AI Convoy (Luxembourg) S.à r.l.

Société à responsabilité limitée

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

For the year ended 31 December 2022

2-4 rue Beck
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Luxembourg

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

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Consolidated Management Report

Group Overview and Management Structure

History and ownership structure

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

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

This report includes the consolidated financial statements of the Group for the year ended 31 December 2022.

Background on Advent International

Founded in 1984, Advent International is one of the largest and most experienced global private equity firms. With offices on four continents, it has a globally integrated team of 250 investment professionals, focused on buyouts and growth equity investments in five core sectors. Since initiating its private equity strategy in 1989, Advent International has invested $65bn in over 400 private equity investments across 42 countries and, as at 30 September 2022, managed $89bn in assets. The Advent International fund investing in Cobham is Advent International GPE IX.

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

Managers

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

Board Member	Represents	Background
Michael Ristaino (Manager/Director)	Advent International Advent International title: Vice President of Finance, Funds, based in Boston, United States	Michael joined Advent International in 1989 and is responsible for the firm's fund reporting and administration. During his tenure, Michael has led Advent International initiatives to improve financial reporting to their limited partners by leveraging technology and enhancing processes. He also serves on Advent International's Valuation Committee and contributed to the development of the firm's valuation policy and process. Michael started his career on the staff of KPMG. Michael received a BS in Accounting, with high honors, from Babson College. Other than directorships of direct and indirect affiliates of the Company, he has no other directorships.
Don Whitt (Manager/Director)	Advent International Advent International title: Vice President of Global Tax, based in Boston, United States	Don joined Advent International in 2019 and is responsible for the firm's global tax function. Don has over 25 years of international tax experience both in-house and in public accounting. Don previously held tax leadership roles at Micron Technology Inc. and in the tax planning group at Pfizer. Don holds a B.A. in Economics, M.S. in Taxation, and a J.D. from the University of Toledo and is a CPA. Other than directorships of direct and indirect affiliates of the Company, he has no other directorships.

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

Compliance statement

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

Overview of the Company's business model

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

The ongoing Group employs over 3,700 people and has customers and partners in over 100 countries, with principal operations in the USA, France and Denmark as well as a head office function in the UK. Cobham has specialist capabilities and know-how in: audio; video and data communications, including satellite communications; and defence electronics.

During the year, Cobham operated across three sectors, each with differentiated capabilities and many leading market positions. Two of these (CAES (formerly known as Advanced Electronic Solutions), and Communications and

Connectivity) design, manufacture and test intelligent hardware, primarily subsystems, with expertise in components. The Communications and Connectivity businesses can be further subdivided into Aerospace Communications, Electrical and Electronic Equipment, and SATCOM. The third Group business provided outsourced aviation services for customers in Australia.

During the year, there were a number of business divestments by the Group. In May 2022 the remaining part of the Group's Electrical and Electronic Equipment business, Cobham Microwave, was divested. In addition, the Group's two businesses in Australia, Regional Services and Special Mission, were also divested (in September and October 2022, respectively). Although after the period to which this report relates, CAES divested its Space business in January 2023.

The senior management of each of the ongoing businesses has full responsibility for its own strategy, and financial and operational performance.

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

Development and Performance of the Business

Our strategy

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

Following the acquisition by Advent International and the renewed focus on the individual businesses within the Group, our strategy continues to focus on how best to position each business to compete for greater market share whilst considering the views of key stakeholders including our shareholders, customers, suppliers, employees and local government or regulatory authorities in the jurisdictions we operate in. The Group remains committed to research and development by investing in both new products and enhancements to the current product base, to allow the Group to build positions where it has technical differentiation.

Cobham takes a strategic approach to corporate responsibility and sustainability, recognising that long-term success is not just about generating shareholder value but also about creating value for all the Group's stakeholders. Managing external impacts, capitalising on opportunities and conducting business in a responsible and sustainable way helps mitigate the Group principal risks and strengthen business relationships. Many of Cobham's products and services provide important environmental and social benefits. This may be through enhancing aviator survival, minimising environmental impact or providing reliable communications in challenging environments. The decisions and behaviours demonstrated by acting ethically, managing impacts, implementing innovative solutions and engendering positive business relationships also promote and enhance our culture and reputation.

Business review and key performance indicators

Key Performance Indicators

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

Statutory:

$m	**2022**	**2021**
Revenue	1,036	1,110**
EBITDA *	122	206**
Operating cash	199	179
Employee numbers (number at year end)	3,743	3,953**

* EBITDA on a Statutory basis may differ from EBITDA measures calculated using other bases, such as in financing agreements. EBITDA on a Statutory basis includes the results of divested businesses not classified as Discontinued Operations and excludes results from Discontinued Operations, such as the CAVS Australia and CAES Space businesses in 2022 and the Cobham Mission Systems business in 2021.
** Restated to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1 (Accounting policies).

The Company's Managers assess the Group's performance from one period to the next by reviewing performance on an underlying performance basis, primarily by reviewing the revenue, EBITDA before one-off costs ("EBITDA BOO") and operating cash before one-off cost ("Operating cash BOO") of the ongoing business perimeter, i.e. those businesses which have not been divested and from which cash will be generated on an ongoing basis plus businesses where an agreement to sell the business has been signed but where the divestments has not yet completed. EBITDA BOO and Operating Cash BOO are non-GAAP measures and are not defined terms under IFRS. However, as a debt-financed Group, the EBITDA BOO and Operating Cash BOO measures are relevant under the Senior Facilities Agreement which provides the contractual framework for the Group's external 1st Lien USD and 1st Lien EUR borrowings (see Note 15). These underlying performance measures are therefore presented below as they provide additional useful information on how the Company's Managers assess the underlying performance and position of the continuing business.

Underlying performance[1]:

$m	**2022**	**2021**
Revenue[2]	1,464	1,403
EBITDA BOO[3]	336	324
Operating cash BOO[4]	158	204
Employee numbers (number at year end)[5]	4,948	5,071

1. These numbers include the Communications and Connectivity business, CAES RF and CAES Space and Centralised IT, Head office and other activities ("the Underlying businesses").
2. Underlying revenue comprises revenue from continuing operations of $1,036m plus from CAES Space revenue of $428m (2021: revenue of $1,110m from continuing operations excluding revenue from the divested Slip Rings and Microwave businesses of $100m plus CAES Space revenue of $393m) – see Note 2 *Revenue*.
3. EBITDA BOO comprises EBITDA from continuing operations of $122m plus CAES Space of $112m and adding back net one-off costs and other items such as gains and losses on derivatives of $102m (2021: EBITDA from continuing operations of $206m plus CAES Space EBITDA of $80m less EBITDA from the divested Slip Rings and Microwave businesses of $22m and adding back net one-off costs and other items such as gains and losses on derivatives of $60m).
4. Operating cash BOO in 2022 and 2021 comprises EBITDA BOO adjusted for capital expenditure, net working capital and provisions movements for the Underlying businesses and excludes the results of the divested Slip Rings, Microwave and Cobham Mission Systems businesses.
5. Employee numbers comprise employee numbers from continuing operations plus CAES Space as at 31 December 2022 and 2021 – see Note 3. *Other income statement disclosures*.

EBITDA BOO and one-off items may not be comparable to similarly titled measures used by other companies. In determining whether an event or transaction is one-off in nature, management considers quantitative as well as qualitative factors. Examples of one-off charges or credits which are excluded in arriving at EBITDA BOO in the current and/or prior years include fees and charges related to M&A activities, non-recurring investment and restructuring costs, profits and losses on disposal of freehold properties. Events and transactions that meet the criteria, which are applied consistently from year to year, are treated as one-off items and excluded from EBITDA BOO and Operating cash BOO.

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

Revenue & EBITDA

Revenue of $1,036m (2021 re-presented: $1,110m) was generated by the Group. This excludes revenue generated by the Aviation Services Australia business and CAES Space in 2022 (Mission Systems, Aviation Services Australia and CAES Space in 2021) which were classified as discontinued operations. On a 'like for like' basis, i.e. excluding all divested businesses (including the Microwave business in 2022 and the Slip Rings business in 2021), revenue for the ongoing business grew by 4.3% in 2022 to $1,464m.

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) was $122m (2021 re-presented: $206m) for the year. EBITDA on a statutory basis is net of significant one-off costs in the operating businesses to increase future profitability. On an underlying performance basis EBITDA BOO increased from $324m in 2021 to $336m in 2022, with growth across the Group partially offset by trading challenges in the SATCOM business. These challenges were the result of a shortage in the supply of key electronic components in the year – management considers these shortages to be relatively short-term in nature.

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

Research and development and Capital Investment

The Group is committed to research and development by investing both in new products and enhancements to the current product base, to allow the Group to build positions where it has technical differentiation. During the year it has invested $53m (2021: $65m) in company funded research and development activities. Total R&D spend over 2022 and 2021 was in excess of amounts required under commitments given to the UK government. In addition, significant additional non-company funded research and development spending was undertaken across the group to ensure a bright future for the group across its wide range of highly advanced products. All company funded research and development expenditure is written off as it is incurred unless and until the conditions for capitalisation are met. $29m (2021: $41m) was capitalised during the year.

The group also invested $91m (2021: $76m) in physical and software assets for the long-term benefit of the group.

Net debt

During 2022, $7.7m of the 1st Lien US$ loan was repaid in accordance with the Group's financing agreements. In late January and early February 2023, $579.1m of 1st lien US$ borrowings was repaid following the divestment of the CAES Space business and $19.3m of 2nd lien US$ borrowings were repaid. Additionally, under the terms of the loans, during 2023 a further $1.6m of capital will be repaid in respect of the 1st Lien US$ loan in accordance with the Group's financing agreements.

Revolving credit facilities ("RCF") were utilised during the year to fund the ongoing working capital needs of the Group's businesses, and were also repaid in full during the year.

Cash held at 31 December 2022 amounted to $233m (2021: $190m) net of overdrafts. Additional liquidity of $350m is available to the Group under revolving credit facilities.

Net debt at 31 December 2022 was $1,986m (2021: $2,171m), consisting of first and second lien term loans of $2,130m (2021: $2,177m), lease obligations of $89m (2021: $184m), partly offset by cash of $233m (2021: $190m).

Acquisitions during the year

There were no acquisitions during the year ending 31 December 2022.

Divestments during the year

On 24 May 2022, the Cobham Microwave business was sold for $13m ($27m gross of settled intercompany balances).

On 30 September 2022, the Group completed its divestment of its Regional Services Business in Australia for AUD$36m ($48m gross of transaction related adjustments).

On 31 October 2022, the Group completed the divestment of its Special Mission business in Australia business for AUD$305m ($310m gross of settled intercompany balances and transaction related adjustments).

Retirement benefit pension schemes

During the year the Trustees of the Cobham Pension Plan ("CPP") entered an agreement with Standard Life to insure the remaining uninsured Plan liabilities under a bulk annuity insurance policy, a so-called 'buy-in' of the CPP. As a result, a significant portion of the CPP's investments were transferred to Standard Life in return for this insurance policy. Following this transaction there was a net surplus of $31m on the Balance Sheet of the CPP at 31 December 2022.

Equity

No share capital was issued during the year. There were $56m Equity Preferred Certificates remaining in Total Equity at 31 December 2022 and at 31 December 2021.

There were no dividends paid or proposed during the year. Dividends of $1,522m ($1,014.74 per share) were paid in the previous year ending 31 December 2021.

Events after the balance sheet date

On 9 January 2023 the CAES Space business was sold for $1,673m. This business was treated as held for sale at 31 December 2022.

In late January and early February 2023, $579.1m of 1st lien US$ borrowings and $19.3m of 2nd lien US$ borrowings were repaid. This resulted in accelerated amortisation of $7.6m of capitalised interest in 2023.

On 3 March 2023 Herley Industries Inc was acquired from Ultra Electronics Defense Inc for $250m on a cash-free debt-free basis. This was funded by utilising part of the RCF.

Future developments

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

Principal risks and uncertainties

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

Continuity of operations

Disruptions of operations at the Group's key operational centres due to disasters or other business continuity events could impact the ability to meet production requirements and a failure to recover from such an event could have a material adverse impact on the business. To mitigate this, risk management and recovery plans are in place at all operational centres. Robust supply chains are maintained and supplier risk proactively managed. In addition, the Group has a strong IT infrastructure and cyber security programme to ensure systems remain secure and operational.

Product risk

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

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

Financial charges

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

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

Financial risk management

The Group's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, interest rate, cash flow risk and foreign currency exchange rate risk.

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

Credit risk

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

Liquidity risk

The Group retains sufficient cash to ensure it has available funds for operations and planned expansions and has access to revolving credit facilities under a Group banking arrangement as required.

