually or whenever there is an indication that the asset may be impaired. An impairment loss is recognised when the recoverable amount of the goodwill is lower than its carrying amount, where the recoverable amount is the higher of fair value less costs of disposal and value in use. All impairment losses are recognised in administrative expenses in the income statement.

Intangible assets – other intangible assets

Other intangible assets such as licences, patents and know-how are stated at cost less accumulated amortisation and impairment losses. Such assets are amortised on a straight line basis over the estimated useful economic life of the assets concerned up to 8 years. The only internally generated intangible asset is development costs which are capitalised as described below and amortised over customer product sales to which the asset relates.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

Amortisation of intangible assets is included within cost of sales and administrative expenses in the income statement.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

Intangible assets – other intangible assets (continued)

Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Property, plant and equipment and depreciation

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

Freehold buildings	50 years
Leasehold properties	Over the term of the lease
Plant and machinery (including vehicles)	3 to 10 years
Fixtures, fittings, tools and equipment	3 to 10 years

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Right of use assets

Right of use assets are reported within property, plant and equipment on the balance sheet.

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

Inventories

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.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, 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 Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

Pension costs

The Company contributes to the Cobham Pension Plan (CPP), a multi-employer defined benefit pension scheme operated by Cobham Limited, the assets of which are held separately in trustee administered funds. The assets and liabilities of the CPP have been allocated to the contributing companies based on the proportional number of members. The Company also contributes to a defined contribution scheme operated by Cobham Limited.

For the defined benefit scheme, current service costs and costs related to the administration of the scheme are charged to operating profit. 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 immediately in OCI.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the face of the balance sheet.

For the defined contribution scheme, contributions are charged to the income statement as they fall due.

Financial instruments

Financial instruments are accounted for in accordance with IFRS 9, Financial Instruments and are recognised on the Company's balance sheet when the Company 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

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

The Company does not have any financial assets held within a hold to collect and sell business model.

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 profit or loss.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

Impairment of financial assets

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

Impairments are charged to administrative expenses in the Income Statement.

Financial liabilities

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.

Derivative financial instruments (note 16)

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and foreign exchange contracts are used to reduce these exposures. The Company does not use derivative financial instruments for speculative purposes.

Foreign exchange contracts entered into to mitigate foreign exchange impacts of trading in non-functional currencies are not accounted for using hedge accounting principles. These derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Movements in fair value of the derivative financial instruments are included in the income statement within operating costs.

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 value is classified as a current or non-current asset or liability dependent upon the maturity date of the financial instrument.

Trade and other receivables (note 19)

Trade and other receivables are stated at their amortised cost, net of impairment loss allowances. 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.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of direct issue costs and subsequently held at amortised cost. Borrowing costs, net of amounts capitalised, are accounted for on an accruals basis in the Income Statement. Premiums payable on settlement or redemption and direct issue costs are capitalised and amortised over the period to which the facility relates.

Trade payables (note 20)

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

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Statement of accounting policies (continued)

Foreign currencies

Transactions denominated in currencies other than the functional currency are translated at an average monthly rate of exchange which approximates to the actual daily rate throughout the year.

Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date. All exchange differences are dealt with in administrative expenses in the income statement.

Non-monetary items that are measured in terms of historical cost in a non-functional currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency (such as some derivative financial instruments) are translated using the exchange rate at the date when the fair value was determined.

Lease obligations

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

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

Balance sheet carrying values of finance lease receivables include amounts in respect of residual values of the leased assets. Un-guaranteed residual values are subject to regular review to identify potential impairments. Provisions are made for impairment in the period they arise.

Research and development

The Company undertakes research and development activities either on its own behalf or on behalf of customers.

Company funded expenditure on research activities is written off as incurred and charged to the income statement.

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 is then amortised as described above. All development costs not capitalised are written off as incurred together with all research costs.

