Annual Report 2018

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Thrane & Thrane A/S trading as Cobham SATCOM

Thrane & Thrane A/S

Lundtoftegårdsvej 93D

DK-2800 Kongens Lyngby

Central Business Registration Number: 65 72 46 18

The Annual Report was presented and adopted at the Annual General Meeting on 23 April 2019

Jens Jakob Skaadstrup Andersen, Chairman

Contents

Management's Statement

The Supervisory Board and the Executive Board have today considered and approved the Annual Report for Thrane & Thrane A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared and presented in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2018 and of the results of its' operations for the financial year 1 January – 31 December 2018.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report to be adopted at the Annual General Meeting.

Kongens Lyngby, 23 April 2019

Executive Management

Janus Doré Pagh, Managing Director

Klaus Juhl Wulff, Director

Supervisory Board

Paul Emmanuel Kahn, Chairman

Gavin James Baverstock, Deputy Chairman

Rachel Leigh Cass

Henrik Munksgaard Berg

Rikke Blume Dam

Independent Auditor's Report

To the Shareholders of Thrane & Thrane A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Thrane & Thrane A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Independent Auditor's Report

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent Auditor's Report

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

Copenhagen, 23 April 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Erik Stener Jørgensen
State Authorised Pubilc Accountant
mne9947

René Otto Poulsen
State Authorised Pubilc Accountant
mne26718

Company Information

The Company	Thrane & Thrane A/S Lundtoftegårdsvej 93 D DK-2800 Kongens Lyngby www.cobham.com/satcom Telephone: +45 3955 8800 Facsimile: +45 3955 8888 Central Business Registration No: 65 72 46 18 Financial period: 1 January - 31 December Municipality of reg. office: Lyngby-Taarbæk
Supervisory Board	Paul Emmanuel Kahn, Chairman Gavin James Baverstock, Deputy Chairman Rachel Leigh Cass Henrik Munksgaard Berg Rikke Blume Dam
Executive Board	Janus Doré Pagh, Managing Director Klaus Juhl Wulff, Director
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2018 MDKK	2017 MDKK	2016 MDKK	2015 MDKK	2014 MDKK
Key figures					
Income Statement					
Revenue	1,246	1,227	1,343	1,308	1,183
Gross profit	155	123	196	281	284
Operating profit/(loss)	(129)	(134)	(94)	80	54
Net finance income/(expense)	(102)	12	(41)	(45)	(42)
Net profit/(loss) for the year	(192)	(93)	(112)	22	10
Balance Sheet					
Total assets	1,131	1,095	1,375	1,360	1,107
Equity	143	205	295	406	487
Investment in property, plant and equipment	7	14	18	16	27
Average number of employees	576	574	541	561	534
Ratios (in %)					
Gross margin	12.4	10.2	14.6	21.5	24.0
Profit margin	(10.4)	(7.6)	(7.0)	6.1	4.6
Return on assets	(11.4)	(12.2)	(6.8)	5.9	4.9
Return on equity	(110.3)	(37.2)	(32.0)	4.9	1.6

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. Definitions are disclosed in the note for accounting policies.

Management's Review

The Financial Statements of Thrane & Thrane A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Main activity

The Company's primary activities are development, manufacturing and marketing of professional radio and satellite communication equipment.

Development in the year

The Company's income statement for the financial year 1 January – 31 December 2018 shows a loss of TDKK 192,150 and at 31 December 2018, the Company's balance sheet shows an equity of TDKK 143,384.

The Company continues to incur losses, mainly due to a high level of research and development costs that are being recognised in the income statement. The research and development costs are for new products, such as the Aviator S satellite communication for the aviation industry, that is expected to create significant future revenue and profit streams.

Capital resources

Based on the budget for 2019, the Company is expected to have adequate capital resources for the activities and investments minimum for the coming year.

Strategy and objectives

Targets and expectations for the year ahead

The Company expects improvements in the results for 2019.

Basis of earnings

Research and development

Costs for research and development are incurred on a continuing basis. During the year the Company has acquired an extensive knowledge and expertise. The Company's aim is to maintain its expertise and to use its competences in relation to the development of new products.

