

Company Registration No. 05019038 (England and Wales)

RACAL ACOUSTICS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 SEPTEMBER 2020



RACAL ACOUSTICS LIMITED

COMPANY INFORMATION

Directors	James Ewing Sarah Wynne Liza Sabol
Secretary	Taylor Wessing Secretaries Limited
Company number	05019038
Registered office	Waverley Industrial Estate Hailsham Drive Harrow Middlesex HA1 4TR
Auditor	RSM UK Audit LLP Chartered Accountants 25 Farringdon Street London EC4A 4AB
Bankers	HSBC Bank Plc 60 Queen Victoria Street London EC4N 4TR
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW

RACAL ACOUSTICS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2020

The directors present the strategic report for the year ended 30 September 2020.

The company provides Situational Awareness Hearing Protection and Communication Solutions. Racal Acoustics solutions include headsets for Land, Sea and Air environments; for use in military, paramilitary, first responder, aviation and industrial markets.

Fair review of the business

Bookings

This fiscal year was a year of two halves for Racal Acoustics. We had a solid booking performance during the first six months. However, as the Coronavirus pandemic started to affect western countries and subsequently authorities asked everyone to work from home, our order intake dropped. Nonetheless, there has been no order or programme cancellations during this period, only delays. In early September our customers became more active and the company has a positive book to bill ratio going into the next fiscal year.

Sales

Overall for the year, sales were lower than projected due to the Coronavirus pandemic affecting bookings during the second half of the year. Positively, our On Time Delivery performance for the year has been better than 95% and we have had almost no past dues despite the complicated supply chain situation the world is facing.

EBITDA

Full year EBITDA has increased to £110,000 (2019: £(3,063,000)) as we leveraged our buying power with suppliers, but also our pricing power with our customers whilst generating profitable new business. EBITDA is calculated as operating profit before interest and taxation, plus depreciation and amortisation.

People

Our headcount at the end of September 2020 is 55, compared to 68 this time last year. The company is right-sized to meet next year's challenges.

Outlook

The company will focus on gaining traction in the market globally, with a particular focus on North America where we can grow our high-noise headset market share with our new RA4000 Magna™ headset. We will protect our dominant position in the medium noise markets by offering tailored products to meet specific customer needs on key programmes, and will continue to work closely with customers to integrate our headsets with their new intercoms and radios, increasing our portfolio of proven headsets. We will continue to target aftermarket business for products already sold and in service.

Principal risks and uncertainties

As the Coronavirus pandemic continues, social distancing and working from home policies mean field trials may be delayed and large programmes could be postponed, mainly affecting our OEM business. In the meantime, Armies around the world need to keep existing headsets in operating conditions, representing possible significant upside in aftermarket.

As for our supply chain, our Far East suppliers have been performing well without any noticeable issues since the beginning of the pandemic. The situation remains challenging as we cannot visit our suppliers in person, however, LRIP activities are now handled via video conferencing to mitigate any risks.

During the early phases of the pandemic, but before countries shut down, we introduced collaborative tools so we were ready when our staff needed to work from home. Racal Acoustics Limited remained open and has worked very well throughout this difficult time and we do not anticipate any problems next year.

RACAL ACOUSTICS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

Going concern

After making enquires and considering the ongoing impact of COVID-19, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, which is a period of twelve months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 to the financial statements on page 11.

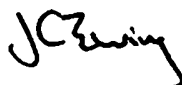
Finally, the company evaluated the impact Brexit would have on our business, especially when the possibility of "No Deal" Brexit was very real towards the end of 2020. We continue to monitor the situation closely as the implications of the new relationship evolve, but due to our diversified exposure and the contingency plans we implemented, we are confident there will be no significant issues arising.

Future developments

The company is market led with our product and technology roadmap being reviewed regularly throughout the year. Our recent success with our new RA4000 Magna™ headset has strengthened our position and our technology superiority in the high noise environment. Racal Acoustics will continue to invest in new products and improve existing products to meet tomorrow's challenges, especially in regards to situation awareness and speech intelligibility.

On 22 December 2020 an agreement was reached between Transdigm Inc and INVISIO AB for the sale of Racal Acoustics Limited. The transaction is expected to be completed in the first quarter of 2021, after which point Racal Acoustics Limited will become a wholly owned subsidiary of INVISIO AB.

On behalf of the board



**James Ewing
Director**

22 January 2021

RACAL ACOUSTICS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2020

The directors present their annual report and financial statements for the year ended 30 September 2020.

