Regulatory Story

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Cobham PLC - COB Final Results
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2 MARCH 2017

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016 AND PROPOSED RIGHTS ISSUE

Initial diagnosis made of underlying problems following a deeply disappointing year; in early stages of actions to arrest and reverse Cobham's negative performance trajectory.

	Note	2016	2015[2]
Underlying results**	1		
Order intake		**£2,084.0m**	£2,148.0m
Revenue		**£1,943.9m**	£2,072.0m
Operating profit		**£225.0m**	£332.2m
Profit before tax		**£175.2m**	£280.4m
Earnings per share (EPS)		**9.0p**	16.5p
Free cash flow	3	**£50.7m**	£105.5m
Net debt/EBITDA		**3.0x**	2.9x
Statutory results			
Operating (loss)/profit		**£(779.1)m**	£12.0m
Loss before tax		**£(847.9)m**	£(39.8)m
Basic EPS		**(52.8)p**	(2.8)p
Net debt		**£1,028.2m**	£1,206.8m
Full year dividend per share		**2.03p**	11.18p

***Underlying results are presented to assist with the understanding of the Group's performance trends. These measures are defined in the notes on page 4 and reconciled to GAAP measures in* *this statement on page 21.*

2016 Results

- **Underlying operating profit:** impacted by weaknesses in management and financial controls; contractual and commercial failures and, in a few businesses, more challenging market conditions

- **Balance sheet review**: impairments of £573.8m and other charges of £236.8m, including KC-46, as announced on 16 February 2017

- **Dividend policy:** final dividend for 2016 suspended, as announced on 11 January 2017. No dividend to be recommended in respect of 2017

2017 Priorities

- **Management focus:** better control and execution, improved customer relationships, simplification of systems, processes and reporting, combined with strong and visible leadership

Actions to address balance sheet

- **Financial position:** targeting a net debt/EBITDA gearing ratio of 1.5x

- **Rights Issue:** Board to raise approximately £500m (gross proceeds), by way of a Rights Issue, which is fully underwritten on a standby basis; anticipated to complete during second quarter of 2017

Outlook

- **2017**: outlook unchanged from 16 February 2017 announcement

- **Medium term**: leverage Cobham's strong capabilities and market positions into improved operating and financial performance, from a business model that produces an attractive and sustainable returns profile

Michael Wareing, Cobham Chairman said:

"The Board and I are deeply disappointed with events through 2016 and the poor outcome that has been delivered. While the Board has already undergone significant change over recent months, it is my intention to effect a rolling programme of material Board changes over the next two years.

"Our new management team, who has only been in place for a few weeks, has presented an initial diagnosis of the issues and a realistic assessment of the Group's operating and financial position."

David Lockwood, Cobham Chief Executive Officer said:

"Given the reality of Cobham's current financial performance and our high leverage coming into the year, we have announced actions today to strengthen the balance sheet. This is needed to reassure our customers, to give us the flexibility to drive operational improvements and to provide us with a sustainable platform for the future.

"Cobham has a portfolio of businesses with leading positions in attractive markets, differentiated technologies and know-how, and an enviable customer list. This gives us confidence that Cobham can be reinvigorated over time, as our actions release its potential and demonstrate the value in our businesses."

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PRELIMINARY RESULTS PRESENTATION INCLUDING WEBCAST AND DIAL-IN DETAILS

There will be a preliminary results presentation at 9.30am UK time on Thursday, 2 March 2017, with a live webcast on the Cobham website (www.cobhaminvestors.com). The webcast will be available on the website for subsequent viewing. There will also be a live dial-in facility available which can be accessed in the UK and internationally on +44 (0) 20 3003 2666, confirmation code Cobham and in the US/Canada on +1 646 843 4608, confirmation code Cobham. The published Annual Report will be available as a download file on www.cobhaminvestors.com from 20 March 2017.

A PDF of this preliminary announcement is available for download from www.cobhaminvestors.com/reports-and-presentations/2016.

The following notes apply throughout these preliminary results:

1. *To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including underlying operating profit (previously called trading profit) and underlying profit. All underlying measures include the operational results of all businesses including those held for sale until the point of sale. The non-GAAP measures used do not include the impact of items described below which are not considered to reflect the day to day operating results of the Group. Underlying measures are therefore considered to provide a more comparable view year-on-year, having removed the distorting effects of the excluded items which are more clearly understood when presented separately.*

   Underlying operating 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 and other items deemed by the Directors to be of an exceptional, non-operating nature including impairment of intangible assets.

   Business acquisition and divestment related items excluded from underlying operating profit and underlying profit include the amortisation of intangible assets arising on business combinations, 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. Where restructuring costs are incurred as a result of the on-going execution of Group strategy, such costs are included within administrative expenses and are not excluded from underlying results.

   In 2016 additional exceptional items excluded from underlying results due to their unusual size and incidence arose out of the January 2017 Balance Sheet review and include revisions to the carrying value of assets, additional contract loss provisions and legal and other provisions.

   Underlying profit before taxation is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and non-recurring finance *costs (such as costs associated with the early repayment of senior notes following the June 2016 Rights Issue).*

A reconciliation of the statutory results to the respective underlying measures is shown on page 20.

2. *Restatement relates to the reflection of the bonus element of the June 2016 Rights Issue on the prior period average number of shares and EPS.*

3. *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 business acquisition and divestment related activities. Operating cash conversion is defined as operating cash flow as a percentage of underlying operating profit excluding the share of post-tax profits of joint ventures and associates.*

A reconciliation of underlying operating profit to operating cash is shown on page 21.

Net debt is defined as the net of borrowings less cash and cash equivalents at the balance sheet date.

4. *Organic revenue is defined as revenue stated at constant translation exchange rates, excluding the incremental effect of acquisitions and divestments.*

5. *Private Venture (PV or company funded R&D - Research and Development) measures exclude Aviation Services, where, due to the nature of its business, there is no R&D activity.*

CHIEF EXECUTIVE'S REVIEW

Performance in 2016

It has been a very challenging year for Cobham and the result reflects a number of significant management, execution and market issues. Despite the obvious attributes of the business, including its differentiated technology and know-how and leading market positions, there are a wide range of strategic, operational and cultural weaknesses that need addressing.

The year-on-year decrease in underlying operating profit is partly due to a disappointing 7.7% organic[4] revenue decline in the year, including an adverse revenue mix from an increase in lower margin activity. In addition, there have been a number of previously announced execution issues which have increased costs and had an adverse impact on the Group's profitability in 2016.

Underlying Issues

The Group has many issues which require attention to reverse the current negative performance trajectory. These will be the subject of relentless focus for every employee, starting with me.

During 2016, there have been a succession of performance issues in a number of Cobham businesses. These have stemmed from weaknesses in management and financial controls; contractual and commercial failures and, in a few businesses, more challenging market conditions.

Change projects and initiatives driven from the centre have diverted focus from improving critical production, operational and contract performance. These change programmes have consumed significant financial resources and management energy over a number of years with disappointing outcomes.

The Group's reporting structures, including its internal processes and the allocation of responsibilities have become overly complex and unclear. In a number of instances, this has led to duplication, reduced accountability and slow decision making, which have contributed to sustained operational and financial challenges. This situation has ultimately impacted employee motivation and morale, evidenced by Cobham's high voluntary staff turnover.

Furthermore, with hindsight, the Group may have misread the cycles within its markets and within its businesses, making poorly timed acquisitions or integrating them poorly. These acquisitions appear to have amplified internal weaknesses, rather than compensated for them.

Technology and Market Positions

However, the poor 2016 outcome and the underlying issues above are in stark contrast to what I have seen since I became Cobham's Chief Executive Officer on 14 December 2016. The Group holds leading positions in many of its specialist markets, and its technologies are critical to customer needs. Many of these markets are highly attractive and offer good medium term opportunities. The high technology value-add and Cobham's leading market positions represent significant barriers to entry. The key, of course, is to monetise these attributes by improving our execution.

Consistent with these observations, I have also met a number of customers and other business partners, and I have had very encouraging early engagements with them. My customer meetings have been both with those who have had a significant and long term relationship with Cobham and those where there is tremendous, untapped potential. It is apparent that there are many opportunities for our businesses to increase market share, as there is both a need and a real enthusiasm for the products and services that Cobham can offer.

I have also met many Cobham employees and have been impressed by their knowledge, passion and commitment. If we can effectively harness the energy I have seen and apply the Group's technology to win the most promising programmes, executing on time and on budget, then I am confident the fortunes of the company will be restored over time.

In thinking about future margins, there are things we can control and things we cannot. We cannot control market forces, which may benefit us or weigh on us. However, we can control our operational delivery. We have already announced that it may be challenging to deliver a similar performance to that of 2016 in 2017. However, when I look at our capabilities and market positions, and also what well run companies with similar characteristics achieve, over the medium term we should be able to deliver underlying operating margins 2-3% higher than at present, all else being equal.

I also intend to prioritise cash flow as a key measure of operational performance and not just now whilst we strengthen our balance sheet, but always. For the next two to three years we will need to fund the onerous contract provisions that were taken at the year end on key development programmes. Once we are through the development cycle, a company like Cobham ought to be targeting a run rate cash conversion of around 90%, thereby demonstrating its quality of earnings.

Priorities for 2017

Having carefully considered the Group's position, I have set the following priorities for 2017:

<u>Control and Execution</u>

We need to deliver consistently to our customers' and to our shareholders' expectations, recognising we have not always done so. We are in the early stages of enhancing our management controls and our operational and financial disciplines to address this, understanding that a strong operational performance and financial control are key pillars of improvement for us.

Customer Focus

It is also vital that we bring additional focus to our customer relationships. This starts with me, the CEO, and then must be reflected throughout our businesses. We will allocate an appropriate level of resource and contact to each customer and prioritise winning and retaining key platform and programme positions.

Cobham spent approximately £130 million on Private Venture[5] (PV or company funded research and development - R&D) in 2016. This was matched by a broadly similar amount funded by our customers. This investment provides a powerful platform on which we can develop world-class technologies with significant commercial advantages. In the past this substantial programme of technology investment has not always yielded the expected returns. We will be looking at ways of focusing this R&D spend to generate maximum shareholder value.

