Cobham plc

Annual Report and Accounts 2015

COBHAM

The most important thing we build is trust

COBHAM OFFERS AN INNOVATIVE RANGE OF TECHNOLOGIES AND SERVICES TO SOLVE CHALLENGING PROBLEMS IN COMMERCIAL, DEFENCE AND SECURITY MARKETS

Front cover image:
A technology leader in connectivity solutions
Cobham is a world leading supplier of high performance equipment and solutions that enable connectivity for voice, data and video applications while on the move. Its small and light products have low power consumption and excel in demanding environments such as on aircraft or in large infrastructure where reception is poor including buildings, tunnels, airport terminals and stadiums.

Inside cover image:
Global coverage for aircraft connectivity
Cobham provides a range of technology for aircraft, including content on every Airbus. It provides sophisticated antennas, avionics and SATCOM products for communication and navigation, with applications in the cockpit and cabin for a commercial aircraft as well as providing signal jamming and radar technology for military aircraft, in addition to leading missile guidance capabilities.

Cobham is a leading global technology and services innovator, respected for providing solutions for the most challenging problems, from deep space to the depths of the ocean.

We employ 11,500 people on five continents, and we have customers and partners in more than 100 countries.

Dividend
11.18p
(2014: 10.65p)

Total revenue
£2,072m
(2014: £1,852m)

Earnings per ordinary share – underlying*
19.5p
(2014: 18.5p)

Earnings per ordinary share – basic**
(3.3)p
(2014: 2.6p)

- Robust performance driven by the full year contribution from the Aeroflex acquisition; integration accelerated and anticipated to be complete by the end of 2017 with total costs and benefits in line with original expectations
- Group order intake up 13% and book-to-bill of 1.04x; Group benefiting from multi-year orders on missile programmes
- Total revenue growth of 12% and trading profit increase of 16%; Group organic revenue declined 1%, with good non-US defence/security growth offset by commercial headwinds
- Private Venture investment increased to £138m or 8.2% of revenue (2014: £97m or 6.7%); technology investment closely aligned to attractive market opportunities
- Net debt reduction to £1,207m (2014: £1,223m) includes benefit of divestments but also £80m adverse foreign exchange impact and accelerated Aeroflex integration costs
- Proactive portfolio divestments to allow increased focus on core capabilities; Surveillance divestment completed in early 2016
- Statutory profit, £(40)m, and EPS, (3.3)p, include non-underlying charges associated with the acquisition and integration of Aeroflex, net profit from divestments and goodwill impairment
- Recommended 5% increase in full year dividend

* For definitions, please refer to page 132.
** After M&A related costs, net profit from divestments and goodwill impairment.

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You can also view this Annual Report and Accounts online at
www.cobhaminvestors.com

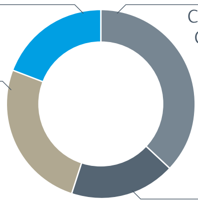
The Company is registered in England and Wales under company number 30470. The Company's registered office is Brook Road, Wimborne, Dorset, BH21 2BJ, UK.

COBHAM HAS AN INCREASINGLY BALANCED PORTFOLIO, WITH EXPOSURE TO COMMERCIAL MARKETS WHICH ARE UNDERPINNED BY LONG TERM GROWTH CHARACTERISTICS

The Group in 2015

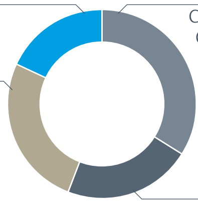
In line with its strategic objectives, the Group has brought more balance to its portfolio over time between commercial and defence markets. 38% of the Group's revenue in 2015 was derived from commercial markets, with 36% coming from US defence and 26% from non-US defence markets. The Group favours businesses with technology that can be applied to both commercial and defence markets, allowing it to benefit from growth in both.

Revenue by Sector (%)



£2,072m

Trading profit by Sector (%)



£332m

Sector percentages for revenue and trading profit exclude head office results and eliminations: see note 3 on page 89.

Our Sectors

Cobham has four Sectors, each with differentiated technology and know-how, having leading market positions in markets with long term growth characteristics. The Sectors' focus is on leading edge technologies at the subsystem and component level. The specialist Aviation Services Sector benefits from multi-year contracts which bring additional visibility and a long term underpinning to profitability.

Communications and Connectivity

Provides aircraft and in-building communication equipment; satellite communication equipment for land, sea and air applications; and test and measurement instrumentation for radio frequency, cellular communications and wireless networking.

Operating locations

United States, United Kingdom, Denmark, France, South Africa, Finland and Sweden.

Revenue

£772m
(2014: £697m)

Trading profit

£108m
(2014: £118m)

See page 18 for more information.

Mission Systems

Provides safety and survival systems for extreme environments, nose-to-tail aerial refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft. It also provides remote controlled robots for bomb disposal.

Operating locations

United Kingdom, United States and Germany.

Revenue

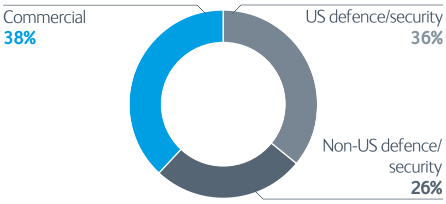
£382m
(2014: £334m)

Trading profit

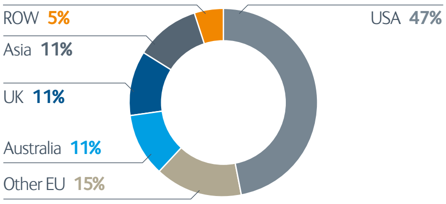
£68m
(2014: £36m)

See page 20 for more information.

Markets (% of revenue)



Geography (% of revenue)



Employees worldwide*

11,505
(2014: 12,707)

* Total permanent headcount at the year end.

Advanced Electronic Solutions

Provides critical solutions for communication on land, at sea, in the air and in space, through off-the-shelf and customised products including radio frequency, microwave, and high reliability microelectronics, antenna subsystems and motion control solutions. This incorporates defence, wireless/mobile and fixed broadband, X-ray imaging, medical and industrial markets.

Operating locations

United States and Mexico.

Revenue

£538m
(2014: £410m)

Trading profit

£81m
(2014: £64m)

See page 22 for more information.

Aviation Services

Delivers outsourced aviation services for military and commercial customers worldwide through military training, special mission flight operations, outsourced commercial aviation, fly-in fly-out services to the natural resources industry and aircraft engineering.

Operating locations

Australia and United Kingdom.

Revenue

£390m
(2014: £412m)

Trading profit

£57m
(2014: £55m)

See page 24 for more information.

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"Our focus in 2015 has been on integrating Aeroflex, streamlining the portfolio, embedding continuous improvement and positioning the Group to generate growth and cash."

COBHAM IS NOW MUCH MORE COHESIVE WITH STRONGER POSITIONS FROM WHICH TO GROW

Full year dividend

11.18p
(2014: 10.65p)

Growth in full year dividend

5%
(2014: 10%)

Overview

Following the 2014 acquisition of Aeroflex for some US$1.5bn, our focus has been on integrating the former Aeroflex businesses, streamlining and simplifying the portfolio, and continuing to embed a continuous improvement culture in the business. These actions, together with our focus on technology and customers, position the Group to deliver growth and generate cash.

This year, we have seen signs of stabilisation and, in some regions, improvement in our defence and security markets, which have been through a periodic downcycle. The new bipartisan budget agreement in the US covering 2016 and 2017, which includes an increase to the investment accounts, has underpinned this, even though there is a continuing time lag between budgetary approval and outlays, or the spending of the budget. Elsewhere, there is evidence of modest increases in some European defence/security budgets, with growth continuing in Asia-Pacific and in Middle East markets.

However, we have encountered unexpected headwinds in some of our commercial markets primarily as a result of slowing growth in Asia-Pacific and the impact of the reduction in the price of oil and gas. The Board believes that the fundamental, long term macro growth drivers in these markets, for which our technology is well positioned, remain unchanged.

It is these unexpected headwinds which have held back Group revenue growth during the year, with Cobham posting a slight organic revenue decline overall. Further, the headwinds have masked the solid progress that we have made to improve the business. This has included our increased investment to grow our pipeline of new and improved products and services. In addition, there has been very good progress on our major aerial refuelling development programmes. Although challenges remain as we move through the critical flight test phase on the US KC-46 tanker programme during 2016, we have made progress including the first successful transfer of fuel to a US Navy aircraft in early February 2016. Our progress here is, in part, testament to the ongoing commitment to increasing critical skills and capabilities in the business and to embedding a continuous improvement culture. This targets enhancements to our engineering skills as well as ongoing improvements to key operational and customer delivery metrics including on time delivery, quality and also supplier performance, which are all critical to the ongoing health of the business.

We are extremely encouraged by the excellent progress made in integrating the former Aeroflex businesses into the Group. Integration is now expected to be complete by the end of 2017 with costs and benefits in line with original expectations.

In addition, we have streamlined and simplified the Group's portfolio by exiting certain markets and technologies, allowing us to focus on our core capabilities. This has reduced complexity and enables us to concentrate our investment in markets with the most attractive long term potential.

These divestments have contributed to Cobham's cash generation in the year and we ended the year with lower net debt, despite unhelpful year end translation rates, as the Group's debt is primarily denominated in foreign currencies. Operating cash generation and free cash flow remain areas of increased focus for the Group in 2016.

When I look back at the considerable progress made over the past few years, Cobham is now a much more cohesive entity with stronger and more focused positions from which to grow in its markets. It has strengthened its leading market positions through selected acquisitions and judicious technology investments and it has exited weaker market positions by divesting some of its more peripheral activities. It has a greater balance in revenue from its main markets with more scale in attractive commercial segments. It has a redesigned organisation and management structure which has closely aligned management and reporting lines with the drive to deliver revenue growth. It has reduced its fixed cost base, with some of the efficiencies generated being used to increase investment in the business. It continues to transform its operational performance and customer delivery, to enable it to meet and exceed customer expectations and grow market share over time.

In addition, there has been an increase in our focus on risk management processes, on ethics and on employee satisfaction, with Cobham's ongoing Group-wide employee engagement and initiative feedback programme expected to include former Aeroflex employees for the first time during 2016.

The Board

We announced in January 2016 that Simon Nicholls, Chief Financial Officer (CFO), will be leaving Cobham to become CFO at Wolseley plc. The search to replace him is underway and, to ensure a smooth transition, Simon will remain in place until his successor has been identified.

We have also welcomed Alan Semple to the Board as a Non-executive Director in February 2015. Alan was previously CFO at John Wood Group plc. He subsequently became Chairman of the Audit Committee in April 2015, replacing Mike Wareing, who remains a member of the Committee.

Dividend

The Board is recommending a final dividend for 2015 of 8.13p (2014: 7.746p). This, together with the interim dividend of 3.05p (2014: 2.904p), will result in a total dividend per share for 2015 of 11.18p (2014: 10.65p), an increase of 5%.

This increase is consistent with the Group's policy, which I first set out in the 2014 Annual Report and Accounts, of growing the dividend so that it is broadly aligned with underlying earnings growth, while rebuilding dividend cover over time. The Board continues to consider that this approach will give the Group the flexibility to invest to drive growth and maximise shareholder returns.

The Board is mindful that Cobham has a long track record of dividend growth, this being the 45th consecutive year in which the full year dividend has been increased, and it remains committed to a progressive dividend policy.

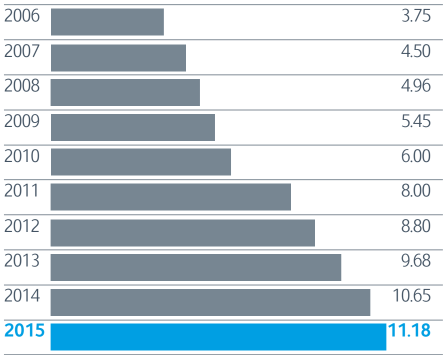
Conclusion

We have continued to make excellent progress on the delivery of our strategic objectives during the year, including excellent progress with the integration of the Aeroflex business. In addition, we have exited certain markets and technologies, allowing us to focus on our core capabilities, and in so doing we have reduced our risk profile.

The Board remains confident that the continued investment in technology and know-how will enable us to maintain our leading positions in markets with good prospects, leaving Cobham well placed to deliver growth over the medium term.

John Devaney
Chairman
2 March 2016

13% CAGR over ten years in dividend (pence)



See page 28 for more information.

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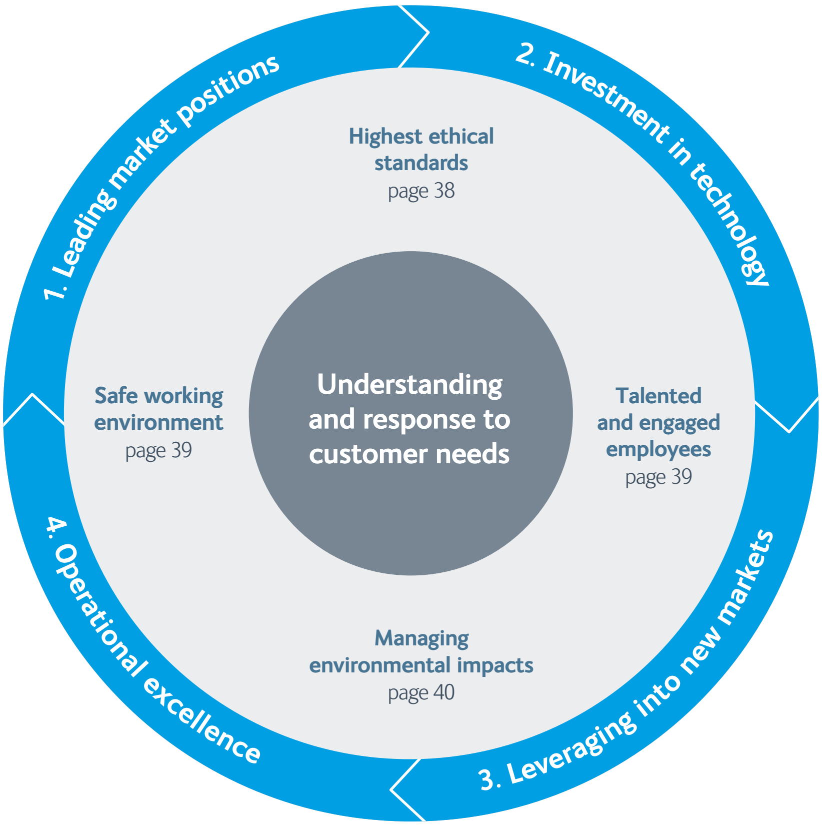
CONTINUALLY INVESTING IN OUR TECHNOLOGY AND KNOW-HOW IS KEY TO THE SUCCESS OF THE GROUP

Our business model

Our business model combines our longstanding customer relationships with a deep understanding of customer needs. It includes understanding how to nurture and sustainably grow businesses with specialist technologies, while continuously improving our operational performance. We also have a focus on ethics, safety and developing and enhancing the critical skills and capabilities of our employees.

The success of our model is also dependent on the rigour we apply to our risk management processes. We have clearly defined risk identification and mitigation processes in place and an established risk appetite through which risks can be managed with appropriate controls and assurance measures.

See pages 32 to 37 for more information.



Investing in skills and expertise

Being able to recruit and develop employees with the appropriate level of skills and expertise is a key component underpinning Cobham's delivery of shareholder value over the longer term. At the end of 2015, Cobham employed 4% of its UK workforce as apprentices, graduates and undergraduate placements and is on track to meet its 5% commitment by 2019.

See page 39 for more information.

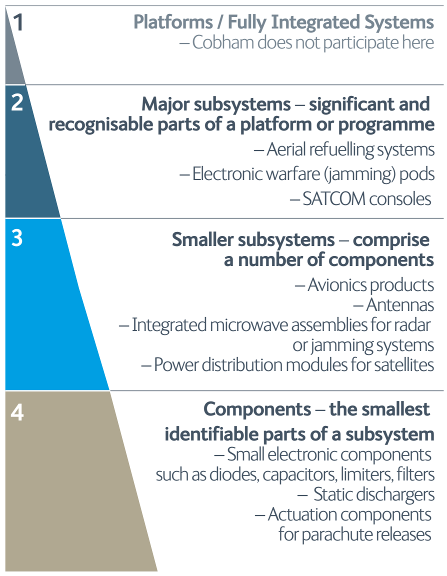
1. Leading positions in our markets

Cobham primarily designs and assembles subsystems and components and, as such, operates principally at Tier 3 and 4 of its chosen markets, with some limited participation at the Tier 2 level. The Group does not participate at the Tier 1 level, which includes the manufacture and integration of complete aircraft platforms, ships, missiles, medical and industrial equipment, and satellites.

The Group's leading market positions and its ongoing programme of investment combine to create effective barriers to entry in its markets, while optimising financial returns.

The chart below summarises the tier structure of our markets, including a small number of examples of products which demonstrate Cobham's participation in each.

Tier



Cobham in action

Cobham Semiconductor Solutions supplies application specific integrated circuits for CT (or computerised tomography), digital X-ray and ultrasound scanners, which are specifically designed for use in high radiation environments. The specialised microelectronic solutions offered by Cobham enjoy strong market positions, being supplied to four of the top five global medical equipment manufacturers.

Financial characteristics

The financial characteristics of the business have remained essentially unchanged over a long period of time. Differentiated technology and leading market positions in specialist markets have enabled the business to deliver strong trading margins. This, combined with its relatively low capital intensity, has enabled the business to generate good levels of free cash flow over time. More information on the financial characteristics of the business is set out on page 9.

Trading margin

16.0%

(2014: 15.5%)

Free cash flow (after restructuring)

£106m

(2014: £114m)

See pages 14 to 17 for information on our strategy and key performance indicators.

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2. Investment in high value, leading edge technology and know-how

Cobham's success is dependent on it bringing to market new and improved products and services, with a focus on markets with positive, long term macro trends, favouring products and services which have application across a number of markets. Making targeted investments across its leading technologies is therefore crucial to delivering increasing revenue. During the year, the Group invested £138m (2014: £97m) in Private Venture (PV or company funded R&D – Research and Development), including a full year contribution from Aeroflex. This represents 8.2% of revenue (2014: 6.7%). The Group has aligned this spending with developing products and services in growing markets including avionics, SATCOM, wireless and microelectronics.

PV investment

£138m

(2014: £97m)

Total R&D investment

£258m

(2014: £198m)

Cobham in action

In 2015, Cobham introduced its new electric propulsion xenon regulator and latch valve for satellites. These products, which were developed using company funding, allow commercial satellites to reach orbit in reduced time and to remain active for longer periods, so helping customers maximise their satellite investment. This, along with the Cobham products' lower weight and its other operational cost savings, position the Group to benefit from the increasing number of satellite launches expected over the coming years.

3. Leveraging existing technology products and services into new markets

An advantage of operating at the component and subsystem level is that Cobham's leading edge technology will often have applications in different end markets. This enables the Group to serve a diverse customer base and deliver growth through economic cycles, as it is not dependent on demand in one specific market, helping shift the focus of its portfolio over time. Each one of Cobham's Sectors now has commercial and defence/security market exposure.

Revenue from commercial markets

38%

(2014: 39%)

Cobham in action

Cobham is a leader in defence markets for fuel tank inerting technology, which reduces the risk of combustion of flammable material in aircraft fuel tanks, so improving safety. Cobham has invested to develop this life saving defence technology for application in commercial markets and has gained a significant position in commercial aircraft production, being on the Boeing 787 wide-body aircraft. It is also on the new Mitsubishi Regional Jet, which completed its maiden development flight in 2015. In addition to new build opportunities, it is gaining traction in retrofit markets, with a significant new award won from an airline during the year on the Boeing 737NG.

4. Programme management and continuous improvement

Cobham's continuing success is dependent on its ability to deliver products and services to its customers on time, on budget and to the required specification. The Group's leading edge technologies are critical to its customers and these need to be combined with industry leading quality and on time delivery.

The Group's programme management capabilities – critical for the successful design, testing and delivery of new and improved products on time, on cost and to specification – are a particular focus. Success here will enable it to grow market share and optimise its investment in technology by being the supplier of choice for its customers.

The Group also delivers year-on-year improvements to its operational execution and production processes, to keep ahead of the competition and deliver lower prices for its customers, while maintaining its trading margins. It achieves this through implementing a culture of continuous improvement (CI), underpinned by a well established suite of best practice processes called the Cobham Standard Operating Framework. Operational performance is monitored and managed using a well defined set of performance metrics.

Number of CI professionals within Cobham's businesses

40

(2014: 20)

Cobham in action

During the year, Cobham doubled the number of its CI professionals, drawing on internal experts as well as recruiting experienced individuals with best practice backgrounds from outside the business. These professionals, with a range of deep subject matter expertise, are key catalysts in the drive to deliver business benefits including cost saving initiatives, increased cash generation and improvements to customer delivery.

Graduates and apprentices recruited since 2010

213

(2014: 172)

Graduates and apprentices in Cobham's UK workforce

4%

(2014: 3%)

COBHAM IS FOCUSED ON A FEW SPECIALIST TECHNOLOGIES

Cobham has a portfolio of leading edge technologies and capabilities which are focused on a small number of specialist areas where it has an in-depth expertise and longstanding customer relationships.

Our key capabilities:

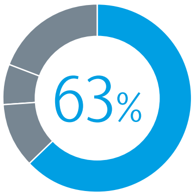
Participating Sectors:

Proportion of Group Revenue:

1. Communication products for sending and receiving voice, data and video signals

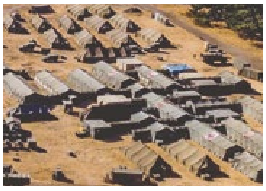
Communications & Connectivity

Advanced Electronic Solutions

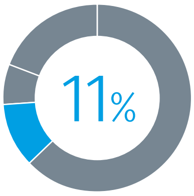


Cobham is a leading supplier of communications products for commercial and defence customers where there is a need to communicate on the move and in demanding or harsh environments including on aircraft, in space and at sea. It also offers a range of high end test and measurement products for wireless markets.

2. Pneumatic and actuation systems



Mission Systems

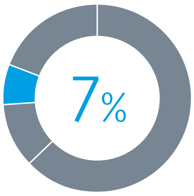


Cobham's market leading safety and survival systems increase mission effectiveness and the survivability of people and assets by leveraging specialist technology expertise in actuation, pure oxygen, gas management, water sensing, and restraint and release applications.

3. Nose-to-tail aerial refuelling systems

Image courtesy of Airbus

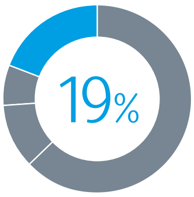
Mission Systems



With over 80 years' experience, Cobham is the most technically advanced supplier of aerial refuelling systems in the world. Cobham has delivered more than 2,000 aerial refuelling systems to defence customers worldwide.

4. Military and commercial outsourced aviation services

Aviation Services



Cobham delivers specialist outsourced aviation services for military and commercial customers worldwide through military training, special mission flight operations, outsourced airline services, fly-in fly-out services and aircraft engineering.

OUR LEADING CAPABILITIES RESULT IN DIFFERENTIATED SUBSYSTEMS AND COMPONENTS

Our investment attributes:

– Growth prospects

Cobham is focused on end markets with long term growth prospects, in particular driven by an increasing demand for mobile communication and increased global demand for air travel.

– Leading market positions

Cobham has leading positions in high-tech specialist markets with a particular focus on connectivity, where it designs and assembles subsystems and components. There are significant barriers to entry when these leading positions are combined with its ongoing investment to continually improve and refresh its capabilities. This enables it to maintain its competitive differentiation.

– Balanced market exposure

Cobham has significant exposure to global commercial and defence/security markets, positioning it to grow through cycles. The Group aims to leverage its technology across these markets as demand dictates.

– Broad programme participation

The Group supports a wide range of programmes across air, land, sea and space domains, so reducing the risk from any single platform or programme. This broad participation presents opportunities for cross-selling, which helps grow the business and increases the financial returns on its technology investment.

– Operational excellence

Cobham has embedded a continuous improvement philosophy with a focus on leading edge production techniques, improving customer delivery metrics and driving efficiency in its production planning, supply chain and engineering functions. This positions the Group as an efficient, cost effective provider, enhancing its ability to increase market share over time.

Leveraging our technology and know-how

Cobham favours technologies which have applications in different markets, as this enables the Group to maximise its return on investment and to grow through economic cycles.

Space

Core

Medical

Growth

Industrial

Emerging

Cobham's high reliability electronics, which are designed to operate in environments where there are high levels of radiation such as space, are now being used in medical applications, including digital X-ray and CT scanners. New industrial markets are also being accessed including airport security and data centre applications.

WHICH TARGET THESE RESULTS

– Top and bottom line growth over the long term (KPI)

Building and maintaining leading market positions, through leveraging innovative technology and customer insights, will enable the Group to deliver sustainable top and bottom line growth.

See pages 15 to 16 for more information.

– Trading margins

The Group's leading positions in specialist markets with hard-to-replicate intellectual property contributes to its strong trading margins.

See page 27 for more information.

– Cash conversion (KPI)

The Group's trading margin characteristics combined with its relatively low capital intensity results in its consistent, good cash conversion potential. The Group has a threshold for 80% operating cash conversion in any year.

See page 28 for more information.

– Return on invested capital (KPI)

Organic revenue growth, a strong trading margin and effective asset utilisation contribute to a return on invested capital which is greater than the Group's estimated weighted average cost of capital.

See page 15 for more information.

– Progressive dividend

Cobham's objective is to pay a progressive dividend and it has a long track record of dividend growth spanning 45 consecutive years.

See page 5 for more information.

Cash conversion

71%

(2014: 73%)

Underlying EPS

19.5p

(2014: 18.5p)

(KPI) Key performance indicator used by management.

TECHNOLOGIES AND KNOW-HOW THAT ARE USED IN GLOBAL COMMERCIAL, AND DEFENCE AND SECURITY MARKETS, WITH AN EMPHASIS ON CONNECTIVITY SOLUTIONS

Commercial

38%

(2014: 39%)

US defence/security

36%

(2014: 34%)

Non-US defence/security

26%

(2014: 27%)

The desire to communicate more is a positive long term trend

Cobham's markets are driven by a small number of long term macro growth trends which underpin its financial performance. Foremost among these is the desire on the part of the global population for an ever increasing and enhanced ability to communicate. Put simply, people want to be able to communicate no matter where they are and what they are doing. This demand encompasses video, data and voice communication. This trend is driven by increased urbanisation, a growing middle class and long term global economic growth.

Global mobile data traffic is expected to grow significantly. To deliver this growth, there is a constant focus on new technology, innovation and the optimisation of equipment, as well as network performance. Cobham makes specialist products for the mobile communication market, with a particular emphasis on communication in harsh or difficult environments. The technology challenges which this represents is well aligned to Cobham's strategy and its high-end technology.

Cobham also maintains leading positions in specialist aviation services markets, principally in Australia, and in aerospace markets, where it supplies differentiated products for a range of aircraft including large transport jets, regional jets, business jets and helicopters. Cobham's focus is again on communication related products in these markets, which are driven by the growing demand for air travel, with the production of new aircraft continuing to increase.

Our response

The growth attributes of these communication markets are attractive to Cobham and it has aligned its technology investment to take advantage of them. Cobham's commercially focused connectivity businesses, such as its SATCOM and Wireless business units, invest a double digit percentage of their revenue annually in developing new and improved products, to meet customers' evolving technology requirements.

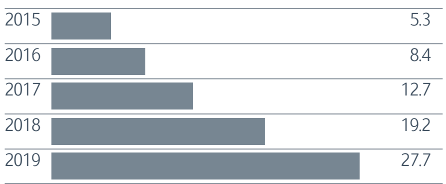
Furthermore, Cobham has invested to acquire companies which are primarily focused on commercial connectivity markets. These fit Cobham's strategic imperatives and include having leading positions in long term growth markets, with the ability to discriminate its product offering based on real technology differentiation. In doing this, Cobham has reinforced its market positions and brought more balance to its market exposures.

The US defence market is nearing the end of a prolonged downturn

US defence spending on procurement, and research, development, testing and evaluation (RDT&E) has fallen significantly in recent years, principally due to the withdrawal of troops from Iraq and Afghanistan. The decline in investment spending is beginning to stabilise.

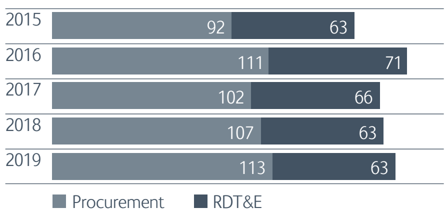
Since the start of the downturn, the US Government has consistently stated that it is refocusing its investment spending on a 'Pivot to Asia' strategy. In its June 2015 document, 'The National Military Strategy of the United States of America', the investment priorities include enhancing

Global monthly mobile data traffic (exabytes*)



Source: Ericsson Mobility Report Nov 2015
*One exabyte equals one billion gigabytes.

US DoD budget (US$bn)



Source: US Department of Defense (DoD) Future Years Defense Program.

> "We have focused on bringing more balance to the portfolio between our commercial and defence markets."

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communications, networked intelligence, and the swift and decisive projection of force around the world. These priorities are aligned to the Group's differentiated communication related technologies, with its components and subsystems having a variety of applications including for electronic warfare, radar, missile guidance systems, and satellite actuation and power distribution modules. Cobham also has leading positions in aerial refuelling, and pneumatic and actuation products primarily for aircraft platforms. Many of these platforms are key to the achievement of the customers' strategic priorities.

Our response

Cobham considers that its defence/security capabilities are well aligned with current US Government strategic priorities and the Group has increased investment in developing new and improved products to position Cobham on the significant, multi-year opportunities which are being awarded.

As a result of this investment, the Group has succeeded in securing good positions on priority platforms such as the KC-46 aerial refuelling tanker and the F-35 Joint Strike Fighter, as well as on important upgrade programmes including next generation radar, ballistic missile defence and electronic warfare programmes. Many of these are expected to benefit from increased funding over the coming years. However, it is expected that there will be a two-way impact in this market as there will be reduced funding for legacy positions, as these are wound down to support the increased investment in next generation platforms and programmes. The Group continues to believe that, over the coming years, the ability to grow in this market will be determined by company positioning on key programmes and platforms.

Medium term global defence expenditure growth estimates

MENA*	3%	6%
Latin America	1%	4%
Asia-Pacific	1%	3%
Africa	1%	3%
Europe	-2%	1%

*MENA – Middle East and North Africa, excluding inaccessible countries.
Sources: Cobham analysis, SIPRI, IMF, Strategic Defence Intelligence.

Demand conditions in non-US defence/security markets continue to improve

Demand conditions in non-US defence/security markets have continued to improve. In particular, there is a good level of demand in Asia-Pacific and in the Middle East, where there are heightened regional security tensions and local conflicts. The Group has continued to benefit from these market conditions, including orders from a number of different countries for missile control subsystems on high volume air-to-ground missiles and laser guided munitions.

In Europe, some countries have started to increase their defence budgets modestly in response to heightened security threats. However, budgetary increases are not being applied throughout the region and overall public deficits and indebtedness remains high. This is likely to continue to hold back growth in defence/security investment.

Our response

Cobham aims to leverage its technologies and capabilities into accessible markets worldwide outside of the US, either by benefiting from export orders won by its US and non-US defence/security customers or by direct sales to the end customer, as its critical subsystems and components are used globally on a diverse range of platforms and programmes.

It has also won and operates significant aviation services contracts around the world, including for governments in the UK, Australia, the Middle East, the Caribbean and Asia.

Our commercial markets include


Specialist Aviation Services


Aerospace


Marine SATCOM


Wireless


Space

"We have continued to invest in the business; in particular in technology, skills and capabilities, and in our infrastructure."

THERE IS NOW MORE BALANCE IN THE PORTFOLIO AND WE ARE FOCUSED ON MARKETS WHICH ARE UNDERPINNED BY FAVOURABLE LONG TERM TRENDS

PV investment

8.2%
(2014: 6.7%)

Aeroflex efficiencies achieved

US$37m
(2014: US$5m)

Strategy and progress overview

We have continued to progress our strategy of creating value for our shareholders by building and maintaining leading positions in our chosen markets through leveraging our innovative technology and know-how with a deep insight into our customers' needs.

We now have more balance in the portfolio between our defence/security revenue, with the portfolio focused in areas of customer priority in our chosen segments, and commercial revenue, where we are focused on markets that are underpinned by favourable, long term macroeconomic trends. This includes an ever increasing demand for enhanced communication, which is a positive market trend over the long term. We favour businesses with an ability to leverage differentiated technology into commercial and defence/security markets and all our Sectors now have a presence in both of these broad markets. We have five strategic actions and are measuring progress against them, as set out below.

1. Understanding customer needs and developing customer relationships

We continue to focus on opportunities to improve customer satisfaction and to anticipate future requirements. We have undertaken a comprehensive survey of our largest customers, which identified opportunities to deepen key relationships and to underpin our position as a preferred supplier of high quality products and services. Increasing emphasis on customer engagement has led to regular contact with key customers on market developments, new business opportunities and ideas for next generation products and technologies. As a result, we are identifying targeted PV investment to further grow our market share.

2. Improving operational performance

We have continued to make good progress with our continuous improvement activities. This progress is reflected in improvements over the past five years to key operational metrics such as on time delivery, supplier defective parts per million and supplier on time delivery. The positive trend has continued during the year, culminating in operational performance levels not previously achieved by the Group. These continuous improvement activities are also vital to delivering lower inventory and working capital levels in the future and, despite the increase in 2015, we are seeing encouraging progress in a number of areas.

We have successfully completed the initial implementation of our new Enterprise Resource Planning (ERP) IT system at the pilot manufacturing location, with the system fully operational at the site. The ERP system will be progressively rolled out across our other operating locations over the next three years.

3. Investing in and applying discriminating technology

We have continued to invest in technology to drive growth. Company funded PV investment increased significantly to £138m (2014: £97m), primarily reflecting the full year impact of Aeroflex. This investment represents some 8.2% (2014: 6.7%) of revenue. We have continued to align this spending with developing differentiated products and services in growing markets, including for avionics, SATCOM, wireless and microelectronics applications.

Specific examples of our technology investments in 2015 include:

- Cobham SATCOM achieved the first voice call over Inmarsat's SwiftBroadband aviation communication service using its new AVIATOR 200S compact unit. This unit is the first of several solutions that will be available to airlines in anticipation of the new generation SwiftBroadband Safety service in 2016;
- Cobham Wireless launched a new TeraVM cyber security threat analysis solution that assesses infrastructure defences by replicating real-life incidents, including denial of service and database related injection attacks;
- Initial orders were received for the Mission Systems Sector's new lightweight polymer lined, high pressure gas storage vessels. This technology, developed utilising experience gained in military and space applications, is being targeted at commercial industrial markets, including compressed natural gas vehicles. It offers customers superior fuel preservation and improved safety;
- The Advanced Electronic Solutions Sector continues to align its investments to US defence/security priorities specifically in radio frequency technology differentiation. Additionally, it continues to invest in high-reliability electronics for commercial space, medical and industrial applications.

In addition to company funded PV, customer funded research and development (R&D) was £120m (2014: £101m), primarily relating to aerial refuelling development programmes. We have continued to make encouraging progress, with the Airbus A400M entering low rate initial production at the end of the year. Also, the KC-46 entered its flight test phase at the end of the third quarter 2015, with free air stability testing and receiver contact trials undertaken. This was followed by the successful transfer of fuel to a US Navy F/A-18 in February 2016. It is expected that the rate of R&D investment in these programmes will moderate in 2016, as we move from development into low rate initial production.

4. Allocating capital to be aligned with growing markets

Following on from our September 2014 Aeroflex acquisition, we have made excellent progress integrating this business, achieving some £25m (US$37m) of year-on-year efficiencies in 2015. The efficiencies have been achieved through a combination of site integration activity, reduced Aeroflex head office costs, and direct and indirect supply chain benefits for the combined Group. Business restructuring costs incurred in the year, primarily relating to the Aeroflex integration, were £67m. We anticipate that this progress will continue, resulting in the Aeroflex integration programme being complete by the end of 2017, with the total costs and benefits in line with our original expectations. Our expected completion of the integration programme ahead of schedule will be a major achievement.

As set out on page 8 in more detail, Cobham is focused around four main areas of capability which comprise connectivity, pneumatics and actuation, aerial refuelling systems, and military and commercial specialist outsourced aviation services. During the year we have exited certain markets and technologies, enabling us to further focus on these core capabilities. These divestments comprise:

- Weinschel and Inmet in June 2015, for US$80m;
- The Group's composites businesses in November 2015, for US$200m;
- Metelics in December 2015, for US$38m.

In January 2016 we also divested the Surveillance business for US$10m.

Although resulting in earnings dilution, these divestments have reduced portfolio complexity, helping us to concentrate our investment in markets with the most attractive long term potential.

5. Enhancing the skills and capabilities of employees

We have increased our focus on key functional capabilities in the year, following the completion of the previously reported organisation design project. This includes continued activity to enhance our project and programme management capabilities, which will help ensure that our investments are being made effectively and efficiently. There has been a rigorous approach to assessing the competencies of individuals, complemented by a comprehensive training and development programme, which has led to a significant increase in the number of professional qualifications being achieved. This approach is now being extended to all other critical functions including engineering, operations and supply chain, finance, compliance, contracts, and human resources.

Conclusion

This has been another year of significant progress against the delivery of our strategic objectives. The excellent progress with the integration of the former Aeroflex business is a key highlight and we have continued to invest in our technology, our capabilities, our businesses and our infrastructure to underpin the drive for growth.

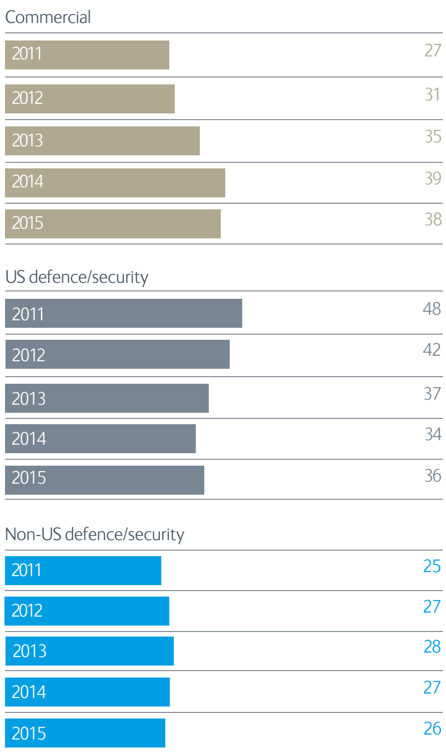
Bob Murphy
Chief Executive Officer
2 March 2016

Strategic overview

1. Focus on customers
2. Improve operational performance
3. Invest in technology
4. Allocate capital for growth
5. Enhance skills and capabilities

See pages 16 to 17 for more information.

End markets (% of revenue)



For further information visit us online at **www.cobham.com**

DELIVERING AGAINST OUR STRATEGIC PRIORITIES ...

We have a clearly defined vision and strategy statement. These are underpinned by our strategic actions, which give us the focus and direction to execute an improving performance.

Our strategic actions are linked to key performance indicators, which are used to monitor the ongoing performance and health of the business. To see how these indicators are linked to management remuneration, see pages 58 to 66.

Of course, how we work and deliver our results is as important to us as what we deliver. Our values, and the behaviours that underpin them, are fundamental to delivering sustainable success from what we do. These are the foundations on which everything we do is built. The most important thing we build is trust.

Our vision

Working together to be a leading global technology and services innovator, respected for providing solutions to the most challenging problems

Our strategy

Build and maintain leading positions in our chosen markets by leveraging innovative technology and know-how with a deep insight into customer needs

Our strategy drives our technology and know-how based business model, see pages 6 to 7.

Strategic actions

1. Focus on customers, 2. Improve operational performance, 3. Invest in technology, 4. Allocate capital for growth, 5. Enhance skills and capabilities

We use best practice enterprise risk management, see pages 32 to 37.

SPIRIT Values

Safety, Performance, Innovation, Relationships, Integrity, Trust

We understand that corporate responsibility and sustainability (CR&S) is a key driver of shareholder value, see more on this and our SPIRIT values on pages 38 to 41.

For further information visit us online at **www.cobham.com**

We believe that the following financial metrics measure the overall strength and performance of the Group. They also reflect how effectively the Group has performed against its five strategic actions.

Earnings

Underlying EPS (pence) £ KPI

2011	22.1
2012	22.6
2013	21.6
2014	18.5
2015	**19.5**

5%

Target: high single digit growth

Underlying EPS was 5% higher than the prior year, primarily due to the net impact of acquisitions and divestments, and cost efficiencies. At constant currency, underlying EPS was up 7% on the prior year.

Cash generation

Operating cash conversion (%) £ KPI

2011	95
2012	105
2013	85
2014	73
2015	**71**

71%

Target: >80%

Operating cash conversion was broadly consistent with the prior year. This included the impact of increased working capital and, as anticipated, increased capital expenditure, with Aviation Services continuing to invest in its aircraft fleet.

Shareholder value

Return on invested capital (%) KPI

2011	19
2012	18
2013	15
2014	12
2015	**11**

11%

Target: >10%

Return on invested capital was slightly lower than the prior year, primarily due to the impact of the Aeroflex acquisition which, including cost synergies, is expected to beat the Group's cost of capital in the third full year of ownership.

See pages 26 to 31 for more information on our financial performance.

KPI Key performance indicator used by management.

£ Used as a measure for determining executive remuneration.

For definitions, see page 132.

... DRIVES CASH GENERATION AND CREATES SHAREHOLDER VALUE

Strategic actions	1. Focus on customers	2. Improve operational performance
Description	We develop a deep understanding of our customers' needs and we look to build close relationships with them.	We seek to drive improvement in our operational performance to ensure our customers' needs are being met.
Importance	Understanding customer needs and their priorities is crucial to developing products and services that are relevant to and priorities for the market place.	Delivering products and services in line with customer schedules, in line with budget and to the agreed performance and quality metrics is essential to maintaining and increasing our market share.
Links to principal risks	Failure to understand customer demand and market environment, see risk 1 on page 35.	Failure to successfully execute continuous improvement, see risk 8 on page 37. Ineffective project and programme execution, see risk 5 on page 36.

Progress

Group revenue (£m) (KPI) (£)

2011	1,854
2012	1,749
2013	1,790
2014	1,852
2015	**2,072**

Staff safety - major accident incident rate* (KPI)

2011	465
2012	586
2013	326
2014	423
2015	**269**

Commentary

Focus on customers

Target: mid-single digit organic revenue growth

Organic revenue growth declined 1% in the year driven by adverse demand conditions in some of our commercial markets. This was despite good revenue growth in our non-US defence/security markets.

See page 27 for more information on revenue.

Improve operational performance

Target: 400 **Aspiration:** 0

We believe that health and safety is one of a number of indicators of operational performance. All the Group's leading indicators on training, risk assessment, workplace inspections and near miss reporting met their targets.

See pages 39 to 40 for more information on staff safety.

(KPI) Key performance indicator used by management.

(£) Used as a measure for determining executive remuneration.

For definitions, see page 132.

* per 100,000 employees.

3. Invest in technology

We look to invest in technologies, which are innovative, discriminating and which align with our technology road maps. This will underpin our growth.

Developing products and services which not only meet customer needs but which are differentiated from other competitive offerings is how we keep our existing customers and also how we win new customers to grow market share.

Failure to execute strategy, see risk 2 on page 35.

Group PV investment (% of revenue)* KPI

2011	4.9%
2012	5.3%
2013	6.2%
2014	6.7%
2015	**8.2%**

Target: 6%

Company funded PV investment has increased again in the year, primarily due to the full year impact of Aeroflex. The Group has aligned this investment, which it believes to be a primary driver of future growth, with developing differentiated products and services in growing markets.

See page 27 for more information on Group PV investment.

4. Allocate capital for growth

We constantly review our market place to ensure capital is being allocated to achieve sustainable value creation through a focus on growing markets.

Reviewing the market place constantly ensures we are focusing our organic and non-organic investment in those areas which will deliver the best financial returns, by optimising our revenue and profits.

Failure to deliver shareholder value from the Aeroflex acquisition, see risk 6 on page 36.

Invested in support of AMSA contract:

4

jet aircraft

Investment and modifications to three of four Bombardier Challenger jet aircraft are well underway, which will be used to deliver the new 12-year AUS$640m contract for the Australian Maritime Safety Authority (AMSA). Flying operations are expected to commence in 2016. This investment will support future organic growth.

See pages 24 to 25 for more information.

5. Enhance skills and capabilities

We enhance the skills and capabilities of our employees to create long term competitive advantage.

Enhancing the skills and capabilities of our employees, through value added learning and development, as well as recruiting and developing the next generation of skilled employees, is essential in a technology led business to delivering the promises we have made to our customers.

Failure to deliver targeted benefits with appropriate skills and talent recruited/retained, see risk 4 on page 36.

Voluntary staff turnover (%) KPI

2011	8.4%
2012	8.7%
2013	6.9%
2014	6.3%
2015	**11.2%**

Target: <10%

After a number of years of beating the target, voluntary employee turnover increased in the year and this is attributed to the organisation design project which was largely undertaken in the prior year. This programme involved changes in role or reporting lines for some employees. The higher turnover in the year is considered to be a short term impact from these changes.

See page 39 for more information.

* excluding Aviation Services.

ENABLING RELIABLE CONNECTIVITY ANYWHERE, ANYTIME

Provides aircraft and in-building communication equipment; satellite communication equipment for land, sea and air applications; and test and measurement instrumentation for radio frequency, cellular communications and wireless networking.

Revenue

Total revenue at constant currency increased by £85m due to the contribution from the former Aeroflex wireless business, net of the Composites divestment. Organic revenue declined by 4%.

The Sector saw good organic revenue growth in its defence/security markets including higher retrofit and aftermarket revenue for avionics products and increased Surveillance shipments. Within its commercial markets, there was also strong growth in aerospace revenue driven by higher volumes of SATCOM and avionics products. However, this was more than offset by significantly lower marine SATCOM revenue due to reduced demand in oil and gas, and in commercial shipping markets. There was also lower organic revenue in commercial land markets impacting in particular wireless products, after a strong 2014.

Trading profit

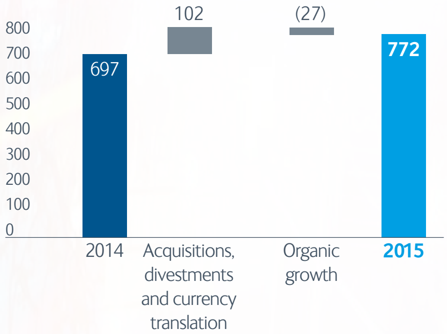
Trading profit was £108m (2014: £113m at constant currency) reflecting the impact of the reduced volumes in the shorter cycle commercial businesses. This was partially offset by the full year impact of the Aeroflex acquisition net of the Composites divestment and a good contribution from efficiencies, including from integration.

Reflecting the above factors, the Sector's trading margin was 14.0% (2014: 17.0%).

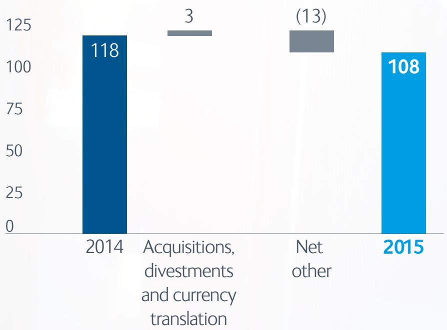
Other notable events in the year included:

- Cobham Wireless deployed the world's first intelligent digital distributed antenna system (idDAS) covering Berlin's Fan Mile, with an idDAS order also received for a Swedish tunnel programme;
- Rockwell Collins selected Cobham's Aviator 200S modem for the Chinese COMAC C919 aircraft. This secures a future commitment for hundreds of shipsets over the life of the aircraft and adds to the SATCOM antenna award already secured on this aircraft;
- Inmarsat has selected Cobham SATCOM to deliver an advanced mobile satellite services terminal for its S-band European aviation connectivity network. This is part of its recently announced European aviation network high-speed inflight connectivity solution, which it anticipates will enter commercial service at the end of 2016; and
- Cobham Aerospace Communications has received an award from Dassault for its Rafale fighter aircraft, adding a standard fit intercom system with crew alert capability to other Cobham products already on this aircraft, including antennas and lights.

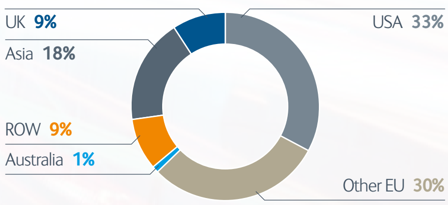
Sector revenue (£m)



Sector trading profit (£m)



Revenue by geography (%)

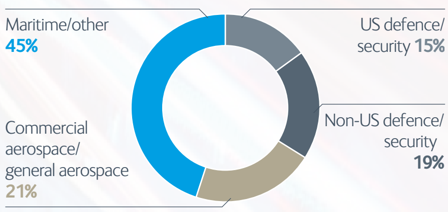


Revenue growth

11%

(2014: 3%)

Revenue by market (%)



% of Group revenue

37%

(2014: 38%)

Cobham SATCOM's SAILOR 100 GX antenna, an advanced Ka-band system for marine applications, provides connectivity to the Inmarsat GX network, the first commercial Ka-band global high-speed network.

Main image
Cobham Wireless is a global leader in the provision of advanced wireless coverage and mobile communication systems. It provides wireless coverage in buildings, tunnels, stadiums, metro systems and on trains. It is a global provider of network test solutions, to develop and test network functions.

LEADING CAPABILITIES IN AERIAL REFUELLING AND SURVIVAL SYSTEMS FOR EXTREME ENVIRONMENTS

Provides safety and survival systems for extreme environments, nose-to-tail aerial refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft. It also provides remote controlled robots for bomb disposal.

Revenue

Total revenue increased by £33m at constant currency, with organic revenue increasing by 10%. Organic revenue was driven by the commencement of a new multi-year C-130 production contract for the US Air Force and Marine Corps and higher aerial refuelling engineering and development revenue on the US KC-46 tanker programme. In addition, there was increased revenue from actuation control subsystems for air-to-ground missiles and laser guided munitions.

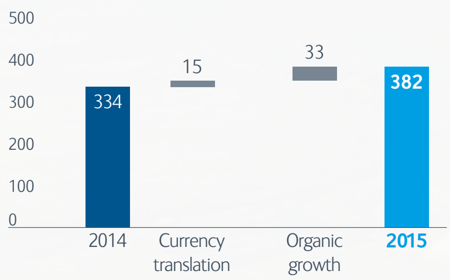
Trading profit

Trading profit was £68m (2014: £39m at constant currency) and benefited from the impact of higher production volumes and the non-repeat of the £15m aerial refuelling provision taken in 2014. Reflecting the above factors, the Sector's trading margin improved to 17.8% (2014: 10.8%).