Interest rate cash flow risk

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash and bank balances and other receivables which all earn interest at a floating rate. The Group also has various borrowings with a range of maturities at both fixed and floating rates of interest. The Group monitors its exposure to movements in interest rates to bring greater stability and certainty to its borrowing costs, with the policy being to assess the proportion of borrowings that are fixed and floating in the context of prevailing market conditions. The Group is also

exposed to variable interest rates through its participation in the Cobham defined benefit pension scheme. Cobham does not currently use derivative financial instruments to manage interest rate costs.

Foreign currency exchange rate risk

The Group's aim is to reduce, or eliminate, whenever practical, foreign exchange transaction risk. The US dollar/sterling, the US dollar/euro, and the US dollar/Danish krone exchange rates are the most significant exposures, together with a number of other, smaller foreign exchange transaction exposures. All foreign exchange hedging transactions are approved under delegated authority from the Managers. A number of financial instruments, such as forward rate contracts, are used to manage transactional foreign exchange exposure. Each business assesses its transactional exposure and hedges forecast exposures where appropriate up to 100% for a period of up to 12 months. Firm exposures on long term contracts would normally be fully hedged.

Price risk

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Management Report. In addition, notes 1, 11, 19 and 21 to the Group Financial Statements include the Group's objectives, policies and processes for managing its capital, financial risk management, details of financial instruments and hedging activities, and its exposure to credit liquidity and other risks.

In applying the going concern basis, the Managers have considered the Group cash flow projections and assessed the robustness of the forecast through sensitivities around the key assumptions, in particular revenue growth rate, gross margin, capital expenditures and cash conversion. At the year end, the Group has considerable financial resources with liquidity available on the Balance Sheet from its cash resources, with $233m cash balances net of overdrafts. The Group also has unused credit facilities of $350m and its debt repayment profile is heavily biased to the medium term as set out in note 15.

There is a springing financial covenant applicable to the RCF that is tested quarterly, subject to certain conditions, if the facility, net of cash balances, is over 40% drawn. The covenant requires that the leverage ratio of senior secured net debt to EBITDA of the Group does not exceed 7.6:1.

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

The Managers have reviewed detailed cash flow projections to the end of December 2023 and have applied stress tests on its cash position. These include a severe but plausible downside scenario which assumes forecast net cash inflows from business operations are reduced by 25% for the entire forecast period. In this scenario the Managers have confirmed that the Group would be able to operate and service the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

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

Employees

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

Recruitment

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

Diversity, Inclusion and Anti-Discrimination

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

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

The Group gender diversity statistics for the reporting period are set out in the table below.[1]

	Male	Female	Other
Managers (Board of Directors)	2	-	-
Senior Managers[2]	83	19	-
Other Employees	3,168	1,678	-
Total	**3,253**	**1,697**	**-**

Health and Safety

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

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

Cobham's safety, health & environment (SHE) policy is to create and embrace a safe, healthy and environmentally aware culture and framework that actively promotes employee engagement at all levels. The SHE policy addresses this by: (i) striving for Zero Harm i.e. reducing the risk of accidents, injuries, ill-health and environmental impacts arising

[1] Notes: (a) These data are for the entire group as at 31 December 2022. These figures do not include the gender diversity statistics for the Aviation Services Australia and Microwave businesses as those were divested during 2022. (b) The "Other" column denotes employees who do not identify either as female or male, or who have declined to provide information regarding their gender – in 2021 there were 2 such employees.

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

from its operations, activities, products and services, wherever practicable; (ii) enhancing the well-being of its people and local communities; and (iii) complying with all applicable SHE legislation as a basic minimum.

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

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

Legal requirements and government guidance are considered across the Group on a continual basis and influence the implementation and, where appropriate, modification or relaxation, of such policies.

Employee Consultation and Involvement with Management

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

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

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

Performance Development, Training and Management Reviews

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

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

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

Employee Benefits and Annual Incentive Programme

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

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

Business units also offer flexible benefits schemes where employees can choose elect certain additional benefits.

Social, community and human rights

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

The Group's fulfilment of its obligations under the Modern Slavery Act of 2015 are published in an annual Anti-Slavery and Anti-Human Trafficking statement which is published and accessible via the Cobham website, at: https://www.cobham.com/media/rwmjf1zv/cobham-2022-anti-slavery-and-human-trafficking-statement.pdf.

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

Environment

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

See details of our Group safety, health and environment policy above (*Health and Safety*).

AI Convoy (Luxembourg) S.à r.l.

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

Signed on behalf of the board.

Donald E. Whitt, Jr.
Manager
6 April 2023

Building a better working world

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Independent auditor's report

To the Shareholder of
AI Convoy (Luxembourg) S.à r.l.
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Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of AI Convoy (Luxembourg) S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated cash flows statement for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for Opinion

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

Other information

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers.

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- Conclude on the appropriateness of Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Alban Aubrée

Luxembourg, 6 April 2023

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Consolidated Income Statement

For the year ended 31 December 2022

$m	Note	2022	2021*
Continuing operations			
Revenue	2	**1,036.4**	1,110.1
Cost of sales		**(754.3)**	(759.3)
Gross profit		**282.1**	350.8
Operating costs		**(288.7)**	(297.7)
Loss on divestments	26	**(12.8)**	438.4
Operating (loss)/profit		**(19.4)**	491.5
Finance income	4	**4.6**	1.9
Finance costs	4	**(145.7)**	(161.0)
(Loss)/profit before taxation		**(160.5)**	332.4
Taxation	5	**57.3**	(145.2)
(Loss)/profit from continuing operations		**(103.2)**	187.2
(Loss)/profit from discontinued operations	26a	**(24.1)**	677.6
(Loss)/profit for the year		**(127.3)**	864.8
Attributable to:			
Owners of the parent		**(127.5)**	864.6
Non-controlling interests		**0.2**	0.2
		(127.3)	864.8

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022

$m	Note	2022	2021
(Loss)/profit for the year		**(127.3)**	864.8
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit retirement benefit obligations	20	**(146.1)**	20.4
Tax effects	5	**27.8**	(4.0)
		(118.3)	16.4
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries	23	**(9.5)**	33.4
Other comprehensive (expense)/income for the year		**(127.8)**	49.8
Total comprehensive (expense)/income for the year		**(255.1)**	914.6
Attributable to:			
Owners of the parent		**(255.3)**	914.4
Non-controlling interests		**0.2**	0.2
		(255.1)	914.6

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2022

$m	Note	2022	2021
Assets			
Non-current assets			
Intangible assets	7	**1,216.4**	2,102.3
Property, plant and equipment	8	**216.2**	543.6
Contract assets	12	**2.0**	49.9
Trade and other receivables	13	**4.0**	12.1
Retirement benefits asset	20	**31.4**	186.8
Deferred tax	5	**20.9**	1.3
Derivative financial instruments	19	**0.2**	-
		1,491.1	2,896.0
Current assets			
Inventories	10	**146.0**	197.9
Contract assets	12	**80.6**	101.4
Trade and other receivables	13	**88.4**	187.6
Current tax receivables	5	**1.1**	0.2
Derivative financial instruments	19	**0.7**	2.2
Cash and cash equivalents	15	**232.6**	279.2
Assets classified as held for sale	14	**981.3**	-
		1,530.7	768.5
Liabilities			
Current liabilities			
Borrowings	15	**(7.7)**	(96.8)
Lease obligations	16	**(12.5)**	(30.7)
Contract liabilities	12	**(39.0)**	(79.7)
Trade and other payables	17	**(236.8)**	(319.6)
Provisions	18	**(15.2)**	(26.0)
Current tax liabilities	5	**(3.2)**	(37.7)
Derivative financial instruments	19	**(1.2)**	(2.9)
Liabilities associated with assets classified as held for sale	14	**(138.1)**	-
		(453.7)	(593.4)
Non-current liabilities			
Borrowings	15	**(2,121.6)**	(2,169.8)
Lease obligations	16	**(76.7)**	(153.2)
Trade and other payables	17	**(2.2)**	(5.8)
Provisions	18	**(8.9)**	(14.2)
Deferred tax	5	**(107.9)**	(220.8)
		(2,317.3)	(2,563.8)
Net assets		**250.8**	507.3
Equity			
Issued capital	22	**1.5**	1.5
Share premium	22	**1,064.4**	1,064.4
Equity Preferred Certificates	22	**56.2**	56.2
Other reserves	23	**(1.7)**	4.6
Retained earnings		**(870.3)**	(621.9)
Total equity attributable to owners of the parent		**250.1**	504.8
Non-controlling interests in equity		**0.7**	2.5
Total equity		**250.8**	507.3

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements. The financial statements on pages 16 to 54 were approved by the Board of Managers on 6 April 2023 and signed on its behalf by:

Donald E. Whitt, Jr.
Manager

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

$m	Issued capital (note 22)	Share premium (note 22)	Equity Preferred Certificates (note 22)	Other reserves (note 23)	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
Total equity at 31 December 2021	**1.5**	**1,064.4**	**56.2**	**4.6**	**(621.9)**	**504.8**	**2.5**	**507.3**
Loss for the year	-	-	-	-	**(127.5)**	**(127.5)**	**0.2**	**(127.3)**
Other comprehensive expense	-	-	-	**(9.5)**	**(118.3)**	**(127.8)**	-	**(127.8)**
Total comprehensive expense for the year	-	-	-	**(9.5)**	**(245.8)**	**(255.3)**	**0.2**	**(255.1)**
Purchase of non-controlling interests	-	-	-	-	**(2.6)**	**(2.6)**	**(1.8)**	**(4.4)**
Reclassification of foreign exchange on divestment of overseas operations	-	-	-	**3.2**	-	**3.2**	-	**3.2**
Foreign exchange adjustments	-	-	-	-		-	**(0.2)**	**(0.2)**
Total equity at 31 December 2022	**1.5**	**1,064.4**	**56.2**	**(1.7)**	**(870.3)**	**250.1**	**0.7**	**250.8**
Total equity at 1 January 2021	1.5	1,064.4	958.0	(22.6)	19.3	2,020.6	2.4	2,023.0
Profit for the year	-	-	-	-	864.6	864.6	0.2	864.8
Other comprehensive (expense)/income	-	-	-	33.4	16.4	49.8	-	49.8
Total comprehensive (expense)/income for the year	-	-	-	33.4	881.0	914.4	0.2	914.6
Repayment of equity preferred certificates	-	-	(901.8)	-	-	(901.8)	-	(901.8)
Reclassification of foreign exchange on divestment of overseas operations	-	-	-	(6.2)	-	(6.2)	-	(6.2)
Distributions made (note 24)	-	-	-	-	(1,522.2)	(1,522.2)	-	(1,522.2)
Foreign exchange adjustments	-	-	-	-	-	-	(0.1)	(0.1)
Total equity at 31 December 2021	1.5	1,064.4	56.2	4.6	(621.9)	504.8	2.5	507.3

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2022

$m	Note	2022	2021
Cash generated from operations		**198.6**	178.6
Tax paid		**(30.2)**	(419.4)
Interest paid		**(145.3)**	(182.6)
Interest received		**0.4**	0.5
Net cash from/(used in) operating activities	6	**23.5**	(422.9)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(90.6)**	(76.0)
Purchase of intangible assets		**(5.2)**	(5.1)
Capitalised expenditure on intangible assets		**(28.8)**	(40.9)
Purchase of trade investments		**-**	(4.9)
Proceeds on disposal of property, plant and equipment and intangible assets		**9.0**	11.0
Acquisition of subsidiaries net of cash acquired	25	**-**	(76.1)
Proceeds from business divestments	26	**186.0**	3,812.5
Proceeds from sale of financial investment		**4.7**	-
Net cash received from investing activities		**75.1**	3,620.5
Cash flows from financing activities			
Repayment of equity preferred certificates	22	**-**	(901.8)
Distributions made	24	**-**	(1,522.2)
Purchase of non-controlling interests		**(4.4)**	-
New borrowings	15	**148.4**	225.0
Repayment of bank and other borrowings	15	**(156.1)**	(1,081.5)
Lease capital payments	15	**(36.3)**	(32.9)
Net cash used in financing activities		**(48.4)**	(3,313.4)
Net increase/(decrease) in cash and cash equivalents		**50.2**	(115.8)
Exchange movements		**(5.0)**	(4.3)
Cash and cash equivalents at start of year		**190.1**	310.2
Cash and cash equivalents at end of year		**235.3**	190.1

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

$m	2022	2021
Cash at bank and on hand	**232.6**	279.2
Bank overdrafts	**-**	(89.1)
Cash at bank attributable to discontinued operations	**2.7**	-
	235.3	190.1

Reconciliation of cash and cash equivalents and net debt

$m	Note	2022	2021
Cash and cash equivalents per Cash Flow Statement		**235.3**	190.1
Bank overdrafts	15	**-**	89.1
Deduct Cash at bank attributable to discontinued operations		**(2.7)**	-
Cash and cash equivalents per Balance Sheet		**232.6**	279.2
Bank and other borrowings	15	**(2,129.3)**	(2,266.6)
Lease obligations	16	**(89.2)**	(183.9)
Net debt at 31 December		**(1,985.9)**	(2,171.3)

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

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

The consolidated financial statements of AI Convoy (Luxembourg) S.à r.l. (the "parent company") and all its subsidiaries (the 'Group') for the year ended 31 December 2022 were authorised for issue by the Board of Managers on 6 April 2023 and the Statement of Financial Position was signed on the Board's behalf by M Ristiano and D Whitt. Under Luxembourg law, the consolidated financial statements are approved by the Shareholders during the Annual General Meeting.