Leadership and Simplification

We will reduce complexity and duplication in the business by simplifying systems, processes and reporting and, with this in mind, we are also commencing a review of the breadth and shape of the Group's portfolio. By aligning this reduction in complexity with strong and visible leadership, we will build a sense of momentum and clear purpose among Cobham's management and employees. This will also improve accountability and enhance the speed and quality of decision making.

To help me drive all these priorities, I am pleased that David Mellors has joined me as Cobham's Chief Financial Officer (CFO). David is an experienced CFO who, among his other attributes, has a proven track record of improving financial discipline, driving cash generation and achieving effective cost control.

Outlook

Whilst market uncertainties undoubtedly exist, the ability of the Group to forecast performance is not as strong as it should be and these factors lead to our early view for 2017 having a wide range of potential outcomes.

The Group has many operational issues which require attention in addition to arresting and reversing the current negative performance trajectory. Some actions to address these have already commenced but are at an early stage. Some actions may also have associated costs. Given these and the issues highlighted above, the Board considers that delivery of a similar performance to that of 2016 in 2017 may be challenging.

Despite the current challenges facing Cobham, the Group has a portfolio of businesses with differentiated technologies and know-how, and it has leading positions in attractive markets. These offer good opportunities over the medium term and the Board is confident that the fortunes of the company will be restored over time.

Actions to Address the Balance Sheet

Year end net debt was £1,028.2m, a reduction of £178.6m on the prior year, after the £490.6m net proceeds from the June 2016 rights issue. Net debt also reflects the Group's modest free cash flow generation, £126.1m of dividend payments and adverse exchange rate movements of £236.4m. Due to the limited reduction in net debt and the Group's lower than expected profitability, the Group's net debt/EBITDA ratio at the year end was 3.0x, slightly higher than at 31 December 2015, but remains within the covenant upper threshold.

As we previously stated, the balance sheet is not strong enough to support the operations of the Group, given the important role it plays in many customer programmes. A stronger balance sheet will underpin the confidence of our customers and other stakeholders, supporting our medium term growth aspirations, for the benefit of our shareholders.

The Group is targeting a net debt/EBITDA gearing ratio of circa. 1.5x. This should be an appropriate capital structure given the requirement for balance sheet strength. The timeframe to achieving this target needs to be accelerated to give our customers, suppliers and employees confidence in our financial position.

Having considered the cash required to complete its ongoing development programmes, including the impact of the provisions taken at the year end, and to strengthen its balance sheet position, the Board has concluded that it is in the Group's best interests to raise £500m by way of an Rights Issue, which is fully underwritten on a standby basis and on customary market conditions. The Rights Issue will be completed in Q2 2017.

The Board intends to use the proceeds of the Rights Issue to pay down borrowings on the revolving credit facilities. There is no current intention to pay down the senior notes prior to maturity and incur make-whole charges before the Group has refinanced its bank facilities in 2018. The Board also intends to more closely align the currency mix of net debt with the currency mix of profits, thereby reducing foreign exchange exposure on the gearing ratio (net debt/EBITDA).

However the Group will also look to optimise its working capital position over time and, as noted above, will consider the breadth and shape of the portfolio.

Dividend

As previously announced, the Board will not be recommending a final dividend in respect of financial year 2016. Furthermore, the Board will not recommend either an interim or final dividend in respect of financial year 2017 and it expects to resume dividend payments when it is prudent to do so. This decision, and the level of payment, will take into account a number of factors including the Group's underlying earnings, cash flows and gearing, its investment needs and the requirement to maintain an appropriate level of dividend cover.

David Lockwood, OBE
Chief Executive Officer

BOARD

David Lockwood joined the Cobham Board on 14 December 2016 as Chief Executive Officer, replacing Bob Murphy.

David Mellors joined the Board on 1 January 2017 as Chief Financial Officer, replacing Simon Nicholls.

Michael Wareing, previously Senior Independent Director, became Chairman on 1 January 2017, replacing John Devaney and Jonathan Flint, Non-executive Director, also became Senior Independent Director.

Going forward, the Board believes that it is important that a number of new and experienced Non-executive Directors are appointed to the Board. At the same time, it is important that the Group benefits from a period of stability as well as effective continuity into the future. Consequently, it is the Chairman's intention to effect a rolling programme of material Board changes over the next two years.

FINANCIAL OVERVIEW OF THE YEAR

Group order intake was £2,084.0m (2015: £2,148.0m). After adjusting for divestments and currency Group order intake was 5% lower. The Group's book-to-bill ratio was 1.07x (2015: 1.04x); 0.99x (2015: 1.09x) excluding the Aviation Services Sector.

Group revenue was lower at £1,943.9m (2015: £2,072.0m), driven by divestments and a 7.7% organic decline. Partially offsetting this there was a significant benefit from currency translation.

Organic revenue decreased in the Aviation Services Sector by £57.6m or 13.9%, which was driven by lower flying activity in Australian natural resources markets. There was also a decrease due to the cessation of some smaller flying contracts and reduced operational readiness training activity in some defence markets. The Advanced Electronic Solutions Sector, with an organic decline of £46.2m or 8.3%, continued to be impacted by the end of production on certain US defence programmes. Within the Communications and Connectivity Sector, there was an organic decline of £36.9m or 5.1%, including from lower test and measurement revenue in the Wireless business and lower antenna and SATCOM volumes. Organic revenue in the Mission Systems Sector was down £27.3m or 6.6%, due to lower revenue overall from aerial refuelling, principally due to C-130 tanker production volumes and development revenue from the KC-46 tanker programme.

The Group made a statutory operating loss of £779.1m (2015: £12.0m profit). This in part reflected the results of the previously announced year-end balance sheet review. The Group recognised a total non-cash impairment of goodwill and other intangible fixed assets of £573.8m (2015: £26.6m) and £236.8m (2015: nil) of other charges, including a £150.0m charge on the KC-46 tanker programme. These charges have been recognised as exceptional items.

As previously announced, the Group's underlying operating profit was £225.0m (2015: £332.2m). This decrease in the Group's underlying operating profit reflected the revenue reduction in the year from lower shipment volumes, an adverse revenue mix, and the lower flying activity. There were also significant additional costs incurred, as previously announced, in the Wireless business and on certain development programmes in the Advanced Electronic Solutions Sector. The Group's underlying operating margin was 11.6% (2015: 16.0%).

Basic EPS was (52.8)p (2015: (2.8)p restated) and underlying EPS was 9.0p (2015: 16.5p restated). The lower 2016 numbers also reflected an adverse impact from the higher share count following the rights issue.

Operating cash flow, which is stated after net capital expenditure, but before interest and tax payments, was £181.8m (2015: £234.6m). Operating cash conversion was 81% (2015: 71%), including capital expenditure of £86.1m (2015: £98.7m). Free cash flow was £50.7m (2015: £105.5m), after £39.8m (2015: £48.2m) relating to prior periods' restructuring programmes.

Below free cash flow, the Group paid dividends of £126.1m (2015: £122.1m). There was a net inflow of £492.9m (2015: £24.9m outflow - net cost of treasury shares to satisfy awards and options under the Group's share based schemes), primarily relating to the net proceeds of the rights issue completed in the first half.

The Group's net debt decreased to £1,028.2m (31 December 2015: £1,206.8m) at the year end, including adverse exchange rate movements of £236.4m (2015: £80.1m), which were largely driven by translation of Cobham's US dollar denominated debt. Consistent with the Group's funding agreements the net debt/EBITDA ratio was 3.0x (2015: 2.9x) at the year end.

Cobham Communications and Connectivity

Provides high performance equipment and solutions to enable reliable connectivity across a range of demanding environments in aerospace, avionics, satellite and radio, wireless and mobile connectivity markets.

£m	2015	FX Translation	Divestments	Organic[5]	**2016**
Revenue	771.8	68.7	(113.4)	(36.9)	**690.2**
Operating Profit	108.4	6.6	9.3	(64.3)	**60.0**
Operating Margin	14.0%				**8.7%**

Total Sector revenue decreased by £81.6m. This was driven by a £113.4m decrease due to divestments, principally the Composites businesses which were divested in November 2015, and the Surveillance business divested in January 2016. There was a favourable impact from currency translation of £68.7m, which was partially offset by organic revenue, which was £36.9m or 5.1% lower.

The organic revenue performance was primarily driven by lower volumes including in the Wireless business, with lower sales of test and measurement products. In addition, there were lower antenna and SATCOM volumes, including an adverse impact from discontinued product lines.

Underlying operating profit was £60.0m (2015: £108.4m). The lower operating profit in part reflected the reduced volumes set out above. However, there were also significant additional costs incurred through the year primarily from increased resource requirements and a number of accounting adjustments, as a result of the previously announced operational issues in the Wireless business, rendering it loss making in the year. There was a partial offset to this from the favourable impact on operating profit from divestments completed in 2015 and 2016, from currency translation and from net cost savings achieved in the year. Reflecting the overall impact of these factors, the Sector's operating margin was 8.7% (2015: 14.0%).

While marine markets remain challenging, there has been acceleration in shipments of medium maritime Very Small Aperture Terminals in the SATCOM business, which are linked to the growth in subscribers for new constellations such as Inmarsat Global Xpress. Within aerospace markets, Cobham's Aviator S SATCOM product has been selected for the Airbus single aisle and long range aircraft, as previously announced, with revenue anticipated from 2018.

In the Wireless business, sales volumes for test and measurement products were lower, particularly for legacy test products, while there has been growth in distributed antenna systems and initial requests to support 5G pilot projects. The AvComm business has developed the first industry test platform for Software Communications Architecture, generating significant interest from radio manufacturers and governments, with first orders received in the second half of 2016. The Cobham Aerospace Communications business has been awarded an initial contract from OneWeb for its 600+ internet-providing satellite constellation.

Cobham 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. The Sector's primary focus is serving niche areas of the defence and security market globally, which is supplemented with an expanding presence in commercial aviation markets by applying its differentiated technology, particularly in pneumatic and actuation systems.

