

# IFRS 16 (Leases) Prior Year Disclosure

---

28 June 2019

# IFRS 16 Implementation

## Key messages

- Summary impact to financial reporting:
  - Leases brought onto Balance Sheet; Net Debt increases by £138.4m at 31 December 2018
  - Changes to underlying Income Statement:
    - Operating profit increase (rental cost replaced by asset depreciation)
    - Finance costs increase (lease liability discount)
    - No EPS impact
- Free Cash Flow presented to include all lease payments for consistency of disclosure with prior years
- Fully retrospective approach taken to IFRS 16 implementation; 2018 comparatives restated

# IFRS 16 Restatement of underlying profit (unaudited)

Full Year

£m	FY 2018				
	Previously reported	Add back: Rental cost	Deduct: Depreciation	Lease interest and tax	Restated
<b>Underlying operating profit</b>					
Communications and Connectivity	55.9	9.3	(8.4)	-	56.8
Mission Systems	75.3	1.5	(1.3)	-	75.5
Advanced Electronic Solutions	52.9	8.7	(5.9)	-	55.7
Aviation Services	12.0 <sup>(1)</sup>	5.3	(2.0)	-	15.3 <sup>(2)</sup>
<b>Group</b>	<b>196.1</b>	<b>24.8</b>	<b>(17.6)</b>	<b>-</b>	<b>203.3</b>
<i>Underlying operating profit margin</i>	<i>10.5%</i>	●———— £7.2m <sup>(2)</sup> ————●			<i>10.9%</i>
<b>Underlying net finance costs</b>	<b>(40.9)</b>			<b>(6.8)</b>	<b>(47.7)</b>
<b>Taxation</b>	<b>(35.6)</b>			<b>(0.1)</b>	<b>(35.7)</b>
<b>Underlying profit after taxation</b>	<b>119.6</b>				<b>119.9</b>
<b>Underlying EPS</b>	<b>5.0p</b>				<b>5.0p</b>

<sup>(1)</sup> Aviation Services underlying operating profit includes £4.4m credit in H1 2018 relating to lease servicing and make good provisions no longer required

<sup>(2)</sup> Aviation Services underlying operating profit includes £2.1m one-off gain under IFRS 16 in H1 2018 from early termination of aircraft leases

# IFRS 16 Restatement of underlying profit (unaudited)

## Half Year

H1 2018					
£m	Previously reported	Add back: Rental cost	Deduct: Depreciation	Lease interest and tax	Restated
<b>Underlying operating profit</b>					
Communications and Connectivity	22.9	4.6	(3.9)	-	23.6
Mission Systems	28.8	0.7	(0.6)	-	28.9
Advanced Electronic Solutions	29.9	4.3	(2.9)	-	31.3
Aviation Services	8.8 <sup>(1)</sup>	4.1	(1.2)	-	11.7 <sup>(2)</sup>
<b>Group</b>	<b>90.4</b>	<b>13.7</b>	<b>(8.6)</b>	<b>-</b>	<b>95.5</b>
<i>Underlying operating profit margin</i>	<i>9.8%</i>	●———— £5.1m <sup>(2)</sup> ————●			<i>10.3%</i>
<b>Underlying net finance costs</b>	<b>(29.5)</b>			<b>(3.4)</b>	<b>(32.9)</b>
<b>Taxation</b>	<b>(14.0)</b>			<b>(0.4)</b>	<b>(14.4)</b>
<b>Underlying profit after taxation</b>	<b>46.9</b>				<b>48.2</b>
<b>Underlying EPS</b>	<b>2.0p</b>				<b>2.0p</b>

<sup>(1)</sup> Aviation Services underlying operating profit includes £4.4m credit in H1 2018 relating to lease servicing and make good provisions no longer required

<sup>(2)</sup> Aviation Services underlying operating profit includes £2.1m one-off gain under IFRS 16 in H1 2018 from early termination of aircraft leases

