Cobham plc
Annual Report and Accounts 2016

COBHAM



Cobham offers an innovative range of technologies and services to solve challenging problems in commercial and defence and security markets



Front cover image: Advanced microelectronics and electronic warfare systems
More than 100 Cobham components are onboard every F-35 Lightning II, including microelectronic components, microwave systems, motion control solutions for the Electro-optical Targeting System gimbal, communications cryptography chips, pilot survival products and aerial refuelling equipment. (Credit: Lockheed Martin)

Inside cover image: Aerial refuelling and aircraft components
Cobham provides a wide range of components for the KC-46 tanker aircraft, in addition to its next generation aerial refuelling systems. These include intricate oxygen shutoff valves, sensors and regulators, high capacity fuel tanks, and a range of antennas. (Credit: Boeing)

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

We employ about 11,000 people primarily in the US, UK and Europe and Australia. We have customers and partners in more than 100 countries.

Total revenue
£1,943.9m
(2015: £2,072.0m)

Free cash flow
£50.7m
(2015: £105.5m)

Earnings per ordinary share – underlying*
9.0p
(2015: 16.5p**)

Earnings per ordinary share – basic*
(52.8)p
(2015: (2.8)p**)



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

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 the balance sheet

- **Financial position:** targeting a net debt/EBITDA gearing ratio of 1.5x
- **Rights Issue:** Board to raise £500m, by way of a rights issue, which is full underwritten on a standby basis; anticipated to be completed during second quarter of 2017

Outlook

- **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

*For definitions refer to page 144
**Restated for the bonus element of the June 2016 rights issue.

Contents

Strategic Report

Group at a Glance 02
Chairman's Statement 04
Chief Executive Officer's Statement 06
Our Markets 08
Our Business Model 10
Our Capabilities 12
Our Strategy and Key Performance Indicators 16
Communications and Connectivity Sector 20
Mission Systems Sector 22
Advanced Electronic Solutions Sector 24
Aviation Services Sector 26
Financial Review 28
Principal Risks 34
Corporate Responsibility and Sustainability 40

Corporate Governance

Board of Directors 44
Corporate Governance Report 48
Compliance with the UK Corporate Governance Code 53
Nomination Committee Report 54
Audit Committee Report 56
Directors' Remuneration Report 62
Other Statutory Information 78
Statement of Directors' Responsibility 81

Group Financial Statements

Independent Auditors' Report 82
Group Financial Statements 87
Parent Company Independent Auditors' Report 132
Parent Company Financial Statements 133

Other Information

Group Financial Record 140
Shareholder Information 141
Glossary 142
Definitions 144

Visit us online at
www.cobham.com

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

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

The Annual Report and Accounts contains certain forward looking statements with regard to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing contained in this Annual Report and Accounts should be construed as a profit forecast.

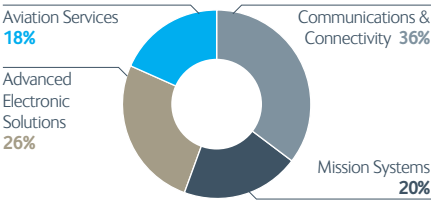
Cobham has four Sectors with differentiated technology and leading market positions

The Group in 2016
Cobham offers technologies and services that solve challenging problems for our customers across commercial, defence and security markets. It has leading market positions in air-to-air refuelling; aviation services; wireless; audio, video and data communications, including satellite communications; defence electronics; life support and mission equipment.

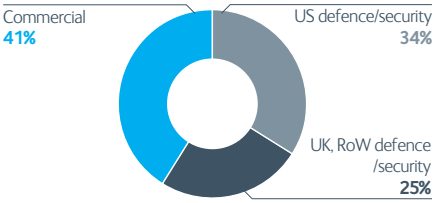
Cobham has four Sectors, each with differentiated technology and leading market positions. The Sectors operate at the subsystem and component level in their markets. The Aviation Services Sector benefits from long term contracts, which bring additional visibility to the Group's order book.

Our revenue split by:

Sector (%)



Market (%)



£1,943.9m

(2015: £2,072.0m)



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.

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

Revenue

£690.2m

(2015: £771.8m)

Underlying operating profit

£60.0m

(2015: £108.4m)

See page 20 for more information.



Mission Systems

Provides safety and survival systems for extreme environments, aerial refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft. The primary focus is serving niche areas of the defence and security market globally, supplemented by an expanding presence in commercial aviation markets.

Operating locations
United States and United Kingdom.

Revenue

£386.4m

(2015: £382.4m)

Underlying operating profit

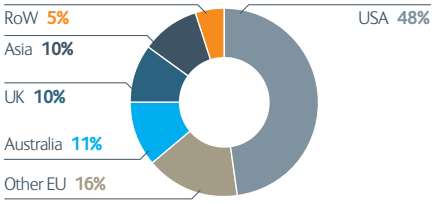
£56.5m

(2015: £68.0m)

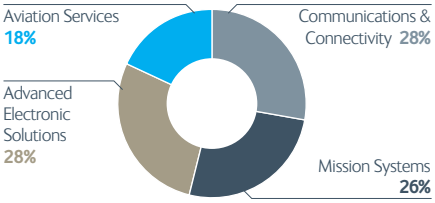
See page 22 for more information.

Our underlying operating profit by:

Geography (%)



Sector (%)



£225.0m

(2015: 332.2m)



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.

Operating locations
United States and Mexico.

Revenue

£511.6m

(2015: £538.0m)

Underlying operating profit

£60.2m

(2015: £80.5m)

See page 24 for more information.



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.

Operating locations
Australia and United Kingdom.

Revenue

£357.2m

(2015: £390.1m)

Underlying operating profit

£38.3m

(2015: £57.3m)

See page 26 for more information.

Employees worldwide

10,692*

(2015: 11,505)

*Total permanent headcount at 31 December 2016.

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

It has been a deeply disappointing year for Cobham



It has been a deeply disappointing year for Cobham. Our financial performance fell short of our earlier expectations and the prior year. The business has faced exceptional market, execution and development programme challenges. With higher gearing entering 2016, combined with the challenges above and a weakening of sterling, we launched a rights issue which completed in June. Towards the end of the year we also saw the departure of our Chief Executive Office (CEO), Chief Financial Officer (CFO) and Chairman. We welcomed David Lockwood as CEO in December 2016 and David Mellors as CFO at the start of January 2017. In addition, I took over as Chairman on 1 January 2017. Despite such an adverse year, Cobham remains a fundamentally sound Group and it has tremendous potential, with excellent people and technology, and many leading market positions. We need to stabilise the Group during 2017 and ensure that it is strongly set for a full recovery over time.

The June 2016 rights issue generated proceeds of £491m after expenses, which we used to pay down debt. However, the Group's trading performance through the remainder of the year remained below our expectations, and there was disappointing free cash flow generation. The combination of higher debt and lower profits have been the primary factors which have resulted in our principal financial gearing ratio, net debt/EBITDA, being higher than anticipated at the year-end, at 3.0x. It has, however, remained within the covenant upper threshold, which is not to exceed 3.5x.

Since my appointment as Chairman was announced, I have met and spoken with a significant number of Cobham's shareholders, and some consistent themes have emerged. Overall, shareholders want the Board to take actions which will create the underlying conditions from which we can generate shareholder value over the longer term, even if these mean making some difficult decisions. Many of our shareholders – and indeed many of our customers and other stakeholders – would like us to have a reduced level of gearing. After considering this matter carefully, the Board is targeting a net debt/EBITDA gearing ratio of around 1.5x.

> Cobham remains a fundamentally sound Group, with tremendous potential

As a necessary part of our plans to strengthen the balance sheet, the Board has decided not to recommend a final dividend in respect of financial year 2016. Furthermore, the Board will not recommend a dividend in respect of financial year 2017 and we expect to resume dividend payments when it is prudent to do so. This will take into account a number of factors, including the Group's underlying earnings, cash flow and gearing, its investment needs and the requirement to maintain an appropriate level of dividend cover.

Despite this action, we still need the balance sheet to be stronger to properly support our operations, including the required investment in our development programmes. Therefore, the Board has concluded that it is in the Group's best interests to raise new equity finance by way of a £500m rights issue. In requesting further funding from shareholders, we recognise the imperative for the Group to review its portfolio of businesses and optimise its internal cash generation, and this will lie at the heart of management actions in 2017.

Undertaking a structural deleveraging of the balance sheet is only part of the answer. We must also strive to grow through cycles with a renewed focus on our customers and a thorough understanding of their needs, and the opportunities this affords. From this insight we can ensure our significant technology investment is spent effectively, by focusing it on the most promising opportunities. This will drive our order pipeline and future revenue streams.

Allied to this, we need to improve our financial discipline and consistently deliver to expectations. This means focusing on how we track future customer orders and revenue; it means looking hard at our cost base; and taking the necessary actions to return Cobham to improved levels of cash generation.

We can create the right conditions in the businesses by reducing the number of change programmes driven from the centre. Removal of these distractions will enable our businesses to focus on the critical tasks of execution and delivery, whether it is engineering, production or progressing specific contracts.

Leading this effort is our new CEO, David Lockwood, who joined us from Laird PLC, a FTSE 250 technology company. He brings to Cobham a background in defence and communications technology, an entrepreneurial and customer driven mindset and a proven ability to grow businesses. Our new CFO, David Mellors, has joined us from QinetiQ Group plc, a FTSE 250 science and engineering company, which has operations primarily in defence and aerospace markets. During his time at that company he played a leading role in strengthening the balance sheet, refocusing the portfolio and delivering improved performance, with an enhanced positioning for growth. We are confident they have the right skills and capabilities to drive a sustainable improvement in the long term performance of the business.

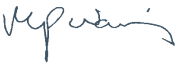
The Board is very pleased to welcome our new Executive Directors. However, the performance of Cobham over the last twelve months has been deeply disappointing and it must take responsibility for that performance. While it has already undergone significant change over recent months, going forward, the Board believes it is important that a number of new and experienced Non-executive Directors are appointed. At the same time, it is important that Cobham can benefit from a period of stability and continuity. As a result, it is my intention to effect a rolling programme of material Board changes over the next two years.

We are also setting up a Risk Committee as a formal sub-committee of the Board, chaired by David Lockwood. The Committee will also include in its membership Jonathan Flint, our Senior Independent Director.

Of course, we must also consider the future, so the Board will therefore endeavour to strengthen the quality and depth of Cobham's management below Board level by reinvigorating our succession planning. This will help us identify, develop and promote the senior managers of the future from within the business. However, done diligently, this is not a quick task and it will take time to develop a robust and comprehensive plan.

I would like to thank our employees. They have consistently shown great commitment, fortitude and hard work through a challenging year. These attributes, when combined with Cobham's specialist capabilities, and our leading positions in attractive markets lies at the core of what Cobham offers. I know I can rely on our employees to give David Lockwood and David Mellors the same unstinting support.

We have entered 2017 still facing a number of challenges and uncertainties, but I believe that the key ingredients of our future success are already present, and Cobham has tremendous potential. This is a Group with differentiated technology and know-how and strong market positions, and it has a committed and skilful workforce. There is a need to deliver a sustainable improvement in a number of areas, including in our operational and financial execution. Not all this can be done immediately but under our new Executive Directors we will deliver, over time, the performance that our customers, shareholders and other stakeholders deserve and expect from Cobham.



Michael Wareing
Chairman
2 March 2017

There is significant untapped potential to exploit



> The Group has many issues which require attention to arrest and reverse the current negative performance trajectory and this is the relentless focus

In the short time I have been with the business, I have been able to visit Cobham sites in France, Australia, the UK and the US. At each of these sites I have met people committed to the technology, products, systems and services we offer our customers. They strive daily to meet the needs of all our stakeholders.

All too often we make it difficult for our employees to deliver the value from our offering to our customers. There have been extensive reorganisation costs incurred over the last five years which illustrates an increasing level of change.

Financially, it was a very challenging year for Cobham and we have reported a statutory operating loss of £779.1m and basic earnings per share of (52.8)p. On an underlying basis, we have reported an operating profit of £225.0m. Organic revenue showed a disappointing 7.7% decline year-on-year.

In hindsight, it is clear that the integration of Aeroflex into Cobham, alongside the management of pre-existing change programmes, was beyond the capability of the Group, despite extensive spend on third party help. Momentum was lost and the Group became internally focused. These factors, combined with poorer than expected results in 2016, ultimately resulted in the major goodwill impairment we have taken, as well as a loss of talent and capability.

Underlying issues

The Group has many issues which require attention to reverse the current negative performance trajectory and this is the 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 has contributed to the period of 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

The poor 2016 outcome and the underlying problems set out 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 partners, and have had very encouraging early engagements with them. It is apparent that there are many opportunities for our businesses to increase market share, as there is a need and a real enthusiasm for the products and services that Cobham can offer.

Priorities for 2017

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

Control and execution

With leadership from the top, we need to deliver consistently to our customers' and shareholders' expectations, recognising that 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.

In 2016, Cobham spent approximately £130.2m, or 8.2% of revenue, on Private Venture (PV), or company funded R&D. 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, the 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 reduced 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 CFO. David is an experienced CFO, who, among other attributes, has a proven track record of improving financial discipline, driving cash generation and achieving effective cost control. As with any new partnership, you can strike lucky, and this is one such occurrence.

Outlook

Whilst market uncertainties undoubtedly exist, the ability of the Group to forecast performance is not as strong as it should be which contributes 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 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 reflected 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 lower than expected profitability, the Group's net debt/EBITDA ratio at the year end at 3.0x was slightly higher than at 31 December 2015, but remains within the covenant upper threshold.

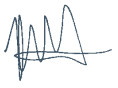
As the Chairman has stated, the balance sheet is not strong enough to support the operations of the Group, given the important role it plays in many customer programmes. A stronger balance sheet will underpin the confidence of our customers and other stakeholders, supporting our medium term growth aspiration,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

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

The Board intends to use the proceeds of the rights issue to pay down borrowings on its 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.

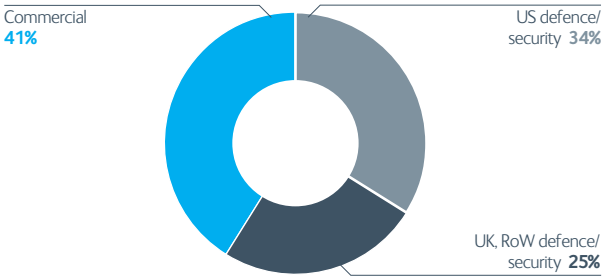


David Lockwood
Chief Executive Officer
2 March 2017

We have positions in three broad end-markets

Cobham operates in three broad end markets: Commercial, US defence/security and UK, RoW defence/security. It looks to leverage its technology and know-how across these markets

Revenue by market (%)



Commercial

Our commercial revenue arises in a number of different end markets and these are set out below.



Aerospace 10%
(Credit: Martin Coy)



Outsourced Aviation Services 8%



Wireless 7%



Marine SATCOM 6%



Space 3%



Other* 7%

*Other markets include: land SATCOM, medical, mining and industrial slip rings.

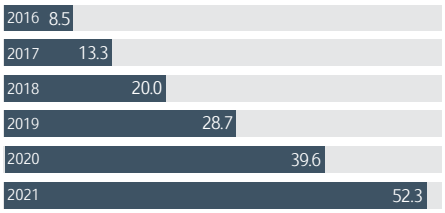
Commercial

We are focused on attractive markets for communication on the move and in harsh and difficult environments.

The majority of Cobham's commercial revenue is related to communications, particularly for products that are used in communications on the move, with applications in harsh or difficult environments. Communications markets are driven by long term global growth, urbanisation and a need to link critical networks. There is also an increasing propensity to travel, which can require products that enable access to voice, data and video applications in challenging or remote environments.

Some of the Group's communications markets have faced challenging conditions during 2016. However, over the longer term, the demand for communication will grow as evidenced by forecasts of global mobile data traffic, which is expected to increase significantly.

Global monthly data traffic (Exabytes*)



Source: Ericsson Mobility Report 2016
* One exabyte equals one billion gigabytes.

Cobham is also exposed, principally within its Aviation Services Sector, to demand for natural resources in its fly-in-fly-out operations in Australia, and through its outsourced flying operations for Qantas, the Australian airline, to regular public transport markets. A weakening in demand for natural resources, particularly from within the Asia-Pacific region, resulted in more challenging market conditions for the Group in 2016.

Our response

Cobham's business model has been the framework around which the Group has responded to market conditions. For more information see Our Business Model on pages 10 and 11.

We have invested in technology to develop advanced communications products. In certain markets we have invested a double digit percentage of our revenue annually, with the objective of aligning our investment priorities with customer demand and discriminating our product offerings based on technology. We have also looked for opportunities to develop products for different customers and applications. Technology investment will be an area of focus during 2017 as we bring renewed emphasis on strengthening customer relationships.

> Our technology and know-how is used globally

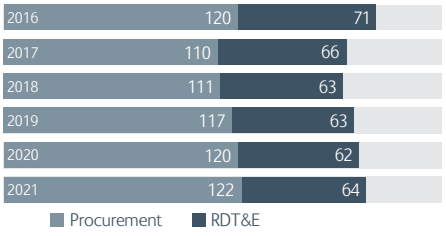
US defence/security

Our technology remains aligned to a number of our customers' priorities

Cobham is exposed to the US Department of Defense (US DoD) investment account budget lines, comprising procurement and research, development, test and evaluation (RDT&E).

Changes in US defence budgets will tend to be driven by macroeconomic factors such as the state of the economy, as well as by global security tensions. Between 2009 and the end of 2015 the US investment budgets fell significantly, driven by the global financial crisis and by the withdrawal of the US military from Iraq and Afghanistan. However, it now seems likely that the budget has reached a trough. The Future Years Defense Program has provided for a low single digit compound average growth rate (CAGR) in the investment accounts to 2021, and there is potential for budgets to increase further. Recently the US DoD has also used a special wartime funding mechanism, called the Overseas Contingency Operations account, which has provided additional budget funding.

US DoD budget (US$bn)



Source: FY17 President's Budget Green Book

Within the overall budget, the strategy of the US DoD has been to rebalance its military posture towards the Asia-Pacific region. This has resulted in continued investment in the US Navy and a recapitalisation of the US Air Force, which has an ageing inventory of aircraft. This strategy means prioritising high-end technologies which will protect and enhance the performance of these expensive assets. This aligns with many of Cobham's specialisms including secure communications, electronic warfare (or 'jamming'), intelligence gathering and radar technologies.

In addition, with a number of regional conflicts ongoing around the globe, there has been strong demand for components and subsystems for missiles and munitions.

Our response

Cobham's business model has been the framework around which the Group has responded to market conditions. For more information see Our Business Model on pages 10 and 11.

Cobham has technologies and capabilities that are relevant to current US DoD priorities and it is therefore well positioned to benefit from the US budget. The primary focus for Cobham is to ensure that our technology is chosen for next generation platforms and programmes, which will deliver profitable production revenue.

The Group has positions on next generation US Air Force platforms, including the KC-46 tanker aircraft and the F-35 multirole fighter aircraft. In addition, Cobham has critical content on US Navy upgrade programmes, including the Advanced Missile Defence Radar and the Surface Electronic Warfare Improvement Program. It also supplies electronic subsystems on missiles, including the Standard Missile and the Patriot/PAC-3 as well as AGM-88E Advanced Anti-Radiation Missile and the AIM-120 Advanced Medium Range Air-to-Air Missile. Its technology is also to be found on higher volume munitions such as the Paveway laser-guided bomb and the Hellfire air-to-ground missile.

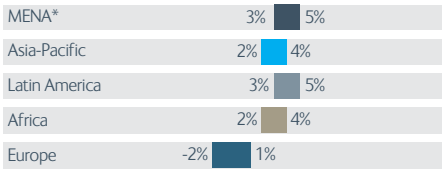
UK, RoW defence/security

Our products have relevance to government customers around the world

While the US has the world's largest defence budget, comprising about 36% of global spending, Cobham also addresses markets outside of the US. Defence markets in parts of Asia and the Middle East have shown growth, while much of Europe has, like the US, been through a period of budget declines. However, the UK, France and Germany are now expected to see modest budget growth overall, while a number of countries in Eastern, Central and Northern Europe also have growing budgets.

The fall in the price of oil has generally not reduced spending on defence in important Middle Eastern markets and overall, Asia-Pacific continues to increase defence investment. The table below shows estimated medium term growth rates in defence expenditure by geographical region.

Global defence expenditure growth estimates



* MENA – Middle East and North Africa, excluding inaccessible countries.

Sources: Cobham analysis, SIPRI, IMF, Strategic Defence Intelligence.

Our response

Cobham's business model has been the framework around which the Group has responded to market conditions. For more information see Our Business Model on pages 10 and 11.

Cobham aims to leverage its technology and know-how into UK, RoW defence/security markets through different channels. It supplies major UK, RoW defence companies on programmes such as the Eurofighter Typhoon, the Saab Gripen and the Dassault Rafale fighter aircraft, providing critical components and subsystems. In addition, it makes direct sales of its components and subsystems into accessible UK, RoW markets; and it also benefits from the export of US manufactured equipment into these markets.

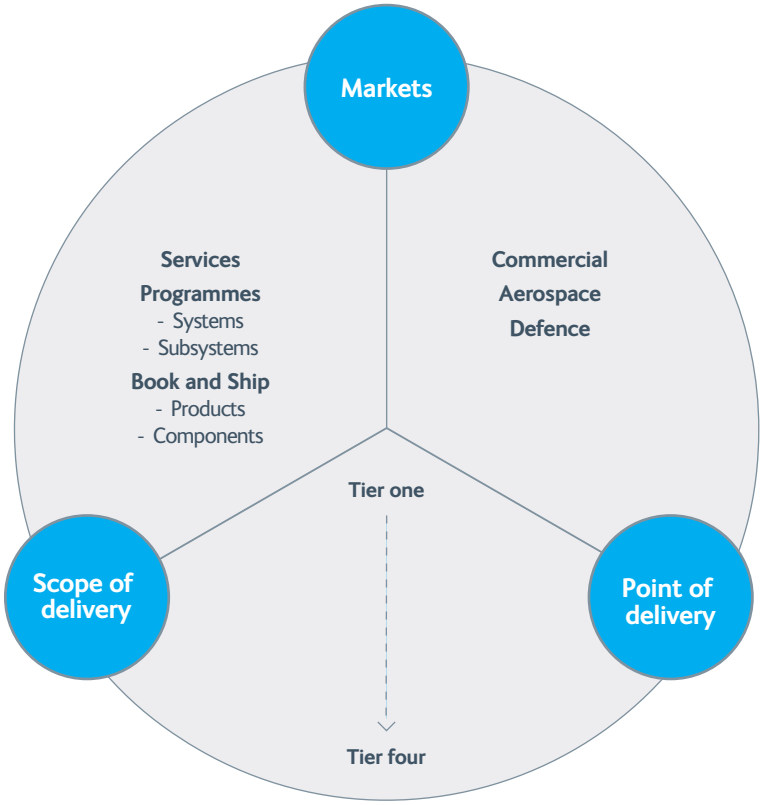
Cobham also supplies critical services into other parts of the world, including the UK, Australia, Middle East and the Caribbean, where it has aviation contracts for various services, including training, maritime surveillance, search and rescue, maintenance and engineering services.

Renewing the focus on delivery

How we create value
Through a combination of longstanding customer relationships and applying our technology and know-how, we aim to provide customers with innovative solutions to meet their technology and service requirements. Using the extensive experience in our markets, we invest in differentiated technologies with leading market positions. We understand the importance of operational excellence to enable us to deliver our customer commitments. Improving our consistency and execution will be a focus for improvement in 2017.

Our enablers
Our technology solutions can only be delivered through the expertise of engaged and talented employees. We also put in place policies and processes to ensure employees work in a safe environment and we look to minimise our impact on the environment. Working in highly regulated markets, we understand the need to adhere to the highest ethical standards.

For more information, see the Corporate Responsibility and Sustainability overview on pages 40 to 43.



Our business model is underpinned by:

Our potential for improved financial performance
Our differentiated technologies, leading market positions and investments in the business have contributed to historically strong underlying operating margins and good free cash flow generation.

However, the results in 2016 have been disappointing. This included the impact of more challenging market conditions and, in a few businesses, a number of performance issues which can be attributed to examples of poor control and weak financial discipline.

For more information on our financial performance in 2016 and the KPIs that management use to run the business see pages 16 to 19.

Our risk management approach
We have a risk management approach with a framework under which the risks to our business model are identified and monitored, along with controls and assurance measures.

For more information on the effectiveness of our approach, our plans for 2017 and our Principal Risks please see pages 34 to 39.

We have a focus on high value add technologies and know-how

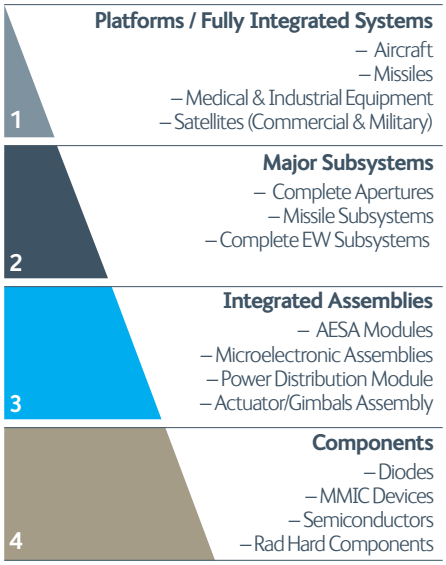
1. Positions in our markets

Cobham designs, assembles and tests a range of components and subsystems, typically operating towards the lower half of the supply chain, known as tier 3 and tier 4. Cobham also participates to a lesser extent at tier 2 where it has some major subsystem capabilities.

Operating at lower market tiers enables Cobham to supply to a number of large, multinational customers who are sometimes in competition with each other.

The following diagram shows where the business is positioned in the supply chain, using illustrative examples of what the Group does within each tier.

Tier



Within the Aviation Services Sector, Cobham operates significant medium to long term contracts to fly, modify and maintain aircraft and undertake training in aviation markets. The nature of the services provided means that its contracts can last decades, as customers can renew or extend agreements multiple times.

For more information on our capabilities please see pages 12 to 15. Also, see page 16 on our strategic objective of focusing on our customers.

2. Investment in leading edge technology and know-how

Cobham's model is to focus on markets with positive, long term macro trends that underpin customer demand. Success in these markets is dependent on our providing new and improved products and services, while understanding the needs of our customers.

By making investments that enhance our technology differentiation, Cobham aims to offer its customers additional capability and lower through-life operating costs.

During the year, Cobham invested £130.2m (2015: £138.0m) in PV. This represents 8.2% of revenue (2015: 8.2%). Including R&D funded by customers, total R&D investment was £250.7m (2015: £257.7m).

In 2016, the Group invested its PV in the development of products and services in its avionics, SATCOM, wireless and microelectronics markets, in particular.

A review of the effectiveness of technology investment will be undertaken in 2017, to ensure it is focused on the most promising opportunities.

PV investment

£130.2m

(2015: £138.0m)

Total R&D investment

£250.7m

(2015: £257.7m)

3. Leveraging existing products and services into different end markets

As Cobham operates at the component and subsystem level, the Group's technology can often be used for different applications and across a variety of markets.

The ability to find new markets helps diversify the Group's customer base and its exposure to business cycles. It can also help increase the returns on technology investment.

Over the last few years, the Group has focused on shifting the balance of its portfolio to increase the proportion of its revenue in commercial end-markets. This has occurred through a combination of organic investment in technology, in conjunction with acquisitions that have a majority of their revenue in commercial markets. As a result of this strategy, all four of Cobham's Sectors now have significant exposure to defence/security and commercial markets.

4. Programme management and continuous improvement

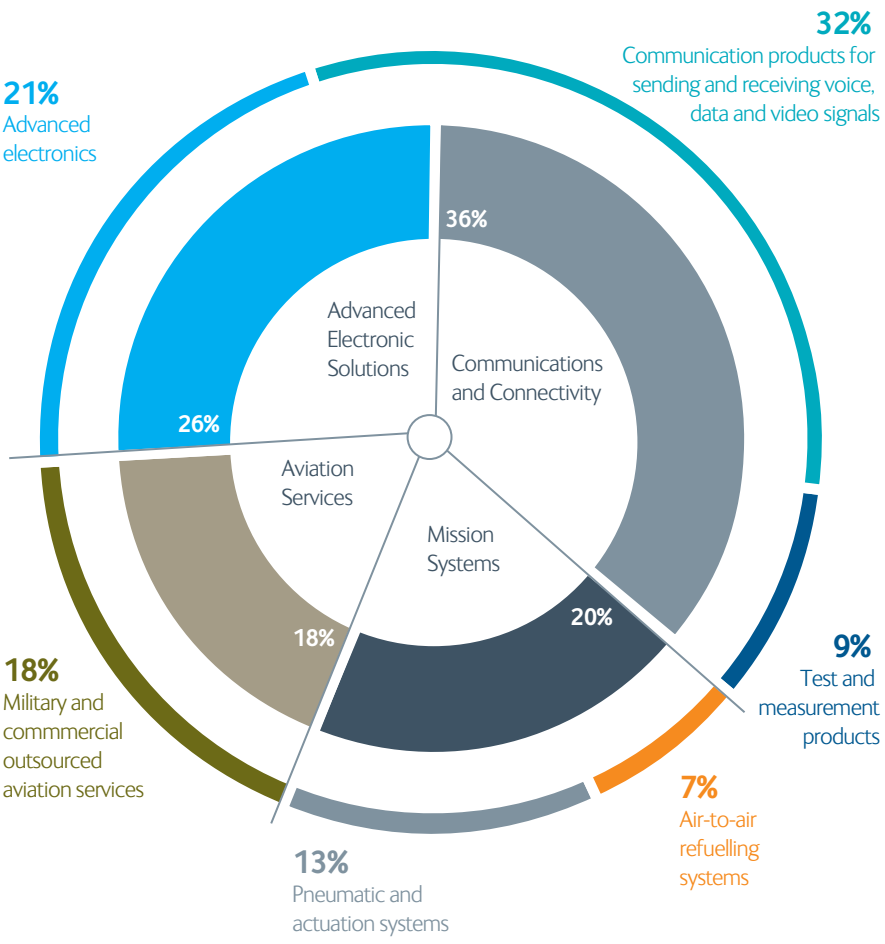
To leverage its market positions and technology, Cobham uses its technology and know-how to design, assemble and test high value-add products in-line with customer specifications, while needing to deliver on-time and to a pre-agreed budget. By succeeding with this approach, our customer relationships will be enhanced over time.

In 2016, the number and complexity of business change initiatives was a contributory factor which adversely impacted the Group's operations and financial performance. This will be addressed during 2017 through reducing the number of centrally driven change programmes.

We have specialist and high value add capabilities

Our differentiated technology and know-how is concentrated around six key capabilities

Our capabilities by Sector:



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

Capability served by:

- Communications and Connectivity
- Advanced Electronic Solutions

Test and measurement products

Capability served by:

- Communications and Connectivity

Air-to-air refuelling systems

Capability served by:

- Mission Systems

Pneumatic and actuation systems

Capability served by:

- Mission Systems

Military and commercial outsourced aviation services

Capability served by:

- Aviation Services

Advanced electronics

Capability served by:

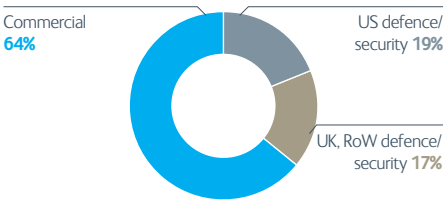
- Advanced Electronic Solutions

Proportion of Group Revenue

32%

Cobham supplies products with a focus on communication on the move including in demanding or difficult environments. This includes components and subsystems used in space, on aircraft, and at sea.

Revenue by market (%)



Down to earth

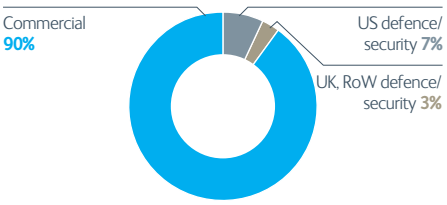
Cobham SATCOM designs, develops and delivers sophisticated Earth Stations, providing the interface for Inmarsat services, including communication to aircraft, shipping traffic and land mobile applications.

Proportion of Group Revenue

9%

Cobham makes a range of technology dependent test and measurement products for wireless and radio markets.

Revenue by market (%)



Wireless world

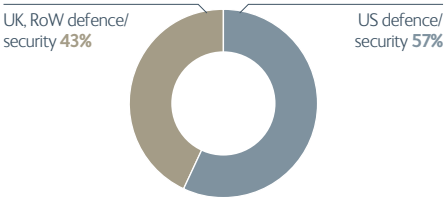
Cobham provides market leading intelligent digital Distributed Antenna Systems and wireless coverage products for both public safety and cellular applications.

Proportion of Group Revenue

7%

Cobham is a market leader in the aerial refuelling market having supplied more than 2,000 systems to customers worldwide.

Revenue by market (%)



Plug in power

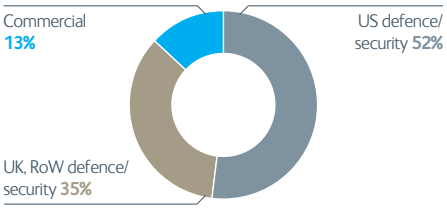
Cobham's aerial refuelling systems are a key enabler of air power. Fitted on every major tanker, our hose and drogue systems provide front line probe-fitted aircraft with the fuel to fly further, faster and more efficiently.

Proportion of Group Revenue

13%

Cobham systems increase the safety, survivability and effectiveness of users and assets, leveraging specialised technology that includes actuation, high pressure pneumatics, oxygen generation and control systems, gas management and separation, water sensing, and restraints and releases.

Revenue by market (%)



Precise capabilities

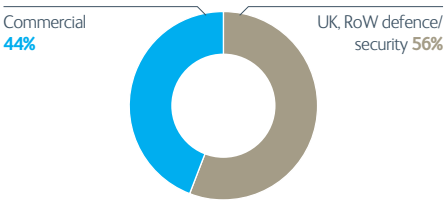
Cobham's Brimstone missile launcher is providing the Eurofighter Typhoon fighter aircraft with a greater precision strike capability than ever before.

Proportion of Group Revenue

18%

Cobham 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.

Revenue by market (%)



Excellence above all

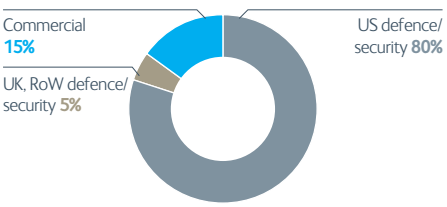
Cobham Aviation Services provides helicopters for Aero Medical Evacuation operations in Brunei, Cyprus and the Caribbean.

Proportion of Group Revenue

21%

Cobham supplies customised product solutions for a range of applications spanning defence, X-ray imaging, medical and industrial requirements including airport screening, mining and secure point of sale payment applications.

Revenue by market (%)



Medical marvels

Cobham designs high reliability and radiation hardened integrated circuits for growing medical markets, for use in MRI scanners and ultrasound.

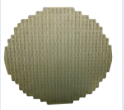
Our products on the KC-46 tanker

Cobham has significant content on the US Air Force next generation KC-46 tanker programme. This includes its hose and drogue aerial refuelling systems and examples of its communication and pneumatic and actuation technologies





VHF/UHF Tuneable Antenna and Logic Converter Unit
Using frequency information supplied by its radio, the Logic Converter Unit tunes the antenna to provide optimal electrical performance and is in use with most airborne military radios today. There are three sets of Tuneable Antennas and Logic Converter Units on the KC-46 capable of providing vital air-to-air and air-to-ground communications for the crew.



Flat Plate Slotted Array Antenna
The flat plate antenna forms part of the weather radar system on the KC-46. Its job is to facilitate data collection and analysis of weather to enable safer, smoother and more efficient flights.



Fuel Tank Inerting (OBIGGS) Air Separation Module and Oxygen Sensor
Operating as the heart of the OBIGGS fuel tank inerting system, Cobham's Air Separation Module increases aircraft and passenger safety by providing a continuous flow of nitrogen enriched gas into the fuel tanks to reduce flammability and the likelihood of a fuel tank explosion. Cobham's Oxygen Sensor monitors the air that leaves the Air Separation Module, providing confidence that the fuel tanks are receiving the proper amount of nitrogen-enriched air.



Panel Mounted Oxygen Regulators
The oxygen regulator is designed for use by aircraft crew members in high altitude flight. The oxygen regulators provide regulated breathing oxygen to pilots and aircrew from the aircraft's primary gaseous oxygen system. As altitude increases, so too does the oxygen flow so the partial pressure of oxygen is roughly constant.

(Credit: Boeing)



Oxygen Pressure Reducer

Converts high pressure oxygen for use in emergency aircraft systems. Should an emergency occur in flight, the regulator will supply life saving oxygen to crew members, allowing them to keep the mission on track.



Oxygen System Shutoff Valve

If any part of the aircraft oxygen system is compromised, this valve will close the failed portion to conserve vital oxygen and protect the aircraft from a high oxygen concentration which could lead to a fire.



Combined VHF/UHF Communications and UHF SATCOM Antenna

An antenna that is composed of two separate antenna elements capable of providing terrestrial, air-to-air or air-to-ground very high frequency (VHF) or ultra high frequency (UHF) communications, and ultra high frequency satcom with near hemispheric coverage.



HGA-7001 High-Gain SATCOM Antenna

An antenna that provides a long range communications system for the flight deck. The KC-46 is powered by two engines so the antenna is required to comply with Extended Operations standards which permit aircraft to fly long distance routes previously off limits to twin engine aircraft.







Body Fuel Tank

There are four identical body fuel tanks per KC-46 aircraft. The fuel tanks provide the fuel offload capability required by the United States Air Force. Fuel is pumped to the centre fuel tank on the aircraft to replenish and supplement fuel offloaded or used by the KC-46. The tanks are approximately 10 feet wide, 5 feet in height and 5 feet deep.



Aerial Refuelling System (Hose and Drogue)

Incorporates the Wing Aerial Refuelling Pod and Centreline Drogue System. The Aerial Refuelling System enables the transfer of fuel from the KC-46 tanker aircraft to a receiver aircraft such as a fighter jet, during flight. The KC-46 can refuel a range of probe equipped fighter aircraft to extend their range, allowing them to fly farther, longer, faster and more efficiently. This makes it possible for aircraft to cover the distances needed to reach remote conflict zones.

Our strategy and actions in 2016

We have pursued our five strategic actions during a challenging 2016



Our vision

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



Our strategy

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



Our strategic actions

There are five strategic actions which are focused on customers, improving operational performance, technology investment, capital allocation and enhancing skills and capabilities.

See pages 18 and 19 for more information on our strategic actions.

Going forward

Aligned to the 2017 priorities, the Group will review the strategy as well as the breadth and shape of the portfolio in 2017. See CEO review on pages 6 and 7 for our 2017 priorities.

Performance issues, in part driven by a strategy that saw Cobham diversify from its core capabilities, have led to a lack of focus that needs to be addressed. The review will focus on aligning each of the existing strong technology and service positions to create a performing Group.

Delivery of our vision and strategy includes

A business model focused on technology and know-how

See pages 10 and 11 for more information.

A risk management process with regular review of risks

See pages 34 to 39 for more information.

A set of values built on ethics, responsibility and sustainability

See pages 40 to 43 for more information.

Cobham used the following key performance indicators (KPIs) as measures of overall performance against the strategic actions

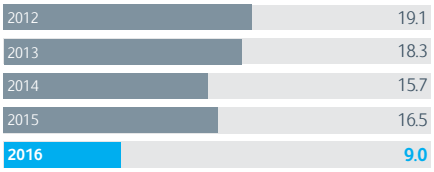
Key performance indicator used by management.

£ Used as a measure for determining executive remuneration.

See page 144 for definitions.

Earnings

Underlying EPS (pence) £



Target: high single digit growth

(45)%

Underlying EPS was 45% lower than the prior year. This reflected lower underlying operating profit, driven by a decline in organic revenue, with an adverse mix. There were also higher costs in some of the businesses. In addition, there was a 12%pts adverse impact from the higher share count following the June 2016 rights issue.

Cash generation

Operating cash conversion (%) £



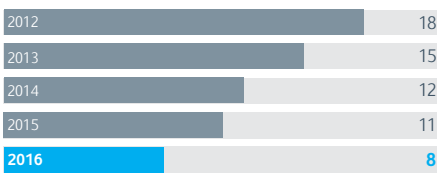
Target: >80%

81%

The Group generated lower operating cash flow of £181.8m (2015: £234.6m) as a result of its reduced operating profit. Operating cash conversion was higher at 81% (2015: 71%), including lower capital expenditure of £86.1m (2015: £98.7m). There was a modest increase in working capital of £8.2m (2015: £48.9m).