Costs incurred on behalf of other companies in the Cobham group

The Company incurs costs on behalf of other group companies which are recharged at an arm's length price. The cost incurred and recharge income is shown net within administrative expenses.

Exceptional items

The separate reporting of exceptional items helps to provide an indication of the Company's underlying business performance. Exceptional items relate to certain costs or incomes that individually or collectively, are significant by virtue of their size and nature.

Notes to the financial statements for the year ended 31 December 2020 (continued)

Share-based payments

For grants made under the Cobham group's equity share based payment schemes, amounts which reflected the fair value of awards made to employees of the Company as at the time of grant were charged to the income statement over the relevant vesting periods, taking into account management's best estimate of the number of awards expected to vest. The vesting estimate, which includes progress against non-market related performance conditions, was reviewed and updated at each balance sheet date. The excess of the charge over any amounts paid to Cobham Limited for these awards was recognised as a capital contribution in equity.

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

2. Revenue

No analysis of sales by geographical area has been disclosed since the directors consider that such disclosure would be seriously prejudicial to the interests of the Company.

3. Operating profit

Operating profit is stated after charging/(crediting):

	2020 £000	2019 £000
Materials cost included in cost of sales	**37,404**	22,192
Write down of inventories to net realisable value	**1,106**	746
Depreciation – owned assets	**1,632**	873
Depreciation - leased assets	**1,786**	1,570
Amortisation of R&D, licences, patents and know-how	**463**	46
Net loss/(gain) on derivative financial instruments	**601**	(1,788)
Research and development	**4,976**	5,727
Loss on disposal of property, plant and equipment	**-**	34
Write off of amounts owed by fellow subsidiary undertakings	**597**	-
Exchange differences	**(263)**	(574)
Auditors' remuneration for the audit of the Company's financial statements	**110**	110

During the year, a fellow subsidiary undertaking of Cobham Limited was sold which has resulted in the Company writing down non-current assets by £916,000 (note 14), writing off £597,000 owed by fellow subsidiary undertakings and recognising property related provisions of £353,000 (note 23).

Fees paid to the Company's auditors, Ernst & Young LLP and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated group financial statements of AI Convoy (Luxembourg) S.à r.l for the year ended 31 December 2020 disclose the non-audit fees on a consolidated basis.

Notes to the financial statements for the year ended 31 December 2020 (continued)

4. Exceptional items

A charge of £43,953,000 (2019: £nil) has been taken against the estimate of the fixed price contract profitability relating to the NATO Joint Electronic Warfare Core Staff (JEWCS) programme and reflects increased estimates of costs to complete and lower recovery from the customer post the balance sheet date and subsequent to the dividend payment of £58,460,000 (note 11), through continuous assessment of the programme progress against agreed milestone and contractual terms that existed at the balance sheet date. The directors recognise that making estimates to complete is inherently judgemental and therefore whilst it has taken a reasonable view of the contract position at present, the final outcome of the contract could be more or less favourable that the position taken.

5. Finance income

	2020	2019
	£000	£000
Bank interest receivable	**52**	211
Interest on net pension scheme assets	**13**	-
Interest receivable from fellow subsidiary undertakings	**410**	-
	475	211

6. Finance costs

	2020	2019
	£000	£000
Interest payable on bank overdrafts	**49**	170
Interest on net pension scheme liabilities	**-**	51
Interest on lease obligations	**952**	1,037
Interest payable to fellow subsidiary undertakings	**70**	-
	1,071	1,258

7. Tax on (loss)/profit on ordinary activities

Tax (credited)/charged in the income statement:

	2020	2019
	£000	£000
Current tax:		
UK corporation tax on profit for the year	**-**	3,693
Adjustment in respect of previous years	**(672)**	(223)
Total current tax	**(672)**	3,470
Deferred tax:		
(Credit)/charge for the year	**(5,088)**	95
Effect of change in tax rate	**(195)**	-
Adjustment in respect of previous years	**271**	(34)
Total deferred tax (note 15)	**(4,550)**	61