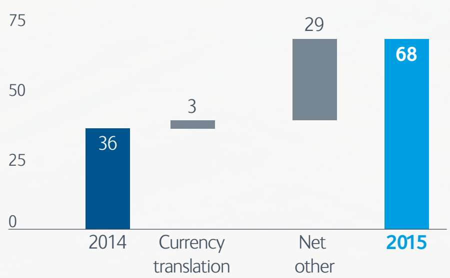
Building on the organic revenue in the year, the Sector has continued to make good progress, in particular:

- Representing a significant milestone, the Boeing KC-46 flight test programme commenced in September 2015. Cobham is supporting Boeing through the test programme with 18 aircraft to be delivered to the US Air Force by August 2017;
- Low rate initial production deliveries of the wing dispense aerial refuelling equipment commenced in October 2015 for the Airbus A400M final assembly line;
- An initial agreement with a launch customer for the new high performance and long life air separation module (ASM) for Boeing 737NG operators. The ASM is the heart of the safety system which delivers inert gas to aircraft fuel tanks, so reducing fire risk; and
- Robust missile actuation orders continued for control subsystems on high volume air-to-ground missiles and laser guided munitions.

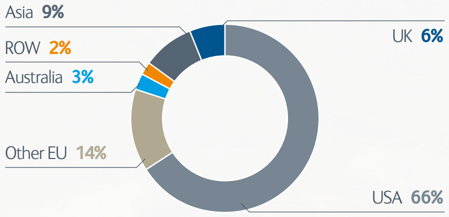
Sector revenue (£m)



Sector trading profit (£m)



Revenue by geography (%)

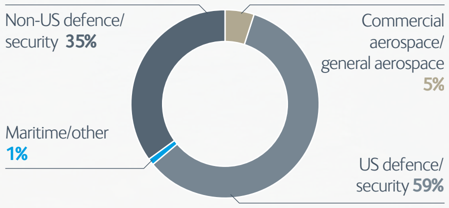


Revenue growth

15%

(2014: (7)%)

Revenue by market (%)



% of Group revenue

18%

(2014: 18%)

Image adapted from Boeing Dreamscape CC 2.0

Cobham's fuel tank inerting technology, initially developed for military aircraft, is gaining traction in commercial aviation markets. In 2015, Cobham received its first retrofit award from a Boeing 737NG operator. The Cobham solution offered is light and compact, keeping the aircraft running costs low.

Main image

The Boeing KC-46 tanker aircraft commenced flight trials in 2015 and testing will continue through 2016. Each KC-46 utilises state of the art Cobham aerial refuelling equipment.

179 KC-46 aircraft are currently on order from the US Air Force with entry into service planned for 2017.

PROVIDING CRITICAL ELECTRONICS ON LAND, AT SEA, IN THE AIR AND IN SPACE

Provides critical solutions for communication on land, at sea, in the air and in space, through off-the-shelf and customised products including radio frequency, microwave, and high reliability microelectronics, antenna subsystems and motion control solutions. This incorporates defence, wireless/mobile and fixed broadband, X-ray imaging, medical, and industrial markets.

Revenue

Total revenue increased by £96m at constant currency largely due to the contribution from the former Aeroflex microelectronics business, net of divestments.

Organic revenue growth declined by 7%. This included the benefits of increased volumes of microelectronic components and subsystems, with good growth in missile, electronic warfare and radar programme revenue for US and non-US defence/security customers. However, this was more than offset by significantly lower US defence/security volumes on some mature production programmes and reduced revenue from rotary joints, used on radar or microwave communication systems, and from wave guide products.

Trading profit

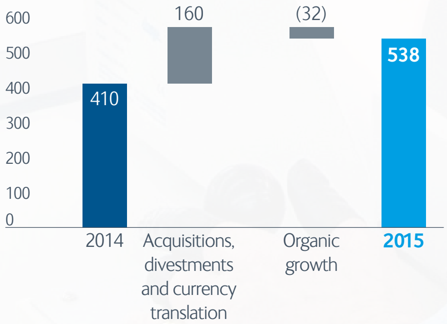
Trading profit was £81m (2014: £68m at constant currency) including the full year impact of Aeroflex, net of divestments, and a good contribution from efficiencies relating to the Aeroflex integration.

The Sector's trading margin was 15.0% (2014: 15.6%), impacted by lower mature production programme volumes and lower margin programmes in development and in low rate initial production.

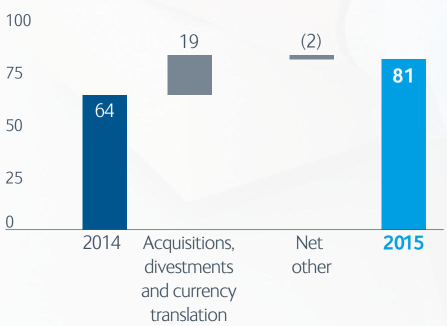
Notwithstanding the lower organic revenue, the Sector has leading positions in its markets and differentiated technologies including on several franchise programmes that will contribute to future revenue:

- Increasing production of the F-35 Joint Strike Fighter on which the Sector has significant content;
- Increasing demand for radio frequency electronics, with positions on a number of growing missile programmes, including the Standard Missile-6 and the Advanced Medium-Range Air-to-Air Missile; as well as the Boeing P-8 Poseidon, an anti-submarine warfare aircraft;
- Further investments to improve ship survivability, including increased funding for the Surface Electronic Warfare Improvement Program;
- Continuing strong demand for mixed signal application specific integrated circuits for medical and industrial applications; and
- Several important space awards, including on the NASA Mars 2020 Rover programme, where the Sector provides critical actuators that drive the Rover wheels, operates its steering, deploys its remote sensing mast and operates two of its cameras.

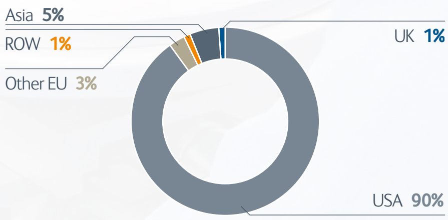
Sector revenue (£m)



Sector trading profit (£m)



Revenue by geography (%)

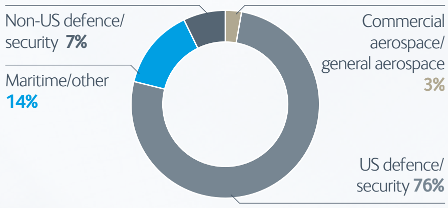


Revenue growth

31%

(2014: 10%)

Revenue by market (%)



% of Group revenue

26%

(2014: 22%)

Cobham received an order in the year for the production of antenna array panel assemblies used in the Block II configuration of the US Navy Surface Electronic Warfare Improvement Program, to defend against modern missile threats.

Arleigh Burke-class destroyers (pictured) are some of the first US Navy ships to receive the upgrade which will be rolled out to all major US ship types.

Main image

Cobham Semiconductor Solutions is a world leader in the design and manufacture of high-reliability integrated circuits, with product offerings for space, medical and industrial markets. Its high-tech radiation test facility, containing a full suite of specialised test equipment, is used to verify microelectronic designs for use in extreme environments.

DELIVERING SPECIALIST AVIATION SERVICES FOR MILITARY AND COMMERCIAL CUSTOMERS

Delivers outsourced aviation services for military and commercial customers worldwide through military training, special mission flight operations, outsourced commercial aviation, fly-in fly-out services to the natural resources industry and aircraft engineering.

Revenue

Total revenue increased by £3m at constant currency. Organic revenue was 1% higher, primarily due to increased government special mission and helicopter services revenue. This included increased fixed wing revenue in Australia, partially offset by lower operational readiness training activity in the Middle East. Revenue from commercial markets was broadly flat, although the second half was impacted by a deepening of the Australian resource industry downturn. There was some increased commercial airline services activity with Qantas, reflecting the additional aircraft brought into service in the first half of 2014, but this was balanced by some change of scope in the services provided under the contract.

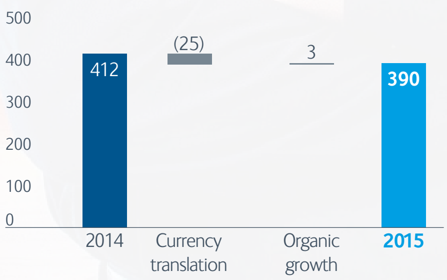
Trading profit

Trading profit was £57m (2014: £52m at constant currency) with a Sector trading margin of 14.7% (2014: 13.2%). This margin improvement is largely linked to the extension of some key contracts and associated life reassessment.

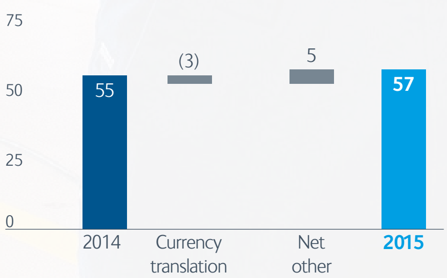
While the market is quite volatile, Aviation Services has continued to achieve successes, which should benefit revenue:

- Mobilisation of an additional two Boeing 717s is progressing well, ahead of their introduction into service with Qantas in early 2016. This will bring the total number of aircraft operated by Cobham on behalf of this customer to 20;
- A two-year extension was secured with the UK Ministry of Defence to continue services under the Defence Helicopter Flying School until the end of March 2018;
- Modifications are well underway for three of four aircraft for the 12 year AUS$640m AMSA contract. Flying operations are scheduled to commence in the second half of 2016; and
- An agreement was signed with General Atomics to create an affiliation covering whole life support arrangements, focusing on Predator® and B/MQ-9 Reaper® unmanned systems in the UK and in Australia.

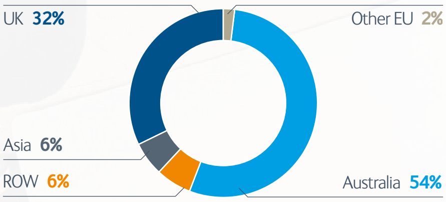
Sector revenue (£m)



Sector trading profit (£m)



Revenue by geography (%)

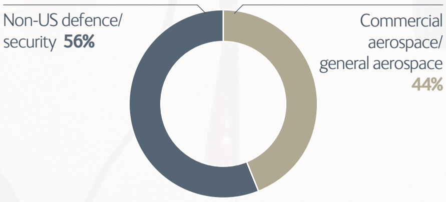


Revenue growth

(5)%

(2014: 13%)

Revenue by market (%)



% of Group revenue

19%

(2014: 22%)

Cobham provides operational readiness training for complex and demanding missions for air forces around the world, including the Royal Air Force, the Royal Saudi Air Force and for NATO exercises.

Main image

In 2015, Cobham began the modification of three of the four Bombardier Challenger CL-604 aircraft which have been purchased to deliver flying operations for the AUS$640m AMSA contract. The aircraft are scheduled to commence flying operations in the second half of 2016.

"The Group's primary focus in 2015 remained the integration of Aeroflex and optimising cash generation."

ENCOURAGING ORDER INTAKE WITH BOOK-TO-BILL OF 1.04x

Group revenue increased by

12%

(2014: 3%)

Total PV investment

£138m

(2014: £97m)

Summary of underlying results

£m	2015	2014
Revenue	**2,072**	1,852
Trading profit	**332**	287
Trading margin	***16.0%***	*15.5%*
Underlying net finance expense	**(52)**	(30)
Underlying profit before tax	**280**	257
Underlying tax	**(60)**	(52)
Underlying tax rate	***21.5%***	*20.3%*
Underlying profit after tax	**220**	205
Weighted average number of shares (millions)	***1,130***	*1,108*
Underlying EPS (pence)	**19.5**	18.5

Total Group revenue increased by 12% to £2,072m, primarily driven by the 2014 acquisition of Aeroflex, net of divestments. There was a net benefit from foreign currency translation, with organic revenue declining by 1%.

The Group's trading profit was £332m (2014: £287m), an increase of £45m, including a full year contribution of £23m from acquisitions net of divestments. This result also included the positive impact from efficiency savings, Aeroflex integration benefits and the non-repeat of the £15m aerial refuelling provision taken in 2014. There was a partial offset to this from the adverse impact of lower shorter cycle commercial volumes and the adverse revenue mix in the Advanced Electronic Solutions Sector. The trading margin increased to 16.0% (2014: 15.5%).

Total R&D investment was higher at £258m (2014: £198m). This included the full year impact on PV from Aeroflex and higher customer funded R&D investment primarily relating to aerial refuelling development programmes.

Underlying EPS was 19.5p (2014: 18.5p), an increase of 5% on the prior year. The primary drivers of this increase were the net impact of acquisitions and divestments, and efficiencies, partially offset by the dilutive impact of the May 2014 share placing and adverse foreign currency translation. At constant currency, underlying EPS was up 7% on the prior year.

Operating cash flow, which is stated after net capital expenditure but before interest and tax payments, increased to £235m (2014: £208m). Operating cash conversion was broadly consistent with the prior year at 71% (2014: 73%). This included increased working capital of £49m and, as anticipated, increased capital expenditure, which was £24m higher, with the largest increase being within the Aviation Services Sector. The increased capital expenditure reflected continuing investment in the aircraft fleet as a result of winning multi-year awards in 2014.

Free cash flow was £106m (2014: £114m), after restructuring payments of £48m primarily relating to the Aeroflex integration (2014: £32m – Excellence in Delivery and Aeroflex integration). Also included within free cash flow were interest payments of £49m (2014: £25m), which included the full year impact of the Aeroflex acquisition debt.

At the year end, the Group's net debt had decreased to £1,207m (2014: £1,223m) with the net debt/EBITDA ratio at 2.9x.

Orders

Group order intake was up 13% at £2,148m (2014: £1,908m). Excluding the full year impact of the Aeroflex acquisition and the impact of divestments, order intake on a like-for-like basis was 2% higher. Order intake benefited from the receipt of some significant orders in the Advanced Electronic Solutions Sector and the Mission Systems Sector for subsystems and components for a number of multi-year missile programmes.

The Group's book-to-bill ratio was 1.04x (2014: 1.03x). The book-to-bill ratio was 1.09x (2014: 1.01x) excluding the Aviation Services Sector, which is characterised by the receipt of large multi-year orders. At the year end, the Group's order book was £2,477m (2014: £2,508m). This represents an increase of 1% at constant exchange rates after taking into account the divestments completed during the year. Included within this, the Aviation Services Sector's order book was £1,067m (2014: £1,187m).

Revenue

A summary of changes to Group revenue in the year is as follows:

2014	FX translation	Acquisitions/ divestments	Organic growth	2015
£1,852m	£12m	£235m	£(27)m	**£2,072m**

Total Group revenue increased by 12% to £2,072m (2014: £1,852m), primarily driven by the full year impact of the Aeroflex acquisition, net of divestments completed during the year. There was also a £12m net benefit from foreign currency translation, primarily relating to the US dollar. This was partially offset by an adverse impact principally from the Australian dollar, the euro and the Danish krone.

Group organic revenue declined 1% in the year. There was good growth of 4% in non-US defence/security markets, where there was higher retrofit and aftermarket revenue for avionics products within the Communications and Connectivity Sector and increased revenue from actuation products for air-to-ground munitions within the Mission Systems Sector. In the US defence/security market, organic revenue declined 1%. There was increased aerial refuelling revenue from the Lockheed Martin C-130 and the Boeing KC-46 programmes within the Mission Systems Sector, but this was offset by lower volumes of integrated assemblies and microelectronics due to the continued run off of certain mature production programmes in the Advanced Electronic Solutions Sector.

The overall growth in defence/security markets was offset by a 6% decline in organic revenue in commercial markets, principally within the Communications and Connectivity Sector. The Sector benefited from growth in aerospace markets, driven by higher volumes of SATCOM and avionics products. However, this was offset by significantly lower marine SATCOM volumes, particularly in the fourth quarter, which was due to reduced demand in oil and gas, and shipping markets. There was also lower organic revenue from wireless products, after a strong 2014.

Technology investment

Company funded PV investment increased in the year to £138m (2014: £97m), primarily due to the full year impact of Aeroflex. This represents some 8.2% (2014: 6.7%) of revenue.

In addition to company funded PV, customer funded R&D was £120m (2014: £101m) primarily relating to aerial refuelling development programmes. The Group has continued to make encouraging progress with this development activity with the Airbus A400M entering low rate initial production at the end of the year. The KC-46 entered its flight test phase at the end of the third quarter 2015.

It is expected that the rate of R&D investment in these programmes will moderate in 2016, as the Group moves from development into low rate initial production.

Trading profit

The Group's trading profit was £332m (2014: £287m), an increase of £45m including a full year contribution of £23m from acquisitions net of the impact of divestments. This result also included the positive impact from efficiency savings, Aeroflex integration benefits and the non-repeat of the £15m aerial refuelling provision taken in 2014. There was a partial offset to this from the adverse impact of lower shorter cycle commercial volumes and the adverse revenue mix in the Advanced Electronic Solutions Sector. The trading margin increased to 16.0% (2014: 15.5%).

Group statutory operating profit was £12m (2014: £57m). The most significant items not included in underlying profit were additional amortisation expense on intangible assets arising on business combinations of £177m (2014: £114m). This relates primarily to the full year impact of the Aeroflex acquisition. In addition, there were increased business restructuring costs of £67m primarily relating to the integration of Aeroflex (2014: £52m – Excellence in Delivery programme and Aeroflex integration). There was also an impairment of goodwill of £27m (2014: £nil) relating to the Group's unmanned systems business and amounts provided related to businesses held for sale of £69m (2014: £nil). This related to the Surveillance business which was divested shortly after the year end. These items were offset in part by business acquisition and divestment related items of £39m (2014: £41m loss), primarily the net profit on divestments completed in the year.

Underlying net finance expense and underlying profit before tax

The Group's net underlying finance charge for the year was £52m (2014: £30m). The underlying net expense on cash and debt holdings was £49m (2014: £26m), with the increase primarily reflecting the full year impact of interest on borrowings related to the Aeroflex acquisition. There was also a net adverse impact from foreign currency translation of £4m. The non-cash net finance charge from pension schemes was £3m (2014: £4m). In 2016, the Group's non-cash net finance charge from pension schemes is expected to be £2m.

The Group's underlying profit before tax was £280m (2014: £257m) and the statutory loss before tax was £40m (2014: profit of £24m).

Taxation

The Group's underlying tax rate increased to 21.5% (2014: 20.3%) from an underlying tax charge of £60m (2014: £52m) reflecting the full year impact of the former Aeroflex businesses, where the Group has a higher marginal tax rate.

Earnings per share (EPS)

Underlying EPS was 19.5p (2014: 18.5p), an increase of 5% on the prior year. The primary drivers of the increase in underlying EPS were the net impact of acquisitions and divestments, and efficiencies, partially offset by the dilutive impact of the May 2014 share placing

Organic revenue growth

Commercial

(6)%

(2014: 5%)

US defence/security

(1)%

(2014: (4)%)

Non-US defence/ security

4%

(2014: (6)%)

Reconciliation of underlying measures

£m	2015	2014
Operating profit	**12**	57
Adjusted to exclude:		
Business restructuring	**67**	52
Derivative financial instruments	**19**	22
Amortisation of intangible assets arising on business combinations	**177**	114
Impairment of goodwill	**27**	–
Exceptional legal costs	**–**	1
Amounts provided related to businesses held for sale	**69**	–
Other business acquisition and divestment related items	**(39)**	41
Total operating reconciling items	**320**	230
Trading profit	**332**	287
Underlying profit before tax is calculated as follows:		
Profit before taxation	**(40)**	24
Adjusted to exclude:		
Total operating reconciling items as above	**320**	230
Non-underlying finance costs	**–**	3
Underlying profit before taxation	**280**	257
Taxation charge on underlying profit	**(60)**	(52)
Underlying profit after taxation	**220**	205
Underlying EPS (pence)	**19.5**	18.5

and adverse foreign currency translation. At constant currency underlying EPS was up 7% on the prior year.

Basic EPS was a loss of 3.3p (2014: profit of 2.6p), principally due to the impact of the items set out in the paragraph on statutory operating profit above.

Cash flow

Operating cash flow, which is stated after net capital expenditure but before interest and tax payments, increased to £235m (2014: £208m). Operating cash conversion was broadly consistent with the prior year at 71% (2014: 73%). This included increased working capital of £49m and, as anticipated, increased capital expenditure, which was £24m higher, with the largest increase being within the Aviation Services Sector. The increased capital expenditure reflected continuing investment in the aircraft fleet as a result of multi-year awards won in 2014. In addition, the Group increased its expenditure on IT as it commenced the roll-out of its new ERP system.

Operating cash flow

£235m

(2014: £208m)

The increase in working capital was in part due to higher inventory levels in shorter cycle businesses, as production was increased in anticipation of customer demand that did not materialise. In addition, there was a net working capital increase from development programmes, reflecting the ongoing high level of investment, despite the receipt of significant customer milestone payments in the year. Partially offsetting this, there was good progress in some business units, where improved operational execution resulted in lower inventory and debtors.

Free cash flow was £106m (2014: £114m) after restructuring payments of £48m, primarily relating to the Aeroflex integration (2014: £32m – Excellence in Delivery and Aeroflex integration). Also included within free cash flow were interest payments of £49m (2014: £25m), including the full year impact of the Aeroflex acquisition debt and an adverse foreign currency translation impact. In addition, there were tax payments of £32m (2014: £37m).

Below free cash flow, the Group paid dividends in the year of £122m (2014: £108m). The increased dividend payments reflect the Group's progressive dividend policy and the impact of the additional shares issued via the prior year placing.

Net divestment proceeds of £137m (2014: £897m net acquisition payments) in the year primarily comprised the proceeds from the divestments of Weinschel and Inmet, the Composites businesses and Metelics, partially offset by final acquisition costs relating to Aeroflex.

In addition, there was a £25m outflow (2014: £180m – net receipt, primarily from the issuance of new shares) relating to the net purchase of treasury shares held to satisfy future vesting of Director and employee awards and options under the Group's share based payment schemes.

Dividends and dividend policy

The Board is recommending a final dividend for 2015 of 8.13p (2014: 7.746p). This, together with the Group's interim dividend of 3.05p (2014: 2.904p), will result in a total dividend per share for 2015 of 11.18p (2014: 10.65p), an increase of 5%.

Cobham has a long track record of dividend growth and remains committed to a progressive dividend policy. The Group's strategy is to build and maintain leading positions in its markets with the aim of growing earnings sustainably and generating robust cash flows.

At the 2014 full year results, the Board announced that future dividend increases would be broadly aligned with underlying earnings growth, while rebuilding dividend cover over time. In 2015, underlying earnings per share increased 5%, or 7% at constant translation rates, and accordingly the Board has recommended a 5% increase in the dividend.

Cash flow

£m	2015	2014
Trading profit	**332**	287
Depreciation, amortisation and other items	**68**	83
Pension contributions in excess of service cost and administration cost	**(18)**	(17)
Increase in working capital	**(49)**	(71)
Net capital expenditure	**(98)**	(74)
Operating cash flow	**235**	208
Operating cash/trading profit	***71%***	*73%*
Net interest paid	**(49)**	(25)
Taxation paid	**(32)**	(37)
Restructuring costs	**(48)**	(32)
Free cash flow	**106**	114
Dividends paid	**(122)**	(108)
Acquisition payments less divestment proceeds and other related costs	**137**	(897)
Net purchase of treasury shares and placing	**(25)**	180
Exchange movements	**(80)**	(59)
Decrease/(increase) in net debt	**16**	(770)
Opening net debt	**(1,223)**	(453)
Closing net debt	**(1,207)**	(1,223)

Cash conversion

71%

(2014: 73%)

Treasury

The Group's treasury activities are managed centrally by the Group Treasury function, which reports to the Chief Financial Officer. The Treasury function operates within written policies and delegation levels that have been approved by the Board. It is the Group's policy that trading in financial instruments is used for financial risk management purposes only.

Debt and financing

At the year end, the Group's net debt had decreased to £1,207m (2014: £1,223m), including the cash proceeds from divestments completed in the year. There were also adverse exchange movements of £80m (2014: £59m) at the year end, which were in large part driven by the strengthening US dollar, which impacts translation of the Group's debt. It is the Group's policy to hold a significant proportion of its borrowings in foreign currency, as a natural hedge against earnings denominated in that currency. At the year end, the net debt/EBITDA ratio was 2.9x.

Included within net debt are cash deposits, which are primarily denominated in UK pounds, US dollars and euros, as well as borrowings. At 31 December 2015, the Group held total cash and short term bank deposits, net of offsettable overdrafts and all with an original maturity of three months or less, of £295m (31 December 2014: £225m).

Under the terms of its borrowing facilities, the Group is required to maintain its ratio of net debt/EBITDA at or below 3.5 times and its interest cover ratio at or above 3.0 times. For covenant purposes, net debt is expressed at average foreign currency translation rates. EBITA, EBITDA and net interest numbers include proforma adjustments related to joint venture interests, acquisitions and divestments and restructuring.

Debt covenants

	2015	2014
Net debt (£m) – balance sheet	**(1,207)**	(1,223)
Net debt (£m) – average rate	**(1,161)**	(1,159)
EBITDA (£m)	**396**	440
Net debt to EBITDA (not to exceed 3.5 times)	**2.9**	2.6
EBITA (£m)	**333**	298
Net interest (£m)	**49**	28
Interest cover (not less than 3.0 times)	**6.8**	10.5

The Group successfully refinanced the remaining US$370m of its short term acquisition bridge finance facility, which was originally agreed in May 2014 to partially finance the acquisition of Aeroflex. The refinancing was completed during May 2015 and secured additional funding which matures in tranches in 2018, 2020 and 2022. The refinancing was carried out in the bank market.

At the year end, a summary of the Group's principal borrowings included the following:

- A US$360m multi-currency credit agreement, of which US$90m expires in October 2016 and US$270m expires in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. US$293m had been utilised at the year end;
- A €70m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. €56m had been utilised at the year end;
- A DKK525m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. The facility was undrawn at the year end;
- An AUS$90m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. AUS$59m had been utilised at the year end;

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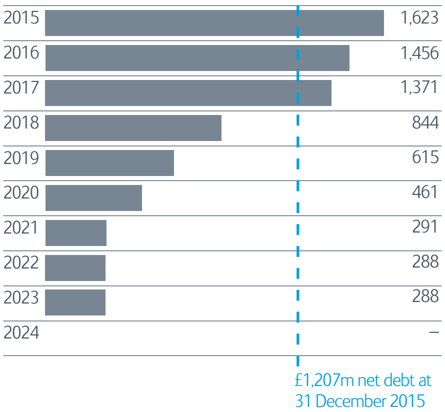
Loans refinanced

US$370m

- A US$185m facility expiring in October 2018. Interest is payable at the applicable benchmark rate plus margin. The facility was fully drawn at the year end;
- US$1,213m of senior notes maturing in tranches in 2016, 2017, 2019, 2020, 2021 and 2024, with an average coupon of 4.4%;
- US$155m of senior notes maturing in 2017 and 2018, with an interest rate at the applicable LIBOR rate plus margin;
- €135m and US$40m raised from banks and maturing in tranches in 2020 and 2022, with interest at the applicable floating rate benchmark plus margin; and
- A US$75m fixed rate agreement which expires in 2031 and under which the lender has a series of options exercisable every three years from December 2016.

The Group has exposure to a number of financial risks, including liquidity risk and credit risk, which are described in note 23 of the notes to the Group Financial Statements. In addition, it has exposure to the effects of changes in foreign currency exchange rates and interest rates, and these are described below.

Maturity profile of Group's outstanding debt facilities (£m)



Foreign currency translation

The following are the average and closing rates for those foreign currencies that have the most impact on the translation of the Group's income statement and balance sheet:

	2015	2014
Income statement – average rate		
US$/£	**1.53**	1.65
AUS$/£	**2.03**	1.83
€/£	**1.38**	1.24
DKK/£	**10.27**	9.25
Balance sheet – closing rate		
US$/£	**1.47**	1.56
AUS$/£	**2.03**	1.91
€/£	**1.36**	1.29
DKK/£	**10.13**	9.60

Foreign exchange translation exposure arises on the earnings of operating companies largely based in the US, Europe and Australia. These are partially offset by foreign currency denominated interest costs due to the Group's policy, as set out above, of generally funding acquisitions with borrowings denominated in the same currency. This provides a partial hedging of currency denominated profits.

After taking into account the hedging of the Group's foreign exchange translation exposure within the income statement, a combined 1 cent movement against the pound sterling in the average rate over one year's trading for the currencies above would have had a £1.1m impact on Group profit before tax in 2015. The Group estimates that the US dollar accounts for approximately two thirds of this impact.

Foreign currency transaction

The Group's aim is to reduce, or eliminate whenever practical, foreign exchange transaction risk, of which the US dollar/pound sterling and the US dollar/Danish krone exchange rates are the most significant. The Group has a number of other, smaller foreign exchange transaction exposures, including the euro/US dollar.

The chart on page 31 summarises the Group's main foreign currency transaction exposures and the hedging in place to mitigate it.

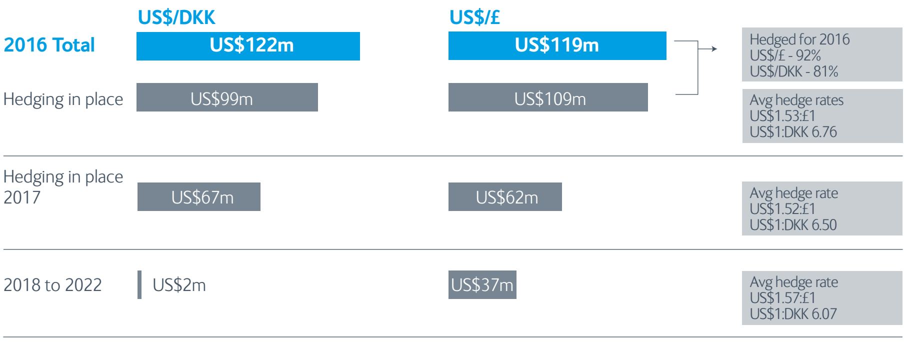
All foreign exchange hedging transactions are approved under delegated authority from the Board. A number of financial instruments are used to manage transactional foreign exchange exposure, such as forward rate contracts. The Group has a policy of hedging at least 80% of estimated transactional exposure for the next 12 months, a proportion of exposures between 12 and 36 months, and firm exposures on long term contracts. Details of the most significant of these instruments are described in notes 21 and 23 of the notes to the Group Financial Statements.

Some 92% of the Group's anticipated transaction exposure to the US dollar/pound sterling exchange rate is hedged for 2016 at an average rate of US$1.53/£1, with additional hedging in place to partially cover anticipated exposure in subsequent years. 81% of the US dollar/Danish krone exposure is hedged for 2016 at an average rate of US$1/DKK6.76, again with additional hedging in place to partially cover anticipated exposure in subsequent years.

Interest rates

Cobham has various long and short term borrowings at both fixed and floating rates of interest. The Group monitors its exposure to movements in interest rates to bring greater stability and certainty to its borrowing costs, with the policy being to assess the proportion of borrowings that are fixed and floating in the context of prevailing market conditions.

Foreign exchange transaction exposure



2016 US$ transaction exposure hedged

92%

Retirement obligations

Cobham operates a number of defined benefit pension schemes, with the largest being the Cobham Pension Plan in the UK. At the year end, the estimated deficit for accounting purposes, which is the difference between the value of the schemes' assets and the present value of the future liabilities, was £57m before deferred tax (2014: £102m). A reconciliation of the movements in the pension deficit in the year is shown in the table below.

	£m
Pension deficit at 1 January 2015	(102)
Interest charge	(3)
Net employer funding	19
Actuarial gains	30
Exchange differences	(1)
Pension deficit at 31 December 2015	(57)

Significant movements within the actuarial gains of £30m above were:

- An increase in discount rate assumptions, which are based on corporate bond rates, resulting in lower liabilities. This is net of the investment in de-risking strategies that were undertaken in previous years; and
- A favourable impact from the triennial valuation of the main scheme at 1 April 2015.

The £19m reduction in the deficit from net employer funding above relates to employer contributions made in the year in excess of scheme service costs and administration expenses.

The Scheme is being closed to future accrual from 1 April 2016, having been closed to new entrants since 2003, with alternative defined contribution schemes offered in all cases. Cobham remains committed to the support of the legacy defined benefit pension schemes within the Group and continues to work with the trustees of those schemes to ensure that net deficit issues are managed appropriately. This has included the undertaking of a significant buy-in transaction in 2013 which eliminated the Group's exposure to interest rate, inflation and longevity risks associated with the pension population at the time of the transaction. In addition, there was an investment in 2014 in liability driven investments to provide further cover against interest and inflation volatility.

Further details on the Group's retirement benefit schemes in the year, including the primary assumptions, the amounts recognised in operating profit and the changes in value of defined benefit schemes are given in note 22 of the notes to the Group Financial Statements.

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position, are set out in the business overview on pages 1 to 25 and the principal risks on pages 32 to 37. In addition, notes 1, 14, 21 and 23 of the notes to the Group Financial Statements include the Group's objectives, policies and processes for managing its capital, financial risk management, details of financial instruments and hedging activities, and its exposure to credit, liquidity and other risks.

The Group has considerable financial resources with liquidity available on the balance sheet from its cash resources and it has a spread of maturities on its debt. Its operations have delivered good levels of free cash flow over time, driven by above average trading margins for its markets and relatively low capital intensity. It has a mix of shorter and longer term contracts and leading market positions with customers across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. Accordingly, after making enquiries, the Directors have formed a judgement at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group and Parent Company Financial Statements. See also the Group's Viability Statement on page 34.

Simon Nicholls
Chief Financial Officer
2 March 2016

THE EXECUTION OF OUR OBJECTIVES IS SUPPORTED BY AN EFFECTIVE RISK MANAGEMENT PROCESS

How we manage risk
The Board sets the policy for managing risk in the business. It recognises the importance of having effective processes and procedures for identifying, actively monitoring, mitigating and managing the financial and non-financial risks facing the Group.

By regularly reviewing the principal risks reported across the Group by businesses and functions, and satisfying itself that these risks are managed within the Group's stated risk appetite, the Board ensures that the Group's risk exposure remains appropriate and that this links to the effective delivery of its strategic objectives.

The Board has ultimate accountability for the execution of risk management systems and internal controls, with the Risk Committee, comprising members of the Group Executive, responsible for overseeing execution of risk management throughout the Group.

The Board has delegated responsibility for the detailed monitoring and reviewing of the effectiveness of the Group's internal control and risk management systems to the Audit Committee. Assurance over the effectiveness of these systems is provided by a combination of regular management reporting to the Audit Committee and, for the Advanced Electronic Solutions Sector, which contains classified US Defense programs and so operates under a US DoD Special Security Arrangement (SSA), via specific assurances and authorised assurance reports given by representatives of the SSA Board. The Group's CEO and CFO both sit on the Board of the SSA. Improvements to the effectiveness of governance and assurance procedures between the Group and the SSA are continually reviewed.

The process for monitoring and controlling risk, illustrated below, emphasises ongoing evaluation and monitoring by the management teams at each appropriate entity level: business unit, Sector, specialist function or at Group level. The Group's Enterprise Risk Management (ERM) framework is structured to ensure that risks are identified promptly by management teams, to support the achievement of their strategic objectives and to ensure that they are mitigated and managed appropriately in support of the delivery of the Group's strategic plan. Risks are categorised in terms of inherent risk (before mitigation) and current risk (after existing mitigation). This allows the Group to identify risks that are heavily dependent on internal mitigating controls and to allocate resources appropriately.

The risks identified through this process have been captured in a dedicated software system that is used to track, monitor and document ownership and management of individual risks. Data from this system has been aggregated and themed, reviewed under the Governance structure outlined above and has been used as the basis for the Group's principal risk disclosure on pages 35 to 37.

The Group manages risk by operating a 'three lines of assurance' risk and control model. The first line consists of operational management implementing and maintaining effective internal controls and risk management procedures. They are supported by a number of Group functions which, together with performance management procedures, form the second line. Internal audit, which is part of the third line, is empowered to provide an independent assessment of the effectiveness of internal controls (guided by the risk appetite) and risk management processes and procedures, as well as identifying areas for improvement. Internal audit primarily reviews controls over financial, property management, US Government sensitivity, export compliance and IT risks. As part of the governance, risk and assurance (GRA) project it is the intention to expand the scope of assurance to cover a broader range of strategic risks. The internal audit function reports directly to the Audit Committee to ensure its independence and objectivity. In addition, the Audit Committee takes account of the views of the external auditors.

These lines of assurance include the Group's ethics reporting system, enabling employees to raise concerns over ethics and compliance matters. This control mechanism highlighted a concern over revenue recognition practices at one of the business units at the year end. A thorough independent investigation conducted by senior management confirmed that the concerns raised were founded but isolated only to that business and to the 2015 year end. Misstatements identified have been quantified and corrected within these

Contract risk and effective project and programme management

We describe the risk associated with effective project and programme management execution on page 36.

Raising standards in project and programme management

Insufficient project and programme management (PPM) capabilities and Life Cycle Management (LCM) rigour can lead to poor programme execution, while excessive application is wasteful, both from a cost and administrative burden perspective.

Cobham's LCM framework risk categorises projects and programmes, both customer and company funded, allowing us to assess the inherent risk in a project or programme and allocate management resources appropriately.

How we are managing the risk

We are enhancing our PPM capabilities at assessment centres. Leadership and PPM competencies are assessed against defined professional standards over three days, with personal development plans created, and further training provided through a virtual training academy. This allows us to assess individuals' suitability to manage different types and categories of project/programme.

Outcomes and lessons learned

The priority has been training project and programme managers who are running our highest risk, customer funded contracts. This has resulted in an increasing number of individuals becoming formally qualified following the rigorous training received, benefiting the individual, the customer and Cobham.

financial statements. Control enhancements are in the process of being implemented to ensure that this matter does not recur.

Risk appetite

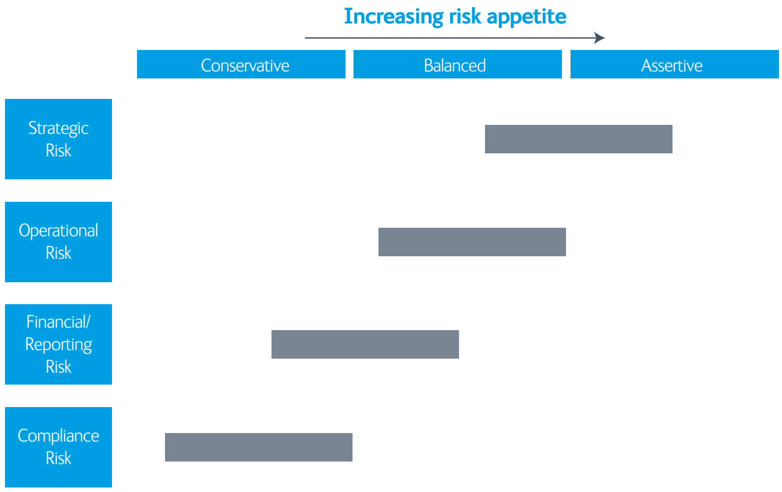
Under the sponsorship of the CFO, the project to review the Group's GRA framework has established a risk appetite baseline through which Cobham's risks can be managed with appropriate controls and assurance measures. The framework builds on best practice COSO ERM principles (see Glossary for definition). Under these principles, risk events can be categorised under four main headings: Strategic, Operational, Reporting/Financial and Compliance. The Group has broken down these risk categories into a number of subcategories and defined its risk appetite for each. The risk appetite is articulated as conservative, balanced or assertive across the various elements of the risk framework, with a principles based approach defining what each means for a given risk subcategory.

As shown on the risk appetite diagram below, typically there is a balanced appetite for taking risk across the Operational and Reporting/Financial risk subcategories – the cost of taking the risk is carefully weighed against the resultant benefits.

There is a more assertive appetite for areas of strategic risk including the promotion of growth, for example in business and product portfolios and in the strategic planning processes.

There is a conservative appetite for Compliance risk.

The Group's controls, mitigation activities and associated assurance measures implemented reflect the risk appetite for each position.



The risk appetite position for each principal risk is shown on pages 35 to 37.

Significant business interruption risk

We describe the risk associated with significant business interruption on page 37.

Minimising the threat of disruption from fire and natural catastrophe events

The threat of fire causing a significant supply chain disruption is inherent in the manufacturing environment. Natural catastrophe risks, such as flood, earthquake and windstorm, are largely dependent on location.

Both the likelihood and the impact of most loss events can be positively impacted through prudent management activity and loss prevention programmes.

How we are managing the risk

Working in close consultation with our insurers, we aim to eliminate or manage inherent fire and natural catastrophe threats, and to ensure that effective business continuity management (BCM) is in place. This helps to ensure that the business interruption risks that are inherent in our business are appropriately managed.

For our larger manufacturing locations, we have an ongoing commitment to meet or exceed insurance industry best practice loss prevention guidance. This includes investing in fixed automatic fire protection in areas of significant fire risk.

For our smaller locations we focus on implementing more basic but effective loss prevention programmes and incident management plans, with some targeted investment in physical protection measures.

Outcomes and lessons learned

We look to continuously improve the standards of property loss prevention and BCM across our manufacturing footprint. These efforts have seen the majority of our larger manufacturing facilities being recognised as best in class from a property loss prevention perspective.

It is important that we continue to improve the standards achieved and we use third parties to verify our loss prevention and BCM efforts.

Cobham's Marlow facility in the UK is the latest facility to be recognised, by its property damage and business interruption insurer, FM Global, for its property loss prevention efforts. Each facility is assessed against FM Global's industry recognised standards.

Viability Statement

Assessing the prospects of the Company

The Directors consider viability as part of their continuing programme of monitoring and managing risk. The Board has concluded that the most relevant time period for this review should be three years, taking account of the diversity in demand characteristics of its end markets. These range from relatively long cycle businesses, such as Cobham's Aviation Services and aerial refuelling businesses which both contain predominantly multi-year contracts, to the less predictable, largely commercial, shorter cycle businesses, such as Cobham's SATCOM and Wireless businesses, which typically operate with an order backlog of a few months or less.

The starting point in assessing the prospects of the Company and events that may prevent successful achievement of these, as required by provision C.2.2 of the UK Corporate Governance Code, was the annual strategic planning process. A description of Cobham's strategic planning process can be found in the Audit Committee report on page 52. While this process and associated financial plan covers a period of five years, the first three years of the plan are considered to contain all of the key underlying assumptions that will provide the most appropriate information realistically on which to assess the Group's viability.

Assessing viability

In making their assessment, the Directors took into account the potential impact of the principal risk events identified in the strategic planning process that could prevent the Group from achieving its strategic objectives. These principal risks are described in detail in the Principal Risks section of this report on pages 35 to 37. Sensitivity analyses were run to model the financial and operational impact of plausible downside scenarios of these risk events occurring individually or in combination. These included the impacts of a further deterioration in the macroeconomic environment, underperformance in executing the Group's strategy to return to organic revenue growth, failure to derive targeted benefits from the Group's operational and cash generation improvement initiatives, underperformance on major contract cost estimates and associated programme management controls, the impact of a significant business interruption event and a change in regulations impacting the Group's internal financing structure. Consideration was also given to the plausibility of the occurrence of other individual events that in their own right could have a material impact on the Group's viability. None of these events was considered plausible.

Based on the consolidated financial impact of the sensitivity analysis and associated mitigating internal controls and risk management actions that are either now in place, as described in detail for each principal risk on pages 35 to 37, or could be implemented, the Directors have been able to conclude that the Group will be able to operate within its existing bank covenants and maintain sufficient bank facilities to meet its funding needs over the three-year period. In coming to this conclusion, it has been assumed that a successful renewal including the £300m of mixed currency bank facilities is achieved in October 2018.

Confirmation of longer term viability

Based upon the assessment of the principal risks facing the company and robust downside sensitivity analysis, all of which are described above and on pages 32 to 37, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2018.

The Group's Going Concern Statement is detailed on page 31.

1. Deterioration in the macroeconomic environment adversely impacting our markets

Risk
The Group's revenue is derived from commercial and global defence/security markets. Underlying customer demand is dependent on a complex mix of macroeconomic, fiscal, and strategic defence and security imperatives.

Variations in government/customer demand levels or other external factors resulting from changes in these macroeconomic factors could lead to programme/contract terminations or delays, or changes in market growth rates.

Impact
Deterioration in demand affecting shorter cycle businesses or a fundamental shift in how customers procure products or services could have an adverse effect on the Group's future results leading to:
- Missed growth targets
- Reduced earnings
- Failure to win new business, resulting in adverse performance against the Group's strategic plan

Mitigation
A review of near and long term market trends is conducted as part of the Group's annual strategic planning process to ensure that actual and anticipated impacts from macroeconomic risks are minimised and managed effectively.

Regular reviews of externally sourced market demand data, with the re-forecasting and adjustment of internal planning in line with market demand.

Increased emphasis is being placed on identifying adjacent markets in which the Group's proven and transferable technologies can be applied.

The Group has achieved more balance in its portfolio towards commercial markets, with the aim to achieve sustainable growth through economic cycles.

A culture of continuous improvement will enable Cobham to have market leading operating performance, while reducing costs. This will enable Cobham to grow market share and remain competitive in the face of volume declines or price pressures, and while retaining flexibility to adjust the cost base appropriately to changing market conditions.

Link to KPIs
- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk appetite
Assertive

Risk status indicator
Global macroeconomic conditions remain uncertain.

2. Failure to execute strategy, to deliver performance in line with financial plans supported by effective value creating M&A activity

Risk
The Group's ability to generate profitable organic revenue growth consistently is a key strategic objective and driver of value creation. Insightful, complementary and well executed M&A activity in line with the Group's strategic objectives has supplemented this value creation.

Failure to define and execute the Group's growth strategy effectively will lead to impaired business performance.

Impact
Failure to grow leads to an impaired competitive position and can also result in reduced trading margins and a declining return on invested capital.

The Group will experience an impact on employee recruitment and retention, potential reputational damage and a reduced ability to invest for future growth.

Mitigation
Carry out effective strategic planning – maintain robust and dynamic processes to ensure the Group is exposed to growth markets and creates value through business cycles.

A continued focus on and investment in programme management to ensure customer expectations are met, which underpins the Group's ability to grow. Continued appropriate investment in future technologies with alignment to identified market growth areas and customer needs.

A cycle of budgets and forecasts together with tracking of actual performance including reasons for variances against plans.

Rigorous M&A disciplines (both pre- and post-transaction), aligned with the Group's strategic planning process, improves the ability to successfully execute and deliver value from transactions.

Link to KPIs
- Organic revenue growth
- Underlying EPS growth
- Group PV investment
- Cash conversion
- Return on invested capital
- Voluntary staff turnover

Risk appetite
Balanced

Risk status indicator
The Group's portfolio is being actively managed to optimise the total performance in continued challenging market conditions.

3. Failure to comply with laws and regulations

Risk
Cobham operates in a highly regulated environment and is subject to the laws, regulations and restrictions of many jurisdictions, notably including those of the US and the UK.

These include anti-bribery provisions, import and export controls, tax, government contracting rules, US DoD regulations regarding conduct of business under the Group's SSA, human rights, environmental, and health and safety regulation.

A lack of understanding of legal and regulatory restrictions in force in the jurisdictions in which it operates could lead to the Group being in contravention of laws or regulations.

Impact
Sanctions for failure by the Group, its sales intermediaries, or others acting on its behalf to comply with laws, regulations and restrictions could include fines, penalties, legal claims, suspension or debarment of the Group from future government contracts for a period of time, as well as having a potentially significant impact on the Group's reputation. Such sanctions could also have an impact on the Group's financial position and future operations.

Mitigation
Cobham employs rigorous procedures to ensure it remains in compliance with all legal requirements and regulations, and continues to drive a culture that ensures that ethical, environmental, and health and safety considerations are embodied in all that it does.

Policies and procedures are included in the Group's corporate framework to ensure all of the Group's compliance requirements are met. This is regularly reviewed and audited, including procedures related to the use of sales and marketing representatives, anti-bribery and anti-corruption, gifts and hospitality, whistleblowing, and investigation of ethics and compliance concerns, along with Cobham's Code of Business Conduct.

Mandatory training is undertaken by all employees on a variety of compliance related subjects including US Government contracting and anti-bribery and corruption.

See the CR&S section on pages 38 to 41 for information on human rights, environmental, and health and safety actions.

Link to KPIs
- Underlying EPS growth
- Return on invested capital
- Staff safety

Risk appetite
Conservative

Risk status indicator
The regulatory landscape remains broadly unchanged. However, increased scrutiny in certain areas has been noted.

Unchanged Increasing risk Decreasing risk Emerging new risk

4. Failure to derive targeted benefits from organisational design within an effective governance framework, with appropriate skills and talented employees recruited and retained

Risk

Key to the execution of the Group's strategic plan is the effective implementation and embedding of the organisation design (OD) project within an enhanced governance framework. This project aligns the Group's management and reporting structures with the drive to deliver sustainable growth.

Failure to deliver the OD project, resulting in the lack of an appropriately skilled and effectively deployed workforce and management team, will see the Group's ability to deliver against its strategic plan to return to growth impaired.

Impact

This will lead to suboptimal financial performance, loss of investor confidence and a failure to deliver shareholder value.

Mitigation

Implementation of the OD concepts and structures remain on track to deliver the desired 'operating company' construct for the Group. A key focus remains to ensure that key talent is recruited and retained.

The CFO led project, to enhance the Governance, Risk and Assurance Framework in accordance with best practice enterprise risk management, remains on course to deliver an appropriate yet flexible level of control across the business. This will allow appropriate risk taking within the Group's stated appetite, and drive improvements in performance through application of effective governance and best practice principles.

See the CR&S section on pages 38 to 41 for information on talent management actions.

Link to KPIs

- Underlying EPS growth
- Cash conversion
- Return on invested capital
- Voluntary staff turnover

Risk appetite

Balanced

Risk status indicator

The OD project has been implemented and the governance, risk and assurance initiative continues to support the execution of the Group's vision and strategy.

5. Contract risk and effective project and programme execution

Risk

The Group designs, develops and delivers products and services that are often customised, utilising complex technologies, under fixed price contracts that can be long term in nature. This gives rise to the risks of failure to execute contracts profitably, the supply of defective or delayed product, the occurrence of other contractually related liabilities, or damage to reputation and commercial relationships.

Impact

Failure by Cobham to execute or deliver a project or programme gives rise to the risk of increased programme costs, damages, litigation and other financial liabilities, reduced future profitability and reputational risk.

Poor operational performance could also lead to customers withholding new and existing business from the Group.

Mitigation

LCM and programme management procedures are intended to ensure that the Group's key contract and programme management policies and procedures are applied consistently and appropriately across all areas of the business. These procedures also provide increased focus on improvements to its LCM and programme management capabilities.

There is monthly reporting of progress against agreed LCM improvement actions to the Group Executive, and semi-annually to the Audit Committee.

Application of the Group's revised contracts policy will ensure appropriate levels of risk transfer/sharing commensurate with our risk appetite.

Link to KPIs

- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk appetite

Balanced

Risk status indicator

The Company continues to be in a significant phase of engineering and development activity on various programmes and platforms.

6. Failure to deliver shareholder value from the Aeroflex acquisition

Risk

Failure to deliver the planned synergies and growth from the Aeroflex acquisition, which was completed in 2014, will have a detrimental impact on the Group's financial performance and returns.

Impact

The Aeroflex transaction is important to the achievement of the Group's strategic plan.

Failure to deliver the business case will lead to poor financial results and will adversely impact the Group's reputation.

Mitigation

A comprehensive due diligence process was undertaken during the pre-acquisition process.

Post-acquisition, detailed assessments have been undertaken against the due diligence findings and comprehensive integration plans established.

Aeroflex performance is continuously monitored against the due diligence plan with regular oversight from the Group's M&A Committee.

Retention plans are in place for key individuals and the integration programme is subject to the comprehensive LCM review process.