Shareholder value

Return on invested capital (%)



Target: >10%

8%

The Group's return on invested capital (ROIC) declined due to the disappointing trading performance in the year, and is now below the Group's target. There has been disappointing trading in all of the Group's Sectors, including from some of the more recent acquisitions, as evidenced by the significant impairment charges incurred in the year. For more information see note 10 on page 105.

See pages 28 to 33 for more information on our financial performance.

We need to improve delivery against our KPIs in 2017

Strategic actions	1. Focus on customers	2. Improve operational performance
Description	Develop a deep understanding of customer needs and build close relationships.	Drive improvement in our operational performance to meet customers' needs.
Importance	Understanding customer needs and their priorities is crucial to developing products and services that are relevant for our markets. We also look to build relationships with potential customers, so we can develop applications for our technology and know-how in new markets.	Delivering products and services in line with customer schedules, to budget and to agreed performance and quality metrics is essential to growing market share.
Links to principal risks	Failure to understand market characteristics, see risk 2 on page 36.	Failure to successfully execute continuous improvement, see risk 7 on page 38. Ineffective project and programme execution, see risk 4 on page 37.
Progress	**Group revenue** (£m) £ 	**On time delivery*** (%) 
Commentary	**Target:** mid-single digit organic revenue growth Group organic revenue declined 7.7% in the year, with an organic decline in all four of the Sectors. Organic revenue was impacted by lower volumes, an adverse revenue mix and lower flying activity in the Aviation Services Sector. **See page 28** for more information.	**Target:** 90% Despite improvement since 2012, consistency in operational execution remains below customer expectation. This will be a key area of focus in 2017. The Group previously used the major accident incident rate as its KPI for operational performance. After consideration, the Group believes that OTTP is a better measure of performance and this is reflected above. **See pages 10 and 11** for more information.



*On time to promise (OTTP)

 Key performance indicator used by management.

£ Used as a measure for determining executive remuneration.

 See page 144 for definitions.

> The Board will review the strategic actions as well as the breadth and shape of the portfolio in 2017

3. Invest in technology

Invest in technologies, which are innovative, discriminating and which align with our technology road maps. This aligns product investment to demand and keeps us competitive.

Developing products and services which meet customer needs and are differentiated from other competitive offerings will retain existing customers and win new customers.

Failure to execute strategy, see risk 3 on page 37.

Group PV investment (% of revenue)*



*excluding Aviation Services

Target: 6%

Company funded PV investment remained consistent year-on-year at 8.2% (2015: 8.2%) of revenue, ahead of the Group's target. However, the significant investment made is inconsistent with the organic revenue decline of 7.7% in the year and the effectiveness of Cobham's investment in technology will be reviewed to ensure it is being focused on the most promising opportunities.

See page 28 for more information.

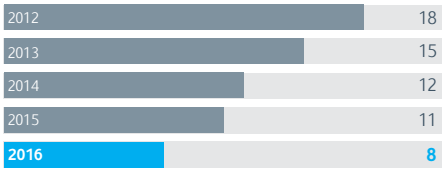
4. Allocate capital for growth

Constantly review the market place to ensure capital is allocated to achieve sustainable value creation through a focus on growing markets.

Reviewing the market place constantly means focused investment in those areas which will deliver the best financial returns, so optimising revenue and profits.

Failure to deliver value-creating investment, including M&A, see risk 8 on page 38.

Return on invested capital (%)



Target: >10%

It is considered that the declining ROIC is a good reflection of the outcome of the Group's capital allocation decisions.

See page 17 for more information.

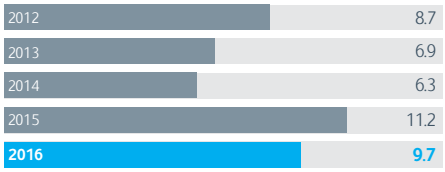
5. Enhance skills and capabilities

Enhance the skills and capabilities of employees to foster long term competitive advantage.

Enhancing the skills and capabilities of employees, through focused learning and development, as well as by recruiting and developing the next generation of skilled employees, is essential for a technology business to deliver the promises made to customers.

Failure to recruit and retain personnel with appropriate skills and talent, see risk 6 on page 37.

Voluntary staff turnover (%)



Target: <10%

The Group's voluntary staff turnover has remained high, although just below the target level. The Group plans to simplify processes its processes and reporting in 2017, as it considers that reporting structures and the allocation of responsibilities have become overly complex and unclear, impacting motivation and morale. This has had a continuing adverse impact on voluntary staff turnover.

See page 41 for more information.

Enabling reliable connectivity anywhere, anytime



Organic revenue
(5)%
(2015: (4)%)

% of Group revenue
36%
(2015: 37%)

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.

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.

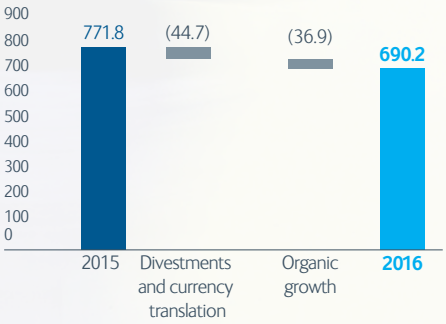
The organic revenue performance was primarily driven by lower volumes, including in the Wireless business, with lower sales of test and measurement products. In addition, there were lower antenna and SATCOM volumes, primarily in defence markets, including an adverse impact from discontinued product lines.

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. 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%).

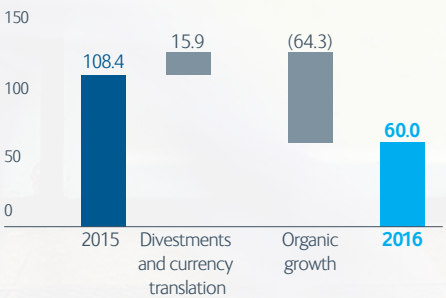
While marine markets remain challenging, there has been acceleration in shipments of medium maritime Very Small Aperture Terminals in the SATCOM business, which are linked to the growth in subscribers for new constellations such as Inmarsat Global Xpress. Within aerospace markets, Cobham's Aviator S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

In the Wireless business, while sales volumes for test and measurement products were lower there have been 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.

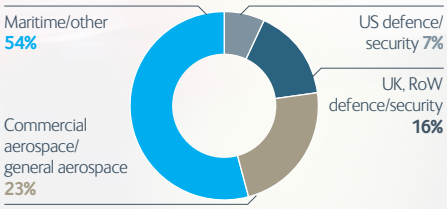
Sector revenue (£m)



Sector underlying operating profit (£m)



Revenue by market (%)

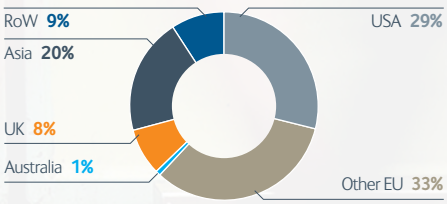




Next generation

Following contract awards in 2016, Cobham will provide its new digital Radio and Audio Integrated Management System (RAIMS) and new SwiftBroadband Safety System known as the AVIATOR 200S and 700S for the A320neo aircraft family.

Revenue by geography (%)



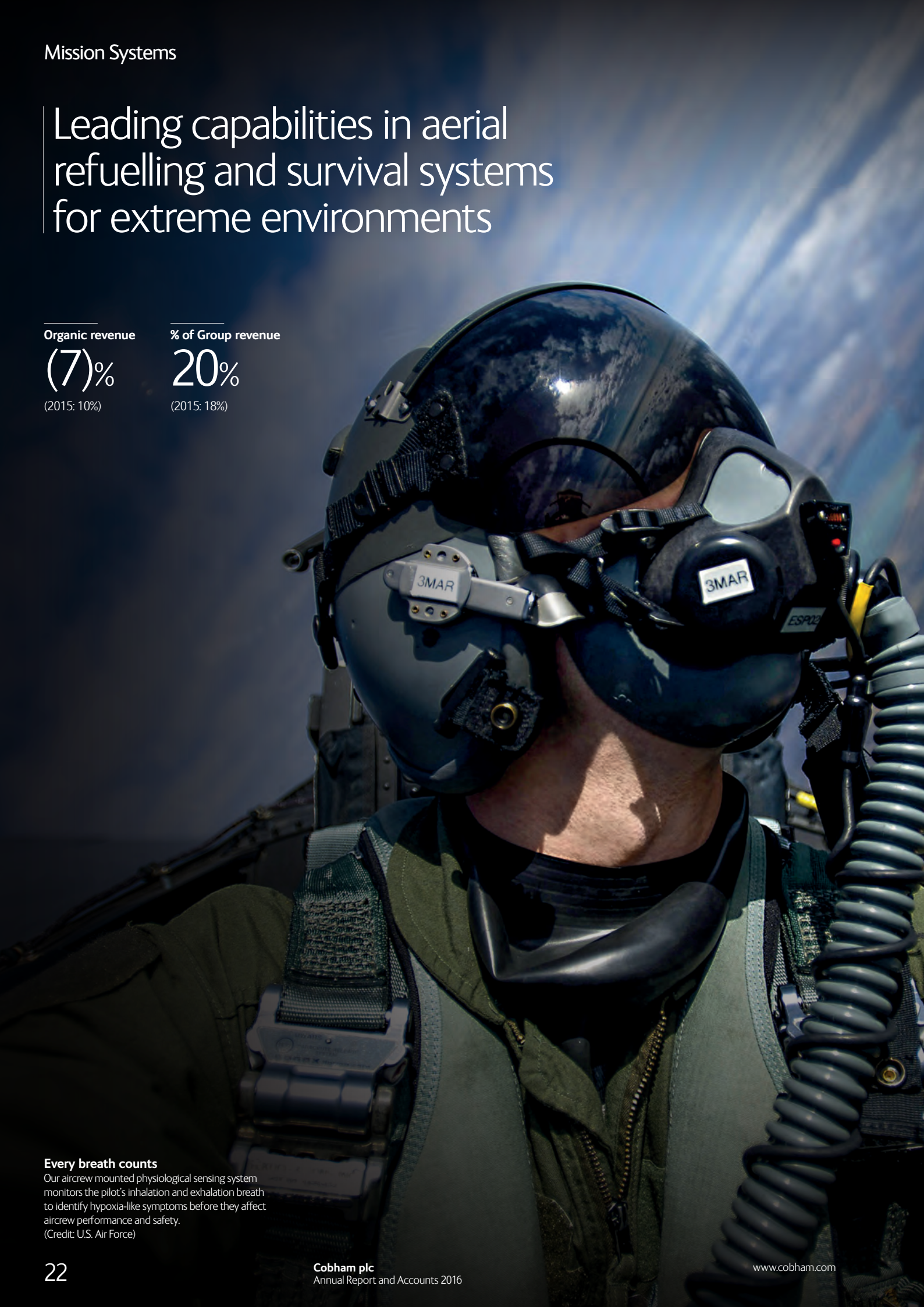
Wireless world

Cobham provided robust public safety infrastructure for the Rio de Janeiro Metro network and cellular active Digital Antenna System solutions in three of the largest stadia in the city: the Engenao Stadium, Mineirao and the Maracana.

Leading capabilities in aerial refuelling and survival systems for extreme environments

Organic revenue
(7)%
(2015: 10%)

% of Group revenue
20%
(2015: 18%)



Every breath counts
Our aircrew mounted physiological sensing system monitors the pilot's inhalation and exhalation breath to identify hypoxia-like symptoms before they affect aircrew performance and safety.
(Credit: U.S. Air Force)

Provides safety and survival systems for extreme environments, aerial refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft. The primary focus is serving niche areas of the defence and security market globally, supplemented by an expanding presence in commercial aviation markets.

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 from aerial refuelling, principally due to Lockheed Martin C-130 tanker production volumes and development revenue from the Boeing KC-46 tanker programme.

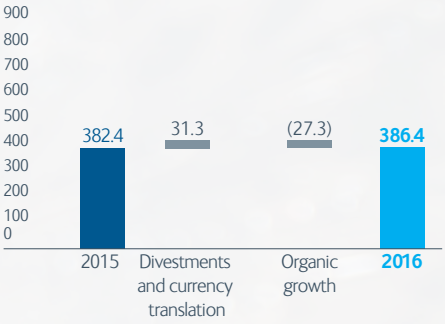
Underlying operating profit was lower at £56.5m (2015: £68.0m). This was primarily driven by lower C-130 volumes and a lower profit contribution from KC-46 development revenue.

Partially offsetting these was a favourable impact from currency translation. Reflecting these factors, the operating margin was 14.6% (2015: 17.8%).

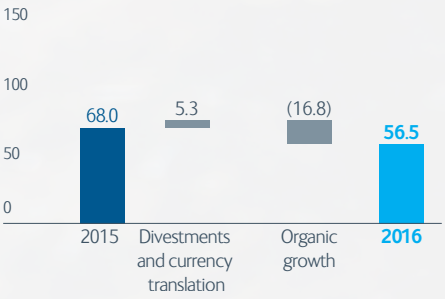
Within the Sector's aerial refuelling activities the Group has taken an exceptional charge of £150m in 2016 on KC-46 development, as described on page 29. This is not included in underlying operating profit. Work on the conformity process for the KC-46 tanker Centreline Drogue System is substantially complete. Qualification activity is ongoing as part of the overarching US Federal Aviation Administration (FAA) certification process. Conformity activity for Wing Aerial Refuelling Pods continues. Elsewhere, the first full production wing pods entered service with the German Air Force on the Airbus A400M programme.

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.

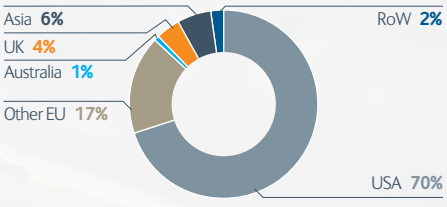
Sector revenue (£m)



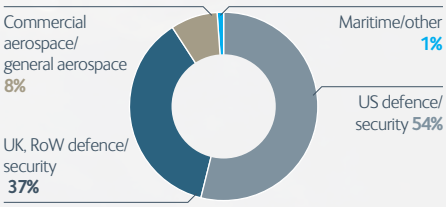
Sector underlying operating profit (£m)

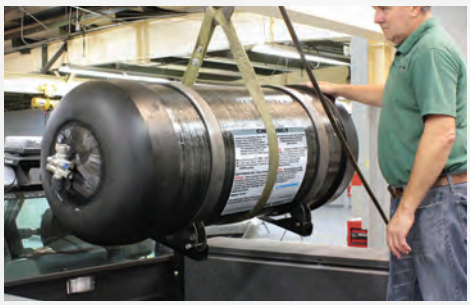


Revenue by geography (%)



Revenue by market (%)

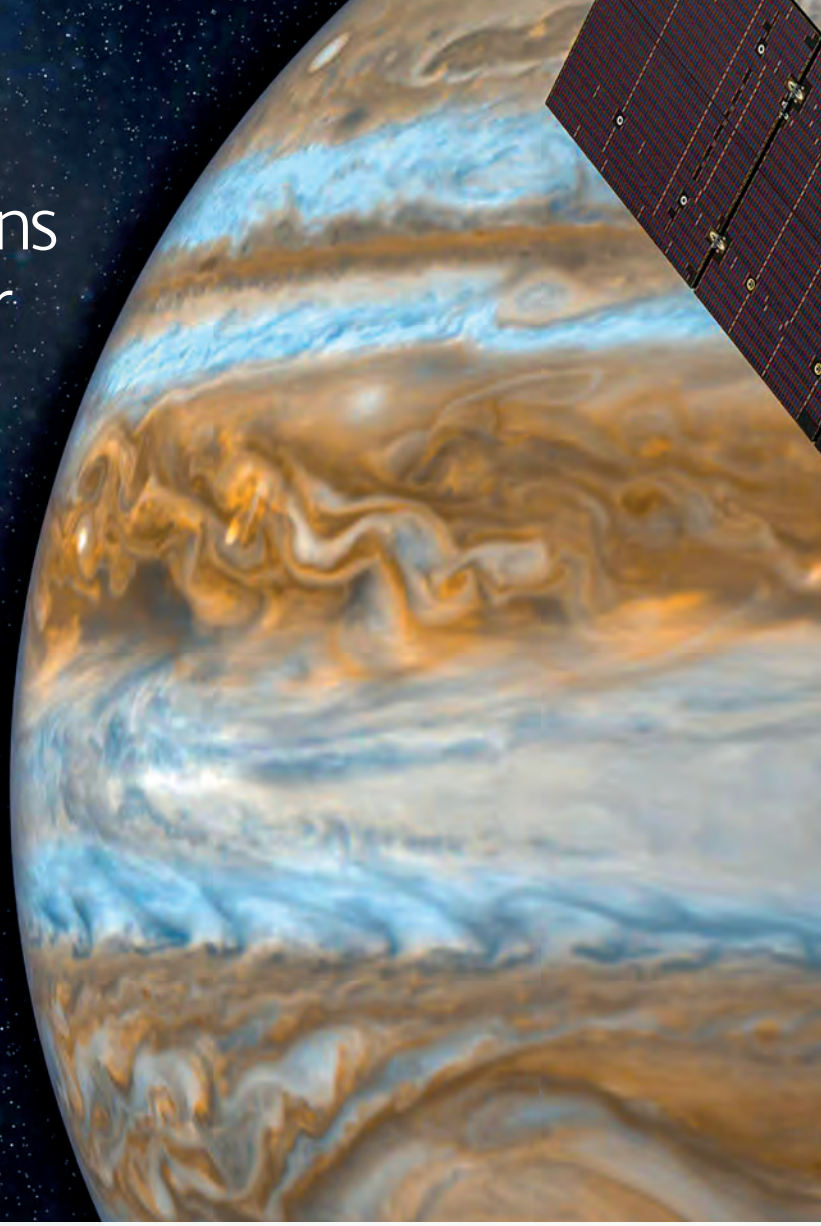




Withstanding pressure

Cobham designs and produces high performance composite pressure vessels and hybrid integrated structures for alternative energy, life support, military and commercial aircraft, and spacecraft applications. We have leveraged our gas management capabilities and technology into the natural gas vehicle market.

Providing critical solutions on land, at sea, in the air and in space



Organic revenue
(8)%
(2015: (7)%)

% of Group revenue
26%
(2015: 26%)

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.

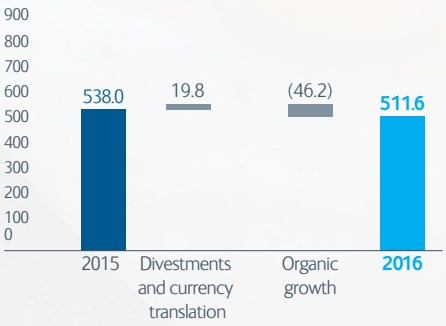
Total Sector revenue decreased by £26.4m. This included a £49.3m decrease due to divestments, principally Weinschel and Inmet, which were divested in June 2015, and Metelics which was divested in December 2015. There was a favourable impact from currency translation of £69.1m, which was partially offset 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 some mature production programmes. This included the EA-18G Low Band Transmitter (LBT) programme for the US Navy. 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.

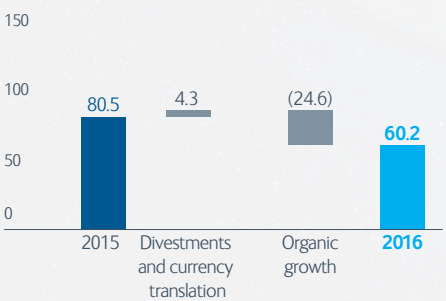
Underlying Operating profit was £60.2m (2015: £80.5m), due to the lower volumes described above, including from the mature production programmes. The Sector incurred some additional costs, including the previously announced technical and supplier quality issues on certain of its development programmes, 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 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 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. 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 for international space customers and long term agreements for industrial customers.

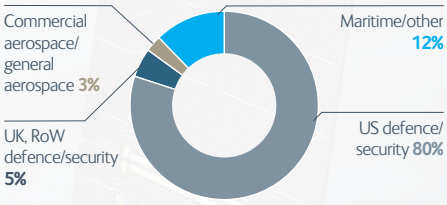
Sector revenue (£m)



Sector underlying operating profit (£m)



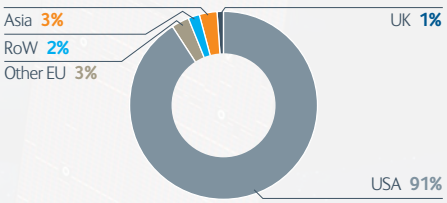
Revenue by market (%)





Blasting into new markets
Cobham provides Application Specific Integrated Circuits to Orica, a leading Australian mining services company for use in explosive detonation equipment used in mining excavation.

Revenue by geography (%)



Revealing Jupiter's secrets
NASA's Jupiter Near-polar Orbiter (Juno) spacecraft carries Cobham's Battery Electronics Unit, engineered to provide autonomous balancing of power cells enabling Juno to manage its power with reduced size and weight. (Credit: NASA)

Delivering outsourced aviation services for military and commercial customers

Organic revenue
(14)%
(2015: 1%)

% of Group revenue
18%
(2015: 19%)



Connecting people
Cobham operates the Boeing 717 jet network for Qantaslink in Australia as the only third party trusted to operate under the Qantas brand.



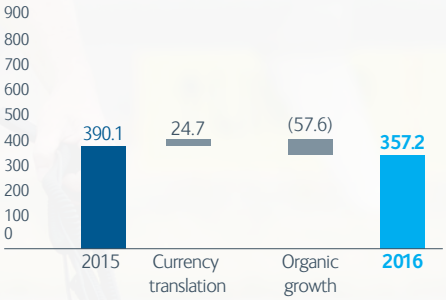
Delivers outsourced aviation services for customers worldwide, including military training, special mission flight operations, outsourced commercial aviation, including fly-in fly-out services to the natural resources industry and aircraft engineering.

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 defence/security revenue, in part due to the cessation of some smaller flying contracts and reduced operational readiness training activity, including for the Royal Saudi Air Force. This was partially offset by initial revenue from the new Australian Maritime Safety Authority contract.

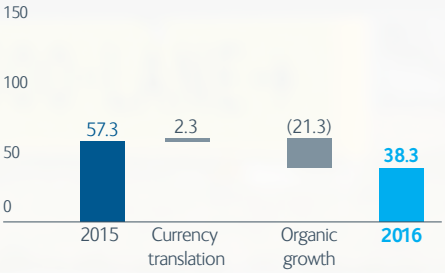
Underlying Operating profit was £38.3m (2015: £57.3m), primarily reflecting the overall reduction in flying activity, with cost actions taken which partially mitigated this impact. Reflecting this, the operating margin was 10.7% (2015: 14.7%).

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 ten year contract extension to continue operations across Australia under the Qantas brand commenced on 1 January 2017, albeit on reduced margins. In defence/security markets, the mobilisation phase of the four specially modified Bombardier Challenger CL-604 aircraft for the new twelve year AUS$640m Australian Maritime Safety Authority contract is nearing completion. The first modified aircraft commenced operations in Cairns in December 2016 and the second commenced operations in Perth in February 2017. The remaining two aircraft are undergoing mission systems modifications in Cobham's Adelaide facilities and are scheduled to 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.

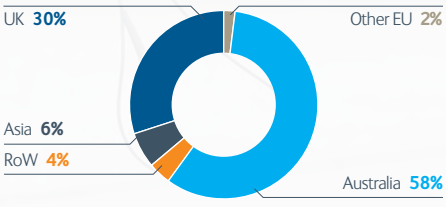
Sector revenue (£m)



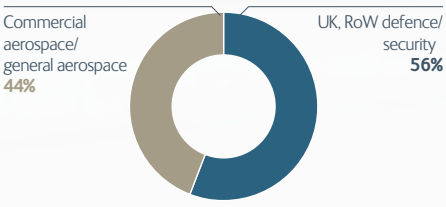
Sector underlying operating profit (£m)



Revenue by geography (%)



Revenue by market (%)





Search and rescue

Cobham Aviation Services provides a turn-key search and rescue capability for the Australian Maritime Safety Authority, acquiring, modifying, commissioning, operating and maintaining four Bombardier Challenger CL-604 special mission jets.

The financial results include the impact of execution and performance issues

There have been a number of exceptional items charged in the year

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

£m	2016	2015
Revenue	**1,943.9**	2,072.0
Underlying operating profit	**225.0**	332.2
Underlying operating margin	***11.6%***	*16.0%*
Underlying net finance expense	**(49.8)**	(51.8)
Underlying profit before tax	**175.2**	280.4
Underlying tax	**(39.6)**	(60.2)
Underlying tax rate	***22.6%***	21.5%
Underlying profit after tax	**135.6**	220.2
*Weighted average number of shares (millions)**	***1,506.3***	*1,333.2*
Underlying EPS (pence)*	**9.0**	16.5

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

Definitions of the underlying measures can be found on page 144 and a reconciliation of underlying profit to statutory results is set out on page 29.

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, like-for-like 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.

Revenue

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

2015	FX translation	Acquisitions/ divestments	Organic growth	2016
£2,072.0m	£199.5m	£(166.5m)	(£161.1m)	**£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 amounted to 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 have 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:

- Impairment 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.

Reconciliation of underlying measures

£m	2016	2015
Operating (loss)/profit	**(779.1)**	12.0
Adjusted to exclude:		
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:		
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
Underlying profit before tax is calculated as follows:		
Loss before taxation	**(847.9)**	(39.8)
Adjusted to exclude:		
Total operating reconciling items 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

The key components of these adjustments are as follows:

1) Impairment 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 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 10.

2) Revisions of 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. While individually these items may not be considered exceptional, the changes have resulted from a consistent trend across the business that has impacted the purchase and holding of inventory and assets.

Given the impact, in aggregate, of revisions to the carrying value of these assets, the Board believes that it is appropriate to show these as exceptional. The combined size of these non-recurring items is significant.

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 outlined above;
- £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.

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.

Cash flow

£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/underlying operating profit (excluding joint ventures)	***80.9%***	*70.7%*
Net finance costs paid	**(71.2)**	(49.4)
Tax paid	**(20.1)**	(31.5)
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 allocation of treasury shares	**492.9**	(24.9)
Exchange movements	**(236.4)**	(80.1)
Decrease in net debt	**178.6**	15.9
Opening net debt	**(1,206.8)**	(1,222.7)
Closing net debt	**(1,028.2)**	(1,206.8)

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, 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. Also included here are gains and losses arising on dividend related foreign exchange contracts which do not relate to operating items and hence are excluded from underlying results.

– 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.

See note 2 on pages 98 and 99 for more information on these non-underlying charges.

Technology investment

Included within underlying operating profit was £130.2m (2015: £138.0m) of company funded PV investment, in part reflecting the contribution from divestments in the prior year. PV investment in the year represented 8.2% (2015: 8.2%) of revenue.

In addition to company funded PV, customer funded R&D was £120.5m (2015: £119.7m). As in the prior year, this primarily related to aerial refuelling development programmes. customer funded R&D is reimbursable by the customer at pre-agreed intervals or on achievement of pre-agreed development milestones.

Net finance expense and profit before tax

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. The make-whole costs 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.

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 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).

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 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 related 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.

Dividend and dividend policy

The Group paid an interim dividend of 2.03p on 4 November 2016.

The Board will not be recommending a final dividend in respect of the 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.

The decision on the level of any future 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 cover.

In addition, in determining whether to pay a dividend in any one year, in accordance with its policy, the Board will also consider the level of distributable reserves and the requirements of recurring business commitments such as pension obligations and servicing debt providers.

In considering these factors, the Board also considers the Group's principal risks, which are set out on pages 34 to 39.

The Group's Parent Company operates as a holding company which primarily derives its net income from dividends paid by its subsidiary companies. At 31 December 2016 Cobham plc had significant distributable reserves, amounting to £967.8m, which primarily related to its Retained Earnings. The Parent Company Balance Sheet is shown on page 133.

The Board's decision not to recommend a final dividend was driven by consideration of all the primary factors above. Overall, it was influenced by a year of lower than expected free cash flow generation for the Group, this following a number of financial years with disappointing cash generation; by its leverage, with the Group's net debt/EBITDA ratio being 3.0x at the year end; by the Group's 2017 trading outlook and by its dividend cover.

Treasury

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

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.

The proportion of US dollar denominated debt was materially higher than US dollar denominated profit during 2016 and there are plans to more closely align these proportions in the first half of 2017.

Also included within net debt are cash deposits, which are primarily denominated in UK pounds, US dollars, euros, Danish krone and Australian dollars. At 31 December 2016, the Group held total cash and short term bank deposits, net of offsettable overdrafts and all with an original maturity of three months or less, of £236.2m (31 December 2015: £294.7m).

Cobham announced the results of its fully underwritten 1 for 2 rights issue on 17 June 2016. The rights issue raised gross proceeds of £506.7m, amounting to £490.6m after expenses. 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, with an average coupon of just over 7.0% on the senior notes.

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, resulting in a ratio of 3.0x (2015: 2.9x). For the purposes of this calculation exceptional items are excluded from EBITDA, in addition to some smaller proforma adjustments. Interest cover was 5.1x (2015: 6.8x).

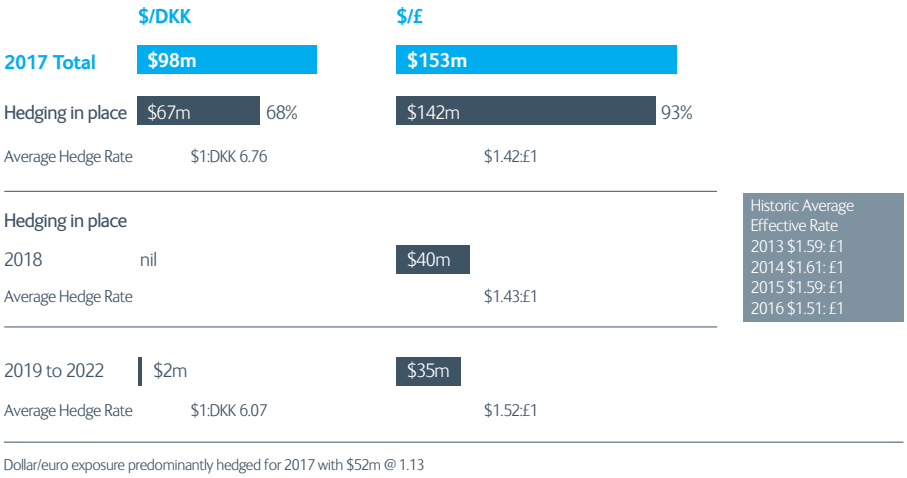
Debt covenants

£m	2016	2015
Net Debt (£m) – balance sheet	**(1,028.2)**	(1,206.8)
Net Debt (£m) – average rate	**(937.9)**	(1,160.7)
EBITDA (£m)	**316.5**	396.4
Net Debt to EBITDA (not to exceed 3.5x)	**3.0**	2.9
EBITA (£m)	**245.2**	333.4
Net Interest (£m)	**48.0**	48.7
Interest Cover (not less than 3x)	**5.1**	6.8

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

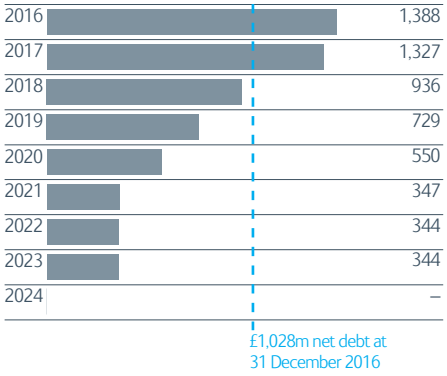
- US$270m multi-currency credit agreement which expires in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. US$235m had been utilised at the year end;
- €70m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. €57m had been utilised at the year end;
- DKK525m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. The facility was undrawn at the year end;
- An AUS$90m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. AUS$49m had been utilised at the year end;
- US$974m of senior notes maturing in tranches in 2017, 2019, 2020, 2021 and 2024, with an average coupon of 3.8%;
- €135m and US$40m raised from banks and maturing in tranches in 2020 and 2022, with interest at the applicable floating rate benchmark plus margin; and
- A US$75m fixed rate agreement which expires in 2031 and under which the lender has a series of options exercisable every three years from December 2019.

Hedging transaction exposure



Dollar/euro exposure predominantly hedged for 2017 with $52m @ 1.13

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



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

Foreign currency translation

The following are the average and closing rates for the four foreign currencies that have the most impact on the translation 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
EUR/£	**1.22**	1.38
DKK/£	**9.11**	10.27
Balance Sheet – closing rate		
US$/£	**1.24**	1.47
AUS$/£	**1.71**	2.03
EUR/£	**1.17**	1.36
DKK/£	**8.71**	10.13

Foreign exchange translation exposure arises on the earnings of operating companies based largely in the US, Europe and Australia. These are partially offset by foreign currency denominated interest costs due to the Group's current policy, as set out above, of generally funding acquisitions with borrowings denominated in the same currency and also to approximately match the currency mix of EBITDA with the currency mix of net debt. The interest charge on this debt provides a partial offset against currency denominated profits.

After taking into account the above offset of the Group's foreign exchange translation exposure within the Income Statement, a combined 1 cent movement against the pound sterling in the average rate over one year's trading for the currencies above had an estimated £1.1m impact on Group profit before tax in 2016. The Group estimates that the US dollar accounts for approximately two thirds of this impact.

Foreign currency transaction

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

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

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

Some 93% of the Group's anticipated transaction exposure to the US dollar/pound sterling exchange rate is hedged for 2017 at an average rate of US$1.42/£1, with additional forward sales in place to partially cover anticipated exposure in subsequent years.

Interest rates

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

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).

A reconciliation of the movements in the pension deficit in the year is shown in the table below.

	2016
Pension deficit at 1 January 2016	**(56.7)**
Service cost	**(1.6)**
Admin cost	**(0.2)**
Interest charge	**(1.8)**
Total employer contributions	**18.5**
Actuarial losses	**(42.6)**
Exchange differences	**(2.6)**
Pension deficit at 31 December 2016	**(87.0)**

At 31 December 2016, the fair value of scheme assets was £790.0m (2015: £663.9m) and the present value of scheme obligations was £877.0m (2015: £720.6m).

Significant movements within the actuarial losses of £42.6m above were:
- An decrease in discount rate assumptions, which are based on corporate bond rates, resulting in higher pension liabilities;
- This was partially offset by gains in liability driven investments, following the de-risking strategies undertaken in previous years (see below).

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

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

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position, are set out in the business overview on pages 1 to 27 and the principal risks on pages 34 to 39. In addition, notes 1, 14, 21 and 23 of the notes to the Group Financial Statements include the Group's objectives, policies and processes for managing its capital, financial risk management, details of financial instruments and hedging activities, and its exposure to credit liquidity and other risks.

Note 31 refers to the Group's target net debt/EBITDA ratio of 1.5x and the 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 rights issue to occur and also a risk that the Financial Conduct Authority does not approve the rights issue prospectus. Note 31 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 auditors' report on the financial statements contains an unmodified opinion. However, it includes an emphasis of matter in respect of going concern.

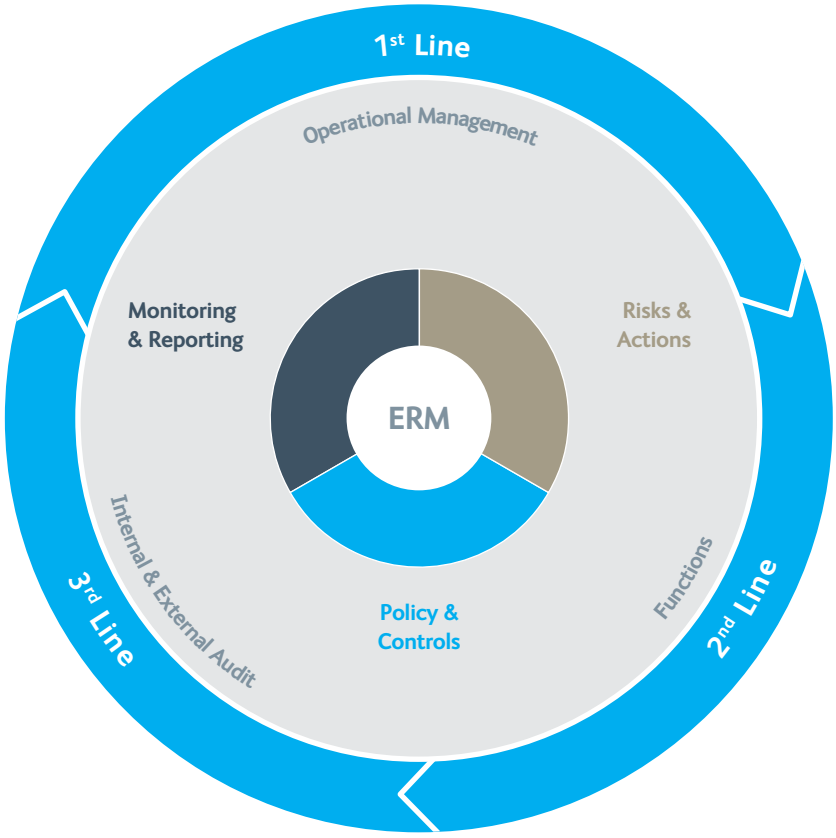
Assuming the equity is raised as planned, the Group will have considerable financial resources with liquidity available on the balance sheet from its cash resources and it has a spread of maturities on its debt. It has a mix of shorter and longer term contracts and leading market positions with customers across different geographical areas. As a consequence, the Board believes that the Group is well placed to manage its business risks successfully. Accordingly, after making enquiries, the Directors have formed a judgement at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group and Parent Company Financial Statements. See also the Group's Viability Statement on page 35.

How we manage risk

Building a more effective risk management process will be an important contributor to the recovery of the Group

Issues experienced during 2016
The Board recognises that its risk management process was not fully effective during 2016, as multiple independent execution, contract and market related risks crystallised during an exceptional period. Whilst a full review has not been undertaken, it is obvious that the implementation of certain controls requires strengthening. The Board takes this issue very seriously, and corrective actions are being developed to ensure that adequate controls are in operation throughout the Group.

The risk management process described in the following section, together with the statements of Group Principal Risks, their impact and mitigations, is presented to provide details of the intended controls. It is recognised that the process in operation in 2016 was insufficient to effectively manage risk in the Group.



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

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

The Board has ultimate accountability for the execution of risk management systems and internal controls, with the Risk Committee, comprising members of the Group Executive, responsible for overseeing execution of risk management throughout the Group. From 2017 a new Risk Committee, as a formal Board sub-committee will be created, further strengthening the process.

The Board has delegated responsibility for the detailed monitoring and reviewing of the effectiveness of the Group's internal control and risk management systems to the Audit Committee. Assurance over the effectiveness of these systems is provided by a combination of regular management reporting to the Audit Committee. For the Advanced Electronic Solutions Sector, which holds classified US Defence programs and so operates under a US DoD Special Security Arrangement (SSA), specific assurances and authorised assurance reports are given by representatives of the SSA Board. The Group's CEO and CFO both sit on the Board of the SSA, as described on page 51. Improvements to the effectiveness of governance and assurance procedures between the Group and the SSA are regularly reviewed.

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

The risks identified are documented and measured, including the ownership of individual risks. Data from this process has been aggregated and themed, reviewed under the Governance structure outlined above and has been used as the basis for the Group's principal risk disclosure on pages 36 to 39.

The Group manages risk by operating a 'three lines of assurance' risk and control model. The first line consists of operational management implementing and maintaining effective internal controls and risk management procedures. They are supported by a number of Group functions which, together with performance management procedures, form the second line. Internal audit, which is part of the third line in conjunction with external audit, is empowered to provide an independent assessment of the effectiveness of internal controls (guided by the risk appetite) and risk management processes and procedures, as well as identifying areas for improvement. These lines of assurance include the Group's ethics reporting system, enabling employees to raise concerns over ethics and compliance matters. The internal audit function reports directly to the Audit Committee to ensure its independence and objectivity. In addition, the Audit Committee takes account of the views of the external auditors.

Risk appetite

The Group has established a risk appetite baseline through which Cobham's risks can be managed with appropriate controls and assurance measures. Risk events can be categorised under four main headings: Strategic, Operational, Reporting/Financial and Compliance. The Group has broken down these risk categories into a number of subcategories and defined its risk appetite for each. The risk appetite is articulated as conservative, balanced or assertive across the various elements of the risk framework, with a principles based approach defining what each means for a given risk subcategory.

