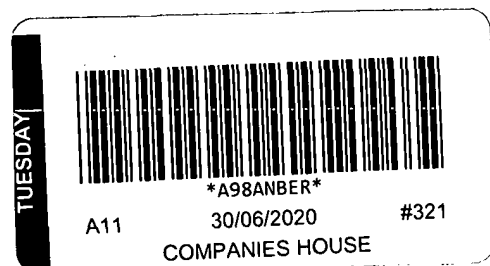


Company Registration No. 05019038 (England and Wales)

RACAL ACOUSTICS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 SEPTEMBER 2019



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 2019

The directors present the strategic report for the year ended 30 September 2019.

Fair review of the business

The company's key financial performance indicators at year-end were as follows:

	Year ended 30 September 2019 £'000	Year ended 28 September 2018 £'000	Change
Turnover	12,279	12,216	0.52%
Loss before taxation	(2,618)	(2,141)	(22.28)%
Total equity	56,305	61,380	(8.27)%

The directors note that 2019 was a year of consolidation, with business environment remaining challenging. We continue to customise our products to suit specific and demanding customer requirements.

Business environment

During 2019 we have seen increasing interest in high noise headsets, for use on tracked military vehicles. The new RA4000 Magna High noise headset, aimed at existing military markets internationally as an upgrade to older legacy headsets, was successfully trialed by several key customers globally. RA4000 has secured initial orders within the period, in the UK and Australia, and been selected on a large European program. Other trials are ongoing in Europe, looking promising for some 2020 orders. Within the UK we also secured multiple orders from adjacent markets –military aviation ground crew, with more orders to follow.

We have also started to see increasing interest from existing customers for the supply of legacy headset spare parts, and also an increase in returning fielded products to the factory for repair/refurbishment service. Primarily these legacy products have been high-noise headsets, again indicative of increasing activity of high noise applications.

Demand in the medium-noise market for RA5001 Raptor headsets has started to increase, thanks to the large US Army JLTV vehicle program, which has progressed into its full rate production phase.

We are nearing completion of development of a dismounted soldier headset for the exclusive use of an industry partner, and have already received their purchase order for production quantities. They are tracking multiple dismounted soldier opportunities globally, and we expect to be supporting them in this pursuit with product samples for customer trials in 2020.

Strategy

The company's strategy is to be the leader in customisable, situational awareness hearing protection and communication in harsh environments.

Mission: The timely delivery of industry beating technologies and capabilities, embodied in a range of product solutions for challenging operating conditions.

Through: Listening and responding to our customers' current and future needs. Utilising software and leading edge acoustic technologies. Demonstrating that we care.

We will: Delivery timely, future-proofed, innovative and customer needed solutions, developed and manufactured to meet economic expectations. Become our customers' supplier of choice.

In order to: Protect our existing global market share. Take market share from our key competitors. Deliver growth in our internal and external stakeholders.

RACAL ACOUSTICS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Research and development

The company conducts research into new technology and development of existing technology. The directors regard the investment in research and development as integral to the continuing success of the business and ensuring the company provides the highest quality products to its customers by spending 16% ratio of sales to research and development similar to prior year.

Future outlook 2020+

RA4000 Magna high-noise headset will continue to gain traction in the market globally, with a particular focus on North America where we can grow high-noise headset market share.

We will protect our position in the medium noise markets by customising products to meet specific customer needs.

We 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 target aftermarket business for products already sold and in service.

Post balance sheet events

On 11 March 2020 the World Health Organisation ("WHO") announced a global pandemic in relation to the coronavirus outbreak ("COVID-19"), which has had a significant impact on the global and UK economies.

After making enquires and considering the post year end 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 12.

Principal risks and uncertainties

Risks are formally reviewed by the board and appropriate processes are in place to monitor and mitigate them. The principal risks are considered to be the following.

Product availability

The company operates in a market sector which has a diversity of product offerings. In order to remain competitive, the company has identified the need to reduce lead times, to fulfil customer demand. As a result, the company has adopted a strategy of investing in stocks of key products to reduce lead times.

Supply chain

The company recognises the importance of its supply chain in continued good performance and has invested in people and processes to mitigate supply chain risks. For key suppliers the company has entered into partnership agreements recognising the importance of the relationship to both parties. The company continues to monitor the performance of its supply chain and during 2019 has moved supply contracts away from poor performing partners.