Tax on (loss)/profit on ordinary activities	**(5,222)**	3,531

7. Tax on profit on ordinary activities (continued)

Deferred tax expense included in OCI:

	2020 **£000**	2019 £000
Actuarial gain on defined benefit retirement benefit obligations	**970**	191

Deferred tax expense/(income) included in equity:

	2020 **£000**	2019 £000
Timing differences relating to share based payments	**666**	(606)

The tax on profit on ordinary activities can be reconciled to the accounting profit as follows:

	2020 **£000**	2019 £000
(Loss)/profit on ordinary activities before taxation	**(26,155)**	17,815
(Loss)/profit on ordinary activities multiplied by the standard rate in the UK of 19.00% (2019: 19.00%)	**(4,969)**	3,385
Effects of:		
Expenses not deductible for tax purposes	**343**	28
Non-taxable expense	**-**	341
Effect of change in tax rate	**(195)**	-
Adjustments in respect of previous years	**(401)**	(223)
Total tax on (loss)/profit on ordinary activities	**(5,222)**	3,531

A reduction in the UK corporation tax rate to 17% was due to take effect from 1 April 2020 as enacted in the Finance Act 2016, however this was subsequently reversed and the 19% rate reintroduced. As the reintroduction of the 19% rate with effect from 1 April 2020 was substantively enacted on 17 March 2020, deferred tax balances have been calculated at 19%.

The Finance Act 2021 received Royal Assent on 10 June 2021. Among other measures, this provides for an increase in the main rate of UK Corporation Tax to 25% from 1 April 2023. Had this been substantively enacted on or before 31 December 2020, it would have had the effect of increasing the deferred tax asset by £394,000 to £1,641,000.

Notes to the financial statements for the year ended 31 December 2020 (continued)

8. Directors' emoluments

The emoluments of the directors employed by the Company are:

	2020 £000	2019 £000
Aggregate emoluments	**1,382**	1,287
Aggregate amounts paid in respect of money purchase pension schemes	**33**	42
Amounts receivable under long-term incentive schemes	**1,640**	
Amounts paid to directors for loss of office	**237**	-
	3,292	1,329

The figures above include the total emoluments for the Directors however these costs are not borne wholly by the Company. All directors in a management capacity for a number of group undertakings (including acting as director for some) and hence a portion of his costs are recharged to those companies.

Retirement benefits are accruing to 3 (2019: 3) directors under money purchase pension schemes and to no (2019: nil) directors under a defined benefit scheme. During the year no directors (2019: nil) exercised options over shares of Cobham plc and 3 (2019: 1) directors were entitled to receive shares under long term incentive plans.

Highest paid director

	2020 £000	2019 £000
Total emoluments including amounts accruing under long-term incentive schemes	**2,060**	815
Company contributions paid to money purchase pension schemes	**3**	10

The highest paid director also received shares under long term incentive plans during the current and previous years.

9. Employee costs

	2020 £000	2019 £000
Wages and salaries	**26,438**	22,389
Share based payments (note 10)	**-**	1,840
Social security costs	**3,161**	2,268
Pension costs (note 25)	**1,696**	1,281
	31,295	27,778

Included within employee costs above is £686,000 (2019: £3,137,000) in respect of Cobham Connectivity and Communications sector management. Although these employees are not employees of the Company, they are paid through the Company and these costs have been recovered from other Cobham group companies. The associated income has been recognised within other operating expenses in the income statement on page 12.

Notes to the financial statements for the year ended 31 December 2020 (continued)

9. Employee costs (continued)

The average monthly number of employees (including executive directors) employed by the Company during the year was:

By activity	2020	2019
Assembly and other	**108**	99
Production and engineering	**277**	233
Marketing	**48**	48
Management and administration	**49**	35
	482	415

10. Share-based payments

The Company previously participated in employee share schemes operated by the previous ultimate parent undertaking, Cobham Limited (formerly Cobham plc) and a net capital contribution was recognised in reserves equal to the income statement charge less amounts repaid.