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

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

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

Viability Statement

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

On 16 February 2017, the Group provided a market update on a number of matters including an early view of 2017 guidance. Within that statement, it was acknowledged 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. In light of this and following the extensive balance sheet review that has been previously referred to, the Board has updated the 2017 budget and reviewed its three year outlook to assess the preferred capital structure for the Group

Assessing viability

The main assumption is that the Group can complete the equity raise of £500m as described in note 31. If it is not possible to raise this level of equity, it is likely that the Group would seek an amendment to its key lending covenant, net debt/EBITDA and therefore the assumption that equity can be raised is an important consideration in assessing the viability of the Group.

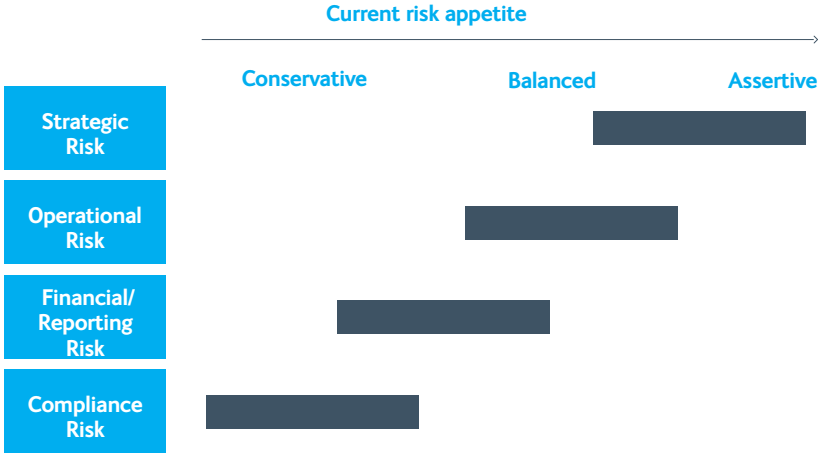
In addition, in making their assessment, the Board has taken into account the potential impacts all of the matters referred to in the announcement on 16 February and also of the principal risk events identified in the latest semi-annual risk review to consider whether these could prevent the Group from achieving its strategic objectives. These principal risks are described in detail in the Principal Risks section of this report on pages 36 to 39. Sensitivity analyses were run to model the financial and operational impact of plausible downside scenarios of these risk events occurring individually or in combination. These included the impacts of a further deterioration in the macroeconomic environment, underperformance in executing the Group's strategy to return to organic revenue growth, failure to derive targeted benefits from the Group's operational and cash generation improvement initiatives, underperformance on major contract cost estimates and associated programme management controls, the impact of a significant business interruption event, material movements in foreign exchange rates and a change in regulations impacting the Group's internal financing structure. Consideration was also given to the plausibility of the occurrence of other individual events that in their own right could have a material impact on the Group's viability.

Based on the consolidated financial impact of the sensitivity analyses and associated mitigating internal controls and risk management actions that are either now in place, or could be implemented, the Board has been able to conclude that the Group will be able to maintain sufficient bank facilities to meet its funding needs over the three-year period provided the equity raise is successful.

Confirmation of longer term viability

Based upon the assessment of the principal risks facing the company and robust downside sensitivity analysis, all of which are described above and on pages 36 to 39, the Board have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019, assuming the equity raise referred to in note 31 is successful. This assumption is referred to in the note on page 92 in respect of the basis of preparation of these financial statements

The Group's Going Concern statement is detailed on page 33.



Element	Risks & Impact	Mitigation	Risk appetite	Risk status indicator
1. Volatile macroeconomic environment **Links to KPIs** – Organic revenue growth – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion – Return on invested capital	Cobham's revenue is derived from global defence/security and commercial markets. The Group's revenues and costs are dependent on a complex mix of macroeconomic, fiscal, commercial and strategic defence & security imperatives. Variations in the following factors could result in an adverse effect on the Group's results: – Customer demand levels; – Market growth rates; – Increased competition for new and existing business; – Programme/contract terminations or delays; – Foreign exchange rates and interest rates in the various jurisdictions within which the Group operates; – Inflation rates; – Global commodity prices, particularly oil & gas, iron & steel and precious metals. The Brexit vote may lead to uncertainty in future trade arrangements between the Group's UK businesses and the various end markets which they serve. The 2016 US Election result may lead to uncertainty in US defence spending and US relations with its principal trading partners. If the Group does not anticipate changes in the various end markets which it serves (including deterioration in demand or a fundamental shift in how customers procure products and services), changes in input costs, and changes in other macroeconomic factors, its business, results of operations and financial condition could be adversely affected.	A review of near and long term market trends will be conducted as part of the Group's annual strategic planning process to ensure that actual and anticipated impacts from macroeconomic risks are minimised and managed effectively. Periodic reviews of externally sourced market demand data, with the re-forecasting and adjustment of internal planning in line with market demand. The Group has diversified its portfolio towards commercial markets, with the aim to achieve sustainable growth through economic cycles. A culture of continuous improvement will enable Cobham to develop market leading operating performance, while reducing costs. This will enable Cobham to grow market share and remain competitive in the face of volume declines or price pressures, whilst retaining flexibility to adjust the cost base appropriately to changing market conditions. The Group uses financial instruments where applicable to assist in the management of foreign exchange and interest rate risks, principally forward exchange contracts and interest rate swaps. Emerging issues and opportunities arising as a result of the UK decision to leave the EU and the 2016 US Election result will be monitored.	Assertive	▲ **Increasing Risk** In 2016, the volatility in global macroeconomic conditions had an adverse impact on the Group's results. The risk remains, and the impact of recent political events will increase the level of uncertainty in the Group's markets.
2. Market characteristics and contracting environment **Links to KPIs** – Organic revenue growth – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion – Return on invested capital	The various end markets served by Cobham are highly competitive. The Group relies on its ability to win business ahead of its competitors through a combination of differentiated technology, contractual terms and price. There is no assurance that the Group will be able to maintain its current market share with respect to its products or services due to the development of competing technologies, the periodic retender and renewal of existing contracts, the inability to develop existing products due to resource constraints or the emergence of new competitors. Some of the Group's revenue is derived from contracts that have a fixed price, which generates a risk that the costs required for the delivery of a contract could be higher than those agreed in the contract, as a result of the performance of new or developed products, schedule over-runs or other external factors. Any significant increase in costs that cannot be passed on to a customer may reduce the profitability of a contract, or even result in a contract becoming loss making. The timing of order receipt from customers could have a material impact on the Group's performance in a given reporting period, as the amounts payable under such contracts can be individually substantial. Some of the Group's contracts have terms (which are customary in the Group's markets), that provide for unlimited liabilities for the Group or termination rights for the customer. Many of the Group's contracts are also across international borders, leading to increased complexity in interpretation. The Group is reliant on third party manufacturers and key suppliers, to whom certain manufacturing and engineering functions are outsourced. This results in a reduction in control over capacity allocation and quality and may result in disputes regarding the ownership of intellectual property. The occurrence of any or all of these factors may result in the financial performance of the Group being impaired, through reductions in revenue, increased costs or the emergence of unexpected liabilities.	The Group seeks to focus on areas within those markets in which its deep customer understanding and technical expertise provide it with an advantage in bidding, to reduce the likelihood of an emergent technology or competitor affecting the competitive position. Fixed price bids and projects are reviewed for early detection and management of issues which may result in cost over-run or excessive delivery risk. The Group seeks to mitigate risks associated with the complex characteristics of its markets through the establishment of a Contract Policy which is intended to ensure that the Group enters into contracts with an appropriate balance of risk and reward. The Contract Policy ensures that contract terms are subject to appropriate escalation and approval. The Group's bid and approval process and contract policy is applied to all bids, contracts and development programmes to ensure that a consistent approach is followed. Appropriate trained personnel are embedded within the business to ensure that the contract policy is adhered to, and that delays to negotiating and agreeing contracts are minimised. Training is conducted for key staff with responsibility for negotiating contracts.	Balanced	▲ **Increasing Risk** In 2016, the Group was adversely affected in a number of areas, in particular with regard to fixed price development contracts. The Group's markets and the resultant contracting environment continue to increase in complexity.

Element	Risks & Impact	Mitigation	Risk appetite	Risk status indicator
3. Group strategy is not executed **Links to KPIs** – Organic revenue growth – Underlying operating profit – Underlying EPS growth – Cash conversion – Return on invested capital – Voluntary staff turnover	Cobham's ability to generate profitable organic revenue growth is a key strategic objective and driver of value creation. The Group may fail to define and execute its strategy effectively and in accordance with its strategic framework, in areas such as the development of innovative products to counter disruptive technologies, ensuring alignment with market, customer and investor expectations and the successful execution of programmes designed to integrate the Group's operations and more closely align them with market trends. Key to achieving the Group's strategic objective of delivering sustainable organic growth will be the ability of the business to recover from its poor performance in 2016 and deliver a turnaround in 2017 and beyond. There is a risk that the issues which impacted the Group's performance in 2016 cannot be quickly resolved. The Group will also experience impacts on employee recruitment and retention, potential reputational damage and a reduced ability to invest for future growth.	Carry out effective strategic planning to ensure the Group is exposed to growth markets and creates value through business cycles. Continued appropriate investment in future technologies with alignment to identified market growth areas and customer needs. Continued focus on and investment in programme management to ensure customer expectations are met and that integration programmes are successfully managed to completion, which underpins the Group's ability to grow. A cycle of budgets and forecasts together with tracking of actual performance including reasons for variances against plans.	Balanced	**Increasing Risk** The Group experienced issues with strategy execution in 2016, and continues to face challenging market conditions which may impact its ability to produce improved financial performance in 2017.
4. Project and Programme Management is not effective **Links to KPIs** – Organic revenue growth – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion – Return on invested capital	The Group designs, develops and delivers products and services that are often customised, utilising complex technologies, under fixed price contracts that can be long term in nature. This gives rise to the risks of failure to execute contracts profitably, the supply of defective or delayed product, the occurrence of other contractually related liabilities, or damage to reputation and commercial relationships. Failure by the Group to execute or deliver a project or programme gives rise to the risk of increased programme costs, damages, product liability claims, litigation and other financial liabilities, reduced future profitability and reputational risk. Poor operational performance could also lead to customers withholding new and existing business from the Group.	Lifecycle Management (LCM) and programme management procedures are intended to ensure that the Group's key contract and programme management policies and procedures are applied consistently and appropriately across all areas of the business. These procedures also provide increased focus on improvements to its LCM and programme management capabilities.	Balanced	**Increasing Risk** The Group continues to be in a significant phase of engineering and development activity on various programmes and platforms, in particular the KC-46 development programme, which adversely impacted the Group in 2016. Engineering and development activity will continue in 2017.
5. Borrowing agreements contain covenants that may not be complied with and may not generate sufficient liquidity **Links to KPIs** – Underlying EPS growth – Free cash flow – Cash conversion	The Group has a capital structure that is partially funded through borrowings from banks and other financial institutions, which incorporate financial covenants that are measured on a bi-annual basis. Delivery of below target business performance and cash generation will lead to higher than anticipated debt and gearing, ultimately leading to breaches in bank covenants. Breaches of bank covenants would lead to potential defaults under the Group's banking agreements, costs associated with obtaining temporary covenant waivers, the requirement to reduce debt through divestments or further capital raising and ultimately the ability for the Group's lenders to assume control of the Group. Higher debt and gearing would also lead to reduced capacity to fund organic investment in research and development and other critical capabilities and undermine customers and suppliers confidence in the Group.	Cash performance and cash flow forecasts across the Group should be closely monitored and regularly reviewed and reported to the Board on a monthly basis. Controls and processes covering the Group's treasury activities include cash policy, credit collection policies, working capital metrics and other performance targets.	Conservative	**Increasing Risk** The Group conducted a rights issue in 2016 which partially resolved the risk of a covenant breach. However, the business issues experienced during 2016 have put heightened pressure on the Group's borrowing facilities.
6. Shortage of appropriate skills and talent **Links to KPIs** – Voluntary staff turnover	Key to execution of the Group's strategic plan is the recruitment, development and retention of sufficient quality personnel to meet the needs of the business, in engineering, technical and managerial roles. In addition, a lack of diversity (particularly with regard to age) within the Group's workforce creates a risk of future skills shortage. Insufficient availability of personnel will generate a resource gap that will impair the Group's ability to deliver against its strategic plan. The resulting talent gap will lead to a reduced ability to execute on growth plans and key programmes, resulting in reduced customer confidence and an adverse impact on the Group's financial position and financial outlook.	The Group undertakes workforce planning to ensure that skill gaps are identified and plans are established to close them. This includes ensuring that the Group's compensation planning and review process takes into account any key shortages and that succession planning is carried out to ensure that a pipeline of suitable candidates for key roles is maintained. Development programmes are undertaken to ensure that internal candidates develop the skills and experience necessary to undertake more senior roles within the organisation. See the CR&S section on pages 40 to 43 for information on talent management actions.	Balanced	**Increasing Risk** A shortage of suitably skilled and experienced personnel, combined with the Group's poor financial performance is affecting its ability to attract and retain quality personnel.

Element	Risks & Impact	Mitigation	Risk appetite	Risk status indicator
7. Continuous Improvement (CI) and Business Transformation programmes are not successfully executed **Links to KPIs** – Organic revenue growth – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion – Return on invested capital	Failure to embed Continuous Improvement principles and practices within Business Units will reduce the Group's ability to deliver growth and improvements in operational performance that are sustainable. If CI and transformation programmes are not successfully implemented, customer expectations of improvements in operational performance will not be achieved, leading to deteriorations in financial performance, loss of customer confidence and reduced success in winning new business from existing customers.	CI benefits are built into budgets with progress monitored at quarterly business review meetings. CI sustainment training has been delivered to business management teams. Assessment and accreditation processes have been developed to assess sites with respect to CI and to identify areas for improvement.	Balanced	**Unchanged** In 2016, the number and complexity of business change initiatives adversely impacted the Group's operations and financial performance. This will be addressed during 2017 through reducing the number of centrally driven programmes.
8. Value creating Mergers, Acquisitions (M&A) and Divestment activity is not identified and/or executed **Links to KPIs** – Return on invested capital	Cobham does not have capacity for any acquisition activity. This may result in the Group not being in a position to compete for suitable value creating M&A targets. In addition, portfolio management activities may require divestments to be executed in a subdued market and in timescales that do not allow optimum valuations to be realised. This will result in a reduced ability to capitalise on time sensitive opportunities and effectively maintain a robust M&A pipeline. This could cause a failure to meet strategic targets, as well as reputational damage which could affect the success of future acquisitions. Divestments that are conducted within confined timescales may result in optimum valuations not being achieved.	Focus on operational execution to pay down debt and create scope for future M&A activity in the medium term. Conducting divestments through competitive processes rather than through the identification of single buyers should optimise sale proceeds.	Balanced	**Unchanged** The Group's portfolio is being managed to optimise the total performance in continued challenging markets.
9. Occurrence of an event leading to a significant business interruption **Links to KPIs** – Organic revenue growth – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion – Return on invested capital – On time delivery	Cobham's businesses could be impacted by natural disasters or other external events affecting its operational locations or suppliers, by other significant events in the supply chain or by IT systems failures (including from cyber-attack), rendering critical systems or manufacturing locations unable to function. Unscheduled interruption to business activities would result in the inability to deliver products to customers in accordance with their expectations. This would result in reduced profits, loss of customer satisfaction, potential cost outlays, and reputational impact.	For the Group's larger manufacturing locations, programmes have been implemented that seek to meet or exceed best practice loss prevention guidance, and for its smaller locations effective loss prevention programmes and incident management plans have been put in place. The Group also maintains major incident/IT failure business continuity plans. Employees are trained in relevant procedures. IT security and capability are monitored and strengthened when needed. The Group maintains appropriate insurance cover and works with insurers and other third party experts to ensure operating infrastructure and processes include robust risk improvement activities. See the CR&S section on pages 40 to 43 for further details on mitigating actions against business interruption risk arising from environmental factors.	Balanced	**Increasing Risk** IT security threats continue to escalate. The Group has increased exposure to site specific IT risks through the additional sites that were acquired as part of the Aeroflex transaction.
10. The integration benefits arising from the Aeroflex acquisition are not realised **Links to KPIs** – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion – Return on invested capital – Voluntary staff turnover	Following the acquisition of Aeroflex in 2014, Cobham has focused on integrating the acquired businesses into the Group. The integration process is complex, costly and time consuming and the Group may not be able to capture all of the anticipated synergies, cost savings and other benefits in the time frame anticipated. The integration process could also cause disruptions in the Group's other businesses, including potential adverse reactions from customers or other changes to business relationships. Failure to deliver the planned synergies and growth from the Aeroflex acquisition will have a detrimental impact on the Group's financial performance and returns. It could also generate a lack of investor confidence, reputational damage, impairments to existing customer relationships and potentially in the longer term a loss of market competitiveness due to the inability to maintain investment in research and development.	The integration programme is subject to the Group's comprehensive LCM review process.	Assertive	**Increasing Risk** To date, the full integration benefits have not been delivered.

Element	Risks & Impact	Mitigation	Risk appetite	Risk status indicator
11. Failure to comply with laws and regulations **Links to KPIs** – Underlying operating profit – Underlying EPS growth – Return on invested capital	Cobham operates in a highly regulated environment and is subject to the laws, regulations and restrictions of many jurisdictions, notably including those of the US and the UK as well as many other countries in which it operates. These include anti-bribery provisions, import and export controls, tax, government contracting rules, human rights, environmental, and health and safety regulation. A lack of understanding of legal and regulatory restrictions in force in the jurisdictions in which it operates could lead to the Group being in contravention of applicable laws or regulations. Cobham's US defence business is managed through a Special Security Agreement (SSA), the terms of which are agreed with the US Government. The SSA is intended to ensure that the US defence business is not subject to the effects of FOCI (Foreign Ownership, Control or Influence). Further details of the SSA can be found on page 51. The terms of the SSA may reduce the ability for the Group to effectively manage its US defence business due to reduced visibility into the business and its performance. Sanctions for failure by the Group, its sales intermediaries, or others acting on its behalf to comply with laws, regulations and restrictions could include fines, penalties, legal claims, suspension or debarment of the Group from future government contracts for a period of time, as well as having a potentially significant impact on the Group's reputation. Such sanctions could also have an impact on the Group's financial position and future operations.	Cobham employs procedures to ensure it remains in compliance with all legal requirements and regulations, and continues to drive a culture that ensures that ethical, environmental, and health and safety considerations are embodied in all that it does. Policies and procedures are included in the Group's corporate framework to ensure all of the Group's compliance requirements are met. This is regularly reviewed and audited, including procedures related to the use of sales and marketing representatives, anti-bribery and anti-corruption, gifts and hospitality, whistleblowing, and investigation of ethics and compliance concerns, along with Cobham's Code of Business Conduct. Mandatory training is undertaken by all employees on a variety of compliance related subjects including US Government contracting and anti-bribery and corruption. See the CR&S section on pages 40 to 43 for information on human rights, environmental, and health and safety actions.	Conservative	**Increasing Risk** The regulatory landscape in many areas, continues to develop.
12. Governance framework is poorly constructed and implemented **Links to KPIs** – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion – Return on invested capital	Cobham is implementing an enhanced governance framework, through determination of the Group's risk appetite and identification of the appropriate governance in each risk area to control the identified risks in accordance with the stated risk appetite. The revised governance framework could misalign the level of constraint with the levels of risk appetite in different aspects of the Group's operations, leading to the over and under control of risks in different areas of the business. This would lead to exposure to unacceptable risks in areas requiring conservatism, potentially damaging shareholder value. Conversely, it may also prevent the acceptance of risks required in order to grow the Group's business, hindering the ability to deliver an acceptable return on shareholder investment.	The ongoing review of governance is being conducted in accordance with established principles to ensure that it delivers a streamlined governance framework, facilitates appropriate risk taking, and drive improvements in performance through application of effective governance principles.	Balanced	**Increasing Risk** The business issues experienced during 2016 have highlighted areas in which improvements are required in the Group's governance framework. During 2017, the existing review process will be amended to ensure that a governance framework that is appropriate to the needs of the business is implemented.
13. Information assurance security measures are insufficient to prevent data loss **Links to KPIs** – Underlying operating profit – Underlying EPS growth – Free cash flow – Cash conversion	Cobham relies upon its IT systems to store and process its data securely. If consistent data control standards are not maintained across the Group in response to a growing level of cyber threats, the security of intellectual property as well as customer and employee data could be compromised. Corruption of embedded product data and data for external services would also become more likely. Significant data breaches or losses could lead to litigation and fines for breaking data privacy law and other regulations. This would result in reputational damage and potentially the loss of new and existing contracts.	IT policy compliance is assessed on a quarterly basis to ensure that processes and procedures in place are reflective of all legal and regulatory requirements. Vulnerability to data compromise is reviewed monthly by both internal and external specialists with annual audits to verify compliance. The Group is also in the process of implementing enhanced IT security.	Balanced	**Increasing Risk** Information security measures continue to be strengthened to meet the increasing level of threats being experienced.
14. Taxation liabilities may be larger than anticipated **Links to KPIs** – Underlying EPS growth – Free cash flow	Cobham 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 are being challenged and may ultimately be deemed inaccurate. Tax authorities may also pursue additional taxes based on retroactive changes to, and interpretations of tax laws. This could lead to increased tax liabilities in excess of those provided in the balance sheet, worsening the financial outlook of the company and result in a substantial tax payment becoming necessary, and may also result in potential damage to the group's reputation.	All major transactions are reviewed by Group and external advisors. Known risk areas are monitored by the Group. Significant tax computations are reviewed by external advisors prior to submission.	Balanced	**Unchanged** Tax authorities continue to assess and challenge significant taxation judgements.
15. The deficit within the Cobham Pension Plan may change **Links to KPIs** – Underlying operating profit – Underlying EPS growth – Free cash flow – Return on invested capital	The Group operates a defined benefit pension plan. The plan is closed to new entrants and future accrual, but the scheme contains a deficit which is being closed through additional deficit funding. The deficit may change as a result of changes in actuarial assumptions, interest rates and other external factors. Any increase in the deficit may require additional funding to be made available to the pension scheme.	The trustees of the Cobham Pension Plan seek to ensure that the scheme's assets and liabilities remain matched, the most significant element of which involves the acquisition of insurance policies that match existing liabilities.	Balanced	**Unchanged** The pension scheme deficit increased during 2016.

Acting responsibly and sustainably

Cobham solves complex engineering problems from the depths of the ocean to deep space

Identifying material, corporate responsibility and sustainability issues
The Company has identified its material corporate responsibility and sustainability issues primarily by using the Sustainability Accounting Standards Board's (SASB) Materiality Map™ (http://www.sasb.org/materiality/sasb-materiality-map/). The Materiality Map™ identifies likely material sustainability issues on an industry-by-industry basis. Using this methodology, Cobham has identified its issues by reference to the Materiality Map™ industry sectors relevant to its businesses: Aerospace and Defence, Electrical and Electronic Equipment, Electronic Manufacturing Services, Hardware, Semiconductors and Airlines. Cobham also identifies material issues using the results of investor, customer and employee feedback.

Prioritising material issues
The material issues have been prioritised according to Group's strategic actions (see page 16 to 19). The results of this are contained in the table below.

All material disclosures are verified internally, and external statements are reviewed by the Group's auditors. Cobham also obtains limited external assurance on its recording of greenhouse gas (GHG) emissions. Bureau Veritas provided assurance on the Group's 2016 data (see page 80 for more information).

Training on various responsibility and sustainability topics, including business ethics and safety is received by employees, and the Board.

The Group's policies and assurance statements on all these issues are available at https://www.cobham.com/the-group/corporate-responsibility-and-sustainability/performance-data-policies/.

Economic dimension

Business ethics

The Group operates in specialist markets, a number of which are highly regulated. Compliance with applicable laws and regulations is a Group principal risk (refer to risk 11 on page 39). It is Group policy to comply with all applicable laws and regulations. The Group is also committed to sustaining an ethical culture, on the basis that acting responsibly, sustainably and in a legally compliant manner provides a number of demonstrable benefits.

The Cobham Ethics and Compliance Programme (CECP) has been developed to support this positive culture through a range of policies, processes and activities. The implementation and effectiveness of the CECP is overseen by the Business Ethics & Compliance Committee, and ultimately the Board. The programme is underpinned by the Cobham Code of Business Conduct (COBC), which outlines the Group's core values and the behavioural standards it mandates for all its officers, employees and representatives on a range of issues, including anti-bribery and corruption. Cobham has a clearly stated zero-tolerance approach to bribery and corruption in any form. All employees are required to receive training on the COBC and other ethics and compliance training, including anti-corruption. Completion of this training is closely monitored to ensure all employees are aware of the Group's expectations. Cobham maintains an independent Ethics Helpline and website where suspected compliance violations can be reported. In 2016, it sought to improve the handling of concerns raised via the Ethics Helpline through a range of steps, including providing specialist training to a panel of newly appointed internal investigators. Further details on the Group's approach to ethics and compliance can be found at www.cobham.com/the-group/corporate-responsibility-and-sustainability/performance-data-policies/policy-downloads/.

A related risk area is the use of third party intermediaries as a route to market. Failure of an intermediary to comply with laws and regulations or to complete appropriate intermediary due diligence can impact the Group's reputation as well as lead to significant fines or debarments from government contracts and new business. Cobham's Anti-Bribery and Anti-Corruption policy requires



Cobham welcomes feedback on its corporate responsibility and sustainably approach at **crs@cobham.com**

	Strategic actions				
Material issue	Focus on customers	Improve operational performance	Invest in technology	Allocate capital for growth	Enhance skills and capabilities
Economic dimension					
Business ethics	•				
Materials sourcing and supply chain management	•	•	•		•
Social dimension					
Talent attraction, development and retention	•				•
Diversity and inclusion	•	•			
Employee health and safety	•	•			•
Human rights	•				•
Environmental dimension					
Environmental sustainability	•	•		•	•

intermediaries to undergo a comprehensive due diligence and approval process prior to engagement. In 2016 Cobham took steps to further improve its intermediary risk management process. Enhancements include increasing the range of counterparties subject to additional due diligence, and utilising technology to provide continuous real time due diligence monitoring.

Cobham measures the effectiveness of the CECP through a range of KPIs, including metrics designed to measure how implementation of the programme has improved year on year. A key KPI for the CECP is the completion of mandatory COBC training. In 2016, 99.5% (2015: 100%) of Cobham employees completed COBC training.

Materials sourcing and supply chain management

Cobham is legally, and sometimes contractually, required to disclose certain information regarding its global supply chains. Compliance with applicable laws and regulations and changing contracting environment are principal risks (refer to risks 11 and 2 on pages 39 and 36 respectively). The Group's Responsible Supply Chain Management (RSCM) policy is to prefer suppliers that demonstrate responsible and sustainable business practices. The approach considers how suppliers address risks that could impact their ability to supply the Group or impact the Group's reputation on a risk prioritised basis. These risks include bribery and corruption, human rights issues (e.g. modern slavery, human trafficking and conflict minerals), hazardous materials legislation and resource efficiency. Cobham's RSCM policy is available at https://www.cobham.com/the-group/corporate-responsibility-and-sustainability/performance-data-policies/policy-downloads/.

In 2016, the Group published a Supplier Code of Conduct on its website and expects all its suppliers to comply with this code which can be found at https://www.cobham.com/the-group/suppliers/supplier-documents/.

During 2016, Cobham invested in a third party technology solution that allows it to map and categorise its supply base. The solution will be used to conduct Group-wide compliance campaigns in 2017 with respect to bribery and corruption, anti-slavery, human trafficking and conflict minerals. This should significantly reduce the time required to prepare regulatory disclosures and to respond to customer information requests. It will also assist the Group in identifying suppliers that demonstrate responsible and sustainable business practices.

Cobham will develop key performance indicators to measure the effectiveness of its responsible materials sourcing and supply chain management programme in 2017.



In 2016, the Group published a Supplier Code of Conduct on its website and expects all its suppliers to comply.

Social dimension

Attraction, development and retention of talent

Attracting and retaining talented and engaged employees is critical to the ability to execute strategic growth plans, deliver on key programmes and meet service level requirements. Failure to do so could result in a reduced ability to meet customer requirements and grow the business. Failure to execute strategy and a shortage of appropriate skills and talent are considered Group principal risks (refer to risks 3 and 6 on page 37).

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

The Group has continued the development of functional career and competency frameworks for its core roles, and expanded its leadership, graduate and apprenticeship development programmes. At the end of 2016, the Group employed 4.2% (2015: 3.7%) of its UK workforce as apprentices, graduates and undergraduate placements. It is on track to meet its 5% Club commitment by 2019 (www.5percentclub.org.uk).

In addition, Cobham has continued to deploy its Institute of Leadership and Management (ILM) accredited Level 3 line management training programme throughout the year, and has also successfully launched its Level 5 ILM management development programme to support its senior management population.

The Group uses voluntary staff turnover to measure the effectiveness of its talent retention and employee engagement approach. In 2016, the Group's voluntary employee turnover was 9.7% (2015: 11.2%).

As set out in the Chief Executive Officer's Statement on pages 6 and 7, although voluntary turnover was just under the target, the Group plans to review its reporting structures, including its internal processes and the allocation of responsibilities as these have become overly complex and unclear. In a number of instances the Group recognises that this has led to duplication, reduced accountability and slow decision making. This has contributed to the period of sustained operational and financial challenges and ultimately it has impacted employee morale.

Diversity and inclusion

The Group operates in an increasingly global market place. The business environment is becoming increasingly competitive and Cobham must attract the best individuals to achieve its growth plans. Ageing populations and declining numbers of university graduates in its principal markets are leading to organisations from multiple sectors competing for the same talent, particularly in science, technology, engineering and mathematics subjects on which the Group substantially relies. Societal expectations with respect to equality, diversity and inclusion are also changing, with legislation such as the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requiring relevant UK employers with over 250 employees to publicly disclose metrics on their gender pay gap on an annual basis. A lack of diverse talent and an inclusive working environment aligns with the Group's principal risks on failure to execute strategy, as does having a shortage of appropriate skills and talent and failure to comply with laws and regulations (refer to risks 3, 6 and 11 on pages 37 to 39 respectively).

The Group strives to access the widest available talent pool. Cobham's policy is to encourage the development of a diverse workforce, to value each employee's differences and to provide everyone with equal access to opportunities. The Group looks to ensure that its workforce is representative of society, its key customers and those of its suppliers.



Cobham sponsored classroom at Bournemouth & Poole College, UK

Employee health and safety

Cobham endeavours to create a culture and framework within which its employees can operate in a safe, healthy and environmentally responsible manner. Failure to deliver consistently high standards of health and safety could lead to accidents or incidents resulting in prosecutions, fines, loss of assets, business interruption and widespread reputational damage. This aligns with the Group's principal risks on significant events leading to business interruption and failure to comply with laws and regulations (refer to risks 9 and 11 on pages 38 and 39 respectively).

The Group's workplace safety, health and environment (SHE) programme, called 'Zero Harm', promotes a continuous improvement health and safety culture that works to minimise injuries and illnesses occurring in the workplace and promotes employee wellbeing. Accountability for implementing the Group's SHE approach rests with line management, monitored by a steering committee with Board oversight. Technical expertise is provided through a Group SHE Council comprising senior Business Unit SHE professionals under the leadership of a dedicated Group SHE Senior Director.

Cobham enhanced its SHE programme during 2016. Newly documented SHE standards were rolled out across the Group during the second half of the year which set Group-wide expectations for risk management. Sites are now measured annually against the standards and the maturity of their associated processes. Sites are expected to achieve a minimum target of 50% compliance. Testing is through means of self-assessment, peer-to-peer auditing and external audit. In terms of 2016 performance, 42 of 47 sites achieved or exceeded the new 50% minimum compliance target against the standards. The remaining five sites are tasked with achieving this target by the end of 2017. All other sites are required to demonstrate incremental year-on-year improvement against site-specific targets.

The Group also uses a combination of leading and lagging indicators to measure SHE performance on a quarterly basis. Leading indicators are used to drive correct behaviours, include safety training, risk assessments, workplace inspections and incident reporting while lagging indicators are used to measure effectiveness of the approach and these include the incidence and severity of workplace injuries and illness. All the leading indicators on training, risk assessment, workplace inspections and near miss reporting met their targets in 2016. With regard to lagging indicators there were again no fatalities in 2016 but the Group's major accident incident rate (the number of cases resulting in three or more days lost time per 100,000 full time equivalent employees), deteriorated to 414 (2015: 269). There are a number of causes for this performance deterioration, including improved reporting, and unfilled vacancies related to the loss of some key SHE personnel. The Group will look to improve this in 2017.

The recordable injury and illness incident rate fell to its lowest level for more than seven years, 0.93 (number of cases requiring more than first aid per 100,000 full time equivalent employees) compared to 1.2 in 2015. Manual handling, minor hand injuries, slips and trips were the most common causes of injury or illness that resulted in lost time during 2016. This is broadly consistent with prior years.

Further details on Cobham's SHE policy, management standards and performance are at www.cobham.com/the-group/corporate-responsibility-and-sustainability/performance-data-policies/policy-downloads/.

Human rights

Human rights issues are increasingly important to the way in which businesses are run. There are growing requirements to comply with legislation and to respond to customer information requests on human rights issues such as modern slavery (e.g. Modern Slavery Act 2015) and conflict minerals (e.g. US Dodd-Frank Act). Compliance with applicable laws and regulations and a changing contracting environment are principal risks (refer to risks 11 and 2 on pages 39 and 36 respectively).

Cobham supports the broad principles contained in the Universal Declaration of Human Rights and seeks to reflect these in the context of its business activities wherever possible. Cobham also respects the human rights of its employees as set down in the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, such as freedom of association, non-discrimination and the elimination of forced or compulsory child labour. Cobham demonstrates its support and respect for basic human rights through the principles and policies contained in the COBC, the Corporate Framework and the Group's policies and processes.

In 2016, the Group issued an Anti-Slavery and Human Trafficking Policy which opposes modern slavery and human trafficking in all its forms. Cobham is committed to implementing and enforcing effective systems and controls to ensure modern slavery does not take place anywhere in its own operations or in its global supply chains. This is being undertaken in a risk prioritised way based on meeting regulatory compliance obligations as well as managing geographic and industry sector risk.

In accordance with its legal obligations, the Group will publicly report on its progress in its annual Anti-slavery and Human Trafficking Statement which will be published annually on its website by the end of the first quarter, commencing in 2017: http://www.cobham.com/the-group/corporate-responsibility-and-sustainability/performance-data-policies/performance-data/.

Cobham believes that community issues are best addressed locally wherever possible. Individual sites are encouraged to manage their operations and activities with due consideration for the well-being of their neighbours and local communities. In 2016 the Group donated £269,933 (2015: £228,976) to a range of good causes including armed services, rescue and health based charities, as well as local community interests. It is Cobham's policy not to make political donations.

Environmental dimension

Environmental sustainability

Material environmental sustainability issues for Cobham include:

- Greenhouse gas (GHG) emissions from aircraft fuel combustion in its Aviation Services business;
- GHG emissions from electricity and fuel use in the lighting, heating, ventilation and cooling of its facilities and supply chain Group-wide;
- The impact of the size, weight and power efficiency of Cobham products upon the fuel burn and GHG emissions of customer aerospace platforms; and
- Business interruption at its facilities, and those of its key suppliers due to adverse weather events (e.g. flooding, wildfire).

The materiality of these issues is expected to increase in the medium to longer term following the United Nations Framework Convention on Climate Change Paris Agreement entering into force on 4 November 2016 and the agreement of the International Civil Aviation Organisation's (ICAO) Carbon Offsetting and Reduction Scheme of International Aviation in October 2016. The Paris Agreement covers domestic aviation GHG emissions, while the ICAO agreement covers international aviation GHG emissions. The ISO14001 environmental management standard has also been revised to include new and enhanced requirements.

Gender Diversity in the Cobham Workforce

Females/Total (%)	2016	2015	2014
Board of Directors	**2/9 (22%)**	2/10 (20%)	2/9 (22%)
Senior Managers[1]	**21/113 (19%)**	20/135 (15%)	24/154 (16%)
Senior Managers[2]	**24/138 (17%)**	21/144 (15%)	18/129 (15%)
Total workforce	**2,904/10,845 (27%)**	3,649/12,658 (29%)	3,001/10,941 (27%)

[1] Statutory definition
[2] Cobham definition – Vice Presidents and above

Failure to address environmental sustainability issues aligns with the Group's principal risks of changing market characteristics (i.e. lack of differentiated technology and innovative products relative to competitors), failure to execute Group strategy (i.e. misalignment with increasing environmental expectations of investors), shortage of appropriate skills and talent as well as failure to comply with environmental laws and regulations (refer to principal risks 2, 3, 6 and 11 on pages 36 to 39).

The Group addresses environmental sustainability issues by:

- Striving to reduce environmental impacts from its operations wherever practicable;
- Reducing legacy aircraft fuel consumption and transitioning to more fuel efficient aircraft e.g. introduction of the next generation jet-engine Embraer 190 aircraft in the closed charter Australian fly-in fly-out market. The Australian operations of the Aviation Services Sector have set an annual aviation fuel consumption reduction target of 0.5 kg per hour for the aircraft under its operational control. Data is reviewed monthly. During 2016, the business achieved a reduction of 3.1 kg fuel per hour, or a saving of 221 tonnes of carbon dioxide. This is equivalent to taking 43 cars off the road (http://www.yousustain.com/footprint/);
- Including a 'Design for Environment' approach to the Group's engineering strategy. This approach seeks to reduce consumption wherever practicable with a corresponding reduction in environmental impacts;
- Reducing GHG emissions across a number of operating sites through site rationalisation and practical energy efficiency measures, including upgrades to lighting, heating, ventilation and air conditioning. Facility energy intensity decreased by 18% in 2016 (2015: 5% increase). Factors contributing to this decrease include divestment of the energy intensive Metelics business, and implementation of energy efficiency measures. As previously stated, the Group's focus will be on continuing to pursue reductions in GHG emissions that also reduce its operating costs;
- Reinforcing business continuity measures and effective emergency response planning, in preparation for adverse weather events and natural disasters. All the Group's principal manufacturing locations have maintained the highly protected risk status through compliance with insurers' standards. This enables Cobham to mitigate risks associated with extreme weather events such as flooding; and
- Aligning the Group's environmental standards to ISO14001 and encouraging business units to certify to ISO14001 standards.

The Group measures and publicly discloses its greenhouse gas emissions strategy, risks, opportunities and performance on (http://www.cobhamsustainability.com/environment.aspx) and through the annual CDP investor climate change and customer supply chain surveys.

Cobham achieved an A- Leadership rating from CDP based on its 2015 performance, placing it among the best in the UK aerospace and defence sector.

Further details on the Group's GHG emissions can be found in the Other Statutory Information report on pages 79 and 80.



The Australian Aviation Services business achieved a 3.1kg aviation fuel per hour reduction in 2016.

Summary of 2016 CR&S KPIs

Key Performance Indicator	Target	2016	2015	2014
% Employees trained on Code of Business Conduct	**100**	**99.5%**	100%	99.9%
% Voluntary employee turnover	**<10%**	**9.7%**	12.7%	9.9%
% Female representation in total workforce	**N/A**	**27%**	29%	27%
Major accident incident rate[1]	**<400**	**414**	269	423
Facility energy intensity[2]	**-10%**	**-18%**	5%	1%

[1] Number of cases of work related accidents resulting in 3 or more lost work days per 100,000 full time employee equivalents
[2] MWh per £1m revenue (includes Aeroflex acquisition in September 2014 and restated in 2015 due to incorrect data reported for Hauppage, NY)

Michael Wareing
Chairman
CMG, FCA, FCCA, MCSI



David Lockwood
Chief Executive Officer, Executive Director
OBE, BA, FCA, RSA





(David) Jonathan Flint
Senior Independent Director
CBE, MBA, BSc, FREng, FInstP



David Mellors
Chief Financial Officer, Executive Director
MA, ACA

Michael Hagee
Independent Non-executive Director



Alison Wood
Remuneration Committee Chair
MA, MBA





Birgit Nørgaard
Independent Non-executive Director
MA, MBA



Alan Semple
Audit Committee Chair
BA, CA

Chairman

Michael Wareing
CMG, FCA, FCCA, MCSI

Age: 63
Appointed: Director December 2010, Chairman January 2017
Skills and experience: Michael, alongside his role at Cobham, is currently the Senior Independent Director, Audit Committee Chair and member of the Remuneration and Nomination Committees at Intertek plc. He was previously a Non-executive Director, Audit Committee Chair and member of the Remuneration and Nomination Committees of Wolseley plc from 2009 until 2014. Prior to these Board roles, he held a number of senior executive positions, including International Chief Executive Officer, at KPMG, where he worked from 1973 until 2009. He previously served as Audit Committee Chair for Cobham, and chaired Not For Profit organisations, including Business in the Community International, and two roles on behalf of the British Government, namely as the Prime Minister's Envoy for Reconstruction in Southern Iraq, and the Economic Development Adviser to the Government of Afghanistan.
External appointments: Senior Independent Director, Chairman of the Audit Committee and member of the Remuneration and Nomination Committees of Intertek Group plc.
Committee membership: Chair of the Nomination Committee.