Statutory statement of corporate social responsibility in accordance with section 99a of the Danish Financial Statements Act

A high level of corporate social responsibility has always been an integral part of the Company's mission, corporate structure, strategy and daily operations, in relation to the Company's markets and customers as well as within the Company's organisation. The Company's financial statements are part of the group financial statements for Cobham plc. In accordance with section 99a, part 6, the Company refers to the Annual Report and Accounts 2018 for Cobham plc for detailed policies in relation to the corporate social responsibility and follow-up on these.

Statutory statement of underrepresented gender in accordance with section 99b of the Danish Financial Statements Act / Diversity

The Company recognises and acknowledges the importance of diversity, including diversity of gender, nationality and competencies. While Thrane & Thrane A/S trading as Cobham SATCOM considers diversity a strength when recruiting employees, the Company prioritises professional and personal competences in order to employ the right candidates for positions.

The Company strives to ensure that members of the Supervisory Board and other executives represent different educational backgrounds as well as both genders. In recruiting for potential board members as well as for other management positions, targets are generally set around ensuring that a proportion of female and ethnically diverse applicants are included in the candidate pool.

Target for the underrepresented gender among the members of the Supervisory Board

The Supervisory Board members elected by the general meeting currently consist of two female members and three male members. The composition of the Supervisory Board therefore meets the requirement for an equal gender balance as in accordance with the Danish Companies Act and the guidance from the Danish Business Authority.

The Company will continuously monitor the composition of the Supervisory Board in order to maintain an ambitious gender balance.

Policy for the underrepresented gender among other executives

In accordance with section 139a of the Danish Companies Act, the Company has set out a policy in order to increase the share of the underrepresented gender among other executives. The Company's gender composition on the top management level is 40% female members of the board of directors. The Company acknowledges that its industry is male dominated and therefore continues to advance diversity by maintaining a more equal gender balance. In order to do so, The Company takes the following initiatives:

- Ensuring that both genders are represented when the Company recruits for executive management positions, both internally and externally
- Encouraging anyone interested in a job with the Company to apply, irrespective of gender, age, race, religion or ethnicity
- Ensuring internal education and talent development for both women and men
- Always offering equal career development initiatives
- Ensuring gender neutrality in its communication with stakeholders
- Ensuring a sensible work/life balance in order to attract and retain the most qualified employees.

Follow-up and reporting

The Executive Board is responsible for the policy of approaching a gender balance of other executives and monitors the implementation of the initiatives in this Policy. Progress in this regard is reported to the Supervisory Board once a year.

The Company reports on the Policy annually and in accordance with applicable law and regulations.

Uncertainty relating to recognition and measurement

The Company operates an active risk management policy, which includes identification of key risks and development of action plans to mitigate those risks.

Furthermore, the preparation of the financial statements requires management to make certain judgements regarding the existence and probability of realisation of certain risks and opportunities inherent in the operation of the business. Management has exercised its professional judgement in the preparation of the financial statements in order to present a true and fair view of the financial position of the Company as at 31 December 2018.

In this respect, it can be mentioned that intangible assets have been tested for impairment. The IP-rights, recognised with 238 MDKK at 31 December 2018, showed only little headroom in the test, and management are monitoring this closely in order to act upon this if necessary. No other assets showed sign of being impaired.

Unusual events

The financial position at 31 December 2018 of the Company and the results of its activities for the financial year for 2018 have not been affected by any unusual events.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January – 31 December

	Note	2018 TDKK	2017 TDKK
Revenue	1	1,245,784	1,227,246
Cost of sales	2	(1,091,115)	(1,103,765)
Gross profit		**154,669**	**123,481**
Distribution expenses	2	(120,144)	(118,277)
Administrative expenses	2	(163,659)	(138,933)
Operating profit/(loss)		**(129,134)**	**(133,729)**
Income from investments in subsidiaries	3	(24,782)	(16,534)
Income from investments in associates		-	(3,185)
Finance income	4	53,326	79,113
Finance costs	5	(130,249)	(47,447)
Profit/(loss) before tax		**(230,839)**	**(121,782)**
Income tax	6	38,689	29,000
Net profit/(loss) for the year		**(192,150)**	**(92,782)**