Link to KPIs

- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital
- Voluntary staff turnover

Risk appetite

Assertive

Risk status indicator

It is anticipated that the multi-year integration programme will be complete by the end of 2017.

Unchanged Increasing risk Decreasing risk Emerging new risk

7. Significant business interruption risk

Risk
The Group's businesses could be impacted by natural disasters or fire events affecting its operational locations or suppliers, by other significant events in the supply chain or by IT systems failures (including from cyber attack), rendering critical systems or manufacturing locations unable to function.

Impact
Unscheduled interruption to business activities would result in reduced profits, loss of customer satisfaction, potential cost outlays, and reputational impact.

Mitigation
The Group maintains major incident/IT failure business continuity plans. Employees are trained in relevant procedures.

IT security and capability are continually monitored and strengthened when needed.

The Group maintains appropriate insurance cover and works closely with insurers and other third party experts to ensure operating infrastructure and processes include robust risk improvement activities.

See the CR&S section on pages 38 to 41 for further details on mitigating actions against business interruption risk arising from environmental factors.

Link to KPIs
- Organic revenue growth
- Underlying EPS growth
- Return on invested capital
- Staff safety

Risk appetite
Balanced

Risk status indicator
IT security threats continue to escalate. The Group has increased exposure to site specific IT risks through the additional sites that were acquired as part of the Aeroflex transaction. See the case study on page 34 for details of how the Group manages fire and natural catastrophe risks.

8. Failure to successfully execute continuous improvement programmes, including the implementation of standard IT services and security, across the portfolio

Risk
Failure to deliver growth and improvements in operational performance that are sustainable.

Linked to this is the deployment of standard IT services, for example an effective cyber security and enterprise resource planning system across the Group, which underpin the Group's CI initiatives.

Impact
Project, programme, production and service delivery will be adversely affected, increasing costs and reducing customer satisfaction.

Mitigation
CI benefits are built into budgets with progress monitored at quarterly business review meetings.

CI sustainment training has been delivered to business management teams.

Assessment and accreditation processes have been developed to assess sites with respect to CI and to identify areas for improvement.

Robust management of plans to ensure site readiness and planning of implementation resources into site budgets for ERP and other standard IT service implementations, including targeted improvements to cyber security.

Detailed application test planning and ERP execution, including stress and load tests, application performance, network and security tests.

Link to KPIs
- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk appetite
Balanced

Risk status indicator
CI professionals have been embedded in the business unit management teams, with CI resources increased during the year.

9. Deterioration in trading performance or in cash generation leading to higher debt and increased gearing

Risk
Delivery of below target business performance and cash generation, leading to higher than anticipated debt and higher gearing.

Impact
Higher debt and gearing would lead to reduced capacity to fund organic investment and M&A, possible breaches of bank covenants and associated reputational risk.

Mitigation
Cash performance across the Group is closely monitored and regularly reviewed by the CFO. Monthly performance and cash flow forecasts are reviewed by the CFO and CEO. This is reported to the Board on a monthly basis. There are robust policy controls and processes covering the Group's treasury activities including cash policy, credit collection policies, working capital metrics and other performance targets. See pages 26 to 31 for more information. The business proactively aligns its cost base when market conditions necessitates this.

Link to KPIs
- Underlying EPS growth
- Cash conversion

Risk appetite
Balanced

Risk status indicator
All Group operating units are actively engaged to optimise cash generation and to implement efficiency saving initiatives. The Group is focused on working capital improvement and also requires business units to prepare formal investment appraisals to support capital expenditure and major investments. CI programmes also help to further mitigate risk as this supports operational improvements, leading to increased cash generation and trading profit.

"Corporate responsibility and sustainability is a key driver of shareholder value, presenting opportunities for growth and efficiencies, as well as risks for mitigation. We welcome feedback on our approach and performance."

CORPORATE RESPONSIBILITY AND SUSTAINABILITY IS A KEY DRIVER OF SHAREHOLDER VALUE

Introduction

There is an increasing trend towards responsible investment among large investors, with many signatories to the United Nations' supported Principles for Responsible Investment. The approach typically involves screening out companies that do not act responsibly or by integrating environmental, social and corporate governance (ESG) issues into their investment analysis. Cobham recognises this and strives to proactively address investors' ESG expectations.

Approach to corporate responsibility and sustainability

Cobham's approach to CR&S is developed and implemented through the central CR&S team and overseen by the CR&S Committee chaired by the CEO. The role of the CR&S team is to engage key stakeholders to identify material ESG risks to the Group's business objectives and work with the businesses to mitigate these risks through policy, standards, tools, training and information disclosure.

Identified material ESG risks are included in the CEO's papers to the Board as well as through various Board and Executive committees which consider their short and long term value impacts. The Board receives training on key topics such as ethics and health and safety.

All material ESG disclosures are verified internally and external statements reviewed by Cobham's auditors, which in this regard is KPMG, see page 70 for more information. The Group obtains external limited assurance on its greenhouse gas emissions.

Maintaining high ethical standards

Approach

Much of Cobham's business is within highly regulated markets. Compliance with applicable laws and regulations is a key Group principal risk (refer to risk 3 on page 35), and Cobham's policy is to comply with all applicable laws and regulations. The Group is also committed to sustaining an ethical culture, as acting responsibly and sustainably with full legal compliance is a critical operational requirement and a source of potential competitive advantage.

To help drive the right culture, Cobham has an ethics and compliance programme, including policies, processes and activities. This is overseen by the Business Ethics & Compliance Committee and ultimately the Board. The programme is underpinned by the Code of Business Conduct (COBC), which contains Cobham's core values and expectations of behaviour on a range of issues, including anti-bribery. All employees receive training and this is tracked. Cobham also maintains an independent hotline and website where suspected COBC violations can be reported. Further details on Cobham's approach to ethics and compliance can be found at **www.cobhamsustainability.com/at-a-glance/downloads.aspx.**

A related risk area is the use of third party intermediaries as a route to market. Failure to comply with laws and regulations or to act responsibly can impact the Group's reputation as well as lead to significant fines or debarments from government contracts or new business with customers. Cobham's Anti-Bribery and Anti-Corruption policy requires intermediaries to undergo a comprehensive due diligence and approval process before engagement. See Audit Committee Report on page 53 for further information on compliance, whistleblowing and fraud reporting.

Performance in 2015

In 2015, 100% of Cobham's employees completed COBC training.

Cobham has voluntarily engaged with Transparency International (TI), a non-governmental organisation that works with government and business to put in place measures to tackle corruption. Based on publicly available data on its policies and practices, Cobham was benchmarked within band B in TI's 2015 Defence Companies Anti-Corruption Index. When incorporating both public and internal Cobham data, the Group was benchmarked as within band A. Further information on the results and methodology used is at **http://companies.defenceindex.org/**.

Cobham is in the process of adopting best practice in managing its supply chain responsibly. The Group's Responsible Supply Chain Management (RSCM) policy is to prefer suppliers that demonstrate responsible and sustainable business practices. The approach considers how suppliers positively address potentially material ESG risks that could impact their ability to supply Cobham or impact Cobham's reputation on a risk prioritised basis. These risks include bribery and corruption; human rights issues such as slavery and human trafficking; and conflict minerals, hazardous materials legislation and resource efficiency.

Cobham's RSCM policy is available at **www.cobhamsustainability.com/at-a-glance/downloads.aspx.**

Looking forward
Cobham will continue to build its ethics programmes by focusing on training employees, conducting due diligence and actively engaging its business partners to act responsibly and sustainably.

Attraction and retention of talented and engaged employees

Approach
Attracting and retaining talented and engaged employees is critical to the ability to execute strategic growth plans, deliver on key programmes and meet service level requirements. Failure to do so could result in a reduced ability to meet customer requirements and grow the business (refer to risk 4 on page 36).

Cobham's approach is to identify, attract and retain employees with the right skills and capabilities through strategic workforce planning, leadership and functional competency development, employee engagement, diversity and inclusion, and competitive reward practices. The talent and engagement programmes are overseen by the Board.

Performance in 2015
Cobham has continued the development of functional competency frameworks and expanded its leadership, graduate and apprenticeship development programmes. At the end of 2015, Cobham employed 3.7% of its UK workforce as apprentices, graduates and undergraduate placements (summer placements and year-in-industry placements) and is on track to meet its 5% commitment by 2019 (**www.5percentclub.org.uk**).

In addition, Cobham continues to roll out its three-year Institute of Leadership and Management accredited line management training programme.

Cobham uses voluntary staff turnover to measure the effectiveness of its talent management and employee engagement approach. In 2015, Cobham's voluntary employee turnover was 11.2%, above the 10% target. This is attributed to the OD project which was largely implemented in the prior year. This significant project involved changes in role or reporting lines for some employees. The higher turnover is considered to be a short term impact arising from these changes. Providing a rewarding work environment and engaging employees continues to be a focus of the Group's Great Place to Work® initiative. Following an employee opinion survey, each business facilitated listening sessions to identify key issues, root causes and solutions. Site management is tasked with implementing local actions with common issues addressed on a Group-wide basis. One action arising from this initiative is the adoption of a set of corporate values and a strategic framework to help employees understand how they can contribute to the Group's objectives.

In 2015, Cobham became a core member of the Employer's Network for Equality and Inclusion (enei), one of the UK's leading employer networks addressing workplace equality and inclusion issues. Working with enei, Cobham launched its revised Diversity and Inclusion strategy and policy establishing North American, European and Asia-Pacific regional line led councils, with quarterly reporting. In addition, its outsourced recruitment partner now provides a diversity specialist.

Females/Total (%)	2015	2014	2013
Board of Directors	2/10 (20%)	2/9 (22%)	1/9 (11%)
Senior Management[1]	20/135 (15%)	24/154 (16%)	17/147[4] (12%)
Senior Management[2]	21/144 (15%)	18/129 (15%)	10/117 (9%)
Total workforce[3]	3,649/ 12,658 (29%)	3,001/ 10,941[4] (27%)	2,785/ 10,091[4] (28%)

[1] Statutory definition – Directors of a subsidiary company.
[2] Cobham definition – Vice President grade or higher.
[3] Total workforce data is an average over 2015, all other data is as at 31 December 2015.
[4] Correction from previously stated value.

Cobham's gender diversity profile in 2015 included 29% (2014: 27%) female representation within the workforce. Based on the statutory definition of Senior Managers, comprising Directors of subsidiary legal entities, female representation was 15% (2014: 16%). Under Cobham's definition, comprising Vice President grade and above, female Senior Managers were 15% (2014: 15%) of the total. There continued to be two female Non-executive Directors but the proportion decreased from 22% to 20%, with the appointment of an additional male Non-executive Director in the year.

Looking forward
Cobham continues to focus on embedding a strategic workforce planning methodology to ensure it has the right skills and capabilities in the business. It also continues to drive functional excellence through competency frameworks, established career path development and strong partnerships with academia and subject matter experts. Cobham will also continue to invest in its development programmes including its accredited, in-house certificate in management for line managers. In relation to employee engagement, further management training, deployment of its SPIRIT values and a follow-up Great Place to Work® survey are scheduled for 2016. Diversity and inclusion training will be provided to senior management focusing on the business case, recognition of bias and inclusive management practices.

Providing safe working environments, products and services

Approach
Cobham strives to provide a safe working environment for all employees, contractors and visitors and recognises that strong health and safety processes drive benefits in many areas of its operations. Further, the provision of reliable, safe products and services is critical to customers. Failure to deliver consistently high standards of safety and health could lead to accidents or incidents resulting in prosecutions, fines, loss of assets, business interruption and widespread reputational damage (refer to risk 3 on page 35).

Cobham's most significant safety risk is in the operation and maintenance of aircraft in the Aviation Services Sector. This is addressed through robust, regulator-approved safety management systems.

In terms of workplace risks, manual handling, repetitive strain, and slip and trip injuries are the most common causes of injury or illness. Cobham's approach to workplace health and safety, called 'Zero Harm', promotes a continuous improvement health and safety culture that strives to minimise injuries and

Cobham's SPIRIT values

Safety	Provide a safe workplace for our people, ensure the safety of the products and services we provide, and take care of the world we live in.
Performance	Consistently deliver and seek to exceed expectations while improving what we do and how we do it everyday.
Innovation	Create an environment to encourage new ideas, regardless of where they come from, and have the courage to try, fail, learn and then succeed.
Relationships	Develop trusted interpersonal and customer relationships by listening, appreciating diversity, striving to understand, being inclusive and delivering on our commitments.
Integrity	Act ethically in all that we do, not only in compliance with the laws and regulations that govern us but also in the spirit of ethical behaviour and doing what is right.
Trust	Be open, transparent: we say what we'll do and do what we say.

Code of Business Conduct training

100%

Target: 100%
(2014: 100%)

Voluntary staff turnover

11.2%

Target: <10%
(2014: 6.3%)

Major accident incident rate*

269

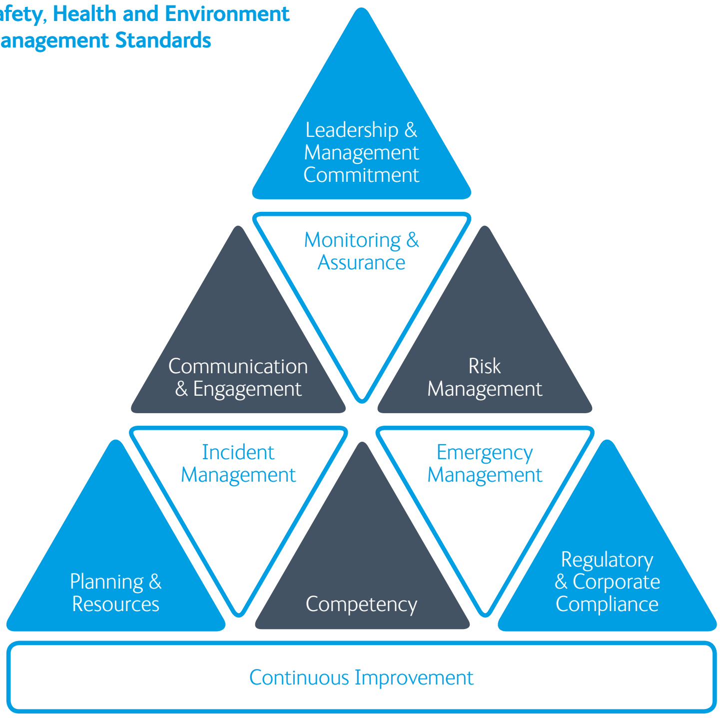
Target: 400
Aspiration: 0
(2014: 423)

* Work-related injury/illness cases with three or more lost work days per 100,000 employees.

Manual spray painting of antenna parts at Marlow, UK

Cobham Antenna Systems in Marlow, UK is the first site in the Group to achieve verified World Class status against Cobham's SHE Management Standards. The site was also awarded an International Safety Award 2015 (with Merit) from the British Safety Council. Effective site leadership, competent personnel, a high level of staff engagement and a commitment to continuous improvement were the drivers of this result.

Safety, Health and Environment Management Standards



illnesses occurring in the workplace and promote employee wellbeing. This is implemented through the consistent application of 10 safety, health and environment (SHE) standards covering management behaviour, processes, training and documentation. They are implemented through a three tiered performance matrix (Level 1 Foundation, Level 2 Target and Level 3 World Class). Level 1 is compliance and risk management driven to ensure compliance with the law, addressing SHE risk on a priority basis. Level 2 focuses on continuous improvement and maps directly to the internationally recognised OHSAS18001 and ISO14001 management standards. Level 3 focuses on opportunities to develop competitive advantage with customers and suppliers.

Cobham also provides its businesses with 12 SHE Technical Standards against which they are required to self-assess and report quarterly. The Technical Standards address common SHE management processes and risks including employee consultation, managing contractors, emergency response, manual handling, occupational health, risk assessment, safety training and housekeeping. Accountability for implementing the Group's SHE approach rests with line management and this is monitored by a steering committee with Board oversight.

Leading and lagging workplace safety indicators are used to measure Cobham's SHE performance. Management drives correct behaviours through monitoring safety training, risk assessments, workplace inspections and the reporting of near misses, while the incidence and severity of workplace injuries and illness measure the effectiveness of the Group's approach. Further details on Cobham's SHE policy, management standards and performance are at **www.cobhamsustainability.com/at-a-glance/downloads.aspx.**

Performance in 2015

In 2015, management set a target for all principal manufacturing and aviation locations to achieve Level 2 of Cobham's SHE maturity matrix with the remaining smaller sites at Level 1. Out of 42 sites, 26 sites achieved the target and a further nine exceeded it. The remaining seven sites (17%) are required to meet the target in 2016. All the leading indicators on training, risk assessment, workplace inspections and near miss reporting met the targets. The Group improved its major accident incident rate to 269 (2014: 423) and there were no fatalities in the year. The Group's minor accident and recordable injury/illness incident rate increased slightly although the severity of injuries decreased. Of the 192 recordable injuries reported in the year, 32% were caused by repetitive motion and manual handling, 16% from slips and trips, and 12% from collision with fixed or stationary objects. The remaining 40% were from a range of causes including cuts, falls, stress, exposure to harmful substances and contact with moving objects.

Looking forward

Management has set a target for all manufacturing, R&D and aviation locations to achieve Cobham's Level 2 target (the equivalent of OHSAS18001) by the end of 2016 with all former Aeroflex sites targeted to be at Level 1. Key performance indicator targets have also been increased in a challenge to improve further. A dedicated Group Head of SHE joined Cobham early in 2016 to further mature its systems and performance.

Managing environmental impacts

Approach

Cobham recognises that its operations, activities, products and services have an impact on the environment and that the environment also impacts Cobham. Part of Cobham's value proposition is to optimise material use and energy efficiency to reduce customer operational cost. The focus will intensify as resource access and pricing becomes more volatile.

The Group's most significant environmental impact is its greenhouse gas emissions from burning aviation fuel needed to deliver customer contracts. Other significant impacts include greenhouse gas emissions from logistics, business travel and facility energy consumption as well as the consumption of water and raw materials in facilities, manufacturing processes and the supply chain.

The two most significant environmental impacts on Cobham are the potential for adverse weather events (e.g. flooding, wildfire) to cause significant business interruption at its facilities and in its supply chain, together with increasing environmental legislation, carbon taxes and customer requirements which are anticipated following the global climate deal agreed in Paris in 2015.

Cobham promotes an environmentally responsible culture to manage its impacts, comply with increasing environmental legislation, meet customer requirements, reduce operating costs and minimise business interruption. Many of Cobham's products and services aim to derive competitive advantage from the efficient use of materials, fuel and low power consumption, which can provide operational benefits to users.

Failure to effectively manage environmental impacts could result in prosecutions, fines, loss of business, business interruption and reputational damage across its stakeholders.

Cobham seeks to manage its environmental impact by using a series of measures including:
- Reducing legacy aircraft fuel consumption and transitioning to more fuel efficient aircraft as appropriate. For example, the Aviation Services Sector has introduced the Embraer 190 in Australia. This is a next generation jet-engine aircraft, and the first of its type to be engaged in the closed charter fly-in fly-out market there;
- Including a 'Design for Environment' approach to the Group's engineering strategy. This ensures legal compliance and reduced environmental impacts, lower costs and competitive advantage by designing small and light products with reduced power requirements;
- Reducing facility level greenhouse gas emissions across a number of operating sites through practical efficiency measures, including: lighting, heating, ventilation and air conditioning upgrades, sensor lighting and destratification fans;
- Reinforcing business continuity measures and effective emergency response planning, in preparation for adverse weather events and natural disasters.

Cobham measures a range of related metrics including greenhouse gas emissions, environmental management, water consumption and resource efficiency. For further information, see the Group's website at **http://www.cobhamsustainability.com/environment.aspx**.

Performance in 2015

Cobham's overall carbon footprint increased by 15% in the year driven by the full year impact from the former Aeroflex businesses with these being more energy intensive than existing Cobham businesses.

However, excluding Aeroflex, and despite some additional flying activity in the Aviation Services Sector from additional customer awards, energy intensity decreased by 11%. This is due to the implementation of efficiency measures (see above) and the divestment, closure and integration of operating sites.

Further details on greenhouse gas emissions can be found in the Directors' Report on pages 68 and 69.

Cobham has complied with the UK's Energy Saving Opportunity Scheme Regulations 2014 by undertaking independently reviewed energy audits at all its major UK locations. The audit identified potential annual savings of £360,000 across the UK portfolio based on a £1m capital investment with payback under three years. Cobham is evaluating the recommendations, which include installation of light-emitting diodes, and voltage and building management system optimisation, to decide whether to implement them ahead of the next review in 2019.

Cobham's score in the 2015 Carbon Disclosure Project (CDP) climate change investor survey increased from 92% to 97% due to improved disclosure of its climate change strategy and risks.

Its performance banding decreased from A to B primarily due to its absolute emissions performance. Further detail on CDP's scoring methodology can be found at **https://www.cdp.net/Documents/Guidance/2015/CDP-climate-change-scoring-methodology.pdf**.

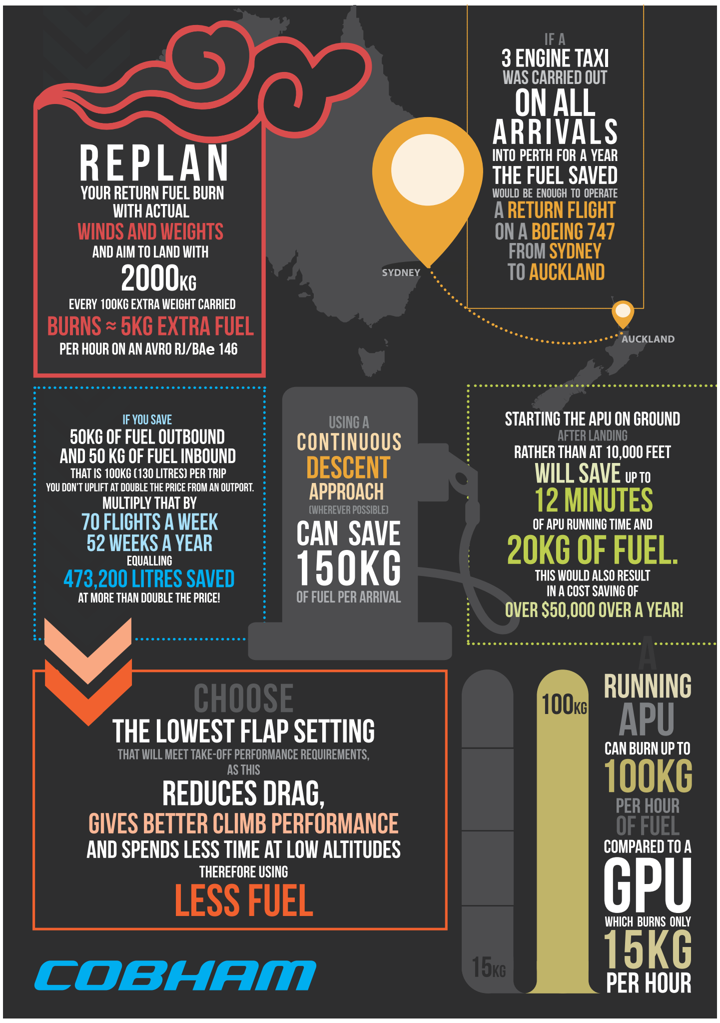
For the first time Cobham has been requested to provide carbon emissions data for commercial customers through the CDP supply chain programme. These customers are seeking to identify the significant sources of carbon in their product lines. An increasing number of such requests is anticipated in the future.

All the Group's principal manufacturing locations have maintained the highly protected risk status through compliance with insurers' standards. This enables Cobham to mitigate risks associated with extreme weather events such as flooding.

Looking forward

Cobham will continue to set ambitious annual energy/carbon reduction targets for its facilities and develop fuel burn targets for aircraft under its operational control. In addition, it is looking at developing best practice science based targets for emission reductions. This will help the Group contribute towards the UN's goal of keeping global warming within two degrees of pre-industrial temperatures.

Cobham Aviation Services' fuel efficiency awareness poster



Facility energy intensity reduction*

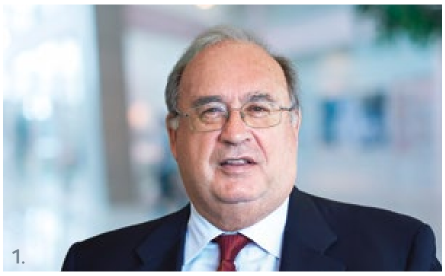
11%

Target: 10%
(2014: 8%)

* MWh per £1m revenue, excluding Aeroflex.

Board of Directors

Chairman


1.

Executive Directors


2.


3.

Non-executive Directors


4.


5.

1. John Devaney
Non-executive Chairman
BEng, CEng, FIMechE, FIEE

Age: 69
Appointed: Director February 2010, Chairman May 2010
Skills and experience: John's executive career was built in engineering companies within the Varity Group. John has previously served as Non-executive Director of Northern Rock Asset Management (between 2007 and 2010), Chairman of Marconi plc, later renamed Telent, and Chairman of National Express Group plc. He was President of Perkins Engines in the mid-1980s, and he went on to be President of Kelsey-Hayes, the automotive components manufacturer. He was subsequently Chief Executive of Eastern Electricity, the largest regional electricity company in the UK at the time. Following its acquisition by Hanson, he was appointed Chairman of Hanson's electricity division. John retired from his role as Non-executive Chairman of NATS (National Air Traffic Services) in August 2014.
External appointments: None.
Committee membership: Chair of the Nomination Committee.

2. Robert (Bob) Murphy
Chief Executive Officer, Executive Director

Age: 58
Appointed: June 2012
Skills and experience: Bob was with BAE Systems for 13 years from 1999, serving as a member of the Executive Committee of BAE Systems plc as Executive Vice President for the global operations of the product sectors business for BAE Systems, Inc., including the Electronic Systems, Land and Armaments and Platform Solutions Sector. He has also held a number of other senior operational and financial roles with BAE Systems. Prior to this, Bob spent 18 years with General Electric (GE) company, where he held numerous financial leadership positions, culminating in his role as CFO of the military engines operation of the GE Aircraft Engines Group. Previously, Bob has served on the Board of Trustees for the US National Defense Industrial Association and the Board of Visitors for the Clark School of Engineering at the University of Maryland.
External appointments: None.
Committee membership: Chair of the Executive Directors Committee.

3. Simon Nicholls
Chief Financial Officer, Executive Director
BSc (Hons), ACA

Age: 51
Appointed: May 2013
Skills and experience: Simon was CFO of Senior plc, the FTSE250 international manufacturing group providing engineered products for aerospace, defence and commercial industrial applications, a position he held from 2008. Previously, Simon was CFO of Hanson North America and prior to that he was Financial Controller for Hanson plc for three years. Simon spent nine years with Price Waterhouse, now PwC, in the UK and Canada, and four years working in senior financial positions. Simon served as a Non-executive Director of AIM listed Hamworthy plc from September 2011 until its takeover in February 2012. Simon is a Chartered Accountant, holding a Bachelor of Science in Mathematics, Operational Research, Statistics and Economics from the University of Warwick.
External appointments: None.
Committee membership: Member of the Executive Directors Committee.

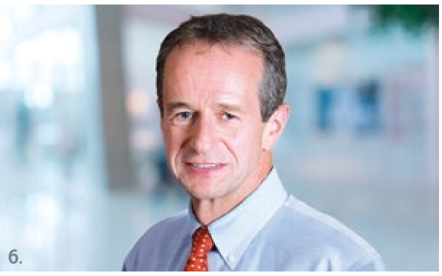
4. Mike Wareing
Senior Independent Non-executive Director
CMG, FCA, FCCA, MCSI

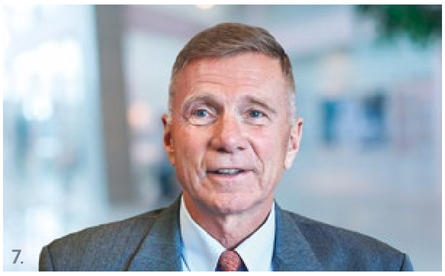
Age: 62
Appointed: December 2010
Skills and experience: Mike worked for KPMG from 1973 until 2009 when he retired. Between 2005 and 2009, he was International Chief Executive Officer, KPMG; Chairman, KPMG International Executive Team; and Chairman, KPMG Iberoamerica Board. He was formerly the Prime Minister's Envoy for Reconstruction in Southern Iraq. Mike retired from his role as Non-executive Director and Chairman of the Audit Committee of Wolseley plc in November 2014.
External appointments: Senior Independent Non-executive Director and Chairman of the Audit Committee of Intertek Group plc, and Economic Development Adviser to the Government of Afghanistan.
Committee membership: Member of the Audit and Nomination Committees.

5. Alison Wood
Independent Non-executive Director
MA, MBA

Age: 52
Appointed: July 2011
Skills and experience: Alison is engaged with a mix of not for profit and non-executive activities in the UK and New Zealand. She was formerly Global Director Corporate Development and Strategy for National Grid plc. Previously, she was Group Strategic Development Director for BAE Systems plc responsible for corporate strategy, mergers and acquisitions, and strategic business development across the UK and US. She has held three previous Non-executive Directorships: BTG plc from 2004 to 2008, THUS plc from 2007 to 2008 and GCHQ from 2009 to 2011.
External appointments: Non-executive Director and Senior Independent Director of e2v technologies plc. Non-executive Director and Chairman of the Remuneration Committee of Costain Group plc and British Standards Institution, a Royal Charter company.
Committee membership: Chair of the Remuneration Committee and member of the Nomination Committee.

Non-executive Directors





6. Alan Semple

Independent Non-executive Director
BA, CA

Age: 56
Appointed: February 2015
Skills and experience: Alan was formerly CFO and a Director of John Wood Group plc, a role he had held since 2000, and retired in May 2015. Prior to this, he held a number of senior finance roles in the John Wood Group from 1996. Alan previously served as the Group Finance Director of GRT Bus Group plc from 1994 to 1995, one of two companies which merged to form FirstGroup plc. Between 1987 and 1994, he was Finance Director at Seaforth Maritime Group Limited.
External appointments: Non-executive Director of Teekay Corporation.
Committee membership: Chair of the Audit Committee and member of the Nomination Committee.

7. Mike Hagee

Independent Non-executive Director

Age: 71
Appointed: December 2008
Skills and experience: Mike served in the US Marine Corps for almost 39 years ending his career in 2007 as Commandant of the Marine Corps and a member of the Joint Chiefs of Staff. His numerous military assignments included Commanding General, 1st Marine Expeditionary Force, Deputy Director of Operations at the US European Command and Executive Assistant to the Director of Central Intelligence. He also served in a number of diplomatic missions including the presidential diplomatic mission to Somalia. Mike retired from his role as Non-executive Director of Remington Outdoor Company Inc. in February 2015.
External appointments: President and CEO of the Admiral Nimitz Foundation in Fredericksburg, Texas, US, Co-Chairman of the Commission on Energy and Geopolitics, Non-executive Director of SGI Corp. and DynCorp International Inc., and Outside Manager on the Government Security Committee of the Special Security Agreement of TE SubCom, a TE Connectivity Limited company.
Committee membership: Member of the Audit and Nomination Committees.

8. David (Jonathan) Flint

Independent Non-executive Director
CBE, MBA, BSc, FREng, FInstP

Age: 55
Appointed: May 2013
Skills and experience: Jonathan is currently CEO of Oxford Instruments plc, a leading provider of high technology tools and systems for research and industry, a position he has held since 2005. Prior to this, he was the UK Managing Director of Vislink plc and has also held management positions with BAE Systems and GEC Marconi Avionics. A physics graduate from Imperial College London, Jonathan was made a CBE in 2012.
External appointments: CEO of Oxford Instruments plc.
Committee membership: Member of the Audit and Nomination Committees.

9. Birgit Nørgaard

Independent Non-executive Director
MA, MBA

Age: 57
Appointed: April 2014
Skills and experience: Birgit, a Danish national, currently holds a number of non-executive roles in the private and public sectors in the UK and overseas. Birgit's last executive role was as both the Chief Executive Officer of Grontmij Carl Bro, the Danish engineering consultancy group as well as the Chief Operating Officer of Grontmij NV, the Dutch parent company. An economics graduate from Copenhagen Business School, Birgit has an MBA from INSEAD.
External appointments: Non-executive Director of IMI plc. Birgit is a Non-executive Director at WSP Global Inc, a global consulting engineering company listed in Canada, and DSV A/S an international transportation company listed on the Copenhagen Stock Exchange. She also holds Board positions in private companies and public sector positions.
Committee membership: Member of the Remuneration and Nomination Committees.

10. Mark Ronald

Independent Non-executive Director
CBE, BA, BScEE, MScEE

Age: 74
Appointed: January 2007
Skills and experience: Mark was, until his retirement at the end of 2006, Chief Operating Officer of BAE Systems plc and Chief Executive Officer of BAE Systems Inc., its wholly owned US subsidiary. Previously he was Vice-President, Programme Management with Litton Industries and Chief Operating Officer of AEL Industries. Mark was a Non-executive Director of ATK Inc. Mark was also a Non-executive Director of Aeroflex Holdings Inc. until the acquisition of the Group by Cobham plc in September 2014.
External appointments: Non-executive Director of Anaren, Inc., and DRS Technologies, Inc., a subsidiary of Finmeccanica. Senior Adviser of Veritas Capital LLC and a management consultant.
Committee membership: Member of the Remuneration and Nomination Committees.

FOCUS ON EXECUTION AND PORTFOLIO REBALANCING

"We made good progress on our strategic objectives, in particular the key objective to integrate the former Aeroflex business into the Group, assisting the Company to return to growth, despite current headwinds in certain commercial markets."

Dear Shareholder,
We have made great progress with the Aeroflex integration combining the skill sets of the existing Cobham and Aeroflex employees in the newly enlarged Group and realised synergy benefits comfortably ahead of our original plan. The combination broadens our commercial footprint, and is helping us to make considerable headway in rebalancing the portfolio between defence and commercial markets.

The Group's new organisational structure came to life on 1 January 2015, creating a more simplified and streamlined organisation. We encountered some hardware subsystem development and design maturity issues within our air-to-air refuelling business, which led to a £15m provision, announced in February 2015. We have recovered well from these issues and it is pleasing to recognise that these programmes are now in a much more stable state, in part due to the strengthening of our engineering and programme management capabilities.

We launched a new employee engagement initiative under the banner of Great Place to Work®, which is aimed at building increased levels of trust within the workplace so that all of our employees can work together to achieve Cobham's full potential and truly become a great place to work. We are pleased with progress so far.

The Board has remained fairly static during 2015. Alan Semple joined us in February 2015 and is settling in to his new role as Chair of the Audit Committee, but other than that there have been no changes at Board level. Mark Ronald steps down as a Non-executive Director after serving nine years, at the forthcoming AGM. We thank Mark for his invaluable contribution to the Group over this period and wish him every success in the future.

Our markets in 2016 will, no doubt, continue to challenge and we will continue to work hard to respond to those challenges. I trust we can rely on your continued support for the foreseeable future.

Corporate Governance Index

The Directors present their report and the audited Group and Parent Company Financial Statements of Cobham plc for the year ended 31 December 2015.

Statement of compliance with the provisions of the Code

The ordinary shares are listed on the London Stock Exchange. In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 December 2015 and at the date of this Annual Report, it was compliant with the provisions of the UK Corporate Governance Code (Code), please refer to page 49 for further details.

This part of the Annual Report describes how the Company has applied, and complied with, the Code. The Code is published by the Financial Reporting Council (FRC) and is available from its website **www.frc.org.uk**.

Responsibility statements

Statements relating to the responsibilities of the Directors are on page 71, and those relating to the auditors are on pages 76 and 119.

Share capital

Details of the share capital of the Company and the powers of the Directors in relation to allotment, issue and market purchases of shares are given on page 67.

Financial reporting

In the Directors' view, the Annual Report and Accounts for 2015, together with the trading updates, the interim report and other reports made during the year, present a fair, balanced and understandable assessment of the Group's position and prospects.

The Audit Committee, supported by management, has adopted a detailed process to enable the Board to take this view. The structured approach (identified in the Audit Committee report on page 55) has been adopted for the preparation and production of this Annual Report and Accounts, which the Board formally signed off at its meeting in February 2016.

The Board's assessment of the fair, balanced and understandable nature of the Annual Report and Accounts is further assisted by, amongst other matters, the following:

- The Annual Report and Accounts is drafted by senior management with overall responsibility for each section. Comprehensive reviews of the draft Annual Report and Accounts are undertaken by Executive Directors and other members of the senior management team, and in relation to certain sections by the Company's external auditors and other advisers;
- An internal verification process is undertaken by the internal reviewers to ensure factual accuracy; and
- The drafts of each relevant section are reviewed as they are prepared through an iterative drafting process by the Chairs of appropriate Committees of the Board and the final draft is reviewed by those Committees prior to consideration by the Board.

At its February 2016 meeting, the Board reviewed and was satisfied that the Annual Report and Accounts for the 2015 financial year, taken as a whole, is fair, balanced and understandable and the Board believes that the information contained provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors have adopted the going concern basis in preparing the Annual Report and Accounts as stated in the Financial Review on page 31.

Role and focus

The Board's main duties are to:

- Lead the Group with a view to the creation of strong, sustainable financial performance and long term shareholder value;
- Review and agree the Group's strategy;
- Ensure that the necessary resources are in place;
- Monitor management performance; and
- Supervise the conduct of the Group's activities within a framework of prudent and effective internal controls.

Highlights of 2015

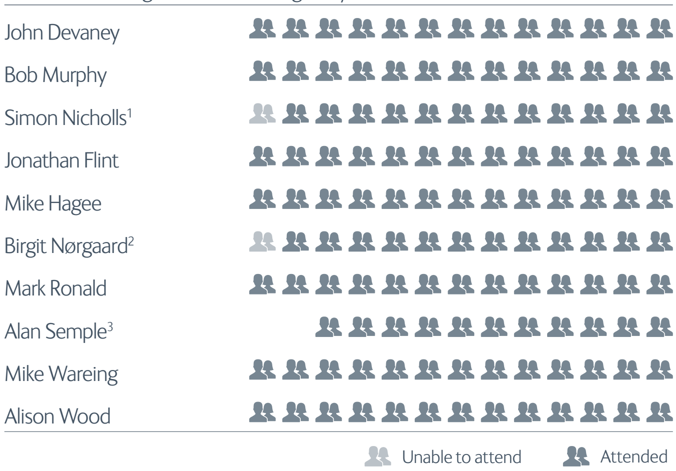
- The integration of the Aeroflex businesses purchased in 2014 has advanced and synergies have been recognised earlier than originally planned;
- The organisational redesign for the business was formally launched on 1 January 2015;
- Oversight of the development programmes with increased LCM and engineering capabilities to support;
- A new Sector President for Communications and Connectivity has been appointed this year. In addition, other key appointments to the Group Executive in: IT; Engineering; and Operations/Supply Chain Management. All of these changes have been made to further enhance the strength of the senior management team. The succession plan for this team, including the Sector teams, was fully reviewed during the year;
- The strategy adopted during 2014 was further refined and the Group's strategic objectives reviewed;
- Continued oversight of the restructuring of the portfolio with planned disposals of businesses, which are no longer considered core to the Group. Four transactions involving entity disposals and one relating to a business sale have been completed in the year;
- The Board members visited four sites during 2015, primarily to familiarise themselves with the acquired Aeroflex businesses but also to review the change programmes under way in the rest of the business;
- The Group's dividend policy was revised with future dividend growth now aligned with earnings growth and with a view to rebuilding dividend cover over time; and
- Evaluated and approved four large bid submissions above authority limits delegated to the Executive Directors outside of the regular Board meeting agenda.

Priorities for 2016

- Continued oversight of the strategic agenda;
- Review performance against agreed strategic actions, as identified on pages 16 and 17;
- Focus on driving customer satisfaction through improved operational execution and continuous improvement through the business;
- Drive employee engagement to respond to concerns identified as part of the Great Place to Work® initiative. Oversee a further survey during the year, to include the former Aeroflex employees for the first time;
- Retain focus on market evaluation and strategic development; and
- Continue to rebalance the portfolio in line with strategy.

Board meeting attendance for 2015

13 Board meetings were held during the year, attended as follows:



[1] Simon Nicholls missed one Board meeting due to ill health.
[2] Birgit Nørgaard missed a short notice Board meeting due to other business commitments.
[3] Alan Semple joined the Board on 25 February 2015.

The Board composition

The Board comprises a Non-executive Chairman (John Devaney), a CEO (Bob Murphy), a CFO (Simon Nicholls) and seven other Non-executive Directors of whom Mike Wareing is the Senior Independent Director. All Non-executive Directors are considered to be independent and the Chairman was considered to be independent on appointment. They all held office throughout the year except Alan Semple, who joined the Board on 25 February 2015. Mark Ronald will stand down from the Board, having completed nine years as a Non-executive Director, at the conclusion of the 2016 AGM. No new Board appointments are planned as Alan joined as an additional Board member in 2015.

Biographies of the Directors, giving details of their experience and other significant commitments, are set out on pages 42 and 43. The wide ranging experience and backgrounds of the Non-executive Directors enable them to support, debate and constructively challenge management in relation to both the development of strategy and the performance of the Group. The attendance of Directors at Board meetings is set out on the previous page and attendance at principal Board Committee meetings as members of such committees during the year is set out in the reports from each committee on pages 50, 53 and 59.

The rules for the appointment and replacement of Directors are set out in the Company's Articles of Association (the Articles), copies of which can be obtained from Companies House in the UK or by contacting the Company Secretary. Changes to the Articles must be approved by shareholders passing a special resolution. The Directors and the Company (in the latter case by ordinary resolution) may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director.

All the Non-executive Directors have confirmed that they have sufficient time to meet their time commitments to the Group. Copies of their appointment letters are available on request to the Company Secretary and will be available for inspection at the AGM.

In accordance with the Code, which recommends that all Directors of FTSE350 companies seek re-election by shareholders on an annual basis, all eligible Directors currently in office will retire and seek re-election at the AGM. The Chairman confirms to shareholders when proposing re-appointment that the individual's performance continues to be effective and that the individual continues to demonstrate commitment to the role. Non-executive Directors are subject to Companies Act provisions relating to the removal of a Director.

The Chairman is, among other things, responsible for chairing Board meetings and leading the Board. The CEO's responsibilities include operational performance, corporate social responsibility, and the development and implementation of the Group's strategy. He also focuses on long term growth and development of the Group, its people and customer relationships. The Board's policy is that the roles of Chairman and CEO should be performed by different people.

The Senior Independent Director's responsibilities include the provision of an additional channel of communication between the Chairman and the Non-executive Directors. He also provides another point of contact for shareholders if they have concerns that communication through the normal channels of Chairman, CEO or CFO has failed to resolve, or where these contacts are inappropriate.

Board proceedings

Board meetings, scheduled in accordance with the annual timetable, were held six times during the year on a face to face basis and three were held by telephone. In addition, there were four short notice meetings to support Board decisions required prior to the next scheduled meeting. There is also contact between meetings to progress the Group's business as required. Meetings are held in London and at an international operational location.

In 2015, the Board visited sites in Stevenage and Chesham in the UK, and San Jose and Colorado Springs in the US. In addition, members of the Board made individual trips to other sites. Jonathan Flint and Mike Wareing visited Wimborne, UK to increase their understanding of the air-to-air refuelling development programmes. Mike also visited the Davenport and San Diego sites in the US. Alan Semple and Birgit Nørgaard visited a number of sites as part of their induction. Site visits help the Board to understand the business, its strategy, problems being faced and how they may be able to help.
The Board is, by necessity, a very diverse group of individuals, some with business backgrounds and others with more general management experience. We need this level of diversity to make sure the decisions made at this level have the right input and challenge. It is also important for the Board to try to understand and influence the culture around the business, which cannot be achieved from inside the Boardroom.

Mike Wareing, the Senior Independent Director, held a meeting with the Non-executives, in the absence of the Chairman, to appraise the Chairman's performance and to consider his re-appointment as Chairman for a further three year period. The Non-executives agreed to the re-appointment as Chairman, subject to his re-appointment to the Board being approved, by shareholders, at the 2016 AGM. The Chairman has also held meetings with the Non-executives in the absence of the Executive Directors, and 1:1 performance appraisals with each Non-executive Director to discuss, amongst other matters, feedback from the Board evaluation exercise.

The Board has adopted a schedule of matters reserved for its specific approval. The schedule provides the framework for those decisions which can be made by the Board and those which can be delegated either to committees or otherwise. Among the key matters on which the Board alone may make decisions are the Group's business strategy, its five year financial plan, its consolidated budget, Group policies, dividends, acquisitions and disposals, and all appointments to and removals from the Board. Authority is delegated to management on a structured basis in accordance with the provisions of the Corporate Framework ensuring that proper management oversight exists at the appropriate level. Matters delegated in this way include, within defined parameters: the approval of bids and contracts, capital expenditures and financing arrangements.

The Board has adopted procedures relating to the conduct of its business, including the timely provision of information, and the Company Secretary is responsible for ensuring that these are observed and for advising the Board on corporate governance matters. The Company Secretary is appointed, and can only be removed, by the Board.

If a Director were to have a concern that cannot be resolved this would be recorded in the Board minutes. On resignation, Non-executive Directors are invited to provide a written statement to the Chairman for circulation to the Board if they have concerns. No such statements were made during 2015.

All potential situational and transactional conflicts of interest are disclosed, noted and authorised. Procedures are in place and operating effectively to keep such disclosures up to date.

Board and committees performance evaluation

The Board conducts an evaluation of its activities on an annual basis. During 2015, the Board and its committees undertook an external evaluation. The evaluation contract was awarded to Armstrong Bonham Carter (ABC), following a full tender process, which included five other service providers. The exercise consisted of an interview with all Board members and the Company Secretary, which took place around the December Board meetings. The agenda for these interviews was circulated to each participant prior to the meetings and was designed to understand whether the Directors had thoroughly discussed and agreed the use of shareholders' funds to ensure the Company is successful whilst managing the risks inherent in the strategy, plans and the operating environment. This is then augmented by an assessment of how effective the Board is in ensuring the Group Executive implements the strategy, and plans and manages all the other activities of the Company.

The interviews with the members of the Board also included individual Director appraisals. The results of those appraisals were fed back independently to the Chairman with the exception of the report on his own performance, which was provided to the Senior Independent Director.

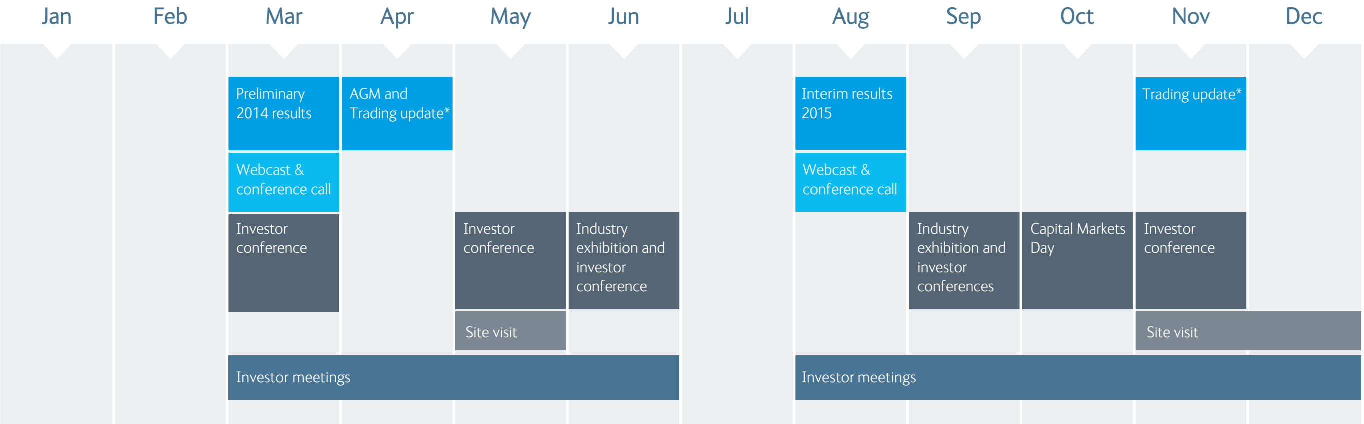
The performance of each of the Board's committees was also subject to review, and reports were provided to each respective chair.

ABC collated all feedback collected and produced a series of recommendations to the Board, which were considered at their February 2016 meeting. The Board approved an action plan to address the recommendations. A table of actions agreed from this and the previous performance evaluation is included below. During 2016, the Board will consider how to approach their evaluation for the year. As the 2015 exercise was an in-depth external review, for 2016, it is likely to be an internal exercise.

Evaluation year	Observations	Actions to be taken
2015	Due to the importance of Private Venture (PV) investment in ensuring the Company grows sustainably, the Board needs to have a comprehensive understanding of the opportunities across the diverse portfolio to ensure PV is allocated to the greatest opportunities. Secondly, the Board should, along with the Group Executive, review regularly the information on customer requirements and satisfaction.	The Board will examine the PV process as part of the annual strategic review.
	The Board needs to ensure the new organisation design is implemented successfully.	The Board will be monitoring the resolution of the issues encountered in the initial implementation of the Cobham Business Operating System (CBOS). The Board will oversee the plans to improve culture and staff attitudes and consider assisting the Group Executive in communicating the strategy and the benefits of the organisational design during the Non-executive Directors' usual personal visits to improve their knowledge of the Company and through visits to the sites by the Board as a whole. The Board plans to gain a deeper understanding of the timing and benefits of the Continuous Improvement (CI) programme to ensure, in the event of further revenue weakness, that there are plans to further reduce cost without putting the strategy at risk.
2014	PV investment.	The continued investment in the products of the business to ensure currency of technology is recognised as key and more emphasis is being placed on pursuing (and monitoring) strategic opportunities through such investment.
	Continued development of the strategic planning process.	The Board identified a number of additional pieces of work they would like to see as part of the 2015 Strategic Review. These were all scheduled into the work cycle and delivered during the 2015 Board strategy discussions, which took place in May 2015. Specific strategic actions have been set for the CEO and the Group Executive team for 2016, see pages 16 and 17.

The performance of the Executive Directors in the context of their management and operational responsibilities is appraised under the same personal development review (PDR) system used throughout the business. Under this process, the Chairman appraises the performance of the CEO, and the CEO reviews the performance of the CFO and members of the Group Executive. The results of these appraisals are reviewed by the Remuneration Committee and feed directly into performance awards under the Annual Incentive Plan (AIP).

Summary of 2015 investor relations activity



*The Trading update is a short quarterly update on the Group's trading, significant events and financial position.

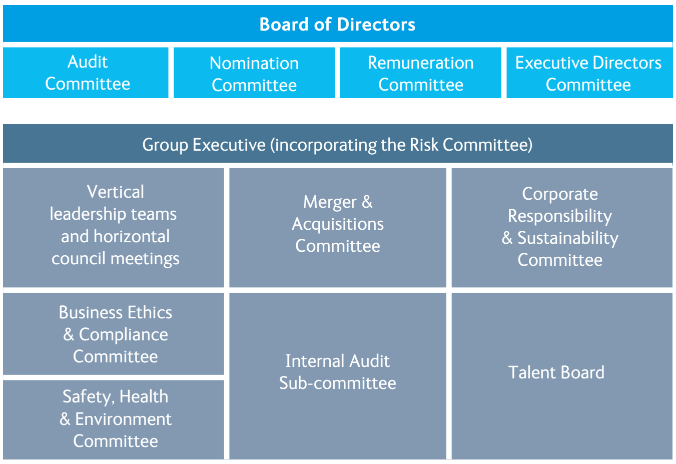
Board committees

The Board is supported in its work by a number of committees. The Company Secretary acts as secretary to all Board committees. Committee chairs provide oral reports on the work undertaken by their committees at the following Board meeting. Information relating to the activities of each committee may be found on the pages that follow. All Board committees are provided with sufficient resources to undertake their duties.