Senior Independent Director

(David) Jonathan Flint
CBE, MBA, BSc, FREng, FInstP

Age: 56
Appointed: May 2013
Skills and experience: Jonathan was formerly CEO of Oxford Instruments plc, a position he held since 2005 and retired from in May 2016. Prior to this he was the UK Managing Director of Vislink plc and has also held management positions with BAE Systems plc and GEC Marconi Avionics. A physics graduate from Imperial College, Jonathan was made a CBE in 2012.
External Appointments: None.
Committee Membership: Member of the Audit and Nomination Committees.

Executive Directors

David Lockwood
Chief Executive Officer, Executive Director
OBE, BA, FCA, RSA

Age: 54
Appointed: December 2016
Skills and experience: David was formerly the Chief Executive of Laird plc, the FTSE250 global technology company, a position he had held since 2012. Prior to this, he was Vice President Global Defense and Security at BT Global Services. David has also held senior management positions with Thales Group, Intense Limited and BAE Systems plc. He has held Non-executive Director and Chairman positions with WFEL Limited, Photonix Ltd, and the Scottish Government's Technology Advisory Group, and was previously the Non-executive Chair of Knowledge Transfer Network Limited, a vehicle established to support the work of Innovate UK, the UK's innovation agency which is sponsored by the UK Government Department of Business, Innovation and Skills (BIS). David is an accountant (FCA) by training, holding a degree in mathematics from the University of York. He is a Fellow of the Royal Society of Arts and Commerce (RSA) and in 2005 was awarded as the Scottish Entrepreneur of the Year for Technology. In the 2001 Queen's Birthday Honours, David was awarded the OBE for services to industry in Scotland.
External Appointments: Member of the Dunedin International Advisory Board.
Committee membership: Chair of the Executive Directors Committee.

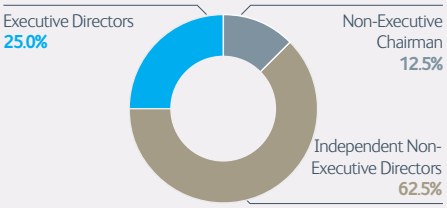
David Mellors
Chief Financial Officer, Executive Director
MA, ACA

Age: 48
Appointed: January 2017
Skills and experience: David was CFO of QinetiQ, the FTSE250 science and engineering group operating primarily in the defence, security and aerospace markets, a position he had held from 2008, and was interim Chief Executive for a period during 2015. Previously, he was Deputy Chief Financial Officer of Logica plc, Chief Financial Officer of Logica's international division, covering operations in North America, Australia, the Middle East and Asia, and prior to that he was the Group Financial Controller. David formerly held various roles with CMG plc, Rio Tinto plc and Price Waterhouse, now PwC. He is a Chartered Accountant, holding a degree in physics, from Oxford University.
External appointments: None.
Committee membership: Member of the Executive Directors Committee.

Role and focus

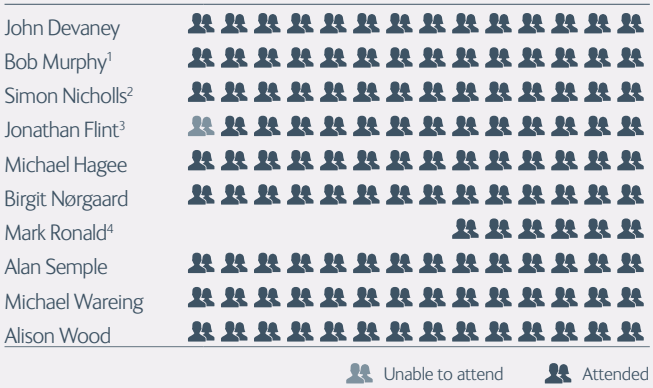
The Board's main duties are to:
- Lead the Group with a view to the creation of strong, sustainable financial performance and long term shareholder value;
- Review and agree the Group's strategy;
- Ensure that the necessary resources are in place;
- Monitor management performance; and
- Supervise the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

Board of Directors



Board meeting attendance for 2016

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



[1] Bob Murphy left the Board on 14 December 2016.
[2] Simon Nicholls left the Board on 31 December 2016.
[3] Jonathan Flint missed a short notice Board meeting due to other business commitments.
[4] Mark Ronald left the Board on 28 April 2016.

Non-executive Directors

Michael Hagee
Independent Non-executive Director

Age: 72
Appointed: December 2008
Skills and experience: Michael served in the US Marine Corps for almost 39 years ending his career in 2007 as Commandant of the Marine Corps and a member of the Joint Chiefs of Staff. His numerous military assignments included Commanding General, 1st Marine Expeditionary Force, Deputy Director of Operations at the US European Command and Executive Assistant to the Director of Central Intelligence. He also served in a number of diplomatic missions including the presidential diplomatic mission to Somalia. Michael retired from his role as Non-executive Director of Remington Outdoor Company Inc. in February 2015.
External appointments: President and CEO of the Admiral Nimitz Foundation in Fredericksburg, Texas, US, Co-Chairman of the Commission on Energy and Geopolitics, Non-executive Director of DynCorp International Inc., and Outside Manager on the Government Security Committee of the Special Security Agreement of TE SubCom, a TE Connectivity Limited company.
Committee membership: Member of the Audit and Nomination Committees.

Birgit Nørgaard
Independent Non-executive Director
MA, MBA

Age: 58
Appointed: April 2014
Skills and experience: Birgit, a Danish national, currently holds a number of non-executive roles in the private and public sectors in the UK and overseas. Birgit's last executive role was as both the Chief Executive Officer of Grontmij Carl Bro, the Danish engineering consultancy group as well as the Chief Operating Officer of Grontmij NV, the Dutch parent company. An economics graduate from Copenhagen Business School, Birgit has an MBA from INSEAD.
External Appointments: Birgit is a Non-executive Director of IMI plc, WSP Global Inc, a global consulting engineering company listed in Canada, and DSV A/S, an international transportation company listed on the Copenhagen stock exchange. Birgit has been recommended for appointment as a Non-executive Director of NCC AB at its AGM on 5 April 2017. She also holds board positions in private companies and public sector positions.
Committee Membership: Member of the Remuneration and Nomination Committees.

Alison Wood
Independent Non-executive Director
MA, MBA

Age: 53
Appointed: July 2011
Skills and experience: Alison was formerly Global Director Corporate Development & Strategy for National Grid plc. Previously, she was Group Strategic Development Director for BAE Systems plc responsible for corporate strategy, mergers and acquisitions, and strategic business development across the UK and US. She has held two previous Non-executive Directorships with BTG plc and THUS plc.
External Appointments: Non-executive Director and Chair of the Remuneration Committee of Costain Group plc, TT Electronics plc and British Standards Institution, a Royal Charter company. Alison will cease to be the Senior Independent Director and Chair of the Remuneration Committee of e2v technologies plc when the sale of e2v is completed in Q1 2017.
Committee Membership: Chair of the Remuneration Committee and member of the Nomination Committee.

Alan Semple
Independent Non-executive Director
BA, CA

Age: 57
Appointed: February 2015
Skills and experience: Alan was formerly CFO and a Director of John Wood Group plc, a role he had held since 2000 and retired from in May 2015. Prior to this, he held a number of senior finance roles in Wood Group from 1996. Alan previously served as the Group Finance Director of GRT Bus Group plc from 1994 to 1995, one of two companies which merged to form FirstGroup plc. Between 1987 and 1994, he was Finance Director at Seaforth Maritime Group Limited.
External appointments: Non-executive Director and member of the Audit Committee of Teekay Corporation.
Committee membership: Chair of the Audit Committee and member of the Nomination Committee.

Changes to the Board of Directors

Mark Ronald	Mark resigned as Independent Non-executive Director on 28 April 2016
Robert (Bob) Murphy	Bob resigned as Chief Executive Office on 14 December 2016
David Lockwood	David became Chief Executive Officer on 14 December 2016
John Devaney	John resigned as Chairman on 31 December 2016
Simon Nicholls	Simon resigned as Chief Financial Officer on 31 December 2016
(David) Jonathan Flint	Due to Michael's appointment to Non-Executive Chairman, Jonathan was appointed Senior Independent Director on 1 January 2017
David Mellors	David became Chief Financial Officer on 1 January 2017
Michael Wareing	Due to John's resignation, Michael was appointed as Non-executive Chairman on 1 January 2017

Corporate Governance Index

1. Board of Directors	44
2. Corporate Governance Report	48
3. Compliance with the UK Corporate Governance Code	53
4. Nomination Committee Report	54
5. Audit Committee Report	56
6. Directors' Remuneration Report	62
7. Other Statutory Information	78
8. Statement of Directors' Responsibility	81

Fell short of expectations in many areas: demonstrates need to focus efforts in 2017



Dear Shareholder
As noted in my earlier Chairman's report, we have had an extremely difficult year, with disappointing operational performance post the rights issue, resulting in gearing levels that are still too high. Starting in the early part of 2017, we implemented operational actions to start the turnaround. There are some areas we can deal with quite quickly but the turnaround will take time. As your new Chairman, I am taking control of the Board evaluation in my early months and am using this time with my fellow Board members to consider the Board's strengths and, more importantly, our weaknesses. We will be doing a lot of work around what and how we can learn from the events of the last year. I have already announced my intention to effect a rolling programme of material Board changes over the next two years.

We have made good appointments at Chief Executive and Chief Financial Officer level, with both of these individuals having the right background, experience and proven ability to turn the business around. The new Executive Directors will be instrumental in stabilising the business, bringing focus and enhancing the leadership team and culture within the business. We also recognise the need to improve our succession planning, at Board level and all levels down through the business. It is disappointing that so many of our recent senior appointments have been external.

We have complied with the UK Corporate Governance Code (Code), however, we clearly have many operational issues to deal with and we have made a good start.

The Directors present their report and the audited Group and Parent Company Financial Statements of Cobham plc for the year ended 31 December 2016.

Statement of compliance with the provisions of the Code
The ordinary shares are listed on the London Stock Exchange. In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 December 2016 and at the date of this Annual Report, it was compliant with the provisions of the Code, please refer to page 53 for further details.

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

Responsibility statements
Statements relating to the responsibilities of the Directors are on page 81, and those relating to the auditors are on pages 86 and 132.

Share capital
Details of the share capital of the Company and the powers of the Directors in relation to allotment, issue and market purchases of shares are given on page 78.

> Whilst we have complied with the Code, we clearly have many operational issues to deal with; we have made a good start

Financial reporting

At its February 2017 meeting, the Board reviewed and was satisfied that the Annual Report and Accounts for the 2016 financial year, taken as a whole, is fair, balanced and understandable and the Board believes that the information contained provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Audit Committee, supported by management, has adopted a process to enable the Board to take this view and this process was set out on pages 45 and 55 of the 2015 Annual Report and Accounts.

The Directors have adopted the going concern basis, assuming the equity is raised as planned, in preparing the Annual Report and Accounts as stated in the Financial Review on page 33.

Key events for 2016

- Completed a £500m rights issue, strengthening the balance sheet, however trading since the rights issue has been disappointing;
- A new CEO and CFO were recruited during the year. Although succession planning has been a prime objective and focus of the Board and within the business, the Board felt that, bearing in mind the Group's position and financial performance during the year, very experienced individuals would be needed to instigate the changes necessary within the business. Internal candidates were considered for both roles but it was clear that external candidates would be better placed to make the changes needed. The focus for recruitment was therefore external. The succession plan for the senior management team, including the Sector teams, was fully reviewed during the year but needs to be replenished and strengthened;
- Continued oversight of the restructuring of the portfolio with planned disposals of businesses, which were no longer considered core to the Group, two transactions were completed in the year;
- Both as part of ongoing knowledge growth and induction, the Board members visited four sites during 2016 as a Group, other Board members separately visited other sites;
- Evaluated and approved two large contract bid submissions above authority limits delegated to the Executive Directors outside of the regular Board meeting schedule;
- Oversight of the relationship with one of our key customers in terms of new business opportunities and performance on development programmes; and
- Change of Chairman.

Priorities for 2017

As set out in the CEO statement on pages 6 and 7:

- Oversight of the outcome of the balance sheet review, with particular attention placed on cash generation and the management of the cost base;
- Oversight of the enhanced financial and operational disciplines and controls
- Focus on customer intimacy and on execution;
- Promote the reduction of complexity and duplication in the business; and
- Replenish the succession plan and strengthen the quality of our human resource/talent.



Michael Wareing
Chairman
2 March 2017

The Board composition

The Board comprises a Non-executive Chairman (John Devaney until 31 December 2016 when he stepped down and was replaced by Michael Wareing, who previously acted as Senior Independent Director), a CEO (Bob Murphy until 14 December 2016, when he was replaced by David Lockwood), a CFO (Simon Nicholls until 31 December 2016 when he was replaced by David Mellors) and five other Non-executive Directors of whom Michael Wareing was the Senior Independent Director until 31 December 2016, when Jonathan Flint took over the role. All Non-executive Directors are considered to be independent and the Chairman was considered to be independent on appointment. They all held office throughout the year except Mark Ronald who stood down from the Board, having completed nine years as a Non-executive Director, at the conclusion of the 2016 AGM.

Biographies of the Directors, giving details of their experience and other significant commitments, are set out on pages 46 and 47. The attendance of Directors at Board meetings is set out on page 46 and attendance at principal Board Committee meetings as members of such committees during the year is set out in the reports from each committee on pages 55, 59 and 64.

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

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

Notwithstanding the Chairman's comments on page 5 around the Board refresh, no decisions have yet been made so in accordance with the Code, which recommends that all Directors of FTSE350 companies seek re-election by shareholders on an annual basis, all eligible Directors currently in office will retire and seek re-election at the AGM. The Chairman confirms to shareholders when proposing re-appointment that the individual's performance continues to be effective and that the individual continues to demonstrate commitment to the role. Non-executive Directors are subject to Companies Act provisions relating to the removal of a Director.

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

The Senior Independent Director's responsibilities include the provision of an additional channel of communication between the Chairman and the Non-executive Directors. He also provides another point of contact for shareholders if they have concerns that communication through the normal channels of Chairman, CEO or CFO has failed to resolve, or where these contacts are inappropriate. This channel was used extensively leading up to and following the rights issue in 2016.

Board proceedings

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

In 2016, the Board visited sites in Wimborne and Marlow in the UK, and Davenport and Orchard Park in the US. In addition, members of the Board made individual trips to other sites, for example, Birgit Nørgaard visited the SATCOM site in Denmark to increase her understanding of the changes impacting the business due to market conditions and David Lockwood visited several operational sites in Australia as part of his induction prior to joining the Group. Site visits help the Board to understand the business, its strategy, problems being faced and how they may be able to help. The Board is, by necessity, a diverse group of individuals, some with business backgrounds and others with more general management experience. We need this level of diversity to make sure the decisions made at this level have the right input and challenge. With only five Non-executive Directors, we recognise that we may be light on a number of disciplines so we are currently reviewing Board numbers and skill sets. It is also important for the Board to try to understand and influence the culture around the business, which cannot be achieved from inside the boardroom.

During 2017, we are planning site visits to two of our business units which are facing changing or difficult market conditions.

Michael Wareing, acting as the Senior Independent Director during 2016, held numerous meetings with the Non-executives, in the absence of the Chairman, to appraise the Chairman's performance. The Chairman also held meetings with the Non-executives in the absence of the Executive Directors, and 1:1 performance appraisals with each Non-executive Director to discuss, amongst other matters, feedback from the Board evaluation exercise.

The Nomination Committee were involved in the evaluation and subsequent promotion of Michael Wareing to the role of Chairman and Jonathan Flint being offered the role of the Senior Independent Director.

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

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

If a Director were to have a concern that cannot be resolved this would be recorded in the Board minutes. On resignation, Non-executive Directors are invited to provide a written statement to the Chairman for circulation to the Board if they have concerns. No such statements were made during 2016.

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

Board committees

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

The other principal Board committee is the Executive Directors Committee. The Executive Directors are the only members of this Committee, under the chairmanship of the CEO. The purpose is to assist the CEO in the performance of his duties and its terms of reference include: the discharge of obligations arising under the Company's share plans; the determination of the remuneration of the Non-executive Directors; the approval of banking facilities; and the approval of bids and contracts above the limits delegated to the Sectors. This Committee met on 15 occasions during the year and, in addition, decisions were made as required to respond to business needs and market conditions, such decisions were subsequently ratified.

Through 2016, an executive Risk Committee, chaired by the CEO, and made up of all the members of the Group Executive, kept the corporate risk register under review and ensured that mitigating actions were kept in focus, ultimately culminating in the formulation of the principal risks for the Group. A Board appointed Risk Committee has been set up in 2017, to increase oversight in this important area, see page 5 for further detail.

Since the end of the year, a Disclosure Committee, comprising of the Executive Directors, the Chairman and the Company Secretary, has been set up to deal with the establishing and implementing of internal policies, systems and controls to ensure that potential inside information is communicated to it, considered, verified and released to the market where required. This responsibility was carried out by the Executive Directors Committee during 2016.

Management committees

The Group Executive Committee and the other principal management committees are shown in the table below. In addition formal financial performance, business development and functional reviews were held on a quarterly basis during 2016.



Board and committees performance evaluation

The Board conducts an evaluation of its activities on an annual basis. During 2015, the Board and its committees undertook an external evaluation. The evaluation contract was awarded to Armstrong Bonham Carter (ABC), following a full tender process, which included five other service providers, and was described in detail on page 47 of the 2015 Annual Report and Accounts.

ABC collated all feedback collected and produced a series of recommendations to the Board, which were considered at their February 2016 meeting. The Board approved an action plan to address the recommendations. During 2016, the Board considered and agreed how to approach the results of the evaluation, however events during the year demanded focus on financial performance so these recommendations remain as work in progress, as highlighted below.

During the early months of 2017, the Chairman will be undertaking in-depth evaluation interviews with each individual Non-executive Director, to understand their thoughts and collate learning points to consider and agree with the full Board at its April 2017 meeting. The areas covered will include: assessment of what went wrong during 2016, including lessons learnt; how the Board can change, in terms of process and composition, to ensure better execution against plan is achieved by the business; how the Board can assist the new Executive Directors as they settle into role; and finally, to assess the performance of each individual Board member.

CAES SSA Governance

As noted on page 34, CAES is involved with classified US Defense programmes. It therefore operates under a US DoD Special Security Agreement (SSA) as required by the US National Industrial Security Program. In order to protect US national security interests, the SSA is designed to ensure that foreign ownership, control or influence (FOCI) does not affect the way that CAES conducts its business affairs.

The CAES Board is made up of: (i) the Cobham Group's CEO and CFO (referred to as Inside Directors); (ii) the CAES CEO and CFO (known as Officer Directors); and (iii) a number of Non-executive Directors (known as Outside Directors) approved by the US Defense Security Service (DSS).

Outside Directors and Officer Directors who are US nationals with appropriate US security clearances also make up the Government Security Committee (GSC) of the CAES Board. The SSA does not permit Inside Directors to be members of the GSC, which is responsible for overseeing security related matters.

The SSA restricts the level of participation that Cobham can have in certain CAES activities. For example, it gives the GSC exclusive access to certain US classified and controlled information as well as certain powers to ensure that FOCI does not affect the way that CAES conducts its business affairs.

Cobham maintains its involvement in CAES activities primarily through a series of shared services provided pursuant to an Affiliate Operations Plan (AOP) approved by the DSS and through Cobham's CEO and CFO representing Cobham plc at all CAES Board meetings in their capacities as Inside Directors.

All CAES Board Directors have a fiduciary duty to perform their roles in the best interests of Cobham plc as shareholder and in a manner consistent with the national security interests of the US, as set out in the SSA. Cobham plc as shareholder retains the right to remove/replace any member of the CAES Board, subject to the consent of the DSS in the case of an Outside Director. In addition, the CAES Board cannot carry out any of the actions listed below without Cobham's express approval:

- Sell, lease or otherwise dispose of property or assets otherwise than in the usual course of business;
- Merge, consolidate, reorganise, dissolve or wind up the business; or
- Terminate the SSA itself.

The effectiveness of governance and assurance procedures between the Group and the CAES Sector are regularly reviewed.

Board evaluation actions

Observations	Progress
Due to the importance of Private Venture (PV) investment in ensuring the Group grows sustainably, the Board needs to have a comprehensive understanding of the opportunities across the diverse portfolio to ensure PV is allocated to the greatest opportunities.	To be addressed as part of the strategic review to be undertaken by the incoming Executive Directors. Focus to be placed on placing PV increases where the Group can gain the best growth opportunity.
The Board should, along with the Group Executive, review regularly the information on customer requirements and satisfaction.	Customer feedback and satisfaction is measured and results monitored. Customer focus is a key priority for 2017.
The Board should continue to monitor the resolution of the issues encountered in the initial implementation of the Cobham Business Operating System (CBOS).	Two sites have now had the CBOS system implemented, the roll out is managed by a Steering Committee who report in to the Group Executive (and report up to the Board). Future roll outs are under review, but likely to focus on parts of the business where there is a greater business need.
The Board will oversee the plans to improve culture and staff attitudes and assist the Group Executive in communicating the strategy.	The SPIRIT values have been launched to the business but need to be embedded. The planned staff survey for 2016 was deferred as business performance was the key focus during the year.
The Board plans to gain a deeper understanding of the timing and benefits of the Continuous Improvement (CI) programme to ensure, in the event of further revenue weakness, that there are plans to further reduce cost without putting the strategy at risk.	CI benefits are regularly reported to the Board, improvements have been made during the year, but not to the level planned. This will be a renewed focus in 2017, with an aim to reduce complexity and duplication in the business.

Investor Relations activity during 2016



The Board recognises the importance of maintaining an effective two way communication programme with Cobham's shareholders and potential shareholders. This approach assists investors' understanding of the value drivers in the Group and allows the Board to understand shareholder views when formulating and discussing strategy, financing, Board composition and policies.

In previous years, Cobham has pursued an investor relations programme which has had the purpose of keeping investors regularly informed of its prospects, progress and, as appropriate, significant developments. This has been achieved in various ways, including through results day presentations by the CEO and CFO, which are also webcast live for shareholders unable to attend in person; regular face-to-face management meetings with investors; and through written content which is made available on the website and in the Annual Report and Accounts. This includes useful information on Cobham's strategy, its businesses, historical financial information and governance. This has been supplemented by access to business unit managers with visits to Cobham sites, industry exhibitions and air shows, primarily highlighting the Group's products and technology. Capital markets days have also been held, which have been used to give additional insight to selected Group businesses and personnel. The Board has, in turn, been kept regularly informed of investor and market views and received written and oral feedback from investor meetings.

The maintenance of an effective two way communication flow has been particularly important during the year, which has been characterised by the achievement of lower than expected profit and cash generation, resulting in higher than expected debt and a rights issue. There have also been changes to the Board with a change in Chairman, Senior Independent Director, CEO and CFO announced during the year. The shareholder relations programme in 2016 has largely been driven by these events and, as a result, the Group has not held a capital markets day or arranged the usual programme of visits to Cobham sites. Instead, there has been a stronger focus on meeting shareholders individually or in small groups to explain developments, with a particular concentration of meetings in the lead up to the rights issue. This programme has included significant Chairman, Senior Independent Director, CEO, CFO and Investor Relations participation. Reflecting this, in total Cobham has undertaken 273 (2015: 204) separate investor meetings during 2016.

Compliance with the UK Corporate Governance Code

A. Leadership

A1. The Board's role

In 2016, the Board met nine times in order to review the Group's performance and strategy against set objectives and a further five times outside of the normal sequence of meetings to deal with urgent Board decisions and the rights issue documentation. The Board's role is to lead the Group with a view to the creation of strong, sustainable financial performance and long-term shareholder value, to approve the Group's strategic plan, and to monitor management performance against plan. The Board also sets the Group's risk appetite, and monitors the Group's risk management processes. The Board has adopted a schedule of matters reserved for its specific approval, including a framework for those decisions which can be delegated to committees or otherwise. Further details can be found in the Corporate Governance Report starting on page 48.

A2. A clear division of responsibilities

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

A3. Role of the Chairman

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

A4. Role of the Non-executive Directors

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

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

B. Effectiveness

B1. The Board's composition

The Board currently consists of eight individuals: the Chairman, two Executive Directors and five independent Non-executive Directors. The composition of the Board is reviewed regularly by the Nomination Committee to ensure that there is an appropriate mix of skills, and a range of diverse experience. The Chairman has announced a rolling programme of material Board change over the next two years. Board members' biographies are provided on pages 46 and 47 and identify the experience each Director brings to the Board. A table identifying the skills and experience of the Board members may also be found on page 55. The Board determines, through the Nomination Committee, the independence of its members. Conflicts of interest are also monitored and updated at least annually and more frequently as and when required.

B2. Board appointments

The appointment of new Directors to the Board is led by the Nomination Committee. The Nomination Committee's Terms of Reference, as published on the Company website, document their responsibility regarding Board appointments. The Committee consists of all the Non-executive Directors and the Chairman. Further details of succession planning, including the Board's policy on diversity, including gender, can be found on page 55.

B3. Time commitments

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

B4. Training and development

On appointment, Directors undertake a structured induction programme, which is supplemented by visits to key locations and meetings with senior executives. Further training for Directors is offered when taking a new role on a committee and is otherwise available as required. Further details can be found in the Directors' professional development section on page 55.

B5. Provision of information and support

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

B6. Board and committee performance evaluation

The Board and the committees undertook an external evaluation in 2015, which was reported on during 2016. Details of the process undertaken, and a table of observations made at this evaluation are included on page 51. The Senior Independent Director also held a series of meetings with the Non-executives in the absence of the Chairman to appraise the Chairman's performance during 2016.

B7. Directors re-election

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

C. Accountability

C1. Financial and business reporting

The Statement of the Directors' Responsibility is set out on page 81, and the Independent Auditors' Report commencing on pages 82 and 132. The Company's business model is explained on pages 10 and 11.

C2. Risk management and internal control systems

The Board sets the Group's risk appetite and conducts a robust assessment of the principal risks, along with an annual review of the effectiveness of the Group's risk management, and internal control systems. The activities of both the Audit and Risk Committee (part of the Group Executive Committee during 2016), which assist the Board with its responsibilities in relation to risk management, reporting and assurance, are set out on pages 34 to 39.

C3. Role and responsibilities of the Audit Committee

Details of the composition of the Audit Committee and how the Committee has discharged its responsibilities during the year is provided in the Audit Committee Report on pages 56 to 61. The Terms of Reference for the Audit Committee are reviewed annually and are available on the Company website.

D. Remuneration

D1. Levels and components of remuneration

The Board believes that the Group's Remuneration Policy is appropriately designed to promote the long term success of the Company, while enabling the Group to attract, retain and motivate the executive talent required for the delivery of its business strategy. For further information, see the Directors' Remuneration Report, and the proposed Remuneration Policy, on pages 62 to 77.

D2. Development of remuneration policy and packages

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

E. Relations with shareholders

E1. Shareholder engagement and dialogue

Effective communication and engagement with investors is of paramount importance to the continued success of the Company. The outgoing Chairman met with 18 shareholders during the year, at their request. The incoming Chairman met with 20 shareholders immediately prior to his formal appointment. Further details can be found in the Corporate Governance Report on page 52.

E2. Constructive use of general meetings

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

The composition and strength of the Board is under review, alongside a review of succession plans in the business



> The Committee has been very involved in the recruitment process for the two Executive Directors and the Chairman during 2016, but 2017 needs to focus on the Board and succession plans in the business

Dear Shareholder
The Committee has had a busy 2016.

In January 2016, the Board announced that our then CFO, Simon Nicholls, would be moving on to perform the role of CFO for Wolseley plc, a FTSE50 company and a recruitment process started to replace him. In June 2016, David Mellors was announced as the new CFO, to join the Board. David was CFO of QinetiQ Group plc, the FTSE250 science and engineering company that operates primarily in the defence, security and aerospace markets. During his time at QinetiQ he played a leading role in the successful transformation of the group, strengthening their balance sheet and re-focusing the portfolio driving improved performance and positioning the group for growth. His background positions him well to face the challenges which we knew we were facing. David took up his new role on 1 January 2017 and immediately commenced a balance sheet and major contracts review.

Mark Ronald stepped down from the Board in April 2016 after serving three, three year terms.

During August 2016, the Board announced the appointment of David Lockwood as CEO, following the stepping down of Bob Murphy to pursue other opportunities. David was CEO of Laird plc, the FTSE250 technology company providing products and solutions that protect electronics from electromagnetic interference and heat and which enable connectivity in mission-critical wireless applications. During his time at Laird, David built the company into a focused enterprise connectivity company with leading positions in the connected transport and consumer device markets, delivering sustained organic growth. He also had a strong background in the defence industry. David officially commenced in role on 14 December 2016 and is already putting his experience into play for us.

Then in November 2016, John Devaney informed the Cobham Board that he would be standing down as Chairman and Board member of Cobham plc with effect from 31 December 2016. Following a process led by the Nomination Committee, I took over as Chairman with effect from 1 January 2017, having served as Cobham's Senior Independent Director and member of the Remuneration Committee until that point. Jonathan Flint took on the role of Senior Independent Director, also on 1 January 2017.

All new appointments were made with input from the Nomination Committee members, who met with the candidates before formal appointment.

The Committee and the Board feel the Company has sufficient breadth and depth in the new Executive Directors to move the Company forward and will be considering, through 2017, whether to strengthen Board membership further.

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

Key events for 2016
- Reviewed the structure, size and composition of the Board;
- Reviewed Committee structure and membership on Mark Ronald's departure from the Board;
- Oversight of the search for the new CFO;
- Oversight of the search for the new CEO; and
- Conducted a formal process and recommended the appointment of myself as Chairman on John Devaney's departure from the Board.

Skills and experience

	Independence	Years with Cobham	Skills and Experience						
			UK Corporate Governance	Engineering	Defence	Finance	US Market	UK Listings	HR
Michael Wareing		6	•	•	•	•	•	•	•
David Lockwood		0	•	•	•	•	•	•	•
David Mellors		0	•	•	•	•		•	
Jonathan Flint	•	3	•	•	•	•	•	•	
Michael Hagee	•	8			•		•		
Birgit Nørgaard	•	3	•	•	•	•		•	•
Alan Semple	•	2	•	•		•	•	•	•
Alison Wood	•	5	•		•		•	•	•

All of the Directors, Executive and Non-executive, have leadership, strategy and risk experience.

Priorities for 2017

- Review the structure, size and composition of the Board to ensure competencies remain aligned with the strategic plan and is appropriately balanced;
- Oversight of succession planning exercise for the key roles across the Group; and
- Consider the role of this Committee and how it can be strengthened and used more productively.

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

Membership and attendance

One formal Committee meeting was held during the year, attended as follows:

John Devaney (Chair)	Attended
Jonathan Flint	Attended
Michael Hagee	Attended
Birgit Nørgaard[1]	Unable to attend
Mark Ronald[1]	Unable to attend
Alan Semple	Attended
Michael Wareing	Attended
Alison Wood	Attended

[1]Sent apologies due to other business commitments.

There were a series of actions taken by this Committee outside of the formal scheduled meetings, and members were extensively involved in each of the above senior leadership changes.

Directors' professional development

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

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

This is supplemented by visits to key locations and meetings with, and presentations by, members of the senior management team. Both David Lockwood and David Mellors followed this model in undertaking their induction towards the end of 2016.

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

As mentioned at page 50, site visits are considered critical to ensure that the Directors remain close to the business of the Group.

Diversity and inclusion

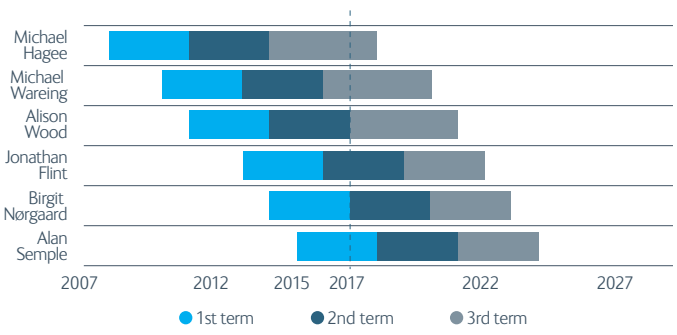
The Committee is cognisant of the need for diversity when considering the composition of the Board. In recruiting for Board roles, targets are generally set around ensuring a proportion of female and ethnically diverse applicants are included in the candidate pool for Non-executive Director positions. The representation of women on the Board is currently 25%.

Please refer to page 41 for details of diversity and inclusion initiatives within the business.

Succession planning for Board members/senior management

Succession planning takes place on a regular basis to ensure that the Group is managed by executives with the necessary skills, experience and knowledge. The Board has a role to play in overseeing the development of management resources in the Group. Specifically, the Board wants to see depth and quality in management, and robust processes are in place to help them in this task. The succession plan needs to be replenished and the process reviewed as the number of high performing individuals identified in role do not correlate with the performance of the business. There are some good people within the Group and some good technology/platform positions. Despite the results for the year, there is still pride in the Cobham business, and we need to build on this.

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



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

Michael Wareing
Nomination Committee Chair
2 March 2017

Increased analysis of the Group's balance sheet and internal control systems



Dear Shareholder
2016 was a very challenging year for Cobham overall, with performance issues in a number of areas contributing to the Group's overall disappointing results. Cash generation was poor and despite the rights issue in June 2016, debt increased to levels outside the Board's target range. These matters, which are covered in some detail elsewhere in this report, had a significant impact on the Committee throughout the year, and will continue to do so into 2017.

Key issues for 2016
The Audit Committee continued its focus on the Group's financial reporting, risk management and internal control systems. With the knowledge that the incumbent Group CFO was leaving the business, we worked with the Board on appointing his replacement. We met with members of the broader finance team on specific issues, and throughout the year maintained our analysis of the Group's long term development programmes. Given the issues that had arisen in 2016, management performed a rigorous review of the balance sheet, including carrying values of past acquisitions, given the disappointing performance during the year.

Trading was behind the Board's expectations for the first quarter of 2016, as noted in the Trading Update of April 2016. One reason for this was the financial and operational controls that had emerged in the Wireless business unit that resulted in a one off charge of £9m. The Audit Committee was presented with a detailed assessment of the issues that had emerged, including the remedial actions required to stabilise the Wireless control environment. Lessons learned from these issues were extensively considered by the Audit Committee and included a number of organisational changes, an internal project to improve controls within the business unit and increased level of corporate oversight and support. This also reinforced the need to implement an updated Group Finance Manual and the Minimum Standards of Financial Control Framework across the Group.

In addition to the issues in the Wireless business, in April 2016 the Group also reported that headwinds in Aviation Services combined with increased costs in Advanced Electronic Solutions had adversely affected first quarter profitability. The impact of this was that there was an expectation that leverage could be close to the net debt/EBITDA covenant ratio of 3.5x at June 2016 and as a result the Board announced a rights issue. Consequently, the Audit Committee's focus in the second quarter included a review of the first quarter performance included in the rights issue documentation. The Audit Committee continued monitoring the progress of issues in Wireless, considered financial information relating to major development programmes, including updates from management on the status of customer discussions and risk exposures in relation to these programmes.

Into the second half, Group performance remained challenging with forecasts not being met in a number of businesses, most notably the SATCOM, Wireless and Integrated Electronic Solutions business units and increased risk relating to the KC-46 programme, where commercial circumstances changed with our customer. These matters were noted in the Trading Update in October 2016. This guided trading profit down, and highlighted that discussions were taking place with our customer on KC-46 related commercial terms for the conformity and qualification phases of the contract. The Audit Committee requested ongoing updates on longterm, major development programmes, received external input on certain aspects, and into early 2017 performed a separate review on the status of risk and costs to complete on KC-46. In addition, increased scope and enhanced reporting was agreed with PwC for the planned 2016 year-end external audit.

> Key focus areas for the Audit Committee have been the Group's financial control environment, the balance sheet review, and performance of the long term development programmes

The balance sheet review led by the new CFO identified a range of issues related to 2016 performance that had not been identified in our normal management reporting. These are described in some detail on page 29. The Committee engaged with management and PwC throughout the balance sheet review process and met to consider the circumstances that had led to the adjustments, their quantum, disclosure, and judgements applied.

In addition, the Audit Committee:
- Reviewed financial statements and associated reports throughout the year;
- Reviewed management's assessment of the potential impact of adopting new accounting standards, specifically revenue recognition and leasing;
- Reviewed all matters relating to External Audit including audit scope, independence, objectivity and effectiveness, and requested an enhanced level of reporting to the Committee;
- Reviewed the Non-audit Policy, and the transition of certain non-audit services from the external auditor, with the majority of tax and HR services transferring to other providers during the year;
- Reviewed reports from management on key governance, risk and compliance activities including progress in implementing the Minimum Standards of Financial Control;
- Increased our analysis of existing IT controls (including cyber security and disaster recovery), and the requirement for enhanced controls in certain areas;
- Continued to review and support the Internal Audit and Assurance Function with its increased, risk based scope including the Audit Plan, reports and effectiveness; and
- Worked with the CAES Board, to ensure that, as far as possible within the confines of the SSA, satisfactory controls existed in the business.

Given the challenges in 2016, lessons were learned during the year and in the year-end balance sheet review, and the lessons learned process will continue into 2017. The Group's system of risk management and internal control has shown a number of weaknesses, albeit the controls and assurance mechanisms ultimately identified the issues arising, although in many cases in a less timely manner than should have been the case.

Priorities for 2017

2017 will be a period of transition for Cobham, with our new CEO and CFO becoming established in their roles. We will work to assist them and to support their initiatives to improve the risk management systems and control environment where required. It is important that the Group learn the lessons from Cobham's recent under-performance, and from the adjustments identified as part of the year-end balance sheet review. The Audit Committee will focus on remediation of control issues identified and on actioning the standards of control we expect across the Group.

At the 2017 AGM, I and the fellow members of the Committee will be available to respond to any questions shareholders may wish to raise on this report or the Committee's activities.



Alan Semple
Audit Committee Chair
2 March 2017

Financial reporting and significant financial judgements

The Committee reviews whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and also seeks support from the external auditors to assess them. The Committee identified the issues below as significant in the context of the 2016 financial statements with regard to the facts and circumstances then existing, on account of the level of materiality and the degree of judgement exercised by management.