Foreign exchange

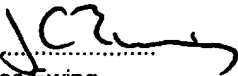
The company had a risk averse approach to foreign exchange risks by using forward foreign currency contracts where possible and operating a hedging policy based on firm contractual commitments to suppliers and from customers. The implication of Brexit has led to a weaker sterling and the company has taken a stance on transacting at spot rate where future hedges have not been favourable.

RACAL ACOUSTICS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

On behalf of the board


.....
James Ewing
Director

Date: 26 June 2020
.....

RACAL ACOUSTICS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

The directors present their annual report and financial statements for the year ended 30 September 2019.

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	(Appointed 14 March 2019 and resigned 2 October 2019)
James Ewing	(Appointed 26 June 2019)
Sarah Wynne	(Appointed 14 March 2019)
Dick Heinrich	(Resigned 14 February 2019)
Stephen Nolan	(Resigned 14 March 2019)
Curtis Reusser	(Resigned 14 March 2019)
Albert Yost	(Resigned 30 May 2019)
Liza Sabol	(Appointed 2 October 2019)

Results and dividends

The results for the year are set out on page 8.

Ordinary dividends were paid in the year amounting to £2,500,000 (2018: £nil). The directors do not recommend payment of a further dividend.

Auditor

RSM UK Audit LLP were appointed as auditor to the company during the year and are 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

Date: 26 June 2020
.....

RACAL ACOUSTICS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2019

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 2019 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 2019 and of its loss 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 5, 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

29 June 2020

RACAL ACOUSTICS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

	Notes	Continuing operations £'000	Discontinued operations £'000	30 September 2019 £'000	Continuing operations £'000	Discontinued operations £'000	28 September 2018 £'000
Turnover	3	12,279	-	12,279	11,590	626	12,216
Cost of sales		(9,013)	-	(9,013)	(11,727)	(60)	(11,787)
Gross profit		<u>3,266</u>	<u>-</u>	<u>3,266</u>	<u>(137)</u>	<u>566</u>	<u>429</u>
Administrative expenses		(6,891)	-	(6,891)	(3,325)	-	(3,325)
Operating loss	6	<u>(3,625)</u>	<u>-</u>	<u>(3,625)</u>	<u>(3,462)</u>	<u>566</u>	<u>(2,896)</u>
Interest receivable and similar income	7	680	-	680	755	-	755
Other gains and losses	8	327	-	327	-	-	-
Loss before taxation		<u>(2,618)</u>	<u>-</u>	<u>(2,618)</u>	<u>(2,707)</u>	<u>566</u>	<u>(2,141)</u>
Tax on loss	9	43	-	43	(253)	-	(253)
Loss for the financial year		<u>(2,575)</u>	<u>-</u>	<u>(2,575)</u>	<u>(2,960)</u>	<u>566</u>	<u>(2,394)</u>

RACAL ACOUSTICS LIMITED**STATEMENT OF FINANCIAL POSITION****AS AT 30 SEPTEMBER 2019**

	Notes	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	11	-	54
Tangible assets	12	1,524	1,898
Investments	13	-	-
		<u>1,524</u>	<u>1,952</u>
Current assets			
Stocks	14	1,246	2,820
Debtors	15	52,956	50,093
Cash at bank and in hand		6,940	10,095
		<u>61,142</u>	<u>63,008</u>
Creditors: amounts falling due within one year	16	<u>(5,351)</u>	<u>(2,988)</u>
Net current assets		55,791	60,020
Total assets less current liabilities		57,315	61,972
Provisions for liabilities	17	<u>(1,010)</u>	<u>(592)</u>
Net assets		<u>56,305</u>	<u>61,380</u>
Capital and reserves			
Called up share capital	19	8,648	8,648
Profit and loss reserves	21	47,657	52,732
Total equity		<u>56,305</u>	<u>61,380</u>

The financial statements were approved by the board of directors and authorised for issue on 26 June 2020 and are signed on its behalf by:


James Ewing
Director

RACAL ACOUSTICS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 30 September 2017		8,648	55,126	63,774
Year ended 28 September 2018:				
Loss and total comprehensive income for the year		-	(2,394)	(2,394)
Balance at 28 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	10	-	(2,500)	(2,500)
Balance at 30 September 2019		8,648	47,657	56,305

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

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.

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 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- 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 26 'Share based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- 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 Erieview, 1301 East 9th St., Suite 3000, Cleveland, OH 44114.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements. The financial statements present information about the company as an individual entity and not about its group.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies (Continued)

Going concern

On the basis of their assessment of the company's financial position and resources, the directors believe that the company is well placed to manage its business risks, including the post year end COVID-19 outbreak. The directors have a reasonable expectation that operating cash flows will continue to be positive.