£m	2015	FX Translation	Divestments	Organic[5]	**2016**
Revenue	382.4	37.4	(6.1)	(27.3)	**386.4**
Operating Profit	68.0	6.3	(1.0)	(16.8)	**56.5**
Operating Margin	17.8%				**14.6%**

Total Sector revenue increased £4.0m, primarily reflecting favourable currency translation of £37.4m. This was partly offset by reduced revenue of £6.1m, due to the divestment of the unmanned systems business in October 2016, and an organic decline of £27.3m or 6.6%.

Within the organic result, there was revenue growth in some areas, including from increased shipments of actuation control subsystems related to air-to-ground munitions. However, this was offset by lower revenue overall from aerial refuelling, principally due to Lockheed Martin C-130 tanker production volumes and development revenue from the KC-46 tanker programme.

Underlying operating profit was lower at £56.5m (2015: £68.0m). This was primarily driven by lower C-130 volumes and a lower profit contribution from KC-46 development revenue. Partially offsetting these was a favourable impact from currency translation. Reflecting these factors, the operating margin was 14.6% (2015: 17.8%).

As announced on 16 February 2017, the Group has taken an exceptional charge of £150.0m in 2016 on KC-46 development. This is not included in underlying operating profit above. Within this programme, work on the conformity process for the KC-46 tanker Centreline Drogue System (CDS) has continued and is now substantially complete. Qualification activity on this system is now ongoing as part of the overarching US Federal Aviation Administration (FAA) certification process. Completion of conformity activity for the more complex Wing Aerial Refuelling Pods (WARP) and common components for the CDS continues. Elsewhere, on the Airbus A400M programme the first full production wing pods entered service with the German Air Force during 2016.

The Sector's long life Air Separation Module product has now entered service with three major US airlines. This product leverages previous investments in defence technology to reduce flammability in commercial aircraft fuel tanks and is driven by an FAA mandate to reduce and mitigate fuel tank flammability on board all US domestic carriers by 2018. Demand for missile actuation control subsystems on high volume air-to-ground missiles and laser guided munitions continued to grow, with multi-year contracts secured.

Cobham 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, including missile, radar and electronic warfare, X-ray imaging, medical and industrial markets.

£m	2015	FX Translation	Divestments	Organic[5]	**2016**
Revenue	538.0	69.1	(49.3)	(46.2)	**511.6**
Operating Profit	80.5	9.3	(5.0)	(24.6)	**60.2**
Operating Margin	15.0%				**11.8%**

Total Sector revenue decreased by £26.4m. This included a £49.3m decrease due to divestments, principally Weinschel and Inmet, which were divested in June 2015, and Metelics which was divested in December 2015. There was a favourable impact from currency translation of £69.1m, which was partially offset by organic revenue, which was £46.2m or 8.3% lower.

Organic revenue was lower primarily due to the Integrated Electronic Solutions business, which continued to be impacted by the end of production on certain mature programmes. This included the EA-18G Low Band Transmitter (LBT) programme for the US Navy, although this impact was partially mitigated by the commencement of the Low Band Consolidation programme, which will deliver upgrades to the LBT system. In addition, there was lower revenue from space programmes within the Semiconductor Solutions business. However, partially offsetting the above, there was revenue growth from missile programmes in the Microelectronic Solutions business.

Operating profit was £60.2m (2015: £80.5m). This was due to the lower volumes described above, including from the mature production programmes. The Sector incurred some additional costs, including the previously announced technical and supplier quality issues on certain of its development programmes, and additional IT security compliance costs. In addition, there was a favourable impact from currency translation. The Sector's operating margin at 11.8% (2015: 15.0%) reflected these factors.

The Sector is expected to continue to benefit from its strong positions in missile, radar and electronic warfare markets. This includes the Standard Missile-6 and Evolved Sea Sparrow Missile (ESSM) programmes, which have been successfully tested for expanded roles. It also has significant electronic warfare and radar subsystem content on the F-35 Joint Strike Fighter aircraft, with a continuing increase in aircraft production expected. In addition, the Air and Missile Defense Radar programme is expected to go into initial production in 2017, following a multi-year development phase. The Sector has also had initial success in penetrating small satellite programmes and anticipates production awards by early 2018, and it has continued to secure large orders for Application-Specific Integrated Circuits. These are wins from international space customers and long term agreements with industrial customers.

Cobham Aviation Services

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

£m	2015	FX Translation	Divestments	Organic[5]	2016
Revenue	390.1	24.7	-	(57.6)	**357.2**
Operating Profit	57.3	2.3	-	(21.3)	**38.3**
Operating Margin	14.7%				**10.7%**

Total Sector revenue decreased by £32.9m. While currency translation had a £24.7m favourable impact, this was offset by organic revenue, which was £57.6m or 13.9% lower. The majority of this organic decline was in commercial markets, in particular due to lower flying activity in Australian natural resources markets. However, there was also a decrease, in part due to the cessation of some smaller flying contracts in certain defence markets and reduced operational readiness training activity. This was partially offset by initial revenue from the new Australian Maritime Safety Authority contract.

Operating profit was £38.3m (2015: £57.3m), primarily reflecting the overall reduction in flying activity, with cost actions taken which partially mitigated this impact. Reflecting this, the operating margin was 10.7% (2015: 14.7%).

Conditions within the Australian natural resources market are expected to remain challenging in 2017. Despite this outlook, the Sector has commenced flying operations for Blackham Resources and Doray Minerals to provide fly-in, fly-out services to mining sites in Western Australia. The previously announced repriced ten year contract extension to continue operations across Australia under the Qantas brand commenced on 1 January 2017, albeit at reduced margins. The mobilisation phase of the four specially modified Bombardier Challenger CL-604 aircraft for the new 12-year AUS$640m Australian Maritime Safety Authority contract is nearing completion. The first fully modified aircraft commenced training operations in September 2016 and the first base in Cairns began service in December 2016, following regulatory and customer acceptance. The remaining aircraft are undergoing mission systems modifications in Cobham's Adelaide facilities and will enter service in the first half of 2017. The Sector continues to operate the defence helicopter flying school in the UK, with transition planning underway ahead of the expected contract end on 31 March 2018.

FINANCIAL RESULTS

Orders

Group order intake was £2,084.0m (2015: £2,148.0m). Order intake benefited from the significant contract extension for the Aviation Services Sector in the first half, with it continuing operations across Australia for Qantas until 2026. Overall, after adjusting for divestments and currency, Group order intake was 5% lower.

The Group's book-to-bill ratio was 1.07x (2015: 1.04x). Excluding the Aviation Services Sector, which is characterised by the receipt of large multi-year orders, the Group's book-to-bill was 0.99x (2015: 1.09x).

At 31 December 2016, the Group's order book was £2,946.4m (2015: £2,476.8m), an increase of 19%. Within this, orders due for delivery in the current year are £1,301.7m (2015: £1,130.5m), an increase on the prior year of 15%, but only 3% after adjusting for divestments and currency.

Summary of Underlying Results

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including underlying operating profit and underlying earnings. These are considered by the Board to be the most meaningful measures under which to assess the operating performance of the Group and provide additional useful information on underlying trends to shareholders. The non-GAAP measures used do not include the impact of items described below which are not considered to reflect the day to day operating results of the Group. As the Group has been acquisitive over time, these include certain accounting treatments and adjustments credits that do not result from the underlying business activity. In addition, in 2016 a number of business and control issues have been identified that have given rise to changes in the financial statements. Given the nature and size of these items, the Board believes that earnings trends are better understood by separately identifying the amounts as exceptional as detailed below. Underlying measures are therefore considered to provide a more comparable view year on year, having removed the distorting effects of the excluded items which are more clearly understood when presented separately.

A reconciliation of underlying to statutory profit numbers is set out on page 21.

A summary of the Group's underlying results is set out below.

£m	**2016**	2015
Revenue	**1,943.9**	2,072.0
Operating Profit	**225.0**	332.2
Operating Margin	***11.6%***	*16.0%*
Net Finance Expense	**(49.8)**	(51.8)
Profit Before Tax	**175.2**	280.4
Tax	**(39.6)**	(60.2)
Tax Rate	***22.6%***	*21.5%*
Profit After Tax	**135.6**	220.2
*Weighted Average Number of Shares (millions)**	***1,506.3***	*1,333.2*
EPS (pence)*	**9.0**	16.5

**Comparatives have been restated to reflect the bonus element of the rights issue completed during 2016.*

Currency Translation Exchange Rates

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

	2016	2015
Income statement - average rate		
US$/£	**1.35**	1.53
AUS$/£	**1.83**	2.03
€/£	**1.22**	1.38
DKK/£	**9.11**	10.27
Balance sheet - closing rate		
US$/£	**1.24**	1.47
AUS$/£	**1.71**	2.03
€/£	**1.17**	1.36

DKK/£	**8.71**	10.13

Revenue

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

2015	FX Translation	Divestments	Organic	2016
£2,072.0m	**£199.5m**	**£(166.5)m**	**£(161.1)m**	**£1,943.9m**

Total Group revenue was lower at £1,943.9m (2015: £2,072.0m) and this was primarily driven by divestments and lower organic revenue. Partially offsetting this there was a significant benefit from currency translation, as the pound sterling weakened against all four of the Group's primary foreign currencies.

Analysing this revenue performance by end market, organic revenue in the Group's commercial markets, which was 41% (2015: 38%) of Group revenue, was £46.7m or 5.5% lower in the year. Organic revenue in the US defence/security market, which was 34% (2015: 36%) of Group revenue, was £84.4m or 11.2% lower. UK, RoW defence/security organic revenue, which was 25% (2015: 26%) of Group revenue, was £30.0m or 5.9% lower.

Statutory Operating Loss

The Group made a statutory operating loss of £779.1m (2015: £12.0m profit). This was adversely impacted by the lower underlying operating result but also included significant exceptional costs.

For 2016 a number of items are considered to be exceptional because of their size and non-recurring nature and are excluded from underlying measures. While these relate, in part to ongoing activities, their impact is much larger than would normally be expected in any individual accounting period and reflect commercial events that are not expected to repeat. The Board has adopted a more cautious approach due to the current trading environment and associated risks. As a result, the Board considers these costs to be exceptional.