Area of focus	Key issue	Role of the Committee	Conclusion
Revenue/ contract accounting	Revenue and profit recognition on contracts (refer to note 1 of the Group Financial Statements)	The Committee considered accounting policies, judgements on material contracts and external audit reviews. A key focus for the Committee has been the revenue and profit recognition on the Group's long term development programmes, such as KC-46, where the Committee had regular updates from management in the course of the year, received external input on certain aspects, and into early 2017 performed a separate review on the status of risk and costs to complete. Discussions with management addressed changing commercial circumstances into the second half of the year, the subsequent commercial settlement reached in early 2017.	Changes in commercial circumstances in the second half of the year, and for KC-46 the revised agreement with the client in early 2017, required a reassessment of anticipated performance and estimated costs to complete on key contracts, most materially KC-46. Notwithstanding the risks that remain in the completion of these contracts, the Audit Committee was satisfied that the position taken is appropriate.
Goodwill and acquired intangible assets	Goodwill and acquired intangible asset carrying value assessments and required impairment (refer to note 10 of the Group Financial Statements)	The Committee reviewed internal papers covering the basis and quantum of valuation and resulting impairments, including explanations for any significant changes from those used in previous years. Such changes included lower initial profits following disappointing performance in 2016 and more cautious future expectations given the experience of the last year. The Committee considered a modified basis of management's assessment for 2016 using a three year horizon for detailed cash flow forecasts (previously five years). The Committee also reviewed the appropriateness of the growth rates assumed within the Cash Generating Units, the discount rate applied to the cash flows and received confirmation that the sensitivity analysis had been correctly modelled.	The Committee was satisfied that the forecasts leading to the impairments were reasonable and appropriate, reflecting the current performance of the businesses and anticipated outlook, and that the disclosures made were appropriate.
Inventory	Accounting for inventory provisions (refer to note 13 of the Group Financial Statements)	The Committee considered the appropriateness of the Group's policies for inventory provisions, taking into account the different nature of the businesses across the Group. Particular consideration was given to the impact of changing demand on the level of provision required along with specific areas where additional provisioning was appropriate. The Committee considered the outcome of certain inventory counts during the year and worked with management to introduce change to the frequency of inventory counting in the Group. An annual full inventory count was mandated in all business units in addition to the periodic cycle counts performed.	The Committee considered that the provisions made for inventory were appropriate and properly accounted for.
Presentation of adjusted performance measures	Identification and measurement of underlying trading profit, and the classification and disclosure of non-underlying costs (refer to note 2 of the Group Financial Statements)	The Committee reviewed a report from management, which explained the methodology used and the rationale for excluding items from statutory profit to arrive at underlying profit. The Committee compared the treatment of non-underlying costs to prior years, and reviewed all non-underlying items. The Committee considered, in detail, the nature and quantum of exceptional items detailed in note 2 of the Group Financial Statements, assessing whether it was appropriate to recognise the adjustments, whether they had been measured appropriately and whether any indicated errors related to prior periods.	The Committee was satisfied that accounting and judgements were reasonable and appropriate and that no prior period corrections were required.
Tax	Accounting for uncertain tax positions (and recoverability of deferred tax assets) (refer to notes 6 and 20 of the Group Financial Statements)	The Committee reviewed explanatory papers from management, which included a review of the appropriateness of the tax provisions. Papers reviewed included the impact of changes in tax law and regulations, changes in interpretation of taxation regulation, increase in tax audits and challenges and testing of interpretations by tax authorities. This is more fully described in note 29 of the Group Financial Statements. In reaching its conclusion on material tax disputes, the Committee referred to external advice to support the position taken. The Group Tax Director also regularly attended Committee meetings to discuss how the Group manages its tax risks.	The Committee was satisfied that the judgements and estimates were reasonable and appropriate, and that risks associated with tax had been properly disclosed.

Objectives and responsibilities

The Committee's main objectives and responsibilities are set out in our Terms of Reference, which are available on Cobham's website. The Committee's Terms of Reference, were reviewed and updated in December 2016. In summary, the main objectives and responsibilities of the Committee are to:

Financial reporting

- Monitor the integrity of the Group's Financial Statements and any formal announcements relating to its financial performance, and their compliance with statutory requirements;
- Review significant financial reporting judgements and accounting policies and compliance with accounting standards;
- Ensure the Annual Report and Accounts are fair, balanced and understandable and recommend their adoption by the Board; and
- Review the assumptions or qualifications in support of the Going Concern Statement and the longer term Viability Statement.

Risk management and internal control

- Monitor and review the effectiveness of the Group's risk management procedures;
- Ensure that a robust assessment of the Group's Principal Risks has been undertaken; and
- Review and monitor the effectiveness of the Group's internal control systems.

Compliance, whistleblowing and fraud

- Monitor and review the Group's policies and practices concerning business conduct and ethics, including helpline or whistleblowing arrangements.

External audit

- Make recommendations on the appointment, terms of engagement and remuneration of the external auditors;
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; and
- Develop and implement a policy on the engagement of the external auditor to supply non-audit services.

Internal audit and Assurance

- Agree and assess the Internal Audit Plan;
- Monitor the effectiveness of the Group's Internal Audit function; and
- Consider the scope and the major findings of internal audit work done and management's response thereto.

Composition

The Committee consists of independent Non-executive Directors only. The current members are Alan Semple, Jonathan Flint, and Michael Hagee. Following the 2016 AGM, Michael Wareing stepped down from the Audit Committee in order to join the Remuneration Committee, due to Mark Ronald's departure from the Board. Biographical details for all of the Committee members may be found on pages 46 and 47. The membership of the Committee has been selected with the aim of providing the range of financial, risk and business expertise necessary to meet its responsibilities, the particular skills and experience of each member may be found on page 55. Given Alan Semple's experience as a Chartered Accountant, and formerly as Chief Financial Officer of John Wood Group plc, the Board has designated him as the financial expert on the Committee for the purposes of the Code.

Meetings

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

Alan Semple (Chair)	5
Jonathan Flint	5
Michael Hagee	5
Michael Wareing[1]	2

Unable to attend Attended

[1] Michael Wareing stepped down from the Committee following the 2016 AGM, to join the Remuneration Committee.

During the year, the Committee invited the Chair of the Board, the Non-executive members of the Board, CEO, CFO, Group Director of Financial Control, Head of Internal Audit (IA&A) and Assurance, the PwC lead audit partner, other representatives from PwC, and other key senior management to attend their meetings as appropriate.

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

Key issues and activities

Matters considered by the Committee during 2016 were:

	Feb	Apr	May	Jul	Dec
Financial statements and reports					
Full year results	•				•
Half year results				•	
Fair, balanced and understandable assessment	•				
Rights issue prospectus			•		
External audit					
Independence, objectivity and effectiveness of the external auditor	•				
Appointment recommendation to the Board	•				
Policy on the provision of non-audit services		•		•	
Approval of non-audit fees	•			•	
External audit scope and fees	•			•	
External auditors' full year report	•				•
External auditors' half year report				•	
Internal audit					
Effectiveness review of Internal Audit					•
Internal Audit report	•			•	
Annual Internal Audit Plan					•
Governance, risk and assurance					
Risk management report	•	•		•	
Risk management framework	•			•	•
Internal controls	•	•		•	•
IT controls, including cyber security	•	•		•	
LCM		•			•
Compliance, whistleblowing and fraud	•			•	•
Other					
Updates on accounting and corporate governance developments					•
Terms of Reference					•
Reports on major long term development programmes	•	•		•	•
Meetings with senior finance management (e.g. Sectors)		•			•

Risk management and internal controls

The Board has ultimate accountability for the execution of the Group's risk management and internal control systems, including the Group's Risk Appetite. The Risk Committee, part of the Group Executive during 2016, is responsible for overseeing the execution of risk management throughout the Group. The Board has delegated responsibility for monitoring and reviewing the effectiveness of the Group's risk management and internal control systems to the Audit Committee, who provide reports to the Board.

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

The Committee has continued to monitor the Group's governance, risk and assurance activities throughout 2016. It is intended that we will continue to support the programme through 2017 with enhancements being planned by new management as a part of their review of governance processes. In 2016 progress on a number of planned improvements was deferred due to management engagement in other areas, such as the rights issue.

Further information on the Group's Principal Risks and the risk management process may be found on pages 34 to 39.

The Group operates under a system of internal controls which has been developed over time to meet the needs of the business and the risks and opportunities to which it is exposed, recognising differences in the nature and operation of each of the Group's operations.

This process includes:

- The preparation and consideration of the longer term strategic plan. The Board did not consider this in 2016 due to pressing operational issues;
- A comprehensive budgeting system with an annual budget which is approved by the Board;
- The regular review and revision of financial forecasts for the year;
- The monitoring of financial performance;
- The monitoring of project and programme management, through LCM; and
- The appropriate delegation of authorities to operational management.

It is not always possible or appropriate for acquisitions to be fully integrated immediately. As a result legacy control systems still exist and other key control processes, including IT, are not fully standardised and implemented across the Group. The implementation and operation of certain key controls is decentralised in the business units. Sector, functional and central oversight activities and controls are in place to support this.

Elements of risk management and control processes have not performed as intended during the year, as described within this Annual Report and Accounts. This resulted in the late identification of a number of charges for 2016. Instances where the processes have not operated as intended included a range of weaknesses in detailed financial controls, inaccurate forecasting, weakness in controls over working capital, and project and management controls, particularly around the assessment of future contract profitability in changing commercial circumstances.

Delegated authorities and other controls are contained in the Corporate Framework and the Group Finance Manual. Specifically with regard to the financial reporting process and the preparation of the Group Financial Statements, the system includes a semi-annual representation letter from all business units. Included in those letters are written acknowledgements that financial reporting is based upon reliable data, that there is compliance with the Group's Minimum Standards of Financial Control and that the results are properly stated in accordance with Group policies. The Letter of Representation process has not highlighted any material weaknesses although exceptions have been identified where control enhancements are required and these are consistent with the theme of improving financial and operational disciplines outlined in both the Chairman's and CEO's statements..

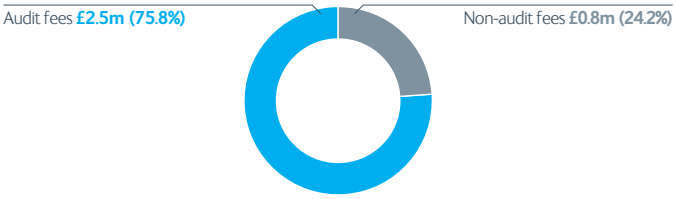
The Committee's review covers all material controls, including financial, operational and compliance controls and risk management systems, and is designed to give assurance that the day to day risk management and internal control policies and procedures, which are embedded in the business, have operated effectively in the review period. The three principle lines of assurance are outlined on page 34. The Committee receives assurance from the Inside Directors on the CAES Board on matters relating to the Advanced Electronic Solutions Sector. It should be noted that due to the restrictions of the SSA our assessment of the control environment in CAES differs from that operated elsewhere in the Group. In order to meet the requirements of the SSA and US DSS requirements, oversight is indirect and flows primarily through the Inside Directors. For the majority of 2016 the level of restriction on information increased from that of previous years. Further details on how governance procedures are maintained in the SSA may be found on page 51.

Despite extensive control mechanisms, there have been control weaknesses identified relating to 2016 from which lessons must be learned. Where weaknesses were identified, plans for remedying them were developed and progress against the plans monitored. The year-end closing balance sheet exercise and adjustments highlighted a range of other issues to be addressed. The adjustments identified generally reflected a change in circumstances in the second half of the year, or since the year end, combined with a more prudent assessment by management. Whilst the control environment identified these matters, in many cases these should have been picked up prior to the balance sheet review. Our focus will continue into 2017 in order to rectify the control weaknesses identified , to achieve the standards of control we expect across the Group.

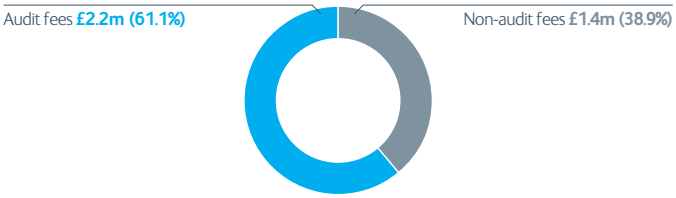
External audit

The Committee is responsible for overseeing relations with the external auditors PwC, including the approving of fees, and makes recommendations to the Board on their appointment and re-appointment. The total fees paid to PwC in the year ended 31 December 2016 equalled £3.3m, with non-audit fees of £0.8m, which included £0.3m of other assurance services, represented 24.2% of the total. An analysis of the fees paid to the external auditors in respect of audit and non-audit work during the year can be found in note 4 to the Group Financial Statements. Included in the non-audit fees were amounts related to the rights issue, where the Committee elected to proceed with PwC, given it was determined that they held a differentiated position in the provision of this work, the work was allowable under independence rules and it was considered that it would not impact PwC's independence. It should be noted that these fees include those relating to services that have now transferred to other professional services firms.

Total fees paid to the external auditors (2016)



Total fees paid to the external auditors (2015)



PwC is expected to report to the Committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. None were found or reported in 2016. The Independent Auditors' Report to the members of the Company can be found on pages 82 and 132.

PwC's presentation of their audit plan to the Committee, set out the scope and objectives of the audit, together with an overview of the planned approach, an assessment of the Group's risks and controls, and proposed areas of audit focus. The Committee reviewed and approved the terms, areas of responsibility and scope of the December 2016 year-end audit and requested that an enhanced level of reporting of matters identified in the audit be brought to the Committee's attention.

The Committee is responsible for the development, implementation and monitoring of the Group's policies on services from external auditors, which are designed to maintain the objectivity and independence of the external auditors. These policies set out the approach to be taken when using the external auditors for non-audit work and regulate the appointment by the Group of former employees of PwC. In addition to an independence review conducted by management, PwC has provided specific assurance and the Committee has considered the arrangements and safeguards that PwC has in place to maintain its independence and objectivity, including the use of separate teams where the provision of non-audit services has been approved. The external auditors follow regulatory requirements to maintain the objectivity of the audit process; these stipulate a five-year rotation policy in relation to the senior engagement auditor. Pauline Campbell was appointed lead audit partner in 2014. The Committee continues to be satisfied that PwC, the external auditors, remain independent and objective.

In December 2016, the Committee reviewed and approved the revised policy on the provision of non-audit services for recommendation to the Board. The policy was amended in a number of areas, including to reflect the implementation of EU legislation. The policy states, as a default position, that the external auditors will not be engaged to provide any element of non-audit services. However, the Committee recognises that there may be some non-audit services for which the Group might wish to use the external auditors. In these circumstances, the deciding factor is that there is a clear differentiation for the work concerned, between the audit firm and other potential providers of the work. Furthermore, the work must be permitted under the relevant regulations and must not impinge on the independence of the audit firm. A decision to use the audit firm for non-audit work must also be approved in advance of the use of the services, by: the CFO for fees up to £10,000, with the Chair to be advised at the time of approval; the CFO in conjunction with the Chair of the Committee for fees between £10,000 and £100,000; and the Committee, as a whole, for fees over £100,000. From 2017 the Committee will receive a summary at each meeting of all approved non-audit work undertaken by the Group's external auditors. As a result of the new policy and the outcome of the external audit tender held in 2015, the provision of non-audit services has progressively transitioned away from the external auditors, PwC, during 2016.

PwC were reappointed as the Group's external auditors by shareholders, upon the recommendation of the Committee, at the 2016 AGM following a comprehensive external audit tender process, as detailed in the 2015 Annual Report and Accounts. While the regulations surrounding auditor rotation would allow PwC to remain in post until the conclusion of the 2020 audit, the Committee's current intention is to re-tender in 2018, for the 2019 audit, to coincide with the next rotation of the PwC lead audit partner. The Committee will not be inviting PwC to tender in 2018.

The Committee conducts an annual review of the performance of the external auditors, including feedback from the finance teams at many of the operating companies.

Internal Audit and Assurance

In December 2016, the Committee conducted a review of the effectiveness of the Group's Internal Audit and Assurance function, taking into account the views of Directors and senior management on matters such as independence, proficiency, resourcing, and audit strategy, planning and methodology.

The Group Head of IA&A attended every scheduled Audit Committee meeting throughout 2016 and in addition, had ongoing contact with Members of the Audit Committee throughout the year with and without management present. With effect from November 2015 the direct reporting line of the Group Head of IA&A became the Committee Chair.

The findings of each Internal Audit review are summarised and the Committee focuses its discussions on unsatisfactory findings and on the action plans in place to address them. The Internal Audit reports are also made available, in full, to the Committee separately. Particular areas of focus during 2016 included the implementation of Internal Audit recommendations by the businesses and key matters from the Internal Audit reviews. The Committee also received regular updates against the 2016 Internal Audit Programme throughout the year.

The Committee approved the Internal Audit Plan for 2016, including the proposed audit approach, coverage and allocation of resources. The 2017 Plan was prepared considering a number of factors, including the Principal Risks of the Group. The key points of focus in the 2017 Plan include:

- A continued focus on Internal Financial Controls Assurance;
- Lessons learned from 2016 balance sheet review;
- Increased monitoring of controls and actions;
- Stronger alignment with the Group's risks;
- Continued improvement in the Group's assurance mapping process across the three lines of assurance;
- Increasing focus on working capital management, in particular inventory management;
- The development and implementation of an IT Assurance programme; and
- The continued implementation of a revised audit approach on Programmes and Projects, including LCM.

Fair, balanced and understandable report and accounts

At the request of the Board, the Committee considered whether, in the Committee's opinion, the 2016 Annual Report and Accounts was fair, balanced and understandable, to enable shareholders to assess the Group's performance, business model and strategy. To assist this assessment, the Committee, supported by management, has adopted a process for the preparation and approval of the Annual Report and Accounts.

In reporting on Alternative Performance Measures, the Group followed the FRC recommendation to consider the Guidelines on Alternative Performance Measures, as published by the European Securities and Markets Authority. Account has also been taken of the disclosures of our peers, and current best practice.

Following its review, the Committee was of the opinion that the 2016 Annual Report and Accounts was representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, business model and strategy.

Cobham Code of Business Conduct violations and fraud

The Cobham Code of Business Conduct, which incorporates the Group's whistleblowing policy, contains arrangements for an independent external service provider to receive, in confidence, complaints on suspected violations of the Code for reporting to the Committee as appropriate. Details of the Code, are provided in the CR&S section of this report, on page 40. The Committee regularly received reports providing details of these cases, their outcome, and the corrective actions taken.

Evaluation of the effectiveness of the Committee

An external review of the Committee was performed in 2015 in line with the external review of the Board. The Committee Chair initiated an internal review of the effectiveness of the Committee towards the end of 2016, the results of which will be addressed in early 2017.

Remuneration decisions reflect unsatisfactory performance



> No incentive awards have been made to the outgoing Executive Directors

Dear Shareholder
2016 has been a very disappointing and challenging year. This letter and the Annual Report on Remuneration sets out how the Remuneration Committee has determined the outcome of remuneration decisions for the outgoing Executive Directors in addition to establishing appropriate competitive remuneration packages for the incoming CEO and CFO.

The Committee has, throughout 2016, been very focused on the key issue of pay for performance and has applied this discipline by awarding no incentive payments to the outgoing Executive Directors, Bob Murphy and Simon Nicholls. In addition, any of their outstanding long term incentive awards (including deferred shares) have lapsed.

Remuneration Policy review
Shareholders are being asked to approve a new Remuneration Policy at our AGM in April 2017 in accordance with the legislation as it has been three years since our current Remuneration Policy was approved.

However, due to the timing of the announced changes to the senior members of our executive team, the Committee is not proposing a significant overhaul of our Remuneration Policy. The small number of changes proposed, details of which are provided on page 65 of the Directors' Remuneration Report, are largely in adherence to best practice and to reflect the terms agreed for the new Executive Directors.

A more fundamental review of the Remuneration Policy will then be carried out during 2017 to ensure that the forward looking Remuneration Policy of the business is aligned to the priorities and targets agreed with the new executive team. It is the current intention that shareholders will be asked to approve a further revised Remuneration Policy at the 2018 AGM.

The key challenges and issues that the Committee addressed during the year
- Exiting the existing Executive Directors with due consideration for 'pay for performance';
- Establishing appropriate packages within our current Remuneration Policy to recognise the experience and calibre of the two new Executive Directors, balanced with shareholder expectations;
- Review of the approach to the 2016 Annual Incentive Plan, recognising the current challenges facing the business;
- The introduction of a Medium Term Incentive Plan, MTIP, for individuals below the Board which was designed to address the challenges of setting long term financial performance targets at present and focus individuals on reducing the net debt to EBITDA ratio over the medium term; and
- As far as possible, ensuring remuneration arrangements remain simple and aligned with the interests of shareholders.

How company performance during the year is reflected in the remuneration outcome
Overall trading in the year has been challenging and significantly below management's and the Board's expectations. This has been impacted by significant management, operational, execution and market issues. The impact on earnings and cash flow generation for operations from this, together with the ongoing investment requirement in long term development programmes principally related to next generation aerial refuelling, led to the Group carrying out a rights issue, during 2016, to reduce its indebtedness. However, even with the proceeds of the rights issue being used to pay down some debt, the balance sheet is not strong enough to properly support the Group's operations.

As a result, the financial targets were not met in respect of the 2016 AIP and the out-going CEO and CFO received zero pay-out. In addition, performance conditions in respect of the PSP awards made in 2014 with a performance period ending on 31 December 2016 were not met and awards lapsed in full.

Leaving arrangements for the departing CEO and CFO
Bob Murphy stepped down as CEO and ceased to be an Executive Director with effect from 14 December 2016. He ceased employment with the Company on 31 January 2017.

Simon Nicholls stepped down as CFO and ceased to be an Executive Director on 31 December 2016 and remained in the Company's employment until the end of his notice period on 17 January 2017, in order to facilitate an orderly handover to his successor.

As outlined above, recognising that recent performance has been at unacceptable levels, the Remuneration Committee determined that no AIP payments would be made to the Executive Directors in respect of 2016. In addition, no discretion has been exercised under the terms of the long term incentive arrangements and all outstanding deferred shares from BCP and PSP awards lapsed upon cessation of employment. Furthermore, the departure terms were aligned with the minimum provided for under the CEO's contract. Full details of the departure terms are set out on page 76 of the Annual Report on Remuneration.

The intended remuneration arrangements for the current year
The remuneration packages for both the CEO and CFO are in accordance with the current Remuneration Policy. They consist of fixed pay (base salary, benefits and pension) an annual bonus of 150% at the same level of the previous Executive Directors and LTIP awards of 200% of salary for the CEO and 150% of salary for the CFO.

The remuneration packages for the incoming Executive Directors were subject to extensive discussion and review by the Remuneration Committee. Whilst cognisant of external benchmarks, the level of both packages was determined by the Board wishing to recruit the best people for the job given the operational challenges and restructuring required to restore the financial performance of the Group to acceptable levels for shareholders.

The LTIP award to the CEO is higher than the awards to the previous CEO (150% of salary) which takes into account the overall market competitiveness of the total package as well as the introduction of an additional two year holding period and is provided for upon recruitment under the current Remuneration Policy. Shareholders are being asked to approve an increase to the normal maximum PSP award as part of the revised Remuneration Policy at the 2017 AGM.

Further details of the on-going remuneration packages for the two Executive Directors are provided on pages 76 and 77 of the Annual Report on Remuneration. We have also agreed to a relocation payment to allow David Lockwood to relocate to Wimborne which the Board felt was an important change to have the CEO located at the heart of the business operations. We will be providing further disclosure when costs of the relocation are known.

Both Executive Directors forfeited awards at their previous employer as a result of joining Cobham. The Remuneration Committee's approach to assessing the value of any awards forfeited by them was to make sure that these are replaced with awards on a comparable basis to those of the forfeit arrangements and that the value awarded by Cobham does not exceed those of the forfeit arrangements, taking into account any performance conditions. The Company's standard malus and clawback provisions will apply to all buy-out awards. In addition, the Committee may recover up to 100% of the buyout awards in the event the candidate gives notice within 24 months of joining.

It should be noted that David Lockwood, in light of recent developments at Laird plc, and in demonstration of his commitment to his new role as CEO of Cobham, has agreed that there will be no compensation for the buyout of his Laird 2014/15 long term incentive awards that he will forfeit as a consequence of joining Cobham. In addition, he will also receive no payment for his forfeited Laird 2016 annual bonus. The Remuneration Committee believes that this is fair and appropriate in line with pay for performance guidelines.

Further detail on the buy-out of forfeited awards for the incoming CEO & CFO are on page 77.

Fee levels for the new Chairman
As previously announced, John Devaney stepped down as the Company's Chairman on 31 December 2016 and Michael Wareing the Company's Senior Independent Director at that point became Chairman. Michael will receive a fee of £270,000 per annum, which is slightly below the fee level of £280,000 paid to the outgoing Chairman.

Key future issues to be addressed by the Committee
Further review of the Remuneration Policy to ensure it provides a remuneration framework that supports the business going forwards as performance starts to turn around and is aligned to the medium to long term strategy of the Company.

With his appointment as Chairman, Michael Wareing has ceased to be a member of the Remuneration Committee and the composition of the Committee going forward will be addressed as part of the Board refresh.

Comment on stakeholder engagement conducted
We have taken into account feedback from shareholders received in recent consultation and as a result have increased the disclosure and explanation of remuneration decisions taken in 2016. The Remuneration Committee will continue to seek feedback from shareholders, during the course of 2017, particularly as we continue to review the Remuneration Policy.

Conclusion
Throughout 2016, as Chair of the Remuneration Committee, I have endeavoured to ensure that we exercise rigour and discipline in all remuneration decisions, recognising that the established incentive schemes have clearly failed to provide a framework for delivering a satisfactory outcome for both shareholders and the business. The priority for 2017 will be to establish a revised Remuneration Policy for the Executive Directors that supports the restructuring required and aligns with shareholder expectations.



Alison Wood
Remuneration Committee Chair
2 March 2017

Role and focus

The Remuneration Committee's main duties are to:

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

Membership and attendance

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

Alison Wood (Chair)	7
Birgit Nørgaard	7
Mark Ronald[1]	3
Michael Wareing[2]	4

Unable to attend / Attended

[1] Mark Ronald left the Committee on 28 April 2016.
[2] Michael Wareing joined the Committee on 28 April 2016, having attended the three previous meetings as an observer.

With the appointment of Michael Wareing as Chairman he ceased to be a member of the Remuneration Committee, which remains quorate with two members and, in the interim until new NEDs are recruited, I will also consult with the SID and other Board members on key remuneration decisions.

Other attendees

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

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

Key issues and activities

Matters considered by the Committee during 2016 were:

	Feb	Apr 14	Apr 28	Jun	Jul	Sep	Dec
Compensation awards – previous year	•						
Outgoing CFO remuneration	•				•		
Incoming CFO remuneration		•			•	•	
Outgoing CEO remuneration							•
Incoming CEO remuneration				•		•	
Chairman remuneration review	•						
Compensation awards – current year	•						
LTI performance dashboards	•						
AIP results	•				•		
Chairman remuneration	•						
Group Executive objectives	•						
Remuneration strategy							
AIP review/targets	•	•	•				
LTI/Medium Term Incentive review	•		•		•		
Remuneration Policy					•	•	
Other							
Updates on corporate governance developments							•
Terms of reference							•
Adviser Tender	•	•	•		•		
Remuneration Report review	•						•
Approval of US Sharesave – new rules	•				•		
Committee work planning/evaluation	•						•

During the year, the Committee undertook a comprehensive tender process for the provision of advice and support to them. For full details, please refer to page 76.

Directors' Remuneration Policy

The Remuneration Policy for Executive Directors and Non-executive Directors, which Shareholders will be asked to approve at the AGM on 27 April 2017 and which will apply to payments made from this date is set out below. Until this time the Policy approved by Shareholders on 24 April 2014 will continue to apply.

As set out in the Remuneration Committee Chairman's letter starting on page 62, we are not proposing a radical overhaul of the current Remuneration Policy which was approved by 98% of our shareholders in April 2014.

The changes proposed are largely in adherence to best practice and to reflect the terms agreed for the new Executive Directors.

The table below provides a summary of the main changes that have been made to the Remuneration Policy:

Proposed change	Rationale
– Removal of Bonus Co-Investment Plan (BCP).	– Awards under the BCP have not been made since 2014. – It is recognised that matching plans are no longer considered best practice and its removal from the Remuneration Policy will simplify the overall remuneration framework.
– Introduction of a two year holding period post the end of the three year performance period for LTI awards.	– To further align the long term interests of executives with shareholders.
– Formal inclusion of the shareholding guidelines in the Remuneration Policy.	– No change to the actual guidelines which will remain at 200% of salary for the CEO and 100% of salary for the CFO. However, will now be included in the Remuneration Policy as opposed to the Annual Remuneration Report to be aligned with best practice.
– Increase in normal maximum award under the LTIP from 150% of salary to 200% of salary.	– The normal maximum LTIP opportunity has been increased as part of providing an overall market competitive remuneration package for the new CEO. It is proposed the CEO will receive an annual LTIP award of 200% of salary and awards to the CFO will remain at 150% of salary.
– Remove flexibility to offer a notice period in excess of 12 months (which would subsequently reduce to one year) in the case of new appointments.	– In line with market practice, Executive Directors' service contracts are terminable on 12 months' notice by either party.
– Reflection of the new LTIP and other minor amendments.	– The policy has been amended to reflect the new LTIP for which shareholder approval will be sought at the 2017 AGM. Other minor amendments have been made to aid administration of the policy.

Remuneration and policy (the policy table)

Element	Purpose and link to strategy	Operation	Maximum potential value	Current performance measures
Base pay	To provide fixed remuneration which is market competitive to attract and retain executives of the quality required to deliver the Group's strategy, whilst taking into account an individual's experience and personal contribution to the Group's strategic plan.	Typically reviewed annually with changes effective from 1 March and paid monthly. Consideration is given to a wide range of factors, including: – Individual and company performance; – General pay increases across the wider workforce; – The size and scope of the role; and – Pay levels of comparable roles in companies of a similar size and complexity to the Company.	To avoid setting the expectations of Executive Directors and other employees, no maximum salary is set under the Remuneration Policy. However, base salary increases for the Executive Directors are applied in line with the outcome of the annual review and will typically be in line with the average increase (in percentage terms) for the wider workforce. Increases may be made either above or below that received by the wider workforce to take account of individual circumstances, which may include but are not limited to: – A change in the scope of the role or increase in responsibility; – A significant change in the size and complexity of the Group; and – An individual's development or performance in role (e.g. a newly appointed Executive Director being moved to be aligned with the market over time).	Not applicable

Element	Purpose and link to strategy	Operation	Maximum potential value	Current performance measures
Other benefits	To provide fixed remuneration which is market competitive to attract and retain executives of the quality required to deliver the Group's strategy, whilst taking into account an individual's experience and personal contribution to the Group's strategic plan.	The Company provides various market competitive benefits to Executive Directors, which may include: a company car (or cash equivalent), travel allowance, private medical and dental insurance, travel accident policy, life assurance and long term disability benefit. Where appropriate, other benefits may be provided to take account of individual circumstances, such as but not limited to: expatriate allowances, relocation housing allowance and education support.	No maximum level of benefit is set under the Remuneration Policy and the Remuneration Committee sets the level it considers appropriate taking into account relevant market levels based on the nature and location of the role. Level of benefits set are in line with those paid to other senior executives and with regard to the market and individual circumstances.	None
Retirement benefits	To provide fixed remuneration which is market competitive to attract and retain executives of the quality required to deliver the Group's strategy, whilst taking into account an individual's experience and personal contribution to the Group's strategic plan.	The Company may make a payment into a pension scheme (e.g. a defined contribution plan) and/or make a cash allowance payment set as a percentage of salary.	Set at a level which the Remuneration Committee considers appropriate taking into account relevant market levels based on the nature and location of the role. Contributions of up to 30% of base salary may be made.	
Annual Incentive Plan (AIP)	Drives and rewards annual performance against selected, financial and operational KPIs and individual objectives which are directly linked to the Group's strategic plan.	Measured over a one year performance period with pay out levels determined by the Committee following the year end. The Committee may adjust the bonus pay out, either up or down, should the formulaic outcome be considered not to reflect underlying business performance. Up to 75% of any bonus is paid in cash and the balance is mandatorily deferred into Company shares for a period of three years. The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred is less than £10,000. Malus and Clawback provisions are in place which give the Committee discretion to reduce awards or require repayment of cash paid to a participant in relation to annual incentives within the preceding 12 months for material misstatement of financial results, reputational damage to the Group, contravention of internal ethics standards or gross misconduct of the individual. Deferred share awards may be released early on a change of control in line with the plan rules. The Committee may make a dividend equivalent payment to reflect dividends that would have been paid over the deferral period on shares that vest. This payment may be in the form of additional shares or a cash payment equal to the value of those additional shares and may assume the reinvestment of dividends into shares on such basis as the Committee determines.	The maximum bonus opportunity for any Executive Director will not exceed 150% of salary.	Performance is assessed over a financial year based on a combination of financial and individual metrics which are aligned to the strategic objectives of the Company. The majority of the bonus is assessed against key financial performance metrics of the business and the balance based on individual performance. For target performance, up to 50% of the maximum bonus opportunity will be received.

Element	Purpose and link to strategy	Operation	Maximum potential value	Current performance measures
Long Term Incentive Plan (LTIP)	Incentivise sustainable profitable growth and sector out performance aligned with the Group's strategic plan. Reward share price and dividend growth, providing alignment with shareholders' interests over the longer term. Supports retention and promotes share ownership.	Awards are to be made under the rules of the LTIP which shareholders will be asked to approve at the 2017 AGM. Awards will be made on an annual basis and will vest, subject to performance, after a period of at least three years. Following vesting, shares will be subject to a holding period of up to two years (although the Committee may permit the sale of shares to fund the payment of tax liabilities due on the vesting or exercise of the award). The Committee may adjust the level of vesting, either up or down, should the formulaic outcome be considered not to reflect underlying business performance. The Committee may make a dividend equivalent payment to reflect dividends that would have been paid over the vesting period and holding period on shares that vest. This payment may be in the form of additional shares or a cash payment equal to the value of those additional shares and may assume the reinvestment of dividends into shares on such basis as the Committee determines. The Committee has the discretion to structure awards as "Qualifying LTIP Awards" comprising both an HMRC tax qualifying option and an ordinary LTIP award, with the vesting of the ordinary LTIP award scaled back to take account of any gain made on the exercise of the tax qualifying option. Upon a change of control or other relevant event awards will vest to the extent determined in accordance with the rules of the LTIP, which take into account performance over the period to early vesting and other factors which the Committee, acting fairly and reasonably, considers relevant and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed at the date of the relevant event. Malus and Clawback provisions are in place which enable the Committee to reduce awards or require repayment of them for up to two years after vesting in appropriate circumstances which include (but are not limited to): – a material misstatement of the Company's financial results which results in the award being granted or vesting to a greater extent than would otherwise have been the case; – the assessment of the performance condition being based on an error or on inaccurate or misleading information or assumptions which result in the award being granted or vesting to a greater extent than would otherwise have been the case; and – gross misconduct on the part of the Executive Director.	Conditional share awards or nil-cost options over shares with a value of up to 200% of base salary may be granted in respect of any financial year. Where an award is structured as a Qualifying LTIP award, the shares subject to the HMRC tax qualifying option are not taken into account for the purposes of these limits, reflecting the "scale back" referred to in the "Operation" column.	Performance is assessed over more than one financial year, usually at least three years against key financial and/or strategic metrics aligned to the Group's strategic plan. The threshold level of vesting may be up to 16.7% of the maximum award.
Executive Share Option Scheme (ESOS)	Incentivise sustainable profitable growth and sector out-performance aligned with the Group's strategic plan. Reward share price and dividend growth, providing alignment with shareholders' interests. Supports retention and promotes share ownership.	Awards are made under the rules of the ESOS, which were approved by shareholders at the 2014 AGM. Awards under the ESOS are not currently made to Executive Directors. No awards will be made in any year in which an Executive Director receives an award under the LTIP. The Committee may adjust the level of vesting, either up or down, should the formulaic outcome be considered not to reflect underlying business performance. Options can become exercisable on a change of control of the Company, or with the consent of the acquiring company, a grant of equivalent rights may be made.	Annual awards may be made with an aggregate market value of 200% of salary.	Performance would be assessed over more than one financial year, usually at least three years against key financial metrics aligned to the Group's strategic plan.
All employee share schemes	Provides all employees, including Executive Directors, the opportunity to voluntarily invest in Company shares.	The Company operates a SAYE scheme and a SIP scheme which are both HMRC qualifying arrangements.	Maximum limits are set in line with the limits in the applicable tax legislation.	None

Notes to the Policy Table

Policy for the remuneration of employees generally

The Company values its wider workforce and aims to provide a remuneration package that is based on a mixture of Group and personal performance. As the Group is worldwide and operates in different countries, employees are appropriately remunerated taking account of the market in the employees' jurisdiction of employment. The following key principles of the Remuneration Policy outlined above are applied consistently across the employee population:

- To offer a level of remuneration that is appropriate to attract, retain, motivate and reward employees to deliver the Group's strategic plan without paying more than is necessary; and
- To seek to remunerate fairly, competitively and consistently for each role with due regards to the market place, internal consistency and the Group's ability to pay.

When determining remuneration arrangements for Executive Directors, the Committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group. In particular, the Committee paid specific attention to the level of salary increases and the size of the annual bonus pool in the wider population, with particular reference to the year on year change to these figures. No consultation with employees takes place in relation to determining the Directors' Remuneration Policy but employees' views are fed back through the Executive Vice President HR who attends the Remuneration Committee meetings.

Performance measures and targets setting

The annual bonus is assessed against both financial and individual targets determined by the Committee. This incentivises executives to focus on delivering the key financial goals of the Company as well as specific strategic objectives for each Director which are aligned to delivering the Group's strategic plan and ensuring executives exhibit the right behaviours. Targets are set on an annual basis taking into account the budget forecast, external consensus and at a level which the Committee considers to be stretching.

Long term performance measures under the LTIP are chosen by the Committee to be aligned with the long term strategy of the business. They are selected to be aligned with the interests of shareholders and incentivise the delivery of strong, sustainable, financial performance. Targets are set at the time of grant taking into account internal and external forecasts and the market environment. Where TSR is selected as a performance measure, no awards will vest for below median performance.

Performance conditions may be amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy.

Shareholding guidelines

Ownership guidelines require the CEO to acquire and retain ordinary shares with a value of two times salary and the CFO to acquire and retain ordinary shares with a value of one times salary. Shares subject to vested LTIP awards which have satisfied the performance condition and are subject to a holding period count towards this limit (on a net of assumed tax basis).

Operation of share plans

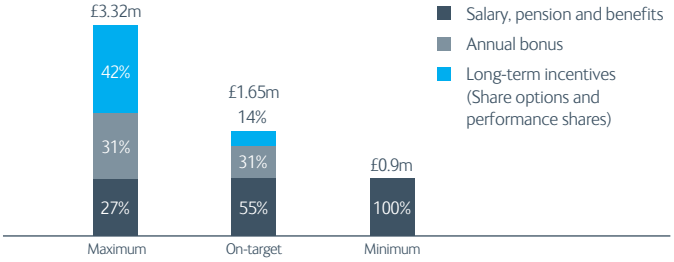
The Committee retains discretion to operate the Company's share plans in accordance with their rules, including the ability to adjust awards in the event of variations of capital (or other relevant event), to settle share awards in cash and to vest awards under the LTIP early in the event of an overseas transfer of the Executive Director as a result of which the Director will either become subject to tax in the country to which he or she is transferred and suffer a tax disadvantage on vesting or exercise following transfer, or will become subject to restrictions on acquiring shares on vesting or exercise or dealing with any such shares as a result of local laws.

Application of remuneration policy

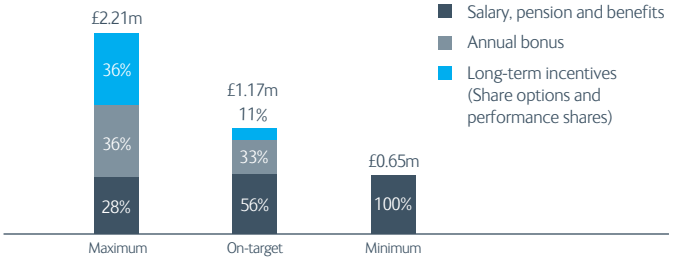
The best way to demonstrate how our policy works is to provide examples of pay-outs under different scenarios.

The charts below illustrate the application of the remuneration policy set out in the policy table for each Executive Director for 2017 under different scenarios:

CEO – David Lockwood



CFO – David Mellors



Assumptions

Maximum performance (Maximum)	Total fixed pay as minimum below, plus: Assumes 100% pay out under the AIP (150% of base salary Assumes 100% pay out under the LTIP (200% of salary for David Lockwood and 150% of base salary for David Mellors).
On-target performance (Target)	Total fixed pay as minimum below, plus: Assumes 50% of maximum pay out under the AIP Assumes 16.7% pay out under the LTIP (aligned with threshold performance).
Below threshold performance (Minimum)	Fixed elements of remuneration only – base salary, benefits and pension only (base salaries for the Executive Directors are salaries upon appointment. Pension allowances are 25% of salary for the David Lockwood and 20% of salary for David Mellors. Benefits have been based on assumed expenses of £40k for the CEO and £25k for the CFO.

Note:
As required by the regulations, the scenarios do not include any share price growth assumptions or take into account any dividends that may be paid.

Policy table for the Chairman and Non-executive Directors

Component	Approach of the Company
Chairman fees	The Remuneration Committee and the Senior Independent Director determine the fee of the Chairman and set the fee at a level which reflect the skills, knowledge and experience of the individual, whilst taking into account appropriate market data. The fee is set as a fixed annual fee and may be paid wholly or partly in cash or Company shares.
Non-executive Director fees	The Executive Directors Committee determines the fees of the Non-executives. Fees are set taking into account the size and complexity of the business and the expected time commitment and contribution for the role. Fees are structured as a basic fee with additional fees payable for membership and/or chairmanship of a committee or other additional responsibilities. The fees are set as a fixed annual fee and may be paid wholly or partly in cash or Company shares.
Benefits	An additional allowance may be provided in respect of additional travelling time required to attend Board meetings for those Directors who are based outside of the UK. In appropriate circumstances, the Chairman and Non-executive Directors may also be eligible to receive further benefits such as travel costs which may include any tax liability associated with any such benefit.