The other principal Board committee is the Executive Directors Committee. The Executive Directors are the only members of this Committee, under the chairmanship of the CEO. The purpose is to assist the CEO in the performance of his duties and its terms of reference include: establishing and implementing internal policies, systems and controls to ensure that potential inside information is communicated to it, considered, verified and released to the market where required; the discharge of obligations arising under the Company's share plans; the determination of the remuneration of the Non-executive Directors; the approval of banking facilities; and the approval of bids and contracts above the limits delegated to the Sectors. This Committee met on 14 occasions during the year and, in addition, decisions were made as required to respond to business needs and market conditions.

Management committees

The Group Executive Committee and the other principal management committees are shown in the table below. All of the below is in addition to formal business, business development and functional reviews, all of which are held on a quarterly basis.



Shareholder relations

The Board recognises the importance of maintaining an effective two-way communication programme with Cobham's shareholders and potential shareholders. This approach assists investors' understanding of the value drivers within the Group, including its strategy, business model and remuneration structure, and allows the Board to understand shareholder views when formulating and discussing strategy and policies. This two-way flow of information helps to ensure the interests of the Company and its investors are aligned. Cobham's annual programme of shareholder interaction is pursued overall in a way which is intended to promote this aim.

Both the Strategic Report section of the Annual Report and Accounts and the investors section of the website (**www.cobhaminvestors.com**) include information on the Group that is intended to be of interest to shareholders, including the Group's strategy, its businesses, historical financial information, and the Board and governance matters.

During the year, presentations were given by the CEO and CFO to investors and analysts on the morning of the announcement of the Group's interim and preliminary results and there was an opportunity provided to ask questions at each presentation. The presentations were accompanied by a live webcast and audio conference call for investors unable to attend in person. Copies of the associated presentation materials, together with webcasts, can be accessed on Cobham's website, where they remain for subsequent viewing. The Group also held a Capital Markets Day in October 2015, which included presentations by the management teams running the main businesses acquired with the 2014 Aeroflex acquisition. There was also an opportunity provided to ask questions and to meet the management teams informally before and after the event. The Director of Investor Relations is also available through the year to deal with shareholder queries as they arise.

Board Directors are available at the AGM and shareholders have the opportunity to question the Board and to meet the Directors informally.

I have recently written to our major shareholders, reminding them that I am available to meet whenever they consider it appropriate.

John Devaney
Chairman
2 March 2016

Compliance with the UK Corporate Governance Code

A. Leadership

A1. The Board's role

In 2015, the Board met nine times in order to review the Company's performance and strategy against set objectives and a further four times outside of the normal sequence of meetings to deal with urgent Board decisions. The Board's role is to lead the Group with a view to the creation of strong, sustainable financial performance and long-term shareholder value, to approve the Group's Strategic Plan, and to monitor management performance against plan. The Board also sets the Group's risk appetite, and monitors the Company's risk management processes. The Board has adopted a clear schedule of matters reserved for its specific approval, including a framework for those decisions which can be delegated to committees or otherwise. Further details can be found in the Corporate Governance Report starting on page 44.

A2. A clear division of responsibilities

The Board's policy is that the roles of Chairman and CEO should be performed by different people. The division of responsibilities is documented and clearly understood. The Chairman is responsible for the leadership and effectiveness of the Board, and the CEO is responsible for leading the day-to-day management of the Company within the strategy set by the Board.

A3. Role of the Chairman

The Chairman sets the agendas for meetings, manages the meeting timetable and facilitates open and constructive dialogue during the meetings.

A4. Role of the Non-executive Directors

The Board has appointed a Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors where necessary. The Senior Independent Director is available to shareholders, should they have concerns which contact through the normal channels of communication has failed to resolve.

The Chairman has held regular meetings with the Non-executives in the absence of Executive Directors, providing an opportunity for any concerns to be discussed.

B. Effectiveness

B1. The Board's composition

The Board currently consists of ten individuals: the Chairman, two Executive Directors and seven independent Non-executive Directors. The composition of the Board is reviewed regularly by the Nomination Committee to ensure that there is an appropriate mix of skills, and a range of diverse experience. Board members' biographies are provided on pages 42 and 43 and identify the experience each Director brings to the Board. A table identifying the skills and experience of the Board members may also be found on page 51. The Board determines, through the Nomination Committee, the independence of its members. Conflicts of interest are also monitored and updated at least annually and more frequently as and when required.

B2. Board appointments

The appointment of new Directors to the Board is led by the Nomination Committee. The Nomination Committee's Terms of Reference, as published on the Company website, document their responsibility regarding Board appointments. The Committee consists of all the Non-executive Directors and the Chairman. Further details of succession planning, including the Board's policy on diversity, including gender, can be found on page 51.

B3. Time commitments

The time commitments of Non-executive Directors are defined on appointment and regularly evaluated. The Chairman gives consideration to new directorships which may impact existing time commitments.

B4. Training and development

On appointment, Directors undertake a structured induction programme, which is supplemented by visits to key locations and meetings with senior executives. Further training for Directors is offered when taking a new role on a committee and is otherwise available as required. Further details can be found in the Directors' professional development section on page 51.

B5. Provision of information and support

The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information. All the Directors have access to independent professional advice, at the Company's expense, where the Directors judge it necessary to discharge their responsibilities.

B6. Board and committee performance evaluation

The Board and the committees undertook an external evaluation in 2015. Details of the process undertaken, and a table of actions instigated by this evaluation are included on page 47. The Senior Independent Director also held a meeting with the Non-executives in the absence of the Chairman to appraise the Chairman's performance.

B7. Directors re-election

All Directors were subject to shareholder election or re-election, as appropriate, at the AGM.

C. Accountability

C1. Financial and business reporting

The Statement of the Directors' Responsibility is set out on page 71, and the Independent Auditors' Report is on pages 72 to 76. The Company's business model is explained on pages 6 and 7.

C2. Risk management and internal control systems

The Board sets the Company's risk appetite and conducts a robust assessment of the principal risks, along with an annual review of the effectiveness of the Company's risk management, and internal control systems. The activities of both the Audit and Risk Committee (part of the Group Executive Committee), which assist the Board with its responsibilities in relation to risk management, reporting and assurance, are set out on pages 32 to 37.

C3. Role and responsibilities of the Audit Committee

Details of the composition of the Audit Committee and how the Committee has discharged its responsibilities during the year is provided in the Audit Committee Report on pages 52 to 57. The Terms of Reference for the Audit Committee are reviewed annually and are available on the Company website.

D. Remuneration

D1. Levels and components of remuneration

The Board believes that the Group's remuneration policy is appropriately designed to promote the long term success of the Company, while enabling the Group to attract, retain and motivate the executive talent required for the delivery of its business strategy. For further information, see the Directors' Remuneration Report, and summarised Remuneration Policy, on pages 58 to 66.

D2. Development of remuneration policy and packages

The membership of the Remuneration Committee is made up of Non-executive Directors only. The Terms of Reference for the Remuneration Committee are reviewed annually and are available on the Company website. The Remuneration Committee has delegated authority for setting the remuneration of Executive Directors and the Chairman. The fees payable to the Non-executive Directors are determined by the Board, on recommendation from the Executive Directors Committee.

E. Relations with shareholders

E1. Shareholder engagement and dialogue

Effective communication and engagement with investors is of paramount importance to the continued success of the Company. The Company maintains a relationship with shareholders through a series of road shows completed through the year, which are usually attended by the CEO and the CFO. The Chairman makes himself available to meet with shareholders at their request and in January 2016 also invited the largest of the Company's shareholders to meet with him independently. Further details can be found in the Corporate Governance Report on page 48.

E2. Constructive use of general meetings

The Board values all general meetings as an important opportunity to engage with investors. Attendees at general meetings have the opportunity to ask questions to the Board and to speak to individual Directors following the formal business of the meeting.

FOCUS ON STRENGTHENING THE GROUP'S SUCCESSION PLAN

"The Board has remained relatively stable through the year, the focus has been on talent attraction, identification and development further down the management chain."

Dear Shareholder

The Committee has had a relatively quiet 2015. Alan Semple joined the Board and Audit Committee at the beginning of 2015. There have been no other new Board appointments as the Board is currently at full strength, and considered to be operating effectively.

As part of the implementation of the new organisational design, there has been an increase in our focus on succession planning, which has been led by the Board. A detailed review of potential successors for the CEO role and all of his direct line reports, together with their development needs, was performed in the year by the full Board. The Committee retained the responsibility for succession planning for the Non-executives.

After the year had ended, the Board announced that our current CFO, Simon Nicholls, would be moving on to perform the role of CFO for Wolseley plc, a FTSE50 company. We wish him well in his new role and thank him for his leadership contribution over the past three years. The process to recruit his successor has commenced and we will be considering both internal and external candidates.

Role and focus

The Nomination Committee's main duties are to:
- Review the structure, size and composition of the Board; and
- Consider succession planning for Directors and other senior executives.

Highlights of 2015

- Reviewed the structure, size and composition of the Board;
- Led by Mike Wareing, the Senior Independent Director, reviewed my performance as Chairman of the Group, and any succession issues arising from this being my last three year term; and
- Considered the succession plan and concluded that this should be an area for focus for the Board during 2015/16.

Priorities for 2016

- Oversight of the search for the new CFO;
- Continue to review succession plans for the Board members and key roles across the business; and
- Continue to review Board composition to ensure competencies remain aligned with the Strategic Plan and that the Board continues to be appropriately balanced.

The Committee's Terms of Reference, which were reviewed during the year, are available on Cobham's website or on application to the Company Secretary.

Membership and attendance

Two Nomination Committee meetings were held during the year, attended as follows:

John Devaney (Chair)	Attended
Jonathan Flint	Attended, Attended
Mike Hagee	Attended, Attended
Birgit Nørgaard	Attended, Attended
Mark Ronald	Attended, Attended
Alan Semple	Attended, Attended
Mike Wareing	Attended, Attended
Alison Wood	Attended, Attended

Unable to attend   Attended

One of the meetings was to review the Chairman's performance and agree his re-appointment.

Other attendees

CEO, by invitation.

Skills and experience

The table below identifies the skills and experience of the Board members.

	Independence	Years with Cobham	Skills			Experience							
			Leadership	Strategy	UK Corporate Governance	Corporate	Engineering	Defence	Finance	US Market	UK Listings	HR	Risk
John Devaney		6	•	•	•	•	•	•	•	•	•		•
Bob Murphy		3	•	•	•	•		•	•	•	•	•	•
Simon Nicholls		2	•	•	•	•		•	•	•	•		•
Jonathan Flint	•	2	•	•	•	•	•	•	•	•	•		•
Mike Hagee	•	7	•	•				•		•			•
Birgit Nørgaard	•	2	•	•	•	•	•		•		•	•	•
Mark Ronald	•	9	•	•		•	•	•		•	•		•
Alan Semple	•	1	•	•	•	•	•		•	•	•	•	•
Mike Wareing	•	5	•	•	•	•		•	•	•	•	•	•
Alison Wood	•	4	•	•	•	•		•		•	•	•	•

Directors' professional development

On appointment, Directors undertake a structured induction programme in the course of which they receive information about:

- The operations and activities of the Group;
- The role of the Board and the matters reserved for its decision;
- The Group's corporate governance practices and procedures;
- Their duties, responsibilities and obligations as Directors of a listed public limited company; and
- Specific duties as a member of one of the Board committees.

This is supplemented by visits to key locations and meetings with, and presentations by, members of the senior management team. Alan Semple followed this model in undertaking his induction at the end of 2014 and into 2015.

Development for Directors is available as required and is provided mainly by means of internal briefing from senior management or advisers and external courses. In addition, Directors' knowledge of the legal and regulatory environment is updated through the provision of information by the Group's advisers and by means of regular updates from the Company Secretary and the legal team.

Site visits are considered critical to ensure that the Directors remain close to the business of the Group, refer to page 46 for details of site visits organised during the year.

Diversity and inclusion

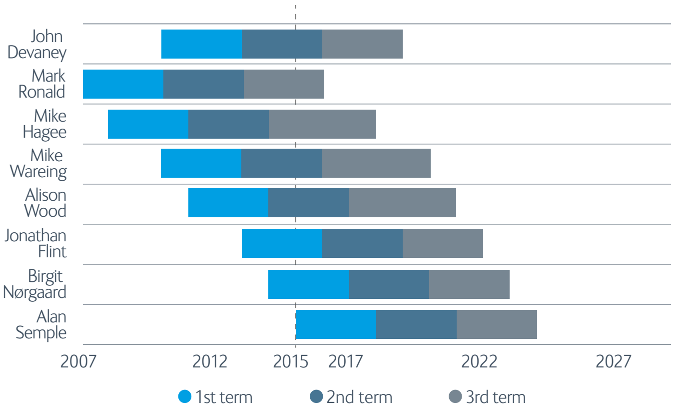
The Committee is cognisant of the need for diversity when considering the composition of the Board. In recruiting for Board roles, targets have been set around ensuring a proportion of female applicants are included in the candidate pool for Non-executive Director positions. The representation of women on the Board is currently 20%.

During the year, the Board have set up a Culture and Talent Advisory Panel, including representation from the Board, with an aim of supporting the diversity and inclusion initiative currently under way in the business. More details of work under way in this area can be found on page 39.

Succession planning for Board members

Succession planning takes place on a regular basis to ensure that the Group is managed by executives with the necessary skills, experience and knowledge. The Board has a role to play in overseeing the development of management resources in the Group. Specifically, the Board wants to see depth and quality in management, and robust processes are in place to help them in this task.

Succession planning for Non-executive Directors is based on maintaining a depth of knowledge and experience on the Board. The Nomination Committee actively manages Non-executive Director succession having regard to anticipated retirement dates for existing Directors and initiates focused searches for Non-executive Directors as positions are required.



The current Board composition in relation to the Non-executive Directors in terms of length of service and current term is shown diagrammatically above.

John Devaney
Nomination Committee Chair
2 March 2016

INCREASED ANALYSIS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

"One of the key focus areas for 2015 was the tender of the Group's external audit."

Dear Shareholder

I am pleased to present my first report as Chair of the Audit Committee.

2015 was a busy year for the Audit Committee: we conducted a comprehensive external audit tender, resulting in a recommendation for the re-appointment of PwC as the Group's external auditors; we approved the appointment of a new Head of Internal Audit and Assurance (IA&A), and assisted in his development of a risk-based internal audit programme for 2016; we increased our interaction with Sector Finance leads, through the addition of a regular meeting presentation slot; we contributed to the development of the viability statement, and reviewed the corresponding sensitivity analysis; and we have kept close watch over the long term development programmes and on the further strengthening of LCM capabilities.

At the 2016 AGM, I and the fellow members of the Committee will be available to respond to any questions shareholders may wish to raise on this report or the Committee's activities.

Highlights of 2015

- Conducted a comprehensive external audit tender;
- Implemented a new policy on the provision of non-audit services for the external auditors;
- Approved the appointment of a new Head of IA&A;
- Increased the Committee's interaction with Sector Finance leads;
- Contributed to the development of the viability statement;
- Oversaw the progress of the governance, risk and assurance initiative;
- Increased analysis of IT controls (including cyber security and disaster recovery); and
- Continued to oversee the development of stronger LCM capabilities.

Priorities for 2016

- Continued focus on the effectiveness of Group's risk management systems;
- Oversight of a revised risk-based internal audit programme;
- Ongoing review of the internal audit scope;
- Oversight of the progressive transition of non-audit services away from the external auditors;
- Continued oversight of the Group's internal controls, including assurance over the SSA control environment;
- Increased focus on the implementation of CBOS;
- Continued oversight over the Group's development programmes, LCM and IT security procedures; and
- Assist in the search and selection process for the new CFO.

Responsibilities

The Committee's Terms of Reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code. The terms of reference, which were reviewed and updated in December 2015, in line with the latest regulatory developments, are available on Cobham's website or on application to the Company Secretary.

The Audit Committee's main responsibilities are to:

- Monitor the integrity of the Group's Financial Statements and any formal announcements relating to its financial performance, reviewing accounting policies used and judgements applied;
- Oversee the Group's risk management procedures, and internal control systems;
- Monitor and review the effectiveness of the Group's internal audit function;
- Make recommendations on the appointment, terms of engagement and remuneration of the external auditors;
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;
- Develop and implement a policy on the engagement of the external auditor to supply non-audit services; and
- Monitor and review the Group's policies and practices concerning business conduct and ethics, including whistleblowing arrangements.

Composition

The Committee consists of independent Non-executive Directors only. The current members, aside from me, are Jonathan Flint, Mike Hagee and Mike Wareing. Following the 2016 AGM, Mike Wareing will be leaving the Audit Committee in order to join the Remuneration Committee, due to Mark Ronald's departure from the Board. Biographical details for all of the Committee members may be found on pages 42 and 43. The members bring a wide range of financial, risk and business expertise to the Committee's deliberations. The particular skills and experience of each member may be found on page 51.

I am a Chartered Accountant, and was Chief Financial Officer of John Wood Group plc until May 2015. The Board therefore considers that I have recent and relevant financial experience for the purposes of the Code.

Meetings

Six Audit Committee meetings were held during the year, attended as follows:

Alan Semple (Chair)[1]	Attended	Attended	Attended	Attended	Attended	Attended
Jonathan Flint	Attended	Attended	Attended	Attended	Attended	Attended
Mike Hagee	Attended	Attended	Attended	Attended	Attended	Attended
Mike Wareing[2]	Attended	Attended	Attended	Attended	Attended	Attended

Unable to attend   Attended

[1] Alan Semple was appointed to the Committee on 25 February 2015 and became the Chair of the Committee on 23 April 2015.
[2] Mike Wareing stepped down as Chair of the Committee on 23 April 2015.

During the year, the Committee invited the Chairman of the Board, CEO, CFO, Group Director of Financial Control, Head of IA&A, the PwC lead audit partner, other representatives from PwC, and other senior management to attend their meetings.

At least twice a year, immediately following a Committee meeting, the Committee meet separately with the PwC lead audit partner and the Head of IA&A, to give them the opportunity to discuss matters without executive management being present.

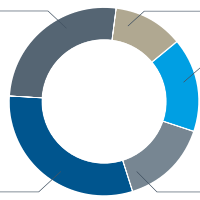
Effectiveness

During the year, an externally facilitated performance review was undertaken in relation to the Board and its committees, by Armstrong Bonham Carter LLP. The Committee discussed the findings of the review in the February 2016 meeting, and considered the findings alongside their priorities for 2016. The Committee received positive feedback from Board members, and was considered to be effective in fulfilling its role throughout 2015.

Key issues and activities

	Feb	Apr	Jul	Oct	Nov	Dec
Financial statements and reports						
Full year results	•					•
Half year results			•			
Fair, balanced and understandable assessment	•					
External audit						
Independence, objectivity and effectiveness of the external auditor	•					
Appointment recommendation to the Board	•					
Policy on the provision of non-audit services	•		•			
Approval of non-audit fees	•		•			
External audit scope and fees	•		•			
External auditors' full year report	•					•
External auditors' half year report			•			
Audit tender		•		•	•	
Internal audit						
Effectiveness review of internal audit	•		•			
Internal audit report	•		•			
Annual internal audit plan						•
Governance, risk and assurance						
Risk management report	•	•	•		•	
Risk management framework	•		•		•	•
Internal controls	•					•
IT controls, including cyber security		•			•	
LCM		•			•	
Compliance, whistleblowing and fraud	•		•			•
Other						
Updates on accounting and corporate governance developments						•
Terms of Reference						•
Effectiveness of the Committee						•

Allocation of time (%)



Financial reporting and significant financial judgements

The Committee reviews whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and also seeks support from the external auditors to assess them. The Committee identified the issues below as significant in the context of the 2015 financial statements, on account of the level of materiality and the degree of judgement exercised by management.

Area of focus	Area of issue	Role of the Committee	Conclusion
Revenue/contract accounting	Revenue and profit recognition on contracts (refer to note 1 of the Group Financial Statements)	The Committee debated accounting policies, judgements on material contracts and external audit reviews. A key focus for the Committee has been the revenue and profit recognition on the Group's air-to-air refuelling programmes, with regular updates being provided to the Committee by Sector management.	The Committee was satisfied that accounting and judgements were reasonable and appropriate.
	Revenue and profit cut-off error impacting the 2015 results, identified within one business unit (refer to the Principal Risks section on page 32)	The Committee reviewed the work undertaken by the internal and external audit teams and by management, to ensure that the issue was fully investigated and appropriate adjustments made to the financial statements.	The Committee was satisfied that the work undertaken was sufficient and that potential misstatements had been identified and corrected in the financial statements.
Goodwill	Goodwill impairment assessment (refer to note 10)	The Committee challenged internal papers covering the basis and quantum of valuation, including explanations for any significant changes from those used in previous years.	The Committee was satisfied that these were reasonable and appropriate, and that the disclosures made were appropriate.
Acquired intangibles	Recoverability of acquired intangibles (refer to note 27)	The Committee reviewed a report from management, which explained the methodology used and the rationale for the assumptions made.	The Committee was satisfied that these were reasonable and appropriate, and that the disclosures made were appropriate.
Inventory	Accounting for inventory provisions (refer to note 13)	The Committee challenged internal papers covering the basis and quantum of valuation.	The Committee considered that accounting and provisions were appropriate.
Tax	Accounting for uncertain tax positions (refer to notes 6 and 20)	The Committee reviewed explanatory papers from management, which included a review of the appropriateness of the tax provisions. The Group Tax Director also attended a Committee meeting to discuss how the Group manages its tax risks.	The Committee was satisfied that the judgements and estimates were reasonable and appropriate.
Non-underlying costs	Identification and measurement of non-underlying costs (refer to note 2)	The Committee reviewed a report from management, which explained the methodology used and the rationale for the assumptions made.	The Committee was satisfied that accounting and judgements were reasonable and appropriate.
Acquisitions/disposals	Acquisition and disposal accounting (refer to notes 27 and 28)	The Committee discussed accounting policies, management reports, detailed contract appraisals, legal advice, and reviews by internal and external audit. A key focus for the Committee has been the adjustments to the Aeroflex opening balance.	The Committee considered that accounting and provisions were appropriate.

Policy on the provision of non-audit services

In July 2015, the Committee approved a revised policy on the provision of non-audit services for recommendation to the Board. The policy was amended in anticipation of the implementation of EU legislation. The revised policy states, as a default position, that the external auditors will not be engaged to provide any element of non-audit services. However, the Committee recognises that there may be some non-audit services for which the Group might wish to use the external auditors. In these circumstances, the deciding factor is that there is a clear differentiation for the work concerned, between the audit firm and other potential providers of the work. Furthermore, the work must be permitted under the relevant regulations and must not impinge on the independence of the audit firm. A decision to use the audit firm for non-audit work must also be approved in advance of the use of the services, by: the CFO for fees up to £50,000; the CFO in conjunction with the Chair of the Audit Committee for fees between £50,000 and £150,000; and the Audit Committee, as a whole, for fees over £150,000. As a result of the new policy and the outcome of the external audit tender, the existing provision of non-audit services will progressively transition away from the external auditors, PwC, during 2016.

Fair, balanced and understandable report and accounts

At the request of the Board, the Committee considered whether, in our opinion, the 2015 Annual Report and Accounts was fair, balanced and understandable, to enable shareholders to assess the Group's performance, business model and strategy. To assist our assessment, the Committee, supported by management, has adopted a detailed process for the preparation and adoption of the Annual Report and Accounts (outlined below).

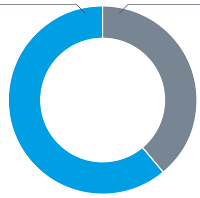
Planning (Oct/Nov/Dec)	Initial content production (Jan)	Review and sign off (Feb)
Consider/prepare content not dependent on year-end results, e.g.: business model and strategy.	Start completing and collating performance related content.	Confirmation from contributors as to completeness of input.
Design concept and key messages considered.		Appropriate review of full content, for consistency, completeness and messaging.
Identify material events/ performance issues to be reported.		Sign off by section owners, with verification.
Consider new regulations and consistency with key messages and KPIs.		Consider level of assurance obtained over non-financial information in the Annual Report and Accounts. Audit Committee to formally report to the Board on how it has satisfied itself that the Annual Report and Accounts is fair, balanced and understandable.

Following its review, the Committee was of the opinion that the 2015 Annual Report and Accounts was representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, business model and strategy.

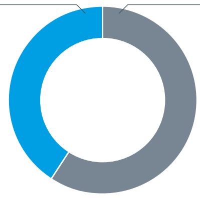
External audit

The Committee is responsible for overseeing relations with the external auditors PwC, including the approving of fees, and makes recommendations to the Board on their appointment and re-appointment. The total fees paid to PwC in the year ended 31 December 2015 equal £3.6m, with non-audit fees of £1.4m representing 38.9% of the total. An analysis of the fees paid to the external auditors in respect of audit and non-audit work during the year can be found in note 4 to the Group Financial Statements.

Total fees paid to the external auditors (2015)



Total fees paid to the external auditors (2014)



PwC is expected to report to the Committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. None were found or reported in 2015. The Independent Auditors' Report to the members of the Company can be found on pages 72 and 119.

External audit plan

PwC's presentation of their audit plan to the Committee, set out the scope and objectives of the audit, together with an overview of the planned approach, an assessment of the Group's risks and controls, and proposed areas of audit focus. In July and December 2015, the Committee reviewed and approved the terms, areas of responsibility and scope of the December 2015 year-end audit.

External auditor independence and objectivity

The Committee is responsible for the development, implementation and monitoring of the Company's policies on external audit, which are designed to maintain the objectivity and independence of the external auditors. These policies set out the approach to be taken when using the external auditors for non-audit work and regulate the appointment by the Group of former employees of PwC.

In addition to the independence review as part of the external audit tender process, PwC has provided specific assurance and the Committee has considered the arrangements and safeguards that PwC has in place to maintain its independence and objectivity, including an internal process to pre-approve provision of non-audit services and the use of separate teams where non-audit services are being provided to the Group.

The external auditors follow regulatory requirements to maintain the objectivity of the audit process; these stipulate a five-year rotation policy in relation to the senior engagement auditor. Pauline Campbell replaced Stuart Watson as lead audit partner in 2014.

The Committee continues to be satisfied that PwC, the external auditors, remain independent and objective.

External audit tender process

The Committee confirmed in the Group's 2014 Annual Report and Accounts that it was intending to conduct an audit tender during 2015 with a view to appointing a new firm, or reappointing PwC, for the 2016 year end, in response to the adoption of the Audit Directive (2014/56/EU) by the European Parliament on 3 April 2014, which introduced a requirement for 'public interest entities' to retender their audits at least every ten years, and to change the auditor at least every 20 years, In April 2015, a request for proposal was issued to the four major auditing firms, including the incumbent PwC, to provide the following external audit and audit-related services:

- The audit of Cobham's parent company financial statements;
- The audit of the Group financial statements and those of certain subsidiaries;
- To report, in the Annual Report and Accounts, whether certain remuneration and governance disclosures were in accordance with applicable legislation and rules/regulations; and
- To review the interim financial statements, and controls reporting in various locations.

The four firms participating in the tender process were required to submit their proposals against the following criteria:

- Organisation and capability, including the firm's global coverage, industry experience and technical expertise, particularly of operating in an SSA environment in the US, scope coverage and insight into future developments likely to affect the Group's business;
- Audit approach and delivery, including knowledge of the business, audit planning process, quality of accounting judgements, liaison with and reliance upon Internal Audit, reliance upon the Group's systems of accounting and internal controls, and transition experience;
- Audit quality, including quality assurance, audit effectiveness, audit reporting, independence, objectivity, process improvement and added value;
- Resourcing and engagement team, including quality and experience of proposed audit team, skills and personal qualities of lead audit partners, team structure and responsiveness; and
- Fees and terms.

The tender process involved setting up a data room to provide the financial and other data to the firms on which to base their written proposals, site visits to a representative location within each of the Group's four sectors and meetings with the Sector finance leads and the functional heads within finance, treasury and tax, legal, internal audit, programme management and business integration. Feedback from all of these meetings was provided to the Committee. The firms also had meetings with certain members of the Committee and the Executive Directors.

Following the above activity, the four firms delivered their comprehensive written proposals to the Committee, who undertook a detailed and formal review, and concluded that PwC and Ernst & Young potentially offered the best fit with the Company's requirements for their external auditors. Accordingly, both firms were invited to present to the Committee, to allow the Committee to identify the preferred candidate.

Following the presentations, the Committee unanimously agreed to recommend that the Board propose to shareholders that PwC be re-appointed as the Group's auditors for the 2016 audit. In reaching this decision, the Committee was mindful that they should set a higher hurdle for the re-appointment of the incumbent firm than for a new firm, and believe that this was achieved. Factors which the Committee took into account in reaching our decision included that the Chair was new to the Cobham Board and to the position of Audit Committee Chair, that the lead audit partner was also relatively new and supported by a strong team, including two new partners for the 2015 year-end audit. The Committee also took account of a number of business issues where the retention of PwC's knowledge and experience would be helpful, including the air-to-air refuelling programmes and the roll-out of the Group's updated business operating system, CBOS.

While the regulations surrounding auditor rotation would allow PwC to remain in post until the conclusion of the 2020 audit, the Committee's current intention is to re-tender in 2018, for the 2019 audit, to coincide with the next rotation of the PwC lead audit partner, Pauline Campbell. The Committee will not be inviting PwC to tender in 2018.

External auditor effectiveness and re-appointment

The Committee conducts an annual review of the performance of the external auditors, including feedback from the finance teams at many of the operating companies. The 2015 review was conducted in February 2016 and overall, the feedback was positive. Having undertaken its review, in the opinion of the Committee, the relationship with the external auditors works well, and the Committee remains satisfied with their effectiveness.

FRC Audit Quality Review

The FRC selected Cobham's 2014 audit files for review by their Audit Quality Review (AQR) Team. The review covered the Group audit (including central planning), and selected aspects of the work performed by PwC at a UK entity level. The Committee discussed the findings of the review with PwC, who considered all of the matters raised in the AQR report in the planning and execution of the 2015 year-end audit.

Internal Audit and Assurance

In February 2015, the Committee conducted a review of the effectiveness of the Group's Internal Audit and Assurance function, taking into account the views of Directors and senior management on matters such as independence, proficiency, resourcing, and audit strategy, planning and methodology.

The Committee approved the appointment of a new Head of IA&A, effective April 2015. The Head of IA&A attended every scheduled Committee meeting. With effect from November 2015 the direct reporting line of the Head of IA&A became the Committee Chair. Following an Internal Audit Effectiveness Review by the new Head of IA&A, which identified that the function was under resourced, the Committee provided support to the further development of the Internal Audit team, with an increase to the size of the team, including the addition of a new IT Internal Audit Manager, to be recruited in early 2016.

The findings of each Internal Audit review are summarised and the Committee focuses its discussions on unsatisfactory findings and on the action plans in place to address them. Particular areas of focus during 2015 included the implementation of Internal Audit recommendations by the businesses and results of the Internal Audit reviews of the former Aeroflex sites. The Committee also received regular updates against the 2015 Internal Audit Programme throughout the year.

The Committee approved the Internal Audit Plan for 2016, including the proposed audit approach, coverage and allocation of resources. The 2016 Plan was prepared considering a number of factors, including the principal risks of the Group. The key points of focus in the 2016 Plan are:

- A refresh of Internal Financial Controls Assurance;
- Increased monitoring of controls and actions;
- Stronger alignment with the GRA project;
- To drive continued improvement in the Group's assurance mapping process across the three lines of assurance;
- Increasing focus on working capital management, in particular inventory management;
- The development and implementation of an IT Assurance programme; and
- The development and implementation of a revised audit approach to LCM.

Risk management and internal controls

The Board has ultimate accountability for the execution of the Group's risk management and internal control systems. The Executive Risk Committee is responsible for overseeing the execution of risk management throughout the Group. The Board has delegated responsibility for monitoring and reviewing the effectiveness of the Group's risk management and internal control systems to the Committee, who provide reports on a regular basis to the Board.

The Committee's review covers all material controls, including financial, operational and compliance controls and risk management systems, and is designed to give assurance that the day to day risk management and internal control policies and procedures, which are embedded in the business, have operated effectively in the review period. The principal elements, the three lines of assurance, are outlined on page 32.

Risk management is an integral part of the system of internal control. Sector Presidents are required to ensure that appropriate processes, including the maintenance of business unit and Sector risk registers, exist to identify and manage risks and to regularly carry out formal risk assessments. The Executive Risk Committee undertakes a top level review of significant risks and the CEO reports regularly to the Board on their mitigation.

In 2014, a significant project was commenced to further enhance the Group's governance, risk and assurance framework. The Committee continued to provide oversight throughout 2015, and has been encouraged by progress to date. The Committee will continue to monitor the initiative throughout 2016, where the focus will move to review the key governance policies and assurance given.

Further information on the Group's principal risks and the risk management process may be found on pages 32 to 37.

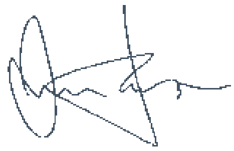
The Group operates under a system of internal controls which have been developed and refined over time to meet its needs and the risks and opportunities to which it is exposed. This includes:
- The preparation of the Strategic Plan;
- A comprehensive budgeting system with an annual budget which is approved by the Board;
- The monthly review and revision of financial forecasts for the year;
- The monitoring of financial performance;
- The monitoring of project and programme management, through LCM; and
- The appropriate delegation of authorities to operational management.

Delegations and other controls are contained in the Corporate Framework and the Group Finance Manual. Specifically with regard to the financial reporting process and the preparation of the Group Financial Statements, the system includes a semi-annual representation letter from all business units. Included in those letters are written acknowledgements that financial reporting is based upon reliable data and that the results are properly stated in accordance with Group policies.

The Committee believes that the current arrangements consisting of the half yearly risk assessment process, a programme of internal financial and other control reviews by the Internal Audit function, other experienced internal teams, external experts and business reviews carried out by the CEO and CFO and a process of self-assessment of internal financial controls by all business units, provides appropriate coverage of the Group's activities. Where weaknesses have been identified, plans for remedying them are developed and progress monitored.

Cobham Code of Business Conduct violations and fraud

Details of the Cobham Code of Business Conduct and the mechanisms, including those maintained by independent third parties, by which suspected violations of the Code are raised and independently investigated, are provided in the CR&S section of this report, on pages 38 and 39. The Committee regularly received reports providing details of these cases, their outcome, and the corrective actions taken.



Alan Semple
Audit Committee Chair
2 March 2016

FOCUSING REMUNERATION FRAMEWORK TO SUPPORT DELIVERY OF OPERATIONAL PERFORMANCE

"Setting appropriate remuneration targets in current market conditions remains a key priority."

Dear Shareholder
I am pleased to deliver my report as Chair of the Remuneration Committee.

There are no proposed changes to the Remuneration Policy so no binding vote will be put forward at the 2016 AGM. The current policy, as approved by shareholders at the 2014 AGM, can be accessed on Cobham's website and is re-produced in summary on page 60. A full review of the policy will be undertaken during 2016 for shareholders to vote on at the 2017 AGM. This review will take into account the ongoing implementation of Cobham's strategy and address the evolving remuneration requirements across Cobham's diverse portfolio of short and long cycle businesses.

Whilst the Group delivered a robust financial performance in 2015, we did not meet some of the financial targets set at the start of the year and this is reflected in the limited payouts under the 2015 remuneration arrangements.

In determining the level of remuneration for this year, the Committee has reviewed both the financial and operational performance of the Group and the Sectors. We have focused on rewarding specific improvements in operational delivery and programme execution that have directly contributed to the growth in EPS in 2015.

In setting remuneration targets for 2016, the Committee has taken into account the challenges in our commercial short cycle markets whilst focusing on establishing targets that will continue to incentivise the continuing drive for improvements in operational execution, growth in EPS and free cash flow generation.

Remuneration philosophy underpinning decisions
- The overall remuneration philosophy continues to be linked to the long term success of the Company. This is achieved by aiming to be market competitive to attract and retain executives of the quality required to deliver the Group's strategy, whilst taking into account an individual's experience and personal contribution to the Group's Strategic Plan.
- Paying for performance is the guiding principle of Cobham's Total Compensation Philosophy. Employees have their performance and development needs reviewed by their line manager under our PDR system. Salary and any bonus payments are linked to performance as assessed under this system.
- Cobham's intent is to set pay within a market competitive range reflecting performance achieved, by both the individual and the Group. For strong performance, actual total compensation delivered is targeted at the market median.

The key challenges and issues that the Committee addressed during the year
- Changes made to the remuneration arrangements of the Executive Directors were realigned, as described in last year's report, to reflect, in part, the larger Group following the Aeroflex acquisition and their significant contribution to the Group during the previous year. As a result the base salary increases for the CEO and CFO were set at 5.0% and 6.8% respectively.
- The 2015 AIP was re-designed, in line with policy, to simplify the short term bonus arrangements, weighting 75% of any payout towards financial targets and the remaining 25% based on personal objectives aligned to the delivery of strategic objectives.
- The maximum annual bonus opportunity for the CEO was increased from 120% of salary to 150% of salary, and for the CFO, from 100% of salary to 120% of salary.

How company performance during the year is reflected in the remuneration outcome

- The Company delivered robust performance in 2015. Cobham has a diverse portfolio of businesses and while some of the businesses performed well, our short cycle businesses faced challenging market conditions.
- The Company has made excellent progress in integrating the Aeroflex businesses with total cost and benefits in line with original expectations.
- We have also proactively streamlined the portfolio with three divestments in 2015 and the divestment of the surveillance business completed in January 2016, helping the Group reduce complexity and focus on areas of core capability.
- Significant operational progress was achieved, as set out on pages 6 and 7, with major improvements in programme execution and delivery, particularly in Mission Systems.
- Performance on cash conversion was disappointing but reflects continuing investment including increases in PV and capital expenditure, and an outflow of working capital. Improving cash conversion and free cash flow generation will be a key focus in the 2016 remuneration framework.
- While acceptable progress was made in 2015, the financial targets for the revenue growth and cash flow targets under the AIP have not been met, with operating profit performance being between threshold and target.
- Revenue growth, operating profit and cash flow targets accounted for 75% of the maximum AIP bonus opportunity and the level of achievement has resulted in a payout of 11.2% of maximum (12.6% and 10.1% of salary) for the CEO and CFO respectively.
- 25% of the maximum AIP opportunity was based on personal objectives aligned with the implementation of strategy. In reviewing individual performance of the CEO and CFO, the Committee has determined that a payout of 40% of maximum (15.0% of salary) for the CEO and 25% of maximum (7.5% of salary) for the CFO was fair in the context of the Group's performance in 2015.
- For the CEO, 25% of the bonus earned will be deferred into shares, as the CFO has given notice he will not receive the deferred portion of his bonus.
- In addition, there was no payout under the 2013 Performance Share Plan as the threshold level of EPS was not met and TSR performance was below median over the three years performance period resulting in awards lapsing.

The intended remuneration arrangements for the current year and the key future issues to be addressed by the Committee

- Remuneration arrangements for 2016 have been developed in line with the Remuneration Policy.
- Base salary increase for the CEO, effective 1 March 2016, has been set at 2.5%. No salary increase will be awarded to the CFO as he has given his notice.
- The AIP arrangements for 2016 have also been reviewed and the metrics and weightings revised to 40% underlying operating profit, 40% free cash flow generation and 20% personal strategic measures.
- LTI arrangements for awards to be made in 2016 remain unchanged.
- In line with the Board's recommendation to re-appoint the Chairman for a further term of three years, the Committee has reviewed his fee as there has been no increase since his appointment in 2010. Taking into account the performance of the Group over the last six years and the appropriate external benchmarks, the Committee has determined that a fee of £280,000 per annum, representing an increase of 3.7%, is appropriate.
- There has been no increase in Non-executive Director fees in 2015 and none are proposed in 2016.

A summary of any discretion applied by the Committee during the year

There has been no discretion applied during the year.

Comment on stakeholder engagement conducted during the year

During March 2015, I wrote to the top 20 shareholders to provide details of changes made to the remuneration arrangements of the Executive Directors. The changes made were all within the Remuneration Policy and were fully disclosed in last year's report.

Conclusion

Taking into account the Group's overall performance in 2015, the Committee believe the remuneration awarded to the Executive Directors is fair in the context of shareholder value creation and that the remuneration targets for 2016 have been set appropriately to incentivise further improvements in financial performance and sustainable growth.

Role and focus

The Remuneration Committee's main duties are to:

- Make recommendations to the Board on the Group's policies on Executive Directors' remuneration and ensure alignment to the Group's Strategic Plan; and
- Determine, on the Board's behalf, the specific remuneration packages of the Chairman, Executive Directors, Group Executive and Company Secretary.

Membership and attendance

Four Remuneration Committee meetings were held during the year, attended as follows:

Alison Wood (Chair)	Attended	Attended	Attended	Attended
Birgit Nørgaard	Attended	Attended	Attended	Attended
Mark Ronald	Attended	Attended	Attended	Attended

Unable to attend Attended

There were no changes to the membership of the Committee during the reporting period. Membership of the Committee will change in 2016 as Mark Ronald stands down from the Board, Mike Wareing will move from the Audit Committee to bring his experience to the Remuneration Committee.

Other attendees

Executive Vice President HR, Senior Vice President Compensation and Benefits, Deloitte LLP, and Company Secretary. The CEO and the Chairman of the Board attend by invitation.

No individual is present in meetings relating to decisions around their own remuneration. The Committee's terms of reference are available on the Company's website or on application to the Company Secretary.

Key issues and activities

Matters considered by the Committee during 2015 were:

	Feb	Jul	Dec	Dec
Committee only sessions with advisers	•		•	
Compensation awards – previous year	•			
Compensation awards – current year	•			
LTI performance dashboards	•	•		
Chairman remuneration				
Group Executive objectives	•		•	
Remuneration strategy				
AIP review	•	•	•	•
LTI review	•	•		
Other				
Updates on corporate governance developments		•		
Terms of reference			•	
Effectiveness of the advisers			•	
Remuneration Report review	•			
Approval of Executive Share Option Scheme, Conditional Share Plan and Sharesave – new rules	•	•		
Committee work planning			•	

Introduction

Our remuneration structure

The Directors' Remuneration Policy (the Policy) set out in our 2013 Annual Report and Accounts was approved by over 98% of our shareholders at our AGM held on 24 April 2014; the Policy remains unchanged. The full Policy is available on the Company's website. As context for the rest of this report, the main elements of the Policy, as well as how the policy was implemented during the year, are summarised below:

	Key elements	Key features	How it was implemented in 2015
	Base salary	Reviewed annually with changes typically effective from 1 March. Maximum salary increases typically in line with the outcomes of the annual review and typically in line with the average increase for the wider workforce.	Increases awarded on 1 March 2015: CEO – 5% CFO – 6.8%
The Annual Incentive Plan (AIP) is designed to drive and reward annual performance against financial and operational KPIs as well as individual objectives, which are directly linked to the Group's strategic plan.	Cash bonus	Maximum opportunity under the Policy is 150% of salary. For target performance, 50% of maximum bonus opportunity will be received. Measured over a one year performance period based on a combination of financial and individual metrics. Malus and clawback provisions are in place.	2015 awards: CEO – 150% of base pay opportunity CFO – 120% of base pay opportunity Payments of £209,173 and £77,299 have been earned by the CEO and CFO respectively.
	Deferred bonus	75% paid in cash and up to 25% mandatorily deferred into company shares for a period of three years. Malus and clawback provisions are in place.	25% of the CEO's AIP has been put into deferred share awards with a three year vesting period. The CFO will not receive the deferred portion of his AIP as he has given notice.
LTI – the Performance Share Plans (PSP) and the Bonus Co-Investment Plan (BCP) are designed to drive sustainable profitable growth and align Executive Directors with shareholders' interests.	LTI – PSP	PSP allows for conditional share awards or nil-cost options up to 150% of base salary may be granted annually. Threshold level of vesting is 16.7% of maximum award. Performance assessed over more than one year, usually three years against key financial metrics. Malus and clawback provisions are in place.	Awards of 150% of salary were made in 2015 with performance conditions as set out on page 63.
	Matching shares – BCP	An additional 25% of the annual bonus can be voluntarily deferred into BCP. Matching awards on up to 50% of bonus: Maximum 1:1 Threshold 0.5:1 Performance assessed over more than one year, usually three years against key financial metrics. Malus and clawback provisions are in.	BCP awards were last awarded in 2014 and there is no intention for further awards to be made in future.
	Share Ownership Guidelines	There is a requirement to retain a percentage of salary in shares, which must be built up from shares vesting from executive incentive plans.	The CEO is required to retain 200% of annual salary, and the CFO, 100%.

Aligning remuneration to deliver operational performance

We continue to take a disciplined approach to ensure that our remuneration strategy supports the delivery of Cobham's strategy and delivery of both the long and the short term operational and financial priorities. Our incentive framework is designed to underpin the delivery of sustainable growth in earnings and shareholder value together with the generation of free cash flow.

The 2015 AIP framework supports our priorities of driving continuous improvement in operational excellence and programme execution with inclusion of operational KPIs and by directly targeting growth in trading profit and free cash flow. In addition, individual objectives were set as part of the 2015 AIP to specifically address the strategic development of the Group's portfolio, particularly seeking to rationalise our portfolio by making selected divestments.

In 2016, the AIP will continue to focus on delivering operational performance to meet the strategic actions. As described on page 59, we have recalibrated the measures and weightings with further emphasis being given to achieving key delivery measures whilst retaining a strong focus on the key financial objectives of the Group, particularly improved cash flow generation.

The LTI plans are designed to encourage the necessary actions and leadership behaviours to promote investment in innovation, development of required technical skills and leadership capabilities, and accelerating the adoption of our technologies to underpin the delivery of long term sustainable growth in shareholder value.

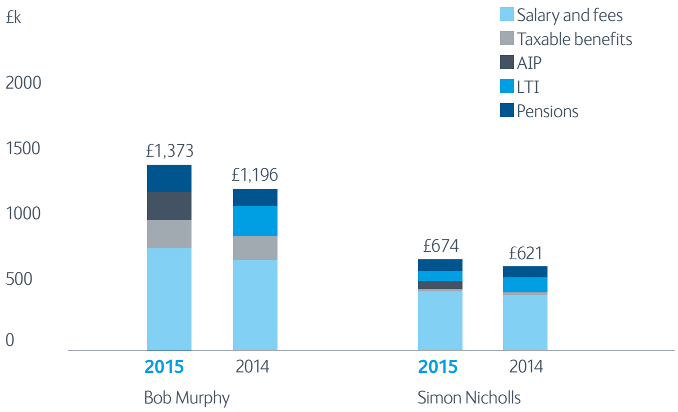
The annual report on remuneration

Single total figure table

£k	Salary and fees	Taxable benefits	AIP	LTI	Pensions	Total
Bob Murphy						
2015	**756**	**210**	**209**	**–**	**198**	**1,373**
2014	669	174	–	228	125	1,196
Simon Nicholls						
2015	**435**	**21**	**58**[1]	**73**	**87**	**674**
2014	410	20	–	108	83	621

[1]Account taken for the deferred portion not paid.

Single total figure of remuneration for each Executive Director (audited information)



Additional disclosures in respect of the single total figure of remuneration (audited information)

The Company has obtained written confirmation from each Director that they have disclosed all other items in the nature of remuneration.

Salary and fees

Policy: Reviewed annually with changes typically effective from 1 March. Maximum salary increases typically in line with the outcomes of the annual review and typically in line with the average increase for the wider workforce.

Bob Murphy's employment terms and conditions are based on US law and his salary payments are made in US dollars and have been converted to sterling for tax purposes. These are the figures used in the above table. Bob's 2015 salary, effective from 1 March 2015, was US$1,158,600.

Simon Nicholls' 2015 salary, effective from 1 March 2015, was £440,000 per annum.

These salary increases were above the average increase provided to the wider workforce of c.3.0% but were considered to be appropriate in the context of: the successful acquisition of Aeroflex, which resulted in an increase to the size and complexity of the Group, and subsequently the scope of the two executive's roles; the strategic progress during the course of 2014; and the performance and contribution of the two Executive Directors in driving the business forward.

Taxable benefits

The taxable benefit figures are as follows:

Benefit	Bob Murphy £k	Simon Nicholls £k
Car and private petrol allowance	16	18
Private medical insurance, disability cover and life insurance	42	2
Expatriation allowance	132	–
Allowance to cover financial/tax advice	20	1
Total	**210**	**21**

Note:
Bob Murphy's employment terms and conditions allow for an annual expatriation allowance.

Annual Incentive Plan

Policy:	
Cash bonus	Maximum opportunity under the Policy is 150% of salary. For target performance, 50% of maximum bonus opportunity will be received. Measured over a one year performance period based on a combination of financial and individual metrics. Malus and clawback provisions are in place.
Deferred bonus	75% paid in cash and up to 25% mandatorily deferred into company shares for a period of three years. Malus and clawback provisions are in place.

The 2015 AIP supports the overall strategy of the Company through a balance of financial and other key strategic measures, at Group, Sector and business unit level. It is a simplified plan that incentivises year-on-year (organic) growth. In addition, it provides greater line of sight through the business to, and alignment with, three key financial metrics (Revenue Growth, Operating Profit and Cash) and key operational objectives.

In setting the performance levels for the 2015 AIP, the Committee considered the budget/forecast approved by the Board for the relevant year, and set threshold and maximum targets at appropriately stretching levels either side of the budget.

Details of the AIP measures, weightings and targets as well as performance against each of the targets is provided in the table below:

Measure	Weighting	Threshold	Target	Maximum
Revenue Growth (£m)	25%	2,162.3 (3% growth)	2,196.7 (4% growth)	2,235.0 (5% growth)
Underlying Operating Profit (£m)	25%	325.4	352.2	379.0
Cash Conversion (£m)	25%	301.1	319.6	342.8
Key strategic measures	25%	1,1 PDR rating	2,2 PDR rating	3,3 PDR rating

Group Revenue Growth: Revenue growth stated at constant translation exchange rates excluding the incremental effect of acquisitions and divestments. The quoted targets for total revenue represent growth of 3%, 4% and 5% in the legacy Cobham businesses and specific absolute targets for the Aeroflex businesses.

Group Underlying Operating Profit: Underlying Operating Profit before interest and tax at the Group level.

Group Cash Conversion is defined as operating cash flow as a percentage of underlying operating profit excluding profit from joint ventures.

For 2015, the AIP adopted an additive formula whereby performance against the metrics outlined above were assessed against the specific financial targets and, for the key strategic measures, an assessment of an individual's achievement against personal objectives. Each of the metrics has a 25% weighting.

The financial element of AIP paid out at 11.2% of the maximum as the Group did not meet its Revenue Growth or Cash Conversion targets in 2015 and only achieved a limited payout versus the Underlying Operating Profit target based on delivery of £334.7m (which was adjusted to reflect the impact of divestments in 2015, to ensure measurement on a like-for-like basis).