To aid understanding, items have been aggregated into the following categories based on similar business and control factors:

- Impairments of goodwill and intangible assets;
- Revisions of the carrying values of other assets;
- Estimates of fixed price contract profitability;
- Assessment of legal and other provisions.

The Board has considered whether any of the identified items above relate to prior years. The conclusion reached is that these adjustments relate to 2016 events and no prior year adjustment is necessary. The key components of these adjustments are as follows:

1) Impairments of goodwill and intangible assets:

The Group has recognised a total non-cash impairment of goodwill and other intangible assets of £573.8m (2015: £26.6m). This impairment is made up of charges against:

- The Wireless business unit, within the Communications and Connectivity Sector, where there is an impairment of goodwill and intangible assets of £196.1m. This unit includes part of the Aeroflex acquisition in 2014 and Axell Wireless acquired in 2013;

- The Integrated Electronic Solutions business unit, part of the Advanced Electronic Solutions Sector, where there is an impairment of goodwill of £185.7m. This unit includes the Lansdale business acquired in 2009, part of the M/A-COM business also acquired in 2009, the Trivec business acquired in 2011 and part of the Aeroflex acquisition in 2014;

- The Semiconductor Solutions business unit, also within the Advanced Electronic Solutions Sector, where there is an impairment of £192.0m. This unit includes part of the Aeroflex acquisition in 2014.

The 2015 charge related to the Group's unmanned systems business, which was divested during the year.

The impairments do not reflect a lack of confidence from the Board that these businesses can create value in the future. They are generated as a result of the lower 2016 outturn, combined with lower growth from this base. Any benefits or costs expected to arise from future restructuring or initiatives to enhance performance which have not yet commenced are not included, in accordance with accounting standards. The Board considers the resultant charge to be exceptional given the significance of the changes in approach that have been agreed.

Further details of the impairment review can be found in note 9.

2) Revisions to the carrying values of other assets:

A charge of £33.3m has been taken against other assets in the balance sheet. This includes:

- £20.2m against the inventory balance reflecting ageing stock and lower demand forecasts;

- £3.9m against intangible assets no longer planned to be used;

- £3.9m tangible asset write down against plant and machinery no longer expected to be used;

- £5.3m provision against aged receivables considered doubtful.

These changes to asset carrying values were identified following a detailed review and reassessment of recovery of generally older items to a more cautious standard. Given the size of the changes, these have been highlighted as exceptional items.

3) Estimates of fixed price contract profitability:

Additional contract loss provisions have been identified. The Board considers these costs to be exceptional because of their size and non-recurring nature.

In total a charge of £179.1m, including the KC-46 charge, has been taken against certain contracts reflecting increased estimates of costs to complete and, in some cases, lower recovery from customers. The Board recognises that making estimates on complex contracts is inherently judgemental and therefore whilst it has taken a reasonable view of contract positions, the final outcome of the contracts could be more or less favourable than the position taken. The charges booked can be broadly categorised as:

- £150.0m against KC-46 reflecting the position announced on 16 February 2017;
- £18.5m on other development contracts within the Mission Systems Sector;
- £7.7m on development contracts within the Advanced Electronic Solutions Sector;
- £2.9m within the Communications and Connectivity Sector.

4) Legal and other provisions:

£24.4m of charges have been taken to cover the estimated exposure on a number of legal, environmental, warranty and other regulatory matters across the Group. Given the size and non-recurring nature of the provisions, these have been highlighted as exceptional.

The above adjustments for the estimates of fixed price contract profitability and legal and other provisions are expected to be cash affecting over the next two to three years.

In addition to the items identified by the balance sheet review above, there were other items which have been accounted for as non-underlying, consistent with prior years' treatment, with the most significant being:

- Amortisation of intangible assets arising on business combinations of £161.2m (2015: £176.8m);

Goodwill and other intangible assets arising on business combinations are recognised as a result of the purchase price allocation on acquisition of subsidiaries.

- Movements in non-hedge accounted derivative financial instruments of £39.3m (2015: £18.8m);

The impact of derivative financial instruments excluded from underlying results includes changes in the marking to market of non-hedge accounted derivative financial instruments. These amounts relate to foreign currency exchange contracts and would not impact results had the Group chosen to comply with IAS 39 requirements to enable these contracts to be hedge accounted.

- Business restructuring credit of £8.7m related to the integration of the 2014 Aeroflex acquisition (2015: £67.5m charge - primarily Aeroflex);

These costs relate to prior years' restructuring programmes which have been accounted for as incremental to normal operations and non-recurring in nature. In 2016 and 2015, these relate to the integration of the Aeroflex businesses acquired in 2014. In 2016, this also reflects a reassessment of the level of provisions required in respect of the IT integration and remediation costs resulting from the Aeroflex acquisition. This has occurred because the technical methodology for resolving the issues was reassessed in the year, making it inappropriate to use against the opening provision and resulting in a reversal of £28.6m. It is expected that these costs will be treated as non-underlying in future.

Net Finance Expense

The Group's net finance charge was £68.8m (2015: £51.8m), and this included £19.0m (2015: nil) of make-whole payments relating to the pay down of senior notes following the June 2016 Rights Issue. These have been treated as non-underlying as they are one-off in nature and do not reflect the ongoing costs of servicing the Group's net debt.

The Group's underlying net finance charge was £49.8m (2015: £51.8m). The net expense on cash and debt holdings was £48.0m (2015: £48.7m), with an adverse impact from foreign currency translation largely offsetting the favourable impact of the lower debt on the interest charge. The non-cash finance charge from pension schemes was £1.8m (2015: £3.1m), and this is expected to remain broadly unchanged in 2017.

Profit Before Tax

The Group made a statutory loss before tax of £847.9m (2015: £39.8m). The Group's underlying profit before tax was £175.2m (2015: £280.4m).

Taxation

The Group's overall tax credit was £52.8m (2015: £2.1m), reflecting the significant operating loss in the year.

The Group's underlying tax rate increased to 22.6% (2015: 21.5%) from an underlying tax charge of £39.6m (2015: £60.2m). This included a change in the geographical mix of taxable profit.

Earnings per Share (EPS)

Basic EPS was (52.8)p (2015: (2.8)p), including the restatement of the prior year figure for the bonus factor, following the 2016 rights issue. In addition to the underlying operating performance, basic EPS was principally impacted by the exceptional items, as set out in the paragraphs on the statutory operating loss. There was also a higher share count, as set out below.

Underlying EPS of 9.0p (2015: 16.5p, restated) was 45% lower. Underlying EPS was primarily impacted by the lower underlying operating profit in the year but this decline included a reduction of 12% from the higher share count following the rights issue, partially offsetting a favourable foreign exchange impact.

The Group's average share count in the year was 1,506.3m (2015: 1,129.9m or 1,333.2m restated to reflect the bonus element of the rights issue completed during 2016) with the year end share count, excluding treasury shares, being 1,707.9m shares (31 December 2015: 1,138.6m).

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 aggregate value of the schemes' assets and the present value of their future liabilities, was £87.0m before deferred tax (2015: £56.7m). The increase in the deficit was due to a decrease in corporate bond rates which has resulted in a lower discount rate being applied to the schemes' liabilities. This was partially offset by gains in liability driven investments, following previous years' de-risking, and by net employer contributions made.

The Cobham Pension Plan was closed to future accrual on 1 April 2016.

Cash Flow

Operating cash flow, which is stated after net capital expenditure, but before interest and tax payments was £181.8m (2015: £234.6m). Operating cash conversion was 81% (2015: 71%), including lower capital expenditure of £86.1m (2015: £98.7m). There was also a modest working capital outflow of £8.2m (2015: £48.9m).

Free cash flow was £50.7m (2015: £105.5m). There was net interest paid of £71.2m (2015: £49.4m), which included £19.0m (2015: £nil) of make-whole payments on senior notes that were paid down following the rights issue. In addition, tax payments were £20.1m (2015: £31.5m), reflecting the lower underlying profits in the year. Also included in free cash flow were payments relating to prior periods' restructuring programmes of £39.8m (2015: £48.2m). A significant element of these ongoing payments relate to items provided for in previous years, including lease payments on vacated premises and IT remediation payments.

Below free cash flow, the Group paid dividends of £126.1m (2015: £122.1m). In addition, there was a net inflow of £492.9m (2015: £24.9m outflow - net cost of treasury shares to satisfy awards and options under the Group's share based payment schemes), primarily relating to the net proceeds of the rights issue completed in the first half.

The table below sets out the Group's cash flows over the year:

£m	**2016**	2015
Underlying operating profit	**225.0**	332.2
Less: share of post-tax results of joint ventures	**(0.2)**	(0.2)
Underlying operating profit (excluding joint ventures)	**224.8**	332.0
Depreciation and amortisation	**80.5**	74.6
Share based payments and provisions	**(12.5)**	(6.6)
Pension contributions in excess of pension charges	**(16.7)**	(17.8)
Increase in working capital	**(8.2)**	(48.9)
Net capital expenditure	**(86.1)**	(98.7)
Operating cash flow	**181.8**	234.6
Operating cash/operating profit (excluding JV's)	***81%***	*71%*
Net interest paid	**(71.2)**	(49.4)
Taxation paid	**(20.1)**	(31.5)
	90.5	153.7
Amounts related to prior periods' restructuring programmes	**(39.8)**	(48.2)
Free cash flow	**50.7**	105.5
Dividends paid	**(126.1)**	(122.1)
Business acquisition and divestment related costs paid	**(2.5)**	137.5
Net rights issue proceeds and treasury shares allocation	**492.9**	(24.9)
Exchange movements	**(236.4)**	(80.1)
Decrease in net debt	**178.6**	15.9

Net Debt, Gearing and 2016 Rights Issue

The Group's net debt decreased to £1,028.2m (31 December 2015: £1,206.8m) at the year end, including adverse exchange rate movements of £236.4m (2015: £80.1m), which were largely driven by translation of Cobham's US dollar denominated debt between the opening and closing rates.