Approach to remuneration on recruitment

When determining the remuneration package for a new Executive Director, the Committee will apply the following principles:

- The package will be market competitive to attract and retain individuals of the calibre required to lead the business and deliver strategic goals.
- Typically, the remuneration package will be aligned with the Company's Remuneration Policy set out above. The Remuneration Committee has the discretion to include other elements which are not included in the Remuneration Policy should business needs require. However, this discretion is subject to the following principles and limitations:
  - Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market competitive rate, in line with increased responsibilities and experience and subject to good performance, where it is considered appropriate;
  - Retirement benefits will be provided in line with the policy set out above.
  - The variable remuneration that may be awarded will be subject to the limit set out below;
  - The discretion will not be used to make non-performance related incentive payments (for example, a golden hello); and
  - Any movement from the policy outlined in the table above would only be considered where there is a commercial rationale for doing so, which will be disclosed in the following annual remuneration report.
  - To secure an appointment the Remuneration Committee may need to make awards to buy out an external candidate's remuneration arrangements which are forfeited as a result of leaving their previous employer. In doing so, the Committee will take into account all relevant factors which may include the form and time horizon of awards, any performance conditions attaching to the awards and the likelihood of awards vesting. The Committee will typically seek to buy-out awards on a comparable basis to those which have been forfeited with the intention that the value awarded would be no higher than the expected value of the forfeited arrangements;
  - The maximum level of variable remuneration which may be granted to a new Executive Director on appointment (excluding any buy out of forfeited awards discussed above) will be 350% of salary; and
  - For any internal candidates, remuneration commitments made prior to the appointment as Director may continue to be honoured, notwithstanding compliance with the Remuneration Policy set out above.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans, if necessary, and subject to the limits referred to above, recruitment awards may be granted outside these plans as currently permitted under the Listing Rules which allow for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a Director.

The remuneration package for a newly appointed Non-executive Director would be in line with the structure set out in the policy table for Non-executive Directors.

Service contracts and payment for loss of office

The Board's policy for current and new Executive Directors is that service contracts have a notice period that should not exceed one year.

Non-executive Directors have letters of appointment for the Company whereby their appointment may be terminated by a maximum of one month's written notice.

The current Executive Directors' service contracts are terminable on 12 months' notice by either party and can be terminated for cause which is defined in the contract. The Company may elect to terminate Executive Directors' service contracts by making payments in lieu of notice which will not exceed 12 months' salary and benefits which can also include, but not limited to pension, outplacement and legal fees. The Company recognises and endorses the obligation of departing Directors to mitigate their own losses.

Any payment in respect of the AIP for the year of termination will be at the discretion of the Committee, taking into account the circumstances of the termination. Any payment will be pro-rated to reflect the proportion of the financial year worked and subject to performance achieved. Payments will ordinarily be made at the usual time (although the Committee retains discretion to make payments early in appropriate circumstances). The Committee retains discretion to pay the whole of any AIP award for the year of departure and/or the previous year in cash.

The treatment of unvested shares under the PSP and ESOS and of AIP awards deferred into shares will be as set out in the relevant plan rules. The table below provides details of the treatment that would apply under the plan rules depending on the reason for cessation of employment. To the extent that an award does not vest in accordance with these terms the award will lapse.

Plan	Reasons for leaving	Treatment
LTIP	Good Leaver provisions – death, ill health, injury or disability or redundancy.	Awards will usually vest at the ordinary time, although the Committee retains discretion to vest awards at the date of cessation in appropriate circumstances. In any case, the extent to which the award is vested will be determined by reference to the extent to which the performance conditions have been satisfied (as assessed by the Committee in the case of vesting before the end of the performance period) and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed at the date of cessation of employment.
	Voluntary resignation/ any other reason.	Award will lapse unless the Committee determines to treat the participant as a good leaver as referred to above.
ESOS	Good Leaver provisions – death, ill health, injury or disability, redundancy or retirement.	Award will become exercisable at the time and to the extent determined by the Committee after taking into account the extent to which the performance target to which it is subject has been met and the extent that the relevant period has elapsed at the date of cessation of employment. Awards are exercisable within six months of date of cessation of employment, with the exception of death where this period is 12 months.
	Voluntary resignation/ any other reason.	Award will lapse unless the Committee determines to preserve and vest all or part of the award on any terms it thinks fit.
AIP deferred share awards	Good Leaver provisions – death, ill health, injury or disability, redundancy or retirement.	Awards will usually vest at the ordinary time, although the Committee retains discretion to vest awards at the date of cessation in appropriate circumstances. Unless the Committee determines otherwise, the extent to which the award vests will be determined taking into account proportion of the deferral period that has elapsed at the date of cessation of employment.
	Voluntary resignation/ any other reason.	Award will lapse unless the Committee determines to treat the participant as a good leaver as referred to above.

On cessation of employment for any reason during the holding period applying to shares acquired under the LTIP, the originally stipulated holding period will apply unless the Committee decides to end the holding period early.

Where a buy out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

In doing so, the Committee will recognise and balance the interests of shareholders and the departing Executive Director, as well as the interests of the remaining Directors. Where awards which are permitted to vest are subject to performance conditions, these would only be assessed at the end of the relevant period(s).

For Non-executive Directors, discretion is retained to terminate with, or without, due notice or paying any payment in lieu of notice dependent on what is considered to be in the best interests of the Company in the particular circumstances.

Statement of consideration of shareholder views

The Committee is committed to regular and transparent communication with shareholders. We believe this ensures we understand shareholders views on our arrangements and are able to take their comments into consideration when reviewing our Remuneration Policy.

Major shareholders and representative bodies were consulted in respect of our proposed changes to the Remuneration Policy that shareholders are being asked to approve at the AGM in April 2017 and provided positive feedback on the proposed changes, we have added to our intended disclosures to take account of this feedback.

Payments in relation to existing remuneration arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed:

- before the AGM held on 24th April 2014 (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect);
- after the AGM held on 24th April 2014 and before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" no later than at the time the award is granted.

The annual report on remuneration

Bob Murphy stepped down as CEO and ceased to be an Executive Director with effect from 14 December 2016. He ceased employment with the Company on 31 January 2017. His successor, David Lockwood, joined on 12 December 2016, taking up the role of CEO as Bob stepped down.

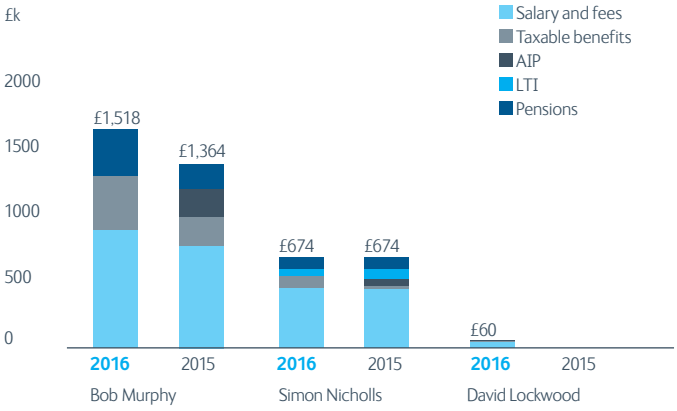
Simon Nicholls stepped down as CFO and ceased to be an Executive Director on 31 December 2016 and remained in the Company's employment until the end of his notice period on 17 January 2017, in order to facilitate an orderly handover to his successor, David Mellors, who joined on 1 January 2017.

Single total figure table

£k	Salary and fees	Taxable benefits	AIP	LTI	Pensions	Total
Bob Murphy						
2016	**871**	**404**	**–**	**–**	**243**	1,518
2015	756	210	209	–	189	1,364
Simon Nicholls						
2016	**440**	**89**	**–**	**57**	**88**	**674**
2015	435	21	58[1]	73	87	674
David Lockwood						
2016	**40**	**10**	**–**	**–**	**10**	60

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

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



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

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

Salary and fees

2014 Approved Policy: Reviewed annually with changes typically effective from 1 March. Maximum salary increases typically in line with the outcomes of the annual review and typically in line with the average increase for the wider workforce.

Bob Murphy's employment terms and conditions were based on US law and his salary payments were made in US dollars and have been converted to sterling for tax purposes. These are the figures used in the above table. Bob's 2016 salary, effective from 1 March 2016, was increased by 2.5% to US$1,187,534. The salary increase awarded in 2016 was in line with the average increase provided to the wider workforce.

Simon Nicholls' 2016 salary was £440,000 per annum. No increase to Simon's salary was awarded during the year as he was under notice on the review date of 1 March 2016.

David Lockwood joined the Company on 12 December 2016 and joined the Board and took up the role of CEO on 14 December 2016. His base salary was set at £690,000 and this will not be increased at the 1 March 2017 pay review.

Taxable benefits

The taxable benefit figures are as follows:

Benefit	Bob Murphy £k	Simon Nicholls £k	David Lockwood £k
Car and private petrol allowance	19	17	1
Private medical insurance, disability cover and life insurance	16	2	–
Expatriation allowance	147[1]	–	–
Allowance to cover financial/tax advice	–	1	–
Outplacement and legal fees	–	69[2]	–
Travel expenses	22	–	9[3]
Relocation	200[1]	–	–
Total	**404**	**20**	**10**

Notes:

[1] Bob Murphy's employment terms and conditions allow for annual expatriation allowance and for the reasonable costs of repatriation of him and his family back to the US at the end of his employment with the Company.

[2] Outplacement services and legal support in line with the terms of the Remuneration Policy.

[3] Travel expenses paid for Mr Lockwood's spouse accompanying him on a business trip as part of his induction prior to joining the Company.

Annual Incentive Plan

2014 Approved Policy:	
Cash bonus	Maximum opportunity under the Policy is 150% of salary. For target performance, 50% of maximum bonus opportunity will be received. Measured over a one year performance period based on a combination of financial and individual metrics. Malus and clawback provisions are in place.
Deferred bonus	75% paid in cash and up to 25% mandatorily deferred into company shares for a period of three years. Malus and clawback provisions are in place.

As profit and cash were considered to be the key financial metrics of the business for 2016, the AIP measures were based on Operating Profit and Operating Cash Flow (adjusted for business restructuring costs) with each measure equally weighted and representing 80% of the value that could be earned by participants in the Plan. The remaining 20% were tied to achieving personal strategic objectives aligned with relevant business imperatives.

Measure	Definition
Group Underlying Operating Profit as adjusted for business restructuring costs	Underlying Operating Profit before interest & tax at the Group level, as adjusted by costs incurred in respect of business restructuring projects that are typically declared after operating profit for internal reporting purposes. Limits will be set in absolute terms.
Group Underlying Operating Cash Flow as adjusted for cash flows related to business restructuring projects	Cash generation from operations after operating cash movements in working capital and cash flows from the purchase/disposal of property, plant & equipment and intangible assets at the Group level as adjusted by cash flows related to business restructuring projects and IT security remediation that are typically declared after operating cash flow for internal reporting purposes. Limits will be set in absolute terms.

As outlined in the table below, the threshold financial targets were not met. The Committee also considered that it was not appropriate for any bonus to be paid in respect of the personal strategic objectives for the two out-going Executive Directors. As such, no bonus payments were made to the Executive Directors in respect of 2016.

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

	Full Year Targets			Actual Performance
Measure	Threshold	Target	Maximum	
Pay-out *(% Maximum)*	25%	50%	100%	Nil
Operating Profit (£m)	264.69	296.14	319.73	186.50
Operating Cash Flow (£m)	231.68	246.20	275.25	126.70

* In order to further incentivise focus on performance during the first half of the year half-year targets were also set for which a proportion of the bonus could be earned subject to threshold performance being achieved at the full-year. However, these targets were also not met.

Long term incentives

2014 Approved Policy: PSP allows for conditional share awards or nil-cost options up to 150% of base salary may be granted annually.

Threshold level of vesting is 16.7% of maximum award.

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

Malus and clawback provisions are in place.

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

PSP awards vesting in 2016

The performance targets for the PSP awarded in 2014 are set out below:

Metric	Weighting %	Performance	Award vesting at that level %	Result
TSR	33.3	Threshold (Index)	16.7	Performance targets for the TSR have not been met
		Maximum (Index +10%)	100	
EPS	33.3	Threshold (3% per annum)	16.7	Performance targets for the EPS have not been met
		Maximum (10% per annum)	100	
Cash Conversion	33.3	Threshold (90% per annum)	16.7	Performance targets for cash conversion have not been met
		Maximum (Over or above 100% per annum)	100	

EPS and cash conversion are defined in the definitions on page 144.

The performance targets for the PSP were not met for the three performance years ended on 31 December 2016 therefore none of the awards made in 2014 will result in any payout and will lapse.

TSR Peer Group

The companies in the TSR comparator group for awards granted in 2014 were:

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

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

Buy-out awards vesting in 2016

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

Awards vesting	Date of vest	Valuation (pence per share)	Amount vested (£k)
34,755	8 August 2016	163.0	57

The buy-out shares above have been valued at market price achieved on the date of vesting. Vesting was based on time only, there were no performance conditions attaching to this award.

After settlement of statutory deductions, the resulting shares of 18,198 shares were retained against Mr Nicholls' share ownership guidelines.

The original buy-out award of 29,535, which was due to vest on 1 May 2016, was increased to 34,755 by virtue of the terms of the 2016 rights issue and vested on 8 August 2016, when the Company came out of the closed period related to the rights issue and announcement of the interim results.

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

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

	Type of award	Basis of which award is made	Date of award	Face value of award (No. of shares awarded)	Performance period
Bob Murphy	PSP	150% of base salary	10 March 2016	£1,254,435 (658,032)	1 January 2016 to 31 December 2018

Notes:
[1] The award has been made in accordance with the relevant plan rules.
[2] The face value has been calculated by multiplying the number of shares awarded by the mid-market price of those shares for the three trading days immediately preceding the date of the award.
[3] The original PSP award of 559,192 was increased to 658,032 by virtue of the terms of the 2016 rights issue.

Performance conditions for the PSP awarded in 2016 are set out in the table below:

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

Notes:
[1] EPS and Cash Conversion are defined in the definitions on page 144.
[2] The TSR Peer Group remains unchanged for the 2014 awards, see page 72.

Pensions

2014 Approved Policy: The Company may make a payment into a pension scheme (e.g. a defined contribution plan) and/or make a cash allowance payment set as a percentage of salary.

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

£k	2016	2015
Contributions to 401k plan	**11**	7[1]
Contributions to executive retirement plan	**232**	182
Total	**243**	189

Note:
[1] Due to a spreadsheet error, last year's contributions were reported at £16,000 for Mr Murphy's contribution to the executive retirement plan when it should have been £7,000, the figure reported in the table above is correct.

Simon Nicholls' pension figure is a combined amount of £10,000 to an executive defined contribution plan (capped due to the annual allowance) and £78,000 paid as a cash allowance in lieu of additional defined contribution arrangements. Together these payments represent a rate of 20% of his base salary.

David Lockwood's pension contributions are paid as a cash in lieu amount, which equates to 25% of his base salary. The amount paid in December 2016, pro rated due to his joining on 12 December 2016, was £9,914.

Non-executive Directors (audited information)

The 2016 remuneration and current fees of the Non-executive Directors, including the Chairman, are stated below:

	Total payable	
£k	**2016**	2015
John Devaney (Chairman)	**278**	270
Michael Wareing	**68**	69
Jonathan Flint	**58**	58
Michael Hagee	**66**	65
Birgit Nørgaard	**58**	58
Mark Ronald[1]	**22**	62
Alison Wood	**65**	65
Alan Semple[2]	**70**	58
Total	**685**	705

Notes:
[1] Mark Ronald stood down from the Board following the 2016 AGM.
[2] Alan Semple joined the Board in February 2015.
[3] Non-executive Directors only receive fees under their service agreement and do not have any other taxable benefits, annual or long term incentives or pension arrangements provided by the Company. Messrs Hagee, Ronald and Semple received a taxable benefit in kind for financial services (tax) advice for the amounts of £650, £1,100 and £850 respectively.
[4] Non-executive Directors do not have a permanent place of work specified in their service contract, all reasonable and properly incurred expenses incurred in performance of duties as Board members are reimbursed by the Company.
[5] All of the above Directors are members of the Nomination Committee but do not receive any additional fees for this role.

The out-going Chairman's fee was increased to £280,000 with effect from 1 April 2016, this represented a £10,000 per annum, or 3.7%, increase in recognition of this being his first increase since appointment in 2010, and recognising the performance of the Group over the last six years.

Non-executive Directors are paid a fee of £2,500 per annum for each Committee they sit on, £5,000 fee for Directors travelling from overseas locations, A £10,000 per annum fee is paid to the Chair of the Audit and Remuneration Committees and the Senior Independent Director.

Total aggregate Directors' fees for the year, including the Executive Director fees as per the single figure table on page 71, amount to £2,659,000 (2015: £2,752,000).

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

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

	31.12.16	1.1.16
John Devaney	**45,000**	30,000
Michael Wareing	**30,000**	20,000
Jonathan Flint	**7,500**	5,000
Michael Hagee	**7,500**	5,000
Birgit Nørgaard	**7,500**	5,000
Mark Ronald	**N/A**	5,000
Alison Wood	**7,500**	5,000
Alan Semple	**7,500**	5,000

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

All Non-executive Directors took up their rights under the Company's rights issue on 16 June 2016.

Executive Directors' share interests

The interests of the Executive Directors in share awards or share options at 31 December 2016 are shown below, since that date all of these outstanding unvested share awards have lapsed due to the Directors' departure from the Group, except for Bob Murphy's BCP 2014, which was released on his departure, however, no match was granted:

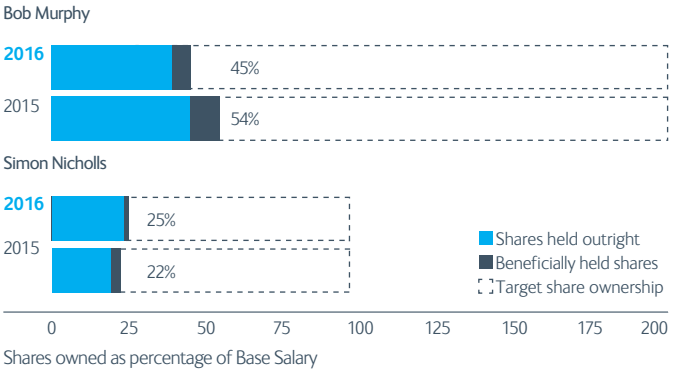
	Award	Share awards subject to performance conditions	Share awards subject to continued employment	Unvested options subject to performance awards
Bob Murphy	PSP 2014	376,458	–	–
	BCP 2014	14,546	–	–
	PSP 2015	430,427	–	–
	PSP 2016	**658,032**		
	Deferred AIP		**18,483**	–
	Total	**1,479,463**	**18,483**	–
Simon Nicholls	PSP 2014	–	–	237,557
	Deferred AIP 2014	–	4,497	–
	PSP 2015	–	–	245,180
	Total	–	**4,497**	**482,737**

Share ownership requirements

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

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

Shares held by Executive Directors as at 31 December 2016 against share ownership



Shares owned as percentage of Base Salary

Holding for 2016 reduced as a percentage of salary due to salary and share price movement, the rights issue adjustment and no awards vesting during the year.

Interests at 2 March 2017 are no longer relevant as both Directors have left the Group's employment and all outstanding LTI awards lapsed.

The market price of the ordinary shares as at 31 December 2016 was 163.7 pence per share and the closing price range during the year was 239.7 pence to 127.5 pence, all prices adjusted to account for the rights issue adjustment.

Dilution

The Company's share schemes are currently funded through shares purchased in the market and have been since November 2010, prior to which they were funded through new issue shares. Funding of awards through new issue shares is subject to an overall dilution limit of 10% of issued share capital in any ten-year period. Of this, 5% may be used in connection with the Company's discretionary share schemes. As of 31 December 2016, 5.1m (0.30%) and 4.2m (0.25%) shares have been issued pursuant to awards made in the previous ten years in connection with all share schemes and discretionary schemes respectively. Awards that are made, but then lapse or are forfeit, are excluded from the calculations.

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

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

Historic CEO total remuneration

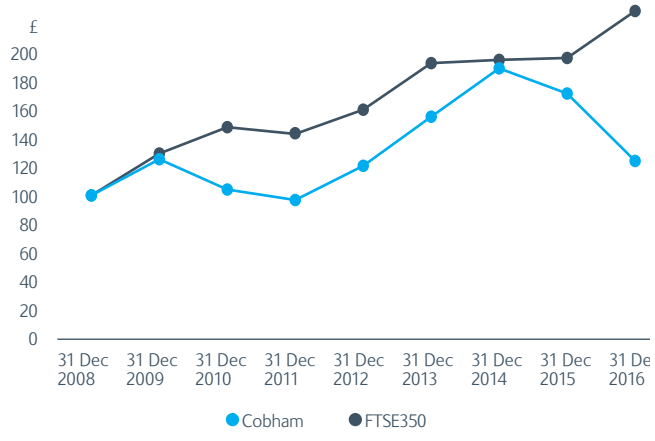
The table below shows historic CEO total remuneration, calculated on the same basis as that used in the single figure table on page 71.

Year	CEO	CEO Single figure of total remuneration (£k)	Annual bonus payout against maximum opportunity % (£k)	Long term incentive vesting rates against maximum opportunity % (£k)
2016	**CEO4 David Lockwood**	**60**	**0 (Nil)**	**N/A**
2016	**CEO3 Bob Murphy**	**1,518**	**0 (Nil)**	**N/A**
2015	CEO3 Bob Murphy	1,364	18.4 (209)	N/A
2014	CEO3 Bob Murphy	1,196	0.0 (Nil)	N/A
2013	CEO3 Bob Murphy	2,058	34.3 (280)	N/A
2012	CEO3 Bob Murphy	753	48.5 (182)	N/A
	CEO2 Andy Stevens	1,283	45.0 (267)	58.0 (202)
2011	CEO2 Andy Stevens	1,916	92.5 (555)	85.0 (546)
2010	CEO2 Andy Stevens	1,478	33.5 (201)	87.0 (471)
2009	CEO1 Allan Cook	1,496	93.0 (567)	100.0 (238)

Performance graph

The graph below illustrates the TSR performance (share price growth plus dividends) of Cobham against the FTSE350 Index over the past eight years. The graph shows the value of £100 invested over the eight-year period ending 31 December 2016. The FTSE350 Index was chosen as it is a recognised broad equity market index of which Cobham was a member during 2016 and is currently, as at 1 March 2017, ranked at 175th.

TSR performance Cobham vs FTSE350



Source: Deloitte LLP

Percentage change in remuneration of CEO

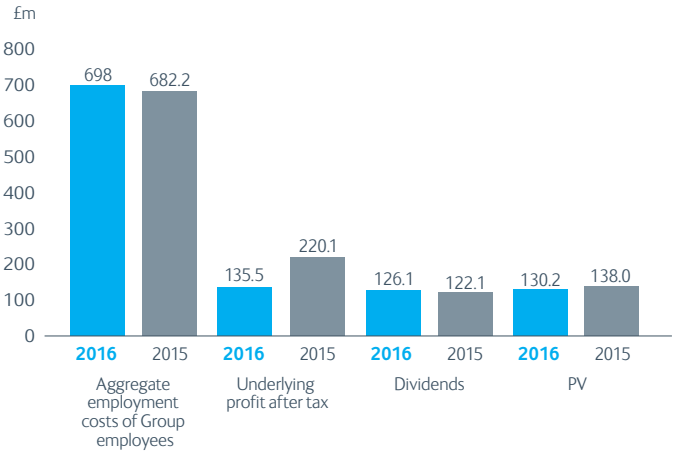
The following table shows the year-on-year change in respect of the three remuneration elements shown in table for the Bob Murphy, CEO until 14 December 2016, as compared to that of UK employees generally:

Remuneration element	CEO	Average employee per capita figure
Salary	2.5%	2.5%
Benefits	92.0%	5.52%
AIP	0%	4.03%

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

Relative importance of spend on pay

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



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

Statement of implementation of remuneration policy in the current financial year

The remuneration arrangements for the in-coming Executive Directors are set out on page 76.

The Leaving arrangements for the departing CEO and CFO are detailed on page 76.

Advisers to the Remuneration Committee

Adviser	Appointed by	Services provided to the Committee	Other services provided to the Company
Deloitte LLP	Remuneration Committee in November 2009, and reappointed following a tender exercise conducted in 2016. See below	– Remuneration strategy – Incentive design – Market data	Tax and consultancy on the governance, risk and assurance initiative

The Committee received advice during the year from Deloitte LLP, who comply with the Code of Conduct of the Remuneration Consultants Group. The Committee is satisfied that the advice they have received has been objective and independent. Deloitte's performance was considered by the Committee as part of the tender process undertaken in the year. Total fees for advice provided to the Committee during the year amounted to £83,463 (2015: £98,000) and were provided on a time/cost basis. Additional advice was received from the Executive Vice President HR, Senior Vice President Compensation and Benefits, and the Company Secretary.

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

As Deloitte have been in post as adviser to the Committee since 2009, the Committee conducted a tender process during 2016 to be in place for the 2016 review of the Remuneration Policy. The process involved the submission of a formal quote in response to a request for proposal, with four remuneration consultants, including the incumbent Deloitte, asked to tender for remuneration and compensation related services.

The four advisers participating in the tender process were required to describe their capability to meet Cobham plc's services requirements, with identified case studies or specific examples where these services have already been successfully provided.

Comprehensive written proposals were submitted, which were scored and evaluated as part of a comparative weighted assessment covering key deliverables including value/cost as well as the capability, experience and expertise in understanding and delivering the specific executive remuneration support requirements of the Company. A final presentation was delivered and evaluated by a panel including the Committee Chair, the Company Secretary, the Executive Vice President HR and a senior member of his management team. The panel put forward their proposals to the rest of the Committee who unanimously agreed to re-appoint Deloitte as their advisers. In reaching this decision, the Committee was mindful that they should set a higher hurdle for the re-appointment of the incumbent advisers than for a new appointment, and believe that this was achieved through the rigorous approach to the tender process undertaken.

Termination payments for the out-going CEO and CFO

The termination payments made to the CEO and CFO were in line with their basic entitlements under their employment contracts as outlined in the table below. No payment will be made in respect of the 2016 annual bonus and all outstanding incentive awards lapsed on cessation of employment. Full details of the actual payments made will be provided in the 2017 Annual Report on Remuneration.

Leaving arrangements for the departing CEO (Murphy)	Leaving arrangements for the departing CFO (Nicholls)
– There was no annual bonus payment made for FY2016. – Any outstanding deferred shares, BCP matching or PSP awards lapsed on cessation of employment. – Upon cessation of employment, he was entitled to a payment in respect of 12 month's annual base salary. – In accordance with terms of his contract on appointment, the Company will reimburse the reasonable cost of relocating him and his family from the UK to the US, limited to a maximum of 50% of his salary.	– There was no annual bonus payment made for FY2016. – Any outstanding deferred shares or PSP awards lapsed on cessation of employment. – He was provided with a payment of £69k in respect of outplacement services and legal support in line with the terms of the Remuneration Policy.

Implementation of Remuneration Policy for 2017

Base salary

The base salaries of the CEO and CFO were set on appointment at £690,000 and £520,000 respectively and will not be increased as part of the company's annual salary review effective 1 March 2017.

The salary for the new CEO has been set at c.11% lower than that received by the previous CEO. The salary for the new CFO is higher than received by the previous CFO but the Board believe that David Mellors brings with him a strong proven track record of restructuring at his previous employer and that his skills and experience will be essential to restoring sustainable performance at Cobham. The overall package Cobham agreed with David Mellors maintained but did not increase the expected value of his total remuneration as compared to his compensation at his previous employer.

Benefits

Both the CEO and CFO will receive benefits in line with those provided for under the Remuneration Policy. For the CEO this will include a relocation payment to allow David Lockwood to relocate to Wimborne which the Board felt was an important change to have the CEO located at the heart of the business operations. We will be providing further disclosure when costs of the relocation are known.

Pension

The pension contributions for the CEO and CFO are paid as a cash in lieu amount, which equate to 25% of salary for the CEO and 20% of salary for the CFO, both of which are below the 30% maximum set under the Remuneration Policy. The pension provided to the new CEO is slightly higher than that received by the previous CEO but total fixed pay remains lower overall.

2017 AIP

The maximum opportunities for the CEO and CFO will remain unchanged from the previous incumbents at 150% of base salary. Awards will be subject to the performance measures set out in the table below which are aligned to the key financial and strategic objectives of the company over the next 12 months:

Performance measure	Weighting %
Group Operating Cash Flow	40
Group Revenue	20
Group Operating Profit	20
Individual Key Strategic Measures	20

2017 PSP awards

PSP awards will be made to the CEO and CFO with a face value of 200% of salary and 150% of salary respectively and will be subject to an additional two year holding period following the end of the performance period.

We plan to make LTIP awards in May 2017 following the completion of any equity raise. The Committee considers that the new CEO and CFO should have an incentive interest in Cobham shares from the earliest opportunity ensuring that their interests are aligned to shareholders.

However, to ensure that the performance targets for the 2017 PSP award are aligned with Cobham's forward looking strategy and aligned shareholder's interests, the Committee believes that it is important to allow the new Executive Directors time to assess the business and provide their input into the formation of the long term strategic plan under their tenure. We therefore intend to wait until the outcome of this process before setting targets for the 2017 award, and we will revert to shareholders at this time. We expect this to be by the time of the interim results announcement in August

Buy-out awards for new CEO and CFO

As outlined in the Chairman's letter the newly appointed CEO and CFO forfeited a number of outstanding awards at their previous employer as a result of joining Cobham. The Remuneration Committee's approach in providing compensation for these awards was to ensure that the value of any awards made did not exceed the value forfeit and were made on comparable terms. All buy-out awards will be subject to the Company's standard malus and clawback provisions. In addition, the Committee may recover up to 100% of the buyout awards in the event the candidate gives notice within 24 months of joining.

CEO

In light of recent developments at his previous employer and in demonstration of his commitment to his new role as CEO of Cobham, David Lockwood has agreed that there will be no compensation in respect of his 2016 annual bonus, or his outstanding 2014 and 2015 long-term incentive awards.

As a consequence of joining Cobham, David Lockwood will forfeit the deferred share portion of his 2015 bonus which was due to vest in March 2019 (subject only to continued employment). He will receive a restricted share award over Cobham shares with a face value of circa £66,000 that will vest in March 2019 to compensate for the loss of this award.

The only buy-out award that will be made will be in respect of his 2016 LTIP awards which will be replaced by an award of equivalent value (2x his salary at his previous employer) in Cobham shares and will be subject to the achievement of Cobham performance targets, the timing and measures have yet to be determined and will be disclosed in due course.

CFO

His bonus for the year ended 31 March 2017 forfeited as a consequence of joining Cobham will be valued based on the actual outcome of the bonus as reported by his previous employer and will be pro-rated for the period David Mellors worked for his former employer. We agreed an overall cap on this value of 9/12 of his 2016 bonus. The payment will be received 50% in cash in June 2017 and 50% deferred into Cobham shares to be received half in June 2018 and half in June 2019.

David Mellors will forfeit the 2013, 2014 and 2015 LTIP awards over shares in his previous employer totalling 879,264 shares. Taking account of performance and where awards are less than half-way through the performance period pro-rating for time reduces the total number of LTIP shares forfeited from 879,294 to circa. 127,200 shares. The 127,200 shares forfeited by David Mellors will be replaced with awards over Cobham shares with the same value which will vest on the same time horizons.

2016 voting at the Annual General Meeting

At the AGM held on 28 April 2016, shareholders voted on the Directors' Remuneration Report for the year ended 31 December 2015. Below are the results in respect of that resolution, which required a simple majority (i.e. 50%) of the votes cast to be in favour in order for the resolution to be passed. The votes 'for' include discretionary votes given to the Chairman of the Board.

Directors' Remuneration Report

Votes for	%	Votes against	%
22,843,101	97.37	616,734	2.63

Votes withheld 299,939

Dividends
The Group's previous policy was to pay a progressive dividend increasing payments broadly in line with increases in earnings, with a view to rebuilding dividend cover over time. An interim dividend of 2.03 pence per ordinary share of 2.50 pence each in the capital of the Company (ordinary shares) (2015: 3.05 pence) was paid in November 2016. However, in light of the disappointing trading and higher than expected net debt, the Board will not be recommending a final dividend payment in respect of financial year 2016. No dividend will be recommended in respect of 2017. Details of the total dividend paid out is covered in note 7 to the Group Financial Statements..

Directors' indemnity arrangements
The Directors have the benefit of a Directors' and Officers' liability insurance policy and the Company has entered into qualifying third party indemnity arrangements with them, as permitted by the Companies Act 2006. The policy was in force through 2016, at the year-end and continues in force at the date of this report. The Directors are permitted to take independent legal advice at the Company's expense within set limits in furtherance of their duties.

Directors' interests
None of the Directors are or were materially interested in any significant contract during or at the end of the financial year, particulars of which are required to be disclosed by the Listing Rules of the UK Listing Authority. Details of Directors' share interests and of their rights to subscribe for shares are shown in the Directors' Remuneration Report on page 74.

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

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

At the AGM held on 28 April 2016, the Company was authorised to purchase up to 113,857,590 ordinary shares. This authority will expire at the conclusion of the 2017 AGM. A special resolution will be put to shareholders at the AGM to renew the authority to make market purchases of the Company's shares up to a maximum of 10% of the share capital of the Company.

The Directors have been authorised to allot and issue ordinary shares. These powers are exercised under authority of resolutions passed at the Company's AGM. The Company launched a fully underwritten 1 for 2 rights issue of 569,287,950 new ordinary shares at 89 pence per new ordinary share which closed on 17 June 2016.

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

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

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

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

There are no restrictions on transfers of shares other than:
- Certain restrictions which may from time to time be imposed by laws or regulations;
- Pursuant to the Company's Dealing Code including the requirement on the Directors and designated employees to obtain approval to deal in the Company's shares; and
- Where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

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

Significant arrangements – change of control
Individual operating companies in the Group have contractual arrangements with third parties in support of the Group's business activities which may take effect, alter or terminate upon a change of control of the Company following a takeover bid. Such contractual arrangements include supply of equipment, goods and services to third parties, including research, design and production. Such contracts and arrangements may be deemed to be essential to one or more of the operating companies but there are no contracts or arrangements considered to be essential to the operation of the business of the Group as a whole, apart from the following:
- The Company has entered into a number of credit agreements with banks, and has issued senior notes under private placements. The total amount owing under such agreements at the year end date is shown in note 17 to the Group Financial Statements. All agreements contain clauses such that, in the event of a change of control, the Company can offer to or must repay all such borrowings together with accrued interest, fees and other sums owing as required by the individual agreements.
- Under the Sentinel contract, entered into in March 2006, the Company must seek approval for any material change in the shareholding of the Company. There is an ancillary aircraft lease agreement under which a change of control may result in the termination of the lease if such event is likely to have a material adverse effect on the Company's ability to perform its obligations under the lease.
- Under the FSTA shareholders agreement entered into in June 2008, a change of control of the Company may result in a required sale of the Company's shares in FSTA to the other shareholders.
- Under contracts with Airbus for the supply of radio and audio integrated management systems, announced on 2 June 2016, and satellite communications systems, announced on 23 June 2016, if a change in control reasonably appears to the purchaser to materially affect the ability of the supplier to discharge its obligations under the contract or if such change in control is in favour of a party which is strategically unacceptable to the purchaser because of existing, latent or potential conflict of interest, the purchaser shall be entitled to terminate the contract and any order in connection therewith.

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

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

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

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

Major interests in shares

As at 31 December 2016, the Company had been notified of the following interests in the ordinary shares:

	Number of shares at the date of notification	Percentage at date of notification
Aberdeen Asset Managers Limited	56,318,037	4.950
Ameriprise Financial, Inc.	57,508,406	5.051
Royal London Asset Management Limited	34,027,919	2.989
Massachusetts Financial Services Company	160,687,479	9.410
Blackrock, Inc	96,911,563	5.670
Silchester International Investors LLP	85,875,239	5.030

Since the year end and up to 1 March 2017, being a date not more than a month prior to the date of the AGM Notice, the Company had been notified of the following interests in the ordinary shares in accordance with DTR 5:

	Number of shares at the date of notification	Percentage at date of notification
Massachusetts Financial Services Company	85,343,080	4.997
Causeway Capital Management LLC	103,993,282	6.090
Lancaster Investment Management LLP	54,780,732	3.210

Financial instruments

Notes 14, 21 and 23 to the Group Financial Statements and note 11 to the Parent Company Financial Statements contain disclosures relating to the use of financial instruments. The Group uses derivative financial instruments in its management of financial risks and does not trade in financial instruments or use complex financial instruments.

People

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

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

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

Research and development

The Group continues to invest in the important area of research and development, further details can be found on page 19. During the year, the Group expended £130.2m (2015: £138.0m) on non-customer funded research and development.

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.

Having considered its options, the Board has concluded that it is in the Group's best interests to reduce its target net debt/EBITDA ratio from 2x to 1.5x and accordingly announced on 2 March 2017 that it has decided 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 by Bank of America Merrill Lynch, JP Morgan Cazenove and Barclays Bank plc. The underwriting is subject to customary conditions, which 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.

Political donations and expenditure

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

Annual General Meeting

The Company's AGM will be held at 10:00 a.m. on Thursday, 27 April 2017 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD, UK.

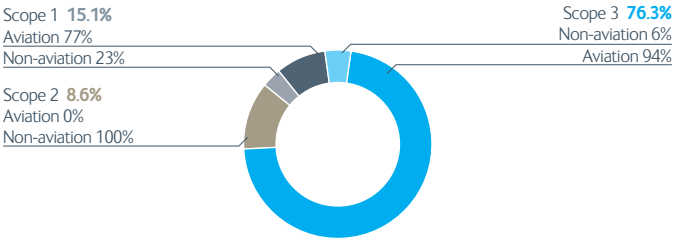
The Company arranges for the Notice of AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

Greenhouse gas emissions

The majority (88%) of the Group's total greenhouse gas (GHG) emissions come from its aviation activity (figure 1). Scope 1 emissions from aviation decreased in 2016 with a reduction in flight numbers because of a downturn in contracts. Total scope 3 emissions from third party aviation also reduced despite two additional aircraft having been added to the Qantas contract.

Total emissions from non-aviation activities decreased from 2015 due to a number of factors. These factors included the divestment of the energy intensive Cobham Metelics business at the end of 2015; the consolidation of operations and closure of sites in several business units; less variation in ambient temperatures during the year resulting in a reduction in gas and electricity use at some sites; a reduction in production activities; and implementation of energy efficiency measures.

Figure 1 – 2015 GHG emissions (tCO_2e %)

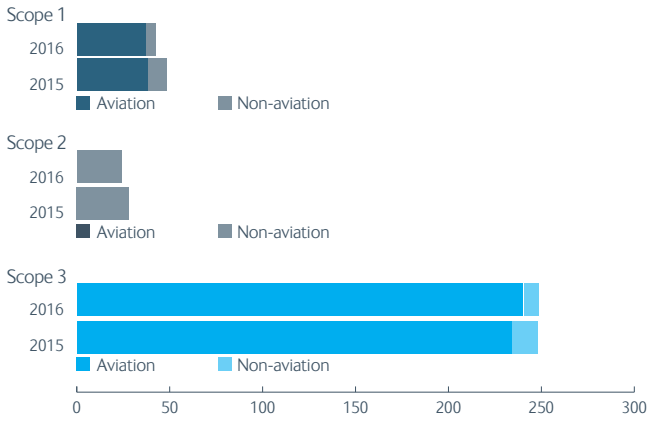


	Year	Aviation		Non-aviation		Total
Scope		tCO_2e	%	tCO_2e	%	tCO_2e
Scope 1	**2016**[1]	**71,960**	**89**	**9,050**	**11**	**81,011**
	2015[2]	76,963	79	20,850	21	97,813
Scope 2	**2016**[1]	**–**	**–**	**46,775**	**100**	**46,775**
	2015[2]	–	–	57,036	100	57,036
Scope 3	**2016**	**465,955**	**97**	**16,131**	**3**	**482,086**
	2015[2]	476,813	94	28,251	6	505,064
Total	**2016**	**537,915**	**88**	**71,957**	**12**	**609,872**
	2015[2]	553,776	84	106,137	16	659,913

[1] Data extracted from Cobham's Performance Summary Report, which was included within Bureau Veritas independent limited assurance scope – see page 80.
[2] 2015 data restated due to a reporting error in the Hauppauge site 2015 data.