In making their assessment, 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 impact of COVID-19 on the results of the business. In addition, the directors have given consideration to the support available to the company from its ultimate parent company, Transdigm Group Inc. and the company has received assurances from the ultimate parent company that it will provide financial support, if required, to ensure the company will be able to meet its ongoing expenditure and liabilities as they fall due.

Based on the directors' expectation that operating cash flows will continue to be positive and the availability of the financial support of the ultimate parent company, if required, the Directors 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 2019

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 2019

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.

Deferred tax is recognised on income and expenses from subsidiaries, that will be assessed to or allow for tax in a future period except where the company is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

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 2019

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.

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.

Impairment of non-financial assets

Where there are indicators of impairment on individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used.

Provisions - legal and other

Legal 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 2019

3 Turnover

	2019 £'000	2018 £'000
Turnover analysed by class of business		
Communications equipment	12,279	12,216
	<u>12,279</u>	<u>12,216</u>
	2019 £'000	2018 £'000
Turnover analysed by geographical market		
United Kingdom	3,998	3,146
United States of America	2,762	3,305
Rest of Europe	2,304	2,114
Rest of the world	3,215	3,651
	<u>12,279</u>	<u>12,216</u>

4 Employees

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

	2019 Number	2018 Number
Production	38	35
Research and development	11	19
Selling and distribution	9	10
Administration	13	17
	<u>71</u>	<u>81</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	4,106	3,520
Social security costs	459	394
Pension costs	465	489
	<u>5,030</u>	<u>4,403</u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

5 Directors' remuneration

	2019 £'000	2018 £'000
Remuneration for qualifying services	184	151
Company pension contributions to defined contribution schemes	6	8
	<u>190</u>	<u>159</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2018 - 1).

6 Operating loss

	2019 £'000	2018 £'000
Operating loss for the year is stated after charging/(crediting):		
Exchange losses/(gains) including on derivatives	56	(36)
Research and development costs	1,920	1,913
Fees payable to the company's auditor for the audit of the company's financial statements	33	67
Depreciation of owned tangible fixed assets	508	535
Loss on disposal of tangible fixed assets	32	5
Amortisation of intangible assets	54	54
Sale proceeds & restructure cost Avionics Licence Agreement	-	(3,208)
Cost of stocks recognised as an expense	8,169	9,363
Impairment of stocks recognised or reversed	614	3,980
Operating lease charges	261	311
	<u>261</u>	<u>311</u>

The avionic division of the business was sold on licence to ONTIC Ltd during the comparative year.

7 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	69	61
Interest receivable from group companies	611	694
	<u>680</u>	<u>755</u>

8 Other gains and losses fixed asset investments

	2019 £'000	2018 £'000
Gain on disposal of fixed asset investments	327	-
	<u>327</u>	<u>-</u>

During the year the company sold its subsidiary undertaking, Racal Acoustics, Inc. Further information is provided in note 13.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

9 Taxation	2019 £'000	2018 £'000
Current tax		
Adjustments in respect of prior periods	(43)	(54)
	<u> </u>	<u> </u>
Deferred tax		
Origination and reversal of timing differences	-	220
Changes in tax rates	-	(3)
Adjustment in respect of prior periods	-	90
	<u> </u>	<u> </u>
Total deferred tax	-	307
	<u> </u>	<u> </u>
Total tax (credit)/charge	(43)	253
	<u> </u>	<u> </u>

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

	2019 £'000	2018 £'000
Loss before taxation	(2,618)	(2,141)
	<u> </u>	<u> </u>
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(497)	(407)
Tax effect of expenses that are not deductible in determining taxable profit	(62)	24
Change in unrecognised deferred tax assets	9	-
Adjustments in respect of prior years	(43)	233
Effect of change in corporation tax rate	-	(3)
Group relief	550	406
	<u> </u>	<u> </u>
Taxation (credit)/charge for the year	(43)	253
	<u> </u>	<u> </u>

The Finance Act 2016 was enacted so as to reduce the corporation tax rate from 19% to 17% with effect from 1 April 2020. These rates have been used to measure deferred tax assets and liabilities where applicable. In March 2020 the Chancellor announced that tax rate would remain at 19%, however, this rate had not been substantively enacted at the reporting date and it has not been used in the measurement of deferred tax.

The company has a deferred tax asset of £292,938 (2018: £284,437) 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.