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

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

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

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

The Group has prepared these consolidated financial statements as at 31 December 2022 which comply with IFRSs applicable as at 31 December 2022.

Accounting policies

1.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and pension assets which have been measured at fair value. A limited number of specific foreign exchange contracts are designated as hedging instruments in cash flow and net investment hedges and hedge accounting is applied.

The consolidated financial statements are presented in US$ and all values are rounded to the nearest 100,000 ($0.1m), except where indicated otherwise.

Certain comparative amounts in the Group Income Statement have been re-presented, in respect of the following transactions, to achieve a more appropriate presentation as required by IFRS 5: Non-current assets held for sale and discontinued operations:

- The Cobham Aviation Services Australia business was divested during the year and the results of this business have been presented within Profit from discontinued operations in the Group Income Statement with the prior period comparatives re-presented accordingly.
- In September 2022, an agreement to sell CAES Space was signed, subject to regulatory approvals. As a result the assets and liabilities of those businesses were classified as held for sale as at 31 December 2022. The results of the business have been presented within Profit from discontinued operations in the Group Income Statement with the prior period comparatives re-presented accordingly.

1.2 Going concern

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

In applying the going concern basis, Management has considered the Group cash flow projections and assessed the robustness of the forecast through sensitivities around the key assumptions, in particular revenue growth rate, gross margin, capital expenditures and cash conversion. At the year end, the Group has considerable financial resources with liquidity available on the Balance Sheet from its cash resources, with $233m cash balances net of overdrafts. The Group also has unused credit facilities of $350m and its debt repayment profile is heavily biased to the medium term as set out in note 15.

There is a springing financial covenant applicable to the Revolving Credit Facility that is tested, subject to certain conditions, quarterly from 31 December 2022 if the facility, net of cash balances, is over 40% drawn. The covenant requires that the leverage ratio of senior secured net debt to EBITDA of the Group does not exceed 7.6:1.

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

The Managers have approved a detailed financial and strategic five-year plan and have applied stress tests on its cash position. These have included assuming severe but plausible scenarios such as a 25% reduction in operational cash flow over the period to 31 December 2024. In these cases the Managers have confirmed that the Group would be able to operate and service the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

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

1.3 Management judgement and estimation uncertainty

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

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

1.3.1 Significant judgements in applying accounting policies

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

a. Revenue recognition and contract accounting

The Group has a number of contracts related to long term development programmes. For the majority of these contracts revenue is recognised over time on a percentage of completion basis. This is where a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion. There are three principal judgements associated with this method of contract accounting:

- Performance obligations: Judgement is applied in determining how many performance obligations there are within each contract and whether the development phase represents a separate obligation. In most cases, the development phase is not considered to be distinct as the customer does not benefit from the development activities alone. It is instead combined with the early contracted production phases such as low rate initial production (LRIP) which are considered a key part of the development cycle.
- Modifications and claims: Judgement is applied in determining whether claims to or from the customer are likely to be successful. Estimation techniques are then used to quantify the impact.
- Costs to fulfil a contract: For some contracts, where revenue is recognised at a point in time (rather than over time), the Group incurs development costs in order to meet its performance obligations and these costs are recognised as an asset. The asset is then amortised to cost of sales as revenue is recognised. Judgement is applied in assessing whether these costs are costs to fulfil a contract or internally generated intangible assets. This judgement will depend on management's assessment of the nature of the underlying costs and whether they principally relate to a particular contract.

b. Capitalisation of development costs

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

c. Cash generating units (CGUs)

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

d. Share based compensation

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

e. Equity Preferred Certificates

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

1.3.2 Assumptions and estimation uncertainties

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

a. Uncertain tax positions and deferred tax assets (note 5)

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

b. Business Combinations, Goodwill and Intangible Assets

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

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

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

Determination of the value in use of CGUs, as assessed in relation to the annual review of goodwill and any subsequent impairment of goodwill and intangible assets, or reversal of previously impaired intangible assets, relies on estimated cash flows, discounted to present value. The COVID-19 pandemic has increased the level of estimation uncertainty on future cash flows as the impact on countries and markets continues to be uncertain. However, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets.

d. Inventory provisions (note 10)

Recognition and measurement of provisions for obsolete, slow moving and defective items of inventory is an area of estimation uncertainty which may have a significant effect on the carrying amount of inventory within the next financial year.

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

Recognition and measurement of revenue on long term contracts, associated contract assets and liabilities and contract loss provisions requires estimation of the costs to complete the contracts including some contingencies for the risks identified, the final costs of technical solutions, the outcome of negotiations with customers (including modifications) and the amounts recoverable under these contracts; and

f. Pension assets and liabilities (note 20)

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

g. Incremental borrowing rates (IBR)

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

1.4 Principal accounting policies

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

1.4.1 Basis of consolidation

The Group Financial Statements include the financial statements of the Parent Company, AI Convoy (Luxembourg) S.à r.l., and of all its subsidiaries.

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

Joint ventures and associates are not consolidated but are accounted for using the equity method.

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

1.5 Foreign currencies

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

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

1.6 Revenue recognition (note 2)

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

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

1. Identify contracts with customers;
2. identify the separate performance obligations;
3. Determine the transaction price of the contract;

4. Allocate the transaction price to each of the separate performance obligations; and
5. Recognise the revenue as each performance obligation is satisfied.

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

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

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

The Group has a number of long term development programmes, particularly within the Mission Systems Sector. For the majority of these contracts revenue is recognised over time on a percentage of completion basis. This is where a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion. This method is considered to most faithfully depict the transfer of goods and services to the customer over the life of the performance obligation. As these products come out of the development phase and into full rate production, revenue is recognised at a point in time where there is an alternative use.

For some programme specific products, markets may not be sufficiently mature to offer an alternative use and in these circumstances, where there is also a right to payment at all times, revenue is recognised over time based on a percentage of completion basis using costs as the measure of progress. For development and production contracts where there is not considered to be a right to payment at all times through the contract, these are accounted for at a point in time, with revenue recognised when control transfers to the customer, typically on delivery of the production units.

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

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

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

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

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

1.7 Taxation (note 5)

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

Current tax is provided at the amounts expected to be paid, using rates that have been enacted or substantively enacted at the balance sheet date. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted in the countries where the Group operates and generates taxable income.

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

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

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

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

1.8 Intangible assets (note 7)

Goodwill

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

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

Other intangible assets

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

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

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

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

Research and development

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

1.9 Property, plant and equipment (note 8)

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

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

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

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

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

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

1.10 Right-of-use assets (note 8)

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

The initial cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, expected asset restoration costs and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the useful economic life of the asset, relevant to the class of right-of-use asset as shown in 1.9 above. The right-of-use asset is tested for impairment where appropriate.

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

1.11 Investment properties (note 9)

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

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

1.12 Impairment of non-financial assets

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

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

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

1.13 Inventories (note 10)

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

1.14 Fair values

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

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

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

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

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

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

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

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

1.15 Financial instruments (note 11)

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

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

Financial assets (note 11)

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

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

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

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets held within a hold to collect and sell business model are measured at fair value though OCI if the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group classifies in this category cash, trade and other receivables, contract assets and loans receivable. The Group does not currently have any such assets.

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

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

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

Impairment of financial assets

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

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

No impairment loss is recognised for investments in equity instruments.

Impairments are charged to operating costs in the Income Statement.

Financial liabilities (note 11)

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

Trade and other receivables including contract assets (notes 12 and 13)

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

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

Cash and cash equivalents

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

Bank borrowings (note 15)

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

Trade payables (note 17)

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

Derivative financial instruments and hedge accounting (note 19)

The majority of foreign exchange contracts entered into by the Group are used to mitigate foreign exchange impacts of trading in non-functional currencies. These are not accounted for using hedge accounting principles.

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

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

1.16 Lease obligations (note 16)

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

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

1.17 Provisions (note 18)

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

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

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

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

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

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

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

1.18 Retirement benefit schemes (note 20)

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

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

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

1.19 Share based compensation (note 22)

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

1.20 Equity Preferred Certificates (note 22)

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

1.21 Distributions made (note 24)

The Company recognises a liability to pay a dividend when the distribution is authorised, and the distribution is no longer at the discretion of the Company. As per the corporate laws of Luxembourg, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

1.22 Business combinations (note 25)

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

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

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net

assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

1.23 Divestments

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

1.24 Held for Sale assets and liabilities

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

1.25 Non-controlling interests in equity

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

1.26 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. None of the amendments shown below had a material impact on the Group's financial reporting.

- Amendments to IFRS 1 and IFRS 9: *Annual Improvements to IFRS Standards 2018-2020 Cycle*
- Amendment to IFRS 3: *Business Combinations - Reference to the Conceptual Framework*
- Amendments to IAS 16: *Property, Plant and Equipment – Proceeds before intended use*
- Amendment to IAS 37: *Onerous Contracts – Cost of Fulfilling a Contract*

1.27 Future accounting developments

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

- IFRS 17: *Insurance Contracts*
- Amendments to IFRS 17: *Initial Application of IFRS 17 & IFRS 9 – Comparative Information*
- Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies*
- Amendments to IAS 8: *Definition of Accounting Estimates*
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 1: Non-current Liabilities with Covenants
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

Although the Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective, management are currently assessing the impact of these changes and believe that none of these amendments is expected to have a material impact on the Group's financial reporting, with the exception of amendments to IAS 1 for Non-current liabilities with covenants which will require additional disclosures.

2. Revenue

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

For the year ended 31 December 2022

$m	Continuing Operations			Discontinued Operations		
	Communications and Connectivity	CAES RF	Total	Aviation Services Australia	CAES Space	Total 2022
External revenue by revenue recognition category						
Goods transferred at a point in time	**342.4**	**9.9**	**352.3**	**-**	**244.0**	**244.0**
Goods transferred over time	**-**	**614.5**	**614.5**	**-**	**183.4**	**183.4**
Services transferred at a point in time	**16.7**	**5.8**	**22.5**	**-**	**0.6**	**0.6**
Services transferred over time	**14.9**	**32.2**	**47.1**	**203.1**	**-**	**203.1**
	374.0	**662.4**	**1,036.4**	**203.1**	**428.0**	**631.1**

For the year ended 31 December 2021

$m	Continuing Operations			Discontinued Operations			
	Communications and Connectivity	CAES RF	Total	Aviation Services Australia *	CAES Space *	Mission Systems	Total 2021*
External revenue by revenue recognition category							
Goods transferred at a point in time	400.7	27.0	427.7	-	195.1	204.7	399.8
Goods transferred over time	15.5	585.3	600.8	-	197.4	24.5	221.9
Services transferred at a point in time	35.5	6.3	41.8	-	0.5	25.0	25.5
Services transferred over time	16.7	23.1	39.8	233.7	-	18.8	252.5
	468.4	641.7	1,110.1	233.7	393.0	273.0	899.7

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1. The results for Aviation Services Australia covered the period January to October 2022 – the comparative period is for all of 2021. While the CAES Space business is classified as Discontinued Operations it was not divested until 9 January 2023 – the results presented are therefore for all of 2022 and 2021.

3. Other income statement disclosures (continuing operations)

The following costs are included in operating profit:

$m	2022	2021*
Materials costs within cost of sales	**317.7**	347.8
Company funded research and development	**40.9**	38.0

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

Employment costs and employee numbers

The aggregate employment costs are as follows:

$m	Note	2022	2021*
Wages and salaries		**311.2**	345.2
Social security costs		**29.1**	34.8
Pension costs	20	**14.1**	15.1
		354.4	395.1

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

Employee numbers, analysed by segment, are as follows:

	Monthly average number of employees		As at 31 December	
	2022	2021*	**2022**	2021*
Communications and Connectivity	**1,408**	1,659	**1,096**	1,310
CAES ARF	**2,586**	2,595	**2,614**	2,597
Centralised IT, Head office and other activities	**40**	46	**33**	46
Continuing operations	**4,034**	4,300	**3,743**	3,953
Mission Systems	**-**	857	**-**	-
Aviation Services Australia	**780**	746	**-**	713
CAES Space	**1,156**	1,145	**1,205**	1,118
Discontinued operations	**1,936**	2,748	**1,205**	1,831
Total Group	**5,970**	7,048	**4,948**	5,784

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

Compensation of key management personnel

During the years ended 31 December 2022 and 31 December 2021, no remuneration was paid to key management personnel from within this Group and therefore no key management personnel compensation is disclosable.