Principal activities

The principal activity of the company continued to be that of the manufacture and sale of communications equipment for use in the armed forces and commercial fields.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Jonathan Crandall

(Resigned 2 October 2019)

James Ewing

Sarah Wynne

Liza Sabol

(Appointed 2 October 2019)

Results and dividends

The results for the year are set out on page 7.

No ordinary dividends were paid during the period. A dividend of £52.4m was issued in December 2020 on the recommendation of the directors.

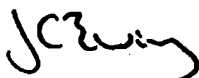
Auditor

The auditor, RSM UK Audit LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, each director has taken all the necessary steps that they ought to have taken as a director in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



James Ewing
Director

22 January 2021

RACAL ACOUSTICS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2020

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RACAL ACOUSTICS LIMITED

Opinion

We have audited the financial statements of Racal Acoustics Limited (the 'company') for the year ended 30 September 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RACAL ACOUSTICS LIMITED (CONTINUED)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

RSM UK Audit LLP

Alan Summerfield CA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
United Kingdom
22 January 2021

RACAL ACOUSTICS LIMITED

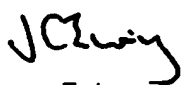
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Notes	2020 £'000	2019 £'000
Turnover	3	11,414	12,279
Cost of sales		(7,274)	(9,013)
Gross profit		<u>4,140</u>	<u>3,266</u>
Administrative expenses		(4,466)	(6,891)
Operating loss	6	<u>(326)</u>	<u>(3,625)</u>
Interest receivable and similar income	8	680	680
Other gains and losses	9	-	327
Profit/(loss) before taxation		<u>354</u>	<u>(2,618)</u>
Tax on profit/(loss)	10	(55)	43
Profit/(loss) for the financial year		<u><u>299</u></u>	<u><u>(2,575)</u></u>

RACAL ACOUSTICS LIMITED**STATEMENT OF FINANCIAL POSITION****AS AT 30 SEPTEMBER 2020**

	Notes	2020		2019	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	13		1,347		1,524
Investments	14		-		-
Current assets					
Stocks	15	2,091		1,246	
Debtors	16	49,365		52,956	
Cash at bank and in hand		9,747		6,940	
		<u>61,203</u>		<u>61,142</u>	
Creditors: amounts falling due within one year	17	(4,932)		(5,351)	
Net current assets			56,271		55,791
Total assets less current liabilities			<u>57,618</u>		<u>57,315</u>
Provisions for liabilities	18		(1,014)		(1,010)
Net assets			<u>56,604</u>		<u>56,305</u>
Capital and reserves					
Called up share capital	20		8,648		8,648
Profit and loss reserves	22		47,956		47,657
Total equity			<u>56,604</u>		<u>56,305</u>

The financial statements were approved by the board of directors and authorised for issue on 22 January 2021 and are signed on its behalf by:



James Ewing
Director

RACAL ACOUSTICS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 29 September 2018		8,648	52,732	61,380
Year ended 30 September 2019:				
Loss and total comprehensive income for the year		-	(2,575)	(2,575)
Dividends	11	-	(2,500)	(2,500)
Balance at 30 September 2019		8,648	47,657	56,305
Year ended 30 September 2020:				
Profit and total comprehensive income for the year		-	299	299
Balance at 30 September 2020		8,648	47,956	56,604

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 Accounting policies

Company information

Racal Acoustics Limited is a private company limited by shares and is registered and incorporated in England and Wales. The registered office is Waverley Industrial Estate, Hailsham Drive, Harrow, Middlesex, HA1 4TR.

The company's principal activities and nature of its operations are disclosed in the Directors' Report.

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £1,000.

The financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of TransDigm Group, Inc.. These consolidated financial statements are available from its registered office, The Tower at Erievue, 1301 East 9th St., Suite 3000, Cleveland, OH 44114.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 Accounting policies (Continued)

Going concern

The directors have prepared forecasts for a period of 12 months from the approval of the financial statements and have adjusted these to reflect their best estimate of the continued impact of COVID-19 on the operations of the business. Due to the nature of the company's business the directors have strong visibility of revenues through to the second half of 2021 and have established a stable cost base, with strong relationships with suppliers. Steps have also been taken to mitigate the impact of Brexit on the company's delivery and supply chain and the directors are confident the company is well prepared for the challenges ahead.