The personal performance element paid out at 40.0% of maximum (15.0% of salary) for the CEO and 25% of maximum (7.5% of salary) for the CFO, reflecting their individual contributions to delivering the progress on the Aeroflex acquisition, executing on divestments in a timely manner and providing leadership to support the improvements in operational delivery.

This resulted in a total bonus payment of 27.6% of salary for the CEO and 17.7% of salary for the CFO. However, the 25% of bonus that would normally be deferred into shares will not be received by the CFO as he has given notice.

Long term incentives

Policy: PSP allows for conditional share awards or nil-cost options up to 150% of base salary may be granted annually.

Threshold level of vesting is 16.7% of maximum award.

Performance assessed over more than one year, usually three years, against key financial metrics.

Malus and clawback provisions are in place.

The PSP is designed to drive sustainable profitable growth in shareholder value and align Executive Directors with shareholders' interests.

PSP awards vesting in 2015

The performance targets for the PSP awarded in 2013 are set out below:

Metric	Weighting	Performance	Award vesting at that level %	Result
TSR	33%	Threshold (Index)	16.7%	Performance targets for the TSR have not been met
		Maximum (Index +10%)	100%	
EPS	33%	Threshold (3% per annum)	16.7%	Performance targets for the EPS have not been met
		Maximum (10% per annum)	100%	
Cash Conversion	33%	Threshold (90% per annum)	16.7%	Performance targets for cash conversion have not been met
		Maximum (Over or above 100% per annum)	100%	

EPS and cash conversion are defined in the KPI definitions on page 132.

The performance targets for the PSP were not met for the three performance years ended on 31 December 2015 therefore none of the awards made in 2013 will result in any payout and will lapse.

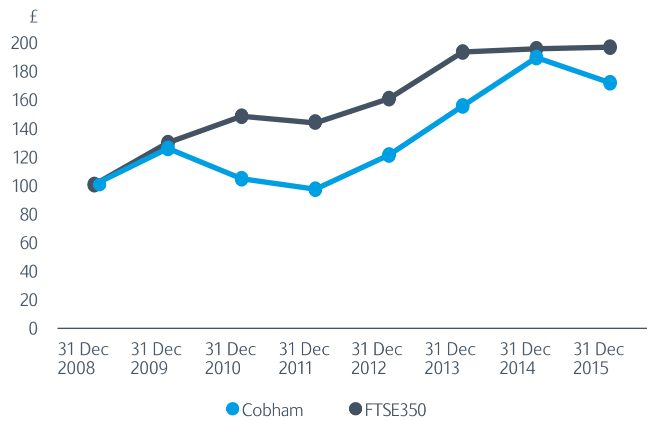
TSR Peer Group

The companies in the TSR comparator group for awards granted in 2013 were:

BAE Systems	L-3 Communications	Smiths Group
Esterline	Meggitt	Teledyne Technologies
Finnmeccanica	Northrop Grumman	Thales
FLIR Systems	QinetiQ	Ultra Electronics
Harris	Raytheon	
ITT Industries	Rockwell Collins	

There has been no change in the composition of the TSR Peer Group.

TSR performance Cobham vs FTSE350



Source: Kepler Associates

The graph above illustrates the TSR performance (share price growth plus dividends) of Cobham against the FTSE350 Index over the past seven years. The graph shows the value of £100 invested over the seven-year period ending 31 December 2015. The FTSE350 Index was chosen as it is a recognised broad equity market index of which Cobham was a member during 2015 and is currently, as at 1 March 2016, ranked at 124th.

The LTI plans are an important element of our remuneration strategy with their focus on driving the longer term strategic priorities and underpinning the sustainable growth of the Group's portfolio.

Buy-out awards vesting in 2015

Simon Nicholls' long term incentives figure covers the vesting of one award made to him as a buy-out award to compensate for forfeited equity from his previous employer as a result of leaving to join Cobham. This award, which was disclosed in full in the 2013 Annual Report and Accounts, is set out below:

Awards vesting	Date of vest	Valuation (pence per share)	Amount vested (£k)
22,882	9 March 2015	317.0	73

All buy-out shares included above have been valued at market price achieved on the date of vesting.

The resulting shares, after settlement of statutory deductions, have been retained against Mr Nicholls' share ownership requirements.

Long term incentives awarded during the financial year (audited information)

The following table sets out the awards made under the LTI plans to Executive Directors during the year.

	Type of award	Basis of which award is made	Date of award	Face value of award (No. of shares awarded)	Performance period
Bob Murphy	PSP	150% of base salary	12 March 2015	£1,158,665 (365,775)	1 January 2015 to 31 December 2017
Simon Nicholls	PSP, nil-cost options	150% of base salary	12 March 2015	£660,000 (208,353)	1 January 2015 to 31 December 2017

Notes:
1. All awards have been made in accordance with the relevant scheme rules.
2. The face value has been calculated by multiplying the number of shares awarded by the mid-market price of those shares for the three trading days immediately preceding the date of the award.

Performance conditions for the PSP awarded in 2015 are set out in the table below:

Metric	Weighting	Performance	Award vesting at that level %
TSR	33.3%	Threshold (Index)	16.7%
		Maximum (Index +10%)	100%
EPS	33.3%	Threshold (3% per annum)	16.7%
		Maximum (10% per annum)	100%
Cash Conversion	33.3%	Threshold (over 90% per annum)	16.7%
		Maximum (100% per annum)	100%

Notes:
1. EPS and Cash Conversion are defined in the KPI definitions on page 132.
2. The TSR Peer Group remains unchanged for the 2015 awards, see page 62.

■ Pensions

Policy: The Company may make a payment into a pension scheme (e.g. a defined contribution plan) and/or make a cash allowance payment set as a percentage of salary.

The Company contributes to Bob Murphy's retirement plan at the rate of 20% of his base salary. This comprises participation in two plans noted below and the contributions to each are shown in the table:
- A qualified 401k plan which has limits on the level of contribution which can be made to it; and
- An executive retirement plan, non-qualifying.

£k	2015	2014
Contributions to 401k plan	16	15
Contributions to executive retirement plan	182	110
Total	**198**	125

Simon Nicholls' pension figure is a combined amount of £40,000 to an executive defined contribution plan and £46,600 paid as a cash allowance in lieu of additional defined contribution arrangements. Together these payments represent a rate of 20% of his base salary.

Non-executive Directors (audited information)

The 2015 remuneration and current fees of the Non-executive Directors, including the Chairman, are stated below:

£k	Base fee	Committee fee	Senior Independent Director	2015	2014
	Full year additional fees			Total payable	
John Devaney (Chairman)	**270.0**	**–**	**–**	**270**	270
Mike Wareing	**55.0**	**2.5**	**10.0**	**69**	75
Jonathan Flint	**55.0**	**2.5**	**–**	**58**	58
Mike Hagee	**55.0**	**5.0**	**–**	**65**	65
Birgit Nørgaard	**55.0**	**2.5**	**–**	**58**	39
Mark Ronald	**55.0**	**2.5**	**–**	**62**	62
Alison Wood	**55.0**	**10.0**	**–**	**65**	63
Alan Semple (from February 2015)	**55.0**	**10.0**	**–**	**58**	–
John Patterson (to April 2014)	**–**	**–**	**–**	**–**	22
Total				**705**	654

Notes:

1. Non-executive Directors only receive fees under their service agreement and do not have any other taxable benefits, annual or long term incentives or pension arrangements provided by the Company. Messrs Ronald and Hagee received a taxable benefit in kind for financial services (tax) advice for the amounts of £1,450 and £1,800 respectively.
2. Non-executive Directors do not have a permanent place of work specified in their service contract, all reasonable and properly incurred expenses incurred in performance of duties as Board members are reimbursed by the Company.
3. The difference between full year fee and actual is explained by an individual commencing or retiring during the year or prior year or by the payment of a fee of £5k per annum in respect of travelling time for the Directors based in the US, being Messrs Hagee, Ronald and Semple.
4. All of the above Directors are members of the Nomination Committee but do not receive any additional fees for this role.
5. Mike Wareing retired as Audit Committee Chair in April 2015, but remained on the Committee, the role was taken up by Alan Semple.

No increase in Non-executive Director fees was awarded in 2015.

Total aggregate Directors' fees for the year, including the Executive Director fees as per the single figure table on page 61, amount to £2,752,000 (2014: £2,471,000).

Statement of Directors' shareholding and share interests (audited information)

The interests of the Non-executive Directors and their families in ordinary shares were:

	31.12.15	1.1.15
John Devaney	**30,000**	30,000
Mike Wareing	**20,000**	20,000
Jonathan Flint	**5,000**	5,000
Mike Hagee	**5,000**	5,000
Birgit Nørgaard	**5,000**	5,000
Mark Ronald	**5,000**	5,000
Alison Wood	**5,000**	5,000
Alan Semple	**5,000**	-

Non-executive Directors are required, within six months of election to the Board, to acquire and hold a shareholding of 5,000 ordinary shares.

Executive Directors' share interests

The interests of the Executive Directors in share awards or share options are shown below (note: there are no options which have vested but not yet been exercised):

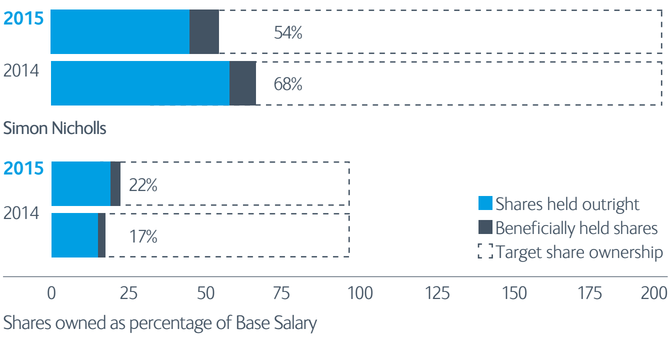
	Award	Share awards subject to performance conditions	Share awards subject to continued employment	Unvested options subject to performance awards
Bob Murphy	PSP 2013	453,924	–	–
	BCP 2013	7,564	–	–
	PSP 2014	319,912	–	–
	BCP 2014	14,546	–	–
	PSP 2015	**365,775**	**–**	**–**
	Total	**1,161,721**	**–**	**–**
Simon Nicholls	Buy-out award 2013	–	29,535	–
	PSP 2013	–	–	204,151
	PSP 2014	–	–	201,875
	Deferred AIP 2014	–	3,822	–
	PSP 2015	**–**	**–**	**208,353**
	Total	**–**	**33,357**	**614,379**

Share ownership requirements

Policy: There is a requirement to retain a percentage of salary in shares, which must be built up from shares vesting from executive incentive plans.

Ownership guidelines require the Executive Directors to maintain ordinary shares. These guidelines state that the CEO retain the value of at least two years' salary, and the CFO retain the value of at least one year's salary. In addition, the CEO and CFO are to retain a minimum of 50% of net vested PSP and BCP matching shares until the relevant shareholding level is met. There is no time frame over which the guidelines are required to be met and there is no requirement for Directors to hold these shares after leaving the Company. Both Directors have retained the required shares resulting from LTI vests and have complied with the guidelines in this respect, but have yet to meet their targets due to the length of their tenure.

Shares held by Executive Directors as at 31 December 2015 against share ownership



Bob Murphy's holding for 2015 has reduced as a percentage of salary due to his salary increase, share price movement and no awards vesting during the year, rather than his holding reducing.

Interests at 2 March 2016, being a date no more than one month prior to the date of the Notice convening the AGM, were the same as at 31 December 2015.

The market price of the ordinary shares as at 31 December 2015 was 283.2 pence per share and the closing price range during the year was 251.1 pence to 345.1 pence.

Dilution

The Company's share schemes are currently funded through shares purchased in the market and have been since November 2010, prior to which they were funded through new issue shares. Funding of awards through new issue shares is subject to an overall dilution limit of 10% of issued share capital in any ten-year period. Of this, 5% may be used in connection with the Company's discretionary share schemes. As of 31 December 2015, 4.0m (0.35%) and 3.0m (0.26%) shares have been issued pursuant to awards made in the previous ten years in connection with all share schemes and discretionary schemes respectively. Awards that are made, but then lapse or are forfeit, are excluded from the calculations.

Payments to past Directors and payment for loss of office (audited information)

There were no payments made to past Directors or for loss of office during the year.

Historic CEO total remuneration

The table below shows historic CEO total remuneration, calculated on the same basis as that used in the single figure table on page 61.

Year	CEO	CEO single figure of total remuneration (£k)	Annual bonus pay-out against maximum opportunity % (£k)	Long term incentive vesting rates against maximum opportunity % (£k)
2015	**CEO3 Bob Murphy**	**1,373**	**18.4% (209)**	**N/A**
2014	CEO3 Bob Murphy	1,196	0.0% (Nil)	N/A
2013	CEO3 Bob Murphy	2,058	34.3% (280)	N/A
2012	CEO3 Bob Murphy	753	48.5% (182)	N/A
	CEO2 Andy Stevens	1,283	45.0% (267)	58.0% (202)
2011	CEO2 Andy Stevens	1,916	92.5% (555)	85.0% (546)
2010	CEO2 Andy Stevens	1,478	33.5% (201)	87.0% (471)
2009	CEO1 Allan Cook	1,496	93.0% (567)	100.0% (238)

Percentage change in remuneration of CEO

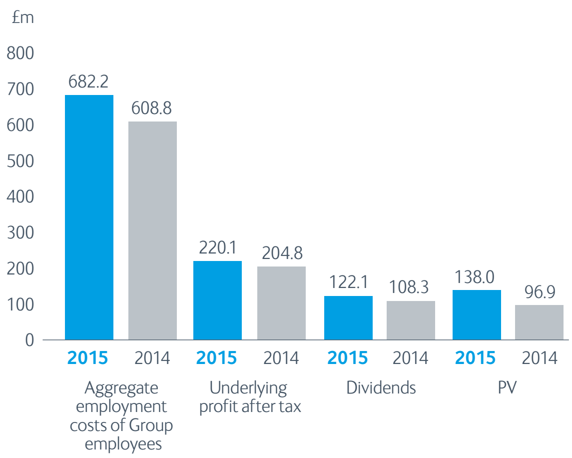
The following table shows the year-on-year change in respect of the three remuneration elements shown in table for the CEO as compared to that of UK employees generally:

Remuneration element	CEO	Average employee per capita figure
Salary	2.5%	2.5%
Benefits	21.0%	12.8%
AIP	18.4%	53.5%

The UK payroll has been chosen for comparison as this is the location of the head office.

Relative importance of spend on pay

The chart below displays the relative expenditure of the Company on various matters, as required (in the case of Group employees' pay and shareholder distributions) by the relevant remuneration regulations:



The aggregate employment cost of Group employees is detailed at note 4 to the Group Financial Statements and includes employers' social security and similar costs. Group underlying profit after tax is shown above as this is profit attributable to the owners of the Group, refer to note 2. Dividends are shown at note 7. PV relates to the amount of profit the Group spends on research and development, refer to note 4.

Statement of implementation of remuneration policy in the current financial year

Set out below is an explanation of the way the approved policy will be implemented in the current year.

Element of Directors' Remuneration Policy	Change	Rationale for any change
Base Pay	Current salary for the CEO, effective from 1 March 2016, is £777,241 (US$1,187,534). No salary increase awarded to the CFO as he has given notice.	These represent a 2.5% increase for the CEO, in line with average increases across the workforce.
Chairman's fee	Fee for the Chairman of the Company, effective from 1 April 2016, is £280,000.	This represents a 3.7% increase in recognition of this being his first increase since appointment in 2010, and recognising the performance of the Group over the last six years.
Other benefits/ retirement benefits	No change.	Not applicable.
AIP	No change to maximum opportunity. The structure of the plan will continue to be operated on an additive basis. Awards will be assessed against the following metrics: – 40% Underlying Operating Profit – 40% Free Cash Flow Conversion – 20% Key strategic measures linked to personal objectives As in previous years, 25% of any bonus earned will be required to be deferred into shares for a period of three years.	Designed to continue to incentivise the continuing drive for improvements in operational execution and free cash flow generation.
PSP	No change. Awards to the value of 150% of salary will be made in March 2016. Performance will be equally weighted between EPS growth, relative TSR against a comparator group and cash conversion, see page 62 for details of the performance targets, which remain unchanged from 2015. No award will be made to the CFO as he has given his notice.	Not applicable.

Non-executive Director fees are reviewed annually and are unchanged from the previous year.

Advisers to the Remuneration Committee

Adviser	Appointed by	Services provided to the Committee	Other services provided to the Company
Deloitte LLP	Remuneration Committee in November 2009	Remuneration strategy Incentive design Market data	Tax and consultancy on the governance, risk and assurance initiative

The Committee received advice during the year from Deloitte LLP, who comply with the Code of Conduct of the Remuneration Consultants Group. The Committee is satisfied that the advice they have received has been objective and independent. Deloitte's performance is considered by the Committee as part of their performance evaluation. Total fees for advice provided to the Committee during the year amounted to £98,800 and were provided on a time/cost basis. Additional advice was received from the Executive Vice President Human Resources, Senior Vice President Compensation and Benefits, and the Company Secretary.

Whilst proposals from the Committee take account of the advice received, the ultimate decision is made by the Committee and ratified by the Board in the absence of any advisers.

2015 voting at the Annual General Meeting

At the AGM held on 23 April 2015, shareholders voted on the Directors' Remuneration Report for the year ended 31 December 2014. Below are the results in respect of that resolution, which required a simple majority (i.e. 50%) of the votes cast to be in favour in order for the resolution to be passed. The votes 'for' include discretionary votes given to the Chairman of the Board.

Directors' Remuneration Report

Votes for	%	Votes against	%
22,568,989	96.25	878,486	3.75

Votes withheld 126,272

Alison Wood
Remuneration Committee Chair
2 March 2016

Other Statutory Information

Dividends

The Group's current policy is to pay a progressive dividend increasing payments broadly in line with increases in earnings, with a view to rebuilding dividend cover over time. An interim dividend of 3.05 pence per ordinary share of 2.50 pence each in the capital of the Company (ordinary shares) (2014: 2.904 pence) was paid in November 2015. The Directors are recommending a final dividend of 8.13 pence per ordinary share (2014: 7.746 pence) payable on 27 May 2016 to ordinary shareholders on the register as at 29 April 2016, making a total ordinary dividend for the year of 11.18 pence (2014: 10.65 pence). Details of the total dividend paid out is covered in note 7.

Directors' indemnity arrangements

The Directors have the benefit of a Directors' and Officers' liability insurance policy and the Company has entered into qualifying third party indemnity arrangements with them, as permitted by the Companies Act 2006. The policy was in force at the year end and continues in force at the date of this report. The Directors are permitted to take independent legal advice at the Company's expense within set limits in furtherance of their duties.

Directors' interests

None of the Directors are or were materially interested in any significant contract during or at the end of the financial year, particulars of which are required to be disclosed by the Listing Rules of the UK Listing Authority. Details of Directors' share interests and of their rights to subscribe for shares are shown in the Directors' Remuneration Report on page 64.

Share capital

The Company has one class of ordinary shares which carry no right to fixed income, representing 99.9% of the total issued share capital.

In addition, 19,700 non-redeemable 6% second cumulative preference shares have been issued, which represent 0.1% of total issued share capital.

At the AGM held on 23 April 2015, the Company was authorised to purchase up to 113,857,590 ordinary shares. This authority will expire at the conclusion of the 2016 AGM. A special resolution will be put to shareholders at the AGM to renew the authority to make market purchases of the Company's shares up to a maximum of 10% of the share capital of the Company.

The Directors have been authorised to allot and issue ordinary shares. These powers are exercised under authority of resolutions passed at the Company's AGM. No ordinary shares were issued during the current year. In the prior year, 60,000,000 ordinary shares were created as the result of a private placing.

Subject to applicable statutes, and to the rights conferred on the holders of any other shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as the resolution does not make specific provision) as the Board may decide. Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives, and to exercise voting rights. Holders of ordinary shares may receive a dividend and, on a liquidation, may share in the assets of the Company. Holders of ordinary shares are entitled to receive the Company's Annual Report and Accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or the proposal of a resolution at an AGM.

The shareholders of the 6% second cumulative preference shares are entitled to receive a fixed cumulative preference dividend at the rate of 6% per annum in priority to the payment of dividends on the ordinary shares. In addition, on a return of assets on the liquidation or otherwise of the Company, the assets available for distribution are to be applied first in repaying to the holders of the 6% second cumulative preference shares the amounts paid up on their shares.

Voting rights and restrictions on transfer of shares

The rights and obligations attaching to the ordinary shares and 6% second cumulative preference shares of £1 each in the capital of the Company are set out in the Articles.

On a show of hands at a general meeting of the Company, every holder of shares present in person or by proxy and entitled to vote has one vote, and on a poll every member present in person or by proxy and entitled to vote has one vote for every £1 in nominal value of the shares of which he is the holder. None of the ordinary shares carry any special rights with regard to control of the Company.

There are no restrictions on transfers of shares other than:

- Certain restrictions which may from time to time be imposed by laws or regulations;
- Pursuant to the Company's Code for Securities Transactions including the requirement on the Directors and designated employees to obtain approval to deal in the Company's shares; and
- Where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Significant arrangements – change of control

Individual operating companies in the Group have contractual arrangements with third parties in support of the Group's business activities which may take effect, alter or terminate upon a change of control of the Company following a takeover bid. Such contractual arrangements include supply of equipment, goods and services to third parties, including research, design and production. Such contracts and arrangements may be deemed to be essential to one or more of the operating companies but there are no contracts or arrangements considered to be essential to the operation of the business of the Group as a whole, apart from the following:

- The Company has entered into a number of credit agreements with banks, and has issued senior notes under private placements. The total amount owing under such agreements at the year end date is shown in note 17 to the Group Financial Statements. All agreements contain clauses such that, in the event of a change of control, the Company can offer to or must repay all such borrowings together with accrued interest, fees and other sums owing as required by the individual agreements.
- Under the Sentinel contract, entered into in March 2006, the Company must seek approval for any material change in the shareholding of the Company. There is an ancillary aircraft lease agreement under which a change of control may result in the termination of the lease if such event is likely to have a material adverse effect on the Company's ability to perform its obligations under the lease.
- Under the FSTA shareholders agreement entered into in June 2008, a change of control of the Company may result in a required sale of the Company's shares in FSTA to the other shareholders.

Employee share schemes – rights of control

If required to do so by the Company, the trustee of the Cobham Share Incentive Plan (SIP) will, on receipt of notice from the Company of any offer, compromise arrangement or scheme which affects shares held in the SIP, invite participants to direct the trustee on the exercise of any voting rights attaching to the shares held by the trustee on their behalf and/or direct how the trustee shall act in relation to those shares.

The trustee will not vote in respect of any shares held in the SIP in respect of which it has received no directions nor will the trustee vote in respect of any shares which are unallocated under the SIP.

The trustees of the Employee Benefit Trust which holds ordinary shares to be used for settlement of long term incentives and share option schemes, waive all rights to vote in respect of any shares they hold within the Trust.

Further information relating to change of control under the LTI arrangements appears within the remuneration policy table available on the Company's website.

Major interests in shares

As at 31 December 2015, the Company had been notified of the following interests in the ordinary shares:

	Number of shares at the date of notification	Percentage at date of notification
Aberdeen Asset Managers Limited	84,290,927	7.400
Artemis Investment Management LLP	57,876,282	5.080
Prudential Group of Companies	57,676,199	Below 5.000
Royal London Asset Management Limited	34,308,326	3.013
The Capital Group Companies, Inc.	35,006,700	3.075
Blackrock, Inc	58,105,999	5.100
Newton Investment Management Ltd	57,947,756	5.090

Since the year end and up to 2 March 2016, being a date not more than a month prior to the date of the AGM Notice, the Company had been notified of the following interests in the Ordinary Shares in accordance with DTR 5:

	Number of shares at the date of notification	Percentage at date of notification
Ameriprise Financial, Inc.	56,802,511	4.989

Financial instruments

Notes 14, 21 and 23 to the Group Financial Statements and note 9 to the Parent Company Financial Statements contain disclosures relating to the use of financial instruments. The Group uses derivative financial instruments in its management of financial risks and does not trade in financial instruments or use complex financial instruments.

People

Cobham is committed to providing its employees with equal opportunities in a workplace free from discrimination.

Working within a rigorous competency framework, the Company evaluates candidates according to their skills and abilities, irrespective of age, race, gender, sexual preference, religion or disability. A PDR process standardised across the Group, coupled with development centres, where appropriate, ensure career development and progression is based solely on competency.

With regard to employees who become disabled, the Company takes all reasonable steps to retain them, including retraining, to enable them to continue their employment and career development within Cobham.

Research and development

The Group continues to invest in the important area of research and development, further details can be found on page 90. During the year, the Group expended £138.0m (2014 £96.9m) on non-customer funded research and development.

Events after the balance sheet date

Since the balance sheet date, the Company has announced the departure of the current CFO, at some time towards the end of 2016, and the completion of the sale of the Surveillance businesses, refer to note 33 on page 118.

Political donations and expenditure

No contributions were made to political organisations during the current or prior year.

Annual General Meeting

The Company's AGM will be held at 10:00 a.m. on Thursday, 28 April 2016 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD, UK.

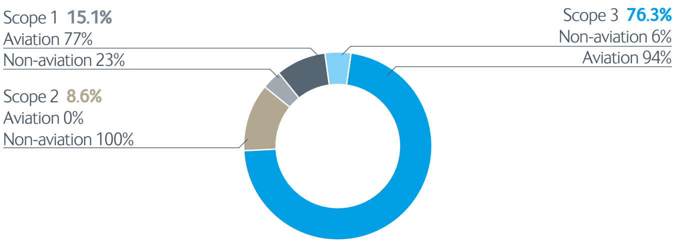
The Company arranges for the Notice of AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

Greenhouse gas emissions

The majority of Cobham's total greenhouse gas (GHG) emissions (84%) come from its aviation activity (figure 1). Scope 1 emissions from aviation decreased in 2015 due to reduced activity of company owned aircraft. Scope 3 emissions increased, however, with growth in customer operations including the addition of three aircraft, new routes and extra flying activity.

Total emissions from non-aviation activities increased from 2014 due to the full year contribution of the former Aeroflex business, acquired in September 2014. The former Aeroflex business is more energy intensive than the legacy Cobham business with increases in GHG emissions from electricity and natural gas consumption.

Figure 1 – 2015 GHG emissions (tCO_2e %)



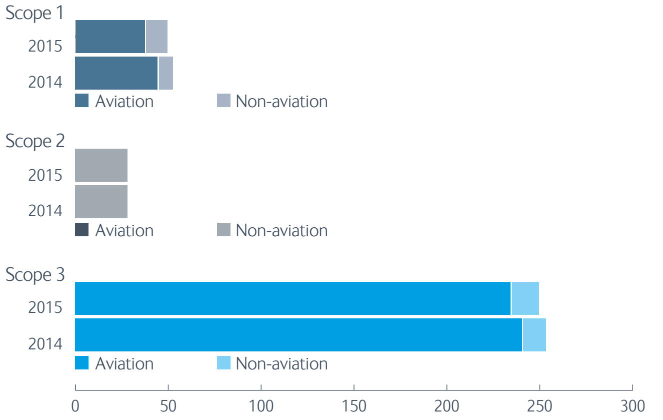
Scope	Year	Aviation tCO_2e	Aviation %	Non-aviation tCO_2e	Non-aviation %	Total tCO_2e
Scope 1	**2015***	**76,963**	**77**	**23,259**	**23**	**100,223**
	2014	81,165	87	12,167	13	93,332
Scope 2	**2015***	**–**	**–**	**56,681**	**100**	**56,681**
	2014	–	–	51,532	100	51,532
Scope 3	**2015**	**476,813**	**94**	**28,251**	**6**	**505,064**
	2014	443,689	95	22,161	5	465,850
Total	**2015**	**553,776**	**84**	**108,192**	**16**	**661,968**
	2014	524,854	86	85,860	14	610,714

* Data extracted from Cobham's Performance Summary Report, which was included within KPMG LLP's independent limited assurance scope – see page 70.

Despite additional aviation activity in customer activity and increased emissions from the former Aeroflex business in 2015, Cobham's GHG emission intensity (figure 2) decreased overall in all scopes. This is due to increased revenues in 2015 being proportionally higher than associated emissions.

Scope 1 emission intensity from non-aviation activities (figure 2) increased with the significant rise in natural gas use from the former Aeroflex business.

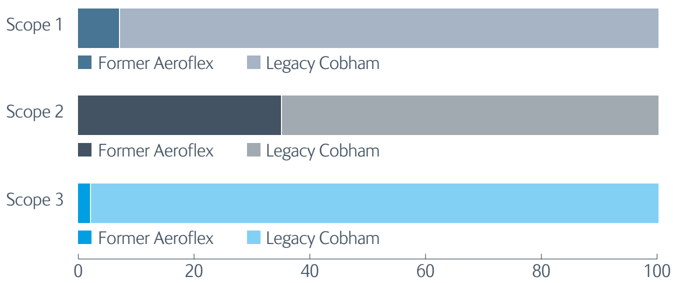
Figure 2 – Emissions intensity (tCO_2e/£m)



Scope	Year	Aviation tCO_2e/£m	Non-aviation tCO_2e/£m	Total tCO_2e/£m	% total change
Scope 1	**2015**	**37**	**11**	**48**	-6
	2014	44	7	51	
Scope 2	**2015**	–	**27**	**27**	-4
	2014	–	28	28	
Scope 3	**2015**	**230**	**14**	**244**	-3
	2014	240	12	252	

Cobham's overall scope 1 emissions increased by 7% when compared to 2014. The former Aeroflex sites accounted for 7% of the overall scope 1 emissions including 50% of all GHG emissions from natural gas consumption. Cobham's overall scope 2 emissions rose 10% from 2014 with the former Aeroflex sites accounting for 35% of all these emissions (figure 3).

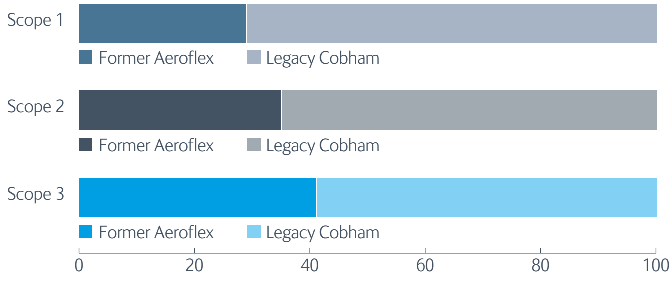
Figure 3 – GHG emissions: Former Aeroflex vs Legacy Cobham (tCO_2e)



	Former Aeroflex		Legacy Cobham (incl. Aviation)	
Scope	tCO_2e	%	tCO_2e	%
Scope 1	6,772	7	93,451	93
Scope 2	19,593	35	37,088	65
Scope 3	11,503	2	493,561	98
Total	**37,868**		**624,100**	

When the former Aeroflex sites are excluded, Cobham's scope 2 emissions decreased by 15% compared with 2014. This decrease is attributed to the implementation of energy efficiency measures (such as installing energy efficient lighting) as well as divestment, closure and consolidation of various sites during the year (divestment of the energy intensive Composites business in November 2015, and consolidation of UK operations in the Antennas business). The carbon footprint of the former Aeroflex business compared with Legacy Cobham (excluding aviation) is shown in figure 4. In 2015, district heating usage by the SATCOM business in Denmark was also included in scope 2 emissions for the first time having been reported under scope 1 in prior years, and LPG use was included in scope 1 emissions for the first time.

Figure 4 – GHG emissions: Former Aeroflex vs Legacy Cobham (excl. aviation) (tCO_2e)



	Former Aeroflex		Legacy Cobham (excl. Aviation)	
Scope	tCO_2e	%	tCO_2e	
Scope 1	6,772	29%	16,487	71%
Scope 2	19,593	35%	37,088	65%
Scope 3	11,503	41%	16,747	59%
Total	**37,868**		**70,322**	

Due to the nature and scale of changes to the Group, 2015 represents a new GHG emissions baseline against which targets will be set. Cobham's target is to reduce facility energy intensity (energy consumption per £m revenue) by 10% year-on-year. Excluding former Aeroflex, Cobham's energy intensity decreased by 11% meeting the 2014 energy intensity reduction target.

Definitions

Scope 1 comprises direct emissions from Cobham owned and controlled plant and equipment, including: aviation fuel, natural gas, heating oil, non-automotive diesel, fugitive emissions, solvent emissions and automotive fuel.

Scope 2 comprises indirect emissions from purchased renewable and non-renewable electricity using a location based calculation method and indirect emissions from purchased district heating.

Cobham does not yet report market based emissions for its electricity generation. Following the new Scope 2 guidance published in January 2015 by the World Business Council for Sustainable Development and World Resources Institute, we conducted a gap analysis of our data collection process and plan to publish market based calculations in our 2016 report.

Scope 3 comprises indirect emissions from non-Cobham owned and controlled plant and equipment, including aviation fuel and business travel (train, air and car).

Methodology and data verification

Cobham collects data annually, as per our financial year, on GHG emissions from its wholly owned operational subsidiaries. Cobham uses the World Business Council for Sustainable Development, World Resources Institute Greenhouse Gas Protocol method as of 31 December 2014, GHG Protocol Scope 2 Guidance, the International Aerospace Environmental Group GHG Reporting Guidance for the Aerospace Industry, a supplement of the GHG Protocol and the Carbon Disclosure Standards Board to report its greenhouse gas emissions and defines its emissions boundary as those under its direct operational control.

Reported data excludes joint ventures not under Cobham's operational control, sites with fewer than five people, sites leased to tenants, vacant properties being disposed of, and any business units that have been closed or divested during the course of the year for which there is less than six months of reported data.

Further information is provided at **http://www.cobhamsustainability.com/**.

100% of Cobham's wholly owned operations have been reviewed internally to identify omissions and significant variations from the prior year.

Data assurance

We engaged KPMG LLP to undertake an independent limited assurance engagement, reporting to Cobham plc, using the assurance standards ISAE 3000 and ISAE 3410 over Selected Information included in Cobham's Performance Summary Report for the year ended 31 December 2015, available at **www.cobhamsustainability.com/at-a-glance/downloads.aspx**. Some of that Selected Information has been included here and is highlighted with a * symbol. KPMG LLP's full statement is available on our website at **www.cobhamsustainability.com/at-a-glance/downloads.aspx** and they have provided an unqualified opinion.

The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance engagement. In order to reach their opinion, they performed a range of procedures which included interviews with management, examination of reporting systems, sites visits to four operating companies, as well as specific data testing at Head Office. A summary of the work they performed is included within their assurance opinion.

Non-financial performance information, greenhouse gas quantification in particular, is subject to more inherent limitations than financial information. It is important to read the Selected Information in the context of KPMG's full limited assurance statement and the reporting criteria as set out in the Cobham's reporting guidelines available at **www.cobhamsustainability.com/at-a-glance/downloads.aspx**.

Further detail on Cobham's CR&S approach, objectives and performance is also available on pages 38 to 41.

Compliance with Listing Rule 9.8.4 R

The table below gives the location of information required to be included in the Annual Report and Accounts.

Listing Rule	Information	Response
LR 9.8.4 (1)	Amount of interest capitalised and amount and treatment of tax relief.	Not applicable: no interest capitalised.
LR 9.8.4 (2)	Information required by Listing Rule 9.2.18 regarding the prior publication of unaudited financial information.	Not applicable.
LR 9.8.4 (3)	Rule deleted.	Not applicable.
LR 9.8.4 (4)	Long-term incentive schemes where only participant is a Director or prospective director of the company and the arrangement is established specifically to facilitate the recruitment or retention of the director.	Not applicable: no such arrangement was entered into during the reporting period.
LR 9.8.4 (5)	Arrangements under which a Director has waived or agreed to waive emoluments from the company or any subsidiary undertaking.	Not applicable: no such arrangement exists.
LR 9.8.4 (6)	Agreements with a Director to waive future emoluments.	Not applicable: no such agreement exists.
LR 9.8.4 (7)	Details of shares allotted during the period under review which have been allotted to existing shareholders in proportion to their shareholdings and which have not been specifically authorised by the Company's shareholders.	Not applicable, no shares allotted during the period.
LR 9.8.4 (8)	Shares allotted in major subsidiary undertakings during the period under review which have not been allotted to existing shareholders in proportion to their shareholdings.	Not applicable: no individual subsidiary is a major subsidiary undertaking as defined by the Listing Rules.
LR 9.8.4 (9)	Details of any parent undertaking's participation in any placing during the period under review.	Not applicable: Cobham does not have a parent undertaking.
LR 9.8.4 (10)	Details of any contract of significance (as defined by the Listing Rules) existing between Cobham, or any of its subsidiaries, in which either a director is materially interested or one of the parties is a controlling shareholder of Cobham.	Not applicable: no such contract of significance exists.
LR 9.8.4 (11)	Details of any contract for the provision of services to Cobham, or any of its subsidiaries, by a controlling shareholder.	Not applicable: Cobham does not have a controlling shareholder.
LR 9.8.4 (12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	The trustees of the employee benefit trust have elected to waive dividends, except in circumstances where they may be holding shares beneficially owned by participants.
LR 9.8.4 (13)	Details of any arrangement under which a shareholder has agreed to waive future dividends.	As noted above.
LR 9.8.4 (14)	Agreements with any controlling shareholder.	Not applicable: Cobham does not have a controlling shareholder.

By order of the Board

Lyn Colloff
Company Secretary
2 March 2016

Statement of Directors' Responsibility

The Directors are responsible for preparing the Annual Report and Accounts, the Directors' Remuneration Report and the Group Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Parent Company Financial Statements in accordance with Financial Reporting Standard 101 (FRS 101), Reduced Disclosure Framework. The Company transitioned from previous United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) to FRS 101 for all periods presented. 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 Group and the Company, and of the profit or loss of the Group and the Company for that period.

In preparing those 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;
- State whether IFRS, as adopted by the EU, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company Financial Statements respectively; and
- Prepare the Group and Parent Company Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and 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 the Group and to enable them to ensure that the Group Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Directors' Responsibility Statement

Each of the Directors, whose names and functions are listed on pages 42 and 43, confirm that, to the best of their knowledge:

- The Group Financial Statements, which have been prepared in accordance with the IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Directors' declaration in relation to relevant audit information

In the case of each Director in office at the date the Directors' Report is approved, that:

- So far as the Director is aware, there is no relevant audit information of which the Group's auditors were unaware; and
- He or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The Responsibility Statement was approved by the Board of Directors on 2 March 2016 and signed on its behalf by:

Bob Murphy
Chief Executive Officer
2 March 2016

Simon Nicholls
Chief Financial Officer
2 March 2016

Report on the Group Financial Statements

Our opinion
In our opinion, Cobham plc's Group Financial Statements (the financial statements):
- Give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited
The financial statements, included within the Annual Report and Accounts (the Annual Report), comprise:
- The Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year ended 31 December 2015;
- The Consolidated Balance Sheet as at 31 December 2015;
- The Consolidated Statement of Changes in Equity for the year then ended;
- The Consolidated Cash Flow Statement for the year then ended; and
- The Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach
Overview

Materiality:
- Overall Group materiality: £14m which represents 5% of underlying profit before tax.

Audit scope:
- We conducted audit work in five countries covering 31 reporting units;
- We performed full scope audits of 17 reporting units in the UK, Australia, France and Denmark;
- Our work conducted in the US was executed at 12 reporting units where we completed audit procedures on specific line items such as revenue or inventory, and 2 further reporting units where we performed other limited procedures.

Areas of focus:
- Revenue and profit recognition on contracts;
- Goodwill and acquired intangible asset impairment assessments;
- Inventory provisioning;
- Identification and measurement of non-underlying costs;
- Accounting for uncertain tax provisions; and
- Accounting for acquisitions and disposals.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as areas of focus in the following table. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Revenue and profit recognition on contracts *Refer to page 54 (Audit Committee Report) and page 83 (note 1, Accounting policies, management judgement and estimation uncertainty – contract risk and programme execution).* For revenue from the sale of goods, we focused on cut-off around the year end because material revenue transactions can occur close to that date. The Group also has a number of significant contracts which span more than one accounting period. In particular, we focused on complex development and production contracts on aerial refuelling aircraft (including KC-46, KC-390, A400M and 330MRTT). The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain. Costs incurred can significantly exceed amounts estimated at inception as a result of material enhancements to the specifications originally assumed under the contracts. For the contracts detailed above, we focused on: – The recognition of significant revenue milestones which often involve judgement surrounding the achievement of those milestones; – The amount of revenue assumed as recoverable from customer claims which are subject to commercial negotiation; – Whether contracts with the same customer should be accounted for as separate or linked; – Whether the profit recognised on revenue in the year is appropriate; and – Whether associated assets held on the balance sheet (work in progress and accrued income) are recoverable or whether a contract loss provision should be recorded.	We tested the recognition of revenue transactions close to the period end to establish whether they were recorded in the correct period. This included agreement to external shipping evidence or authorised milestone documentation, with customer acceptance where appropriate. Misstatements identified were discussed with management and corrected within the financial statements. Additional cut-off testing was performed in the businesses where misstatements were identified to check that the correction adjustments were correct. We are satisfied that the adjustments made were materially correct. We assessed, through reviews of significant contracts, the basis of profit recognition on the Group's significant contracts, together with whether it is appropriate to account for them as separate or linked contracts. We evaluated the accounting in the context of the Group accounting policies and contract terms. We found the accounting, in all material respects, to be in accordance with the policies and contract terms. We challenged the reasonableness of the assumptions behind estimated costs to complete by considering management's track record of achieving estimates, meeting with engineering staff regarding project estimates, confirming the basis of overhead rates used and obtaining purchase orders for materials. We found the assumptions to be supported by the evidence we examined. We agreed total contracted revenue to either original signed customer contracts, approved change orders or to evidence of customer discussions and agreements. We evaluated the reasonableness of estimated revenue through a review of, and discussion on, customer claims submitted to recover additional costs incurred, including considering correspondence with the customer and legal advice received where appropriate. Customer claims reflect changes in project scope for which we rely on the achievement of historic management estimates. We assessed the contract loss provisions recorded through a combination of the procedures above in respect of the overall margin anticipated on the contract and validating that fixed overheads had been appropriately excluded.
Goodwill and acquired intangible asset impairment assessments *Refer to page 54 (Audit Committee Report), page 83 (note 1, Accounting policies, management judgement and estimation uncertainty – impairment of goodwill), pages 94 and 95 (note 10, Intangible assets) and page 112 (note 27, Business combinations (prior year restatement)).* The Group has goodwill of £1,147m and intangibles of £582m on its Balance Sheet. There is the risk that these balances cannot be supported by the future cash flows of the CGUs. Management conducts an annual impairment test of goodwill balances and intangibles are reviewed whenever there is an indicator that an asset may be impaired. During 2015, the goodwill relating to two out of the total of 18 CGUs was fully impaired as follows: – The goodwill arising on the acquisition of Telerob was impaired by £27m following a year of poor trading performance; – Following the decision by management to sell the business the goodwill relating to the Surveillance business was also fully written down, resulting in an impairment charge of £45m.	We assessed management's impairment testing relating to all of the 18 CGUs by obtaining the supporting model and assessing the methodology and key assumptions made: – Future cash flow forecasts: we evaluated the Directors' future cash flow forecasts and tested the underlying values used in the calculations by comparing the Directors' forecast to the latest Board approved five year strategic plan; – Discount rates: we have an internally developed range of acceptable discount rates for valuing CGUs, which is based on our view of various economic indicators. We are satisfied that the discount rates used by the Directors fall within this range for all territories with the exception of Europe, where the Directors have adopted a more conservative rate. This did not result in a material misstatement; – Long term growth rates: we compared the rates applied by management to our own internally developed published rates. No inconsistencies were noted. We performed sensitivity analysis around the key assumptions for all 18 CGUs in order to ascertain the extent of change in those assumptions required individually or collectively to result in a further impairment of goodwill or intangible assets. For those business units which were most sensitive, we discussed the basis for these cash flows with senior management and the Audit Committee. In particular we have focused on the recoverability of the goodwill and intangible assets acquired as part of the acquisition of the Aeroflex business in the prior year, which generated goodwill and intangible assets of £947m and the SATCOM business unit which has experienced trading headwinds in the year, which had a goodwill balance at the year end of £222m. We challenged management over the sensitivity disclosures presented in the financial statements to ensure all reasonably possible changes to assumptions that could lead to a material impairment had been appropriately considered and where necessary disclosed. We are satisfied that the disclosures made and the overall impairment testing performed by management are appropriate.

Area of focus	How our audit addressed the area of focus
Inventory provisioning *Refer to page 54 (Audit Committee Report), page 83 (note 1, Accounting policies, management judgement and estimation uncertainty – inventory provisions) and page 97 (note 13, Inventories).* The nature of much of the Group's business means that the products developed can become technically obsolete. It is also necessary to hold additional spare parts in order to support key customers and programmes should the products require replacement or servicing. The Group had gross inventory of £459m and provisions for obsolescence of £49m on its Balance Sheet. We focused on this area because inventory provisions include subjective estimates and are influenced by assumptions concerning future realisable value and usage. In addition, the methods used for this estimate vary between reporting units depending on the nature of the business and inventory.	We assessed the process, methods and assumptions used to develop the provision for slow moving, excess or obsolete items. This included comparing management's calculations for consistency against those used in the prior year and considering whether there was any indication of management bias such as manual overrides to the established methodology. Manual overrides are typically in respect of spares held for the servicing of products on aircraft which have a long service life. Where overrides were material, we considered the appropriateness of management's judgement based on historical usage and future usage expectations. For reporting units included within full scope we tested the reliability of the underlying data used by management to calculate the inventory obsolescence provisions, typically an aged inventory analysis showing last movements, by re-performing the ageing calculation driven by the system. We also tested the accuracy of the resultant calculation by assessing the calculation criteria and recalculating the provision for a sample of products. No material misstatements were identified.
Identification and measurement of non-underlying costs *Refer to page 54 (Audit Committee Report), page 83 (note 1, Accounting policies, management judgement and estimation uncertainty – definitions) and page 88 (note 2, Underlying measures).* The financial statements include business restructuring costs of £68m which are disclosed as non-underlying and are excluded from underlying operating profit. We focused on this area because IFRSs do not define which items may be excluded from underlying operating profit and it therefore requires judgement around the justification for such exclusion. Consistency in identifying and disclosing items to be excluded from underlying operating profit is important to maintain comparability of the results year on year. In 2015 these business restructuring costs relate primarily to the integration of the Aeroflex business acquired in 2014.	We tested the presentation of the business restructuring costs as non-underlying by assessing whether the classification was in line with the Group's accounting policy on such items on page 88 of the financial statements. This included testing a sample of the costs incurred to supporting evidence such as external purchase invoices, redundancy agreements and personnel costs for staff dedicated to these restructuring projects. We also assessed the appropriateness of this policy and no material issues were identified.
Accounting for uncertain tax provisions *Refer to page 54 (Audit Committee Report), page 83 (note 1, Accounting policies, management judgement and estimation uncertainty – taxation).* The Group has a wide geographic footprint and is subject to tax laws in a number of jurisdictions. The Group has a number of open tax enquiries and has recognised a number of centrally held provisions against uncertain tax positions, the valuation of which is a highly judgemental area. Where tax positions are not settled with the tax authorities, the Directors take into account precedent and the advice of external experts.	We discussed with management the known uncertain tax positions and read correspondence from tax authorities and external legal counsel on open tax enquiries. We assessed the adequacy of the Directors' taxation provisions by considering factors such as the risk profile of each matter and whether the provision addresses possible penalties and interest. We met with senior management and challenged the judgements made in relation to the likelihood of litigation from tax authorities by comparing management's assessment against our own independent views which are based on our independent perception of risk. We found that the judgements made by management were within our expected ranges.
Accounting for acquisitions and disposals *Refer to page 54 (Audit Committee Report), page 100, 112 and 113 (notes 16 – Non-current assets and disposal groups held for sale, 27– Business combinations (prior year restatement), and 28 – Business divestments).* The acquisition accounting of the Aeroflex business in the prior year required a number of judgements surrounding the fair value adjustments to net assets acquired. This year, the final adjustments have been recorded by management resulting in a reduction in net assets acquired of £46m with an equal increase in goodwill. In accordance with IAS 8, the Balance Sheet as at 31 December 2014 as previously reported has been restated. The Group has undertaken a number of divestments during the year which has resulted in a £31m net profit after tax. As some disposals formed part of the recently acquired Aeroflex business the key focus of our work has been assessing management's judgement in the carve-out of goodwill and intangibles from within the CGU. As a consequence of the decision made in the year to divest the Surveillance businesses, the assets and liabilities relating to these business units have been classified as held for sale at the balance sheet date.	We have assessed the final fair value adjustments made to the opening Aeroflex balance sheet and have understood the rationale for management's calculations of the adjustments to provisions. We have obtained the supporting documentation for the additional provisions recognised and have not identified any material misstatements. We reviewed the presentation of the prior year restatement with no material misstatements identified. We have reviewed the sale and purchase agreements relating to the divestments, and have agreed the cash consideration received to bank statements. We challenged management on their decision to carve out the goodwill and intangibles based on underlying profits and not total assets and concur with this assumption on the basis that the initial valuation of the business was based on expected future cash flows. Specifically relating to the divestment of the Surveillance businesses in 2016, we have confirmed that assets have been correctly written down to their fair value and have been correctly classified as held for sale in the financial statements. We have reviewed the sale and purchase agreement relating to this divestment and have not identified any usual terms. We are satisfied that the accounting for divestments, both completed and in progress at the year end date have been appropriately accounted for and disclosed in the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along four reported Sectors, being Advanced Electronic Solutions, Aviation Services, Communications and Connectivity, and Mission Systems. The Group Financial Statements are a consolidation of 67 reporting units within these Sectors, comprising the Group's operating businesses and centralised functions. Accordingly, of the Group's 67 reporting units, we identified 17 which, in our view, required an audit of their complete financial information, due to their size, their risk characteristics or because some are covered on a rotational basis over a two or three year cycle. Specific audit procedures on certain balances and transactions (typically including at least revenue and inventory) were performed at a further 12 reporting units. Audit procedures were performed at all principal manufacturing locations, all significant Aviation Services reporting units and at the four largest components of the Aeroflex acquisition in the year.

79% of the Group's revenue is accounted for by reporting units where we performed full scope audit work or performed specific audit procedures over revenue. 43% of the Group's underlying profit before taxation is accounted for by the 17 reporting units where we performed full scope audit work on the complete financial information. In the US, as a result of our assessment of their size and risk characteristics, we determined that 12 US entities did not require an audit of their complete financial information, but rather, audit procedures were required only on significant financial statement line items within the income statement and balance sheet. At a further 28 reporting units, we performed analytical procedures on each to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified. In addition we have performed a review of significant journals posted within the sector consolidations. All of these audit procedures, together with additional procedures performed at Group level, including a review of significant adjustments made to the financial statements, gave us the evidence we needed for our opinion on the financial statements as a whole.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or subsidiary audit teams from other PwC network firms operating under our instruction. Where the work was performed by subsidiary audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate evidence had been obtained as a basis for our opinion on the financial statements as a whole. This included attending the audit close meetings at which the outcome of each subsidiary audit was discussed and visiting a number of larger subsidiary audit teams during their fieldwork including the two key reporting units with the aerial refuelling development and production contracts.