As previously announced, the Group swapped the net sterling proceeds of the rights issue into US dollars at approximately US$1.45/£, and this was used to repay US dollar denominated borrowings. These repayments comprised US$523m of variable rate debt and US$158m of fixed rate senior notes, and associated make-whole payments. There was an average coupon of just over 7% on the senior notes repaid.

Under the Group's borrowing agreements, the net debt number used in the net debt/EBITDA ratio calculation is based on an average foreign exchange rate. On this basis, the Group's year end net debt figure was £937.9m. Consistent with the Group's borrowing agreements, the net debt/EBITDA ratio was 3.0x (2015: 2.9x) at the year end. Interest cover was 5.1x (2015: 6.8x).

RECONCILIATION OF UNDERLYING MEASURES

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including underlying operating profit and underlying earnings results.

These are considered by the Board to be the most meaningful measures under which to assess the operating performance of the Group and provide additional useful information on underlying trends to shareholders. The non-GAAP measures used do not include the impact of items described below which are not considered to reflect the day to day operating results of the Group. Underlying measures are therefore considered to provide a more comparable view year-on-year, having removed the distorting effects of the excluded items which are more clearly understood when presented separately. Definitions of the underlying measures can be found on page 4.

The table below provides a reconciliation between statutory operating (loss)/profit and underlying operating profit, as well as between statutory loss before tax and underlying profit before tax.

£m	**2016**	2015
Operating (loss)/profit	**(779.1)**	12.0
Adjusted to exclude:		
Amounts relating to prior periods' restructuring programmes	**(8.7)**	67.5
Derivative financial instruments	**39.3**	18.8
Amortisation of intangible assets arising on business combinations	**161.2**	176.8
Other business acquisition and divestment related items	**1.7**	30.5
Exceptional items		
Impairment of goodwill and other intangible assets	**573.8**	26.6
Revisions of the carrying values of other assets	**33.3**	-
Estimates of fixed price contract profitability	**179.1**	-
Assessment of legal and other provisions	**24.4**	
Total operating reconciling items	**1,004.1**	320.2
Underlying operating profit	**225.0**	**332.2**

£m		
Underlying profit before tax is calculated as follows:		
Loss before taxation	**(847.9)**	(39.8)
Total operating reconciling items as above	**1,004.1**	320.2
Non-underlying finance costs	**19.0**	-
Underlying profit before taxation	**175.2**	280.4
Taxation charge on underlying profit	**(39.6)**	(60.2)
Underlying profit after taxation	**135.6**	220.2
Underlying EPS (pence)	**9.0**	16.5

This document contains inside information.

-Ends-

Cautionary Statements

This announcement is not a prospectus and not an offer of securities for sale in any jurisdiction, including in or into the United States, Australia, Canada, Japan or South Africa.

*Neither this announcement nor anything contained herein shall form the basis of, or be relied upon in connection with, any offer of securities or commitment to make an offer whatsoever in any jurisdiction. Any offer to acquire shares pursuant to the proposed rights issue will be made, and any investor should make his or her investment decision solely on the basis of the information that is contained in the final prospectus (the "**Prospectus**") to be published by Cobham plc ("**Cobham**" or the "**Company**") in due course in connection with, among other things, the admission of ordinary shares of the Company ("**Ordinary Shares**") to the Official List of the UK Listing Authority and to trading on the main market for listed securities of London Stock Exchange plc (together, "**Admission**"). Copies of the Prospectus will, following publication, be available from Cobham plc, Brook Road, Wimborne, Dorset BH21 2BJ.*

This announcement contains 'forward-looking statements' with respect to the financial condition, results of operations and business of Cobham and to certain of Cobham's plans and objectives with respect to these items.

Forward-looking statements are sometimes but not always identified by the use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal', or 'estimates' (or the negatives thereof). By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or will occur in the future.

There are various factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies, political situations and markets in which the Group operates; changes in government priorities due to programme reviews or revisions to strategic objectives; changes in the regulatory or competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; changes to or delays in programmes in which the Group is involved; the completion of acquisitions and divestitures and changes in commodity prices, inflation or exchange rates.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Cobham or any other member of the Group or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Neither Cobham nor any other person intends to update these forward-looking statements.

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No statement in this announcement is intended as a profit forecast and no statement in this announcement should be interpreted to mean that underlying operating profit for the current or future financials years would necessarily be above a minimum level, or match or exceed the historical published operating profit or set a minimum level of operating profit.

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Neither the content of the Company's website nor any website accessible by hyperlinks on the Company's website is incorporated in, or forms part of, this announcement.

Consolidated Income Statement

For the year ended 31 December 2016

£m	Note	2016	2015
Revenue	3	**1,943.9**	2,072.0
Cost of sales		**(1,567.3)**	(1,408.2)
Gross profit		**376.6**	663.8
Selling and distribution costs		**(134.5)**	(130.1)
Administrative expenses		**(1,021.2)**	(521.7)
Operating (loss)/profit		**(779.1)**	12.0
Finance income	4	**4.1**	5.2
Finance costs	4	**(72.9)**	(57.0)
Loss before taxation		**(847.9)**	(39.8)
Taxation	5	**52.8**	2.1
Loss after taxation for the year		**(795.1)**	(37.7)
Attributable to:			
Owners of the parent		**(795.2)**	(37.8)
Non-controlling interests		**0.1**	0.1
		(795.1)	(37.7)
Earnings per ordinary share	7		
Basic		**(52.8)p**	(2.8)p
Diluted		**(52.8)p**	(2.8)p

EPS for the comparative period has been restated for the impact of the rights issue in June 2016.

Underlying results are presented to assist with the understanding of the Group's performance trends. These measures are defined on page 4 and reconciled to GAAP measures in note 2.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

£m	2016	2015
Loss after taxation for the year	**(795.1)**	(37.7)
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit retirement benefit obligations (note 13)	**(42.6)**	29.6
Actuarial loss on other retirement benefit obligations	**(1.2)**	-
Tax effects	**8.9**	(5.9)
	(34.9)	23.7
Items that may subsequently be reclassified to profit or loss		
Net translation differences on investments in overseas subsidiaries	**41.3**	(38.2)
Reclassification of cash flow hedge fair values	**1.6**	1.1
Hedge accounted derivative financial instruments	**(2.8)**	-
Tax effects	**0.4**	(0.2)
	40.5	(37.3)
Other comprehensive income/(expense) for the year	**5.6**	(13.6)
Total comprehensive expense for the year	**(789.5)**	(51.3)
Attributable to:		
Owners of the parent	**(789.6)**	(51.4)
Non-controlling interests	**0.1**	0.1
	(789.5)	(51.3)

Consolidated Balance Sheet
As at 31 December 2016

£m	Note	2016	2015
Assets			
Non-current assets			
Intangible assets	9	**1,165.9**	1,729.5
Property, plant and equipment	10	**422.9**	379.9
Investment properties		**3.6**	4.3
Investments in joint ventures and associates		**3.6**	3.0
Trade and other receivables		**66.0**	71.3
Other financial assets		**6.1**	6.1
Deferred tax		**42.3**	11.4
Derivative financial instruments		**19.7**	6.5
		1,730.1	2,212.0
Current assets			
Inventories		**405.3**	410.4
Trade and other receivables		**409.8**	366.0
Current tax receivables		**3.1**	8.6

Derivative financial instruments		**8.5**	9.1
Cash and cash equivalents	8	**236.2**	294.7
Assets classified as held for sale		**-**	16.8
		1,062.9	1,105.6
Liabilities			
Current liabilities			
Borrowings	8	**(60.9)**	(156.4)
Trade and other payables		**(430.8)**	(398.1)
Provisions	12	**(180.6)**	(74.3)
Current tax liabilities		**(149.5)**	(125.1)
Derivative financial instruments		**(42.2)**	(30.6)
Liabilities associated with assets classified as held for sale		**-**	(12.7)
		(864.0)	(797.2)
Non-current liabilities			
Borrowings	8	**(1,203.5)**	(1,345.1)
Trade and other payables		**(31.5)**	(24.8)
Provisions	12	**(57.3)**	(68.2)
Deferred tax		**(27.6)**	(102.0)
Derivative financial instruments		**(32.2)**	(13.9)
Retirement benefit obligations	13	**(87.0)**	(56.7)
		(1,439.1)	(1,610.7)
Net assets		**489.9**	909.7
Equity			
Share capital	14	**44.6**	30.4
Share premium		**778.3**	301.9
Other reserves		**37.9**	(0.3)
Retained earnings		**(372.0)**	576.8
Total equity attributable to the owners of the parent		**488.8**	908.8
Non-controlling interests in equity		**1.1**	0.9
Total equity		**489.9**	909.7

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

£m	Share capital	Share premium	Other reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2015	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 6)	-	-	-	(122.1)	(122.1)	-	(122.1)
Share based payments	-	-	(3.0)	-	(3.0)	-	(3.0)
Transfer of other reserves to retained earnings	-	-	(1.5)	1.5	-	-	-
Tax effects	-	-	(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
Loss for the year	**-**	**-**	**-**	**(795.2)**	**(795.2)**	**0.1**	**(795.1)**
Items that will not be reclassified subsequently to profit or loss	**-**	**-**	**-**	**(34.9)**	**(34.9)**	**-**	**(34.9)**
Items that may subsequently be reclassified to profit or loss	**-**	**-**	**40.5**	**-**	**40.5**	**-**	**40.5**
Total comprehensive income/(expense) for the year	**-**	**-**	**40.5**	**(830.1)**	**(789.6)**	**0.1**	**(789.5)**
Issue of shares, net of costs (note 14)	**14.2**	**476.4**	**-**	**-**	**490.6**	**-**	**490.6**
Proceeds on allocation of treasury shares	**-**	**-**	**-**	**2.3**	**2.3**	**-**	**2.3**
Dividends (note 6)	**-**	**-**	**-**	**(126.1)**	**(126.1)**	**-**	**(126.1)**
Share based payments	**-**	**-**	**3.8**	**-**	**3.8**	**-**	**3.8**
Transfer of other reserves to retained earnings	**-**	**-**	**(5.1)**	**5.1**	**-**	**-**	**-**
Tax effects	**-**	**-**	**(1.2)**	**-**	**(1.2)**	**-**	**(1.2)**
Foreign exchange adjustments	**-**	**-**	**0.2**	**-**	**0.2**	**0.1**	**0.3**
Total equity at 31 December 2016	**44.6**	**778.3**	**37.9**	**(372.0)**	**488.8**	**1.1**	**489.9**