The Group's GHG emission intensity (figure 2) across all scopes. Emissions decreased with the reduction in facility energy use, despite a decrease in revenue.

Figure 2 – Emissions intensity ($tCO_2e/£m$)



Scope	Year	Aviation $tCO_2e/£m$	Non-aviation $tCO_2e/£m$	Total $tCO_2e/£m$	% total change
Scope 1	**2016**	**37**	**5**	**42**	-13
	2015	38	10	48	
Scope 2	**2016**	**–**	**24**	**24**	-14
	2015	–	28	28	
Scope 3	**2016**	**240**	**8**	**248**	0
	2015	234	14	248	

The Group's target is to reduce facility energy intensity by 10% year on year, with the baseline year set from 2015. In 2016, energy intensity decreased by 18%, meeting the target.

Definitions

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

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

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

Methodology and data verification

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

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

Further information is provided at **https://www.cobham.com/the-group/corporate-responsibility-and-sustainability/**

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

Data assurance

Bureau Veritas UK has been commissioned by Cobham to provide independent limited assurance using the ISAE 3000 assurance standard over scope 1 and 2 GHG emissions and energy use for the reporting period of 1 January to 31 December 2016. The reporting boundaries cover global operations.

Having completed a verification process including site visits, documents review, testing of a selection of data points and interrogation of reporting systems, Bureau Veritas concludes that there is no evidence to suggest that the data within the scope of our work and presented here is not a fair and accurate representation of the Group's performance.

A full verification statement including methodology, limitations and exclusions and the reporting criteria can be found on the Group's website (**www.cobham.com/the-group/corporate-responsibility-and-sustainability/performance-data-policies/performance-data**).

Bureau Veritas UK Limited
2 March 2017

Compliance with Listing Rule 9.8.4 R

The majority of the disclosures required under Listing Rules 9.8.4R are not applicable to the Company. The table below gives the location of information required to be included in the Annual Report and Accounts that are applicable.

Listing Rule	Information	Response
LR 9.8.4 (12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	The trustees of the employee benefit trust have elected to waive dividends, except in circumstances where they may be holding shares beneficially owned by participants. Refer to page 78 for further details.
(13)	Details of any arrangement under which a shareholder has agreed to waive future dividends.	As noted above.

By order of the Board

Lyn Colloff
Company Secretary
2 March 2017

Statement of Directors' Responsibility

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Parent Company Financial Statements in accordance with Financial Reporting Standard 101 (FRS 101), Reduced Disclosure Framework. The Company transitioned from previous United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) to FRS 101 for all periods presented. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company, and of the profit or loss of the Group and the Company for that period.

In preparing those financial statements, the Directors are required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRS, as adopted by the EU, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company Financial Statements respectively; and
- Prepare the Group and Parent Company Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

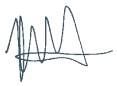
The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Directors' Responsibility Statement
Each of the Directors, whose names and functions are listed on pages 44 and 45, confirm that, to the best of their knowledge:
- The Group Financial Statements, which have been prepared in accordance with the IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Directors' declaration in relation to relevant audit information
In the case of each Director in office at the date the Directors' Report is approved, that:
- So far as the Director is aware, there is no relevant audit information of which the Group's auditors were unaware; and
- He or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The Responsibility Statement was approved by the Board of Directors on 1 March 2017 and signed on its behalf by:



David Lockwood
Chief Executive Officer
2 March 2017



David Mellors
Chief Financial Officer
2 March 2017

Report on the Group Financial Statements

Our opinion

In our opinion, Cobham plc's Group Financial Statements (the financial statements):

- Give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The matters explained in the Directors' going concern assessment on page 33 disclose that a shareholder vote is required in order to increase the share capital of the Company which is needed to raise additional capital through a rights issue and this has not yet taken place. The rights issue is fully underwritten on a standby basis, subject to customary conditions. These conditions, along with the other matters explained in note 1 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report and Accounts (the Annual Report), comprise:

- The Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year ended 31 December 2016;
- The Consolidated Balance Sheet as at 31 December 2016;
- The Consolidated Statement of Changes in Equity for the year then ended;
- The Consolidated Cash Flow Statement for the year then ended; and
- The Notes to the Group Financial Statements, which include a summary of significant accounting policies and other explanatory information.

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

Our audit approach

Context

During the past 12 months, the Group has made a series of announcements concerning the challenging trading conditions being experienced by some of its Business Units and the impact that was having on the Group's profitability. The Group initially highlighted risks in connection with the Boeing KC-46 tanker programme on 24 October 2016 and further announced on 11 January 2017, based on the ongoing dialogue with the customer, that there was significant uncertainty over the outcome of negotiations with the customer. These developments heightened a number of financial reporting risks, which were the subject of focus during our audit including; contract profitability (including loss making contract provisions), risk of impairment of goodwill and intangible assets and recoverability of inventory. Further, in January 2017 the Board requested that management perform a closing balance sheet review to a lower level of materiality, including reviewing major contracts and asset carrying values. Adjustments resulted from this year-end close process, some of which have been disclosed as exceptional and excluded from underlying earnings. As part of our audit work on the presentation of non-underlying costs, we considered these adjustments from a recognition, measurement and disclosure perspective, as well any impact on prior period financial statements. Further details are set out in the areas of focus section below.

Overview

Materiality:

- Overall Group materiality: £10m which represents 5.6% of underlying profit before tax.

Audit scope:

- We conducted audit work in five countries covering 37 reporting units;
- We performed an audit of complete financial information of 16 reporting units in the UK, Australia, France and Denmark;
- Our work conducted in the US was executed at 13 reporting units where we completed audit procedures on specific line items such as revenue or inventory, and 8 further reporting units where we performed limited audit procedures.

Areas of focus:

- Revenue and profit recognition on contracts;
- Goodwill and acquired intangible asset impairment assessments;
- Inventory provisioning;
- Identification and measurement of non-underlying costs (including exceptional items);
- Accounting for uncertain tax provisions and recoverability of deferred tax assets.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

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

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

Area of focus	How our audit addressed the area of focus
Revenue and profit recognition on contracts *Refer to page 58 (Audit Committee Report) and page 92 (note 1, Accounting policies, management judgement and estimation uncertainty – contract risk and programme execution).* For revenue from the sale of goods, we focused on cut-off around the year end because material revenue transactions can occur close to that date. The Group also has a number of significant contracts which span more than one accounting period. These contracts were subject to a detailed review by management as part of the closing balance sheet review. In particular, we focused on complex development and production contracts including those on aerial refuelling aircraft such as KC-46 and A400M. The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain. Costs incurred can significantly exceed amounts estimated at inception as a result of material enhancements to the specifications originally assumed under the contracts. For the contracts detailed above, we focused on: – The recognition of significant revenue milestones which often involve judgement surrounding the achievement of those milestones; – The amount of revenue assumed as recoverable from customer claims which are subject to commercial negotiation; – The estimation of costs to complete the contract; – Whether contracts with the same customer should be accounted for as separate or linked; – Whether the profit recognised on revenue in the year is appropriate; and – Whether associated assets held on the balance sheet (work in progress and accrued income) are recoverable or whether a contract loss provision should be recorded.	We tested the recognition of revenue transactions close to the period end to establish whether they were recorded in the correct period. This included agreement to external shipping evidence or authorised milestone documentation with customer acceptance where appropriate. No material misstatements were identified. We assessed, through our audit of significant contracts, the basis of profit or loss recognition on the Group's significant contracts, together with whether it is appropriate to account for them as separate or linked contracts.. We evaluated the accounting in the context of the Group accounting policies, contract terms and accounting standards. We found the accounting, in all material respects, to be in accordance with accounting standards and Group policies.. For significant new contracts, we read the key contract terms and for ongoing contracts, we understood any change clauses or amendments agreed in the year, considering whether any areas were subject to interpretation or dispute. We looked at the track record of customer behaviour, and any correspondence, in order to obtain evidence of how terms were being interpreted. We also evaluated documentation supporting the recent agreement with Boeing. We found the accounting, in all material respects, to be in accordance with our understanding of customer arrangements. We challenged the reasonableness of the assumptions behind estimated costs to complete by meeting with engineering staff to enquire about project estimates, checking the basis of overhead rates used and on a sample basis obtained purchase orders for materials. We also inspected risk registers and the process by which risk was included within the cost to complete estimate. We found the assumptions to be supported by the evidence we examined. We agreed total contracted revenue to original signed customer contracts, approved change orders or to evidence of, customer discussions and agreements. We evaluated the reasonableness of estimated revenue through a review of, and discussion about, customer claims submitted to recover additional costs incurred and considered correspondence with the customer. No material exceptions were found. We assessed the recoverability of the assets held on the Balance Sheet by reference to agreements with customers regarding payment or billing profiles. No material exceptions were found. We agreed contract loss provisions recorded through a combination of the procedures above in respect of the overall outcome anticipated on the contract. No material exceptions were found. We read the disclosures relating to key estimates and judgements in these financial statements and are satisfied that the disclosures made were appropriate.
Goodwill and acquired intangible asset impairment assessments *Refer to page 58 (Audit Committee Report), page 92 (note 1, Accounting policies, management judgement and estimation uncertainty – impairment of goodwill), pages 105 to 107 (note 10, Intangible assets).* At the start of the year, the Group had goodwill of £1,147m and intangibles of £529m on its Balance Sheet. There is the risk that these balances cannot be supported by the future cash flows of the Cash Generating Units (CGUs). Management conducts an annual impairment test of goodwill balances and intangibles are reviewed whenever there is an indicator that an asset may be impaired. During 2016, the goodwill and intangibles relating to three out of the total of 10 CGUs were impaired as follows: – £196m against the Wireless business unit within the Communications and Connectivity Sector. This unit includes part of the Aeroflex acquisition in 2014 and Axell Wireless acquired in 2013; – £186m against the Integrated Electronic Solutions business unit, part of the Advanced Electronic Solutions Sector. 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; and – £192m against the Semiconductor Solutions business unit, also within the Advanced Electronic Solutions Sector. This unit includes part of the Aeroflex acquisition in 2014. These impairments were generated as a result of 2016 outturn below forecast, combined with lower growth expectations for 2017 onwards. Further detailed disclosure is included in note 10 of the financial statements.	We assessed management's impairment testing relating to all of the 10 CGUs by obtaining the supporting model and assessing the methodology and key assumptions made: – Future cash flow forecasts: we evaluated the Directors' future cash flow forecasts and tested the underlying values used in the calculations by comparing the Directors' forecast to the latest three year strategic plan, including risk overlays that reflect historic experience, approved by the Board; – Discount rates: for assessing the discount rates used by the Directors, we used an internally developed range of acceptable discount rates for valuing CGUs, which is based on our view of various economic indicators. We were satisfied that the discount rates used by the Directors fell within this range for all territories or were marginally above (resulting in a more prudent assessment of the value in use); and – Long term growth rates: we compared the rates applied by management to our own internally developed published rates. No inconsistencies were noted. For the three CGUs where an impairment was identified, we compared the future cash flow forecasts to historic performance. We recalculated the impairment charge with no material difference noted. We compared the revised growth assumptions for these CGUs with the latest available three year plan, which was used for considering the viability of the Group, to ensure they fell within the range of possible outcomes. For the remaining CGUs we performed sensitivity analysis around the key assumptions in order to ascertain the extent of change in those assumptions required individually or collectively to result in an impairment of goodwill or intangible assets. For those business units which were most sensitive, we discussed the basis for these cash flows with senior management and the Audit Committee. In particular we have focused on the recoverability of the goodwill and intangible assets of the SATCOM business unit, which has not yet seen a recovery in the Marine SATCOM market. SATCOM has a goodwill balance at the year end of £212m. In addition we considered the CGUs for the KC-46 air-to-air refuelling contracts which had a goodwill balance at the year end of £92m. We are satisfied that the cash flow impact of the recent agreement was properly considered by management in concluding that no impairment is required.

Area of focus	How our audit addressed the area of focus
Inventory provisioning *Refer to page 58 (Audit Committee Report), page 92 (note 1, Accounting policies, management judgement and estimation uncertainty – inventory provisions) and page 109 (note 13, Inventories).* The nature of much of the Group's business means that the products developed can become technically obsolete. It is also necessary to hold additional spare parts in order to support key customers and programmes should the products require replacement or servicing. The Group had gross inventory of £491m and provisions for obsolescence of £86m on its Balance Sheet. Inventory holdings and aging were a particular focus in management's closing balance sheet review and a number of adjustments were made. We focused on this area because inventory provisions include subjective estimates. They are influenced by assumptions concerning future realisable value and usage. Some businesses have experienced lower than expected demand and have had challenges with revenue forecasting. In addition, the methods used for this estimate vary between reporting units depending on the nature of the business and inventory.	We assessed the process, methods and assumptions used to develop the provision for slow moving, excess or obsolete items. This included comparing management's calculations for consistency against those used in the prior year and, where forecast demands were used in the assessment, management's historical forecasting accuracy. In situations where there was evidence that management forecasts had not been achieved, we assessed whether the provision had taken account of the likelihood of failure to meet future forecasts. We also considered whether there was any indication of management bias such as manual overrides to the established methodology. Manual overrides are typically in respect of spares held for the servicing of products on aircraft which have a long service life or where the business has purchased 'Last Time Buys' for components which would no longer be available for purchase. Where overrides were material, we considered the appropriateness of management's judgement based on historical usage and future usage expectations. Adjustments arising from our audit were made in the financial statements where there was insufficient evidence to support manual overrides. We understood adjustments proposed by management as part of the closing balance sheet review and challenged management to ensure there was sufficient evidence to support further write-offs. We were satisfied that the adjustments made were appropriate. No material misstatements were identified.
Identification and measurement of non-underlying costs (including exceptional items) *Refer to page 58 (Audit Committee Report), page 93 (note 1, Accounting policies, management judgement and estimation uncertainty – definitions) and pages 98 to 99 (note 2, Underlying measures).* The financial statements include exceptional items of £237m (excluding impairments) and non-operating business restructuring credit of £9m, which are disclosed as non-underlying and are excluded from underlying operating profit. We focused on this area because IFRSs do not define which items may be excluded from underlying operating profit and it therefore requires judgement around the justification for such exclusion. Consistency in identifying and disclosing items to be excluded from underlying operating profit is important to maintain comparability of the results year on year. In 2016, these costs relate primarily to the outcome of the closing balance sheet review which have been disclosed as exceptional and business restructuring activity.	We tested the presentation of non-underlying costs by assessing whether the classification was in line with the Group's accounting policy on such items on page 93 of the financial statements. We considered management's definition of "exceptional" and whether it had been appropriately disclosed, given it is a non-GAAP measure. We considered the classification of adjustments arising from both management's closing balance sheet review and our audit procedures, to ensure they had been categorised between underlying and exceptional, as defined. We considered the evidence of the events occurring in 2016 which resulted in the adjustments being required. We considered whether there was evidence that adjustments should have been recorded in prior periods, together with considering whether a restatement of the comparative numbers would be required by accounting standards. We found there to be no material adjustments, individually or in aggregate, that would require a prior period restatement. For business restructuring, we testing a sample of the costs incurred to supporting evidence such as external purchase invoices, redundancy agreements and personnel costs for staff dedicated to these restructuring projects. We also checked that any releases to provisions no longer required that were originally recorded as non-underlying, were appropriately classified in the same manner upon release. We reviewed the disclosures provided, particularly the nature of items adjusted and the reasons for management considering that they are "exceptional". No material issues were identified.
Accounting for uncertain tax provisions and recoverability of deferred tax assets *Refer to page 58 (Audit Committee Report), page 92 and 93 (note 1, Accounting policies, management judgement and estimation uncertainty – taxation), pages 115 to 116 (note 20, Deferred tax) and page 127 (note 29, Contingent liabilities).* The Group has a wide geographic footprint and is subject to tax laws in a number of jurisdictions. The Group has a number of open tax enquiries and has recognised a number of centrally held provisions against uncertain tax positions, the valuation of which is a highly judgemental area. Where tax positions are not settled with the tax authorities, the Directors take into account precedent and the advice of external experts. The Group has material deferred tax assets, principally in respect of losses. The Directors apply judgement in establishing whether deferred tax assets are recoverable.	We discussed with management the known uncertain tax positions and read correspondence from tax authorities and external legal counsel on open tax enquiries. We assessed the adequacy of the Directors' taxation provisions by considering factors such as the risk profile of each matter and whether the provision addresses possible penalties and interest. We met with senior management and challenged the judgements made in relation to the likelihood of litigation from tax authorities by comparing management's assessment against our own views based on our independent assessment of risk. We assessed the recoverability of deferred tax assets, comparing the cash flow forecast used by the Directors in making that assessment against those used for the goodwill impairment review and viability assessment. We found that the judgements made by management were within an acceptable range. We reviewed the disclosures made in respect of tax, in particular around estimates and uncertainties, as well as contingent liabilities, and are satisfied that the disclosures made were appropriate.

How we tailored the audit scope

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

The Group is structured along four reported Sectors, being Advanced Electronic Solutions, Aviation Services, Communications and Connectivity and Mission Systems. The Group Financial Statements are a consolidation of 68 reporting units within these Sectors, comprising the Group's operating businesses and centralised functions. The Advanced Electronic Solutions Sector (CAES) operates under a Special Security Arrangement (SSA) which is required to carry on business with the US Department of Defence. The SSA places certain restrictions on access to, and communication of, information outside of the US borders. We planned our audit to ensure US personnel complete the audit work within the SSA. We also met, and agreed the audit plan with, our CAES audit team, in addition to agreeing the format and content of communications. There were 12 reporting units within the SSA that were in our audit scope.

Of the Group's 68 reporting units, we performed audits of their complete financial information at 16 reporting units in the UK, Australia, Denmark and France. 13 US reporting units required audit procedures on certain balances and transactions (typically including at least revenue and inventory which are areas of audit focus) rather than an audit of their complete financial information. At a further eight US reporting units we performed limited audit procedures. In addition to the above, we performed analytical procedures on the remaining 37 reporting units to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified.

82% of the Group's revenue is accounted for by reporting units where we performed audits of their complete financial information or performed specific audit procedures over revenue. 55% of the Group's underlying profit before taxation is accounted for by the 16 reporting units where we performed audits of their complete financial information. In combination with the other work referred to above, together with additional procedures performed at Group level, including testing of significant journals posted within the Sector and Group consolidations and significant adjustments made to the financial statements, this gave us the evidence we needed for our opinion on the financial statements as a whole.

Where the work was performed by reporting unit audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate evidence had been obtained as a basis for our opinion on the financial statements as a whole. This included attending the audit close meetings by conference call at which the outcome of each reporting unit audit was discussed and visiting a number of larger reporting unit audit teams during their planning or fieldwork. This included the two key reporting units with the aerial refuelling development and production contracts.

Materiality

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

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

Overall Group materiality	£10m (2015: £14m).
How we determined it	5.6% of underlying profit before tax. (2015: 5%)
Rationale for benchmark applied	Underlying profit before taxation is defined in the Annual Report on page 144. We believe that underlying profit before taxation represents an appropriate metric for assessing the performance of the Group and provides us with a consistent year on year basis for determining materiality. It is the amount reported by management both internally and externally to the market. We also considered our overall Group materiality in the context of the Group's revenue, noting that it represents less than 0.5%.
Component materiality	For each reporting unit in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across reporting units was £871,000 to £5,000,000. Certain reporting units were audited to a local statutory audit materiality that was also less than our overall Group materiality.

The Audit Committee requested, and we agreed, that we would report to them misstatements identified during our audit above £200,000 (2015: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 33, in relation to going concern. We have nothing to report having performed our review.

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

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. The appropriateness of the adoption of the going concern basis is dependent on the Parent Company's ability to raise additional share capital. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate, although the Parent Company's ability to raise additional share capital indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, as explained in note 1 to the financial statements. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

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

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

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK and Ireland) reporting

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

– Information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– The statement given by the Directors on page 61, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
– The section of the Annual Report on pages 56 and 57, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

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

– The Directors' confirmation on page 53 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– The Directors' explanation on page 35 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

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

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibility set out on page 81, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report. With respect to the Strategic Report and the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Parent Company Financial Statements of Cobham plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited. That report includes an emphasis of matter.



Pauline Campbell
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2016

Group Financial Statements Index

Consolidated Income Statement 88

Consolidated Statement of Comprehensive Income 88

Consolidated Balance Sheet 89

Consolidated Statement of Changes in Equity 90

Consolidated Cash Flow Statement 91

Notes to the Group Financial Statements

1. Accounting policies 92
2. Underlying measures 98
3. Revenue and segmental information 99
4. Operating costs 101
5. Finance income and costs 102
6. Taxation 102
7. Dividends 103
8. Earnings per ordinary share 103
9. Cash and cash equivalents and net debt 104
10. Intangible assets 105
11. Property, plant and equipment 108
12. Investment properties 108
13. Inventories 109
14. Financial instruments 109
15. Trade and other receivables 111
16. Non-current assets and disposal groups held for sale 112
17. Borrowings 112
18. Trade and other payables 113
19. Provisions 114
20. Deferred tax 115
21. Derivative financial instruments 117
22. Retirement benefit schemes 117
23. Financial risk management 120
24. Share capital 123
25. Other reserves 124
26. Share based payments 124
27. Business divestments 125
28. Operating lease arrangements 127
29. Contingent liabilities 127
30. Related party transactions 127
31. Events after the balance sheet date 127
32. Subsidiaries and other related undertakings 128

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	5	**4.1**	5.2
Finance costs	5	**(72.9)**	(57.0)
Loss before taxation		**(847.9)**	(39.8)
Taxation	6	**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	8		
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 144 and reconciled to GAAP measures in note 2.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

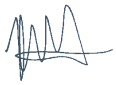
£m	Note	2016	2015
Loss after taxation for the year		**(795.1)**	(37.7)
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	22	**(42.6)**	29.6
Actuarial loss on other retirement benefit obligations	22	**(1.2)**	–
Tax effects	6	**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	25	**41.3**	(38.2)
Reclassification of cash flow hedge fair values	25	**1.6**	1.1
Hedge accounted derivative financial instruments	25	**(2.8)**	–
Tax effects	6	**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	10	**1,165.9**	1,729.5
Property, plant and equipment	11	**422.9**	379.9
Investment properties	12	**3.6**	4.3
Investments in joint ventures and associates		**3.6**	3.0
Trade and other receivables	15	**66.0**	71.3
Other financial assets	14	**6.1**	6.1
Deferred tax	20	**42.3**	11.4
Derivative financial instruments	21	**19.7**	6.5
		1,730.1	2,212.0
Current assets			
Inventories	13	**405.3**	410.4
Trade and other receivables	15	**409.8**	366.0
Current tax receivables		**3.1**	8.6
Derivative financial instruments	21	**8.5**	9.1
Cash and cash equivalents	9	**236.2**	294.7
Assets classified as held for sale	16	**–**	16.8
		1,062.9	1,105.6
Liabilities			
Current liabilities			
Borrowings	17	**(60.9)**	(156.4)
Trade and other payables	18	**(430.8)**	(398.1)
Provisions	19	**(180.6)**	(74.3)
Current tax liabilities		**(149.5)**	(125.1)
Derivative financial instruments	21	**(42.2)**	(30.6)
Liabilities associated with assets classified as held for sale	16	**–**	(12.7)
		(864.0)	(797.2)
Non-current liabilities			
Borrowings	17	**(1,203.5)**	(1,345.1)
Trade and other payables	18	**(31.5)**	(24.8)
Provisions	19	**(57.3)**	(68.2)
Deferred tax	20	**(27.6)**	(102.0)
Derivative financial instruments	21	**(32.2)**	(13.9)
Retirement benefit obligations	22	**(87.0)**	(56.7)
		(1,439.1)	(1,610.7)
Net assets		**489.9**	909.7
Equity			
Share capital	24	**44.6**	30.4
Share premium		**778.3**	301.9
Other reserves	25	**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

The financial statements on pages 88 to 131 were approved by a duly appointed and authorised committee of the Board on 2 March 2017 and signed on its behalf by:



David Lockwood
Directors



David Mellors

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

£m	Share capital	Share premium	Other reserves (note 25)	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 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 7)	–	–	–	(122.1)	(122.1)	–	(122.1)
Share based payments (note 26)	–	–	(3.0)	–	(3.0)	–	(3.0)
Transfer of other reserves to retained earnings	–	–	(1.5)	1.5	–	–	–
Tax effects (note 6)	–	–	(1.1)	–	(1.1)	–	(1.1)
Foreign exchange adjustments	–	–	(0.1)	–	(0.1)	(0.1)	(0.2)
Total equity at 31 December 2015	30.4	301.9	(0.3)	576.8	908.8	0.9	909.7
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 24)	**14.2**	**476.4**	–	–	**490.6**	–	**490.6**
Proceeds on allocation of treasury shares	–	–	–	**2.3**	**2.3**	–	**2.3**
Dividends (note 7)	–	–	–	**(126.1)**	**(126.1)**	–	**(126.1)**
Share based payments (note 26)	–	–	**3.8**	–	**3.8**	–	**3.8**
Transfer of other reserves to retained earnings	–	–	**(5.1)**	**5.1**	–	–	–
Tax effects (note 6)	–	–	**(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	10	**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	21	**39.3**	18.8
Pension contributions in excess of pension charges		**(16.7)**	(17.8)
Share based payments	26	**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	10	**(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	27	**1.0**	205.2
Net cash (used in)/from investing activities		**(86.5)**	53.9
Cash flows from financing activities			
Issue of share capital		**490.6**	–
Dividends paid	7	**(126.1)**	(122.1)
Purchase of treasury shares		**–**	(29.3)
Proceeds on allocation of treasury shares		**2.3**	4.4
New borrowings	9	**9.9**	257.9
Repayment of borrowings	9	**(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 9.

1. Accounting policies

General information
These financial statements are the consolidated financial statements of Cobham plc (the Company), a public company limited by shares, registered and domiciled in the United Kingdom and its subsidiaries (the Group).

Basis of preparation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, interpretations of the IFRS Interpretations Committee and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

Note 31 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 31 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 auditors' report on the financial statements contains an unmodified opinion. However, it includes an emphasis of matter in respect of going concern.

Principal accounting policies
The principal accounting policies, which have been consistently applied unless otherwise stated, are as set out below.

Accounting developments
Annual Improvements 2014 have been adopted with effect from 1 January 2016.

In addition, amendments to the following standards have been adopted with effect from 1 January 2016:
- Amendment to IFRS 11 Joint arrangements, on acquisition of an interest in a joint operation;
- Amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets, on depreciation and amortisation;
- Amendments to IAS 27 Separate financial statements, on equity accounting;
- Amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures, on applying the consolidation exemption.

No changes to previously published accounting policies or other adjustments were required on the adoption of these amendments.

The Group elected to adopt the Disclosure Initiative – amendments to IAS 1, from 1 January 2015, earlier than the required effective date.

Management judgement and estimation uncertainty
The preparation of financial statements in conformity with IFRS requires the use of estimates and judgements that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses.

These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The current economic conditions have been considered when evaluating accounting estimates and judgements, including the application of the going concern basis of preparation. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Board considers that the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are as follows:

Contract risk and programme execution
The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain and could materially impact the Group's future reported earnings.

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.

Revenue recognition in respect of these contracts may be impacted by customer claims and estimates of expected settlements for contract variations and other changes.

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 quantifying the expected costs of future adverse outcomes. Due to the inherent uncertainty associated with such matters, the timing and determination of the total costs or amount of any payments under any claims could differ from the amounts provided.

Impairment of goodwill and other intangible assets (note 10)
A review of the carrying value of goodwill is completed at least once a year to ensure that it is not impaired. This requires estimation of the value in use of the cash generating units (CGUs) to which the goodwill is allocated.

Impairment tests on other intangible assets are undertaken if events occur which may indicate that these assets may be impaired. The carrying value of intangible assets is considered annually as part of the goodwill impairment exercise with reference to the value in use calculation of each CGU.

Estimating value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Inventory provisions (note 13)
The nature of much of the Group's business means that inventory held can become technically obsolete. It is also necessary to hold additional spare parts in order to support key customers and programmes. Judgement is required in assessing the level of provision required for obsolete, slow moving and defective items of inventory, reflecting assumptions concerning future orders and revenue streams.

Taxation (notes 6 and 20)
The Group is subject to 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.

Retirement benefits (note 22)
The Group Financial Statements include costs and liabilities in relation to retirement benefit obligations. A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include discount rate, inflation and mortality rates. Comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements. The Group uses published indices and independent actuarial advice to select the values of critical assumptions. These assumptions, with sensitivity analysis, can be found in note 22.

Underlying measures (note 2)
To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including underlying operating profit and underlying earnings. These are considered by the Board to be the most meaningful measures under which to assess the true operating performance of the Group.

Definitions of the non-GAAP measures can be found on page 144.

The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Operating segments (note 3)
The chief operating decision making body for the Group has been identified as the Board. It reviews the Group's internal reporting in order to assess performance and allocate resources. Details of the composition and purpose of the Board can be found on pages 44 to 52.

The Group reports four operating segments whose revenue and results are reported to the Board. These are Communications and Connectivity, Mission Systems, Advanced Electronic Solutions and Aviation Services. All operating segments meet the definition of reportable segments as defined in IFRS 8. The principal activities of these segments are described on pages 2 and 3.

The Board assesses the trading performance of operating segments based on revenue and underlying operating profit as defined above. Finance income, finance costs and taxation are not segmented and are reviewed by the Board on a consolidated basis. Segment net assets are disclosed voluntarily in note 3 and include intangible assets, property, plant and equipment, investment properties, inventory, trade and other receivables, trade and other payables and provisions. They do not include tax, net debt, derivative financial instruments, contingent consideration payable or retirement benefit obligations.

Basis of consolidation
The Group Financial Statements include the financial statements of the Parent Company, Cobham plc, and of all its subsidiaries.

Subsidiaries are all entities over which the Group has control, which is defined as the right to variable returns and the ability to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases. On derecognition, any amounts previously recognised in Other Comprehensive Income (OCI) in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

The Cobham Advanced Electronic Solutions Sector operates under a Special Security Agreement (SSA) with the US Government due to the nature of its work on classified US DoD programmes. Whilst the day to day operation of this Sector is managed by the SSA Board, the Cobham plc Board retains the right to variable returns and the ability to affect those returns and therefore the results of these businesses are consolidated within these Group Financial Statements.

Joint ventures are entities where the parties that have joint control have rights to the net assets of the arrangement. Associates are entities where the Group has significant influence. Joint ventures and associates are not consolidated but are accounted for using the equity method. The Group Financial Statements include the Group's share of the post-acquisition change in net assets and the post-tax profit or loss of jointly controlled entities and associates from the date that joint control or significant influence commences until the date this ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currencies
The presentation currency of the Group is sterling. Most Group companies, including the Parent Company, use their local currency as their functional currency. Transactions in currencies other than the functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date and any exchange differences arising are taken to the Income Statement.

For consolidation purposes, the assets and liabilities of foreign operations are translated at the closing exchange rates. Income statements of such undertakings are consolidated at the average rates of exchange as an approximation for actual rates during the year. Exchange differences arising on these translations are accounted for in OCI and the translation reserve. On divestment, these exchange differences are reclassified from the translation reserve to the Income Statement.

Business combinations
Businesses acquired are accounted for using the acquisition method of accounting with effect from the date control passes. The excess of the fair value of consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Where a business combination is completed in stages, any previously held interests are remeasured to fair value at the date at which control is achieved. Any resulting gain or loss is recognised in the Income Statement. Acquisition related costs are expensed as incurred.

Revenue recognition
Revenue is measured at the fair value of the right to consideration, net of returns and other allowances.

Revenue from the sale of goods not under a long term contract is recognised when the significant risks and rewards of ownership and effective control of the goods have been passed to the customer, recovery of the consideration is probable, and the amount of revenue and costs can be measured reliably. In the case of contracts with a long duration, including contracts with a funded development phase, revenue is recognised based upon the fair value of work performed to date assessed with reference to completed contract milestones which have been accepted by the customer.

Long term contract accounting as described in IAS 11, Construction Contracts is not generally applicable to the longer term contracts for sales of goods entered into by Group companies. Where long term contract accounting is applicable, revenue is recognised on a percentage of completion or milestone basis whereby a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion.

Revenue for services is recognised as the services are rendered with reference to the proportion of the service delivered to date. For 'cost-plus' contracts (typically with government departments and agencies), revenue is recognised to the extent of reimbursable costs incurred, plus a proportionate amount of the estimated fee earned. For contracts where revenue is determined on a unit activity basis, revenue is recognised on the basis of activity undertaken in the period.

Revenue excludes intercompany sales, value added tax and other sales taxes.

Taxation including deferred taxation (notes 6 and 20)
The tax expense is the sum of current tax and deferred tax.

Current tax is provided at the amounts expected to be paid, using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled. Tax is charged or credited to the Income Statement except when it relates to items recognised in OCI or directly in equity, in which case the deferred tax is also dealt with in OCI or in equity respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Dividends (note 7)
Dividends are recognised as a liability in the period in which they are fully authorised.

Intangible assets (note 10)
Goodwill
Goodwill is allocated at acquisition to the CGUs that are expected to benefit from that business combination. CGUs represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

On divestment of a business the attributable amount of goodwill is included in the determination of the profit or loss on divestment.

Other intangible assets
Intangible assets other than goodwill which are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. These include customer relationships, technology and software, trademarks, licences and patents. The only internally generated intangible assets are development costs which are capitalised as described below and internally developed software where asset recognition criteria are met.

These intangible assets are amortised over the asset's estimated useful life on a straight-line basis as follows:

Customer relationships	5 to 15 years
Technology based assets	5 to 15 years
Development costs	2 to 10 years
Order book and trade names	6 months to 10 years
Software and other	2 to 10 years

Useful lives are assessed for each asset on an individual basis, taking into account the specific characteristics of the asset.

Research and development
Development costs are capitalised when it can be demonstrated that the conditions for capitalisation as described in IAS 38, Intangible Assets are met, paying particular attention to the requirements for the product to be technically feasible and capable of generating a financial return. At that point, further costs are capitalised as an intangible asset until the intangible asset is readily available for use and is then amortised as described above. All development costs not capitalised are written off as incurred together with all research costs.

Property, plant and equipment (note 11)
Freehold and leasehold land and buildings, plant and machinery, and fixtures, fittings, tools and equipment are held at historic cost less accumulated depreciation and any recognised impairment losses. Cost comprises the purchase price and any costs directly attributable to the asset.

All property, plant and equipment other than land and assets under construction is depreciated on a straight-line basis to the estimated residual values over the estimated useful lives. These lives are as follows:

Freehold buildings	50 years
Leasehold properties	Period to next break clause
Plant and machinery	3 to 15 years
Fixtures, fittings, tools and equipment	3 to 15 years

Estimated residual values and the estimated useful lives are reviewed annually and adjusted where necessary. Freehold land is not depreciated and is reviewed for impairment at least annually.

Assets under construction are held at cost and transferred to the appropriate category of property, plant and equipment once construction is complete and they enter into service. They are depreciated from this point in accordance with the policies described above.

Assets held under finance leases are depreciated over the term of the relevant lease.

Aircraft overhaul expenditure
Major overhaul expenditure on owned aircraft is capitalised when incurred and the resultant property, plant and equipment is depreciated over its useful economic life. Major overhaul costs that are contractually required on aircraft held under operating leases are provided for over the period between the scheduled maintenance events.

Investment properties (note 12)
Investment properties, which are properties held to earn rentals or for capital appreciation, are stated at cost in the Balance Sheet. They are depreciated on a straight-line basis to their estimated residual value over their estimated useful lives of up to 50 years.

Rental income is recognised as revenue on a straight-line basis.

Impairments
The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. Where there is an indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised where the recoverable amount of an asset is lower than its carrying amount. All impairment losses are recognised in the Income Statement.

An impairment loss, other than arising on goodwill, is reversed only after a change in the estimates used to assess recoverable amount is identified and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Any reversal is recognised in the Income Statement.

Leasing (notes 11 and 29)
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Income Statement.

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease. Benefits receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Inventories (note 13)
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective items.

Non-current assets and disposal groups held for sale (note 16)
Non-current assets and disposal groups classified as held for sale are stated at the lower of carrying amount and fair value less costs of disposal. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within a year of the balance sheet date. The asset or disposal group should be available for immediate sale in its present condition and actively marketed at a price that is reasonable in relation to its current fair value.

Fair values
The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date. Fair value measurements are used on a recurring basis except where used in the measurement of net assets classified as held for sale and in the valuation of assets and liabilities in a business combination.

The fair values of derivative financial instruments have been determined by the use of valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates.

The fair values of non-financial assets and liabilities, which includes net assets classified as held for sale, are based on observable market prices or rates. These measurements fall within Level 2 of the IAS 39 fair value hierarchy. For non-financial assets, the fair value takes into account the highest and best use of the asset.

For financial assets and liabilities which are not held at fair value in the Balance Sheet, the carrying values of these items are assumed to approximate to fair value due to their short term nature.

There have been no changes to the valuation techniques used during the year. The Group's policy is to recognise transfers in and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer, although there have been no such transfers during the current or comparative periods.

Financial instruments (note 14)
Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument and are initially recognised at fair value at trade date. Subsequent measurement is dependent upon the classification of the instrument which is determined at initial recognition with reference to the purpose for which the instruments were acquired and re-evaluated at each reporting date.

All financial assets and liabilities are classified as current or non-current dependent upon the maturity date of the instruments. Financial assets and liabilities are presented on an offset basis when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets
Assets held at fair value through profit or loss are those categorised as held for trading under IAS 39 and are subsequently carried at fair value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. These include trade and other receivables and cash and cash equivalents. Subsequent to initial recognition, assets categorised as loans and receivables are carried at amortised cost using the effective interest method.

Available for sale financial assets are those non-derivative financial assets either designated by management as available for sale or not falling into any other category. Financial assets so categorised include equity instruments which do not have a quoted price in an active market and hence are measured at cost.

None of the Group's material financial assets fall into the held to maturity category of IAS 39, which are non-derivative financial assets with fixed maturity dates that the Group intends to hold to maturity.

Financial liabilities
Financial liabilities are categorised as held for trading under IAS 39 and are subsequently held at fair value through profit or loss, or other liabilities, which are held at amortised cost using the effective interest method. Derivative financial instruments are categorised as held for trading unless they are designated as hedges.

Trade and other receivables
Trade and other receivables are stated at their amortised cost, reduced when there is evidence that the Group may not be able to collect the amount due. All trade receivables which are more than six months overdue are provided for by reference to past default experience. The balance may be written off in full, generally where receivables are in excess of 12 months old. Impairments are charged to administrative expenses in the Income Statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and bank deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

Bank borrowings
Interest bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of direct issue costs. Borrowing costs, net of amounts capitalised, are accounted for on an accruals basis and charged to the Income Statement as incurred. Premiums payable on settlement or redemption and direct issue costs are capitalised and amortised over the period of the facility. Borrowing costs that are directly attributable to relevant property, plant and equipment are capitalised as part of the cost of that asset.

Trade payables
Trade payables do not carry any interest and are stated at their nominal value.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group currently utilises cash flow hedge accounting principles in relation to interest rate swaps, a limited number of specific foreign exchange contracts used to mitigate the Group's exposure to changes in interest rates arising on floating rate debt and certain foreign exchange impacts of trading in non-functional currencies. Where hedge accounting is applied, the relationship between hedging instruments and hedged items is documented at the inception of the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Where interest rate swaps and foreign exchange contracts are designated and qualify as cash flow hedges, the effective portion of changes in fair value is recognised in OCI through the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are reclassified to finance income or finance costs in the Income Statement in the periods when the hedged item affects profit or loss.

The majority of foreign exchange contracts entered into to mitigate foreign exchange impacts of trading in non-functional currencies and inflation swaps entered into to mitigate inflation risks are not accounted for using hedge accounting.

Foreign currency borrowings are also used to hedge the effects of changes in the Group's net investment in foreign operations. These borrowings either provide a natural economic hedge through the use of intercompany debt or are designated as net investment hedges. Where net investment hedging applies, the borrowings are designated as fair value hedges of the foreign currency risk attributable to the foreign equity investment and the exchange differences arising are recognised in OCI and through profit or loss on disposal of the foreign operation.

The fair value of a hedging derivative is classified as a current asset or liability except when the remaining maturity of the hedged item is more than 12 months.