Subsequent to the year end a dividend in specie of £47.3m and a cash dividend of £5.1m have been paid, but the company has retained a strong cash position and has no external debt.

Based on the directors' expectation that operating cash flows will continue to be positive, the directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing of these financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on delivery of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Development costs	up to 10 years straight line
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RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 Accounting policies (Continued)

Tangible fixed assets

Tangible fixed assets are measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Leasehold improvements and fixtures and fittings	5 to 10 years straight line
Plant and tooling	4 to 10 years straight line
Computer equipment	3 years straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are basic financial instruments and include cash in hand and deposits held at call with banks.

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors, amounts due from group undertakings and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 Accounting policies (Continued)

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, and amounts owed to group undertakings, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Other financial liabilities

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. For forward foreign exchange contracts, the fair value is based on the valuation of the open instruments as provided by the bank, as at the reporting date. Changes in the fair value of derivatives are recognised in profit or loss in administrative expenses.

Debt instruments where the contractual returns, repayment of the principal, or other terms (such as prepayment provisions or term extensions) do not meet the conditions to be measured at amortised cost, are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Equity instruments

Equity instruments issued by the company are recorded at the fair value of proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 Accounting policies (Continued)

Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Retirement benefits

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease.

Foreign exchange

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Recoverability of amounts owed by group undertakings

The directors review balances owed by group undertakings for indicators of impairment at least annually. As part of this assessment, consideration is given to the financial performance of the counter-party, their ability to settle their obligations and the availability of wider group support. Based on this assessment, the directors have concluded that no impairment of amounts owed by group undertakings is required at the balance sheet date.

Share options

No charge is recognised in these financial statements for share options in the ultimate parent company which have been issued to a director of Racal Acoustics Limited. The directors have estimated the share option charge and related reserve in equity and it is their judgement that the impact on the financial statements is not material and therefore no amounts have been recognised.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Stock

Stock is held at the lower of cost and net realisable value and as at the year end a provision is recognised for stock for which there are no future benefits expected to be received by the company. In estimating this provision, the directors take in to consideration the volume of product sales during the period, forecast product sales for the year ahead and historic levels of stock provisioning.

Provisions - legal and other

Legal and other provisions relate to the estimated settlement costs of certain legal claims which have not been concluded as at the year end. In calculating the provision, the directors have sought and obtained relevant legal advice and the provision reflects their best estimate of the possible economic outflow.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

3 Turnover

	2020 £'000	2019 £'000
Turnover analysed by class of business		
Communications equipment	11,414	12,279

	2020 £'000	2019 £'000
Turnover analysed by geographical market		
United Kingdom	3,492	3,998
United States of America	2,359	2,762
Rest of Europe	2,045	2,304
Rest of the world	3,518	3,215
	<u>11,414</u>	<u>12,279</u>

4 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2020 Number	2019 Number
Production	33	38
Research and development	7	11
Selling and distribution	7	9
Administration	14	13
	<u>61</u>	<u>71</u>

Their aggregate remuneration comprised:

	2020 £'000	2019 £'000
Wages and salaries	3,122	4,106
Social security costs	318	459
Pension costs	379	465
	<u>3,819</u>	<u>5,030</u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

5 Directors' remuneration

	2020 £'000	2019 £'000
Remuneration for qualifying services	214	184
Company pension contributions to defined contribution schemes	12	6
	<u>226</u>	<u>190</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2019 - 1).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2020 £'000	2019 £'000
Remuneration for qualifying services	214	n/a
Company pension contributions to defined contribution schemes	12	n/a
	<u> </u>	<u> </u>

As total directors' remuneration was less than £200,000 in the comparative year, no disclosure is provided for that year.

One director has 1,000 share options from the ultimate parent company in issue. No share based payment charge has been recognised as the directors consider it not to be material to the financial statements.

6 Operating loss

	2020 £'000	2019 £'000
Operating loss for the year is stated after charging/(crediting):		
Exchange (gains)/losses	(27)	56
Research and development costs	1,061	1,920
Depreciation of owned tangible fixed assets	436	508
Loss on disposal of tangible fixed assets	3	32
Amortisation of intangible assets	-	54
Impairment of stocks recognised or reversed	941	614
Operating lease charges	305	261
	<u> </u>	<u> </u>

7 Auditor's remuneration

	2020 £'000	2019 £'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the company	35	33
	<u> </u>	<u> </u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

8 Interest receivable and similar income

	2020 £'000	2019 £'000
Interest income		
Interest on bank deposits	33	69
Interest receivable from group companies	647	611
Total income	<u>680</u>	<u>680</u>

9 Other gains and losses on fixed asset investments

	2020 £'000	2019 £'000
Gain on disposal of fixed asset investments	-	327
	<u>-</u>	<u>327</u>

During the comparative year, the company sold its subsidiary undertaking, Racal Acoustics, Inc.