Audit fees

During the year, the Group obtained the following services from the Company's auditors, Ernst & Young S.A. and its associates:

$m	2022	2021
Statutory audit of financial statements including the audit of the consolidated financial statements	2.4	2.5
Other assurance services	0.4	2.9
Total fees paid to the auditors	2.8	5.4

4. Finance income and costs (continuing operations)

$m	Note	2022	2021*
Bank interest		0.4	-
Interest on net pension scheme assets	20	3.1	1.4
Other finance income		1.1	0.5
Total finance income		4.6	1.9
Interest on bank overdrafts and loans		(125.0)	(144.0)
Interest on lease obligations	16	(9.5)	(10.2)
Other finance expense		(11.2)	(6.8)
Total finance costs		(145.7)	(161.0)
Net finance costs		(141.1)	(159.1)

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

5. Taxation

Tax included in Income Statement (continuing operations)

$m	2022	2021*
Credit/(charge) for the year	21.7	(98.1)
Adjustments to tax charge in respect of prior years	-	26.5
Current tax	21.7	(71.6)
Credit/(charge) for the year	19.4	(85.0)
Adjustments to tax charge in respect of prior years	16.2	11.4
Deferred tax	35.6	(73.6)
Total tax credit/(charge) for the year	57.3	(145.2)

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction.

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

	2022	2021*
$m	Total	Total
(Loss)/profit before tax from continuing operations	(160.5)	332.4
Tax thereon at the Luxembourg tax rate of 24.94%	40.0	(82.9)
Effect of differences in overseas tax rates	(12.1)	(64.4)
Impact of tax treatment of divestments	27.4	6.0
Non-deductible interest	(13.8)	(49.1)
Expenditure qualifying for additional R&D tax relief	4.6	16.6
Adjustments to tax charge in respect of prior years	16.2	37.9
Impact of other items	(5.0)	(9.3)
Total tax credit/(charge) for the year	57.3	(145.2)

Impact of other items in the table above includes tax arising on intra-group restructuring and expenses which are not deductible for tax purposes.

Tax included in OCI

$m	2022	2021
Items that will not be reclassified subsequently to profit or loss		
Actuarial (loss)/gain on retirement benefit obligations	(27.8)	4.0
	(27.8)	4.0

Current tax assets and liabilities

$m	2022	2021
Current tax receivables	**1.1**	0.2
Current tax liabilities	**(3.2)**	(37.7)
	(2.1)	(37.5)

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

Current tax risks (key estimation uncertainty)

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

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

The Group has accrued $Nil (2021: $23.6m) in respect of uncertain tax positions in the UK, US and other tax jurisdictions and $nil (2021: $nil) related to interest on uncertain tax positions as shown in note 17. Final resolutions will affect the amounts settled and the timing of any settlements. Whilst resolution remains uncertain, these amounts are included in current liabilities.

Deferred tax assets and liabilities

$m	2022	2021
Deferred tax assets	**(20.9)**	(1.3)
Deferred tax liabilities	**107.9**	220.8
Net deferred tax liabilities	**87.0**	219.5

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

$m	Intangible assets	Owned property, plant and equipment	Retirement benefit obligations	Tax losses	Other	Total liability/ (asset)
At 1 January 2021	669.0	30.9	3.1	(31.5)	(248.5)	423.0
(Credit)/charge to income statement - continuing operations	(94.6)	(3.4)	27.0	(14.0)	158.6	73.6
(Credit)/charge to income statement - discontinued operations	7.6	0.5	-	(5.2)	25.2	28.1
Charge to OCI	-	-	4.0	-	-	4.0
Business divestments	(336.4)	0.6	-	30.7	-	(305.1)
Foreign exchange adjustments	(6.8)	(0.7)	(0.2)	2.6	1.0	(4.1)
At 31 December 2021	**238.8**	**27.9**	**33.9**	**(17.4)**	**(63.7)**	**219.5**
(Credit)/charge to income statement - continuing operations	**(22.0)**	**5.4**	**1.8**	**(17.1)**	**(3.7)**	**(35.6)**
Charge to income statement - discontinued operations	**-**	**-**	**-**	**-**	**(2.9)**	**(2.9)**
Credit to OCI	**-**	**-**	**(27.8)**	**-**	**-**	**(27.8)**
Business divestments	**(11.7)**	**(12.2)**	**0.5**	**2.6**	**0.8**	**(20.0)**
Reclassified as held for sale	**(62.1)**	**(7.2)**	**-**	**-**	**29.8**	**(39.5)**
Foreign exchange adjustments	**(4.1)**	**(0.7)**	**(3.1)**	**0.5**	**0.7**	**(6.7)**
At 31 December 2022	**138.9**	**13.2**	**5.3**	**(31.4)**	**(39.0)**	**87.0**

Other deferred tax assets and liabilities shown above include balances arising from temporary differences in relation to provisions and accruals of $22.2m (2021: $53.5m).

Tax losses (key estimation uncertainty)
Tax losses of $23.2m (2021: $10.8m) arising in Denmark and $8.2m (2021: $6.6m) arising in other overseas tax jurisdictions have been recognised on the basis of forecasted future taxable profits. The recognition of these tax losses can be sensitive to movement in these forecasted profits. As an indication of sensitivity, a 33% reduction in the estimated profits would not impact the recognition of these tax losses.

Unremitted earnings
The unprovided tax on unremitted earnings as at 31 December 2022 and 31 December 2021 is considered to be immaterial.

6. Cash flow from operations

$m	Note	2022	2021*
Operating activities			
(Loss)/profit before tax from continuing operations		**(160.5)**	332.4
Profit before tax from discontinued operations	26a	**(24.5)**	986.1
(Loss)/profit before tax		**(185.0)**	1,318.5
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation		**197.1**	258.9
Loss on sale of property, plant and equipment and intangible assets		**0.1**	1.6
Profit on sale of investment properties		**-**	(7.5)
Loss/(profit) on divestments of subsidiary undertakings	26	**12.8**	(438.4)
Loss/(profit) on divestment of discontinued operations	26	**80.4**	(901.0)
Derivative financial instruments	19	**(0.4)**	10.4
Finance income		**(4.7)**	(1.9)
Finance costs		**172.0**	165.7
Pension contributions in excess of pension charges		**(4.6)**	(128.1)
Decrease in provisions		**(5.0)**	(42.4)
Working capital changes:			
Increase in inventories		**(39.8)**	(43.8)
Increase in contract assets		**(10.8)**	(27.0)
Increase in trade and other receivables		**(20.5)**	(5.5)
Decrease in contract liabilities		**(19.7)**	(9.8)
Increase in trade and other payables		**26.7**	28.9
Cash generated from operations		**198.6**	178.6
Tax paid		**(30.2)**	(419.4)
Interest paid		**(145.3)**	(182.6)
Interest received		**0.4**	0.5
Net cash from/(used in) operating activities		**23.5**	(422.9)

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

7. Intangible assets

$m	Goodwill	Customer relationships	Technology based assets	Order book and trade names	Development costs	Software and other	Total
Cost							
At 1 January 2021	1,299.9	1,468.9	1,040.0	509.7	41.8	48.0	4,408.3
Recognised on business combinations	62.1	1.9	0.5	5.1	-	0.2	69.8
Additions	-	-	-	-	41.0	5.0	46.0
Business divestments	(424.6)	(851.7)	(616.4)	(193.5)	(10.5)	(17.2)	(2,113.9)
Derecognitions and disposals	-	-	-	-	-	(13.6)	(13.6)
Foreign exchange adjustments	(17.7)	(28.0)	6.0	4.1	(1.5)	(1.3)	(38.4)
At 31 December 2021	**919.7**	**591.1**	**430.1**	**325.4**	**70.8**	**21.1**	**2,358.2**
Additions	**-**	**-**	**-**	**-**	**28.8**	**5.4**	**34.2**
Business divestments	**(93.6)**	**(28.7)**	**(19.4)**	**(24.1)**	**-**	**(5.3)**	**(171.1)**
Reclassified as held for sale	**(309.0)**	**(175.3)**	**(105.7)**	**(81.5)**	**(22.4)**	**(2.0)**	**(695.9)**
Foreign exchange adjustments	**(8.5)**	**(8.2)**	**(4.7)**	**(1.5)**	**(0.2)**	**(6.8)**	**(29.9)**
At 31 December 2022	**508.6**	**378.9**	**300.3**	**218.3**	**77.0**	**12.4**	**1,495.5**
Accumulated amortisation and impairment							
At 1 January 2021	-	70.0	75.6	87.6	-	22.3	255.5
Amortisation charge for the year	-	34.3	44.1	53.4	1.0	9.5	142.3
Eliminated on business divestments	-	(38.4)	(36.2)	(38.6)	-	(14.4)	(127.6)
Derecognitions and disposals	-	-	-	-	-	(13.6)	(13.6)
Foreign exchange adjustments	-	-	-	-	-	(0.7)	(0.7)
At 31 December 2021	**-**	**65.9**	**83.5**	**102.4**	**1.0**	**3.1**	**255.9**
Amortisation charge for the year	**-**	**29.1**	**36.3**	**41.5**	**9.1**	**6.2**	**122.2**
Eliminated on business divestments	**-**	**(3.2)**	**(5.5)**	**(7.2)**	**-**	**-**	**(15.9)**
Reclassified as held for sale	**-**	**(24.1)**	**(24.2)**	**(27.0)**	**-**	**(2.0)**	**(77.3)**
Foreign exchange adjustments	**-**	**-**	**-**	**0.2**	**0.1**	**(6.1)**	**(5.8)**
At 31 December 2022	**-**	**67.7**	**90.1**	**109.9**	**10.2**	**1.2**	**279.1**
Carrying amount							
At 31 December 2022	**508.6**	**311.2**	**210.2**	**108.4**	**66.8**	**11.2**	**1,216.4**
At 31 December 2021	919.7	525.2	346.6	223.0	69.8	18.0	2,102.3

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

Derecognition of intangible assets recognised on business combinations occurs when assets are fully amortised.

Goodwill

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

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

$m	2022	2021
Communications and Connectivity	**192.1**	201.3
Advanced Electronic Solutions	**316.5**	625.5
Aviation Services Australia	**-**	92.9
Total	**508.6**	919.7

Annual impairment review (key estimation uncertainty

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

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

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

Key assumptions

The calculation of recoverable value for CGUs based on value in use includes the following key assumptions:

- Cash flow forecasts prepared by management and reviewed by the Board covering a five year period, updated where appropriate for more recent forecasts. These forecasts take into account the current and expected economic environment including factors such as continued uncertainty, within some markets in which we operate. They also make assumptions about the demand for our products in our primary geographical markets, based on historic experience, available government spending and key current and future programme platforms. These cash flow projections do not include benefits or costs expected to arise from future restructuring or initiatives to enhance performance which have not yet commenced:
- Growth rates assumed after this period are based on long term GDP projections of the primary market for each business. The long term projections used are in the range 2.1% to 2.2% (2021: 1.8% to 2.5%);
- Cash flows are discounted using the Group's WACC, adjusted for country, cash flow and currency risks in the principal territories in which the CGU operates. These pre-tax discount rates are within the range 12.8% to 13.4% (2021: 8.7% to 11.1%); and
- Cash flows include the impact of working capital and fixed asset requirements.

Sensitivity analysis

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

CGU	Key financial assumptions	Cash flow dependencies	Sensitivity analysis
Communications and Connectivity			
	Projected cash flows for the next five years, with subsequent growth assumed at a rate of 2.2% were discounted at a pre-tax rate of 12.8%.	Cash flow projections assume growth in the satellite communications market for maritime products driven by availability of satellite capacity and aerospace products from regulatory changes and passenger connectivity demands.	If cash flows reduced by 20%, the discount rate increased by 200 basis points, or if the growth rate was zero, then no impairment losses would arise.
Advanced Electronic Solutions			
	Projected cash flows for the next five years, with subsequent growth assumed at a rate of 2.1% were discounted at a pre-tax rate of 13.4%.	Cash flow projections assume a production ramp up on development programmes and successful execution of order backlog.	If cash flows reduced by 20%, the discount rate increased by 200 basis points, or if the growth rate was zero, then no impairment losses would arise.