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

The Performance Share Plan (PSP) allowed for annual grants of conditional shares and nil-cost options with vesting conditions based on the Cobham group's financial performance. The Restricted Share Plan (RSP) provided conditional shares which vested up to three years after grant, based only upon continued employment within the Cobham group.

The Cobham Savings Related Share Option Scheme (SAYE) was an HMRC approved savings related share option plan, open to all UK employees. Participating employees contributed to a monthly savings plan and after an agreed period of at least three years, employees had the option to use these savings plus interest to purchase Cobham plc shares at 80% of the market price on the date of grant.

Further details of the share schemes can be found in the 2019 Annual Report and Accounts of Cobham Limited.

The number of awards outstanding under each of the schemes at 31 December 2019, which vested in January 2020 at a share price of £1.646, were as follows:

(Thousands of shares)	Vested	Outstanding at 31 December 2019
PSP	**1,792**	1,811
RSP	**101**	102
ESOS	**-**	20
SAYE	**747**	747
	2,640	2,680

Options outstanding under the SAYE scheme at 31 December 2019 had a weighted average remaining contractual life of 0.9 years and exercise prices which range from £1.100 to £1.780 (restated).

The average share price in the period to 17 January 2020 was £1.645 (Year to 31 December 2019: £1.326).

Notes to the financial statements for the year ended 31 December 2020 (continued)

11. Dividends

	2020 £000	2019 £000
Interim dividend for current year paid of £584,600 (2019: £180,000) per share	**58,460**	18,000

A final dividend for the year ended 31 December 2020 has not been authorised or paid.

12. Investments

On 16 October 2020, as part of a group reorganisation the Company acquired 100% of the ordinary share capital of Chelton Defence Communications Limited, Chelton CTS Limited, European Antennas Limited for a nominal consideration. These companies are all dormant or have ceased trading, and have the same registered office address as the Company as disclosed in the Directors' report on page 1.

13. Intangible assets

	Software £000	**R&D Costs £000**	**Goodwill £000**	**Total £000**
Cost				
At 1 January 2020	2,178	-	5,614	7,792
Additions	305	559	-	864
Transfers	245	-	-	245
Reclassification	7	-	-	7
At 31 December 2020	**2,735**	**559**	**5,614**	**8,908**
Accumulated amortisation				
At 1 January 2020	2,061	-	-	2,061
Charge for the year	140	323	-	463
At 31 December 2020	**2,201**	**323**	**-**	**2,524**
Carrying amount				
At 31 December 2020	**534**	**236**	**5,614**	**6,384**
At 31 December 2019	117	-	5,614	5,731

Goodwill arose on the acquisition of businesses between 2000 and 2019 and is allocated to the Communications and Connectivity cash generating unit within the Cobham group. The recoverable amount has been determined based on a value in use calculation using cash flow forecasts for the following five years, prepared as part of the Cobham group annual strategic planning process and approved by management.

Notes to the financial statements for the year ended 31 December 2020 (continued)

14. Property, plant and equipment

	2020 £000	2019 £000
Owned property, plant and equipment	**7,269**	7,649
Right-of-use assets	**20,019**	21,580
	27,288	29,229

As described in note 3, an additional £916,000 has been charged as depreciation during the year following the disposal by the Cobham group of a fellow subsidiary undertaking.