Balance Sheet at 31 December

	Note	2018 TDKK	2017 TDKK
Assets			
Software		13,898	14,350
Goodwill, customer files and IP rights		303,537	347,420
Intangible assets	7	**317,435**	**361,770**
Plant and machinery		30,083	34,738
Other fixtures and fittings, tools and equipment		1,299	2,180
Leasehold improvements		2,266	4,960
Property, plant and equipment in progress		2,076	3,794
Property, plant and equipment	8	**35,724**	**45,672**
Investments in subsidiaries	9	129,653	164,842
Fixed asset investments		**129,653**	**164,842**
Non-current assets		**482,812**	**572,284**
Inventories	10	**208,061**	**157,906**
Trade receivables		153,396	217,201
Contract work in progress	11	1,542	-
Receivables from group enterprises		29,799	42,295
Other receivables		10,783	22,513
Deferred tax asset	12	100,698	65,074
Corporation tax		9,624	5,500
Prepayments	13	9,065	12,077
Receivables		**314,907**	**364,660**
Cash at bank and in hand		**125,605**	**-**
Current assets		**648,573**	**522,566**
Total assets		**1,131,385**	**1,094,850**

Balance Sheet at 31 December

	Note	2018 TDKK	2017 TDKK
Equity and liabilities			
Share capital	14	118,889	118,885
Share premium		130,996	-
Retained earnings		(106,501)	85,733
Equity		**143,384**	**204,618**
Provision for deferred tax	12	45,726	43,436
Other provisions	15	41,450	28,933
Provisions		**87,176**	**72,369**
Prepayments received from customers		21,863	31,656
Trade payables		183,958	174,601
Payables to group enterprises		508,221	542,580
Credit institutions		85,243	14,507
Other payables		101,000	53,638
Deferred income		540	881
Current liabilities		**900,825**	**817,863**
Total liabilities other than provisions		**900,825**	**817,863**
Total equity and liabilities		**1,131,385**	**1,094,850**

Distribution of profit / (loss) for the year	16
Fee to auditors appointed at the general meeting	17
Unrecognised rental and lease commitments	18
Contingent liabilities	19
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Statement of Changes in Equity 1 January – 31 December

	Share capital	Share premium	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2018	118,885	-	85,733	204,618
Increase by debt conversion	4	130,996	-	131,000
Exchange rate adjustments relating to foreign entities	-	-	431	431
Fair value adjustments for hedging instruments	-	-	(660)	(660)
Tax on fair value adjustments for hedging instruments	-	-	145	145
Net profit/(loss) for the year	-	-	(192,150)	(192,150)
Equity at 31 December 2018	**118,889**	**130,996**	**(106,501)**	**143,384**

	2018 TDKK	2017 TDKK
1 Revenue		
Geographical segments		
Europe	737,297	770,831
Asia	236,937	237,830
North America	227,775	180,497
Australia	21,343	19,534
South America	14,226	7,010
Africa	7,240	7,549
Other	966	3,995
	1,245,784	**1,227,246**
Business segments		
Maritime	1,033,723	955,304
Land Mobile	106,444	120,240
Ground Infrastructure	50,057	97,224
Aeronautical	44,678	26,360
Other	10,882	28,118
	1,245,784	**1,227,246**
2 Staff costs		
Wages and salaries	373,535	350,772
Pensions	15,551	14,562
Other social security expenses	6,391	5,600
Other staff expenses	15,956	17,614
	411,433	**388,498**
In the Income Statement staff costs are recognised as follows:		
Cost of sales	248,388	254,547
Distributions expenses	84,652	58,540
Administrative expenses	78,393	75,411
	411,433	**388,468**
Staff costs include management remuneration as follows:		
Executive Board	6,492	7,109
Supervisory Board	50	-
	6,542	**7,109**
Average number of employees	**576**	**574**

	2018 TDKK	2017 TDKK
3 Income from investments in subsidiaries		
Share of profit/(loss) in subsidiaries	(4,054)	4,055
Amortisation of goodwill	(23,506)	(23,506)
Change in intercompany profit on inventories within the Group	2,778	2,917
	(24,782)	**(16,534)**