8. Property, plant and equipment

$m	2022	2021
Owned property, plant and equipment	**142.6**	377.7
Right-of-use assets	**73.6**	165.9
	216.2	543.6

Owned property, plant and equipment

$m	Land and buildings	Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Assets under construction	Total
Cost					
At 1 January 2021	158.3	323.9	48.2	42.5	572.9
Additions	4.7	40.6	7.9	22.9	76.1
Acquired with business combinations	0.1	1.6	0.8	-	2.5
Business divestments	(65.3)	(51.8)	(7.5)	(9.0)	(133.6)
Disposals	(0.1)	(0.2)	(0.2)	-	(0.5)
Reclassified as held for sale	-	-	-	-	-
Foreign exchange adjustments	(0.7)	(24.4)	(2.4)	(0.8)	(28.3)
Reclassifications	3.8	5.1	2.7	(11.6)	-
At 31 December 2021	**100.8**	**294.8**	**49.5**	**44.0**	**489.1**
Additions	**5.5**	**60.4**	**1.1**	**23.9**	**90.9**
Business divestments	**(8.3)**	**(177.2)**	**(10.2)**	**(13.4)**	**(209.1)**
Disposals	**(0.2)**	**(13.6)**	**(3.4)**	**(0.3)**	**(17.5)**
Reclassified as held for sale	**(45.9)**	**(66.4)**	**(14.0)**	**(6.4)**	**(132.7)**
Foreign exchange adjustments	**(4.9)**	**(26.4)**	**(3.4)**	**(2.3)**	**(37.0)**
Reclassifications	**17.7**	**10.6**	**12.1**	**(40.4)**	**-**
At 31 December 2022	**64.7**	**82.2**	**31.7**	**5.1**	**183.7**
Accumulated depreciation					
At 1 January 2021	10.8	46.4	9.9	-	67.1
Depreciation charge for the year	7.9	67.8	9.3	-	85.0
Eliminated on business divestments	(7.0)	(11.6)	(3.0)	-	(21.6)
Foreign exchange adjustments	(0.7)	(17.0)	(1.4)	-	(19.1)
At 31 December 2021	**11.0**	**85.6**	**14.8**	**-**	**111.4**
Depreciation charge for the year	**20.4**	**25.6**	**7.4**	**-**	**53.4**
Eliminated on business divestments	**(5.2)**	**(48.4)**	**(1.3)**	**-**	**(54.9)**
Eliminated on disposals	**(0.1)**	**(13.4)**	**(2.6)**	**-**	**(16.1)**
Reclassified as held for sale	**(7.4)**	**(25.3)**	**(3.6)**	**-**	**(36.3)**
Foreign exchange adjustments	**(0.6)**	**(13.6)**	**(2.2)**	**-**	**(16.4)**
At 31 December 2022	**18.1**	**10.5**	**12.5**	**-**	**41.1**
Carrying amount					
At 31 December 2022	**46.6**	**71.7**	**19.2**	**5.1**	**142.6**
At 31 December 2021	89.8	209.2	34.7	44.0	377.7

Land and buildings above include freehold land and buildings with a carrying value of $17.9m (2021: $65.0m) and improvements to leasehold land and buildings of $20.7m (2021: $24.8m) respectively.

At 31 December 2022, the Group had commitments for the acquisition of property, plant and equipment of $2.7m (2021: $25.1m).

Right-of-use assets

$m	Land and buildings	Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Total
At 1 January 2021	118.1	45.8	0.8	164.7
Additions	13.6	28.0	0.7	42.3
Acquired with business combinations	4.7	-	-	4.7
Business divestments	(5.0)	(2.5)	(0.3)	(7.8)
Disposals	(0.1)	(1.8)	-	(1.9)
Depreciation	(19.5)	(11.4)	(0.7)	(31.6)
Foreign exchange adjustments	(1.3)	(3.0)	(0.2)	(4.5)
At 31 December 2021	**110.5**	**55.1**	**0.3**	**165.9**
Additions	**8.6**	**25.7**	**0.3**	**34.6**
Business divestments	**-**	**(72.8)**	**(0.2)**	**(73.0)**
Disposals	**(7.9)**	**-**	**(0.1)**	**(8.0)**
Reclassified as held for sale	**(15.9)**	**(0.1)**	**-**	**(16.0)**
Depreciation	**(21.1)**	**(0.4)**	**-**	**(21.5)**
Foreign exchange adjustments	**(0.9)**	**(7.5)**	**-**	**(8.4)**
At 31 December 2022	**73.3**	**-**	**0.3**	**73.6**

9. Investment properties

$m	2022	2021
Carrying amount at 1 January	**-**	2.8
Depreciation	**-**	(0.1)
Disposals	**-**	(2.7)
Carrying amount at 31 December	**-**	-

10. Inventories

$m	2022	2021
Raw materials and consumables	**98.5**	166.4
Work in progress	**22.0**	38.5
Finished goods and goods for resale	**48.4**	44.7
Allowance for obsolescence	**(22.9)**	(51.7)
	146.0	197.9

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

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

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

The amount provided in the year represents the outcome of the key sensitivity, being changes in forecast customer demand against which production has been planned or undertaken. A 10% deterioration in the assumed immediate forecast demand would lead to an increased provision in the order of $5m (2021: $4m).

11. Financial instruments

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

$m		Note	At amortised cost	Fair value through profit or loss	Total carrying amount	Fair value
Financial assets						
	Contract assets	12	**82.6**	-	**82.6**	**82.6**
	Trade receivables	13	**56.6**	**-**	**56.6**	**56.6**
	Other receivables	13	**15.1**	**-**	**15.1**	**15.1**
	Cash and cash equivalents		**232.6**	**-**	**232.6**	**232.6**
	Derivative contracts (not hedge accounted)	19	**-**	**0.9**	**0.9**	**0.9**
Financial liabilities						
	Borrowings	15	**(2,129.3)**	**-**	**(2,129.3)**	**(2,129.3)**
	Trade payables	17	**(106.3)**	**-**	**(106.3)**	**(106.3)**
	Accruals	17	**(60.6)**	**-**	**(60.6)**	**(60.6)**
	Other financial liabilities	17	**(64.8)**	**-**	**(64.8)**	**(64.8)**
	Derivative contracts (not hedge accounted)	19	**-**	**(1.2)**	**(1.2)**	**(1.2)**
Net financial liabilities at 31 December 2022			**(1,974.1)**	**(0.3)**	**(1,974.4)**	**(1,974.4)**
Financial assets						
	Contract assets	12	151.3	-	151.3	151.3
	Trade receivables	13	147.8	-	147.8	147.8
	Loans and other receivables	13	27.2	-	27.2	27.2
	Cash and cash equivalents		279.2	-	279.2	279.2
	Derivative contracts (not hedge accounted)	19	-	2.2	2.2	2.2
Financial liabilities						
	Borrowings	15	(2,266.6)	-	(2,266.6)	(2,266.6)
	Trade payables	17	(114.8)	-	(114.8)	(114.8)
	Accruals	17	(102.6)	-	(102.6)	(102.6)
	Other financial liabilities	17	(84.4)	-	(84.4)	(84.4)
	Derivative contracts (not hedge accounted)	19	-	(2.9)	(2.9)	(2.9)
Net financial liabilities at 31 December 2021			(1,962.9)	(0.7)	(1,963.6)	(1,963.6)

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

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

Offsetting financial assets and liabilities

Cash and cash equivalents as shown in the Balance Sheet include overdraft balances on currency cash pooling accounts which have been offset as the accounts will be settled on a net basis as described in note 21. In addition, master netting agreements also cover all bank balances and derivative balances with the same counterparty. These master netting agreements do not meet the criteria for offsetting because the right to offset is only enforceable on the occurrence of future events such as a default and amounts presented in the Balance Sheet are therefore presented on a gross basis.

If full offsetting by counterparty were to be applied, the resulting net amounts would be as follows:

$m	Gross amounts before set off	Amounts set off in the Balance Sheet	Amounts as presented in the Balance Sheet	Amounts not set off in the Balance Sheet	Net amount
Financial assets					
Cash and cash equivalents	**446.5**	**(213.9)**	**232.6**	**-**	**232.6**
Derivative financial assets	**0.9**	**-**	**0.9**	**(0.9)**	**-**
Financial liabilities					
Bank overdrafts	**(213.9)**	**213.9**	**-**	**-**	**-**
Derivative financial liabilities	**(1.2)**	**-**	**(1.2)**	**0.9**	**(0.3)**
At 31 December 2022	**232.3**	**-**	**232.3**	**-**	**232.3**
Financial assets					
Cash and cash equivalents	808.6	(529.4)	279.2	-	279.2
Derivative financial assets	2.2	-	2.2	(1.6)	0.6
Financial liabilities					
Bank overdrafts	(618.5)	529.4	(89.1)	-	(89.1)
Derivative financial liabilities	(2.9)	-	(2.9)	1.6	(1.3)
At 31 December 2021	189.4	-	189.4	-	189.4

12. Contract balances

Contract assets

$m	2022	2021
Within current assets	**80.6**	101.4
Within non-current assets	**2.0**	49.9
	82.6	151.3

$m	2022	2021
Unbilled amounts related to goods and services transferred	**82.6**	144.4
Costs to fulfil a contract	**-**	6.9
	82.6	151.3

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 contracts often have milestone payments conditional on customer acceptances on progress. During the year, $75.9m (2021: $72.6m) of the contract assets as at the beginning of the year were transferred to trade receivables and $68.8m (2021: $98.3m) related to businesses divested during the year; additional amounts of $26.7m (2021: $71.7m) were recognised as a contract asset during the year as a result of changes in the measure of progress of the satisfaction of performance obligations.

Costs to fulfil a contract relate to costs incurred in advance of the commencement of delivering performance obligations to the customer on service delivery contracts.

Contract liabilities

$m	2022	2021
Advance payments from customers	**38.4**	76.6
Expected refunds to customers	**0.6**	3.1
	39.0	79.7

Advance payments from customers relate to amounts received prior to transferring goods or services to the customer. $20.5m of the opening balance related to businesses divested during the year.

13. Trade and other receivables

Current

$m	2022	2021
Trade receivables (net of allowance for expected credit losses)	**56.4**	147.6
Other receivables	**11.3**	15.3
Prepayments	**20.7**	24.7
	88.4	187.6

Non-current

$m	2022	2021
Trade receivables (net of allowance for expected credit losses)	**0.2**	0.2
Other receivables	**3.8**	11.9
	4.0	12.1

Impairment of trade receivables

$m	2022	2021
Trade receivables	**58.5**	149.7
Allowance for expected credit losses	**(1.9)**	(1.9)
Net trade receivables	**56.6**	147.8

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

$m	2022	2021
At 1 January	**(1.9)**	(3.6)
Additional provision for expected credit losses	**(2.5)**	(3.1)
Trade receivables written off during the year	**1.3**	-
Unused amounts reversed	**1.0**	4.0
Business divestments	**-**	0.8
Reclassified as held for sale	**0.2**	-
At 31 December	**(1.9)**	(1.9)

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

The Group has limited exposure to credit risk and has not experienced significant levels of credit losses during the current or previous years. At 31 December 2022, provisions for expected credit losses were required for 3% (2021: 1%) of gross trade receivables. Information concerning management of credit risk is shown in note 21. A significant proportion of the Group's business is directly with government agencies or in respect of large government funded military programmes, where credit risk is considered to remain low.

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

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

As at 31 December 2022, the balances of derecognised factored receivables of the Group amounted to $155.4m (2021: $91.6m) and they were structured by currency as follows:

$m	2022	2021
US Dollars	**148.2**	80.8
Euro	**7.2**	10.8
	155.4	91.6

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

In September 2022, an agreement to sell the CAES Space business was agreed, subject to regulatory approvals. As a result the assets and liabilities of those businesses were classified as held for sale as at 31 December 2022. They were measured on a non-recurring basis at amortised cost.

$m	2022	2021
Property, plant and equipment	**112.4**	-
Intangible assets	**618.6**	-
Current tax	**19.1**	-
Inventories	**65.4**	-
Contract assets	**79.3**	-
Trade and other receivables	**83.8**	-
Cash and cash equivalents	**2.7**	-
Total assets classified as held for sale	**981.3**	-
Trade payables and other liabilities	**(52.7)**	-
Lease obligations	**(21.5)**	-
Contract liabilities	**(20.8)**	-
Current tax	**(0.1)**	-
Deferred tax	**(39.5)**	-
Provisions	**(3.5)**	-
Total liabilities associated with assets classified as held for sale	**(138.1)**	-
Total held for sale	**843.2**	-

There were no non-current assets or disposal groups held for sale at 31 December 2021.