Consolidated Cash Flow Statement

For the year ended 31 December 2016

£m	Note	**2016**	2015
Operating (loss)/profit		**(779.1)**	12.0
Non-cash items:			
Share of post-tax profits of joint ventures and associates		**(0.2)**	(0.2)
Depreciation and amortisation		**248.1**	254.4
Impairment of goodwill and intangible assets	9	**573.8**	26.6
Loss/(profit) on sale of property, plant and equipment		**4.4**	(1.4)
Business acquisition and divestment related items		**1.7**	27.3
Derivative financial instruments		**39.3**	18.8
Pension contributions in excess of pension charges		**(16.7)**	(17.8)
Share based payments		**3.8**	(3.0)
Operating cash movements:			
Decrease/(increase) in inventories		**50.8**	(34.6)
Decrease in trade and other receivables		**21.9**	19.1
Decrease in trade and other payables		**(9.7)**	(38.6)
Increase in provisions		**87.9**	7.4
Tax paid		**(20.1)**	(31.5)
Interest paid		**(74.7)**	(53.0)
Interest received		**3.5**	3.6
Net cash from operating activities		**134.7**	189.1
Cash flows from investing activities			
Purchase of property, plant and equipment		**(82.8)**	(97.8)
Purchase of intangible assets		**(9.1)**	(18.6)
Capitalised expenditure on intangible assets		**(0.3)**	-
Proceeds on disposal of property, plant and equipment		**6.1**	17.7
Acquisition of subsidiaries net of cash or debt acquired		**(1.4)**	(52.6)
Proceeds of business divestments	15	**1.0**	205.2
Net cash (used in)/from investing activities		**(86.5)**	53.9

Cash flows from financing activities			
Issue of share capital	14	**490.6**	-
Dividends paid	6	**(126.1)**	(122.1)
Purchase of treasury shares		**-**	(29.3)
Proceeds on allocation of treasury shares		**2.3**	4.4
New borrowings	8	**9.9**	257.9
Repayment of borrowings	8	**(497.0)**	(271.0)
Net cash used in financing activities		**(120.3)**	(160.1)
Net (decrease)/increase in cash and cash equivalents		**(72.1)**	82.9
Exchange movements		**14.3**	(13.2)
Cash and cash equivalents at start of year		**294.0**	224.3
Cash and cash equivalents at end of year		**236.2**	294.0

A reconciliation of cash and cash equivalents to the Balance Sheet and movement in net debt is detailed in note 8.

Notes to the Financial Information

For the year ended 31 December 2016

1. Basis of preparation

The financial information set out in this statement does not constitute the Group's statutory accounts for the years ended 31 December 2016 or 31 December 2015.

Statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies, and those for 2016 will be delivered following the Company's Annual General Meeting.

The auditors have reported on these accounts; their report for the year ended 31 December 2016 was unqualified, and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006. However, it included an emphasis of matter in respect of going concern.

The attached audited financial information and the full Group 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.

The financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise stated.

Note 17 refers to the Group's target net debt/EBITDA ratio of 1.5x and intention to raise equity of £500m. If the equity raise of £500m were to not occur, it is likely that the Company would approach its lenders to seek an amendment to its key financing covenant of net debt/EBITDA to ensure that it would not breach its debt agreements. There can be no certainty that the Company would be able to secure such an amendment on acceptable terms or at all and in these circumstances if the Group's net debt/EBITDA should exceed 3.5x, the Group's lenders would be able to demand immediate repayment of all borrowings.

The Board has concluded that the resolutions which are necessary for the rights issue to proceed are likely to be passed and that the equity proceeds are likely to be raised in line with the timetable so that there will be no covenant breach.

The Board acknowledges that there are risks that may prevent the rights issue proceeding in line with the expected timetable or at all. There is a risk that sufficient shareholders will not vote in favour of the resolutions to enable the equity raise to occur and also a risk that the Financial Conduct Authority does not approve the rights issue prospectus. Note 17 explains that the rights issue is fully underwritten on a standby basis subject to customary conditions. These conditions allow the underwriters to not fund the equity in a number of circumstances including there being a material adverse change in the affairs of the company or financial markets.

The Board believes that it is unlikely that the rights issue will not occur but the consequences of not being successful indicate the existence of a material uncertainty. This may cast significant doubt about the Group's ability to continue as a going concern so it is appropriate to make full disclosure as required by accounting standards. The Board believes that adopting the going concern basis in preparing the consolidated financial statements is appropriate and the financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

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. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Accounting policies

The accounting policies applied are consistent with those published in the financial statements for the year ended 31 December 2015. From 1 January 2016 a number of amendments to existing standards, which were effective from 1 January 2016 and have been endorsed by the EU, have been adopted; however no changes to previously published accounting policies or other adjustments were required on their adoption.

2. Underlying measures

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including underlying operating profit and underlying earnings results. These are considered by the Board to be the most meaningful measures under which to assess the operating performance of the Group and provide additional useful information on underlying trends to shareholders. The non-GAAP measures used do not include the impact of items described below which are not considered to reflect the day to day operating results of the Group. Underlying measures are therefore considered to provide a more comparable view year-on-year, having removed the distorting effects of the excluded items which are more clearly understood when presented separately. Definitions of the underlying measures can be found on page 4.

Underlying profit is derived from the operating result as set out below:

£m	**2016**	2015
Operating (loss)/profit	**(779.1)**	12.0
Amounts related to prior periods restructuring programmes	**(8.7)**	67.5
Derivative financial instruments	**39.3**	18.8
Amortisation of intangible assets arising on business combinations	**161.2**	176.8
Other business acquisition and divestment related items		
Loss/(profit) on divestments (note 15)	**1.3**	(53.8)
Amounts provided related to businesses held for sale	**-**	69.0
Pre-acquisition profit element of inventory written off	**-**	9.3
Other M&A related costs	**0.4**	6.0
Exceptional items		
Impairment of goodwill and other intangible assets (note 9)	**573.8**	26.6
Revisions of the carrying values of other assets	**33.3**	-
Estimates of fixed price contract profitability	**179.1**	-
Assessment of legal and other provisions	**24.4**	-
Underlying operating profit	**225.0**	332.2
Underlying net finance costs	**(49.8)**	(51.8)
Underlying profit before taxation	**175.2**	280.4
Taxation charge on underlying profit (effective rate 22.6%, 2015: 21.5%)	**(39.6)**	(60.2)
Non-controlling interests	**(0.1)**	(0.1)
Underlying profit after tax attributable to owners of the parent	**135.5**	220.1

	2016	2015 (Restated)

Weighted average number of shares	million	**1,506.3**	1,333.2
Underlying basic EPS		**9.0p**	16.5p
Diluted weighted average number of shares	million	**1,508.1**	1,337.8
Underlying diluted EPS		**9.0p**	16.5p

Underlying EPS figures for the comparative period have been restated to reflect the bonus element of the rights issue completed during the year.

Adjusting items in the table above are as follows:

Amounts related to prior years' restructuring programmes were deemed as incremental to normal operations and non-recurring in nature. In 2016 and 2015, these relate to the integration of the Aeroflex businesses acquired in 2014. In 2016, this reflects a reassessment of the level of provisions required in respect of the IT integration and remediation costs resulting from the Aeroflex acquisition.

Derivative financial instruments excluded from underlying measures includes changes in the marking to market of non-hedge accounted derivative financial instruments together with gains and losses arising on dividend related foreign exchange contracts.

Amortisation of intangible assets arising on business combinations such as customer lists, technology based assets and order book and trade names is not included in underlying measures. Amortisation of internally generated intangible assets such as software and development costs is included within underlying measures.

Other business acquisition and divestment related items in 2016 include profits or losses on divestments and costs related to acquisitions in prior years. These follow the sale during the year of the Surveillance and Unmanned Systems businesses and reflect the difference between the agreed transaction price and the book value of assets prior to the divestments, as detailed in note 15.

For 2016 the following items are considered to be exceptional because of their size and non-recurring nature and are excluded from underlying measures. While these relate, in part, to ongoing activities, their impact is much larger than would normally be expected in any individual accounting period and reflect commercial events that are not expected to repeat. The Board have adopted a more cautious approach due to the current trading environment and associated risks. As a result, management consider these costs to be exceptional. To aid understanding items have been aggregated into the following categories based on similar business and control factors:

- An impairment provision totaling £573.8m booked against goodwill and other intangible assets as described in note 9;

- Revisions to the carrying values of other assets include £20.2m against the inventory balance reflecting ageing stock and lower demand forecasts; £3.9m against intangible assets no longer planned to be used; £3.9m tangible asset write down against plant and machinery and similar items no longer expected to be used; and £5.3m provision against aged receivables considered doubtful;

- A charge of £179.1m has been taken against estimates of fixed price contract profitability including KC-46. This reflects increased estimates of costs to complete and, in some cases, lower recovery from customers. The Board recognises that making estimates on complex contracts is inherently judgemental and therefore whilst it has taken a reasonable view of contract positions at present, the final outcome of the contracts could be more or less favourable than the position taken. The charges booked can be broadly categorised as: £150.0m against KC-46; £18.5m on other development contracts within the Mission Systems Sector; £7.7m on development contracts within the Advanced Electronic Solutions Sector; and £2.9m within the Communications and Connectivity Sector; and

- Legal and other provisions have been made to cover the estimated exposure on a number of legal, environmental, warranty and other regulatory matters across the Group.

Adjusting items in the table above total £1,004.1m (2015: £320.2m) and are included in the Income Statement as follows:

£m	**2016**	2015
Cost of sales	**208.7**	-
Selling and distribution costs	**0.6**	-

Administrative expenses	**794.8**	320.2
	1,004.1	320.2

Underlying administrative expenses, after adjusting for the reconciling items above, amounted to £226.6m (2015: £201.5m), representing 11.7% (2015: 9.7%) of revenue.