	2018 TDKK	2017 TDKK
4 Finance income		
Other finance income	3,170	5,150
Foreign exchange rate gains	50,156	73,963
	53,326	**79,113**

	2018 TDKK	2017 TDKK
5 Finance costs		
Interest costs to Group entities	28,642	16,048
Other finance costs	9,201	1,711
Foreign exchange rate losses	92,406	29,688
	130,249	**47,447**

	2018 TDKK	2017 TDKK
6 Income tax		
Tax credit	(5,500)	(5,500)
Change in deferred tax for the year	(35,992)	(25,320)
Previous year adjustment	2,803	1,820
Income tax expense/(income)	**(38,689)**	**(29,000)**

7 Intangible assets

	Software TDKK	Goodwill, customer files and IP rights TDKK
Cost at 1 January 2018	53,802	543,021
Additions in the year	4,788	-
Disposals in the year	-	-
Cost at 31 December 2018	**58,590**	**543,021**
Accumulated amortisation and impairment at 1 January 2018	39,452	195,601
Amortisation charge for the year	5,240	43,883
Reversed amortisation on disposals	-	-
Accumulated amortisation and impairment at 31 December 2018	**44,692**	**239,484**
Carrying amount at 31 December 2018	**13,898**	**303,537**

8 Property, plant and equipment

	Plant and machinery TDKK	Other fixture, fittings, tools and equipment TDKK	Leasehold improvements TDKK	Plant, property and equipment in progress TDKK
Cost at 1 January 2018	133,918	25,646	15,230	3,794
Additions in the year	5,692	57	493	866
Transfers in the year	2,572	-	-	(2,572)
Disposals in the year	-	(12)	-	(12)
Cost at 31 December 2018	**142,182**	**25,691**	**15,723**	**2,076**
Accumulated depreciation and impairment at 1 January 2018	99,180	23,466	10,270	-
Depreciation charge for the year	12,919	938	3,187	-
Transfers in the year	-	-	-	-
Reversed depreciation on disposals	-	(12)	-	-
Accumulated depreciation and impairment at 31 December 2018	**112,099**	**24,392**	**13,457**	**-**
Carrying amount at 31 December 2018	**30,083**	**1,299**	**2,266**	**2,076**

	2018 TDKK	2017 TDKK
9 Investments in subsidiaries		
Cost at 1 January	661,427	836,056
Disposal	-	(174,628)
Cost at 31 December	**661,427**	**661,427**
Accumulated value adjustments at 1 January	(496,585)	(605,613)
Exchange rate adjustment	431	(1,244)
Net profit/(loss) etc.	(24,643)	(17,686)
Dividend	(10,977)	-
Disposal	-	127,958
Accumulated value adjustments at 31 December	**(531,774)**	**(496,585)**
Carrying amount at 31 December	**129,653**	**164,842**
Hereof remaining positive difference at 31 December	**158,663**	**182,169**

Details of investments in subsidiaries are as follows:

Name	**Registered office**	**Share capital**	**Vote and ownership**	**Equity**	**Net profit**
Thrane & Thrane Norge AS	Billingstad, Norway	TNOK 2,360	100%	TNOK (2,352)	TNOK 925

	2018	2017
	TDKK	TDKK

10 Inventories

	2018 TDKK	2017 TDKK
Raw materials and consumables	63,376	31,933
Work in progress	64,410	65,588
Finished goods and goods for resale	80,275	60,385
	208,061	**157,906**

11 Contract work in progress

	2018 TDKK	2017 TDKK
Selling price of work in progress	94,848	92,375
Payments received on account	(93,306)	(92,375)
Contract work in progress, receivable	**1,542**	**-**

12 Deferred tax

	2018 TDKK	2017 TDKK
Balance at 1 January	(21,638)	(4,578)
Change in deferred tax for the year	(36,137)	(21,982)
Previous year adjustment	2,803	4,922
Balance at 31 December	**(54,972)**	**(21,638)**
Deferred tax relates to following:		
Intangibles assets	36,955	35,477
Plant, property and equipment	(1,251)	(1,000)
Current assets	(3,542)	(6,250)
Other provisions	(415)	(415)
Equity movements	90	56
Tax losses carry forward	(86,809)	(49,506)
Total	**(54,972)**	**(21,638)**
In the Balance Sheet deferred tax is recognised as follows:		
Deferred tax (asset)	(100,698)	(65,074)
Provision for deferred tax	45,726	43,436
Net	**(54,972)**	**(21,638)**

13 Prepayments

Prepayments comprise prepaid rent expenses, insurance premiums, subscriptions, etc.