14. Property, plant and equipment (continued)

Owned property, plant and equipment

	Freehold land and buildings £000	Leasehold land and buildings (long lease) £000	Leasehold land and buildings (short lease) £000	Plant and machinery (including vehicles) £000	Fixtures fittings, tools and equipment £000	Assets under construction £000	Total £000
Cost							
At 1 January 2020	2,637	250	6,268	7,655	1,772	353	18,935
Additions	-	-	8	696	150	(158)	696
Transfers	-	-	-	-	563	-	563
Reclassification	-	-	-	-	-	(7)	(7)
Disposals	-	-	-	(464)	(10)	-	(474)
At 31 December 2020	**2,637**	**250**	**6,276**	**7,887**	**2,475**	**188**	**19,713**
Accumulated depreciation							
At 1 January 2020	304	59	3,199	6,522	1,202	-	11,286
Charge for the year	77	4	932	246	373	-	1,632
Disposals	-	-	-	(464)	(10)	-	(474)
At 31 December 2020	**381**	**63**	**4,131**	**6,304**	**1,565**	**-**	**12,444**
Carrying amount							
At 31 December 2020	**2,256**	**187**	**2,145**	**1,583**	**910**	**188**	**7,269**
At 31 December 2019	2,333	191	3,069	1,133	570	353	7,649

Notes to the financial statements for the year ended 31 December 2020 (continued)

14. Property, plant and equipment (continued)

Right of use assets

	Property £000	Plant and machinery (including vehicles) £000	Fixtures fittings, tools and equipment £000	Total £000
Cost				
At 1 January 2020	26,916	634	74	27,624
Additions	-	-	225	225
Disposals	(1,477)	(21)	-	(1,498)
At 31 December 2020	**25,439**	**613**	**299**	**26,351**
Accumulated depreciation				
At 1 January 2020	5,565	414	65	6,044
Charge for the year	1,653	122	11	1,786
Disposals	(1,477)	(21)	-	(1,498)
At 31 December 2020	**5,741**	**515**	**76**	**6,332**
Carrying amount				
At 31 December 2020	**19,698**	**98**	**223**	**20,019**
At 31 December 2019	21,351	220	9	21,580

Notes to the financial statements for the year ended 31 December 2020 (continued)

15. Deferred taxation

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

	Property, plant and equipment £000	Retirement benefit obligations £000	Revaluation of derivative financial instruments £000	Tax losses £000	Share based payments £000	Total £000
At 1 January 2019	1,818	652	202	-	60	2,732
Charged to the income statement	304	(104)	(261)	-	-	(61)
Charged to OCI	-	(191)	-	-	-	(191)
Credited to reserves	-	-	-	-	606	606
At 31 December 2019	**2,122**	**357**	**(59)**	**-**	**666**	**3,086**
Charged to the income	**(617)**	**(107)**	**59**	**5,215**	**-**	**4,550**
Charged to OCI	**-**	**(970)**	**-**	**-**	**-**	**(970)**
Charged to reserves	**-**	**-**	**-**	**-**	**(666)**	**(666)**
At 31 December 2020	**1,505**	**(720)**	**-**	**5,215**	**-**	**6,000**

A deferred tax asset has been recognised based on the expectation of available future taxable profits.

16. Derivative financial instruments

The Company has the following derivative financial instruments which are financial assets measured at fair value through profit or loss or financial liabilities categorised as held for trading:

	2020 £000	2019 £000
Non-current assets	-	252
Current assets	-	493
Current liabilities	-	(39)
Non-current liabilities	-	(105)
	-	601

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables/payables. No contracts were outstanding at 31 December 2020. At 31 December 2019, the outstanding contracts were all due to mature within 36 months of the year end.

The forward currency contracts outstanding at 31 December 2019 were measured at fair value, determined using valuation techniques that utilised observable inputs. The key assumptions in valuing the derivatives were the exchange rates for GBP: USD and GBP: EUR. Movements in fair value are reported in the income statement within administrative expenses.

Notes to the financial statements for the year ended 31 December 2020 (continued)

17. Inventories

	2020 £000	2019 £000
Raw materials and consumables	**2,963**	4,164
Work in progress	**2,573**	3,216
Finished goods and goods for resale	**1,566**	2,689
	7,102	10,069

There is no significant difference between the replacement cost and the value of inventories shown.