Where subsidiary audit teams performed work at the reporting unit level on behalf of the Group team, this work was performed to lower materiality levels appropriate to the individual units. These materiality levels ranged from £0.7m to £5m.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£14m (2014: £13m).
How we determined it	5% of underlying profit before tax.
Rationale for benchmark applied	Underlying profit before taxation is defined in the Annual Report on page 84. We believe that underlying profit before taxation represents an appropriate metric for assessing the performance of the Group and provides us with a consistent year on year basis for determining materiality. It is the amount reported by management both internally and externally to the market. We also considered our overall Group materiality in the context of the Group's revenue, noting that it represents less than 0.7%.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5m (2014: £0.5m) as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 31, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting
Consistency of other information

Companies Act 2006 opinions

In our opinion, 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.

ISAs (UK and Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– Information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– The statement given by the Directors on page 45, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
– The section of the Annual Report on page 52, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– The Directors' confirmation on page 34 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– The Directors' explanation on page 34 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code.

We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibility, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Other matter

We have reported separately on the Parent Company Financial Statements of Cobham plc for the year ended 31 December 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.

Pauline Campbell
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2016

Group Financial Statements Index

Consolidated Income Statement

For the year ended 31 December 2015

£m	Note	2015	2014
Revenue	3	2,072.0	1,851.7
Cost of sales		(1,408.2)	(1,290.1)
Gross profit		663.8	561.6
Selling and distribution costs		(130.1)	(100.3)
Administrative expenses		(521.7)	(403.7)
Operating profit		12.0	57.6
Finance income	5	5.2	6.4
Finance costs	5	(57.0)	(39.7)
(Loss)/profit before taxation		(39.8)	24.3
Taxation	6	2.1	4.7
(Loss)/profit after taxation for the year		(37.7)	29.0
Attributable to:			
Owners of the parent		(37.8)	28.8
Non-controlling interests		0.1	0.2
		(37.7)	29.0
Earnings per ordinary share	8		
Basic		(3.35)p	2.60p
Diluted		(3.35)p	2.58p

Trading profit is calculated as follows:

£m	Note	2015	2014
Operating profit		12.0	57.6
Adjusted to exclude:			
Business restructuring		67.5	52.2
Derivative financial instruments		18.8	21.8
Amortisation of intangible assets arising on business combinations		176.8	113.6
Impairment of goodwill		26.6	–
Exceptional legal costs		–	0.8
Other business acquisition and divestment related items		30.5	40.7
Trading profit	2	332.2	286.7
Underlying EPS	2	19.48p	18.48p

The definitions of trading profit and underlying EPS are shown in note 1.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

£m	Note	2015	2014
(Loss)/profit after taxation for the year		(37.7)	29.0
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	22	29.6	(27.7)
Actuarial loss on other retirement benefit obligations	22	–	(0.7)
Tax effects	6	(5.9)	5.0
		23.7	(23.4)
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries	25	(38.2)	(18.7)
Reclassification of cash flow hedge fair values	25	1.1	1.3
Hedge accounted derivative financial instruments	25	–	1.6
Tax effects	6	(0.2)	(0.9)
		(37.3)	(16.7)
Other comprehensive expense for the year		(13.6)	(40.1)
Total comprehensive expense for the year		(51.3)	(11.1)
Attributable to:			
Owners of the parent		(51.4)	(11.3)
Non-controlling interests		0.1	0.2
		(51.3)	(11.1)

Consolidated Balance Sheet

As at 31 December 2015

£m	Note	2015	2014 Restated
Assets			
Non-current assets			
Intangible assets	10	**1,729.5**	2,040.8
Property, plant and equipment	11	**379.9**	390.0
Investment properties	12	**4.3**	10.4
Investments in joint ventures and associates		**3.0**	3.1
Trade and other receivables	15	**71.3**	51.1
Other financial assets	14	**6.1**	6.1
Deferred tax	20	**11.4**	10.5
Derivative financial instruments	21	**6.5**	7.6
		2,212.0	2,519.6
Current assets			
Inventories	13	**410.4**	429.5
Trade and other receivables	15	**366.0**	435.3
Current tax receivables		**8.6**	0.4
Derivative financial instruments	21	**9.1**	8.7
Cash and cash equivalents	9	**294.7**	225.6
Assets classified as held for sale	16	**16.8**	2.1
		1,105.6	1,101.6
Liabilities			
Current liabilities			
Borrowings	17	**(156.4)**	(1.5)
Trade and other payables	18	**(398.1)**	(505.5)
Provisions	19	**(74.3)**	(60.5)
Current tax liabilities		**(125.1)**	(119.2)
Derivative financial instruments	21	**(30.6)**	(20.7)
Liabilities associated with assets classified as held for sale	16	**(12.7)**	–
		(797.2)	(707.4)
Non-current liabilities			
Borrowings	17	**(1,345.1)**	(1,446.8)
Trade and other payables	18	**(24.8)**	(36.2)
Provisions	19	**(68.2)**	(66.5)
Deferred tax	20	**(102.0)**	(134.5)
Derivative financial instruments	21	**(13.9)**	(15.5)
Retirement benefit obligations	22	**(56.7)**	(102.0)
		(1,610.7)	(1,801.5)
Net assets		**909.7**	1,112.3
Equity			
Share capital	24	**30.4**	30.4
Share premium		**301.9**	301.9
Other reserves	25	**(0.3)**	42.7
Retained earnings		**576.8**	736.4
Total equity attributable to the owners of the parent		**908.8**	1,111.4
Non-controlling interests in equity		**0.9**	0.9
Total equity		**909.7**	1,112.3

Details of the restatement of the 2014 Balance Sheet can be found in note 27. The financial statements on pages 78 to 118 were approved by a duly appointed and authorised committee of the Board on 2 March 2016 and signed on its behalf by:

Bob Murphy **Simon Nicholls**
Directors

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

£m	Share capital	Share premium	Other reserves (note 25)	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2014	28.9	126.6	55.2	832.7	1,043.4	0.8	1,044.2
Profit for the year	–	–	–	28.8	28.8	0.2	29.0
Items that will not be reclassified subsequently to profit or loss	–	–	–	(23.4)	(23.4)	–	(23.4)
Items that may subsequently be reclassified to profit or loss	–	–	(16.7)	–	(16.7)	–	(16.7)
Total comprehensive expense for the year	–	–	(16.7)	5.4	(11.3)	0.2	(11.1)
Issue of shares	1.5	175.3	–	–	176.8	–	176.8
Net proceeds from treasury shares	–	–	–	3.3	3.3	–	3.3
Dividends (note 7)	–	–	–	(108.3)	(108.3)	–	(108.3)
Share based payments (note 26)	–	–	6.1	–	6.1	–	6.1
Transfer of other reserves to retained earnings	–	–	(3.3)	3.3	–	–	–
Tax effects (note 6)	–	–	1.5	–	1.5	–	1.5
Foreign exchange adjustments	–	–	(0.1)	–	(0.1)	(0.1)	(0.2)
Total equity at 31 December 2014	30.4	301.9	42.7	736.4	1,111.4	0.9	1,112.3
Loss for the year	–	–	–	**(37.8)**	**(37.8)**	**0.1**	**(37.7)**
Items that will not be reclassified subsequently to profit or loss	–	–	–	**23.7**	**23.7**	–	**23.7**
Items that may subsequently be reclassified to profit or loss	–	–	**(37.3)**	–	**(37.3)**	–	**(37.3)**
Total comprehensive expense for the year	–	–	**(37.3)**	**(14.1)**	**(51.4)**	**0.1**	**(51.3)**
Net purchase of treasury shares	–	–	–	**(24.9)**	**(24.9)**	–	**(24.9)**
Dividends (note 7)	–	–	–	**(122.1)**	**(122.1)**	–	**(122.1)**
Share based payments (note 26)	–	–	**(3.0)**	–	**(3.0)**	–	**(3.0)**
Transfer of other reserves to retained earnings	–	–	**(1.5)**	**1.5**	–	–	–
Tax effects (note 6)	–	–	**(1.1)**	–	**(1.1)**	–	**(1.1)**
Foreign exchange adjustments	–	–	**(0.1)**	–	**(0.1)**	**(0.1)**	**(0.2)**
Total equity at 31 December 2015	**30.4**	**301.9**	**(0.3)**	**576.8**	**908.8**	**0.9**	**909.7**

Consolidated Cash Flow Statement

For the year ended 31 December 2015

£m	Note	2015	2014
Operating profit		**12.0**	57.6
Non-cash items:			
Share of post-tax profits of joint ventures and associates		**(0.2)**	(0.2)
Depreciation and amortisation		**254.4**	190.8
Impairment of goodwill		**26.6**	–
Profit on sale of property, plant and equipment		**(1.4)**	(0.3)
Business acquisition and divestment related items		**27.3**	23.8
Derivative financial instruments	21	**18.8**	21.8
Pension contributions in excess of pension charges	22	**(17.8)**	(16.9)
Share based payments	26	**(3.0)**	6.1
Operating cash movements:			
Increase in inventories		**(34.6)**	(11.9)
Decrease/(increase) in trade and other receivables		**19.1**	(68.3)
(Decrease)/increase in trade and other payables		**(38.6)**	17.3
Increase in provisions		**7.4**	12.9
Tax paid		**(31.5)**	(37.0)
Interest paid		**(53.0)**	(31.5)
Interest received		**3.6**	3.7
Net cash from operating activities		**189.1**	167.9
Cash flows from investing activities			
Purchase of property, plant and equipment		**(97.8)**	(63.7)
Purchase of intangible assets		**(18.6)**	(12.4)
Proceeds on disposal of property, plant and equipment		**17.7**	2.3
Investment in loan notes		**–**	(9.0)
Acquisition of subsidiaries net of cash or debt acquired		**(52.6)**	(846.1)
Contingent consideration paid		**–**	(28.5)
Proceeds of business divestments	28	**205.2**	6.6
Net cash from/(used in) investing activities		**53.9**	(950.8)
Cash flows from financing activities			
Issue of share capital		**–**	176.8
Dividends paid	7	**(122.1)**	(108.3)
Purchase of treasury shares		**(29.3)**	(5.5)
Proceeds on allocation of treasury shares		**4.4**	8.8
New borrowings	9	**257.9**	1,467.5
Repayment of borrowings	9	**(271.0)**	(699.9)
Net cash (used in)/from financing activities		**(160.1)**	839.4
Net increase in cash and cash equivalents		**82.9**	56.5
Exchange movements		**(13.2)**	(31.2)
Cash and cash equivalents at start of year		**224.3**	199.0
Cash and cash equivalents at end of year		**294.0**	224.3

A reconciliation of cash and cash equivalents to the Balance Sheet and movement in net debt is detailed in note 9.

Notes to the Group Financial Statements

1. Accounting policies

General information
These financial statements are the consolidated financial statements of Cobham plc (the Company), a public company limited by shares, registered and domiciled in the United Kingdom and its subsidiaries (the Group).

Basis of preparation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, interpretations of the IFRS Interpretations Committee and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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

Accounting developments
Amendments to standards which have been adopted with effect from 1 January 2015 are:

– Amendment to IAS 19, Defined Benefit Plans;
– Annual Improvements 2012;
– Annual Improvements 2013.

The Group has also elected to adopt the Disclosure Initiative – amendments to IAS 1, from 1 January 2015, earlier than the required effective date.

No changes to previously published accounting policies or other adjustments were required on the adoption of these amendments.

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

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

The Board considers that the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are as follows:

Contract risk and programme execution
The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain and could materially impact the Group's future reported earnings.

Failure by Cobham to execute or deliver a project or programme gives rise to the risk of increased programme costs, contract penalties, litigation and other financial liabilities, reduced future profitability and reputational risk.

Judgement is therefore required as regards the final costs of technical solutions, the outcome of negotiations with customers, the amounts recoverable under these contracts and any provisions required. Where appropriate, the consolidated financial statements include provisions for the estimated outcome of commercial disputes and other claims, including those with long term contract partners.

The Directors take account of the advice of experts in quantifying the expected costs of future adverse outcomes. Due to the inherent uncertainty associated with such matters, the timing and determination of the total costs or amount of any payments under any claims could differ from the amounts provided.

Impairment of goodwill and other intangible assets (note 10)
A review of the carrying value of goodwill is completed at least once a year to ensure that it is not impaired. This requires estimation of the value in use of the cash generating units (CGUs) to which the goodwill is allocated.

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

Estimating value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Inventory provisions (note 13)
The nature of much of the Group's business means that inventory held can become technically obsolete. It is also necessary to hold additional spare parts in order to support key customers and programmes. Judgement is required in assessing the level of provision required for obsolete, slow moving and defective items of inventory, reflecting assumptions concerning future orders and revenue streams.

Taxation (notes 6 and 20)
The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions and the Income Statement in the period in which such determination is made.

Business combinations (note 27)
On completion of a business combination, the cost is allocated by recognising the identifiable assets, liabilities and contingent liabilities acquired at fair value.

Intangible assets are recognised where they are separable or arise from contractual or legal rights, and have a fair value that can be measured reliably. For the Group, these intangible assets usually comprise contractual arrangements, customer relationships and technology based assets, but can also include acquired patents, software rights and licences and development costs.

In establishing fair value for intangible assets recognised on acquisition and their estimated useful lives, the Group takes account of the individual circumstances of the entity acquired. Useful economic lives of intangible assets are reviewed at least annually to ensure that they continue to be appropriate.

Judgement is also exercised in assessing the fair value of assets and liabilities. During the measurement period, which cannot be more than one year after the acquisition date, new information obtained about facts and circumstances that existed at the acquisition date is considered in assessing these fair values.

Retirement benefits (note 22)
The Group Financial Statements include costs and liabilities in relation to retirement benefit obligations. A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the long term rate of increase of salary costs, discount rate, inflation and mortality rates. Comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements. The Group uses published indices and independent actuarial advice to select the values of critical assumptions. These assumptions, with sensitivity analysis, can be found in note 22.

Definitions

Underlying measures (note 2)

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including trading profit and underlying earnings results. These are considered by the Board to be the most meaningful measures under which to assess the true operating performance of the Group.

All underlying measures include the operational results of all businesses including those held for sale until the point of sale.

Trading profit (note 2)

This has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity and business restructuring costs as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments, gains and losses arising on dividend related foreign exchange contracts, impairments of intangible assets, and items deemed by the Directors to be of an exceptional nature.

Business acquisition and divestment related items excluded from trading profit and underlying earnings include the amortisation of intangible assets recognised on acquisition, revaluation gains and losses arising on the original equity interests on stepped acquisitions, gains or losses arising on business divestments, adjustments to businesses held for sale, the writing off of the pre-acquisition profit element of inventory written up on acquisition, other direct costs associated with business combinations and terminated divestments, and adjustments to contingent consideration related to previously acquired businesses.

Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. In 2015, these relate primarily to the integration of the Aeroflex businesses acquired in 2014.

Underlying earnings (note 2)

Underlying earnings are defined as trading profit less net underlying finance costs, which excludes acquisition related items, and after deducting associated taxation and non-controlling interests.

Net debt (note 9)

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

Free cash flow and operating cash flow (note 2)

Free cash flow is defined as net cash from operating activities plus dividends received from joint ventures, less cash flows related to the purchase or disposal of property, plant, equipment and intangible assets but excluding payments relating to M&A related activities.

Operating cash flow is free cash flow before payment of tax, interest and restructuring costs.

Operating segments (note 3)

The chief operating decision making body for the Group has been identified as the Board. It reviews the Group's internal reporting in order to assess performance and allocate resources. Details of the composition and purpose of the Board can be found on pages 42 and 43.

The Group reports four operating segments whose revenue and results are reported to the Board. These are Communications and Connectivity, Mission Systems, Advanced Electronic Solutions and Aviation Services. All operating segments meet the definition of reportable segments as defined in IFRS 8. The principal activities of these segments are described on pages 20 to 25.

The Board assesses the trading performance of operating segments based on revenue and trading profit as defined above. Finance income, finance costs and taxation are not segmented and are reviewed by the Board on a consolidated basis. Segment net assets are disclosed voluntarily in note 3 and include intangible assets, property, plant and equipment, investment properties, inventory, trade and other receivables, trade and other payables and provisions. They do not include tax, net debt, derivative financial instruments, contingent consideration payable or retirement benefit obligations.

Basis of consolidation

The Group Financial Statements include the financial statements of the Parent Company, Cobham plc, and of all its subsidiaries.

Subsidiaries are all entities over which the Group has control, which is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases. On derecognition, any amounts previously recognised in Other Comprehensive Income (OCI) in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

Joint ventures are entities where the parties that have joint control have rights to the net assets of the arrangement. Associates are entities where the Group has significant influence. Joint ventures and associates are not consolidated but are accounted for using the equity method. The Group Financial Statements include the Group's share of the post-acquisition change in net assets and the post-tax profit or loss of jointly controlled entities and associates from the date that joint control or significant influence commences until the date this ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currencies

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

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

Business combinations (note 27)

Businesses acquired are accounted for using the acquisition method of accounting with effect from the date control passes. The excess of the fair value of consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Where a business combination is completed in stages, any previously held interests are remeasured to fair value at the date at which control is achieved. Any resulting gain or loss is recognised in the Income Statement. Acquisition related costs are expensed as incurred.

Revenue recognition

Revenue is measured at the fair value of the right to consideration, net of returns and other allowances, and excludes intercompany sales, value added tax and other sales taxes.

Revenue from the sale of goods not under a long term contract is recognised when the significant risks and rewards of ownership and effective control of the goods have been passed to the customer, recovery of the consideration is probable, and the amount of revenue and costs can be measured reliably. In the case of contracts with a long duration, including contracts with a funded development phase, revenue is recognised based upon the fair value of work performed to date assessed with reference to completed contract milestones which have been accepted by the customer.

Long term contract accounting as described in IAS 11, Construction Contracts is not generally applicable to the longer term contracts for sales of goods entered into by Group companies. Where long term contract accounting is applicable, revenue is recognised on a percentage of completion basis whereby a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion.

Revenue for services is recognised as the services are rendered with reference to the proportion of the service delivered to date. For 'cost-plus' contracts (typically with government departments and agencies), revenue is recognised to the extent of reimbursable costs incurred, plus a proportionate amount of the estimated fee earned. For contracts where revenue is determined on a unit activity basis, revenue is recognised on the basis of activity undertaken in the period.

Taxation including deferred taxation (notes 6 and 20)

The tax expense is the sum of current tax and deferred tax.

Current tax is provided at the amounts expected to be paid, using rates that have been enacted or substantively enacted at the balance sheet date.

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

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

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

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

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

Dividends (note 7)

Dividends are recognised as a liability in the period in which they are fully authorised.

Intangible assets (note 10)

Goodwill

Goodwill is allocated at acquisition to the CGUs that are expected to benefit from that business combination. CGUs represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

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

Other intangible assets

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

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

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

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

Research and development

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

Property, plant and equipment (note 11)

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

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

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

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

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

Assets held under finance leases are depreciated over the term of the relevant lease.

Aircraft overhaul expenditure

Major overhaul expenditure on owned aircraft is capitalised when incurred and the resultant property, plant and equipment is depreciated over its useful economic life. Major overhaul costs that are contractually required on aircraft held under operating leases are provided for over the period between the scheduled maintenance events.

Investment properties (note 12)

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

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

Impairments

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

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

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

Leasing (notes 11 and 29)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Income Statement.

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease. Benefits receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Inventories (note 13)

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

Non-current assets and disposal groups held for sale (note 16)

Non-current assets and disposal groups classified as held for sale are stated at the lower of carrying amount and fair value less costs of disposal. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within a year of the balance sheet date. The asset or disposal group should be available for immediate sale in its present condition and actively marketed at a price that is reasonable in relation to its current fair value.

Fair values

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

The fair values of derivative financial instruments have been determined by the use of valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates.

The fair values of non-financial assets and liabilities, which includes net assets classified as held for sale, are based on observable market prices or rates. These measurements fall within Level 2 of the IAS 39 fair value hierarchy. For non-financial assets, the fair value takes into account the highest and best use of the asset.

For financial assets and liabilities which are not held at fair value in the Balance Sheet, the carrying values of these items are assumed to approximate to fair value due to their short term nature.

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

Financial instruments (note 14)

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument and are initially recognised at fair value at trade date. Subsequent measurement is dependent upon the classification of the instrument which is determined at initial recognition with reference to the purpose for which the instruments were acquired and re-evaluated at each reporting date.

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

Financial assets

Assets held at fair value through profit or loss are those categorised as held for trading under IAS 39 and are subsequently carried at fair value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. These include trade and other receivables and cash and cash equivalents. Subsequent to initial recognition, assets categorised as loans and receivables are carried at amortised cost using the effective interest method.

Available for sale financial assets are those non-derivative financial assets either designated by management as available for sale or not falling into any other category. Financial assets so categorised include equity instruments which do not have a quoted price in an active market and hence are measured at cost.

None of the Group's material financial assets fall into the held to maturity category of IAS 39, which are non-derivative financial assets with fixed maturity dates that the Group intends to hold to maturity.

Financial liabilities

Financial liabilities are categorised as held for trading under IAS 39 and are subsequently held at fair value through profit or loss, or other liabilities, which are held at amortised cost using the effective interest method. Derivative financial instruments are categorised as held for trading unless they are designated as hedges.

Trade and other receivables

Trade and other receivables are stated at their amortised cost, reduced when there is evidence that the Group may not be able to collect the amount due. All trade receivables which are more than six months overdue are provided for by reference to past default experience. The balance may be written off in full, generally where receivables are in excess of 12 months old. Impairments are charged to administrative expenses in the Income Statement.

Cash and cash equivalents

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

Bank borrowings

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

Trade payables

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

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group currently utilises cash flow hedge accounting principles in relation to interest rate swaps and a limited number of specific foreign exchange contracts used to mitigate the Group's exposure to changes in interest rates arising on floating rate debt and certain foreign exchange impacts of trading in non-functional currencies. Where hedge accounting is applied, the relationship between hedging instruments and hedged items is documented at the inception of the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Where interest rate swaps and foreign exchange contracts are designated and qualify as cash flow hedges, the effective portion of changes in fair value is recognised in OCI through the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are reclassified to finance income or finance costs in the Income Statement in the periods when the hedged item affects profit or loss.

The majority of foreign exchange contracts entered into to mitigate foreign exchange impacts of trading in non-functional currencies and inflation swaps entered into to mitigate inflation risks are not accounted for using hedge accounting.

Foreign currency borrowings are also used to hedge the effects of changes in the Group's net investment in foreign operations. These borrowings either provide a natural economic hedge through the use of intercompany debt or are designated as net investment hedges. Where net investment hedging applies, the borrowings are designated as fair value hedges of the foreign currency risk attributable to the foreign equity investment and the exchange differences arising are recognised in OCI and through profit and loss on disposal of the foreign operation.

The fair value of a hedging derivative is classified as a current asset or liability except when the remaining maturity of the hedged item is more than 12 months.

Where hedge accounting is not applied, the movements in fair value of the derivative instruments are included in the Income Statement as part of operating profit. The fair value of such derivatives is classified as a current or non-current asset or liability dependent upon the maturity date of the financial instrument.

Provisions (note 19)

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

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

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

Aircraft maintenance provisions are established in respect of significant periodic maintenance costs, where maintenance activity is required on leased operational aircraft or engines on a cycle greater than 12 months. Costs are charged to the Income Statement on the basis of utilisation of the aircraft and are credited to the provision. The provision is then utilised by absorbing the actual costs incurred in carrying out the maintenance activity. Maintenance carried out on a cycle of 12 months or less is charged to the Income Statement as incurred.

Provisions also arise in connection with leased aircraft, where contracts contain specific conditions regarding the configuration of the aircraft on its return to the lessor at the end of the lease. The estimated cost associated with fulfilling these requirements is charged to the Income Statement on an aircraft utilisation basis. The provision is utilised on actual return of the aircraft or on incurring the expenditure required to return the aircraft to the state of maintenance required by the lease before return of the aircraft to the lessor.

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

Retirement benefit schemes (note 22)

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

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

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

Share capital (note 24)

Ordinary share capital is classified as equity. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the preference shareholders or if dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the Income Statement as finance costs.

Treasury shares (note 24)

When ordinary share capital recognised as equity is acquired by the Company, the shares are held as treasury shares. The consideration paid, including commissions and taxes, is deducted from retained earnings and total equity. The proceeds of any treasury shares subsequently sold or re-issued, net of commission and taxes, are recognised as an increase in retained earnings and total equity.

Share based payments (note 26)

For grants made under the Group's equity settled share based payment schemes, amounts which reflect the fair value of awards as at the time of grant are charged to the Income Statement over the relevant vesting periods, taking into account the Directors' best estimate of the number of awards expected to vest. The Group reviews and updates the vesting estimate, which includes progress against non-market related performance conditions, at each balance sheet date.

The valuation methodology for all schemes is based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

Future accounting developments

A number of new standards, amendments to existing standards and interpretations have been published that are mandatory for future accounting periods. Annual Improvements 2014 has been endorsed by the EU for use from 1 January 2016 and is not expected to have an impact on the Group's financial reporting. None of the amendments to other standards effective from 1 January 2016 are expected to have an impact on the Group's financial reporting.

There are also a number of new standards and amendments to existing standards including Annual Improvements which, once endorsed by the EU, will be effective from 1 January 2017 or later years. These include:

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers;
- IFRS 16, Leases.

Based on an initial review, IFRS 9 is not expected to have a material impact on the results of the Group. IFRS 15, effective from 1 January 2018, is currently under review to determine the potential impact to the Group; it is not practicable to quantify the effect at this time. The impacts of the recently issued IFRS 16, effective from 1 January 2019, and other amendments are under review.

2. Underlying measures

Underlying measures, defined in note 1 on page 84, are derived from operating profit as set out below:

£m	Note	2015	2014
Operating profit		12.0	57.6
Business restructuring		67.5	52.2
Derivative financial instruments	21	18.8	21.8
Amortisation of intangible assets arising on business combinations		176.8	113.6
Impairment of goodwill		26.6	–
Exceptional legal costs		–	0.8
Other business acquisition and divestment related items			
Profit on divestments	28	(53.8)	(0.3)
Amounts provided related to businesses held for sale		69.0	–
Pre-acquisition profit element of inventory written off		9.3	19.6
Other M&A related costs		6.0	21.4
Trading profit		332.2	286.7
Underlying net finance costs		(51.8)	(29.7)
Underlying profit before taxation		280.4	257.0
Taxation charge on underlying profit (effective rate 21.5%, 2014: 20.25%)		(60.2)	(52.0)
Non-controlling interests		(0.1)	(0.2)
Underlying profit after tax attributable to owners of the parent		220.1	204.8
Underlying basic EPS		19.48p	18.48p
Underlying diluted EPS		19.40p	18.38p

Underlying administrative expenses, after adjusting for the reconciling items in the table above, amounted to £201.5m (2014: £174.8m), representing 9.7% (2014: 9.4%) of revenue.

Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. In 2015, these relate primarily to the integration of the Aeroflex businesses acquired in 2014.

Amortisation of intangible assets arising on business combinations includes £98.4m (2014: £13.6m) related to the Aeroflex businesses acquired in 2014.

During 2015 an impairment provision of £26.6m was made in respect of the goodwill arising on the acquisition of Telerob in 2011.

Amounts provided related to the businesses held for sale in respect of the Surveillance businesses include an impairment of goodwill of £44.8m and £2.4m impairment of other intangible assets. These are included within administrative expenses in the Income Statement.

Net cash from operating activities is reconciled to free cash flow and operating cash flow as follows:

£m	2015	2014
Net cash from operating activities per Cash Flow Statement	189.1	167.9
Purchase of property, plant and equipment	(97.8)	(63.7)
Purchase of intangible assets	(18.6)	(12.4)
Proceeds on disposal of property, plant and equipment	17.7	2.3
Business acquisition and divestment related costs paid	15.1	20.3
Free cash flow	105.5	114.4
Business restructuring	48.2	31.3
Tax paid	31.5	37.0
Underlying net finance costs paid	49.4	25.2
Operating cash flow	234.6	207.9

3. Revenue and segmental information

Revenue

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

£m	2015	2014
Revenue from sale of goods	1,585.4	1,368.2
Revenue from services	486.6	483.5
	2,072.0	1,851.7

Revenue from services includes service contracts in the Aviation Services Sector together with logistics support, maintenance and repairs in other Sectors.

Operating segments

	Revenue		Trading profit		Segment net assets	
£m	2015	2014	2015	2014	2015	2014 Restated
Communications and Connectivity	771.8	697.1	108.4	118.3	844.0	1,066.3
Mission Systems	382.4	333.5	68.0	35.9	289.2	303.0
Advanced Electronic Solutions	538.0	410.1	80.5	64.0	996.0	1,067.8
Aviation Services	390.1	412.2	57.3	54.5	257.1	284.0
Head office, other activities and elimination of inter-segment items	(10.3)	(1.2)	18.0	14.0	19.9	(24.5)
Total Group	2,072.0	1,851.7	332.2	286.7	2,406.2	2,696.6
Interests in joint ventures and associates					3.0	3.1
Unallocated liabilities					(1,499.5)	(1,587.4)
Total net assets					909.7	1,112.3

Trading profit is reconciled to the result before taxation as follows:

£m	Note	2015	2014
Trading profit		332.2	286.7
Business restructuring	2	(67.5)	(52.2)
Derivative financial instruments	21	(18.8)	(21.8)
Amortisation of intangible assets arising on business combinations		(176.8)	(113.6)
Impairment of goodwill	10	(26.6)	–
Exceptional legal costs		–	(0.8)
Other business acquisition and divestment related items		(30.5)	(40.7)
Net finance costs	5	(51.8)	(33.3)
(Loss)/profit before taxation		(39.8)	24.3

Depreciation of property, plant and equipment, investment properties and amortisation of internally generated intangibles are included in the calculation of trading profit and can be analysed by segment as follows:

£m	2015	2014
Communications and Connectivity	16.7	18.9
Mission Systems	5.3	5.0
Advanced Electronic Solutions	16.4	12.5
Aviation Services	36.1	38.8
Head office, other activities and elimination of inter-segment items	2.7	2.0
Total Group	77.2	77.2

Details of employees analysed by operating segment can be found in note 4.

Geographical information

Revenue from external customers analysed by their geographic location, irrespective of the origin of the goods and services, is shown below. Non-current assets are analysed by the physical location of the assets and exclude financial instruments and deferred tax assets.

	Revenue		Non-current assets	
£m	2015	2014	2015	2014 Restated
USA	985.1	814.4	1,156.8	1,457.2
UK	223.0	228.3	551.3	515.7
Other EU	305.2	286.5	275.4	317.0
Australia	226.6	247.2	106.2	87.6
Rest of the world	332.1	275.3	27.0	66.8
	2,072.0	1,851.7	2,116.7	2,444.3

Revenue from customers located in the rest of the world includes £230.4m (2014: £169.9m) from customers in Asia. Revenue from customers in individual countries within the EU (except the UK) and the rest of the world is not considered to be individually material. Included in non-current assets located in EU countries other than the UK are assets of £232.0m (2014: £229.9m) located in Denmark.

4. Operating costs

Operating costs include materials costs of £664.0m (2014: £628.8m) within cost of sales in the Income Statement.

Company funded research and development

£m	2015	2014
Company funded research and development	138.0	96.9

Employment costs and employee numbers

The aggregate employment costs are as follows:

£m	Note	2015	2014
Wages and salaries		604.9	519.9
Social security costs		49.5	43.8
Pension costs	22	30.8	31.0
Share based payments	26	(3.0)	6.1
		682.2	600.8

The average number of employees during the year, analysed by segment, is as follows:

	2015	2014
Communications and Connectivity	4,487	3,841
Mission Systems	1,556	1,465
Advanced Electronic Solutions	3,590	2,802
Aviation Services	2,468	2,405
Head office and other activities	426	428
Total Group	12,527	10,941

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

£m	2015	2014
Salaries and other employee benefits	7.3	5.8
Post-employment benefits	0.2	0.4
Share based payments	(1.4)	1.6
	6.1	7.8

Audit fees

During the year the Group obtained the following services from the Company's auditors, PricewaterhouseCoopers LLP and its associates, as follows:

£m	2015	2014
Annual audit of the Parent Company and Group Financial Statements	1.0	1.0
Audit of the Company's subsidiaries	1.2	1.2
Fees payable for audit services	2.2	2.2
Tax compliance services	0.3	0.3
Other tax advisory services	1.0	1.3
Other audit related assurance services	0.1	0.1
Services relating to corporate finance transactions	–	1.5
Fees payable for other services	1.4	3.2
Total fees payable to the auditors	3.6	5.4

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 52 to 57 and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by the auditors.

5. Finance income and costs

£m	Note	2015	2014
Bank interest		3.1	4.5
Other finance income		2.1	1.9
Total finance income		5.2	6.4
Interest on bank overdrafts and loans		(52.8)	(30.9)
Interest on net pension scheme liabilities	22	(3.1)	(3.6)
Other finance expense		(1.1)	(5.2)
Total finance costs		(57.0)	(39.7)
Net finance costs		(51.8)	(33.3)

Other finance expense for 2014 includes £2.6m of arrangement fees for the Aeroflex acquisition finance facility and unwinding of acquisition related discounting of £1.0m. These costs are excluded from underlying profit in note 2.

6. Taxation

£m	Note	2015	2014
Charge for the year		39.8	46.6
Adjustments to tax charge in respect of prior years		(10.8)	(14.3)
Current tax		29.0	32.3
Credit for the year		(38.2)	(41.9)
Adjustments to tax charge in respect of prior years		7.1	5.6
Impact of change in tax rates		–	(0.7)
Deferred tax	20	(31.1)	(37.0)
Total tax credit for the year		(2.1)	(4.7)

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction. The total tax credit for the year includes a charge of £9.2m (2014: £5.5m credit) for the UK.

The total charge for the year can be reconciled to the accounting result as follows:

£m	2015	2014
(Loss)/profit before tax	(39.8)	24.3
Tax thereon at the UK income tax rate of 20.25% (2014: 21.5%)	(8.1)	5.2
Effect of differences in overseas taxation rates	(12.3)	(2.9)
Expenditure qualifying for additional R&D tax relief	(1.6)	(2.1)
Adjustments to tax charge in respect of prior years	(3.7)	(8.7)
Impact of tax treatment of divestments	24.4	–
Impact of other items	(0.8)	3.8
Total tax credit for the year	(2.1)	(4.7)

In addition the following charges/(credits) have been included in OCI and equity:

Included in OCI

£m	2015	2014
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain/(loss) on retirement benefit obligations	5.9	(4.7)
Actuarial loss on other retirement benefit obligations	–	(0.3)
	5.9	(5.0)
Items that may subsequently be reclassified to profit or loss		
Hedge accounted derivative financial instruments	0.2	0.9

Included in equity

£m	2015	2014
Share based payments	1.1	(1.5)

The rate of UK corporation tax reduced from 23% to 21% on 1 April 2014 and 20% on 1 April 2015.

7. Dividends

£m	2015	2014
Final dividend of 7.746p per share for 2014 (2013: 7.04p)	**87.7**	75.5
Interim dividend of 3.05p per share for 2015 (2014: 2.904p)	**34.4**	32.8
Total dividend authorised and paid during the year	**122.1**	108.3

In addition to the above, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 8.13p per share at an estimated total cost of £91.5m. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If authorised, it will be paid on 27 May 2016 to shareholders who are on the register of members as at 29 April 2016. The total dividend in respect of the financial year ended 31 December 2015 will therefore be 11.18p per share (2014: 10.65p). The total amount payable in respect of 2015 will be £125.9m.

8. Earnings per ordinary share

	2015			2014		
	Earnings £m	**Weighted average number of shares million**	**Per share amount pence**	Earnings £m	Weighted average number of shares million	Per share amount pence
Basic earnings per share (EPS)						
Earnings attributable to owners of the parent	**(37.8)**	**1,129.9**	**(3.35)**	28.8	1,108.0	2.60
Effect of potentially dilutive securities		**–**			6.4	
Diluted EPS	**(37.8)**	**1,129.9**	**(3.35)**	28.8	1,114.4	2.58

Potentially dilutive securities are unvested awards under the Group's share based payment schemes described in note 26.

9. Cash and cash equivalents and net debt

Reconciliation of cash and cash equivalents and net debt

£m	Note	2015	2014
Cash and cash equivalents per Cash Flow Statement		**294.0**	224.3
Bank overdrafts		**0.7**	1.3
Cash and cash equivalents per Balance Sheet		**294.7**	225.6
Borrowings – current liabilities	17	**(156.4)**	(1.5)
Borrowings – non-current liabilities	17	**(1,345.1)**	(1,446.8)
Net debt at 31 December		**(1,206.8)**	(1,222.7)

Details of the offsetting of overdrafts with cash and cash equivalents and other financial instruments can be found in note 14.

Reconciliation of movements in net debt

£m	2015	2014
Net debt at 1 January	**(1,222.7)**	(453.4)
Increase in cash and cash equivalents in the year per Cash Flow Statement	**82.9**	56.5
New borrowings	**(257.9)**	(1,467.5)
Repayment of borrowings	**271.0**	699.9
Exchange movements	**(80.1)**	(58.2)
Net debt at 31 December	**(1,206.8)**	(1,222.7)

10. Intangible assets

£m	Goodwill	Customer relationships (Arising on business combinations)	Technology based assets (Arising on business combinations)	Order book and trade names (Arising on business combinations)	Development costs	Software and other	Total
Cost							
At 1 January 2014	874.5	302.9	166.6	45.8	2.1	51.5	1,443.4
Additions	–	–	–	–	–	12.9	12.9
Recognised on business combinations (as restated)	429.7	307.7	189.8	16.4	–	1.1	944.7
Disposals and derecognitions	–	(20.4)	–	–	–	(1.8)	(22.2)
Foreign exchange adjustments (as restated)	24.5	12.6	2.2	0.8	(0.1)	0.8	40.8
Reclassifications	–	–	–	–	–	3.4	3.4
At 1 January 2015 (as restated)	**1,328.7**	**602.8**	**358.6**	**63.0**	**2.0**	**67.9**	**2,423.0**
Additions	–	–	–	–	–	**16.9**	**16.9**
Business divestments	**(65.9)**	**(49.1)**	**(12.0)**	–	–	**(0.6)**	**(127.6)**
Reclassified as held for sale	**(81.3)**	**(11.0)**	**(7.5)**	–	–	**(3.3)**	**(103.1)**
Derecognitions	–	**(13.7)**	**(65.7)**	**(15.3)**	**(1.7)**	**(2.1)**	**(98.5)**
Foreign exchange adjustments	**19.1**	**16.2**	**5.1**	**0.5**	–	**0.3**	**41.2**
Reclassifications	–	–	–	–	–	**0.4**	**0.4**
At 31 December 2015	**1,200.6**	**545.2**	**278.5**	**48.2**	**0.3**	**79.5**	**2,152.3**
Accumulated amortisation and impairment							
At 1 January 2014	63.0	108.2	77.7	8.5	1.1	22.7	281.2
Amortisation charge for the year	–	50.3	47.5	15.8	0.6	4.2	118.4
Disposals and derecognitions	–	(20.4)	–	–	–	(1.7)	(22.1)
Foreign exchange adjustments	–	3.5	(1.2)	–	–	0.6	2.9
Reclassifications	–	–	–	–	–	1.8	1.8
At 1 January 2015	**63.0**	**141.6**	**124.0**	**24.3**	**1.7**	**27.6**	**382.2**
Amortisation charge for the year	–	**82.2**	**63.2**	**31.4**	**0.2**	**3.8**	**180.8**
Eliminated on business divestments	–	**(10.9)**	**(5.5)**	–	–	**(0.4)**	**(16.8)**
Impairment provision	**71.4**	–	**1.2**	–	–	**1.2**	**73.8**
Reclassified as held for sale	**(81.3)**	**(11.0)**	**(7.5)**	–	–	**(3.3)**	**(103.1)**
Derecognitions	–	**(13.7)**	**(65.7)**	**(15.3)**	**(1.7)**	**(2.1)**	**(98.5)**
Foreign exchange adjustments	**0.3**	**5.1**	**(1.4)**	**0.1**	**(0.1)**	**0.4**	**4.4**
At 31 December 2015	**53.4**	**193.3**	**108.3**	**40.5**	**0.1**	**27.2**	**422.8**
Carrying amount							
At 31 December 2015	**1,147.2**	**351.9**	**170.2**	**7.7**	**0.2**	**52.3**	**1,729.5**
At 31 December 2014 (as restated)	1,265.7	461.2	234.6	38.7	0.3	40.3	2,040.8
At 1 January 2014	811.5	194.7	88.9	37.3	1.0	28.8	1,162.2

Amortisation charged during the year relating to intangible assets recognised on business combinations was £176.8m (2014: £113.6m). This has been excluded from underlying profit in note 2. All amortisation charges are included within administrative expenses in the Income Statement.

During the year £44.8m of goodwill related to the Surveillance businesses was impaired and these businesses were then transferred to held for sale. An impairment provision of £26.6m was also created during the year representing the goodwill held for the Telerob business within the Mission Systems Sector, based on the results of the annual impairment review.

Customer relationships represents customer lists, customer contracts and the associated benefits of customer relationships recognised on acquisition. Technology based assets represent trade secrets and processes, patented and unpatented technology, and know-how recognised on acquisition. Other intangible assets represent purchased patents, licences and trademarks. Intangible assets recognised on business combinations are derecognised when they have been fully amortised.

Goodwill and annual impairment review

Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised, such as the value of the workforce, and is the only indefinite life intangible asset held by the Group.

The Group reviews goodwill for potential impairment of each cash generating unit (CGU) annually, or more frequently if there are indications that goodwill might be impaired. CGUs are typically considered to be Business Units.

The recoverable amounts of the CGUs are determined from value in use calculations unless specific conditions at a CGU dictate otherwise. Businesses held for sale are assessed for impairment using expected net proceeds of divestment.

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

- Cash flow forecasts for the following five years prepared as part of the annual strategic planning process and approved by management, updated where appropriate for more recent forecasts. These forecasts take into account the current and expected economic environment including factors such as the continued uncertainty within certain markets in which we operate. The growth rates assume that demand for the Group's products in the US and in the UK remains broadly in line with the underlying economic environment and a recovery from the current weakness in the Marine SATCOM market. They also assume the realisation of planned synergy benefits from the committed integration plans for the Aeroflex businesses. Taking into account the expectation of future market conditions, management believe that the evolution of selling prices and direct costs will reflect past practices;
- Growth rates assumed after this five year period are based on long term GDP projections of the primary market for the CGU. The long term projections used are in the range 1.2% to 2.5% (2014: 1.5% to 2.0%);
- Cash flows are discounted using the Group's WACC, adjusted for country and currency risks in the principal territories in which the Group operates. These pre-tax discount rates are within the range 9.2% to 11.0% (2014: 8.3% to 10.5%);
- Cash flows include the impact of working capital and fixed asset requirements; and
- Cash flows include management charges which allocate central overheads to the CGUs.

The Directors consider CGUs to be individually significant where the goodwill allocated to a CGU represents more than 10% of the Group's total carrying value of goodwill. These CGUs, representing 71% of total goodwill, are as follows:

CGU	Operating segment	Goodwill carrying value £m	Headroom £m	Pre-tax discount rate	Projected 5 year growth rate	Projected GDP growth rate
Integrated Electronic Solutions	Advanced Electronic Solutions	220	131	9.6%	11.0%	1.9%
Semiconductor Solutions	Advanced Electronic Solutions	215	5	9.6%	14.0%	1.9%
SATCOM	Communications and Connectivity	222	288	9.4%	13.0%	1.4%
Wireless	Communications and Connectivity	153	198	9.3%	7.0%	2.0%

Sensitivity analysis has been performed on these CGUs. Semiconductor Solutions forms part of the Aeroflex business acquired in 2014 and therefore is initially expected to have low headroom. For this CGU impairment losses would be £99m if the discount rate was increased to 11.5%, £68m if the growth rate was zero and £93m if cash flows reduced by 20%. No impairment losses would arise on any of the other significant CGUs under these flexed assumptions. If the integration of the other Aeroflex businesses is not successfully implemented resulting in lower than assumed synergy benefits then the headroom in these CGUs would be significantly reduced. Sensitivity analysis included considering the current market weakness in Marine SATCOM and, assuming that the market returns to expected levels within the next five years, no impairment provision would be required. The Directors have not identified any other likely changes in other significant assumptions that would cause the carrying value of recognised goodwill to exceed its recoverable amount.

11. Property, plant and equipment

£m	Land and buildings: Freehold	Land and buildings: Long leases	Land and buildings: Short leases	Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Payments on account and assets under construction	Total
Cost							
At 1 January 2014	88.4	32.1	6.6	605.8	87.7	19.4	840.0
Additions	0.7	0.7	1.6	37.1	8.4	15.1	63.6
Acquired with business combinations	11.3	3.0	0.5	29.7	2.9	1.2	48.6
Disposals	(0.8)	(2.1)	(0.4)	(16.0)	(6.0)	–	(25.3)
Foreign exchange adjustments	1.9	0.9	0.4	(0.2)	0.7	0.6	4.3
Reclassifications	3.6	0.8	(0.2)	5.5	0.1	(13.2)	(3.4)
At 1 January 2015	**105.1**	**35.4**	**8.5**	**661.9**	**93.8**	**23.1**	**927.8**
Additions	**2.7**	**1.2**	**0.3**	**77.2**	**4.0**	**13.6**	**99.0**
Business divestments	**(7.0)**	**(1.0)**	**(5.1)**	**(24.4)**	**(5.5)**	**(0.2)**	**(43.2)**
Disposals	**(9.9)**	**(2.3)**	–	**(24.4)**	**(4.0)**	–	**(40.6)**
Reclassified as held for sale	**(0.4)**	**(2.1)**	**(0.1)**	**(9.7)**	**(5.9)**	–	**(18.2)**
Foreign exchange adjustments	**1.9**	**0.9**	**0.3**	**(5.8)**	**0.4**	**0.7**	**(1.6)**
Reclassifications	**1.3**	–	–	**5.4**	**1.4**	**(9.5)**	**(1.4)**
At 31 December 2015	**93.7**	**32.1**	**3.9**	**680.2**	**84.2**	**27.7**	**921.8**
Accumulated depreciation							
At 1 January 2014	28.0	14.5	5.3	377.5	63.9	–	489.2
Depreciation charge for the year	3.4	4.5	1.0	52.0	11.2	–	72.1
Eliminated on disposals	(0.4)	(1.9)	(0.4)	(14.9)	(5.8)	–	(23.4)
Foreign exchange adjustments	0.5	0.5	0.4	–	0.3	–	1.7
Reclassifications	–	0.3	(0.1)	(0.1)	(1.9)	–	(1.8)
At 1 January 2015	**31.5**	**17.9**	**6.2**	**414.5**	**67.7**	–	**537.8**
Depreciation charge for the year	**4.1**	**2.7**	**0.7**	**61.0**	**4.5**	–	**73.0**
Eliminated on business divestments	**(2.9)**	–	**(4.3)**	**(12.8)**	**(3.4)**	–	**(23.4)**
Eliminated on disposals	**(2.7)**	**(2.1)**	–	**(21.6)**	**(3.9)**	–	**(30.3)**
Reclassified as held for sale	**(0.2)**	**(0.8)**	–	**(7.2)**	**(5.8)**	–	**(14.0)**
Foreign exchange adjustments	**0.5**	**0.5**	–	**(2.5)**	**(0.1)**	–	**(1.6)**
Reclassifications	**0.3**	**(0.1)**	–	**(0.6)**	**0.8**	–	**0.4**
At 31 December 2015	**30.6**	**18.1**	**2.6**	**430.8**	**59.8**	–	**541.9**
Carrying amount							
At 31 December 2015	**63.1**	**14.0**	**1.3**	**249.4**	**24.4**	**27.7**	**379.9**
At 31 December 2014	73.6	17.5	2.3	247.4	26.1	23.1	390.0
At 1 January 2014	60.4	17.6	1.3	228.3	23.8	19.4	350.8

At 31 December 2015, the Group had commitments for the acquisition of property, plant and equipment of £29.3m (2014: £48.5m).

12. Investment properties

£m	2015	2014
Carrying amount at 1 January	**10.4**	9.9
Acquired with business combinations	–	0.8
Disposals	**(6.0)**	(0.3)
Depreciation	**(0.2)**	(0.3)
Foreign exchange adjustments	**0.1**	0.3
Carrying amount at 31 December	**4.3**	10.4

The fair value of the Group's remaining investment properties has been assessed to be £6.6m (2014: £13.9m). For 2015 and 2014, these values are based on Directors' estimates using observable market data, taking into account current lease terms.

Property rental income earned by the Group from its investment properties amounted to £1.2m (2014: £1.4m), which is net of all direct costs associated with the leasing of the properties except depreciation. The buildings are leased to commercial users on operating leases with terms of 10, 11 and 25 years which commenced between 1998 and 2013.

13. Inventories

£m	2015	2014 Restated
Raw materials and consumables	**187.2**	191.8
Work in progress	**220.1**	221.4
Finished goods and goods for resale	**51.9**	66.4
Allowance for obsolescence	**(48.8)**	(50.1)
	410.4	429.5

Work in progress includes £58.5m (2014: £59.9m) which relates to customer funded engineering development contracts.

During the year £18.5m (2014: £17.4m) was provided, £4.6m (2014: £9.3m) was utilised and £10.5m (2014: £8.1m) of the allowance for obsolescence was reversed. This allowance is reviewed by management on a regular basis and further amounts are provided or released as considered necessary. The amounts are generally determined based on factors which include ageing and known demand. Subsequent events may give rise to these estimates being revised and, consequently, to the reversal of amounts previously provided.

Inventory will be realised within the normal operating cycle of the businesses. Within the Mission Systems segment, inventory relating to long term contracts expected to be realised after more than 12 months amounts to £17.1m (2014: £18.1m).

14. Financial instruments

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

£m	Note	Loans and receivables	Fair value through profit or loss	Amortised cost	Derivatives used for hedging	Total carrying amount	Fair value
Financial assets							
Trade receivables	15	**286.3**	–	–	–	**286.3**	**286.3**
Other receivables	15	**114.7**	–	–	–	**114.7**	**114.7**
Cash and cash equivalents	9	**294.7**	–	–	–	**294.7**	**294.7**
Derivative contracts (not hedge accounted)	21	–	**11.2**	–	–	**11.2**	**11.2**
Other financial assets		–	–	**6.1**	–	**6.1**	**6.1**
Financial liabilities							
Borrowings	17	–	–	**(1,501.5)**	–	**(1,501.5)**	**(1,604.1)**
Trade payables	18	–	–	**(145.9)**	–	**(145.9)**	**(145.9)**
Accruals	18	–	–	**(121.7)**	–	**(121.7)**	**(121.7)**
Other financial liabilities	18	–	–	**(42.6)**	–	**(42.6)**	**(42.6)**
Derivative contracts (not hedge accounted)	21	–	**(40.2)**	–	–	**(40.2)**	**(40.2)**
Hedging instruments							
Assets	21	–	–	–	**4.4**	**4.4**	**4.4**
Liabilities	21	–	–	–	**(4.3)**	**(4.3)**	**(4.3)**
Net financial liabilities at 31 December 2015						**(1,138.8)**	**(1,241.4)**
Financial assets							
Trade receivables	15	331.4	–	–	–	331.4	331.4
Other receivables (as restated)	15	117.4	–	–	–	117.4	117.4
Cash and cash equivalents	9	225.6	–	–	–	225.6	225.6
Derivative contracts (not hedge accounted)	21	–	13.6	–	–	13.6	13.6
Other financial assets		–	–	6.1	–	6.1	6.1
Financial liabilities							
Borrowings	17	–	–	(1,448.3)	–	(1,448.3)	(1,549.1)
Trade payables	18	–	–	(145.0)	–	(145.0)	(145.0)
Accruals (as restated)	18	–	–	(135.2)	–	(135.2)	(135.2)
Other financial liabilities	18	–	–	(103.8)	–	(103.8)	(103.8)
Derivative contracts (not hedge accounted)	21	–	(32.9)	–	–	(32.9)	(32.9)
Hedging instruments							
Assets	21	–	–	–	2.7	2.7	2.7
Liabilities	21	–	–	–	(3.3)	(3.3)	(3.3)
Net financial liabilities at 31 December 2014 (as restated)						(1,171.7)	(1,272.5)

Borrowings are held at amortised cost which equates to fair value except for the Group's fixed rate borrowings. At 31 December 2015 the fair value of those borrowings was £976.1m (2014: £926.5m) compared to their book value of £873.5m (2014: £825.7m). The fair value of the fixed rate borrowings and derivative financial instruments have been determined by reference to observable market prices and rates.