15. Borrowings

$m	2022	2021
Current borrowings		
Bank overdrafts	-	89.1
Bank loans	7.7	7.7
	7.7	96.8
Non-current borrowings		
Bank loans	2,121.6	2,169.8
	2,121.6	2,169.8
Total borrowings	2,129.3	2,266.6

Bank loans

Bank loans comprise the following:

$m	Agreement date	Maturity date	2022	2021
Floating rates				
1st Lien 7 year Term Loan of US$1,188m at inception	17 January 2020	17 January 2027	703.9	708.0
2nd Lien 8 year Term Loan of US$672m at inception	17 January 2020	17 January 2028	647.4	643.5
1st Lien 7 year Term Loan of €885m at inception	17 January 2020	17 January 2027	778.0	826.0
			2,129.3	2,177.5

Floating rate bank loans accrue interest at LIBOR or other appropriate benchmark plus margin. The LIBOR rates used by the Group in respect to borrowings continue to be in use at 31 December 2022. We are discussing the impact of IBOR Reform with our lenders to determine appropriate alternative US dollar benchmark rates.

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

Other borrowings

Other borrowings comprise the following:

			Amount drawn		Undrawn facilities	
$m	Agreement date	Maturity date	2022	2021	2022	2021
Floating rates						
1st Lien 5.5 year Revolving Credit Facility of US$350m	17 January 2020	17 July 2025	-	-	350.0	350.0
			-	-	350.0	350.0

During the year ended 31 December 2022, $148.4m was drawn down under the Revolving Credit Facility which was all repaid during the year.

Reconciliation of movements in net debt

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

			Liabilities from financing activities			
$m	Cash and cash equivalents	Bank overdrafts	Bank loans	Other borrowings	Lease obligations	Net debt
At 1 January 2021	389.4	(79.2)	(3,095.4)	-	(184.8)	(2,970.0)
Acquired on business combination	-	-	-	-	(4.7)	(4.7)
Divested	-	-	-	-	7.9	7.9
Net flows cash and cash equivalents and bank overdrafts	(105.9)	(9.9)	-	-	-	(115.8)
New borrowings	-	-	(225.0)	-	(38.4)	(263.4)
Repayment of borrowings	-	-	1,081.5	-	32.9	1,114.4
Other lease changes	-	-	-	-	(1.2)	(1.2)
Amortisation of capitalised interest charges	-	-	(12.5)	-	-	(12.5)
Foreign exchange adjustments	(4.3)	-	73.9	-	4.4	74.0
At 31 December 2021	279.2	(89.1)	(2,177.5)	-	(183.9)	(2,171.3)
Divested	-	-	-	-	61.0	61.0
Net flows cash and cash equivalents and bank overdrafts	(38.9)	89.1	-	-	-	50.2
New borrowings	-	-	-	(148.4)	(31.0)	(179.4)
Repayment of borrowings	-	-	7.7	148.4	36.3	192.4
Other lease changes	-	-	-	-	(1.2)	(1.2)
Amortisation of capitalised interest charges	-	-	(10.3)	-	-	(10.3)
Transfer to Held for Sale	(2.7)	-		-	21.5	18.8
Foreign exchange adjustments	(5.0)	-	50.8	-	8.1	53.9
At 31 December 2022	232.6	-	(2,129.3)	-	(89.2)	(1,985.9)

During the year ended 31 December 2022, $7.7m in respect of the 1st Lien US$ loan was repaid. During the year ended 31 December 2021, an additional $225.0m was borrowed in respect of the 1st Lien US$ loan; $829.5m of bank loans were repaid ($664.9m in respect of the 1st Lien US$ loan and $164.6m in respect of the 1st Lien € loan).

Cash and cash equivalents

Cash and cash equivalents comprise balances at banks which earn interest based on floating daily bank rates. Cash and cash equivalents on the Balance Sheet include $9.0m restricted cash which is held for specific purposes and can only be accessed in certain situations.

Financial covenants

The various borrowing agreements include both financial and non-financial covenants and are secured by various Group assets. Terms of the financial covenants are based on adjusted IFRS results, as defined in the agreements. There have been no breaches of the terms of the borrowing agreements or defaults during the year.

16. Lease obligations

The Group had the following lease obligations as lessee:

$m	2022	2021
Current	12.5	30.7
Non-current	76.7	153.2
	89.2	183.9

Other information related to leases:

$m	2022	2021
Interest on lease liabilities	9.5	10.2
Expenses related to short-term leases	0.1	1.4
Expenses related to leases of low value assets	1.4	1.6

The Group has no material leases which include extension or termination options.

17. Trade and other payables

Current liabilities

$m	2022	2021
Trade payables	105.3	114.8
Other taxes and social security	7.3	23.1
Accruals	59.4	99.1
Other liabilities	64.8	82.6
	236.8	319.6

Included in other liabilities are interest accruals of $40.9m (2021: $25.1m) on borrowings.

Non-current liabilities

$m	2022	2021
Trade payables	1.0	-
Accruals	1.2	3.5
Other liabilities	-	2.3
	2.2	5.8

18. Provisions

$m	2022	2021
Current liabilities	**15.2**	26.0
Non-current liabilities	**8.9**	14.2
	24.1	40.2

Movements in provisions during the year are as follows:

$m	Contract loss provisions	Provisions related to businesses divested	Restructuring provisions	Warranty claims	Other	Total
At 1 January 2021	107.8	0.9	15.8	17.4	19.2	161.1
Additional provisions in the year	29.1	-	4.1	3.6	3.9	40.7
Utilisation of provisions	(67.2)	(0.1)	(3.4)	(3.4)	(3.6)	(77.7)
Provisions released	(0.1)	-	-	(0.3)	(0.2)	(0.6)
Business divestments	(63.5)	-	(5.6)	(11.2)	(2.6)	(82.9)
Foreign exchange adjustments	0.5	-	(0.2)	(0.3)	(0.4)	(0.4)
At 31 December 2021	**6.6**	**0.8**	**10.7**	**5.8**	**16.3**	**40.2**
Additional provisions in the year	**6.1**	**-**	**13.4**	**3.7**	**10.9**	**34.1**
Utilisation of provisions	**(10.0)**	**-**	**(9.2)**	**(2.9)**	**(6.5)**	**(28.6)**
Provisions released	**-**	**(0.7)**	**(4.4)**	**-**	**(2.6)**	**(7.7)**
Business divestments	**-**	**-**	**-**	**-**	**(9.8)**	**(9.8)**
Reclassified as held for sale	**(1.6)**	**-**	**-**	**(0.5)**	**(1.4)**	**(3.5)**
Foreign exchange adjustments	**0.1**	**(0.1)**	**0.5**	**(0.1)**	**(1.0)**	**(0.6)**
At 31 December 2022	**1.2**	**-**	**11.0**	**6.0**	**5.9**	**24.1**

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

The remaining balance at 31 December 2022 is expected to be utilised within one year although, where there are uncertainties surrounding the timing of utilisation, they have been disclosed as current liabilities.

There are multiple sensitivities to be considered in assessing contract loss provisions, in particular the ability to achieve development milestone dates, the accuracy of cost estimates to complete contractual work and the ability to successfully invoice and collect cash from the end customer. It is not considered practical to provide sensitivities for each of these items, and potentially misleading to suggest each one can be considered separately, so this risk is disclosed as part of our contingent liabilities in note 27.

Other categories of provisions
Restructuring provisions relate to restructuring projects announced in the year and prior periods including onerous lease commitments. Amounts carried forward are expected to be fully utilised within three years.

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

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

19. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

$m	Foreign exchange derivatives - not hedged	Total
Non-current assets	**0.2**	**0.2**
Current assets	**0.7**	**0.7**
Current liabilities	**(1.2)**	**(1.2)**
Fair value at 31 December 2022	**(0.3)**	**(0.3)**
Current assets	2.2	2.2
Current liabilities	(2.9)	(2.9)
Fair value at 31 December 2021	(0.7)	(0.7)

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

$m	Foreign exchange derivatives - not hedged	Total
At 1 January 2021	9.6	9.6
Loss through income statement - not hedged	(10.4)	(10.4)
Foreign exchange adjustments	0.1	0.1
At 31 December 2021	**(0.7)**	**(0.7)**
Gain through income statement - not hedged	**0.4**	**0.4**
At 31 December 2022	**(0.3)**	**(0.3)**

There were no net foreign exchange derivative hedging instruments at 31 December 2022 or 31 December 2021.

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the accounting policies in note 1 and in note 21, financial risk management.

20. Retirement benefit schemes

$m	2022	2021
Defined benefit scheme assets	**683.2**	1,311.5
Defined benefit obligations	**(651.8)**	(1,124.7)
	31.4	186.8

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

$m	2022	2021*
Defined benefit schemes	**-**	-
Defined contribution schemes	**14.1**	20.3
	14.1	20.3

* Re-presented to reflect the change in presentation of discontinued operations on a basis consistent with the current year as set out in Note 1.

An amount of $Nil (2021: $1.5m) was outstanding in respect of defined benefit schemes but not due for payment at 31 December. In addition, $2.4m (2021: $2.3m) was outstanding in respect of defined contribution schemes but not due for payment at 31 December.

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

Defined benefit schemes
The Group acquired a number of funded defined benefit schemes (where benefits are based on employees' length of service and average final salary) with the purchase of Cobham plc in the year ending 31 December 2020, the most significant being the Cobham Pension Plan (CPP) which had a significant historic actuarial deficit. The assets of all of these schemes are held separately from those of the Group in funds under the control of trustees. However, the Group is ultimately responsible for funding any shortfall in the obligations of the schemes to their members. All defined benefit schemes have been closed to new members since 2003 and closed to future accrual from 1 April 2016.

Key events
During the year ended 31 December 2022 the Trustees of the CPP purchased into a bulk annuity insurance policy (a so-called buy-in agreement) from Standard Life to insure the remaining uninsured Plan liabilities. As a result of the buy-in, a significant portion of the Plan investments were transferred to Standard Life in return for this insurance policy. The Trustees and the Company agreed a new Schedule of Contributions to stop payment contributions from 1 April 2022 and to instead pay £1.25m a month into an investment vehicle, controlled by the Group, but over which the Trustees of the CPP had a call under certain circumstances. Payments to this investment vehicle ceased in August as a result of the buy-in agreement with Standard Life.

During the year ending 31 December 2021, the Group contributed £15.0m ($20.6m) to the CPP in accordance with the Schedule of Contributions in force during the year and, in addition, further contributions of $107.6m were paid as the Group sought to provide additional funding to the pension plan.

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

The trustees have fully managed these risks through the buy-in arrangements, under which the CPP's assets have been 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, except for the credit risk related to the insurance provider. The most significant buy-in arrangement took place in 2022 which insured member liabilities not previously covered by previous buy-in arrangements. The insurance policies are held with large, investment grade companies, Standard Life and Rothesay Life.

Actuarial valuations

Actuarial valuations of the present value of the defined benefit obligations for the CPP are carried out on a triennial basis by qualified independent actuaries; the most recent valuation was as at 1 April 2021 recording a deficit of $101.5m (before the additional employer contributions of $107.6m). Actuarial valuations of other schemes have been carried out at regular intervals as required by the applicable country regulations. In the UK, within 15 months of each triennial valuation, the employer and the trustees are required to agree a schedule of contributions to ensure that the plan is fully funded over time on a suitably prudent basis. The valuation of plan liabilities for triennial valuations are on a more prudent basis than that required by IAS 19 and therefore the schedule of contributions will address a higher deficit than that recorded on an IAS 19 basis. As a result of the purchase of the buy-in policies referred to above the Group no longer expects to make contributions to the Defined Benefit Schemes.

The actuarial valuations for all schemes were updated for accounting purposes to 31 December 2022 by qualified independent actuaries.

Assumptions (source of estimation uncertainty)

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

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

	2022	2021
RPI inflation assumption (rate of increase in pensions in payment unless overridden by specific scheme rules)	**3.25%**	3.30%
CPI inflation assumption (rate of increase in deferred pensions)	**2.65%**	2.65%
Discount rate	**5.00%**	1.80%

The mortality assumptions used for the CPP are based upon actuarial tables which reflect actual recent mortality experience and also allow for future mortality improvements. The mortality tables used to estimate life expectancy are known as 'SAPS CMI 20', adjusted to seek to remove the exceptional impact of the Covid-19 pandemic. In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Further life expectancy
Male	1957	2022	21.8 years
Female	1957	2022	23.6 years

At 31 December 2022, it has been assumed that members will commute on average 25% of their pension for cash at retirement.

Sensitivity analysis

As a result of the purchase of insurance policies during the year, which now substantially mitigate the historic risks experienced by the Group, the net liabilities are not materially impacted by changes in the discount rate, inflation rate or life expectancy.