10 Taxation

	2020 £'000	2019 £'000
Current tax		
UK corporation tax on profits for the current period	68	-
Adjustments in respect of prior periods	(13)	(43)
Total current tax	<u>55</u>	<u>(43)</u>

The total tax charge/(credit) for the year included in the income statement can be reconciled to the profit/(loss) before tax multiplied by the standard rate of tax as follows:

	2020 £'000	2019 £'000
Profit/(loss) before taxation	<u>354</u>	<u>(2,618)</u>
Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	67	(497)
Tax effect of expenses that are not deductible in determining taxable profit	5	(62)
Change in unrecognised deferred tax assets	17	9
Adjustments in respect of prior years	(13)	(43)
Effect of change in corporation tax rate	(34)	-
Group relief	-	550
Depreciation on assets not qualifying for tax allowances	13	-
Taxation charge/(credit) for the year	<u>55</u>	<u>(43)</u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

10 Taxation (Continued)

The Finance Act 2016 was enacted so as to reduce the corporation tax rate from 19% to 17% with effect from 1 April 2020. In March 2020 the Chancellor announced that the tax rate would remain at 19% and this was substantively enacted before the reporting date therefore has been used in the measurement of deferred tax.

The company has a deferred tax asset of £308,329 (2019: £292,938) as at the year end. No asset has been recognised in the financial statements due to uncertainty of the timing over which the asset will unwind.

11 Dividends

	2020 £'000	2019 £'000
Final paid	-	2,500

In December 2020 a dividend of £52.4m was paid. Of this, £47.3m was settled through amounts owed by group undertakings and £5.1m was paid in cash. The dividend was issued in December 2020 on recommendation of the directors and has not been included as a liability in these financial statements.

12 Intangible fixed assets

	Development costs £'000
Cost	
At 1 October 2019 and 30 September 2020	1,348
Amortisation and impairment	
At 1 October 2019 and 30 September 2020	1,348
Carrying amount	
At 30 September 2020	-
At 30 September 2019	-

The amortisation charge for the year is included within administrative expenses.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

13 Tangible fixed assets

	Leasehold improvements and fixtures and fittings £'000	Plant and tooling £'000	Computer equipment £'000	Total £'000
Cost				
At 1 October 2019	3,096	5,116	651	8,863
Additions	81	177	5	263
Disposals	(10)	(111)	(12)	(133)
At 30 September 2020	<u>3,167</u>	<u>5,182</u>	<u>644</u>	<u>8,993</u>
Depreciation and impairment				
At 1 October 2019	2,442	4,288	609	7,339
Depreciation charged in the year	183	238	15	436
Eliminated in respect of disposals	(6)	(111)	(12)	(129)
At 30 September 2020	<u>2,619</u>	<u>4,415</u>	<u>612</u>	<u>7,646</u>
Carrying amount				
At 30 September 2020	<u>548</u>	<u>767</u>	<u>32</u>	<u>1,347</u>
At 30 September 2019	<u>654</u>	<u>828</u>	<u>42</u>	<u>1,524</u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

14 Fixed asset investments

	2020 £'000	2019 £'000
Investments in subsidiaries	<u> </u>	<u> </u>

During the comparative year, the company sold the entire ordinary share capital of Racal Acoustics Inc (1,000 ordinary shares of \$0.1 each), a company incorporated in the United States of America, for total consideration of \$400,000. The principal activity of Racal Acoustics Inc, was to act as a sales and marketing operation in the Americas.

15 Stocks

	2020 £'000	2019 £'000
Raw materials and consumables	744	817
Work in progress	239	227
Finished goods and goods for resale	1,108	202
	<u>2,091</u>	<u>1,246</u>

16 Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:	£'000	£'000
Trade debtors	599	3,608
Amounts owed by group undertakings	47,206	47,560
Other debtors	1,092	1,092
Prepayments and accrued income	468	696
	<u>49,365</u>	<u>52,956</u>

Amounts owed by group undertakings include £36,102,000 (2019: £36,102,000) due from the parent undertaking which are non-interest bearing and payable on demand.