Other financial assets relate to Cobham plc's investments in connection with the Voyager (FSTA) project which are held at cost, totalling £6.1m (2014: £6.1m).

Gains and losses on financial assets and liabilities held at fair value through profit or loss are shown in note 21. The total interest income and expense for financial assets and liabilities not held at fair value through profit or loss is as shown in note 5.

Offsetting financial assets and liabilities

Cash and cash equivalents as shown in the Balance Sheet include overdraft balances on currency cash pooling accounts which have been offset as the accounts will be settled on a net basis as described in note 23. Master netting agreements also cover all bank balances and derivative balances with the same counterparty. These do not meet the criteria for offsetting because the right to offset is only enforceable on the occurrence of future events such as a default and amounts presented in the Balance Sheet are therefore presented on a gross basis.

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

£m	Gross amounts before set off	Amounts set off in the Balance Sheet	Amounts as presented in the Balance Sheet	Amounts not set off in the Balance Sheet	Net amount
Financial assets					
Cash and cash equivalents	**778.8**	**(484.1)**	**294.7**	**(6.1)**	**288.6**
Derivative financial assets	**15.6**	–	**15.6**	**(12.8)**	**2.8**
Financial liabilities					
Bank overdrafts	**(484.8)**	**484.1**	**(0.7)**	**0.7**	–
Derivative financial liabilities	**(44.5)**	–	**(44.5)**	**18.2**	**(26.3)**
At 31 December 2015	**265.1**	–	**265.1**	–	**265.1**
Financial assets					
Cash and cash equivalents	250.6	(25.0)	225.6	(3.3)	222.3
Derivative financial assets	16.3	–	16.3	(14.6)	1.7
Financial liabilities					
Bank overdrafts	(26.3)	25.0	(1.3)	1.3	–
Derivative financial liabilities	(36.2)	–	(36.2)	16.6	(19.6)
At 31 December 2014	204.4	–	204.4	–	204.4

15. Trade and other receivables

Current

£m	2015	2014 Restated
Trade receivables (net of provision for impairment)	286.3	331.4
Accrued income	28.1	47.7
Loans and other receivables	15.3	18.6
Prepayments	36.3	37.6
	366.0	435.3

Non-current

£m	2015	2014 Restated
Accrued income	37.8	20.4
Loans and other receivables	33.5	30.7
	71.3	51.1

Impairment of trade receivables

£m	2015	2014
Trade receivables	289.6	334.1
Provision for impairment of trade receivables	(3.3)	(2.7)
Net trade receivables	286.3	331.4

A significant proportion of the Group's business is directly with government agencies or in respect of large government funded military programmes, where credit risk is considered to remain low. Information concerning management of credit risk is shown in note 23. Movements in the provision for impairment of trade receivables during the current and prior year were not individually significant.

The credit quality of trade receivables can be analysed as follows:

£m	2015	2014
Amounts not yet due and not impaired	219.0	258.8
Amounts past due but not impaired	64.8	71.3
Amounts for which full or partial impairment provision has been made	5.8	4.0
	289.6	334.1

Trade receivables which are past due but not considered by management to be impaired are aged as follows:

£m	2015	2014
Less than 1 month overdue	41.2	44.1
1 month overdue	11.8	12.1
2 months overdue	5.0	5.6
3 or more months overdue	6.8	9.5
	64.8	71.3

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

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

During the second half of 2015, a decision was made to divest the Group's Surveillance businesses, part of the Communications and Connectivity Sector, and this was completed on 15 January 2016. Accordingly, the following assets and liabilities have been classified as held for sale in the Balance Sheet as at 31 December 2015 and are measured on a non-recurring basis at fair value, based on the agreed selling price of US$10m less costs to sell:

£m	2015	2014
Property, plant and equipment	–	2.1
Inventories	3.9	–
Trade and other receivables	12.9	–
Total assets classified as held for sale	16.8	2.1
Trade payables and other liabilities	(11.5)	–
Provisions	(1.2)	–
Total liabilities associated with assets classified as held for sale	(12.7)	–
Total non-current assets and disposal groups held for sale	4.1	2.1

17. Borrowings

£m	2015	2014
Bank overdrafts	0.7	1.3
Bank loans	100.7	–
Senior notes	54.9	–
Finance leases	0.1	0.2
Total current borrowings	156.4	1.5
Bank loans	471.8	569.8
Senior notes	872.9	877.0
Finance leases	0.4	–
Total non-current borrowings	1,345.1	1,446.8
Total borrowings	1,501.5	1,448.3

The Group's principal borrowings include bank overdrafts, bank loans and senior notes. Bank overdrafts are repayable on demand and accrue interest at floating rates. Bank loans comprise the following:

			Amount drawn		Undrawn facilities	
£m	Agreement date	Maturity date	2015	2014	2015	2014
Fixed rates						
US$75m credit agreement	December 2008	December 2016	50.9	48.1	–	–
Floating rates						
US$360m multi-currency revolving credit agreement comprising:	October 2011					
US$90m		October 2016	49.8	45.8	11.4	11.9
US$270m		October 2018	149.1	137.5	34.1	35.7
EUR70m multi-currency revolving facility	June 2012	October 2018	41.6	52.2	10.0	2.1
DKK525m multi-currency revolving facility	June 2012	October 2018	–	18.1	51.8	36.6
AUS$90m multi-currency revolving facility	February 2014	October 2018	29.0	30.8	15.4	16.4
Acquisition finance facility	May 2014	May 2016	–	237.3	–	–
US$185m facility agreement	May 2015	October 2018	125.5	–	–	–
EUR131m and US$40m loan agreements	May 2015	May 2020	123.7	–	–	–
EUR4m loan agreement	May 2015	May 2022	2.9	–	–	–
			572.5	569.8	122.7	102.7

Floating rate bank loans accrue interest at LIBOR or other appropriate benchmark plus margin.

The acquisition finance facility originally drawn in September 2014 was partially repaid in October 2014 and fully repaid in May 2015, funded by new floating rate Euro and US dollar loans.

Under the US$75m agreement, which expires in 2031, the lender has a series of put options exercisable every three years from December 2016.

Senior notes with a total principal value of US$1,367.5m (2014: US$1,367.5m) are outstanding as set out below:

£m	Issue date	Maturity date	2015	2014
US$81m fixed rate	March 2009	March 2016	54.9	51.9
US$50m floating rate	May 2010	May 2017	33.9	32.1
US$105m floating rate	January 2010	February/March 2018	71.2	67.3
US$157.5m fixed rate	March 2009	March 2019	106.9	101.0
US$44m fixed rate	October 2012	October 2020	29.9	28.3
US$930m fixed rate comprising:	October 2014			
US$75m		October 2017	50.9	48.1
US$180m		October 2019	122.1	115.4
US$250m		October 2021	169.7	160.3
US$425m		October 2024	288.3	272.6
			927.8	877.0

The loan and note subscription agreements include both financial and non-financial covenants but do not contain any provisions for charges over Group assets. The terms of the financial covenants are based on adjusted IFRS results and are shown on page 29. There have been no breaches of the terms of agreements or defaults during the current or comparative periods.

18. Trade and other payables

Current liabilities

£m	2015	2014 Restated
Payments received on account	59.4	82.2
Trade payables	145.9	145.0
Other taxes and social security	23.5	31.7
Deferred income	12.8	21.1
Accruals	117.8	130.4
Amounts outstanding on purchase of shares of Aeroflex Holding Corp.	–	51.3
Other liabilities	38.7	43.8
	398.1	505.5

Non-current liabilities

£m	2015	2014
Payments received on account	5.2	8.6
Deferred income	11.8	13.9
Accruals	3.9	4.8
Other liabilities	3.9	8.9
	24.8	36.2

19. Provisions

£m	2015	2014 Restated
Current liabilities	**74.3**	60.5
Non-current liabilities	**68.2**	66.5
	142.5	127.0

Movements in provisions during the year are as follows:

£m	Provisions related to businesses divested	Restructuring provisions	Warranty claims	Contract loss provisions	Aircraft maintenance provisions	Other	Total
At 1 January 2015 (as restated)	**10.8**	**46.4**	**12.1**	**30.2**	**3.2**	**24.3**	**127.0**
Additional provisions in the year	**4.7**	**17.2**	**5.3**	**11.7**	**2.9**	**7.9**	**49.7**
Reclassified as held for sale	–	–	**(0.1)**	–	–	**(1.1)**	**(1.2)**
Utilisation of provisions	–	**(5.3)**	**(5.6)**	**(16.9)**	**(0.8)**	**(5.7)**	**(34.3)**
Unused amounts reversed in the year	–	**(0.3)**	**(1.0)**	**(0.4)**	**(1.6)**	**(0.3)**	**(3.6)**
Disposed with undertakings	–	–	**(0.4)**	–	–	**(0.6)**	**(1.0)**
Reclassifications	–	–	–	**2.1**	**0.2**	**(0.3)**	**2.0**
Foreign exchange adjustments	–	**2.9**	**(0.1)**	**0.1**	**(0.2)**	**1.2**	**3.9**
At 31 December 2015	**15.5**	**60.9**	**10.2**	**26.8**	**3.7**	**25.4**	**142.5**

Provisions related to businesses divested include amounts related to divestments completed in 2015 and longer term warranties given on divestments completed in 2005. Due to uncertainties surrounding the timing of settlement of these items, they have been disclosed as current liabilities.

Restructuring provisions mainly relate to announced business restructuring in connection with the integration of Aeroflex into the Cobham Group. These are generally expected to be utilised within one year although the balance includes IT provisions expected to be utilised in the next three years and onerous lease provisions which are not expected to be fully settled until 2025.

Provisions for warranty claims and contract losses are generally expected to be utilised within one year.

Aircraft maintenance provisions relate to significant periodic maintenance costs as well as return conditions for leased aircraft and are anticipated to crystallise in the next six years. Other provisions include amounts provided in respect of legal claims and environmental obligations and are mostly expected to be settled within one year.

20. Deferred tax

£m	2015	2014 Restated
Deferred tax assets	**(11.4)**	(10.5)
Deferred tax liabilities	**102.0**	134.5
	90.6	124.0

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

£m	Intangible assets	Property, plant and equipment	Retirement benefit obligations	Other	Total
At 1 January 2014	73.5	18.3	(18.4)	(30.4)	43.0
(Credit)/charge to income statement	(19.1)	4.3	2.6	(24.8)	(37.0)
(Credit)/charge to OCI	–	–	(4.7)	0.6	(4.1)
Credit to reserves	–	–	–	(0.9)	(0.9)
Business combinations (as restated)	157.1	0.1	–	(35.8)	121.4
Business divestments	(0.7)	–	–	–	(0.7)
Foreign exchange adjustments (as restated)	5.4	0.9	–	(4.0)	2.3
At 1 January 2015 (as restated)	**216.2**	**23.6**	**(20.5)**	**(95.3)**	**124.0**
(Credit)/charge to income statement	**(37.0)**	**(18.0)**	**3.3**	**20.6**	**(31.1)**
Charge to OCI	–	–	**5.9**	**0.4**	**6.3**
Charge to reserves	–	–	–	**1.5**	**1.5**
Business divestments	**(11.0)**	**(0.6)**	–	**(0.8)**	**(12.4)**
Foreign exchange adjustments	**6.9**	–	–	**(3.9)**	**3.0**
Reclassifications	–	–	–	**(0.7)**	**(0.7)**
At 31 December 2015	**175.1**	**5.0**	**(11.3)**	**(78.2)**	**90.6**

Other deferred tax assets and liabilities shown above include balances arising from temporary differences in relation to provisions, accruals, deferred compensation, share based payments and derivative financial instruments.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances (after offset) for balance sheet purposes are analysed as follows:

£m	2015	2014 Restated
Deferred tax liabilities fall due:		
Within one year	**25.8**	6.6
After one year	**76.2**	127.9
	102.0	134.5
Deferred tax assets are recoverable:		
Within one year	**(8.5)**	(7.1)
After one year	**(2.9)**	(3.4)
	(11.4)	(10.5)

Without taking into consideration the offsetting of balances, deferred tax balances are as follows:

£m	Intangible assets	Property, plant and equipment	Retirement benefit obligations	Other	Total
Deferred tax assets	–	**(5.1)**	**(11.3)**	**(101.6)**	**(118.0)**
Deferred tax liabilities	**175.1**	**10.1**	–	**23.4**	**208.6**
At 31 December 2015	**175.1**	**5.0**	**(11.3)**	**(78.2)**	**90.6**
Deferred tax assets	–	(1.5)	(20.5)	(105.3)	(127.3)
Deferred tax liabilities	216.2	25.1	–	10.0	251.3
At 31 December 2014 (as restated)	216.2	23.6	(20.5)	(95.3)	124.0

At the balance sheet date, the Group has unused capital losses of £63.0m (2014: £66.0m) potentially available for offset against future capital profits in certain circumstances. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future qualifying profit streams. These losses can be carried forward indefinitely.

The unprovided tax on unremitted earnings as at 31 December 2015 is considered to be immaterial.

The rate of UK corporation tax will reduce from 20% to 19% from 1 April 2017. As this had been substantively enacted prior to 31 December 2015, 19% has been used to calculate UK deferred taxes where the liability is expected to crystallise after 1 April 2017.

21. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
Non-current assets	–	6.5	–	6.5
Current assets	–	9.1	–	9.1
Current liabilities	(0.5)	(28.9)	(1.2)	(30.6)
Non-current liabilities	(1.8)	(10.9)	(1.2)	(13.9)
Fair value at 31 December 2015	(2.3)	(24.2)	(2.4)	(28.9)
Non-current assets	–	7.6	–	7.6
Current assets	–	8.7	–	8.7
Current liabilities	(0.7)	(19.2)	(0.8)	(20.7)
Non-current liabilities	(2.6)	(10.7)	(2.2)	(15.5)
Fair value at 31 December 2014	(3.3)	(13.6)	(3.0)	(19.9)

The movements in the fair values of derivative financial instruments during the year are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
At 1 January 2014	(3.2)	6.3	(3.4)	(0.3)
(Loss)/gain through income statement – not hedged	–	(22.6)	0.3	(22.3)
Gain reclassified to income statement	1.3	–	–	1.3
(Loss)/gain through OCI – hedged items	(1.4)	2.9	–	1.5
Foreign exchange adjustments	–	(0.2)	0.1	(0.1)
At 1 January 2015	(3.3)	(13.6)	(3.0)	(19.9)
(Loss)/gain through income statement – not hedged	–	(10.9)	0.4	(10.5)
Gain reclassified to income statement	1.1	–	–	1.1
Loss through OCI – hedged items	(0.3)	(0.3)	–	(0.6)
Foreign exchange adjustments	0.2	0.6	0.2	1.0
At 31 December 2015	(2.3)	(24.2)	(2.4)	(28.9)

Interest rate swaps are designated as cash flow hedging instruments and hedge accounting is applied. In addition, a small number of specific foreign exchange derivatives with a fair value at 31 December 2015 of £2.4m (2014: £2.7m) are designated as cash flow hedging instruments or as hedging instruments for net investment hedging purposes, and hedge accounting is applied. There is no material ineffectiveness in cash flow hedges to be reported through the Income Statement.

The majority of foreign exchange and inflation derivatives are not accounted for using hedge accounting. Movements in fair values are recorded in the Income Statement within administrative expenses and are excluded from underlying profit in note 2. Also excluded from underlying profit are losses of £8.3m (2014: gain £0.5m) arising from the movement in fair values of currency swaps which offset movements in currency balances held, and gains and losses arising on foreign exchange derivatives related to dividend flows within the Group.

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the accounting policies in note 1 and in note 23, financial risk management.

22. Retirement benefit schemes

Retirement benefit obligations per the Balance Sheet consist of:

£m	2015	2014
Defined benefit scheme assets	663.9	670.6
Defined benefit obligations	(720.6)	(772.6)
	(56.7)	(102.0)

Pension expense included in employment costs in note 4 are as follows:

£m	2015	2014
Defined benefit schemes	2.7	5.5
Defined contribution schemes	28.1	25.5
	30.8	31.0

The Group operates a number of funded defined benefit schemes (where benefits are based on employees' length of service and average final salary), the most significant being the Cobham Pension Plan (CPP). The assets of all of these schemes are held separately from those of the Group in funds under the control of trustees. All defined benefit schemes have been closed to new members since 2003 and the UK schemes will be closed to future accrual from 1 April 2016. The Group also manages a number of defined contribution pension arrangements, where the Group's contribution is fixed at a set percentage of employees' pay.

The defined benefit schemes expose the Group to a number of risks, as described below:

– Volatility of investment returns. If the investment return is lower than the discount rate set with reference to corporate bond yields then the scheme deficit will increase;
– Inflation risk. Pensionable salaries, deferred pensions and pensions in payment are subject to inflationary increases. A higher inflation rate will lead to higher defined benefit obligations;
– Changes in bond yields. Volatility in the financial markets can have a significant impact on corporate bond yields which are used to generate a discount rate assumption. Lower corporate bond yields will lead to higher defined benefit obligations;
– Life expectancy risk. The schemes' obligations are to provide benefits for the life of the member and therefore increases in life expectancy will lead to higher defined benefit obligations.

The trustees seek to mitigate these risks and have invested in liability driven investments that mitigate bond yield, inflation and investment risks. The remaining assets include significant investment in diversified growth funds which seek to manage investment risks. In addition there have been a number of buy-in arrangements where assets are transferred to an insurance company in return for a qualifying insurance policy which provides an income stream equivalent to the obligations to pensioners covered by the arrangement. The most significant buy-in arrangement relates to pensioners of the CPP as at 1 July 2013. The insurance contract assets are measured at a value equal to the related liabilities, mitigating the risks associated with those liabilities.

Actuarial valuations of the present value of the defined benefit obligations for the CPP are carried out on a triennial basis by qualified independent actuaries; the most recent valuation was as at 1 April 2015. This involves a detailed review of membership movements and generated experience gains of £12.2m recognised in the year. Actuarial valuations of other schemes have been carried out at regular intervals as required by the applicable country regulations. The actuarial valuations were updated by qualified independent actuaries for accounting purposes to 31 December 2015. In the UK, within 15 months of each triennial valuation, the employer and the trustees are required to agree a schedule of contributions to ensure that the Plan is fully funded over time on a suitably prudent basis. The Group expects to contribute £19.1m to its defined benefit pension schemes in 2016 and £18.4m in 2017. This includes £17.6m (2017: £17.6m) related to deficit funding.

In November 2015, following member consultation, it was agreed that the CPP will be closed to future accrual from 1 April 2016. This has resulted in the recognition of curtailment gains amounting to £9.8m in the Income Statement. This is partly offset by increased commutation factors, of £7.1m, recognised as a past service cost. £1.5m of curtailment gains arose from the Group's restructuring activity and has been treated as non-underlying.

There were no significant contributions outstanding at the end of 2015 or 2014 for the defined benefit schemes. £0.7m (2014: £1.3m) was outstanding in respect of defined contribution schemes but not due for payment at 31 December 2015.

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

	2015		2014	
	UK schemes	**USA scheme**	UK schemes	USA scheme
Rate of increase in salary costs	**3.45%**	**3.45%**	3.45%	3.45%
Rate of increase in pensions in payment unless overridden by specific scheme rules	**3.20%**	**3.20%**	3.20%	3.20%
Rate of increase in deferred pensions	**2.20%**	**3.20%**	2.20%	3.20%
Discount rate	**3.80%**	**4.13%**	3.50%	3.50%
Inflation assumption	**3.20%**	**3.20%**	3.20%	3.20%

The mortality assumptions used for the CPP are based upon actuarial tables which reflect actual recent mortality experience and also allow for future mortality improvements. The mortality tables used to estimate life expectancy are known as 'SAPS CMI 14' (2014: SAPS CMI 13). In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Further life expectancy
Male	1950	2015	22.8 years
Female	1950	2015	24.8 years
Male	1980	2045	25.6 years
Female	1980	2045	27.7 years

At 31 December 2015 it has been assumed that members will commute on average 25% (2014: 20%) of their pension for cash at retirement.

The sensitivity of scheme liabilities to changes in certain key assumptions, after adjusting for liabilities covered by insurance contracts, is provided below:

	Change in assumption	Change in liabilities
Discount rate	Increase by 0.5%	-4%
Inflation rate	Increase by 0.5%	+3%
Life expectancy	Increase by 1 year	+2%

If the change in assumptions were in the opposite direction to that shown above, the impact would be approximately symmetrical.

A summary of the movements in the net liability and the amounts recognised in the Income Statement and OCI are as follows:

£m	2015 Scheme assets	2015 Defined benefit obligations	2015 Total	2014 Scheme assets	2014 Defined benefit obligations	2014 Total
Current service cost included in administrative expenses	–	(6.9)	(6.9)	–	(5.5)	(5.5)
Past service cost included in administrative expenses	–	(7.1)	(7.1)	–	–	–
Gain on curtailment included in administrative expenses	–	9.8	9.8	–	–	–
Gain on curtailment included in business restructuring	–	1.5	1.5	–	–	–
Scheme administration expenses	(0.7)	–	(0.7)	(0.6)	–	(0.6)
Amounts recognised in operating profit	(0.7)	(2.7)	(3.4)	(0.6)	(5.5)	(6.1)
Net interest	23.5	(26.6)	(3.1)	26.0	(29.6)	(3.6)
Amounts credited/(charged) to other finance expense	23.5	(26.6)	(3.1)	26.0	(29.6)	(3.6)
Actual return less interest income on pension scheme assets	(26.3)	–	(26.3)	65.2	–	65.2
Experience gains arising on scheme liabilities	–	12.2	12.2	–	0.1	0.1
Actuarial gains and losses arising from changes in financial assumptions	–	38.1	38.1	–	(96.3)	(96.3)
Actuarial gains and losses arising from changes in demographic assumptions	–	5.6	5.6	–	3.3	3.3
Amounts recognised in OCI	(26.3)	55.9	29.6	65.2	(92.9)	(27.7)
Employer contributions	22.7	–	22.7	23.0	–	23.0
Member contributions	1.8	(1.8)	–	2.6	(2.6)	–
Benefits paid	(28.7)	28.7	–	(24.2)	24.2	–
Amounts included in Cash Flow Statement	(4.2)	26.9	22.7	1.4	21.6	23.0
Exchange differences	1.0	(1.5)	(0.5)	1.0	(1.3)	(0.3)
Net movement in the year	(6.7)	52.0	45.3	93.0	(107.7)	(14.7)
Net liability at start of year	670.6	(772.6)	(102.0)	577.6	(664.9)	(87.3)
Net liability at end of year	663.9	(720.6)	(56.7)	670.6	(772.6)	(102.0)
UK schemes	649.2	(692.8)	(43.6)	653.3	(745.2)	(91.9)
US scheme	14.7	(27.8)	(13.1)	17.3	(27.4)	(10.1)
Net liability at end of year	663.9	(720.6)	(56.7)	670.6	(772.6)	(102.0)

The cumulative amount of actuarial losses recognised in OCI since transition to IFRS is £206.2m (2014: £235.8m). Of the actuarial losses recognised in the year, the changes in financial assumptions are primarily driven by the movements in the discount rate.

The actual return on scheme assets was a loss of £2.8m (2014: £91.1m gain). The weighted average duration of the scheme liabilities is estimated to be 18 years. The fair value of major categories of scheme assets, and as a percentage of total scheme assets, is as follows:

	2015 £m	2015 %	2014 £m	2014 %
UK equity instruments	55.7	8.4%	56.7	8.5%
Overseas equities	26.7	4.0%	27.6	4.1%
Emerging markets equities	18.1	2.7%	18.4	2.7%
Liability driven investments	60.9	9.2%	108.4	16.2%
Corporate bonds	4.8	0.7%	4.8	0.7%
Diversified growth funds	160.5	24.2%	153.1	22.8%
Insurance contracts	287.6	43.3%	299.5	44.7%
Other assets including cash	49.6	7.5%	2.1	0.3%
	663.9	100.0%	670.6	100.0%

Scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

Other retirement benefit schemes

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

£m	2015 Assets	2015 Liabilities	2014 Assets	2014 Liabilities
French indemnity schemes	–	(4.0)	–	(4.2)
German based schemes	3.3	(3.4)	3.5	(3.7)
US based schemes	1.8	(2.2)	1.9	(5.8)
	5.1	(9.6)	5.4	(13.7)

The actuarial loss for these schemes in the year to 31 December 2015, recognised in OCI, was £nil (2014: £0.7m). The net liabilities are included in other liabilities in note 18. The German based schemes are substantially covered by insurance policies.

23. Financial risk management

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

Foreign currency risk

The Group is based in the UK, reports in sterling and has significant investment in overseas operations in the USA, Australia and other European countries. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. The Group's policy is to reduce, or eliminate where practical, both structural and transactional foreign exchange risk and, consequently, the net foreign exchange gains and losses included in the Income Statement amounted to a gain of £12.1m (2014: £5.8m). All currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Cobham plc management.

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

£m	2015 Monetary assets	2015 Monetary liabilities	2014 Restated Monetary assets	2014 Restated Monetary liabilities
US dollars	340.9	(1,569.7)	350.1	(1,614.9)
Euros	100.2	(143.5)	109.4	(82.8)
Australian dollars	30.6	(42.0)	47.4	(45.8)
Danish kroner	4.1	(53.9)	16.1	(77.7)
Other currencies	30.4	(8.4)	45.5	(11.7)
	506.2	(1,817.5)	568.5	(1,832.9)
Sterling denominated monetary assets and liabilities	225.8	(108.6)	143.5	(128.8)
	732.0	(1,926.1)	712.0	(1,961.7)

Foreign currency borrowings are used to mitigate the impact of foreign currency exchange differences arising from the Group's overseas net assets. The Group typically borrows in the currency of the acquisition and uses intercompany debt to create a natural economic hedge. Monetary liabilities in the table above include US dollar borrowings of £1,330.2m (2014: £1,305.4m) and Danish krone borrowings of £41.6m (2014: £71.0m) which match exposures arising from currency denominated net assets. Foreign currency contracts are also used to manage exposure to currency risks.

On consolidation, the net assets of overseas subsidiaries (which include the monetary assets and liabilities shown in the table above) are translated at closing exchange rates and exchange differences arising are accounted for in OCI and through the translation reserve (note 25).

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

The sterling/US dollar and Danish krone/US dollar exchange rates are the most important for the Group. The Group has the following forward foreign currency contracts outstanding for net sales of US dollars for sterling and Danish kroner:

	US$m amount		Average US$: £ exchange rate	
	2015	2014	**2015**	2014
Expiring within one year	**108.9**	110.9	**1.53**	1.60
Expiring within one to two years	**62.4**	14.7	**1.52**	1.54
Expiring after two years	**37.0**	47.6	**1.57**	1.56
US$/sterling contracts outstanding at 31 December	**208.3**	173.2	**1.53**	1.58

	US$m amount		Average US$: DKK exchange rate	
	2015	2014	**2015**	2014
Expiring within one year	**148.5**	138.1	**5.65**	5.53
Expiring within one to two years	**95.1**	125.1	**6.16**	5.47
Expiring after two years	**1.7**	28.3	**6.07**	5.34
US$/DKK contracts outstanding at 31 December	**245.3**	291.5	**5.85**	5.49

The latest expiry date of forward foreign currency contracts for sales of US dollars is July 2022 and it is the Group's current belief that the net dollar receipts by its subsidiaries will exceed the level of the outstanding commitments.

The following table details the Group's sensitivity to a weakening in sterling against the respective foreign currencies, with a negative number indicating a reduction in profit after taxation or total equity. The sensitivities below represent management's assessment of the possible changes in foreign exchange rates, based on experience over the previous five years.

			2015			2014
£m	**Sensitivity**	**Profit or loss**	**Total equity**	Sensitivity	Profit or loss	Total equity
US dollars to sterling	**8%**	**(13.9)**	**(13.9)**	9%	(8.0)	(8.0)
US dollars to Danish kroner	**12%**	**(16.5)**	**(16.5)**	12%	(18.4)	(18.4)
Euros to sterling	**8%**	**(4.9)**	**(4.9)**	8%	(4.2)	(4.2)

This sensitivity analysis has been based on the assumption that the change is effective throughout the financial year and that all other variables, including interest rates, remain constant. It includes the effect of derivative financial instruments.

In order to provide comparable information, sensitivity has also been assessed based on a 10% weakening in sterling against the respective foreign currency, as follows:

			2015			2014
£m	**Sensitivity**	**Profit or loss**	**Total equity**	Sensitivity	Profit or loss	Total equity
US dollars to sterling	**10%**	**(17.8)**	**(17.8)**	10%	(9.1)	(9.1)
US dollars to Danish kroner	**10%**	**(13.4)**	**(13.4)**	10%	(15.0)	(15.0)
Euros to sterling	**10%**	**(6.3)**	**(6.3)**	10%	(5.4)	(5.4)

Interest rate risk

The Group has long and short term borrowings at both fixed and floating rates of interest. In managing its borrowing costs, the Group monitors its exposure to movements in interest rates, having regard to prevailing market conditions and, where necessary, uses interest rate swaps to manage the interest rate risk.

£m	**2015**	2014
Senior notes	**822.7**	777.6
Bank loans at fixed rate	**50.8**	48.1
Bank loans swapped to fixed rate	**24.1**	30.8
Fixed rate borrowings	**897.6**	856.5
Bank loans and overdrafts	**498.3**	492.2
Senior notes	**105.1**	99.4
Finance leases	**0.5**	0.2
Floating rate borrowings	**603.9**	591.8
Total borrowings	**1,501.5**	1,448.3

All floating rate borrowings have regular repricing dates.

Floating to fixed interest rate swaps, designated as cash flow hedges, have been used to mitigate the interest rate exposure arising on selected floating rate debt. Interest rate swaps outstanding at the year end are as follows:

		Period of swap contract		2015		2014	
Hedged item	Fixed rate	from	to	**Currency value**	**£m**	Currency value	£m
Australian dollar loans	6.30%	May 2006	January 2020	**AUS$41.5m**	**20.5**	AUS$49.7m	26.1
	6.40%	January 2007	January 2020	**AUS$7.2m**	**3.6**	AUS$9.0m	4.7
					24.1		30.8

The Group does not currently hold any fair value hedging instruments such as fixed to floating interest rate swaps.

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

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

As shown in note 17, at 31 December 2015 undrawn committed borrowing facilities of £122.7m (2014: £102.7m) were available to the Group in various currencies.

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

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

£m	Within one year	1–2 years	2–5 years	Over 5 years	Total
Non-derivative financial liabilities					
Borrowings	**206.6**	**163.2**	**837.0**	**513.5**	**1,720.3**
Trade and other payables	**292.8**	**2.4**	**2.9**	**2.5**	**300.6**
At 31 December 2015	**499.4**	**165.6**	**839.9**	**516.0**	**2,020.9**
Derivative liabilities					
Interest rate swaps	**0.9**	**0.7**	**0.8**	–	**2.4**
Foreign exchange derivatives					
Gross cash outflows	**459.4**	**140.6**	**25.3**	**10.4**	**635.7**
Gross cash inflows	**(430.5)**	**(131.8)**	**(24.8)**	**(9.7)**	**(596.8)**
Inflation swap	**1.2**	**0.9**	**0.3**	–	**2.4**
At 31 December 2015	**31.0**	**10.4**	**1.6**	**0.7**	**43.7**
Non-derivative financial liabilities					
Borrowings	48.5	418.7	688.2	529.3	1,684.7
Trade and other payables (as restated)	361.7	3.4	5.5	4.6	375.2
At 31 December 2014 (as restated)	410.2	422.1	693.7	533.9	2,059.9
Derivative liabilities					
Interest rate swaps	1.1	0.9	1.3	–	3.3
Foreign exchange derivatives					
Gross cash outflows	464.2	100.1	22.7	–	587.0
Gross cash inflows	(446.1)	(90.8)	(20.2)	–	(557.1)
Inflation swap	0.8	1.1	1.1	–	3.0
At 31 December 2014	20.0	11.3	4.9	–	36.2

Credit risk
The Group's principal financial assets are bank balances, cash and trade and other receivables and there are no significant concentrations of credit risk.

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

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Customers are typically large global companies or government agencies with long term trading relationships. The Group also has in place procedures that require appropriate credit checks on potential customers before sales are made. Existing customer accounts are monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. The Directors therefore believe there is no further credit risk provision required in excess of normal provision for impaired receivables shown in note 15.

Group management monitor the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 31 December 2015, 9.6% (2014: 9.2%) of gross trade receivables were overdue by one month or more.

The maximum exposure to credit risk at 31 December 2015 is the fair value of each class of receivable as disclosed in note 15.

Bank term balances totalling £6.1m (2014: £6.2m) have been pledged against the residual value of leased assets under an agreement which expires in 2020.

In the UK and the USA, the Group has master netting arrangements in respect of bank balances. In the normal course of business, these bank accounts are settled on a net basis within each currency and as such are presented net in the Balance Sheet as shown in note 14. In the event of an automatic enforcement event, the bank balances are automatically set off against each other to achieve a net position.

Derivatives can also be offset by counterparties in the event of a default; net amounts that result on this basis are shown in note 14.

Inflation risk
The Group's exposure to inflation is considered to be a general business risk which is mitigated through normal commercial activity. The Group has one swap contract which was designed to manage the inherent inflation risk in a specific operational contract. The fair value of this swap contract is included in derivative financial instruments shown in note 21.

Capital risk management
Group policy is to maintain a strong capital base so as to maintain stakeholder confidence and to sustain future development of the business. Capital is defined as total equity excluding non-controlling interests and amounted to £908.8m at 31 December 2015 (2014: £1,111.4m). Within this overall policy, the Group seeks to maintain an appropriate finance structure through a mixture of debt and retained earnings. Funding needs are reviewed periodically and also each time a significant acquisition or business divestment is made. A number of factors are considered which include the net debt/EBITDA ratio, future funding needs (usually potential acquisitions) and proposed dividend levels. Group banking arrangements are also considered; these include financial covenants which are based on adjusted IFRS results as outlined on page 29. This policy has been reviewed by the Board on a regular basis during the year and, given the current economic climate, continues to be considered appropriate.

24. Share capital

	Number of shares	**2015 £m**	Number of shares	2014 £m
Authorised				
Ordinary shares of par value 2.5p	**1,479,200,000**	**37.0**	1,479,200,000	37.0
6% second cumulative preference shares of £1	**20,000**	**–**	20,000	–
Issued and fully paid				
Ordinary shares of par value 2.5p	**1,214,527,625**	**30.4**	1,214,527,625	30.4

As at 31 December 2015, 89,634,016 (2014: 82,231,281) ordinary shares were held in treasury including 13,682,292 (2014: 6,279,557) shares held in the Cobham Employee Benefit Trust. At 31 December 2015, the market value of treasury shares was £253.8m (2014: £266.3m), including shares with a market value of £38.7m (2014: £20.3m) held by the Cobham Employee Benefit Trust.

During the year ended 31 December 2015, treasury shares were used to satisfy awards and options under the Group's share based payment schemes. The net cost of treasury shares after receipts from option exercises is deducted from retained earnings and total equity.

Further details of the share capital of Cobham plc can be found on page 67.

25. Other reserves

£m	Note	Translation reserve	Hedge reserve	Share based payment reserve	Total other reserves
At 1 January 2014		32.2	(2.5)	25.5	55.2
Foreign exchange differences on translation of overseas operations		(16.8)	–	–	(16.8)
Reclassification of foreign exchange on divestment of overseas operation		(1.9)	–	–	(1.9)
Movements on cash flow hedges – interest rate swaps	21	0.1	(1.4)	–	(1.3)
Movements on cash flow hedges – foreign exchange contracts		–	2.9	–	2.9
Reclassification of fair value of cash flow hedges to income statement		–	1.3	–	1.3
Transfer of share based payment reserve on exercise		–	–	(3.3)	(3.3)
Share based payments recognised in reserves	26	–	–	6.1	6.1
Tax effects		–	(0.9)	1.5	0.6
Foreign exchange adjustments		–	(0.1)	–	(0.1)
At 1 January 2015		**13.6**	**(0.7)**	**29.8**	**42.7**
Foreign exchange differences on translation of overseas operations		**(29.2)**	–	–	**(29.2)**
Reclassification of foreign exchange on divestment of overseas operations	28	**(9.0)**	–	–	**(9.0)**
Movements on cash flow hedges – interest rate swaps	21	**0.2**	**(0.3)**	–	**(0.1)**
Movements on cash flow hedges – foreign exchange contracts		–	**0.1**	–	**0.1**
Reclassification of fair value of cash flow hedges to income statement		–	**1.1**	–	**1.1**
Transfer of share based payment reserve on exercise		–	–	**(1.5)**	**(1.5)**
Share based payments recognised in reserves	26	–	–	**(3.0)**	**(3.0)**
Tax effects		–	**(0.2)**	**(1.1)**	**(1.3)**
Foreign exchange adjustments		–	**(0.1)**	–	**(0.1)**
At 31 December 2015		**(24.4)**	**(0.1)**	**24.2**	**(0.3)**

The translation reserve comprises all foreign exchange differences arising on the results and financial position of subsidiaries whose functional currencies differ from the Group's reporting currency together with foreign exchange movements arising on interest rate swaps designated as cash flow hedges.

The hedge reserve reflects movements in fair values on cash flow hedging derivatives as detailed in notes 21 and 23.

The share based payment reserve includes the cost of awards as assessed under IFRS 2 and detailed in note 26, together with related deferred tax provided under IAS 12. The appropriate proportion of this reserve is transferred to retained earnings following vesting or exercise.

26. Share based payments

The Group offers a number of long term incentive schemes which provide a mix of performance based incentive and retention based awards as described below and in the Directors' Remuneration Report on pages 60 to 63. All schemes are equity settled and the total amount included in the Income Statement arising from share based payment schemes is as follows:

£m	2015	2014
PSP	**2.1**	6.8
RSP	**1.3**	0.7
Other schemes	**0.7**	0.7
Release of amounts charged in previous years	**(7.1)**	(2.1)
	(3.0)	6.1

During the year ended 31 December 2015, £7.1m (2014: £2.1m) charged to the Income Statement in previous years has been released, reflecting actual vesting experience and a reassessment of the expected future vesting of outstanding awards, based on non-market related performance conditions.

The PSP scheme is offered to senior executives across the Group and allows for annual grants of conditional shares and nil-cost options with vesting conditions based on the Group's financial performance, taking into account both market based conditions such as TSR growth and non-market based measures such as EPS growth or cash conversion respectively. The scheme includes retention awards granted during 2014 and buy-out awards granted to key new starters, both vesting after a maximum of three years conditional only upon continued employment within the Group.

RSP awards provide conditional shares based solely on continued employment within the Group. Awards vest either in full after three years, or over a four year period, with 25% vesting on each anniversary.

In previous years, share options were awarded to senior executives under the ESOS and BCP schemes. No new awards have been made under the ESOS since 2013. The BCP provided matching shares where bonus awards were invested in shares and was last awarded in 2014, only to the Group CEO. The Group's ShareSave scheme is open to all UK employees.

The number of awards outstanding at 31 December are as follows:

Number of awards (thousands of shares)	2015	2014
PSP	10,026	10,380
RSP	1,317	543
ESOS	4,031	5,914
BCP	22	118
ShareSave	5,979	5,908
At 31 December	21,375	22,863

Details of movements in the awards under the PSP scheme are as follows:

Number of awards (thousands of shares)	2015	2014
At 1 January	10,380	8,544
Awards granted	3,591	5,171
Awards forfeited or cancelled	(3,713)	(2,491)
Exercised	(88)	(802)
Expired	(144)	(42)
At 31 December	10,026	10,380

Weighted average remaining contractual life of PSP awards outstanding	1.24 years	1.46 years
Number of PSP awards exercisable at 31 December (thousands)	87	40

Awards under the PSP schemes were granted in March and April 2015, with an average fair value of £2.835 (2014 awards: £2.833). Fair values are calculated using the Black-Scholes option pricing model modified by a Monte Carlo simulation to determine the likely impact of market related performance conditions. The weighted average inputs into the models were as follows:

	2015	2014
Weighted average share price	£3.058	£3.065
Expected life	2.98 years	2.82 years
Expected employee cancellation rate	4.4%	4.1%
Risk free rate	0.6%	0.9%

The expected lives used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability and behavioural considerations. The expected employee cancellation rates are based on assessments of historic rates of voluntary cancellations of contracts by employees. Most participants of the PSP schemes receive the benefit of dividend payments and therefore dividend yields are not taken into consideration in the valuation models.

The fair values of ESOS and ShareSave awards are significantly lower than for PSP, RSP and BCP awards due to the effect of the exercise price which is set based upon the market value of the Company's ordinary shares around the date of grant.

27. Business combinations (prior year restatement)

In the Group Financial Statements for the year ended 31 December 2014, the fair values of assets and liabilities recognised on acquisition of the Aeroflex businesses were marked as provisional. An ongoing detailed review of these amounts has resulted in adjustments which have reduced net assets acquired by £46.0m, with an equal increase in goodwill.

In accordance with IAS 8, the Balance Sheet as at 31 December 2014 has been restated. The assets and liabilities impacted are summarised in the 2014 Balance Sheet extract below. The other primary statements were unaffected by this restatement.

£m	Note	As previously reported	Adjustments	As restated
Goodwill	10	1,219.7	46.0	1,265.7
Intangible assets	10	777.5	(2.4)	775.1
Trade and other receivables	15	53.3	(2.2)	51.1
Total non-current assets (including line items not affected)		2,478.2	41.4	2,519.6
Inventories	13	431.4	(1.9)	429.5
Trade and other receivables	15	436.6	(1.3)	435.3
Total current assets (including line items not affected)		1,104.8	(3.2)	1,101.6
Trade and other payables	18	(503.6)	(1.9)	(505.5)
Provisions	19	(54.1)	(6.4)	(60.5)
Total current liabilities (including line items not affected)		(699.1)	(8.3)	(707.4)
Provisions	19	(13.3)	(53.2)	(66.5)
Deferred tax	20	(157.8)	23.3	(134.5)
Total non-current liabilities (including line items not affected)		(1,771.6)	(29.9)	(1,801.5)
Net assets		1,112.3	–	1,112.3

28. Business divestments

A number of divestments have been completed during the year:

- Weinschel and Inmet, Advanced Electronic Solutions Sector (announced on 24 April 2015 and completed on 8 June 2015);
- Cobham Composites, primarily Communications and Connectivity Sector (announced on 10 August 2015 and completed on 25 November 2015);
- Wireless operations in Nanjing, China, Communications and Connectivity Sector (completed on 2 November 2015);
- Metelics, Advanced Electronic Solutions Sector (announced and completed on 15 December 2015).

The profit on these divestments, which has been excluded from trading profit, can be analysed as follows:

£m	Weinschel and Inmet	Composites	Metelics and other	Total
Gross consideration	52.4	133.6	27.1	213.1
Net assets at date of divestment	(66.6)	(50.2)	(41.8)	(158.6)
Expenses of sale	(1.5)	(4.7)	(2.6)	(8.8)
Foreign exchange adjustments	2.9	1.9	3.3	8.1
Net profit/(loss) on divestments before tax	(12.8)	80.6	(14.0)	53.8
Tax charge on net profit/(loss) on divestments	(12.8)	(8.0)	(2.5)	(23.3)
Net profit/(loss) on divestments after tax	(25.6)	72.6	(16.5)	30.5

The net cash impact of the divestments is as follows:

£m	Weinschel and Inmet	Composites	Metelics and other	Total
Cash consideration	52.4	133.6	27.1	213.1
Expenses of sale	(1.5)	(4.5)	(1.9)	(7.9)
	50.9	129.1	25.2	205.2

The net assets divested during the year were as follows:

£m	Weinschel and Inmet	Composites	Metelics and other	Total
At date of divestment				
Attributable goodwill	34.4	12.3	19.2	65.9
Other intangible assets	30.3	1.0	13.6	44.9
Property, plant and equipment	3.5	11.9	4.4	19.8
Inventories	7.4	20.8	5.8	34.0
Trade and other receivables	3.5	10.7	4.0	18.2
Trade and other payables including provisions	(3.5)	(4.7)	(3.6)	(11.8)
Deferred tax	(9.0)	(1.8)	(1.6)	(12.4)
Net assets	66.6	50.2	41.8	158.6
At 31 December 2014				
Attributable goodwill	33.7	12.1	16.8	62.6
Other intangible assets	31.9	2.4	16.1	50.4
Property, plant and equipment	3.6	9.9	4.6	18.1
Inventories	7.6	10.9	4.8	23.3
Trade and other receivables	4.3	9.3	4.7	18.3
Cash and cash equivalents and overdrafts	(0.2)	4.0	1.4	5.2
Trade and other payables including provisions	(3.4)	(9.2)	(3.3)	(15.9)
Deferred tax	(10.4)	(0.4)	(6.7)	(17.5)
Net assets	67.1	39.0	38.4	144.5

29. Operating lease arrangements

At the balance sheet date the Group had outstanding commitments for minimum lease payments due under non-cancellable operating leases as follows:

£m	2015	2014
Within one year	27.7	41.8
Between one and two years	24.9	24.0
Between two and three years	23.0	23.3
Between three and four years	20.9	20.1
Between four and five years	14.8	16.2
After five years	61.1	53.6
	172.4	179.0

Operating lease payments during the year totalled £30.1m (2014: £27.3m) including rental costs of £7.5m (2014: £6.9m) relating to operational aircraft used in its service businesses; the remainder primarily relates to the rental of office and operating facilities.

Operating lease commitments include £20.0m (2014: £12.0m) related to onerous leases which have been provided for at the balance sheet date.

30. Contingent liabilities

At 31 December 2015, the Company and the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the Group Financial Statements.

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

As previously notified, the Group identified one, more significant, contractual breach dating back some years, in respect of goods provided into a geographic market representing only a small amount of revenue for the Group. The circumstances surrounding the breach remain under review and neither the outcome nor timing of resolution can be estimated. No further information is disclosed as it could be prejudicial.

The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain and could materially impact the Group's future reported earnings. In particular, on fixed price development contracts, costs incurred and anticipated can significantly exceed amounts estimated at inception as a result of material enhancements to the specifications originally agreed under the contracts. Judgement is therefore required as regards the final costs of technical solutions, the outcome of negotiations with customers and the amounts recoverable under these contracts. The Directors take account of the advice of experts in making these judgements and believe that the outcome of negotiations will result in an appropriate recovery of costs incurred in excess of original baselines.

31. Related party transactions

There were no material transactions between Group entities and joint ventures and associates during the current or previous year other than £0.5m (2014: £1.0m) of goods purchased from related parties. Group policy is for all sales of goods to related parties to be made on an arms length basis and no guarantees have been given to, or received from, related parties. No expense has been recognised for bad or doubtful debts in respect of amounts owed by related parties.

Details of the compensation of key management personnel (the Group Executive Committee as referred to on page 48) can be found in note 4.

The Directors of Cobham plc had no material transactions with the Company during the year, other than as a result of service agreements. Details of Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 58 to 66.

32. Subsidiaries and other related undertakings

The Group operates through a number of subsidiary undertakings and a full listing of these as at 31 December 2015 is provided below. The Group owns 100% of the share capital of all subsidiaries with the exception of TEAM SA (98.7% owned).

The Group also has interests in a small number of joint ventures and one associated undertaking which are included in the list below. The joint ventures and associates all have share capital consisting solely of ordinary shares, which are indirectly held, and the country of incorporation or registration is also their principal place of operation. No further disclosures are provided concerning the assets and results of the joint ventures or associated undertaking on the basis of materiality.