Movements in scheme assets and scheme liabilities

A summary of the movements in the CPP's net assets and the amounts recognised in the Income Statement and OCI are as follows:

$m	Scheme assets	Defined benefit obligations	Total
At 1 January 2021	1,283.9	(1,264.4)	19.5
Scheme administration expenses	(0.1)	-	(0.1)
Amounts recognised in operating profit	(0.1)	-	(0.1)
Net interest	18.7	(17.3)	1.4
Amounts credited/(charged) to other finance expense	18.7	(17.3)	1.4
Actual return less interest income on pension scheme assets	(31.2)	-	(31.2)
Actuarial gains and losses arising from changes in financial assumptions	-	26.7	26.7
Actuarial gains arising from changes in demographic assumptions	-	24.9	24.9
Amounts recognised in OCI	(31.2)	51.6	20.4
Employer contributions	128.2	-	128.2
Benefits paid	(47.7)	47.7	-
Amounts included in Cash Flow Statement	80.5	47.7	128.2
Assets and obligations transferred on disposal of subsidiary	(26.8)	47.7	20.9
Exchange differences	(13.5)	10.0	(3.5)

At 31 December 2021	**1,311.5**	**(1,124.7)**	**186.8**
Scheme administration expenses	**(0.1)**	**-**	**(0.1)**
Amounts recognised in operating profit	**(0.1)**	**-**	**(0.1)**
Net interest	**21.3**	**(18.2)**	**3.1**
Amounts credited/(charged) to other finance expense	**21.3**	**(18.2)**	**3.1**
Actual return less interest income on pension scheme assets	**(480.3)**	**-**	**(480.3)**
Actuarial gains and losses arising from changes in financial assumptions	**-**	**336.6**	**336.6**
Actuarial gains arising from changes in demographic assumptions	**-**	**(2.4)**	**(2.4)**
Amounts recognised in OCI	**(480.3)**	**334.2**	**(146.1)**
Employer contributions	**4.7**	**-**	**4.7**
Benefits paid	**(41.1)**	**41.1**	**-**
Amounts included in Cash Flow Statement	**(36.4)**	**41.1**	**4.7**
Exchange differences	**(132.8)**	**115.8**	**(17.0)**
At 31 December 2022	**683.2**	**(651.8)**	**31.4**

The actual loss on scheme assets was $459.0m (2021: $12.5m).

The actuarial loss for accounting purposes in 2022 reflects the purchase of a bulk annuity insurance policy (a so-called buy-in agreement) in return for scheme investments. The actuarial liability used to value the insurance policy is on a more prudent basis than the liability calculated in accordance with IAS 19. The weighted average duration of the scheme liabilities is estimated to be 13 years.

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

	2022		2021	
	$m	**%**	$m	%
Insurance contracts	**647.0**	**94.7%**	350.0	26.7%
Credit based investments	**20.2**	**3.0%**	112.1	8.6%
Other assets including cash	**10.9**	**1.6%**	5.6	0.4%
Government bonds	**5.1**	**0.7%**	-	-
Liability driven investments	**-**	**-**	513.2	39.1%
Global equities	**-**	**-**	149.7	11.4%
Diversified growth funds	**-**	**-**	117.2	8.9%
Corporate bonds	**-**	**-**	63.7	4.9%
	683.2	**100.0%**	1,311.5	100.0%

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

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

	2022		2021	
$m	Assets	Liabilities	Assets	Liabilities
French indemnity schemes	**-**	**(2.0)**	-	(5.5)
US based schemes (Rabbi Trusts)	**2.8**	**(2.8)**	1.8	(1.8)
	2.8	**(4.8)**	1.8	(7.3)

21. Financial risk management

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

Foreign currency risk
Foreign currency risk exposure and risk management strategy
The Group reports in US Dollars and has significant investment in overseas operations in Europe; during the year it also had operations in Australia. As a result, the Group's Balance Sheet, including the net debt position, can be affected by movements in these countries' exchange rates. The Group's policy is to reduce, or eliminate where practical, both structural and transactional foreign exchange risk and, consequently, the net foreign exchange gains and losses included in the Income Statement amounted to a loss of $9.7m (2021: $7.2m). The Group undertakes to manage the currency mix of debt and EBITDA so that they are broadly in line to mitigate the impact of currency fluctuations on the net debt to EBITDA financial

covenant. All currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by appropriate management.

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

	2022		2021	
$m	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
UK Sterling	**20.2**	**(6.3)**	89.7	(8.3)
Euro	**17.3**	**(826.1)**	37.8	(934.2)
Australian dollars	**0.1**	**-**	64.2	(75.2)
Danish kroner	**4.4**	**(30.3)**	7.7	(40.4)
Other currencies	**4.2**	**(6.7)**	16.6	(8.7)
	46.2	**(869.4)**	216.0	(1,066.8)
US Dollar denominated monetary assets and liabilities	**362.5**	**(1,588.4)**	414.2	(1,736.4)
	408.7	**(2,457.8)**	630.2	(2,803.2)

Foreign currency borrowings are used to mitigate the impact of foreign currency exchange differences arising from the Group's overseas net assets. Monetary liabilities in the table above include Euro borrowings of $778.0m (2021: $826.0m) which match exposures arising from Euro-denominated net assets.

On consolidation, the net assets of overseas subsidiaries (which include the monetary assets and liabilities shown in the table above) are translated at closing exchange rates and exchange differences arising are accounted for in OCI through the translation reserve (note 23).

Foreign currency derivative contracts are also used to manage exposure to currency risks as detailed below.

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

Each business assesses its transactional exposure and hedges forecast exposures where appropriate up to 100% for a period of up to 12 months. Firm exposures on long term contracts would normally be fully hedged. For shorter cycle businesses, the profile of hedging is based on customer commitments which are subject to approval by the CFO. Where forecasted currency cash flows do not arise this will result in increased income statement exposure to foreign currency exchange differences. These are however managed at a Group level and mitigating action is taken where possible. Hedge accounting is not applied for these forward foreign exchange contracts.

In respect of using forward foreign exchange contracts, the most important exchange rates for the Group in the year ending 31 December 2022 were US dollar/Euro and US dollar/South African Rand. In the year ending 31 December 2021, the most important exchange rates were Euro/US dollar and Danish Kroner/US dollar. The Group had the following forward foreign currency contracts outstanding at the respective year ends:

	US$m amount		Average US$: Euro exchange rate	
US$/Euro contracts outstanding at 31 December	**2022**	2021	**2022**	2021
Expiring within one year	**42.0**	35.7	**1.09**	1.14
Expiring within one to two years	**-**	1.2	**-**	1.15
Total	**42.0**	36.9	**1.09**	1.14

	US$m amount		Average US$: SA Rand exchange rate	
US$/South African Rand contracts outstanding at 31 December	**2022**	2021	**2022**	2021
Expiring within one year	**29.3**	15.4	**17.17**	14.53
Expiring within one to two years	**10.9**	1.1	**17.88**	15.37
Total	**40.2**	16.5	**17.36**	14.58

	US$m amount		Average US$: Danish kroner exchange rate	
US$/Danish kroner contracts outstanding at 31 December	**2022**	2021	**2022**	2021
Expiring within one year	**-**	21.0	**-**	6.42
Total	**-**	21.0	**-**	6.42

The latest expiry date of forward foreign currency contracts for sales of US dollars is May 2024 and it is the Group's current belief that the net dollar receipts by subsidiaries will exceed the level of the outstanding commitments.

Sensitivity analysis

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

$m	2022 Sensitivity	2022 Profit or loss	2022 Total equity	2021 Sensitivity	2021 Profit or loss	2021 Total equity
US dollars to Euro	**11%**	**3.8**	**3.8**	12%	3.8	3.8
US dollars to South African Rand	**22%**	**7.4**	**7.4**	20%	4.0	4.0
US dollars to Danish kroner	**11%**	**(2.1)**	**(2.1)**	9%	2.0	2.0
US dollars to Australian dollars	**N/A**	**-**	**-**	14%	(5.3)	(5.3)

Use of hedging
As detailed in note 19, the Group uses net investment hedging to manage its exposure to foreign exchange risk related to the functional currency of foreign operations. Exposure to foreign exchange risk arising out of the Group's foreign currency borrowings is also managed using cross-currency swaps designated as hedging instruments in a cash flow hedge. Further details on the use of foreign exchange derivative financial instruments in hedge relationships can be found in note 19.

Interest rate risk
The Group's exposure to inflation is considered to be a general business risk which is mitigated through normal commercial activity. The Group will use inflation swap contracts to manage these risks where considered appropriate. Inflation swap contracts have not been used during 2022 or 2021.

All floating rate borrowings have regular repricing dates.

$m	2022	2021
Floating rate borrowings		
Overdrafts	**-**	89.1
Bank loans	**2,129.3**	2,177.5
Total borrowings	**2,129.3**	2,266.6

If interest rates increased, or decreased by one percentage point, the Group's net interest expense would increase, or decrease by approximately $21m pa (2021: $23m pa).

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

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

As shown in note 15, at 31 December 2022, undrawn committed RCF facilities of $350m (2021: $350m) were available to the Group in various currencies.

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

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

$m	Within one year	1-2 years	2-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Borrowings					
Borrowings	**199.7**	**213.0**	**527.4**	**2,109.2**	**3,049.3**
Lease obligations	**14.4**	**21.0**	**42.3**	**28.7**	**106.4**
Trade and other payables	**226.8**	**1.4**	**1.6**	**-**	**229.8**
At 31 December 2022	**440.9**	**235.4**	**571.3**	**2,137.9**	**3,385.5**
Derivative liabilities					
Foreign exchange derivatives					
Gross cash outflows	**64.9**	**-**	**-**	**-**	**64.9**
Gross cash inflows	**(63.4)**	**-**	**-**	**-**	**(63.4)**
At 31 December 2022	**1.5**	**-**	**-**	**-**	**1.5**
Borrowings	210.1	133.8	399.4	2,221.5	2,964.8
Lease obligations	37.5	32.2	79.6	52.2	201.5
Trade and other payables	341.5	12.0	1.6	1.3	356.4
At 31 December 2021	589.1	178.0	480.6	2,275.0	3,522.7
Derivative liabilities					
Foreign exchange derivatives					
Gross cash outflows	104.2	1.1	-	-	105.3
Gross cash inflows	(100.9)	(1.1)	-	-	(102.0)
At 31 December 2021	3.3	-	-	-	3.3

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

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

Concentrations of credit risk with respect to trade receivables are limited due to the Group having a large and diverse customer base. Customers are typically large global companies or government agencies with long-term trading relationships. The Group also has in place procedures that require appropriate credit checks on potential customers before sales are made and any requests for extended credit must be approved by senior management. Letters of credit are obtained where necessary from reputable banks and financial institutions. Existing customer accounts are monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. No further credit risk provision is required in addition to the provision for impaired receivables shown in note 13.

Group management monitors debtor days and the ageing of all overdue receivables on a regular basis. At 31 December 2022, 39.1% (2021: 38.3%) of gross trade receivables were overdue including 18.8% (2021: 11.5%) which were overdue by one month or more.

The maximum exposure to credit risk at 31 December 2022 is the fair value of financial assets as disclosed in note 11.

The Group has master netting arrangements in respect of bank balances in the UK. In the normal course of business, these bank accounts are settled on a net basis within each currency and as such are presented net in the Balance Sheet as shown in note 15. In the event of an automatic enforcement event, the bank balances are set off against each other to achieve a net position. Derivatives can also be offset by counterparties in the event of a default; net amounts that result on this basis are shown in note 11.

Inflation risk
The Group's exposure to inflation is considered to be a general business risk which is mitigated through normal commercial activity. The Group will use inflation swap contract to manage these risks where considered appropriate. Inflation swap contracts have not been used during 2022 or 2021.

Capital risk management
Capital is defined as total equity excluding non-controlling interests and amounted to $250.1m at 31 December 2022 (2021: $504.8m).

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

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

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

22. Share capital

Ordinary shares	2022 $m	2021 $m
Issued and fully paid		
1,500,100 shares of a nominal value of $1	**1.5**	1.5

	Number of shares	Share capital $m	Share premium $m
At 1 January 2021	1,500,100	1.5	1,064.4
Issued in the year	-	-	-
At 31 December 2021	**1,500,100**	**1.5**	**1,064.4**
Issued in the year	-	-	-
At 31 December 2022	**1,500,100**	**1.5**	**1,064.4**

Equity Preferred Certificates	2022 $m	2021 $m
Issued and fully paid		
958,004,535 shares of $1m par value	**56.2**	56.2
At 1 January	**56.2**	958.0
Repaid in the year	-	(901.8)
At 31 December	**56.2**	56.2

Share based compensation

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

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

There are no cash settlement alternatives. The Group accounts for the MEP as an equity-settled plan.

No expense was recognized for employee services received during 2022 or 2021 as the Company has determined that the subscription value of the shares does not differ materially from their market value.