Net cash from operating activities is reconciled to free cash flow and operating cash flow as follows:

£m	**2016**	2015
Net cash from operating activities per Cash Flow Statement	**134.7**	189.1
Purchase of property, plant and equipment	**(82.8)**	(97.8)
Purchase of intangible assets	**(9.1)**	(18.6)
Capitalised expenditure on intangible assets	**(0.3)**	-
Proceeds on disposal of property, plant and equipment	**6.1**	17.7
Business acquisition and divestment related costs paid	**2.1**	15.1
Free cash flow	**50.7**	105.5
Amounts related to prior periods restructuring programmes	**39.8**	48.2
Tax paid	**20.1**	31.5
Underlying net finance costs paid	**71.2**	49.4
Operating cash flow	**181.8**	234.6

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	**2016**	2015
Revenue from sale of goods	**1,445.0**	1,585.4
Revenue from services	**498.9**	486.6
	1,943.9	2,072.0

Revenue from services includes service contracts in the Aviation Services Sector together with logistics support, maintenance and repairs in other Sectors.

Operating segments

	Revenue		**Underlying operating profit**		**Segment net assets**	
£m	**2016**	2015	**2016**	2015	**2016**	2015
Communications and Connectivity	**690.2**	771.8	**60.0**	108.4	**573.7**	844.0
Mission Systems	**386.4**	382.4	**56.5**	68.0	**196.3**	289.2
Advanced Electronic Solutions	**511.6**	538.0	**60.2**	80.5	**686.1**	996.0
Aviation Services	**357.2**	390.1	**38.3**	57.3	**276.3**	257.1
Head office, other activities and elimination of inter-segment items	**(1.5)**	(10.3)	**10.0**	18.0	**47.0**	19.9
Total Group	**1,943.9**	2,072.0	**225.0**	332.2	**1,779.4**	2,406.2
Interests in joint ventures and associates					**3.6**	3.0
Unallocated liabilities					**(1,293.1)**	(1,499.5)
Total net assets					**489.9**	909.7

Underlying operating profit is reconciled to the loss before taxation as follows:

£m	**2016**	2015
Underlying operating profit	**225.0**	332.2
Amounts related to prior periods restructuring programmes	**8.7**	(67.5)
Derivative financial instruments	**(39.3)**	(18.8)
Amortisation of intangible assets arising on business combinations	**(161.2)**	(176.8)
Other business acquisition and divestment related items	**(1.7)**	(30.5)
Exceptional items (note 2)	**(810.6)**	(26.6)
Net finance costs (note 4)	**(68.8)**	(51.8)
Loss before taxation	**(847.9)**	(39.8)

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	**2016**	2015	**2016**	2015
USA	**941.9**	985.1	**862.0**	1,156.8
UK	**185.2**	223.0	**269.6**	551.3
Other EU	**312.1**	305.2	**289.6**	275.4
Australia	**213.9**	226.6	**151.4**	106.2
Rest of the world	**290.8**	332.1	**23.4**	27.0
	1,943.9	2,072.0	**1,596.0**	2,116.7

Revenue from customers located in the rest of the world includes £195.1m (2015: £230.4m) 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 £238.3m (2015: £232.0m) located in Denmark.

4. Finance income and costs

£m	**2016**	2015
Bank interest	**0.9**	3.1
Other finance income	**3.2**	2.1
Total finance income	**4.1**	5.2
Interest on bank overdrafts and loans	**(51.9)**	(52.8)
Interest on net pension scheme liabilities	**(1.8)**	(3.1)
Other finance expense	**(19.2)**	(1.1)
Total finance costs	**(72.9)**	(57.0)
Net finance costs	**(68.8)**	(51.8)

Other finance expense for 2016 includes £19.0m of make-whole fees payable in connection with the early repayment of fixed term borrowings following the rights issue in June 2016. These costs are excluded from underlying earnings.

5. Taxation

£m	**2016**	2015
Current tax	**49.6**	29.0
Deferred tax	**(102.4)**	(31.1)
Total tax credit for the year	**(52.8)**	(2.1)

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 £44.3m (2015: £9.2m) for the UK.

As shown in note 2, the tax charge on underlying profit is £39.6m (2015: £60.2m) at an effective rate of 22.6% (2015: 21.5%).

6. Dividends

£m	**2016**	2015
Final dividend of 8.13p per share for 2015 (2014: 7.746p)	**91.6**	87.7
Interim dividend of 2.03p per share for 2016 (2015: 3.05p)	**34.5**	34.4
Total dividend authorised and paid during the year	**126.1**	122.1

As announced on 11 January 2017, the Board does not recommend payment of a final dividend in respect of the year ended 31 December 2016.

7. Earnings per ordinary share

		2016	2015 (Restated)
Earnings attributable to owners of the parent	£m	**(795.2)**	(37.8)
Weighted average number of shares	million	**1,506.3**	1,333.2
Basic and diluted EPS	pence	**(52.8)**	(2.8)

When losses are made, potentially dilutive shares have no impact on EPS.

EPS figures for the comparative period have been restated to reflect the bonus element of the rights issue, in accordance with IAS 33, Earnings per Share.

8. Cash and cash equivalents and net debt

Reconciliation of cash and cash equivalents and net debt

£m	2016	2015
Cash and cash equivalents per Cash Flow Statement	**236.2**	294.0
Bank overdrafts	**-**	0.7
Cash and cash equivalents per Balance Sheet	**236.2**	294.7
Borrowings - current liabilities	**(60.9)**	(156.4)
Borrowings - non-current liabilities	**(1,203.5)**	(1,345.1)
Net debt at 31 December	**(1,028.2)**	(1,206.8)

Reconciliation of movements in net debt

£m	2016	2015
Net debt at 1 January	**(1,206.8)**	(1,222.7)
(Decrease)/increase in cash and cash equivalents in the year per Cash Flow Statement	**(72.1)**	82.9
New borrowings	**(9.9)**	(257.9)
Repayment of borrowings	**497.0**	271.0
Foreign exchange adjustments	**(236.4)**	(80.1)
Net debt at 31 December	**(1,028.2)**	(1,206.8)

9. Intangible assets

£m	2016	2015
Carrying amount at 1 January	**1,729.5**	2,040.8
Additions	**8.2**	16.9
Additions - internally generated	**0.3**	-
Business divestments (note 15)	**(1.0)**	(110.8)
Disposals	**(0.2)**	-
Amortisation of intangible assets arising on business combinations	**(161.2)**	(176.8)
Amortisation of other intangible assets within exceptional items	**(3.9)**	-
Amortisation of other intangible assets included in underlying profit	**(10.1)**	(4.0)
Impairment provision	**(573.8)**	(73.8)
Reclassifications	**2.0**	0.4
Foreign exchange adjustments	**176.1**	36.8
Carrying amount at 31 December	**1,165.9**	1,729.5

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.

The calculation of recoverable value for CGUs based on value in use includes the following key assumptions:
- Cash flow forecasts 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 continued uncertainty within certain

markets in which we operate. For 2016, forecasts for the following three years have been used to reflect the recent performance of the CGUs and the uncertainty of medium term market conditions, compared to a five year forecast used in 2015. Cash flow projections do not include benefits or costs expected to arise from future restructuring or initiatives to enhance performance which have not yet commenced;
- Growth rates assumed after this period are based on long term GDP projections of the primary market for each business. The long term projections used are in the range 1.2% to 2.5% (2015: 1.2% to 2.5%);
- Cash flows are discounted using the Group's WACC, adjusted for country, cash flow and currency risks in the principal territories in which the Group operates. These pre-tax discount rates are within the range 8.3% to 10.1% (2015: 9.2% to 11.0%);
- 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.

Following the 2016 review the following impairments were made:

£m	Goodwill	Other intangible assets
Wireless (Communications and Connectivity)	**152.9**	**43.2**
Integrated Electronic Solutions (Advanced Electronic Solutions)	**185.7**	**-**
Semiconductor Solutions (Advanced Electronic Solutions)	**192.0**	**-**
	530.6	**43.2**

Sensitivity analysis has been performed on these CGUs and those considered to be individually significant, as described below:

Wireless includes part of the Aeroflex business acquired in 2014 and Axell Wireless acquired in 2013. This CGU has generated lower revenues than expected during 2016 due to market pressures, site integration issues and delayed product launches. Cash flow projections, using 2016 as a baseline, were discounted at 9.5% and terminal growth of 2.1% was applied after 3 years. The calculated value in use was insufficient to support in full the carrying value of goodwill and intangible assets arising on business combinations. Therefore goodwill related to this CGU has been impaired in full. £43.2m was written off other intangible assets leaving a balance of £25.5m.

Integrated Electronic Solutions includes the Lansdale business and some of the former M/A-COM businesses acquired in 2008, the Trivec business acquired in 2011 and part of the Aeroflex business acquired in 2014. This CGU has been impacted by the end of production on some long term programmes. Projected cash flows for the next 3 years, with subsequent growth assumed at a rate of 2.0%, have been discounted at a pre-tax rate of 9.2%. This resulted in an impairment charge of £185.7m which reduces the carrying value of goodwill related to this CGU to £57.4m. Cash flow projections assume programme wins that are fully funded by US defense budgets with successful product developments. If the contract wins are lower than expected and cashflows fall by 10% then further impairment losses of £15m would arise. The pre-tax discount rate applied to forecast cash flows was 9.2% and further impairment losses of £22m would arise if this increased to 10.2%. The long term growth rate is assumed to be 2.0%. If the long term growth rate was reduced to 1.0% then further impairment losses of £17m would arise.

Semiconductor Solutions includes part of the Aeroflex business acquired in 2014. This CGU has not performed in line with expectations driven by lower volume. Projected cash flows for the next 3 years, with subsequent growth assumed at a rate of 1.9%, discounted at a pre-tax rate of 9.2% have resulted in an impairment charge of £192.0m. This reduces the carrying value of goodwill related to this CGU to £46.0m. Future growth relies on commercial satellite market advances and penetration of new markets in medical and industrial devices. If the expected cashflows fall by 10% then further impairment losses of £31m would arise. If the long term growth rate was reduced to nil then further impairment losses of £61m would arise.