14 Share capital

	2018	2017	2016	2015	2014
	TDKK	TDKK	TDKK	TDKK	TDKK
At 1 January	118,885	118,885	118,885	118,885	118,885
Increase	4	-	-	-	-
Decrease	-	-	-	-	-
At 31 December	**118,889**	**118,885**	**118,885**	**118,885**	**118,885**

15 Other provisions

The Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace products that are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of TDKK 12,128 (2017: TDKK 19,724) have been recognised for warranty claims. Furthermore, other provisions comprise expected warranty repairs of TDKK 4,661 (2017: TDKK 5,983), provision for customer financing agreement of TDKK 11,228 (2017: Nil) and other provisions of TDKK 13,433 (2017: TDKK 3,226).

	2018	2017
	TDKK	TDKK
16 Distribution of profit/(loss)		
Retained earnings	(192,150)	(92,782)
	(192,150)	**(92,782)**
17 Fee to the auditors appointed at Annual General Meeting		
Audit fee	727	672
Other assurance engagements	18	72
Tax advisory services	-	-
Other services	-	-
	745	**744**
18 Unrecognised rental and lease commitments		
Rental and lease commitments mature as follows:		
Within 1 year	20,285	20,370
Between 1 and 5 years	81,894	82,658
	102,179	**103,028**

19 Contingent liabilities

At 31 December 2017, contingent liability for warranties amounted TDKK 689. The Company does not have such contingent liability at 31 December 2018.

The Company has purchase commitments with suppliers as a part of normal operations.

The Danish group of companies are jointly and severally liable for tax on the Group's jointly tax income.

20 Related parties with controlling interest

Controlling interest	Basis
Lockman Electronic Holdings Ltd Brook Road, Wimborne Dorset, UK	Majority shareholder

Transactions

Related party transaction comprise transactions with the Executive Board and the Supervisory Board, as well as with other companies within the Thrane & Thrane Group and Cobham Group.

Transactions with related parties comprise ordinary business transactions and miscellaneous administration services.

Transactions with the related parties are based on the OECD's arm's length principle.

Ownership

The following shareholders are recorded in the Company's shareholder register as holding at least 5% of the voting rights and/or holding at least 5% of the share capital:

Lockman Electronic Holdings Ltd
Brook Road, Wimborne Dorset,
UK

21 Group relations

The Company's financial statements are included in the consolidated financial statements of Cobham plc, Brook Road, Wimborne Dorset, UK. The Group Annual Report for Cobham plc can be obtained from the following website:

www.cobham.com

22 Accounting policies

Basis of preparation

The Annual Report of Thrane & Thrane A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2018 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Cobham plc, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Cobham plc, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenue is recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to generate earnings for the year are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the assets will flow to the Company and the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

DKK is used as the measurement currency. All other currencies are regarded as foreign currencies.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments based on the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and impaired under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under liabilities and the interest element on the lease payments is charged over the lease term to the income statement.

22 Accounting policies (continued)

All other leases are considered as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

DKK is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Foreign exchange gains and/or losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in finance income and/or costs in the income statement. Where foreign exchange transactions are considered as hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that are unsettled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any foreign exchange gains and/or losses arising on the translation of the receivables, payables and other monetary items at the exchange rates at the balance sheet date are recognised in finance income and/or cost in the income statement.

Fixed assets and other non-monetary items acquired in foreign currencies are measured at the transaction date rates.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently re-measured at their fair values. Positive and negative fair values of derivative financial instruments are classified as 'Other receivables' and 'Other payables' respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify for hedge accounting.