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

	Number	WAEP ($)
At 1 January 2021	532,874	-
Granted during the year	73,155	0.34
Repurchased during the year	(31,254)	(0.01)
At 31 December 2021	**574,775**	**0.33**
Granted during the year	**92,223**	**0.19**
Repurchased during the year	**(125,402)**	**(0.30)**
At 31 December 2022	**541,596**	**0.29**
Exercisable at 31 December 2022	**541,596**	**0.29**

There were no cancellations or modifications to the awards in 2022 or 2021.

23. Other reserves

$m	Note	Translation reserve	Total other reserves
As at 1 January 2021		(22.6)	(22.6)
Foreign exchange differences on translation of overseas operations		33.4	33.4
Reclassification of foreign exchange on divestment of overseas operations	26	(6.2)	(6.2)
At 31 December 2021		**4.6**	**4.6**
Foreign exchange differences on translation of overseas operations		**(9.5)**	**(9.5)**
Transfer of hedge reserve to retained earnings	26	**3.2**	**3.2**
At 31 December 2022		**(1.7)**	**(1.7)**

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

24. Distributions made

$m	**2022**	2021
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2022: $nil per share (2021: $1,014.74 per share)	**-**	1,522.2
For the year ending 31 December	**-**	1,522.2

25. Business combinations

Business combinations in 2022

There were no business combinations in the year ending 31 December 2022.

Business combinations in 2021

In the year ending 31 December 2021, the Group acquired 100% of the voting shares of Colorado Engineering Inc, a company based in USA, which produces hardware and software solutions for commercial industry, for a net consideration of $76.1m, realising goodwill of $62.1m. Full details of the acquisition were reported in the Consolidated Financial Statements for the year ending 31 December 2021. These results were final and required no adjustments in the current year.

26. Business divestments

The Group completed the divestment of its Microwave business in March 2022 and its Aviation Services Australia business in October 2022, realising a total loss on divestments of $93.2m, including a net gain of $5.6m from prior year divestments, as follows:

$m	Microwave	Prior year divestments	**Total**	**Discontinued operation Aviation Services Australia**
Gross consideration	12.5	7.3	**19.8**	**211.2**
Net assets at date of divestment	(26.9)	-	**(26.9)**	**(273.0)**
Expenses of sale	(3.6)	(1.7)	**(5.3)**	**(17.4)**
Foreign exchange adjustments	(0.2)	0.3	**0.1**	**1.5**
Recycling of Translation reserves	(0.2)	(0.3)	**(0.5)**	**(2.7)**
Net loss on divestments before tax	**(18.4)**	**5.6**	**(12.8)**	**(80.4)**

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

$m	Microwave	Prior year divestments	**Total**	**Aviation Services Australia**
Cash consideration	12.5	7.3	**19.8**	**211.2**
Expenses of sale	(3.6)	(5.5)	**(9.1)**	**(17.4)**
Cash disposed	(0.9)	-	**(0.9)**	**(17.6)**
Net cash impact of divestments in current year	8.0	1.8	**9.8**	**176.2**

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

$m	Microwave	Prior year divestments	**Total**	**Aviation Services Australia**
At date of divestment				
Intangible assets	35.0	-	**35.0**	**120.2**
Property, plant and equipment	10.7	-	**10.7**	**216.5**
Contract assets	0.1	-	**0.1**	**5.8**
Inventories	12.1	-	**12.1**	**9.2**
Trade and other receivables	6.0	-	**6.0**	**43.2**
Deferred tax receivable	0.6	-	**0.6**	**(3.5)**
Corporate tax receivable	0.8	-	**0.8**	**-**
Cash and cash equivalents	0.9	-	**0.9**	**17.6**
Lease obligations	(1.2)	-	**(1.2)**	**(59.8)**
Trade and other payables	(25.7)	-	**(25.7)**	**(56.0)**
Current tax liabilities	-	-	**-**	**(5.7)**
Provisions	(0.6)	-	**(0.6)**	**(9.2)**
Deferred tax liabilities	(11.8)	-	**(11.8)**	**(5.3)**
Net assets divested	26.9	-	**26.9**	**273.0**

26a. Discontinued operations

The results for the year (and previous year) from discontinued operations was as follows:

$m	2022			2021			
	Aviation Services Australia*	**Advanced Electronic Solutions – Space***	**Total**	Mission Systems	Aviation Services Australia*	Advanced Electronic Solutions – Space*	Total
Revenue	**203.1**	**428.0**	**631.1**	273.0	233.6	393.1	899.7
Cost of sales	**(164.9)**	**(248.0)**	**(412.9)**	(188.1)	(208.3)	(239.4)	(635.8)
Gross profit	**38.2**	**180.0**	**218.2**	84.9	25.3	153.7	263.9
Operating costs	**(23.4)**	**(112.7)**	**(136.1)**	(34.4)	(27.5)	(112.2)	(174.1)
(Loss)/Profit on divestments	**(80.4)**	**-**	**(80.4)**	901.0	-	-	901.0
Operating profit	**(65.6)**	**67.3**	**1.7**	951.5	(2.2)	41.5	990.8
Finance income	**0.1**	**-**	**0.1**	0.3	-	-	0.3
Finance costs	**(3.0)**	**(23.3)**	**(26.3)**	-	(3.6)	(1.4)	(5.0)
Profit before taxation	**(68.5)**	**44.0**	**(24.5)**	951.8	(5.8)	40.1	986.1
Taxation	**(12.9)**	**13.3**	**0.4**	(307.9)	1.8	(2.4)	(308.5)
(Loss)/profit for the year	**(81.4)**	**57.3**	**(24.1)**	643.9	(4.0)	37.7	677.6
Attributable to:							
Owners of the parent	**(81.4)**	**57.3**	**(24.1)**	643.9	(4.0)	37.7	677.6
Non-controlling interests	**-**	**-**	**-**	-	-	-	-
	(81.4)	**57.3**	**(24.1)**	643.9	(4.0)	37.7	677.6

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

$m	2022			2021			
	Aviation Services Australia*	**Advanced Electronic Solutions – Space***	**Total**	Mission Systems	Aviation Services Australia*	Advanced Electronic Solutions – Space*	Total
Cash generated from operations	**59.6**	**65.0**	**124.6**	16.0	41.4	76.9	134.3
Net cash from operating activities	**56.4**	**30.5**	**86.9**	8.8	37.7	60.9	107.4
Net cash used in investing activities	**(50.6)**	**(15.4)**	**(66.0)**	(7.0)	(17.6)	(24.7)	(49.3)
Net cash used in financing activities (excluding intercompany dividends)	**(17.0)**	**(3.2)**	**(20.2)**	(0.7)	(10.6)	(3.3)	(14.6)

* The results for Aviation Services Australia covered the period January to October 2022 – the comparative period is for all of 2021. While the CAES Space business is classified as Discontinued Operations it was not divested until 9 January 2023 – the results presented are therefore for all of 2022 and 2021.

The results from discontinued operations in the year ending 31 December 2021 have been restated to include Aviation Services Australia which was divested in October 2022 and part of Advanced Electronic Solutions which was classified as Held for Sale at 31 December 2022, both of which are treated as discontinued operations in both the current and previous years.

The Microwave business in the current year and the Sliprings business in the previous year, were not treated as separate Cash Generating Units, nor considered by the Group as separate major lines of business. Accordingly, Microwave and Sliprings were not presented as a discontinued operation in the Consolidated Income Statement.

27. Contingent liabilities

The Group makes provisions when it is probable there will be a cash outflow to settle liabilities and it can be reliably estimated. Contingent liabilities are potential future cash outflows which are less certain or cannot be measured reliably. The disclosure below is intended to highlight potential risks that are not provided for in the Balance Sheet.

At 31 December 2022, the Company and the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the Group Financial Statements.

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

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

given performance undertakings to prospective customers, then a liability for losses consequent upon the failure to meet such undertakings could exist.

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

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

28. Related party transactions

Transactions between AI Convoy (Luxembourg) S.a.r.l. and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed. There were no material related party transactions during the periods covered by these Financial Statements.

Details of the compensation of key management personnel can be found in note 3.

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

29. Events after the balance sheet date

On 9 January 2023 the CAES Space business was sold for $1,673m. This business was treated as held for sale at 31 December 2022.

In late January and early February 2023, $579.1m of 1st lien US$ borrowings and $19.3m of 2nd lien US$ borrowings were repaid. This resulted in accelerated amortisation of $7.6m of capitalised interest in 2023.

On 3 March 2023 Herley Industries Inc. was acquired from Ultra Electronics Defense Inc. for $250m on a cash-free debt-free basis. This was funded by utilising part of the revolving credit facility.

30. Subsidiaries and other related undertakings

The Group operates through a number of subsidiary undertakings and a full listing of these as at 31 December 2022 is provided below. The Group owns 100% of the share capital of all subsidiaries with the exception of TEAM SA (99.64% owned).

Name of undertaking	Address of registered office or equivalent
Aeroflex LLC	Wilmington, USA
Aeroflex Test Solutions Limited	Bournemouth, England
AI Convoy Bidco Limited	Bournemouth, England
AI Convoy US Borrower LLC [1]	Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, USA
CAES Colorado Springs LLC [2]	Wilmington, USA
CAES Holdings LLC	Wilmington, USA
CAES Management Services LLC	Wilmington, USA
CAES Systems Holdings LLC	Wilmington, USA
CAES Systems LLC	Wilmington, USA
Cobham Aerospace Communications Dourdan SA	7 chemin de Vaubesnard, 91410 Dourdan, France
Cobham Advanced Electronic Solutions Mexico, S.A. de C.V.	Baker & McKenzie Abogados, S.C., Pedregal 24, Lomas Virreyes, 11040 Ciudad de México, D.F., Mexico
Cobham Advanced Electronic Solutions, Inc. [2]	Wilmington, USA
Cobham Aerospace ApS	Lundtoftegårdsvej 93 D, DK-2800 Kongens Lyngby, Denmark
Cobham Aerospace Communications Singapore Pte. Ltd.	80 Robinson Road, Postal 068898, Singapore
Cobham Aerospace SAS	174 - 178 quai de Jemmapes, Paris, France.
Cobham Aerospace Holding S.a.r.l.	9 All Scheffer 99137 Luxembourg
Cobham Gaisler UK Limited [2]	Highlands House, Basingstoke Road, Reading, Berkshire, England
Cobham Gaisler AB [2]	Kungsgatan 12, SE-411, 19 Göteborg, Sweden
Cobham Group Limited [1]	Bournemouth, England
Cobham Holdings Inc. [2]	Wilmington, USA
Cobham Limited	Bournemouth, England
Cobham Management Services Inc. [2]	Wilmington, USA
Colorado Engineering, Inc.	1900 W. Littleton Blvd, Littleton, CO 80120.
Comant Industries, Inc	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
FR Aviation Group Limited	Bournemouth, England
Groupement Troyen d'Electronique	rue Catherine et William Booth, 10000 Troyes, France
Lockman Electronic Holdings Limited	Bournemouth, England
Lockman Investments Limited	Bournemouth, England
Lockman Properties Limited	Bournemouth, England
Manlock Investments Limited	Bournemouth, England

AI Convoy (Luxembourg) S.à r.l.

Micro-Mesh SARL	35 rue de Montlhéry, BP 20191, 94563 Rungis, France
Multiphase Pumping Solutions Limited	Bournemouth, England
Omnipless Manufacturing (Pty) Limited	Westlake Drive, Westlake Business Park, Westlake 7945, South Africa
Satori Aerospace Communications	MD House Greenford Office Estate, Off Punters Way, Kenilworth, Western Cape, 7708, South Africa
Satori Air Services Inc	4105 Cousens Street, Saint-Laurent, Quebec H4S 1V6, Canada
Sea Tel, Inc	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
Société de Marquage et Signalisation SAS	174-178 Quai de Jemmapes, 75010 Paris, France
TEAM SA	35 rue de Montlhéry, BP 20191, 94563 Rungis, France
Thrane & Thrane A/S	Lundtoftegårdsvej 93 D, DK-2800 Kongens Lyngby, Denmark
Thrane & Thrane Norge A/S	Cort Adelers gate 16, 0254 Oslo, Norway

Full registered office addresses are:

Bournemouth, England	Tringham House, 580 Deansleigh Rd., Bournemouth, Dorset, UK. BH7 7DT
Wilmington, USA	251 Little Falls Drive, Wilmington, USA DE 19808

[1] Shares in Cobham Group Limited and AI Convoy US Borrower LLC are held directly by AI Convoy (Luxembourg) S.a. r.l. Shares in all other entities are held directly or indirectly by Cobham Group Limited.

[2] These subsidiaries were divested by the Group on 9 January 2023.