Inventories are stated after provision for impairment of £4,497,000 (2019: £3,726,000).

18. Contract assets

	2020 £000	2019 £000
Unbilled amounts related to goods and services transferred	**1,105**	1,167

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 £1,038,000 (2019: £827,000) of the opening contract asset was transferred to trade receivables; additional amounts of £976,000 were recognised as a contract asset during the year (2019: £939,000) as a result of changes in the measure of progress of the satisfaction of performance obligations.

19. Trade and other receivables

	2020 £000	2019 £000
Trade receivables	**14,160**	9,393
Amounts owed by fellow subsidiary undertakings	**3,393**	5,082
Corporation tax	**1,853**	-
Other receivables	**2,052**	1,891
Prepayments	**351**	1,224
	21,809	17,590

Trade receivables are stated after provision for impairment of £50,000 (2019: £50,000).

Amounts owed by fellow subsidiary undertakings at the year end are unsecured, interest free and repayable on demand.

Notes to the financial statements for the year ended 31 December 2020 (continued)

20. Current liabilities: Trade and other payables

	2020 £000	2019 £000
Bank overdraft	-	3,934
Trade payables	**4,740**	3,036
Amounts owed to fellow subsidiary undertakings	**5,001**	4,097
Other creditors	**9**	41
Corporation tax	-	2,080
Other tax and social security	**2,252**	703
Accruals	**13,038**	6,942
	25,040	20,833

The bank overdraft is secured by a bank guarantee under a group banking arrangement and is repayable on demand.

Amounts owed to fellow subsidiary undertakings at the year end include £2,200,000 (2019: £nil) on which interest is charged at 3% and the balance of £2,801,000 (2019: £4,097,000) is interest free. All amounts are unsecured and are repayable on demand.

21. Lease obligations

At 31 December 2020, as a lessee, the Company had the following lease obligations:

	2020 £000	2019 £000
Current	**1,132**	1,322
Non-current	**25,339**	26,162
	26,471	27,484

Contractual undiscounted cash flows:

	2020 £000	2019 £000
Within one year	**2,152**	2,318
In the second to fifth years inclusive	**8,305**	8,149
After five years	**25,153**	27,204
	35,610	37,671
Less future finance charges	**(9,139)**	(10,187)
	26,471	27,484

Notes to the financial statements for the year ended 31 December 2020 (continued)

22. Contract liabilities

Contract liabilities of £10,369,000 (2019: £11,718,000) reflect advance payments from customers. These are amounts received prior to transferring goods and services to the customer. Of the amount recognised at 31 December 2020, £3,446,000 (2019: £1,069,000) has been recognised in revenue during the year. Advance payments of £2,097,000 (2019: £10,890,000) have been received during the year and are included in the Balance Sheet.

23. Provisions

At 31 December 2020, the Company had the following provisions:

	2020 £000	2019 £000
Current	**10,597**	-
Non-current	**34,356**	1,550
	44,953	1,550

	Contract provisions £000	**Onerous lease provision £000**	**Dilapidations provisions £000**	**Total £000**
At 31 December 2019	859	80	611	1,550
Charged to the income statement	44,106	-	200	44,306
Utilised during the year	(362)	(80)	(461)	(903)
At 31 December 2020	**44,603**	**-**	**350**	**44,953**

Contract provisions are recognised for onerous contracts when the benefit to be derived by the Company from a contract are lower than the unavoidable cost of meeting the obligations under the contract and are expected to be utilised within 3 years. Dilapidations provisions created during the year relate to obligations arising from the disposal by the Cobham group of a fellow subsidiary undertaking as described in note 3.

24. Share capital and reserves

Share capital – allotted, called up and fully paid

	2020 £000	2019 £000
100 Ordinary shares of £1 each	-	-

Other reserve

The other reserve relates to share-based payments awarded to certain employees of the Company by Cobham Limited (see note 10). The reserve has been released to retained earnings following vesting of all awards in January 2020.