Segment reporting

Segment information is presented in respect of business segments and geographical segments based on the Company's risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments. In compliance with the Danish Executive Order on exemptions from the Danish Financial Statements Act reporting on geographical segments comprises revenue only.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser. the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably and it is probable that the economic benefits, including payments, will flow to the Company.

22 Accounting policies (continued)

The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables. direct labour costs and indirect production costs such as maintenance and depreciation, as well as operation and administration.

Cost of sales also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs. Finally, provisions for losses on contract work are recognised.

Distribution expenses

Distribution expenses comprise costs of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Administrative expenses

Administrative expenses comprise expenses for management, administrative staff, office expenses, depreciation, amortisation, etc.

Income from investments in subsidiaries and associates

Items 'Income from investments in subsidiaries' and 'Income from investments in associates' in the income statement include the proportionate share of the profit for the year.

Finance income and costs

Finance income and costs are recognised in the income statements at the amounts relating to the financial year.

Income tax

Income tax consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish subsidiaries and a Danish related company controlled by the same ultimate Parent Company. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

22 Accounting policies (continued)

Balance Sheet

Intangible assets

Goodwill and customer files acquired is measured at cost less accumulated amortisation. The assets are amortised on a straight-line basis over their useful lives determined at 20 years for goodwill and 10-20 years for customer files.

Development projects that are clearly defined and identifiable, where there is a functional prototype and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if cost can be measured reliably and sufficient certainty exists that the future earnings can cover cost of sales, distribution and administrative expenses involved as well as investments in development.

Borrowing costs from both specific and general borrowing directly or indirectly related to projects with a long-term manufacturing period are attributed to the cost of development projects over the development period.

Contributions received to cover product development costs are offset against development costs incurred on the individual project. Contributions in excess of project development costs incurred are recognised in prepayments.

Software is measured at cost less accumulated amortisation. Software is amortised on a straight-line basis over the expected useful life determined at 3-5 years.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition until the time when the asset is ready for use. In the case of assets of own construction, the cost comprises direct and indirect expenses for labour, materials, components and sub-suppliers.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets which are:

Land and buildings	20 – 30 years
Plant and machinery	3 – 7 years
Other fixtures and fittings. tools and equipment	3 – 7 years
Leasehold improvements	3 – 13 years

Depreciation period and residual values are reassessed annually. Assets costing less than DKK 12,900 are expensed in the income statement.

22 Accounting policies (continued)

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on annual basis to determine whether there is any indication of impairment other than charged amortisation and depreciation. If so, the asset is written down to its lower of its carrying amount or recoverable amount.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method.

The items 'Investments in subsidiaries' and 'Investments in associates' in the balance sheet include the proportionate ownership share of the net asset value of the enterprises, based on the fair values of identifiable net assets at the time of acquisition with deduction and/or addition of any unrealised intercompany profits or losses, and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill).

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to 'Reserve for net revaluation under the equity method' under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in subsidiaries and associates.

Subsidiaries and associates with negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

22 Accounting policies (continued)

Contract work in progress

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Equity

Dividend

Dividend distribution proposed by the Management for the year is disclosed as a separate equity item.

Treasury shares

Purchase and sales prices for treasury shares are recognised directly in equity. A reduction of capital by cancellation of treasury shares reduces the share capital by an amount equal to the nominal value of the shares and increases retained earnings. Dividend on treasury shares is recognised directly in equity under retained earnings.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Provisions are measured and recognised based on experience with guarantee work. Provisions with an expected maturity exceeding 1 year from the balance sheet date are discounted at the average bond yield.

Deferred tax assets and liabilities

Deferred tax is measured using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

22 Accounting policies (continued)

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Current tax receivable and liability

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial liabilities

Financial liabilities are measured at amortised cost, substantially corresponding to nominal value.

Financial highlights

Financial ratios are based on following formulae:

Gross margin:	Gross profit x 100 / Revenue	Return on assets:	Operating profit x 100 / Total assets
Profit margin:	Operating profit x 100 / Revenue	Return on equity:	Net profit for the year x 100 / Average equity