Business Unit and principal activities	Name of undertaking	Principal operating entity	Place of incorporation (or registration) and operation
Cobham Communications and Connectivity			
Aerospace Communications			
Avionics, connectivity, slip rings and microwave systems for air and space platforms at the leading edge of technological development for defence, security and commercial aerospace customers.	Air Précision SAS	✓	France
	Chelton Avionics, Inc	✓	USA
	Chelton Telecom and Microwave SAS	✓	France
	TEAM SA	✓	France
	Label SAS		France
	Chelton Antennas SA		France
	Northern Airborne Technology Limited		Canada
	Credowan Limited		England
	Hyper-Technologies SAS		France
	Precision Aviation Industries SARL		France
	Groupement Troyen d'Electronique		France
	Satori Air Services Inc		Canada
	Société de Marquage et Signalisation SAS		France
	Micro-Mesh SARL		France
	NAT Seattle Inc.		USA
	Cobham Slip Rings Naples Inc.		USA
Antenna Systems			
Advanced, ultra-reliable integrated systems for avionics, radar, surveillance and SATCOM applications.	Chelton Limited	✓	England
	Chelton, Inc	✓	USA
	Cobham CTS Limited	✓	England
	Cobham Defence Communications Limited	✓	England
	European Antennas Limited		England
	Mastsystem International Oy		Finland
	Cobham Defense Products, Inc.		USA
	Northrop Grumman Cobham Intercoms LLC (50% joint venture)		USA
	Vector Fields Incorporated		USA
	Comant Industries Incorporated		USA
	Sivers Lab AB		Sweden
SATCOM			
Satellite and radio communication terminals for land, sea and air.	Sea Tel, Inc	✓	USA
	Thrane & Thrane A/S	✓	Denmark
	Omnipless Manufacturing (Pty) Limited		South Africa
	Thrane & Thrane Aalborg A/S		Denmark
	Thrane & Thrane Norge A/S		Norway
	Thrane & Thrane Inc.		USA
	Philtech Co., Ltd (associate owned 30%) [1]		South Korea
Surveillance [2]			
High performance surveillance, communications and broadcast systems.	Cobham TCS Limited	✓	England
	DTC Communications, Inc	✓	USA
	Cobham do Brasil Equipamentos e Servicos Ltda		Brazil
	Cobham Surveillance GmbH		Germany
	Cobham TCS PTE Limited		Singapore
	RVision, Inc.		USA
	Custom Federal, Inc.		USA
	RVision, LLC		USA
	Cobham Surveillance DAR Limited		Canada
	Cobham Tracking & Locating Limited		Canada
	Corp Ten International		USA
	Spectronic Denmark A/S		Denmark
AvComm			
Avionics, communications and synthetic test, monitoring and control for commercial, government and military applications.	Aeroflex Wichita, Inc.	✓	USA

Business Unit and principal activities	Name of undertaking	Principal operating entity	Place of incorporation (or registration) and operation
Wireless			
Advanced wireless network coverage and mobile communications systems.	Aeroflex Limited	✓	England
	Axell Wireless Limited	✓	England
	Aeroflex Ireland Limited		Ireland
	Aeroflex Asia Ltd.		Hong Kong
	Aeroflex Japan KK		Japan
	Aeroflex Technology Service (Beijing) Co. Ltd.		PRC
	Aeroflex Innovations (Shanghai) Co. Ltd.		PRC
	Aeroflex Systems Private Limited		India
	Aeroflex France SAS		France
	Aeroflex GmbH		Germany
	Aeroflex Singapore Pte. Ltd.		Singapore
	Axell Wireless Israel Limited		Israel
	Axell Wireless Asia Pte Limited		Singapore
	A-xell Wireless AB		Sweden
	Axell Wireless, Inc.		USA
Cobham Mission Systems			
Air-to-air refuelling, life support, weapons carriage and unmanned systems.	Carleton Life Support Systems, Inc	✓	USA
	Carleton Technologies, Inc	✓	USA
	Flight Refuelling Limited [3]	✓	England
	Telerob Gesellschaft für Fernhantierungstechnik mbH	✓	Germany
	Cobham Mission Equipment Inc.		USA
	Sargent Fletcher Inc.		USA
Cobham Advanced Electronic Solutions			
Microelectronic Solutions			
RF microelectronic technologies to support the delivery of mission critical electronic warfare, missiles, communications, and radar applications.	Cobham Advanced Electronic Solutions, Inc.[4]	✓	USA
	Cobham Advanced Electronic Solutions Mexico, S.A. de C.V.		Mexico
Integrated Electronic Solutions			
Mission critical RF technology solutions serving defence, commercial aerospace, and space customers.	Cobham Advanced Electronic Solutions, Inc.[4]	✓	USA
	Continental Microwave and Tool Co, Inc.	✓	USA
	Trivec-Avant Corporation	✓	USA
Semiconductor Solutions			
Standard HiRel ICs including memory, microprocessor, interconnect and power, and application specific integrated circuits (ASICs) for space, commercial, medical and industrial markets along with electronic manufacturing services.	Aeroflex Plainview, Inc.[4]	✓	USA
	Aeroflex Colorado Springs, Inc.	✓	USA
	Aeroflex RAD Europe Limited		England
	Aeroflex RAD, Inc.		USA
	Cobham Gaisler AB		Sweden
RFMW Solutions			
Microwave and RF active and passive components, multi-function integrated microwave assemblies, synthesizers and interconnect subsystems.	Aeroflex Control Components, Inc.		USA
	Aeroflex Plainview, Inc.[4]		USA
	Aeroflex Microelectronic Solutions, Inc.		USA
Cobham Aviation Services			
Special Mission			
Customised airborne surveillance, operational readiness training and search and rescue services.	FR Aviation Limited	✓	England
	Surveillance Australia Pty Limited	✓	Australia
	National Air Support Pty Limited		Australia
	Cobham SAR Services Pty Limited		Australia
	Cobham Flight Inspection Limited		England
	AFI Flight Inspection GmbH		Germany
	Cobham Leasing Limited		England
	FR Aviation Services Limited		England
	Aviation Défense Service SA (45% joint venture) [5]		France

Business Unit and principal activities	Name of undertaking	Principal operating entity	Place of incorporation (or registration) and operation
Helicopter Services			
Helicopter operations, training and support for defence, government and commercial customers around the globe.	FB Heliservices Limited	✓	England
	FBH Cyprus Limited		Cyprus
	FB Heliservices Kenya Limited		Kenya
	FB Leasing Limited		England
	FBS Limited		England
Commercial Services			
Operation of the Australian Boeing 717 jet network for Qantas. Providers of flight crew and management of high capacity airline services across Australia as well as customised commercial aviation solutions with a focus on specialist support for resource sector projects and high capacity freight services.	National Jet Systems Pty Limited	✓	Australia
	National Jet Express Pty Limited	✓	Australia
	Jet Systems Pty Limited		Australia
	Cobham Aviation Services Engineering Pty Limited		Australia
	National Jet Systems Ground Handling Pty Limited		Australia
	NAS Services Pty Limited		Australia
	Glyndale Pty Limited		Australia
	National Jet Operations Services Pty Limited		Australia
	National Investments Asia Pacific Pty Limited		Australia
	Fleet Support Pty Limited		Australia
	Asia Pacific Airlines Pty Limited		Australia
	Asia Pacific Airlines (Papua New Guinea) Pty Limited		Papua New Guinea
Head office and other activities			
Head office management, centralised functions and personnel.	Aeroflex Incorporated		USA
	Cobham Holdings Inc.		USA
	Cobham India Private Limited		India
	Cobham Management Services Inc.		USA
	Cobham Properties Inc.		USA
	Lockman Properties Limited		England
Investment holding companies			
Managing investments in and provision of finance to group undertakings.	Aedion Investments Unit Trust		Jersey
	Aeroflex Holding Corp.		USA
	Aeroflex Test Solutions Limited		England
	AFI Holdings GmbH		Germany
	Avenue 64 Limited		England
	Chelton Technologies Canada Limited		Canada
	Cob Finance LLC		USA
	Cobham AES Holdings Inc.		USA
	Cobham Holdings (US) Inc.		USA
	FR Aviation Group Limited		England
	FR Investments Inc.		USA
	IFR Finance Inc.		USA
	IFR Finance Limited Partnership [6]		England
	IFR Systems, Inc.		USA
	Lock Financing Limited		Ireland
	Lockman Denmark Financing S.a.r.l.		Luxembourg
	Lockman Denmark Holdings A/S		Denmark
	Lockman Electronic Holdings Limited		England
	Lockman Finance Limited		England
	Lockman Financing Limited		England
	Lockman Financing S.a.r.l		Luxembourg
	Lockman Investments Limited		England
	Lockwash Investments LLC		USA
	Lockwash US Limited		England
	Manlock Investments Limited		England
	MCE Asia, Inc.		USA
	Multiphase Pumping Systems Limited		England
	Telerob Holding GmbH		Germany

Business Unit and principal activities	Name of undertaking	Place of incorporation (or registration) and operation
Dormant entities		
Non-trading entities.	Aerial Facilities Limited [7]	England
	Aeroflex Asia Pacific Limited	England
	Aeroflex Bloomingdale, Inc.	USA
	Aeroflex Burnham Limited	England
	Aeroflex Cambridge Limited	England
	Aeroflex SRL	Italy
	Aeroflex Tech., SA	Spain
	Aeroflex Test Equipment Services Limited [7]	England
	Aeroflex UK Limited [7]	England
	Air Precision Limited [7]	England
	Chelton Aviation Corporation	USA
	Chelton Satcom, Inc.	USA
	Cobham Aviation SDN BHD	Malaysia
	Cobham Aviation Services España, SL	Spain
	Cobham Aviation Services International Limited	England
	Cobham Communications and Connectivity Limited	England
	Cobham Fluid Systems Limited	England
	Cobham Group Limited	England
	Cobham Helicopter Services Trinidad	Trinidad & Tobago
	Cobham Mission Systems Limited	England
	COMAR Products, Inc.	USA
	CTS Patents Limited	England
	Cobham Whiteley Limited (formerly domo Limited)	England
	Falcon Special Air Services SDN BHD	Malaysia
	FB Heliservices Curacao N.V.	Curacao
	Grenedere Limited	England
	ML Aircraft Services Limited	England
	ML Aviation Limited	England
	National Jet Regional Services Pty Limited	Australia
	Racal Antennas Limited	England
	SeaTel Europe, Inc.	USA
	Shenick Network Nominees Limited	Ireland
	Smart Chemical Developments Limited	England
	Strabor (Aircraft) Limited	England
	Strabor Investments Limited	England
	W.E.S. (Manufacturing) Limited	England
	W.E.S. Investments Limited	England
	Wallop Holdings Limited	England

[1] The address of the principal place of business of Philtech Co., Ltd is Sujeong-gu, Seongnam-si, Gyeonggi-do, South Korea.
[2] All subsidiaries in the Surveillance SBU were divested 15 January 2016.
[3] Issued shares in Flight Refuelling Limited are held by Cobham plc. Otherwise shares are held by, or by a nominee for, a subsidiary of Cobham plc.
[4] Cobham Advanced Electronic Solutions, Inc. and Aeroflex Plainview, Inc. operate across a number of sites within more than one BU.
[5] The 45% investment in Aviation Défense Service SA is treated as a joint venture because the governance structure means that the Group has joint control with its partner.
[6] Advantage has been taken of the exemption conferred by regulation 7 of the Partnership Accounts Regulations 2008 from the requirements to prepare and publish audited accounts for IFR Finance Limited Partnership.
[7] Dissolved subsequent to 31 December 2015.

33. Events after the balance sheet date

On 15 January 2016 it was announced that the divestment of the Surveillance businesses had been completed for consideration of US$10m. These businesses were treated as held for sale at 31 December 2015 as shown in note 16.

Independent Auditors' Report to the members of Cobham plc

Report on the Parent Company Financial Statements

Our opinion

In our opinion, Cobham plc's Parent Company Financial Statements (the parent company financial statements):
- Give a true and fair view of the state of the Parent Company's affairs as at 31 December 2015;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:
- The Parent Company Balance Sheet as at 31 December 2015;
- The Statement of Changes in Equity for the year then ended; and
- The Notes to the Parent Company Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK and Ireland) reporting

Under International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)) we are required to report to you if, in our opinion, information in the Annual Report is:
- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- Otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- Whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group Financial Statements of Cobham plc for the year ended 31 December 2015.

Pauline Campbell

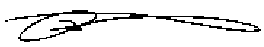
Pauline Campbell
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2016

Parent Company Balance Sheet

As at 31 December 2015

£m	Note	2015	2014 Restated
Assets			
Non-current assets			
Investments in Group and other undertakings	4	**789.6**	776.4
Other investments	4	**6.1**	6.1
Derivative financial instruments	9	**11.3**	14.3
Other receivables	5	**18.3**	18.3
		825.3	815.1
Current assets			
Derivative financial instruments	9	**15.0**	15.7
Trade and other receivables	5	**2,376.2**	1,977.7
Cash and cash equivalents		**101.8**	420.2
		2,493.0	2,413.6
Current liabilities			
Borrowings	6	**(215.3)**	(26.3)
Trade and other payables	7	**(510.2)**	(496.5)
Provisions	8	**(6.6)**	(6.6)
Derivative financial instruments	9	**(31.6)**	(23.3)
		(763.7)	(552.7)
Non-current liabilities			
Borrowings	6	**(1,344.7)**	(1,446.8)
Derivative financial instruments	9	**(12.8)**	(18.0)
Retirement benefit obligations	10	**(22.4)**	(35.8)
		(1,379.9)	(1,500.6)
Net assets		**1,174.7**	1,175.4
Equity			
Share capital	11	**30.4**	30.4
Share premium		**301.9**	301.9
Other reserves		**13.3**	17.5
Retained earnings		**829.1**	825.6
Total equity		**1,174.7**	1,175.4

The financial statements on pages 120 to 127 were approved by a duly appointed and authorised committee of the Board on 2 March 2016 and signed on its behalf by:



Bob Murphy **Simon Nicholls**
Directors

Statement of Changes in Equity

For the year ended 31 December 2015

			Other reserves			
£m	Share capital	Share premium	Hedge reserve	Share based payment reserve	Retained earnings	Total equity
Total equity at 1 January 2014 (as previously reported)	28.9	126.6	(2.5)	17.3	450.1	620.4
Effect of transition to FRS 101 (note 14)	–	–	–	–	(24.8)	(24.8)
Total equity at 1 January 2014 (as restated)	28.9	126.6	(2.5)	17.3	425.3	595.6
Profit for the year	–	–	–	–	511.7	511.7
Items that will not be reclassified subsequently to profit or loss	–	–	–	–	(9.7)	(9.7)
Items that may subsequently be reclassified to profit or loss	–	–	(0.1)	–	–	(0.1)
Total comprehensive income for the year	–	–	(0.1)	–	502.0	501.9
Net proceeds from treasury shares	–	–	–	–	3.3	3.3
Issue of shares	1.5	175.3	–	–	–	176.8
Dividends (note 2)	–	–	–	–	(108.3)	(108.3)
Share based payments (note 3)	–	–	–	6.1	–	6.1
Transfer of share based payment reserve	–	–	–	(3.3)	3.3	–
Total equity at 31 December 2014	30.4	301.9	(2.6)	20.1	825.6	1,175.4
Profit for the year	–	–	–	–	**143.9**	**143.9**
Items that will not be reclassified subsequently to profit or loss	–	–	–	–	**5.1**	**5.1**
Items that may subsequently be reclassified to profit or loss	–	–	**0.3**	–	–	**0.3**
Total comprehensive income for the year	–	–	**0.3**	–	**149.0**	**149.3**
Net purchase of treasury shares	–	–	–	–	**(24.9)**	**(24.9)**
Dividends (note 2)	–	–	–	–	**(122.1)**	**(122.1)**
Share based payments (note 3)	–	–	–	**(3.0)**	–	**(3.0)**
Transfer of share based payment reserve	–	–	–	**(1.5)**	**1.5**	–
Total equity at 31 December 2015	**30.4**	**301.9**	**(2.3)**	**15.6**	**829.1**	**1,174.7**

Retained earnings at 1 January 2014 as previously reported of £450.1m include £43.6m of other reserves reclassified as detailed in note 14.

The share based payment reserve relates to provisions made in accordance with IFRS 2 for awards made to the Company's employees under the Group's share based payment schemes. Where awards which gave rise to charges under IFRS 2 have vested or been exercised, the appropriate proportion of the reserve is transferred to retained earnings.

Profit for the financial year

In accordance with the concession granted under Section 408 of the Companies Act 2006, the profit and loss account of Cobham plc has not been separately presented in these financial statements.

The audit fee in respect of the Parent Company Financial Statements was £49,000 (2014: £46,000).

1. Parent Company accounting policies

These financial statements are the financial statements for Cobham plc which operates as a group holding company and is the parent company of the Cobham plc Group.

Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101). The Company has early adopted the amendments to FRS 101 which were issued in July 2015. The Company transitioned from previous UK GAAP to FRS 101 for all periods presented. Details of adjustments arising on transition can be found in note 14.

The financial statements have been prepared on the going concern basis, under the historical cost convention as modified to include the revaluation of derivative financial assets and liabilities measured at fair value through profit or loss and in accordance with the Companies Act 2006.

The Company has taken advantage of the following disclosure exemptions under FRS101:

- A cash flow statement and related notes (IAS 7, Statement of Cash Flows and paragraph 10(d) of IAS 1, Presentation of financial statements);
- Paragraph 38 of IAS 1, Presentation of Financial Statements comparative period reconciliations in respect of paragraph 79(a)(iv) of IAS 1 (number of shares outstanding);
- Capital management disclosures required by paragraphs 134–136 of IAS 1;
- The requirements of paragraph 10(f) of IAS 1 (prior period balance sheet following a restatement);
- The requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors concerning the effects of new but not yet effective IFRSs;
- Details of compensation of key management personnel required by paragraph 17 of IAS 24, Related Party Disclosures; and
- The requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group.

In addition, as the consolidated financial statements of Cobham plc include the equivalent disclosures, the following exemptions under FRS101 have also been taken:

- Share based payment disclosures under paragraphs 45(b) and 46–52 of IFRS 2, Share Based Payment in respect of group settled share based payments; and
- Financial instrument information required by IFRS 7, Financial Instruments: Disclosures and paragraphs 91 to 99 of IFRS13, Fair value measurement.

Management judgement and estimation uncertainty

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, relate to retirement benefit obligations. A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the long term rate of increase of salary costs, discount rate, inflation and mortality rates. The Company uses published indices and independent actuarial advice to select the values of critical assumptions.

The principal accounting policies, which have been consistently applied, are as set out below:

Dividends

Dividends payable are recognised as a liability in the period in which they are fully authorised. Dividend income is recognised when the shareholders' right to receive payment has been established.

Retirement benefit obligations

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The plans are funded defined benefit schemes and assets are held in separate trustee administered funds. The assets and liabilities of the CPP have been allocated to the contributing companies based on the proportional number of members. The Company also operates and contributes to a defined contribution scheme.

For the defined benefit schemes, current service costs and costs related to the administration of the schemes are charged to operating profit. Past service costs are recognised immediately in the income statement. The interest on net assets or liabilities is shown within finance income and costs. Actuarial remeasurements are recognised immediately in other comprehensive income (OCI).

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the face of the balance sheet.

For the defined contribution scheme, the amount charged to the income statement in respect of pension costs and other post-retirement benefits are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are recorded as either accruals or prepayments in the balance sheet.

Current and deferred taxation

Current tax is provided at the amounts expected to be paid using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset is realised or liability is settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis and deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Tax is charged or credited to the income statement except when it relates to items recognised in OCI or directly in equity, in which case the tax is also recognised in OCI or directly in equity respectively. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Investments in Group and other undertakings

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value and include the fair value at the date of grant of share based payment awards to employees of subsidiary undertakings, net of amounts recovered as management charges.

Other investments are stated at cost less any provision for impairment in value.

Provisions
A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

Share capital
Ordinary share capital is classified as equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the preference shareholders or if dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the profit and loss account as interest expense.

Treasury shares
When ordinary share capital recognised as equity is acquired by the Company, the shares are held as treasury shares. The consideration paid, including commissions and taxes, is deducted from retained earnings and total equity.

Foreign currencies
The functional currency of the Company is sterling.

Transactions in currencies other than sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date. Non-monetary items (such as investments) that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency (such as some derivative financial instruments) are translated using the exchange rates at the date when the fair value was determined.

All exchange differences arising are taken to the income statement.

Financial instruments
The policies disclosed in note 1 to the Group Financial Statements on page 86 for the recognition, measurement and presentation of financial instruments are applicable to the Parent Company Financial Statements.

Other financial instruments
Amounts receivable from and owed to subsidiaries are recognised at amortised cost using the effective interest method and are reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently held at amortised cost. Interest is accounted for on an accruals basis in the income statement. Premiums payable on settlement or redemption and direct issue costs are capitalised and amortised over the period to which the facility relates.

Share based payments
For grants made to employees of Cobham plc under the Group's equity share based payment schemes, amounts which reflect the fair value of awards as at the time of grant are charged to the income statement over the vesting period, taking into account management's best estimate of the number of awards expected to vest. The vesting estimate, which includes progress against non-market related performance conditions, is reviewed and updated at each balance sheet date. The fair value of awards made to employees of subsidiary undertakings, net of amounts recovered as management charges, is recognised as a capital contribution and recorded in investments.

The valuation methodology for all schemes is based on the Black–Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

2. Dividends

£m	2015	2014
Final dividend of 7.746p per share for 2014 (2013: 7.04p)	87.7	75.5
Interim dividend of 3.05p per share for 2015 (2014: 2.904p)	34.4	32.8
Total dividend authorised and paid during the year	122.1	108.3

Further details of the proposed final dividend of 11.18p per share in respect of the financial year ended 31 December 2015 are shown in note 7 to the Group Financial Statements.

3. Share based payments
Employees of Cobham plc participate in equity settled share based payment schemes which are operated by the Group for senior executives and also in the Group's ShareSave scheme which is open to all UK employees.

At 31 December, the following awards were outstanding under each scheme:

Number of awards (thousands of shares)	2015	2014
PSP	3,050	3,695
RSP	123	23
ESOS	474	519
BCP	22	114
ShareSave	364	283
	4,033	4,634

Options outstanding under the ESOS scheme had a weighted average remaining contractual life of 2.3 years (2014: 3.3 years) and exercise prices which range from £1.84 to £2.33 (2014: £1.84 to £2.38). Options outstanding under the ShareSave scheme had a weighted average remaining contractual life of 3.1 years (2014: 2.2 years) and exercise prices which range from £1.48 to £2.41 (2014: £1.48 to £2.41).

Exercises of awards under the ESOS and ShareSave schemes were made at various times throughout the year. The average share price in that period was £2.964p (2014: £2.988p).

Further details of these schemes can be found in the Directors' Remuneration Report on pages 60 to 63 and in note 26 to the Group Financial Statements.

4. Investments in Group and other undertakings

£m	Shares	Share based payments	Total
Cost and net book amount			
At 1 January 2015	**764.7**	**11.7**	**776.4**
Additions in the year	**12.6**	–	**12.6**
Share based payment awards granted to employees of Group undertakings net of recoveries	–	**0.6**	**0.6**
At 31 December 2015	**777.3**	**12.3**	**789.6**

During the year the Company purchased 2.8% of the ordinary share capital of Lockman Investments Limited that was previously held by another subsidiary. Lockman Investments Limited is now a 100% directly owned subsidiary of Cobham plc.

In the opinion of the Directors the value of investments in subsidiary undertakings is not less than the aggregate amount at which they are shown above.

A list of all subsidiaries is provided in note 32 to the Group Financial Statements. The market capitalisation of the Group as a whole is given in the Group Financial Record on page 128.

The Company has minority shareholdings in two companies in connection with the FSTA programme. The total amount invested is £6.1m (2014: £6.1m) and this is held as a trade investment.

5. Trade and other receivables

Current assets

£m	2015	2014 Restated
Amounts owed by Group undertakings	**2,360.4**	1,959.9
Deferred tax	**6.9**	10.4
Prepayments and accrued income	**8.9**	7.4
	2,376.2	1,977.7

Amounts owed by Group undertakings are unsecured and repayable on demand. All such balances, excluding trading balances, are interest bearing.

The net deferred tax asset can be analysed as follows:

£m	2015	2014 Restated
Derivative financial instruments	**1.8**	2.0
Retirement benefit obligations	**4.5**	7.1
Share based payments	**0.5**	1.2
Accelerated capital allowances	**0.1**	0.1
	6.9	10.4

Movements in the net deferred tax asset are as follows:

£m	
At 1 January 2015	**10.4**
Charge to reserves	**(1.4)**
Charge to income statement	**(2.1)**
At 31 December 2015	**6.9**

Non-current assets

£m	2015	2014 Restated
Loan notes	**18.3**	18.3

Loan notes relate to the FSTA programme, are interest bearing and due for repayment in 2035.

6. Borrowings

Current liabilities

£m	2015	2014
Bank overdrafts	**59.7**	26.3
Bank loans	**100.7**	–
Senior notes	**54.9**	–
	215.3	26.3

Further details of the Company's principal borrowing facilities are disclosed in notes 14 and 17 to the Group Financial Statements.

Non-current liabilities

£m	2015	2014
Bank loans	**471.8**	569.8
Senior notes	**872.9**	877.0
	1,344.7	1,446.8

The loans falling due after more than one year are due for repayment as follows:

£m	2015	2014
Between one and two years	**41.6**	331.1
Between two and three years	**303.6**	52.2
Between three and four years	–	186.5
Between four and five years	**123.7**	–
After five years	**2.9**	–
	471.8	569.8

Senior notes falling due after more than one year mature as follows:

£m	2015	2014
Between one and two years	**84.8**	51.9
Between two and five years	**330.1**	363.9
After five years, maturing between 2021 and 2024	**458.0**	461.2
	872.9	877.0

7. Trade and other payables

£m	2015	2014 Restated
Trade payables	**2.3**	3.7
Amounts owed to Group undertakings	**484.6**	465.9
Corporation tax payable	**1.2**	6.8
Other tax and social security	**1.7**	2.2
Accruals and deferred income	**20.4**	17.9
	510.2	496.5

Interest is charged on amounts owed to Group undertakings at rates varying between 0.25% and 9.0%. These amounts are unsecured and are repayable on demand.

8. Provisions

Provisions of £6.6m (2014: £6.6m) relate to longer term warranties given on divestments completed in 2005. All amounts have been determined based on the Directors' current estimates of likely outcomes and the timing of any claims remains uncertain.

9. Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange contracts and interest rate swap contracts to reduce these exposures and does not use derivative financial instruments for speculative purposes. Other derivative financial instruments may be used from time to time to manage exposures such as inflation risk.

The fair values of derivative financial instruments are as follows, these are financial assets measured at fair value through profit or loss, or financial liabilities categorised as held for trading:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
Non-current assets	–	**10.1**	**1.2**	**11.3**
Current assets	–	**13.8**	**1.2**	**15.0**
Current liabilities	**(0.5)**	**(29.9)**	**(1.2)**	**(31.6)**
Non-current liabilities	**(1.8)**	**(9.8)**	**(1.2)**	**(12.8)**
At 31 December 2015	**(2.3)**	**(15.8)**	–	**(18.1)**
Non-current assets	–	12.1	2.2	14.3
Current assets	–	14.9	0.8	15.7
Current liabilities	(0.7)	(21.8)	(0.8)	(23.3)
Non-current liabilities	(2.6)	(13.2)	(2.2)	(18.0)
At 31 December 2014	(3.3)	(8.0)	–	(11.3)

The movements in the fair values of derivative financial instruments during the year are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
At 1 January 2014	(3.2)	10.0	–	6.8
Loss through income statement – not hedged	–	(18.0)	–	(18.0)
Loss through OCI – hedged items	(1.4)	–	–	(1.4)
Gain reclassified to income statement	1.3	–	–	1.3
At 1 January 2015	**(3.3)**	**(8.0)**	–	**(11.3)**
Loss through income statement – not hedged	–	**(7.6)**	–	**(7.6)**
Gain reclassified to income statement	**1.1**	–	–	**1.1**
Loss through OCI – hedged items	**(0.3)**	**(0.2)**	–	**(0.5)**
Foreign exchange adjustments	**0.2**	–	–	**0.2**
At 31 December 2015	**(2.3)**	**(15.8)**	–	**(18.1)**

Hedge accounting is applied for interest rate swaps and a small number of specific foreign exchange derivatives with a fair value at 31 December 2015 of £1.5m (2014: £2.7m) which are designated as cash flow hedging instruments. There is no material ineffectiveness in cash flow hedges to be reported through the income statement.

The majority of foreign exchange and inflation derivatives are not accounted for using hedge accounting and movements in fair values are recorded in the income statement.

The most significant assumptions in valuing the derivatives are the exchange rates for GBP: USD, GBP: DKK and GBP: EUR.

10. Retirement benefit obligations

Retirement benefit obligations in the Balance Sheet comprise:

£m	2015	2014 Restated
Defined benefit scheme assets	**349.0**	275.0
Defined benefit obligations	**(371.4)**	(310.8)
	(22.4)	(35.8)

Defined benefit pension schemes

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The plans are funded defined benefit schemes (where benefits are based on employees' length of service and average final salary) and assets are held in separate trustee administered funds. The plans have been closed to new members since 2003 and will be closed to future accrual from 1 April 2016.

Details of actuarial valuation processes and risks, assumptions and sensitivities relating to the CPP and CEPP are not significantly different to those disclosed in note 22 to the Group Financial Statements on page 105.

The Company expects to contribute £8.5m to its defined benefit pension schemes in 2016 and £8.5m in 2017 related to deficit funding. There were no significant contributions outstanding at the end of 2015 or 2014.

Changes in the present value of the defined benefit obligations are as follows:

£m	2015	2014 Restated
Opening defined benefit obligations	**310.8**	267.1
Current service cost	**0.1**	0.1
Past service cost	**0.2**	–
Interest cost	**12.2**	11.9
Actuarial losses arising from changes in financial assumptions	**64.9**	43.5
Actuarial gains arising from changes in demographic assumptions	**(4.3)**	(1.4)
Contributions by members	**0.1**	0.1
Gain on curtailment	**(0.2)**	–
Benefits paid	**(12.4)**	(10.5)
Closing defined benefit obligations	**371.4**	310.8

Changes in the fair value of scheme assets are as follows:

£m	2015	2014 Restated
Opening fair value of scheme assets	**275.0**	235.7
Interest	**10.9**	10.6
Actuarial gains	**67.0**	30.1
Scheme administration expenses	**(0.2)**	(0.2)
Contributions by members	**0.1**	0.1
Contributions by employers	**8.6**	9.2
Benefits paid	**(12.4)**	(10.5)
Closing fair value of scheme assets	**349.0**	275.0

The actual return on scheme assets was £77.9m (2014: £40.7m). The weighted average duration of the scheme liabilities is estimated to be 18 years.

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

	2015		2014	
	£m	%	£m	%
UK equity instruments	23.6	6.8%	17.5	6.4%
Overseas equities	13.7	3.9%	10.7	3.9%
Emerging markets equities	9.3	2.7%	7.1	2.6%
Liability driven investments	31.3	9.0%	42.1	15.3%
Insurance contracts	163.0	46.7%	137.7	50.1%
Diversified growth funds	82.6	23.6%	59.5	21.6%
Other assets	25.5	7.3%	0.4	0.1%
	349.0	100.0%	275.0	100.0%

Scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company.

Defined contribution pension schemes

The Company also operates and participates in the Cobham Personal Pension Plan, a defined contribution scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The pension cost charged represents contributions payable by the Company to the funds and amounted to £0.9m (2014: £0.9m). No contributions were outstanding at the end of 2015 or 2014.

11. Share Capital

£m	2015	2014
Allotted, issued and fully paid		
Equity		
1,214,527,625 (2014: 1,214,527,625) 2.5p ordinary shares	30.4	30.4
Non-equity		
19,700 (2014: 19,700) 6% second cumulative preference shares of £1	–	–

Preference shares with a value of £19,700 are classified as borrowings.

Further details of the share capital of Cobham plc, including changes resulting from treasury shares, can be found on page 67 and in note 24 to the Group Financial Statements.

12. Contingent liabilities and commitments

The Company has contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business entered into for, or on behalf of, certain Group undertakings.

As the conditions of the above guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made at the year end.

The Company had no capital commitments at 31 December 2015 (2014: £nil).

13. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with related parties that are part of the Cobham plc Group or investees of the Group. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 from disclosing related party transactions with its wholly owned subsidiary undertakings. The only transactions with non-wholly owned subsidiaries relate to the receipt of management and brand charges totalling £1.0m (2014: £1.2m) from TEAM SA which is 98.7% owned. No amounts were outstanding at the current or prior year end.

There were no material transactions with the Company's Directors, their close family members or other connected parties to be reported during the year other than arising from Directors' service agreements. Details of Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 58 to 67.

14. Transition to FRS 101 from previous UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101. The Company has early adopted the amendments to FRS 101 (issued in July 2015).

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 Balance Sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 Balance Sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). The Company has also reformatted the presentation of its Balance Sheet. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and performance, prior to the reformatting of the Balance Sheet, is set out below:

Reconciliation of equity

As at 31 December 2014

£m	Note	UK GAAP	Effect of transition to FRS 101	FRS 101
Fixed assets				
Investments in Group and other undertakings		776.4	–	776.4
Other investments		6.1	–	6.1
Derivative financial instruments		14.3	–	14.3
		796.8	–	796.8
Current assets				
Derivative financial instruments		15.7	–	15.7
Trade and other receivables	a, b	1,988.4	(10.7)	1,977.7
Other receivables	b	–	18.3	18.3
Cash and cash equivalents		420.2	–	420.2
		2,424.3	7.6	2,431.9
Trade and other payables: amounts falling due within one year	c	(155.5)	(390.6)	(546.1)
Net current assets		2,268.8	(383.0)	1,885.8
Total assets less current liabilities		3,065.6	(383.0)	2,682.6
Trade and other payables: amounts falling due after more than one year	c	(1,855.4)	390.6	(1,464.8)
Provisions for liabilities		(6.6)	–	(6.6)
Retirement benefit obligations	d	–	(35.8)	(35.8)
Net assets		1,203.6	(28.2)	1,175.4
Capital and reserves				
Called up share capital		30.4	–	30.4
Share premium account		301.9	–	301.9
Other reserves	e	61.1	(43.6)	17.5
Retained earnings	e, f	810.2	15.4	825.6
Total equity		1,203.6	(28.2)	1,175.4

As at 31 December 2013

£m	Note	UK GAAP	Effect of transition to FRS 101	FRS 101
Fixed assets				
Intangible assets		0.1	–	0.1
Investments in Group and other undertakings		776.8	–	776.8
Other investments		6.1	–	6.1
Derivative financial instruments		18.1	–	18.1
		801.1	–	801.1
Current assets				
Derivative financial instruments		8.3	–	8.3
Trade and other receivables	a, b	1,118.9	(11.7)	1,107.2
Other receivables	b	–	18.3	18.3
Cash and cash equivalents		74.1	–	74.1
		1,201.3	6.6	1,207.9
Trade and other payables: amounts falling due within one year	c	(355.3)	(403.5)	(758.8)
Net current assets		846.0	(396.9)	449.1
Total assets less current liabilities		1,647.1	(396.9)	1,250.2
Trade and other payables: amounts falling due after more than one year		(1,020.1)	403.5	(616.6)
Provisions for liabilities		(6.6)	–	(6.6)
Retirement benefit obligations	d	–	(31.4)	(31.4)
Net assets		620.4	(24.8)	595.6
Capital and reserves				
Called up share capital		28.9	–	28.9
Share premium account		126.6	–	126.6
Other reserves	e	58.4	(43.6)	14.8
Retained earnings	e, f	406.5	18.8	425.3
Total equity		620.4	(24.8)	595.6

Reconciliation of profit for the year ended 31 December 2014

£m	Note	
Profit for the financial year per previous UK GAAP		**505.4**
Retirement benefit obligations	d	**7.6**
Deferred tax related to retirement benefit obligations	a	**(1.5)**
Deferred tax related to share based payments	a	**0.2**
Profit for the financial year per FRS 101		**511.7**

Notes to the reconciliation of equity and profit

a. Tax

Changes in deferred tax represent the impact of deferred taxes on the adjustments necessary for the transition to FRS 101 and total £6.3m as at 1 January 2014 and £7.1m as at 31 December 2014. Amounts affecting the income statement for the year ended 31 December 2014 are £1.5m relating to retirement benefit obligations and £0.2m relating to a change in the basis of calculation of deferred tax for share based payments.

b. Other receivables

Other receivables which are due after one year are now presented separately on the Balance Sheet.

c. Trade and other payables

Amounts owed to Group undertakings have been reclassified from amounts falling due after more than one year to amounts falling due within one year upon transition to FRS 101.

d. Pension

Under UK GAAP, the Company accounted for the defined benefit pension schemes as if they were defined contribution schemes and the charge to the income statement therefore reflected payments for the year. Under FRS 101, the multi-employer exemption is no longer available and the Balance Sheets have been amended by £31.4m at 1 January 2014 and £35.8m at 31 December 2014. The income statement impact of adopting FRS 101 for the year ended 31 December 2014 was an increase in profit before tax of £7.6m, with a loss after tax of £9.7m impacting OCI.

e. Other reserves

The special reserve which arose under historic UK GAAP has been merged into retained earnings.

f. Retained earnings

All the adjustments above were recognised against opening retained earnings and other reserves as at 1 January 2014.

Group Financial Record

£m	2011	2012	2013	2014 Restated	**2015**
Revenue	1,854.4	1,749.4	1,789.7	1,851.7	**2,072.0**
Underlying profit before taxation	327.9	300.2	288.0	257.0	**280.4**
Profit/(loss) before taxation for the year	234.3	204.0	126.6	24.3	**(39.8)**
Taxation	(46.3)	(32.2)	(12.1)	4.7	**2.1**
Profit/(loss) after taxation	188.0	171.8	114.5	29.0	**(37.7)**
Net assets employed					
Intangible assets	917.6	1,102.1	1,162.2	2,040.8	**1,729.5**
Property, plant and equipment (including investment properties)	329.8	315.5	360.7	400.4	**384.2**
Investments	16.1	15.8	3.1	3.1	**3.0**
Other non-current assets	36.3	60.3	43.3	75.3	**95.3**
Current assets	983.7	877.9	849.9	1,101.6	**1,105.6**
	2,283.5	2,371.6	2,419.2	3,621.2	**3,317.6**
Current liabilities	(749.0)	(576.4)	(574.8)	(707.4)	**(797.2)**
Non-current liabilities excluding retirement benefit obligations	(444.2)	(667.4)	(712.9)	(1,699.5)	**(1,554.0)**
Net assets excluding retirement benefit obligations	1,090.3	1,127.8	1,131.5	1,214.3	**966.4**
Retirement benefit obligations	(71.2)	(73.4)	(87.3)	(102.0)	**(56.7)**
Net assets including retirement benefit obligations	1,019.1	1,054.4	1,044.2	1,112.3	**909.7**
Financed by					
Ordinary share capital	28.9	28.9	28.9	30.4	**30.4**
Reserves	989.7	1,024.9	1,014.5	1,081.0	**878.4**
Total equity attributable to the owners of the parent	1,018.6	1,053.8	1,043.4	1,111.4	**908.8**
Non-controlling interests in equity	0.5	0.6	0.8	0.9	**0.9**
Total equity	1,019.1	1,054.4	1,044.2	1,112.3	**909.7**
Net debt	(232.5)	(359.9)	(453.4)	(1,222.7)	**(1,206.8)**
Operating cash flow	337.1	339.3	268.5	207.9	**234.6**
Operating cash conversion	95%	104%	85%	73%	**71%**
pence					
Dividend paid per ordinary share	6.17	8.60	9.04	9.94	**10.80**
Earnings per ordinary share – underlying	22.05	22.48	21.60	18.48	**19.48**
Earnings per ordinary share – basic	16.80	15.98	10.70	2.60	**(3.35)**
Earnings per ordinary share – diluted	16.76	15.93	10.65	2.58	**(3.35)**
Net assets per ordinary share	88.3	91.3	90.4	91.6	**74.9**
£m					
Market capitalisation as at 31 December	2,117	2,549	3,169	3,934	**3,440**

Shareholder Information

Analysis of shareholders

Analysis of ordinary shareholders on the register at 31 December 2015:

Size of holding	Number of registered holders	Percentage of registered holders	Number of ordinary shares held	Percentage of ordinary shares
Up to 1,000	1,523	29.62	756,683	0.07
1,001–10,000	2,526	49.13	9,187,661	0.75
10,001–50,000	627	12.19	13,222,652	1.09
50,001–250,000	217	4.22	24,070,694	1.98
250,001–1,000,000	129	2.51	70,923,092	5.84
1,000,001 and above	120	2.33	1,096,366,843	90.27
Total	**5,142**	**100.00**	**1,214,527,625**	**100.00**

Includes Treasury shareholding of 75,951,724 shares.

At 31 December 2014, there were 5,242 ordinary shareholders on the register.

Source: Equiniti Group plc

Registrars

Enquiries concerning shareholdings or dividends should, in the first instance, be addressed to the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone: 0371 384 2163* or +44 (0)121 415 7047 if calling from outside the UK). Shareholders should promptly notify the registrars of any change of address or other particulars.

The registrars provide a range of shareholders' services online. The portfolio service provides access to information on investments including balance movements, indicative share prices and information on recent dividends and also enables address and mandate details to be amended online. For further information and practical help on transferring shares or updating your details, please visit **www.shareview.co.uk**. The share dealing service enables shares to be sold by UK shareholders by telephone, post or over the internet. For telephone sales please call 0345 603 7037 between 8:00am and 4:30pm, Monday to Friday. For postal sales, please send your completed documentation to the address above. For internet sales, please visit **www.shareview.co.uk/dealing**.

Individual Savings Accounts (ISAs)

The registrars also offer an ISA for Cobham shareholders. Further information may be obtained by visiting **www.shareview.co.uk**, or telephone 0371 384 2244 (or +44 (0)121 415 7171 if calling from outside the UK).

You should bear in mind that investments, both their value and the income they provide, can go down as well as up and you might not get back what you originally invested.

Capital gains tax

For the information of shareholders who held Cobham plc ordinary shares on 31 March 1982, the market value, adjusted for capitalisation and rights issues, of the Company's ordinary shares on that date for capital gains tax purposes, unadjusted for the share sub-division of July 2005, was 86.02 pence.

ShareGift

Do you have a small shareholding which is uneconomical to sell? You may want to consider donating it to ShareGift (registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting **www.sharegift.org** or calling +44 (0)207 930 3737.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting **www.fca.org.uk**. You can also call the FCA Consumer Helpline on 0800 111 6768 (or +44 (0)20 7066 1000 if calling from outside the UK).

Financial calendar

AGM	28 April 2016
Final dividend – x-div date	28 April 2016
Final dividend – record date	29 April 2016
Final dividend	27 May 2016
Interim results	4 August 2016
Interim dividend – x-div date	6 October 2016
Interim dividend – record date	7 October 2016
Interim dividend	4 November 2016

Registered Office

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Registered Number in England: 30470

* Lines are open Monday to Friday 8:30am to 5:30pm; excluding Public Holidays in England and Wales.

Glossary

Term	Full name	Description
737NG	Boeing 737 Next Generation	Part of the Boeing 737 family of twin engine narrow-body commercial airliners. Boeing 737 Next Generation models include the -600, -700, -800 and -900ER.
A400M	Airbus A400M	A versatile large military aircraft that performs three differing duties: short-medium range flights; long range flights; and the ability to provide aerial refuelling capabilities.
AMSA	Australian Maritime Safety Authority	A statutory authority whose principal functions are promoting maritime safety and protection of the marine environment; preventing and combating ship-sourced pollution in the marine environment; providing infrastructure to support safety of navigation in Australian waters; providing a national search and rescue service to the maritime and aviation sectors.
Aviator 200S	Aviator 200S	The AVIATOR S series provides SATCOM solutions for airline fleets for the purpose of air traffic control and aircraft operation control. The AVIATOR S enables secure data communication, Internet Protocol (IP) connectivity and multiple voice capabilities.
B/MQ-9 Reaper®	General Atomics B/MQ-9 Reaper®	A medium-to-high altitude, long endurance remotely piloted aircraft system. The primary mission is to act as an intelligence, surveillance and reconnaissance asset.
B717	Boeing 717	A narrow-body passenger aircraft designed for short-haul, high frequency commercial use.
B787	Boeing 787 Dreamliner	A family of long-range wide-body twin engine passenger aircraft.
C-130	Lockheed Martin C-130	A tactical airlifter. C-130 variants are also used for special operations, aerial refuelling, close air support, search and rescue and personnel recovery.
CI	Continuous improvement	Continuous improvement is the ongoing improvement of products, services or processes through incremental and breakthrough activities.
CL-604	Bombardier Challenger CL-604 aircraft	A business jet being modified by Cobham.
COMAC C919	COMAC C919	A narrow-body passenger aircraft currently being developed by the Commercial Aircraft Corporation of China (COMAC).
COSO ERM	Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management	An integrated framework which helps businesses assess and enhance their internal control systems. The framework is used to control activities and to better achieve established objectives.
ERP	Enterprise Resource Planning	An IT system which integrates all business processes, including manufacturing, finance and accounting, human resources, sales and marketing, purchasing, distribution, and inventory into one central cohesive repository. It allows businesses to run more efficiently, with real time access to data across many business functions.

Term	Full name	Description
F-#	US Air Force designated fighter aircraft	Designation for aircraft used for air-to-air combat or for multiple roles, including ground support missions.
FSTA	Future Strategic Tanker Aircraft	A UK Private Finance Initiative funded project which has replaced the UK's air-to-air refuelling fleets, and elements of the air transport work previously undertaken by the RAF VC10 and TriStar fleets. FSTA uses the A330 MRTT aircraft.
FYDP	Future Years Defense Program	A US Department of Defense centralised report providing data on current and planned resource allocations, providing visibility over projected defence spending.
GX	Inmarsat Global Xpress	A global satellite service which is the world's first to offer mobile broadband coverage. Global Xpress provides increased data speeds and bandwidth to customers in the government, maritime and aeronautical sectors.
idDAS	Intelligent Digital Distributed Antenna Systems	An in-building wireless coverage solution allowing mobile operators to dynamically allocate capacity around a facility to locations only where and when it is needed.
Ka-band	Ka-band	Used in satellite communications, Ka-band offers higher bandwidth than alternative frequencies allowing greater data transfer rates.
KC-46	Boeing KC-46	An aerial refuelling tanker, currently being developed for the US Air Force to replace its ageing fleet of KC-135 Stratotankers.
Mitsubishi Regional Jet	Mitsubishi Regional Jet	A next generation regional jet that is currently in development.
NASA	The National Aeronautics and Space Administration	A US government agency responsible for a civilian space programme as well as aeronautics and aerospace research.
Predator®	General Atomics Predator®	A long-endurance, medium-altitude unmanned aircraft system for surveillance and reconnaissance missions.
SAILOR 100 GX	SAILOR 100 Global Xpress	An advanced 3-axis stabilized Ka-band antenna system designed for the Inmarsat GX satellite network.
SATCOM	Satellite Communication	Enables fixed and mobile communications such as telephone calls, television or internet connections, using an orbiting satellite to transfer data around the earth.
SEWIP	Surface Electronic Warfare Improvement Program	An evolutionary series of enhancements to the US Navy's AN/SLQ-32 electronic warfare system for surface ships.
TeraVM	TeraVM	A fully virtualised IP test and measurement solution that can emulate and measure millions of unique application flows as a means to test wireless networks.

Definitions

KPI definitions

Group organic revenue growth

Revenue growth stated at constant translation exchange rates, excluding the incremental effect of acquisitions and divestments.

Underlying EPS growth at constant translation exchange rates

The year-on-year increase in underlying profit after taxation, stated at constant translation exchange rates, divided by the weighted average number of ordinary shares.

Operating cash conversion

Operating cash conversion is defined as operating cash flow as a percentage of trading profit.

Return on invested capital

Trading profit as a percentage of the average invested capital during the year. Invested capital comprises net assets adjusted to exclude net debt, retirement benefit obligations, derivative financial instruments, current and deferred tax, provisions and other financial assets. Intangible assets recognised on business combinations are grossed up to their original cost before amortisation and an adjustment is also made to reinstate the historic goodwill previously written off directly to reserves.

PV investment

Private Venture (PV) or company funded Research and Development (R&D) measures exclude Aviation Services, where there is no R&D activity.

Staff safety – major accident incident rate

The number of incidents resulting in more than three days absence per 100,000 employees.

Voluntary staff turnover

The number of voluntary leavers divided by the average number of employees in the year, excluding employees who became redundant, were dismissed or retired.

Further financial definitions

The following notes apply throughout the Annual Report and Accounts:

To assist with the understanding of earnings trends, the Group has included within its published statements non-GAAP measures including trading profit and underlying earnings results. Trading profit has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity and business restructuring costs as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments, gains and losses arising on dividend related foreign exchange contracts, impairments of intangible assets and items deemed by the Directors to be of an exceptional nature.

All underlying measures include the operational results of all businesses including those held for sale until the point of sale.

Business acquisition and divestment related items excluded from trading profit and underlying earnings include the amortisation of intangible assets recognised on acquisition, gains or losses arising on business divestments, adjustments to businesses held for sale, the writing off of the pre-acquisition profit element of inventory written up on acquisition and other direct costs associated with business combinations and terminated divestments.

Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. In 2015, these relate primarily to the integration of the Aeroflex businesses acquired in 2014.

Underlying earnings are defined as trading profit less net underlying finance costs, which exclude acquisition related items, and after deducting associated taxation and non-controlling interests.

Free cash flow is defined as net cash from operating activities less cash flows related to the purchase or disposal of property, plant, equipment and intangible assets but excluding payments relating to M&A activities. Operating cash flow is free cash flow before payment of tax, interest and restructuring costs. Operating cash conversion is defined as operating cash flow as a percentage of trading profit.

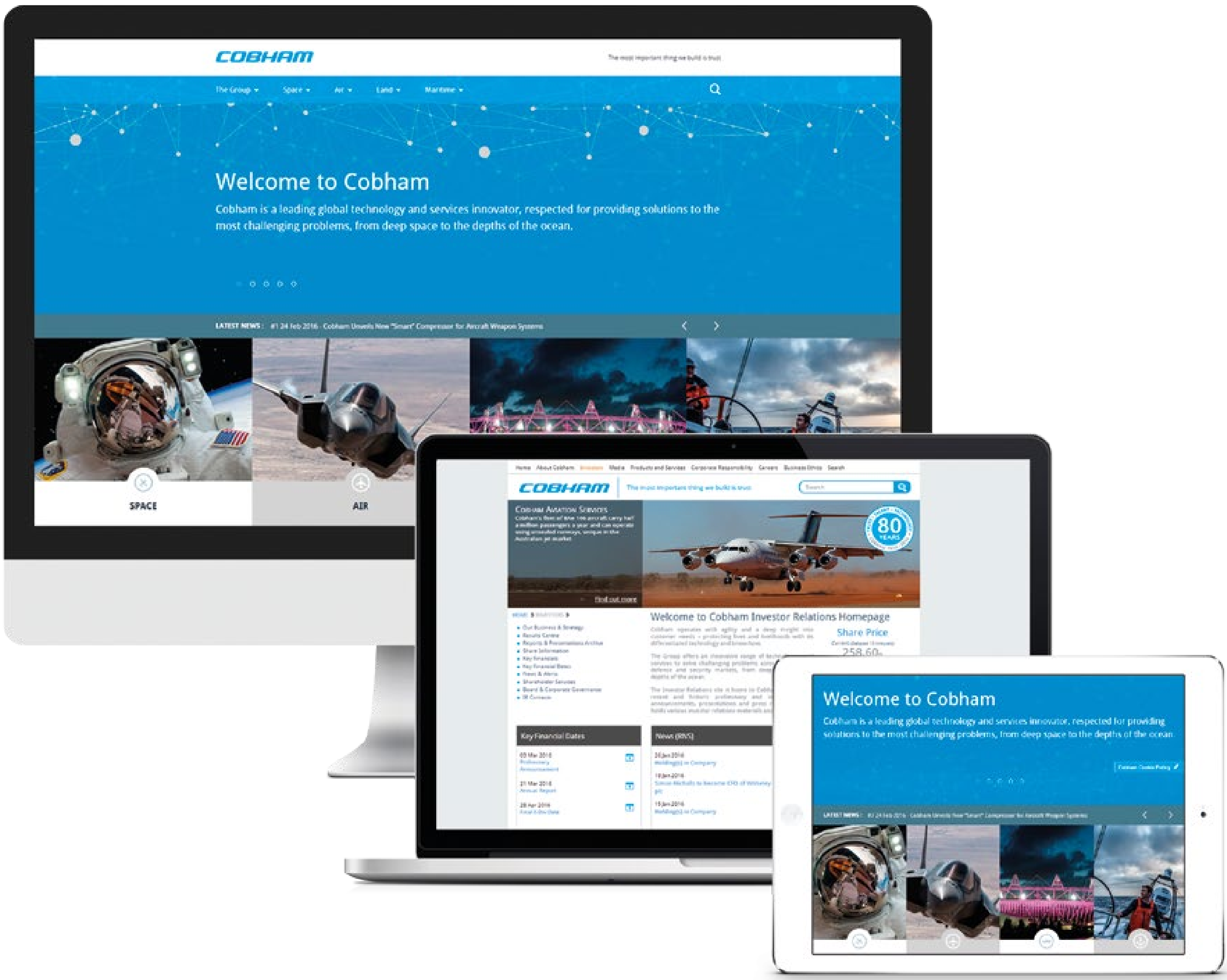
Net debt is defined as the net of borrowings less cash and cash equivalents at the balance sheet date.

When providing sectoral analysis by geography, US revenue includes revenue to US based customers on programmes which could be designated as export and is therefore non-US defence/security from a market analysis perspective.

Find more online

Our website provides further information including shareholder services and governance, details of our products and services, corporate responsibility and sustainability, and more at:

www.cobham.com



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