Amounts due from group undertakings also include net loan balances of £11,104,000 (2019: £10,457,000) on which interest is receivable at rates ranging from 3.5% to 6.5% (2019: 3.5% to 6.5%).

17 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	1,234	1,797
Amounts owed to group undertakings	2,395	2,205
Accruals and deferred income	1,303	1,349
	<u>4,932</u>	<u>5,351</u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

18 Provisions for liabilities

	2020 £'000	2019 £'000
Warranty provision	45	50
Dilapidations provision	253	209
Deferred consideration	298	333
Legal and other	418	418
	<u>1,014</u>	<u>1,010</u>

Movements on provisions:

	Warranty provision £'000	Dilapidations provision £'000	Deferred consideration £'000	Legal and other £'000	Total £'000
At 1 October 2019	50	209	333	418	1,010
Additional provisions in the year	45	44	-	-	89
Utilisation of provision	(50)	-	(35)	-	(85)
	<u>45</u>	<u>253</u>	<u>298</u>	<u>418</u>	<u>1,014</u>

Warranty provisions are estimated based on expected warranty costs on sales made by the company. The company generally operates a one year warranty period.

Dilapidation provisions are estimated based on the expected value of future work required to restore properties to the condition specified in the lease agreement.

Deferred consideration is payable for the ongoing use of the Racal name at £35,000 per annum for 25 years from the date of acquisition in 2004 from Thales Defence Limited. This amount has not been discounted, as the impact of discounting is not considered material.

Other legal provisions relate to potential legal settlement costs, for cases which are not concluded as at the year end. The possible outflow of economic benefit provided for in the prior year was utilised within the year.

19 Retirement benefit schemes

	2020 £'000	2019 £'000
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	379	465
	<u>379</u>	<u>465</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 Share capital

	2020 £'000	2019 £'000
Ordinary share capital		
Issued and fully paid		
8,647,525 Ordinary shares of £1 each	8,648	8,648
	<u>8,648</u>	<u>8,648</u>

The Ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Subsequent to the year end, on 30 October 2020, the directors cancelled 6,647,525 of the ordinary shares in issue in the company. Following this the company has 2,000,000 ordinary shares in issue of £1 each.

21 Derivatives

The company purchases forward foreign currency contracts to hedge currency exposure. The fair value of these derivatives, recorded in accruals due within one year, held at period end was £40,364 (2019: £120,000). The fair value is derived from the bank valuation of the instrument. The gains/(losses) are recognised in the profit and loss account.

22 Profit and loss reserves

Cumulative profit and loss net of distributions to owners.

23 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2020 £'000	2019 £'000
Within one year	296	250
Between one and five years	756	882
	<u>1,052</u>	<u>1,132</u>

24 Capital commitments

Amounts contracted for but not provided in the financial statements:

	2020 £'000	2019 £'000
Acquisition of tangible fixed assets	24	118

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

25 Events after the reporting date

Subsequent to the year end, on 30 October 2020, the directors cancelled 6,647,525 of the ordinary shares in issue in the company. Following this the company has 2,000,000 ordinary shares in issue of £1 each.

In December 2020 a dividend of £52.4m was paid. Of this, £47.3m was settled through amounts owed by group undertakings and £5.1m was paid in cash.

On 22 December 2020 an agreement was reached between Transdigm Inc and INVISIO AB for the sale of Racal Acoustics Limited. The transaction is expected to be completed in the first quarter of 2021, after which point Racal Acoustics Limited will become a wholly owned subsidiary of INVISIO AB.

26 Ultimate controlling party

The immediate parent undertaking is Weston Aerospace Limited, a company incorporated in England and Wales.

The directors consider the ultimate parent company to be TransDigm Group, Inc., a company incorporated in the United States of America. The smallest and largest group in which the results of the company are consolidated is that headed by TransDigm Group, Inc. The consolidated financial statements of that company are available to the public and may be obtained from its registered office: The Tower at Erieview, 1301 East 9th St., Suite 3000, Cleveland, OH 44114.

On 22 December 2020 an agreement was reached between Transdigm Inc and INVISIO AB for the sale of Racal Acoustics. The transaction is expected to be completed in the first quarter of 2021, after which point Racal will become a wholly owned subsidiary of INVISIO AB.