# IFRS 16 Restatement of Net Debt (unaudited)

Full Year

FY 2018					
£m	Previously reported	IFRS 16 Indebtedness <sup>(1)</sup>	Lease - rental & interest	Presentational adjustment <sup>(2)</sup>	Restated
<b>Operating cash flow</b>	<b>123.4</b>	-	<b>24.5</b>	<b>(17.7)</b>	<b>130.2</b>
Net interest paid including make-whole payment	(35.3)	-	(6.8)	-	(42.1)
Net taxation paid	(25.5)	-	-	-	(25.5)
<b>Free cash flow</b>	<b>62.6</b>	-	<b>17.7</b>	<b>(17.7)</b>	<b>62.6</b>
Net divestments	324.7	-	-	-	324.7
New lease arrangements (net of leases surrendered)	(14.7)	(3.1)	-	-	(17.8)
Less: Capital element of lease payments	-	-	-	17.7	17.7
Exchange movements	21.2	(4.6)	-	-	16.6
<b>Decrease in net debt</b>	<b>393.8</b>	<b>(7.7)</b>	<b>17.7</b>	-	<b>403.8</b>
<b>Opening net debt</b>	<b>(383.5)</b>				<b>(531.9)</b>
<b>Closing cash/(net debt)</b>	<b>10.3</b>				<b>(128.1)</b>

<sup>(1)</sup> New lease arrangements (net of leases surrendered) represent leases taken out in 2018, now recorded as debt on the balance sheet

<sup>(2)</sup> Free Cash Flow presentation has been adjusted to include capital element of lease payments to maintain consistency of disclosure with prior years

# IFRS 16 Restatement of Net Debt (unaudited)

Half Year

H1 2018					
£m	Previously reported	IFRS 16 Indebtedness <sup>(1)</sup>	Lease - rental & interest	Presentational adjustment <sup>(2)</sup>	Restated
<b>Operating cash flow</b>	<b>34.3</b>	-	<b>12.7</b>	<b>(9.3)</b>	<b>37.7</b>
Net interest paid including make-whole payment	(30.3)	-	(3.4)	-	(33.7)
Net taxation received/(paid)	5.2	-	-	-	5.2
<b>Free cash flow</b>	<b>9.2</b>	-	<b>9.3</b>	<b>(9.3)</b>	<b>9.2</b>
Net divestments	324.3	-	-	-	324.3
New lease arrangements (net of leases surrendered)	(14.7)	(0.9)	-	-	(15.6)
Less: Capital element of lease payments	-	-	-	9.3	9.3
Exchange movements	11.1	(1.7)	-	-	9.4
<b>Decrease in net debt</b>	<b>329.9</b>	<b>(2.6)</b>	<b>9.3</b>	-	<b>336.6</b>
<b>Opening net debt</b>	<b>(383.5)</b>				<b>(531.9)</b>
<b>Closing net debt</b>	<b>(53.6)</b>				<b>(195.3)</b>

<sup>(1)</sup> New lease arrangements (net of leases surrendered) represent leases taken out in 2018, now recorded as debt on the balance sheet

<sup>(2)</sup> Free Cash Flow presentation has been adjusted to include capital element of lease payments to maintain consistency of disclosure with prior years

# IFRS 16 Restatement of Balance Sheet (unaudited)

31 December 2018			
£m	As originally stated	IFRS 16 adjustments	Restated
<b>Assets</b>			
Property, plant and equipment	388.2	99.9	488.1
Deferred tax	89.8	2.6	92.4
Other assets	2,119.9	(1.1)	2,118.8
	<b>2,597.9</b>	<b>101.4</b>	<b>2,699.3</b>
<b>Liabilities</b>			
Bank and other borrowings	(396.6)	12.8	(383.8)
Lease obligations	-	(151.2)	(151.2)
Trade and other payables	(395.4)	6.8	(388.6)
Provisions	(200.7)	5.9	(194.8)
Deferred tax	(5.1)	3.5	(1.6)
Other liabilities	(408.4)	-	(408.4)
	<b>(1,406.2)</b>	<b>(122.2)</b>	<b>(1,528.4)</b>
<b>Net assets</b>	<b>1,191.7</b>	<b>(20.8)</b>	<b>1,170.9</b>

- £99.9m of right-of-use (lease) assets recognised within PPE

- £12.8m of finance leases reclassified from bank and other borrowings to lease obligations

- £138.4m of additional lease liabilities recognised

- Trade and other payables adjusted to remove rent free lease periods (£6.8m) and Provisions adjusted for onerous leases (£5.9m)

- Net debt/EBITDA gearing ratio includes frozen GAAP bank covenant terms