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

10 Dividends

2019
£'000

2018
£'000

Final paid

2,500

-

11 Intangible fixed assets

Development
costs
£'000

Cost

At 29 September 2018 and 30 September 2019

1,348

Amortisation and impairment

At 29 September 2018

1,294

Amortisation charged for the year

54

At 30 September 2019

1,348

Carrying amount

At 30 September 2019

At 28 September 2018

54

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 2019

12 Tangible fixed assets

	Leasehold improvements and fixtures and fittings	Plant and tooling	Computer equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 29 September 2018	3,355	5,547	764	9,666
Additions	34	112	25	171
Disposals	(293)	(543)	(138)	(974)
At 30 September 2019	<u>3,096</u>	<u>5,116</u>	<u>651</u>	<u>8,863</u>
Depreciation and impairment				
At 29 September 2018	2,549	4,524	695	7,768
Depreciation charged in the year	183	273	52	508
Eliminated in respect of disposals	(290)	(509)	(138)	(937)
At 30 September 2019	<u>2,442</u>	<u>4,288</u>	<u>609</u>	<u>7,339</u>
Carrying amount				
At 30 September 2019	<u>654</u>	<u>828</u>	<u>42</u>	<u>1,524</u>
At 28 September 2018	<u>806</u>	<u>1,023</u>	<u>69</u>	<u>1,898</u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

13 Fixed asset investments

	2019 £'000	2018 £'000
Investments in subsidiaries	-	-

During August 2019, 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, is to act as a sales and marketing operation in the Americas.

14 Stocks

	2019 £'000	2018 £'000
Raw materials and consumables	817	2,345
Work in progress	227	461
Finished goods and goods for resale	202	14
	<u>1,246</u>	<u>2,820</u>

15 Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	3,608	2,645
Amounts owed by group undertakings	47,560	47,018
Other debtors	1,092	11
Prepayments and accrued income	696	419
	<u>52,956</u>	<u>50,093</u>

Amounts owed by group undertakings include £36,102,000 (2018: £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 £10,457,000 (2018: £9,846,000) on which interest is receivable at rates ranging from 3.5% to 6.5% (2018: 3.5% to 6.5%).

16 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	1,797	1,351
Amounts owed to group undertakings	2,205	575
Other creditors and accruals	1,349	1,062
	<u>5,351</u>	<u>2,988</u>

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

17 Provisions for liabilities

	2019 £'000	2018 £'000
Warranty provision	50	60
Dilapidations provision	209	165
Deferred consideration	333	367
Legal and other	418	-
	<u>1,010</u>	<u>592</u>

Movements on provisions:

	Warranty provision £'000	Dilapidations provision £'000	Deferred consideration £'000	Legal and other £'000	Total £'000
At 29 September 2018	60	165	367	-	592
Additional provisions in the year	50	44	-	418	512
Utilisation of provision	(60)	-	(34)	-	(94)
At 30 September 2019	<u>50</u>	<u>209</u>	<u>333</u>	<u>418</u>	<u>1,010</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 is estimated to be within the next year.

18 Retirement benefit schemes

	2019 £'000	2018 £'000
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	465	489
	<u>465</u>	<u>489</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 2019

19 Share capital

	2019 £'000	2018 £'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.

20 Derivatives

The company purchases forward foreign currency contracts to hedge currency exposure. The fair value of these derivatives, recorded in other creditors and accruals due within one year, held at period end was £120,000 (2018: £12,000). The fair value is derived from the bank valuation of the instrument. The gains/(losses) are recognised in the profit and loss account.

21 Profit and loss reserves

Cumulative profit and loss net of distributions to owners.

22 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:

	2019 £'000	2018 £'000
Within one year	250	235
Between one and five years	882	39
	<u>1,132</u>	<u>274</u>

23 Capital commitments

Amounts contracted for but not provided in the financial statements:

	2019 £'000	2018 £'000
Acquisition of tangible fixed assets	118	42

RACAL ACOUSTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

24 Events after the reporting date

On 11 March 2020 the World Health Organisation ("WHO") announced a global pandemic in relation to the coronavirus outbreak ("COVID-19"), which has had a significant impact on the global and UK economies.

The directors have concluded the outbreak represents a non-adjusting post balance sheet event and are satisfied that there is no material impact on the company's balance sheet as at 30 September 2019. As detailed in note 1 on page 12, the directors have considered the impact of the post year end COVID-19 outbreak and its effect on the company's ability to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements.

25 Ultimate controlling party

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

At the reporting date 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.