Notes to the financial statements for the year ended 31 December 2020 (continued)

25. Retirement benefit obligations

Pension costs included in employment costs in note 9 are as follows:

	2020 **£000**	2019 (restated) £000
Defined contribution scheme	**1,648**	1,281
Defined benefit scheme	**48**	-
	1,696	1,281

Defined contribution scheme

The Company participates in the Cobham Personal Pension Plan, a defined contribution scheme operated for companies within the Cobham group. The assets of the scheme are held separately from those of the Company in independently administered funds. The pension cost charged represents contributions payable by the Company to the fund and amounted to £1,648,000 (2019: £1,281,000). At 31 December 2020 there were no contributions outstanding (2019: £nil).

Defined benefit scheme

	2020 **£000**	2019 £000
Defined benefit scheme assets	**111,754**	74,979
Defined benefit obligations	**(107,965)**	(76,858)
Net retirement benefit asset/(liability)	**3,789**	(1,879)

The Company also participates in the defined benefit section of the Cobham Pension Plan (CPP) operated by Cobham Limited. The scheme is of the funded defined benefit type (where benefits are based on employees' length of services and average final salary) and its assets are held in a separate trustee administered fund. It has been closed to new members since 2003 and closed to future accrual from 1 April 2016.

The defined benefit pension arrangements have remained with Cobham Limited following the acquisition of the Company by Transdigm Group Incorporated on 5 January 2021.

The defined benefit scheme exposes the Company 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 scheme's obligations are to provide benefits for the life of the member and therefore increases in life expectancy will lead to higher defined benefit obligations.

Notes to the financial statements for the year ended 31 December 2020 (continued)

25. Retirement benefit obligations (continued)

The trustees seek to mitigate these risks and have entered into a number of buy-in arrangements where assets were 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 of the present value of the defined benefit obligations for the scheme are carried out on a triennial basis by qualified independent actuaries; the most recent valuation was as at 1 April 2018, recording a deficit for the whole of the CPP of £37.8m. The actuarial valuation was updated by qualified independent actuaries for accounting purposes to 31 December 2020. Within 15 months of each triennial valuation, the employer and the trustees are required to agree a schedule of contributions to ensure that the scheme is fully funded over time on a suitably prudent basis. The valuation of the plan liabilities for this triennial valuation is on a more prudent basis than that required by IAS 19 and therefore the schedule of contributions will address a higher deficit than that recorded on an IAS 19 basis. A new schedule of contributions has been agreed during the year for the CPP as explained above. The funding of the scheme is apportioned to participating Cobham group companies based on the number of scheme members attributable to each employer. Orphan members who cannot be attributed to other Cobham group employers are deemed to be members of Cobham Limited.

The Company continued paying deficit contributions into the CPP until its acquisition by Transdigm Group Incorporated on 5 January 2021. There were no significant contributions outstanding at the end of 2020 or 2019.

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 Company's financial statements within the next financial year. The Company 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
RPI inflation (rate of increase in pensions in payment)	**2.90%**	3.15%
CPI inflation (rate of increase in deferred pensions)	**2.25%**	2.15%
Discount rate	**1.40%**	2.00%

The mortality assumptions used 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' (2019: SAPS CMI 18). 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% (2019: 25%) of their pension for cash on retirement.

Notes to the financial statements for the year ended 31 December 2020 (continued)

25. Retirement benefit obligations (continued)

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 0.5%	-8.4%
Inflation rate (both RPI and CPI)	Increase by 0.5%	+4.1%
Life expectancy	Increase by one year	+4.1%

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

Analysis of amount charged to operating profit:

	2020	2019
	£000	£000
Past service cost	**48**	-

Analysis of amount credited/(charged) to other finance income/(expense):

	2020	2019
	£000	£000
Net interest	**13**	(51)

Analysis of amount recognised in OCI:

	2020	2019
	£000	£000
Actual return less interest income on scheme assets	**37,710**	6,653
Actuarial losses arising from changes in financial assumptions	**(32,772)**	(6,393)
Actuarial gains arising from changes in demographic assumptions	**165**	741
Amounts recognised in OCI	**5,103**	1,001

Changes in the fair value of scheme liabilities are as follows:

	2020	2019
	£000	£000
Fair value of scheme liabilities at the beginning of the year	**76,858**	72,213
Interest cost	**1,725**	1,903
Past service cost	**48**	-
Actuarial losses arising from changes in financial assumptions	**32,772**	6,393
Actuarial gains arising from changes in demographic assumptions	**(165)**	(741)
Benefits paid	**(3,273)**	(2,910)
Fair value of scheme liabilities at the end of the year	**107,965**	76,858

The weighted average duration of the scheme liabilities is estimated to be 17 years.

Notes to the financial statements for the year ended 31 December 2020 (continued)

25. Retirement benefit obligations (continued)

Changes in the fair value of scheme assets are as follows:

	2020 £000	2019 £000
Fair value of scheme assets at the beginning of the year	**74,979**	68,784
Interest	**1,738**	1,852
Actuarial gains	**37,710**	6,653
Contributions by employer	**600**	600
Benefits paid	**(3,273)**	(2,910)
Fair value of scheme assets at the end of the year	**111,754**	74,979

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

	2020 £000		2019 £000	
Global equities	**11,999**	**10.7%**	9,224	12.3%
Liability driven investments	**38,049**	**34.0%**	12,415	16.6%
Corporate bonds	**5,876**	**5.3%**	7,070	9.4%
Private credit	**9,263**	**8.3%**	3,234	4.3%
Insurance contracts	**32,048**	**28.7%**	23,442	31.3%
Diversified growth funds	**14,275**	**12.8%**	11,870	15.8%
Other assets	**244**	**0.2%**	7,724	10.3%
	111,754	**100.0%**	74,979	100.0%

Scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company or the Cobham 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.

26. Contingent liabilities

The Company is a participant in a group banking arrangement under which all surplus cash balance are held as collateral for bank facilities advanced to group members. In addition, the Company has issued an unlimited guarantee to support these group facilities. The Company was released from these guarantor obligations and cross guarantees on 5 January 2021 following its acquisition by Transdigm Group Incorporated.

The Company has performance and third party bank guarantees as at 31 December 2020 of £2,344,395 (2019: £2,344,395).

Notes to the financial statements for the year ended 31 December 2020 (continued)

27. Capital and other commitments

The Company had capital commitments for the purchase of property, plant and equipment contracted for but not provided of £141,000 at 31 December 2020 (2019: £455,000).

28. Events after the balance sheet date

On 5 January 2021, Cobham Aerospace Connectivity Business Unit which included the Company were sold to Transdigm European Holdings Limited, a UK holding company wholly owned by Transdigm Group Incorporated.

This has impacted the Company's financial statements in the following areas:

- All open derivative financial instruments with Cobham Limited were settled on the Company's behalf during the year (note 16);
- Defined benefit pension arrangements, to which the Company was a participating employer, have remained with Cobham Limited and did not transfer with the Company (note 25);
- The Company was released from its guarantor obligations and cross guarantees arising from its participation in Cobham group banking arrangements (note 26).

29. Immediate and ultimate parent undertakings

At the balance sheet date, the Company's immediate parent undertaking was Lockman Electronic Holdings Limited. At the date of approval of these accounts, the Company's immediate parent undertaking is Transdigm European Holdings Limited.

The ultimate parent undertaking and controlling party at the balance sheet date was AI Convoy (Luxembourg) S.à r.l, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of AI Convoy (Luxembourg) S.à r.l can be obtained from 2-4 rue Beck, Luxembourg LU1222.

At the date of approval of these accounts the ultimate parent undertaking and controlling party is Transdigm Group Incorporated.