As noted above, for the three CGUs impaired in the year, future deterioration in the underlying assumptions could result in the need for further impairment.

SATCOM goodwill arose primarily on the acquisition of Thrane & Thrane in 2012. Cash flow projections assume a recovery in the marine SATCOM markets. If cash flows reduced by 10% or more then impairment losses of £0.1m would arise. If the pre-tax discount rate, assumed to be 8.6%, was 9.6% then impairment losses of £10m would arise, or if the growth rate fell from 1.3% to zero, then impairment losses of £12m would arise.

10. Property, plant and equipment

£m	2016	2015
Carrying amount at 1 January	**379.9**	390.0
Additions	**81.5**	99.0
Business divestments (note 15)	**(0.9)**	(19.8)
Disposals	**(10.5)**	(10.3)
Depreciation included in underlying profit	**(70.2)**	(73.0)
Depreciation included in exceptional items	**(2.0)**	-
Reclassifications	**(2.3)**	(6.0)
Foreign exchange adjustments	**47.4**	-
Carrying amount at 31 December	**422.9**	379.9

At 31 December 2016, the Group had commitments for the acquisition of property, plant and equipment of £14.3m (2015: £29.3m).

11. Fair values of financial assets and liabilities

The fair values of financial assets and liabilities which are held at fair value and are measured on a recurring basis are as follows:

£m	2016	2015
Financial assets		
Derivative contracts (designated as hedging instruments)	**18.9**	4.4
Derivative contracts (not hedge accounted)	**9.3**	11.2
Financial liabilities		
Derivative contracts (designated as hedging instruments)	**(20.4)**	(4.3)
Derivative contracts (not hedge accounted)	**(54.0)**	(40.2)
	(46.2)	(28.9)

Borrowings are held at amortised cost which equates to fair value except for the Group's fixed rate borrowings. At 31 December 2016 the fair value of those borrowings was £932.8m (2015: £976.1m) compared to their book value of £848.9m (2015: £873.5m). The fair value of the fixed rate borrowings and derivative financial instruments have been determined by reference to observable market prices and rates.

Financial assets and liabilities which are initially recorded at fair value and subsequently held at amortised cost include trade and other receivables, other financial assets, cash and cash equivalents, trade payables and other liabilities. The carrying values of these items are assumed to approximate to fair value due to their short term nature.

12. Provisions

£m	2016	2015
Current liabilities	**180.6**	74.3
Non-current liabilities	**57.3**	68.2
	237.9	142.5

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 2016	**15.5**	**60.9**	**10.2**	**26.8**	**3.7**	**25.4**	**142.5**
Additional provisions in the year	**-**	**-**	**10.4**	**146.5**	**2.4**	**17.2**	**176.5**
Utilisation of provisions	**(4.8)**	**(15.2)**	**(3.8)**	**(26.8)**	**(1.2)**	**(4.2)**	**(56.0)**
Provisions released	**(4.1)**	**(29.3)**	**(1.2)**	**(5.0)**	**(2.3)**	**(1.1)**	**(43.0)**
Disposed with undertakings	**-**	**-**	**(0.2)**	**-**	**-**	**(2.0)**	**(2.2)**

Reclassifications	**-**	**-**	**(0.3)**	**2.1**	**0.2**	**-**	**2.0**
Foreign exchange adjustments	**-**	**7.0**	**1.9**	**3.4**	**0.5**	**5.3**	**18.1**
At 31 December 2016	**6.6**	**23.4**	**17.0**	**147.0**	**3.3**	**40.6**	**237.9**

Additional provisions in the year include £110.7m in respect of KC-46 contract loss provisions, £20.0m of contract loss provisions on other contracts, £5.3m for warranty claims and £15.7m of other provisions which have been included within exceptional items in note 2.

13. Retirement benefit obligations

£m	**2016**	2015
Defined benefit scheme assets	**790.0**	663.9
Defined benefit obligations	**(877.0)**	(720.6)
Net liability at 31 December	**(87.0)**	(56.7)

Movements in the net liability are as follows:

£m	**2016**	2015
Net liability at 1 January	**(56.7)**	(102.0)
Amount recognised in the Income Statement	**(3.6)**	(6.5)
Contributions paid by the employer	**18.5**	22.7
Actuarial (losses)/gains recognised in OCI	**(42.6)**	29.6
Exchange differences	**(2.6)**	(0.5)
Net liability at 31 December	**(87.0)**	(56.7)

14. Share capital

	Number of shares	**2016 £m**	Number of shares	2015 £m
Issued and fully paid				
Ordinary shares of par value 2.5p	**1,783,815,575**	**44.6**	1,214,527,625	30.4

Following a 1 for 2 fully underwritten rights issue 569,287,950 ordinary shares of 2.5 pence each were issued on 16 June 2016 at an issue price of 89p per share. Net proceeds of £490.6m were realised, net of costs of £16.1m.

15. Business divestments

The divestment of the Group's Surveillance businesses, part of the Communications and Connectivity Sector, was announced on 15 January 2016. These businesses were classified as held for sale at 31 December 2015.

In addition, the divestment of the Unmanned Systems business, previously included within the Cobham Mission Systems Sector was completed on 6 October 2016.

The loss on these divestments has been excluded from underlying measures as disclosed in note 2 and is analysed as follows:

£m	Surveillance	Unmanned Systems	Total
Gross consideration	**6.6**	**0.3**	**6.9**
Net assets at date of divestment	**(2.0)**	**(6.6)**	**(8.6)**
Expenses of sale	**(3.2)**	**(0.2)**	**(3.4)**
Foreign exchange adjustments	**(2.1)**	**(4.6)**	**(6.7)**
Loss on divestments completed during the year	**(0.7)**	**(11.1)**	**(11.8)**
Profit on divestments completed in prior years			**10.5**
Net loss on divestments before tax			**(1.3)**
Tax charge on net loss on divestments			**(5.6)**
Net loss on divestments after tax			**(6.9)**

The profit on divestments completed in prior years includes the repayment of a loan note previously written off following a divestment in 2013, together with the release of a provision related to a business divested in 2005.

The net cash impact of the divestments during the year is as follows:

£m	Surveillance	Unmanned Systems	Total
Cash consideration	**6.6**	**0.3**	**6.9**
Cash disposed	**-**	**(1.9)**	**(1.9)**
Expenses of sale	**(3.4)**	**(0.2)**	**(3.6)**
Net cash impact of divestments in current year	**3.2**	**(1.8)**	**1.4**
Net cash relating to divestments completed in prior periods			**(0.4)**
			1.0

The net assets divested during the year were as follows:

£m	Surveillance	Unmanned Systems	Total
At date of divestment			
Intangible assets	**-**	**1.0**	**1.0**
Property, plant and equipment	**-**	**0.9**	**0.9**
Deferred tax	**-**	**2.6**	**2.6**
Inventories	**3.9**	**4.5**	**8.4**
Trade and other receivables	**12.9**	**0.3**	**13.2**
Cash and cash equivalents	**-**	**1.9**	**1.9**
Trade and other payables	**(13.6)**	**(2.4)**	**(16.0)**
Provisions	**(1.2)**	**(2.2)**	**(3.4)**
Net assets	**2.0**	**6.6**	**8.6**

At 31 December 2015			
Intangible assets	-	3.1	3.1
Property, plant and equipment	-	0.8	0.8
Deferred tax	-	1.1	1.1
Inventories	3.9	2.5	6.4
Trade and other receivables	12.9	2.6	15.5
Cash and cash equivalents	-	1.4	1.4
Borrowings	-	(0.1)	(0.1)
Trade and other payables	(11.5)	(11.1)	(22.6)
Provisions	(1.2)	(2.3)	(3.5)
Net assets/(liabilities)	4.1	(2.0)	2.1

16. Contingent liabilities

At 31 December 2016, 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 resolution of this matter remains uncertain at the year end, however 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 Group takes account of the advice of experts in making these judgements and believes that the outcome of negotiations will result in an appropriate recovery of costs. In the case where the Group is undertaking development activity on a PV basis but has given performance undertakings to the prospective customer then a liability for losses, consequent upon the failure to meet such undertakings could exist.

The Group is subject to corporate and other tax rules in the jurisdictions in which it conducts its business operations. Due to changes in tax laws and regulations, changes in interpretation of taxation regulations, an increase in tax audits and challenges and the testing of interpretations through litigation, tax liabilities may be, and are being, challenged and may ultimately be deemed inaccurate by tax authorities. Areas of tax authority scrutiny include transfer pricing, EU State Aid and Base Erosion and Profit Shifting. Tax authorities may also pursue additional taxes based on retroactive changes to, and interpretations of, tax laws. The availability of interest deductions on the Group's internal financing arrangements, principally as a result of various US acquisitions, has been challenged for some time. This could lead to increased tax liabilities in excess of those provided in the Balance Sheet, worsening the financial outlook of the Group, and result in a substantial tax payment becoming necessary. The Group has taken external advice and considers that it has strong support for its position. However, the timing and resolution of this issue is uncertain.

17. Events after the balance sheet date

On 16 February 2017, Cobham provided an update on KC-46, 2016 results and 2017 guidance. Within this statement, we highlighted that the net debt/EBITDA ratio was 3.0x and that the Balance Sheet is not strong enough to properly support the operations of the Group, given the important role it plays in many customer programmes.

The Group is targeting a net debt/EBITDA gearing ratio of around 1.5x. This should be an appropriate capital structure given the requirement for balance sheet strength. The route to get to this target needs to be accelerated to give our customers, suppliers and employees confidence that Cobham's credit is good and the risk of doing business with us is as low as practical.

Having considered the cash required to complete its ongoing development programmes, including the impact of the provisions taken at the year end, and to strengthen its balance sheet position, the Board has concluded that it is in the Group's best interests to raise new equity finance of £500m by way of a rights issue during the second quarter of 2017. The rights issue has been fully underwritten on a standby basis on customary market conditions.

-ENDS-

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