Where hedge accounting is not applied, the movements in fair value of the derivative instruments are included in the Income Statement as part of operating profit. The fair value of such derivatives is classified as a current or non-current asset or liability dependent upon the maturity date of the financial instrument.

Provisions (note 19)

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required and where the amount can be reliably measured. No provision is recognised where the existence of an obligation is possible but will only be confirmed by uncertain future events.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at management's best estimate of the expenditure required to settle the Group's liabilities, based on past experience and industry averages for defective products.

Contract loss provisions are recognised for onerous contracts when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Aircraft maintenance provisions are established in respect of significant periodic maintenance costs, where maintenance activity is required on leased operational aircraft or engines on a cycle greater than 12 months. Costs are charged to the Income Statement on the basis of utilisation of the aircraft and are credited to the provision. The provision is then utilised by absorbing the actual costs incurred in carrying out the maintenance activity. Maintenance carried out on a cycle of 12 months or less is charged to the Income Statement as incurred.

Provisions also arise in connection with leased aircraft, where contracts contain specific conditions regarding the configuration of the aircraft on its return to the lessor at the end of the lease. The estimated cost associated with fulfilling these requirements is charged to the Income Statement on an aircraft utilisation basis. The provision is utilised on actual return of the aircraft or on incurring the expenditure required to return the aircraft to the state of maintenance required by the lease before return of the aircraft to the lessor.

Provisions for claims made against the Group and commitments made under performance guarantees are recognised at management's best estimate of the expenditure required to settle the Group's liabilities.

Provisions are discounted at an appropriate risk free rate when the impact is material.

Retirement benefit schemes (note 22)

For defined benefit schemes, current service costs and costs related to the administration of the schemes are charged to operating profit. Gains and losses on settlements and curtailments arising on a business divestment are included in profit on divestment. Past service costs are recognised in the Income Statement. The interest on net assets or liabilities is shown within finance income and costs. Actuarial remeasurements are recognised in OCI.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the face of the Balance Sheet.

For defined contribution schemes, contributions are charged to the Income Statement as they fall due.

Share capital (note 24)

Ordinary share capital is classified as equity. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the preference shareholders or if dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the Income Statement as finance costs.

Treasury shares (note 24)

When ordinary share capital recognised as equity is acquired by the Company, the shares are held as treasury shares. The consideration paid, including commissions and taxes, is deducted from retained earnings and total equity. The proceeds of any treasury shares subsequently sold or re-issued, net of commission and taxes, are recognised as an increase in retained earnings and total equity.

Share based payments (note 26)

For grants made under the Group's equity settled share based payment schemes, amounts which reflect the fair value of awards as at the time of grant are charged to the Income Statement over the relevant vesting periods, taking into account management's best estimate of the number of awards expected to vest. The Group reviews and updates the vesting estimate, which includes progress against non-market related performance conditions, at each balance sheet date.

The valuation methodology for all schemes is based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

Future accounting developments

The following new standards have been published that are mandatory for future accounting periods:

- IFRS 9, Financial Instruments; and
- IFRS 15, Revenue from Contracts with Customers including amendment.

There are also a number of new standards, amendments to existing standards including Annual Improvements and interpretations which, once endorsed by the EU, will be effective from 1 January 2017 or later years. These include:

- IFRS 16, Leases;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7: Disclosure Initiative;
- Clarifications to IFRS 15: Revenue from Contracts with Customers;
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Annual Improvements 2014-2016;
- IFRIC Interpretation 22, Foreign Currency Translations and Advance Consideration; and
- Amendments to IAS 40: Transfers of Investment Property.

Based on an initial review, IFRS 9 is not expected to have a material impact on the results of the Group.

IFRS 15, Revenue from Contracts with Customers and clarifications

The Group will adopt IFRS 15, Revenue from Contracts with Customers, from 1 January 2018. IFRS 15 introduces a five-step model to be applied to all contracts with customers. A detailed review of contracts has been performed during 2016 to determine the impact of this new approach. In addition a number of new disclosures will be required.

Contracts related to the sale of short-cycle catalogue items, mostly seen in the Communications and Connectivity Sector, are unlikely to be impacted by IFRS 15 and revenue will typically be recognised at a point in time based on when control of the product passes to the customer.

Most of the revenue in Aviation Services is generated from providing services to customers. Revenue is recognised over time as the services are enjoyed. This is consistent with IFRS 15 and consequently there is not expected to be a significant impact on this Sector on the adoption of the new standard.

Within the Mission Systems Sector there are currently a number of long term development programmes. For these contracts revenue is recognised based upon the fair value of work performed to date assessed with reference to completed contract milestones. Under IFRS 15, revenue for these contracts will be recognised over time on a percentage of completion basis whereby a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion.

Mission Systems also generate revenue through the sale of products. Some of these products are customer specific and therefore may have no alternate use. For these contracts there is generally a right to payment and therefore revenue will be recognised over time. Cost is likely to be judged to be the most appropriate way of measuring progress in completing performance obligations.

The Group has a number of contracts with government bodies, including some within the Advanced Electronic Solutions Sector, by which control is transferred to the customer as the product is being manufactured or as the services are being provided. For these contracts revenue will be recognised over time, typically using cost as the basis of measuring progress. For 'cost-plus' contracts (typically with government departments and agencies), revenue is recognised to the extent of reimbursable costs incurred, plus a proportionate amount of the estimated fee earned.

Based on the review of current contracts, IFRS 15 will change revenue recognition methodologies for longer term contracts and for products where there is no alternate use and an enforceable right to payment. Currently revenue for some of these contracts is recognised on a contractual milestone basis or at a point in time on shipment or delivery to the customer.

As at 31 December 2016 amounts included in work in progress in respect of the impacted contracts is estimated to be approximately £120m. Under IFRS 15 this would be traded as revenue and included in trade receivables including margin. The impact of IFRS 15 on the 2017 results will depend on the contracts in force during that period. When IFRS 15 is adopted in 2018 comparatives will be restated using the fully retrospective approach. The year on year impact will also depend on the contracts in place.

IFRS 16, Leases

IFRS 16, effective from 1 January 2019, requires all leases to be recognised on the Balance Sheet. Broadly the Group will recognise leases currently treated as operating leases, disclosed in note 28, as a lease liability and a right-to-use asset, after adjusting for extension periods that are reasonably certain to be taken and discounting using the rate implicit in the lease or the incremental cost of borrowing.

The total operating lease cost, currently expensed to the Income Statement as incurred will be split into a financing element and an operating element. The financing element will create a front loaded expense in finance costs. Additional disclosures will be required to support the new accounting requirements.

Management are currently assessing the impact of adopting this standard.

None of the amendments to other standards effective from 1 January 2017 or later years are expected to have an impact on the Group's financial reporting.

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. 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 144.

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

£m	Note	2016	2015
Operating (loss)/profit		**(779.1)**	12.0
Amounts related to prior periods restructuring programmes		**(8.7)**	67.5
Derivative financial instruments	21	**39.3**	18.8
Amortisation of intangible assets arising on business combinations	10	**161.2**	176.8
Other business acquisition and divestment related items			
Loss/(profit) on divestments	27	**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	10	**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, as described further in note 21.

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, see note 10.

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 27.

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 totalling £573.8m booked against goodwill and other intangible assets as described in note 10;
- 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 in the table 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	Note	2016	2015
Underlying operating profit		**225.0**	332.2
Amounts related to prior periods restructuring programmes		**8.7**	(67.5)
Derivative financial instruments	21	**(39.3)**	(18.8)
Amortisation of intangible assets arising on business combinations	10	**(161.2)**	(176.8)
Other business acquisition and divestment related items		**(1.7)**	(30.5)
Exceptional items	2	**(810.6)**	(26.6)
Net finance costs	5	**(68.8)**	(51.8)
Loss before taxation		**(847.9)**	(39.8)

Depreciation of property, plant and equipment, investment properties and amortisation of internally generated intangibles included in the calculation of underlying operating profit can be analysed by segment as follows:

£m	2016	2015
Communications and Connectivity	**16.8**	16.7
Mission Systems	**5.9**	5.3
Advanced Electronic Solutions	**15.4**	16.4
Aviation Services	**33.5**	36.1
Head office and other activities	**8.9**	2.7
Total Group	**80.5**	77.2

Details of employees analysed by operating segment can be found in note 4.

Geographical information

Revenue from external customers analysed by their geographic location, irrespective of the origin of the goods and services, is shown below. Non-current assets are analysed by the physical location of the assets and exclude financial instruments and deferred tax assets.

	Revenue		Non-current assets	
£m	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. Operating costs

Operating costs include the following:

£m	2016	2015
Materials costs within cost of sales	**615.1**	664.0
Amounts related to prior periods restructuring programmes		
Included within underlying profit	**6.3**	0.4
Non-underlying restructuring costs	**(8.7)**	67.5
Company funded research and development	**130.2**	138.0

Employment costs and employee numbers

The aggregate employment costs are as follows:

£m	Note	2016	2015
Wages and salaries		**614.2**	604.9
Social security costs		**44.9**	49.5
Pension costs	22	**35.1**	30.8
Share based payments	26	**3.8**	(3.0)
		698.0	682.2

Employee numbers, analysed by segment, are as follows:

	Average number of employees		As at 31 December	
	2016	2015	2016	2015
Communications and Connectivity	**3,561**	4,487	**3,429**	4,027
Mission Systems	**1,588**	1,556	**1,618**	1,595
Advanced Electronic Solutions	**3,103**	3,590	**3,068**	3,033
Aviation Services	**2,316**	2,468	**2,240**	2,430
Head office and other activities	**330**	426	**337**	420
Total Group	**10,898**	12,527	**10,692**	11,505

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

£m	2016	2015
Salaries and short term employee benefits	**6.3**	7.1
Post-employment benefits	**0.1**	0.2
Termination benefits	**1.5**	0.2
Share based payments	**0.5**	(1.4)
	8.4	6.1

Audit fees

During the year the Group obtained the following services from the Company's auditors, PricewaterhouseCoopers LLP and its associates:

£m	2016	2015
Annual audit of the Parent Company and Group Financial Statements	**1.4**	1.0
Audit of the Company's subsidiaries	**1.1**	1.2
Fees payable for audit services	**2.5**	2.2
Tax compliance services	**0.3**	0.3
Other tax advisory services	**0.2**	1.0
Other assurance services	**0.3**	0.1
Fees payable for other services	**0.8**	1.4
Total fees payable to the auditors	**3.3**	3.6

5. Finance income and costs

£m	Note	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	22	**(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.

6. Taxation

£m	Note	2016	2015
Charge for the year		**45.1**	39.8
Adjustments to tax charge in respect of prior years		**4.5**	(10.8)
Current tax		**49.6**	29.0
Credit for the year		**(107.6)**	(38.2)
Impact of change in tax rates		**5.0**	–
Adjustments to tax charge in respect of prior years		**0.2**	7.1
Deferred tax	20	**(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 credit 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%).

The total tax credit for the year can be reconciled to the accounting result as follows:

£m	2016	2015
Loss before tax	**(847.9)**	(39.8)
Tax thereon at the UK income tax rate of 20% (2015: 20.25%)	**(169.6)**	(8.1)
Impairment of goodwill	**106.1**	–
Effect of differences in overseas taxation rates	**(8.2)**	(12.3)
Impact of tax treatment of divestments	**5.6**	24.4
Impact of change in UK tax rates	**5.0**	–
Expenditure qualifying for additional R&D tax relief	**(1.3)**	(1.6)
Adjustments to tax charge in respect of prior years	**4.7**	(3.7)
Impact of other items	**4.9**	(0.8)
Total tax credit for the year	**(52.8)**	(2.1)

On 1 April 2017 the UK corporation tax rate will reduce from 20% to 19%. It will further reduce to 17% from 1 April 2020.

In addition the following charges/(credits) have been included in OCI and equity:

Included in OCI

£m	2016	2015
Items that will not be reclassified subsequently to profit or loss		
Actuarial (loss)/gain on retirement benefit obligations	**(8.5)**	5.9
Actuarial loss on other retirement benefit obligations	**(0.4)**	–
	(8.9)	5.9
Items that may subsequently be reclassified to profit or loss		
Hedge accounted derivative financial instruments	**(0.4)**	0.2

Included in equity

£m	2016	2015
Share based payments	**1.2**	1.1

7. 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.

8. 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.

9. Cash and cash equivalents and net debt

Reconciliation of cash and cash equivalents and net debt

£m	Note	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	17	**(60.9)**	(156.4)
Borrowings – non-current liabilities	17	**(1,203.5)**	(1,345.1)
Net debt at 31 December		**(1,028.2)**	(1,206.8)

Details of the offsetting of overdrafts with cash and cash equivalents and other financial instruments can be found in note 14.

Bank term balances totalling £7.1m (2015: £6.1m) have been pledged against the residual value of leased assets under an agreement which expires in 2020.

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)

10. Intangible assets

£m	Goodwill	Arising on business combinations: Customer relationships	Technology based assets	Order book and trade names	Development costs	Software and other	Total
Cost							
At 1 January 2015	1,328.7	602.8	358.6	63.0	2.0	67.9	2,423.0
Additions	–	–	–	–	–	16.9	16.9
Business divestments	(65.9)	(49.1)	(12.0)	–	–	(0.6)	(127.6)
Reclassified as held for sale	(81.3)	(11.0)	(7.5)	–	–	(3.3)	(103.1)
Derecognitions	–	(13.7)	(65.7)	(15.3)	(1.7)	(2.1)	(98.5)
Foreign exchange adjustments	19.1	16.2	5.1	0.5	–	0.3	41.2
Reclassifications	–	–	–	–	–	0.4	0.4
At 1 January 2016	**1,200.6**	**545.2**	**278.5**	**48.2**	**0.3**	**79.5**	**2,152.3**
Additions	–	–	–	–	–	**8.2**	**8.2**
Additions – internally generated	–	–	–	–	**0.3**	–	**0.3**
Business divestments	**(32.3)**	**(1.0)**	**(19.1)**	–	–	**(0.5)**	**(52.9)**
Derecognitions and disposals	–	–	**(13.1)**	**(43.9)**	**(0.1)**	**(0.9)**	**(58.0)**
Foreign exchange adjustments	**150.1**	**79.7**	**32.8**	**0.8**	–	**8.1**	**271.5**
Reclassifications	–	–	–	–	–	**5.0**	**5.0**
At 31 December 2016	**1,318.4**	**623.9**	**279.1**	**5.1**	**0.5**	**99.4**	**2,326.4**
Accumulated amortisation and impairment							
At 1 January 2015	63.0	141.6	124.0	24.3	1.7	27.6	382.2
Amortisation charge for the year	–	82.2	63.2	31.4	0.2	3.8	180.8
Eliminated on business divestments	–	(10.9)	(5.5)	–	–	(0.4)	(16.8)
Impairment provision	71.4	–	1.2	–	–	1.2	73.8
Reclassified as held for sale	(81.3)	(11.0)	(7.5)	–	–	(3.3)	(103.1)
Derecognitions	–	(13.7)	(65.7)	(15.3)	(1.7)	(2.1)	(98.5)
Foreign exchange adjustments	0.3	5.1	(1.4)	0.1	(0.1)	0.4	4.4
At 1 January 2016	**53.4**	**193.3**	**108.3**	**40.5**	**0.1**	**27.2**	**422.8**
Amortisation charge for the year	–	**105.2**	**50.0**	**6.0**	**0.1**	**13.9**	**175.2**
Eliminated on business divestments	**(32.3)**	**(0.8)**	**(18.3)**	–	–	**(0.5)**	**(51.9)**
Impairment provision	**530.6**	**23.0**	**20.2**	–	–	–	**573.8**
Derecognitions and disposals	–	–	**(13.1)**	**(43.9)**	**(0.1)**	**(0.7)**	**(57.8)**
Foreign exchange adjustments	**41.5**	**34.2**	**13.4**	**0.4**	–	**5.9**	**95.4**
Reclassifications	–	–	–	–	–	**3.0**	**3.0**
At 31 December 2016	**593.2**	**354.9**	**160.5**	**3.0**	**0.1**	**48.8**	**1,160.5**
Carrying amount							
At 31 December 2016	**725.2**	**269.0**	**118.6**	**2.1**	**0.4**	**50.6**	**1,165.9**
At 31 December 2015	1,147.2	351.9	170.2	7.7	0.2	52.3	1,729.5
At 1 January 2015	1,265.7	461.2	234.6	38.7	0.3	40.3	2,040.8

Amortisation charged during the year relating to intangible assets recognised on business combinations was £161.2m (2015: £176.8m). This has been excluded from underlying profit in note 2. In addition, the impairment provision of £573.8m and £3.9m of amortisation of software have been included within exceptional items in note 2. All amortisation charges are included within administrative expenses in the Income Statement.

Customer relationships represent customer lists, customer contracts and the associated benefits of customer relationships recognised on acquisition. Technology based assets represent trade secrets and processes, patented and unpatented technology, and know-how recognised on acquisition. Other intangible assets represent purchased patents, licences and trademarks. Intangible assets recognised on business combinations are derecognised when they have been fully amortised.

Goodwill and annual impairment review

Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised, such as the value of the workforce, and is the only indefinite life intangible asset held by the Group. The carrying value of goodwill is allocated to the following cash generating units:

£m	2016	2015
SATCOM (Communications and Connectivity)	**211.8**	222.0
Microelectronic Solutions (Advanced Electronic Solutions)	**142.3**	99.7
Davenport (Mission Systems)	**91.9**	88.3
Integrated Electronic Solutions (Advanced Electronic Solutions)	**57.4**	220.0
Helicopter services (Aviation Services)	**50.8**	50.8
Semiconductor Solutions (Advanced Electronic Solutions)	**46.0**	214.9
Avionics (Communications and Connectivity)	**41.1**	36.9
Wireless (Communications and Connectivity)	**–**	152.9
Other	**83.9**	61.7
Total	**725.2**	1,147.2

The Group reviews goodwill for potential impairment of each cash generating unit (CGU) annually, or more frequently if there are indications that goodwill might be impaired. CGUs are typically considered to be Business Units.

The recoverable amounts of the CGUs are determined from value in use calculations unless specific conditions at a CGU dictate otherwise. Businesses held for sale are assessed for impairment using expected net proceeds of divestment.

The calculation of recoverable value for CGUs based on value in use includes the following key assumptions:

- Cash flow forecasts 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 3 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**	**–**
Total	**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 defence 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.

Microelectronic Solutions goodwill includes part of the Aeroflex business acquired in 2014, some of the former M/A-COM businesses acquired in 2008 and the REMEC business acquired in 2005. Cash flow projections assume continued funding of established US defence platforms. If cash flows reduced by 20% there would be no impairment losses. If the pre-tax discount rate, assumed to be 9.2%, was 10.2% or if the growth rate fell from 2.0% to zero, then no impairment losses would arise.

Davenport goodwill arose on the acquisition of Carleton Technologies in 1987, Conax in 1998 and Koch in 2005. Projected cash flows for the next 3 years, with subsequent growth assumed at a rate of 2.0% were discounted at a pre-tax rate of 9.2%. If cash flows reduced by 20%, the discount rate was 10.2% or if the growth rate was zero, then no impairment losses would arise.

Helicopter Services goodwill arose on the acquisition of the FB Group in 2013. Projected cash flows for the next 3 years, with subsequent growth assumed at a rate of 2.1% were discounted at a pre-tax rate of 9.5%. If cash flows reduced by 20%, the discount rate was 10.5% or if the growth rate was zero, then no impairment losses would arise.

Avionics goodwill arose on the acquisition of a number of smaller businesses. Projected cash flows for the next 3 years, with subsequent growth assumed at a rate of 1.4% were discounted at a pre-tax rate of 9.8%. If cash flows reduced by 20%, the discount rate was 10.2% or if the growth rate was zero, then no impairment losses would arise.

11. Property, plant and equipment

£m	Land and buildings: Freehold	Land and buildings: Long leases	Land and buildings: Short leases	Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Payments on account and assets under construction	Total
Cost							
At 1 January 2015	105.1	35.4	8.5	661.9	93.8	23.1	927.8
Additions	2.7	1.2	0.3	42.9	4.0	47.9	99.0
Business divestments	(7.0)	(1.0)	(5.1)	(24.4)	(5.5)	(0.2)	(43.2)
Disposals	(9.9)	(2.3)	–	(24.4)	(4.0)	–	(40.6)
Reclassified as held for sale	(0.4)	(2.1)	(0.1)	(9.7)	(5.9)	–	(18.2)
Foreign exchange adjustments	1.9	0.9	0.3	(5.8)	0.4	0.7	(1.6)
Reclassifications	1.3	–	–	5.4	1.4	(9.5)	(1.4)
At 1 January 2016	**93.7**	**32.1**	**3.9**	**645.9**	**84.2**	**62.0**	**921.8**
Additions	**1.8**	**1.3**	**0.1**	**50.3**	**10.7**	**17.3**	**81.5**
Business divestments	**–**	**–**	**–**	**–**	**(2.5)**	**–**	**(2.5)**
Disposals	**(3.6)**	**(2.3)**	**(0.4)**	**(43.5)**	**(4.9)**	**(0.2)**	**(54.9)**
Foreign exchange adjustments	**14.2**	**2.8**	**0.7**	**69.3**	**12.2**	**9.5**	**108.7**
Reclassifications	**3.4**	**–**	**–**	**12.5**	**4.7**	**(18.5)**	**2.1**
At 31 December 2016	**109.5**	**33.9**	**4.3**	**734.5**	**104.4**	**70.1**	**1,056.7**
Accumulated depreciation							
At 1 January 2015	31.5	17.9	6.2	414.5	67.7	–	537.8
Depreciation charge for the year	4.1	2.7	0.7	61.0	4.5	–	73.0
Eliminated on business divestments	(2.9)	–	(4.3)	(12.8)	(3.4)	–	(23.4)
Eliminated on disposals	(2.7)	(2.1)	–	(21.6)	(3.9)	–	(30.3)
Reclassified as held for sale	(0.2)	(0.8)	–	(7.2)	(5.8)	–	(14.0)
Foreign exchange adjustments	0.5	0.5	–	(2.5)	(0.1)	–	(1.6)
Reclassifications	0.3	(0.1)	–	(0.6)	0.8	–	0.4
At 1 January 2016	**30.6**	**18.1**	**2.6**	**430.8**	**59.8**	**–**	**541.9**
Depreciation charge for the year	**5.6**	**1.5**	**0.5**	**54.4**	**10.2**	**–**	**72.2**
Eliminated on business divestments	**–**	**–**	**–**	**–**	**(1.6)**	**–**	**(1.6)**
Eliminated on disposals	**(3.4)**	**(0.7)**	**(0.3)**	**(36.4)**	**(3.6)**	**–**	**(44.4)**
Foreign exchange adjustments	**5.0**	**2.3**	**0.5**	**45.7**	**7.8**	**–**	**61.3**
Reclassifications	**(0.1)**	**–**	**–**	**4.7**	**(0.2)**	**–**	**4.4**
At 31 December 2016	**37.7**	**21.2**	**3.3**	**499.2**	**72.4**	**–**	**633.8**
Carrying amount							
At 31 December 2016	**71.8**	**12.7**	**1.0**	**235.3**	**32.0**	**70.1**	**422.9**
At 31 December 2015	63.1	14.0	1.3	249.4	24.4	27.7	379.9
At 1 January 2015	73.6	17.5	2.3	247.4	26.1	23.1	390.0

Included in the depreciation charge for the year is £2.0m which has been included within exceptional items in note 2. At 31 December 2016 the Group had commitments for the acquisition of property, plant and equipment of £14.3m (2015: £29.3m). Comparatives for 2015 include a reclassification between plant and machinery and assets under construction.

12. Investment properties

£m	2016	2015
Carrying amount at 1 January	**4.3**	10.4
Disposals	**–**	(6.0)
Depreciation	**(0.7)**	(0.2)
Foreign exchange adjustments	**–**	0.1
Carrying amount at 31 December	**3.6**	4.3

Included in the depreciation charge for the year is £0.5m which has been included within exceptional items in note 2. The fair value of the Group's investment properties has been assessed to be £6.2m (2015: £6.6m). These values are based on management estimates using observable market data, taking into account current lease terms. Property rental income earned by the Group from its investment properties amounted to £0.7m (2015: £1.2m), which is net of all direct costs associated with the leasing of the properties except depreciation. The buildings are leased to commercial users on operating leases with terms of 10, 11 and 25 years which commenced between 1998 and 2013.

13. Inventories

£m	2016	2015
Raw materials and consumables	**210.7**	187.2
Work in progress	**238.2**	220.1
Finished goods and goods for resale	**42.5**	51.9
Allowance for obsolescence	**(86.1)**	(48.8)
	405.3	410.4

Exceptional items detailed in note 2 include £34.8m in respect of inventories, of which £19.5m relates to additional obsolescence provisions reflecting ageing stock and lower demand forecasts, £14.6m relating to the derecognition of contract related work in progress and £0.7m relating to spares inventory.

Work in progress includes £58.4m (2015: £58.5m) which relates to customer funded engineering development contracts.

During the year £36.3m (2015: £18.5m) was provided, £5.2m (2015: £4.6m) was utilised and £6.4m (2015: £10.5m) of the allowance for obsolescence was reversed. This allowance is reviewed by management on a regular basis and further amounts are provided or released as considered necessary. The amounts are generally determined based on factors which include ageing and known demand. Subsequent events may give rise to these estimates being revised and, consequently, to the reversal of amounts previously provided.

Inventory will be realised within the normal operating cycle of the businesses. Within the Mission Systems segment, inventory relating to long term contracts expected to be realised after more than 12 months amounts to £29.2m (2015: £17.1m).

14. Financial instruments

The Group's financial assets and liabilities are categorised as follows:

£m	Note	Loans and receivables	Fair value through profit or loss	Amortised cost	Derivatives used for hedging	Total carrying amount	Fair value
Financial assets							
Trade receivables	15	**307.5**	–	–	–	**307.5**	**307.5**
Other receivables	15	**129.0**	–	–	–	**129.0**	**129.0**
Cash and cash equivalents	9	**236.2**	–	–	–	**236.2**	**236.2**
Derivative contracts (not hedge accounted)	21	–	**9.3**	–	–	**9.3**	**9.3**
Other financial assets		–	–	**6.1**	–	**6.1**	**6.1**
Financial liabilities							
Borrowings	17	–	–	**(1,264.4)**	–	**(1,264.4)**	**(1,348.3)**
Trade payables	18	–	–	**(155.8)**	–	**(155.8)**	**(155.8)**
Accruals	18	–	–	**(129.5)**	–	**(129.5)**	**(129.5)**
Other financial liabilities	18	–	–	**(43.3)**	–	**(43.3)**	**(43.3)**
Derivative contracts (not hedge accounted)	21	–	**(54.0)**	–	–	**(54.0)**	**(54.0)**
Hedging instruments							
Assets	21	–	–	–	**18.9**	**18.9**	**18.9**
Liabilities	21	–	–	–	**(20.4)**	**(20.4)**	**(20.4)**
Net financial liabilities at 31 December 2016						**(960.4)**	**(1,044.3)**
Financial assets							
Trade receivables	15	286.3	–	–	–	286.3	286.3
Other receivables	15	114.7	–	–	–	114.7	114.7
Cash and cash equivalents	9	294.7	–	–	–	294.7	294.7
Derivative contracts (not hedge accounted)	21	–	11.2	–	–	11.2	11.2
Other financial assets		–	–	6.1	–	6.1	6.1
Financial liabilities							
Borrowings	17	–	–	(1,501.5)	–	(1,501.5)	(1,604.1)
Trade payables	18	–	–	(145.9)	–	(145.9)	(145.9)
Accruals	18	–	–	(121.7)	–	(121.7)	(121.7)
Other financial liabilities	18	–	–	(42.6)	–	(42.6)	(42.6)
Derivative contracts (not hedge accounted)	21	–	(40.2)	–	–	(40.2)	(40.2)
Hedging instruments							
Assets	21	–	–	–	4.4	4.4	4.4
Liabilities	21	–	–	–	(4.3)	(4.3)	(4.3)
Net financial liabilities at 31 December 2015						(1,138.8)	(1,241.4)

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.

Other financial assets relate to Cobham plc's investments in connection with the Voyager (FSTA) project which are held at cost, totalling £6.1m (2015: £6.1m).

Gains and losses on financial assets and liabilities held at fair value through profit or loss are shown in note 21. The total interest income and expense for financial assets and liabilities not held at fair value through profit or loss is shown in note 5.

Offsetting financial assets and liabilities

Cash and cash equivalents as shown in the Balance Sheet include overdraft balances on currency cash pooling accounts which have been offset as the accounts will be settled on a net basis as described in note 23. Master netting agreements also cover all bank balances and derivative balances with the same counterparty. These do not meet the criteria for offsetting because the right to offset is only enforceable on the occurrence of future events such as a default and amounts presented in the Balance Sheet are therefore presented on a gross basis.

If full offsetting by counterparty were to be applied, the resulting net amounts would be as follows:

£m	Gross amounts before set off	Amounts set off in the Balance Sheet	Amounts as presented in the Balance Sheet	Amounts not set off in the Balance Sheet	Net amount
Financial assets					
Cash and cash equivalents	**826.8**	**(590.6)**	**236.2**	**(3.9)**	**232.3**
Derivative financial assets	**28.2**	**–**	**28.2**	**(25.7)**	**2.5**
Financial liabilities					
Bank overdrafts	**(590.6)**	**590.6**	**–**	**–**	**–**
Derivative financial liabilities	**(74.4)**	**–**	**(74.4)**	**29.6**	**(44.8)**
At 31 December 2016	**190.0**	**–**	**190.0**	**–**	**190.0**
Financial assets					
Cash and cash equivalents	778.8	(484.1)	294.7	(6.1)	288.6
Derivative financial assets	15.6	–	15.6	(12.8)	2.8
Financial liabilities					
Bank overdrafts	(484.8)	484.1	(0.7)	0.7	–
Derivative financial liabilities	(44.5)	–	(44.5)	18.2	(26.3)
At 31 December 2015	265.1	–	265.1	–	265.1

15. Trade and other receivables

Current

£m	2016	2015
Trade receivables (net of provision for impairment)	**307.5**	286.3
Accrued income	**41.8**	28.1
Loans and other receivables	**21.2**	15.3
Prepayments	**39.3**	36.3
	409.8	366.0

Non-current

£m	2016	2015
Accrued income	**38.0**	37.8
Loans and other receivables	**28.0**	33.5
	66.0	71.3

Impairment of trade receivables

£m	2016	2015
Trade receivables	**318.0**	289.6
Provision for impairment of trade receivables	**(10.5)**	(3.3)
Net trade receivables	**307.5**	286.3

Movements in the provision for impairment of trade receivables during the year are as follows:

£m	2016	2015
At 1 January	**3.3**	7.7
Additional provisions	**9.2**	1.8
Utilisation of provisions	**(0.8)**	(3.7)
Unused amounts reversed	**(1.4)**	(2.5)
Business divestments	**(0.4)**	(0.2)
Foreign exchange adjustments	**0.6**	0.2
At 31 December	**10.5**	3.3

Additional provisions recognised in the year include £5.8m which have been included within exceptional items in note 2. In addition, £32.8m related to contract accrued income was derecognised and included in exceptional items.

A significant proportion of the Group's business is directly with government agencies or in respect of large government funded military programmes, where credit risk is considered to remain low. Information concerning management of credit risk is shown in note 23.

The credit quality of trade receivables can be analysed as follows:

£m	2016	2015
Amounts not yet due and not impaired	**242.4**	219.0
Amounts past due but not impaired	**59.2**	64.8
Amounts for which full or partial impairment provision has been made	**16.4**	5.8
	318.0	289.6

Trade receivables which are past due but not considered by management to be impaired are aged as follows:

£m	2016	2015
Less than 1 month overdue	**42.2**	41.2
1 month overdue	**10.6**	11.8
2 months overdue	**2.9**	5.0
3 or more months overdue	**3.5**	6.8
	59.2	64.8

Other classes of financial assets within trade and other receivables do not include any overdue or impaired assets, other than a loan of €10m which was advanced in connection with the divestment of the Unmanned Systems business. This is held at fair value which is assessed to be nil.

16. Non-current assets and disposal groups held for sale

At 31 December 2015 the following assets and liabilities of the Group's Surveillance businesses were classified as held for sale and were measured on a non-recurring basis at fair value, based on the agreed selling price of US$10m less costs to sell:

£m	2015
Inventories	3.9
Trade and other receivables	12.9
Total assets classified as held for sale	16.8
Trade payables and other liabilities	(11.5)
Provisions	(1.2)
Total liabilities associated with assets classified as held for sale	(12.7)
Total non-current assets and disposal groups held for sale	4.1

There are no non-current assets or disposal groups held for sale at 31 December 2016.

17. Borrowings

£m	2016	2015
Bank overdrafts	–	0.7
Bank loans	–	100.7
Senior notes	60.7	54.9
Finance leases	0.2	0.1
Total current borrowings	60.9	156.4
Bank loans	475.7	471.8
Senior notes	727.5	872.9
Finance leases	0.3	0.4
Total non-current borrowings	1,203.5	1,345.1
Total borrowings	1,264.4	1,501.5

Bank overdrafts are repayable on demand and accrue interest at floating rates. Bank loans comprise the following:

			Amount drawn		Undrawn facilities	
£m	Agreement date	Maturity date	2016	2015	2016	2015
Fixed rates						
US$75m credit agreement	December 2008	December 2019	60.7	50.9	–	–
Floating rates						
US$360m multi-currency revolving credit agreement comprising:	October 2011					
US$90m		October 2016	–	49.8	–	11.4
US$270m		October 2018	190.5	149.1	28.0	34.1
EUR70m multi-currency revolving facility	June 2012	October 2018	48.4	41.6	11.4	10.0
DKK525m multi-currency revolving facility	June 2012	October 2018	–	–	60.3	51.8
AUS$90m multi-currency revolving facility	February 2014	October 2018	28.5	29.0	24.2	15.4
US$185m facility agreement	May 2015	October 2018	–	125.5	–	–
EUR131m and US$40m loan agreements	May 2015	May 2020	144.2	123.7	–	–
EUR4m loan agreement	May 2015	May 2022	3.4	2.9	–	–
			475.7	572.5	123.9	122.7

Floating rate bank loans accrue interest at LIBOR or other appropriate benchmark plus margin.

The US$185m facility was repaid and cancelled in August 2016 following the rights issue completed in June 2016. Under the US$75m agreement, which expires in 2031, the lender has a series of put options exercisable every three years from December 2019.

At 31 December 2016, senior notes with a total principal value of US$974.0m (£788.2m) (2015: US$1,367.5m, £927.8m) are outstanding as set out below:

£m	Issue date	Maturity date	2016	2015
US$81m fixed rate	March 2009	March 2016	–	54.9
US$50m floating rate *	May 2010	May 2017	–	33.9
US$105m floating rate *	January 2010	February/March 2018	–	71.2
US$157.5m fixed rate *	March 2009	March 2019	–	106.9
US$44m fixed rate	October 2012	October 2020	**35.6**	29.9
US$930m fixed rate comprising:	October 2014			
US$75m		October 2017	**60.7**	50.9
US$180m		October 2019	**145.7**	122.1
US$250m		October 2021	**202.3**	169.7
US$425m		October 2024	**343.9**	288.3
			788.2	927.8

Senior notes with a face value of US$312.5m (marked * above) were repaid in September 2016 following the rights issue completed in June 2016.

The loan and note subscription agreements include both financial and non-financial covenants but do not contain any provisions for charges over Group assets. The terms of the financial covenants are based on adjusted IFRS results and are shown on page 31. There have been no breaches of the terms of agreements or defaults during the current or comparative periods.

18. Trade and other payables

Current liabilities

£m	2016	2015
Payments received on account	**67.0**	59.4
Trade payables	**155.3**	145.9
Other taxes and social security	**28.2**	23.5
Deferred income	**19.2**	12.8
Accruals	**123.5**	117.8
Other liabilities	**37.6**	38.7
	430.8	398.1

Non-current liabilities

£m	2016	2015
Payments received on account	**2.7**	5.2
Trade payables	**0.5**	–
Deferred income	**16.6**	11.8
Accruals	**6.0**	3.9
Other liabilities	**5.7**	3.9
	31.5	24.8

Additional current liabilities recognised in the year include £5.8m which have been disclosed as exceptional in note 2.

19. 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.

Provisions related to businesses divested relate to longer term warranties given on divestments completed in 2005. Due to uncertainties surrounding the timing of settlement of these items, they have been disclosed as current liabilities.

Restructuring provisions relate to prior years' restructuring programmes in respect of the integration of the Aeroflex businesses acquired in 2014. In 2016, provisions released reflect a reassessment of the level of provisions required in respect of IT integration and remediation costs. Amounts carried forward primarily relate to onerous lease provisions which are not expected to be fully settled until 2025.

Provisions for warranty claims are expected to be utilised within two years.

Contract loss provisions are recognised for onerous contracts when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract. These provisions are expected to be utilised within three years although where there are uncertainties surrounding the timing of utilisation, they have been disclosed as current liabilities.

Aircraft maintenance provisions relate to significant periodic maintenance costs as well as return conditions for leased aircraft and are anticipated to crystallise within five years.

Other provisions include amounts provided in respect of legal claims and environmental obligations and are mostly expected to be settled within one year.

20. Deferred tax

£m	2016	2015
Deferred tax assets	**(42.3)**	(11.4)
Deferred tax liabilities	**27.6**	102.0
	(14.7)	90.6

The following are the major deferred tax assets and liabilities recognised by the Group and the movements thereon:

£m	Intangible assets	Property, plant and equipment	Retirement benefit obligations	Tax losses	Other	Total
At 1 January 2015	216.2	23.6	(20.5)	–	(95.3)	124.0
(Credit)/charge to Income Statement	(37.0)	(18.0)	3.3	–	20.6	(31.1)
Charge to OCI	–	–	5.9	–	0.4	6.3
Charge to reserves	–	–	–	–	1.5	1.5
Business divestments	(11.0)	(0.6)	–	–	(0.8)	(12.4)
Foreign exchange adjustments	6.9	–	–	–	(3.9)	3.0
Reclassifications	–	–	–	–	(0.7)	(0.7)
At 1 January 2016	**175.1**	**5.0**	**(11.3)**	**–**	**(78.2)**	**90.6**
(Credit)/charge to Income Statement	**(37.7)**	**16.5**	**2.4**	**(28.9)**	**(54.7)**	**(102.4)**
Credit to OCI	**–**	**–**	**(8.5)**	**–**	**(0.8)**	**(9.3)**
Charge to reserves	**–**	**–**	**–**	**–**	**1.6**	**1.6**
Business divestments	**(0.2)**	**(2.4)**	**–**	**–**	**–**	**(2.6)**
Foreign exchange adjustments	**26.8**	**5.5**	**–**	**–**	**(24.9)**	**7.4**
At 31 December 2016	**164.0**	**24.6**	**(17.4)**	**(28.9)**	**(157.0)**	**(14.7)**

Other deferred tax assets and liabilities shown above include balances arising from temporary differences in relation to provisions, accruals, deferred compensation, share based payments and derivative financial instruments.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances (after offset) for balance sheet purposes are analysed as follows:

£m	2016	2015
Deferred tax liabilities fall due:		
Within one year	**0.5**	25.8
After one year	**27.1**	76.2
	27.6	102.0
Deferred tax assets are recoverable:		
Within one year	**(24.9)**	(8.5)
After one year	**(17.4)**	(2.9)
	(42.3)	(11.4)

Without taking into consideration the offsetting of balances, deferred tax balances are as follows:

£m	Intangible assets	Property, plant and equipment	Retirement benefit obligations	Tax losses	Other	Total
Deferred tax assets	–	–	**(17.4)**	**(28.9)**	**(163.2)**	**(209.5)**
Deferred tax liabilities	**164.0**	**24.6**	–	–	**6.2**	**194.8**
At 31 December 2016	**164.0**	**24.6**	**(17.4)**	**(28.9)**	**(157.0)**	**(14.7)**
Deferred tax assets	–	(5.1)	(11.3)	–	(101.6)	(118.0)
Deferred tax liabilities	175.1	10.1	–	–	23.4	208.6
At 31 December 2015	175.1	5.0	(11.3)	–	(78.2)	90.6

Tax losses arising in the UK during the year have been recognised on the basis of forecasted future taxable profits.

At the balance sheet date, the Group has unused capital losses of £66.3m (2015: £63.0m) potentially available for offset against future capital profits in certain circumstances. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future qualifying profit streams. These losses can be carried forward indefinitely.

The unprovided tax on unremitted earnings as at 31 December 2016 is considered to be immaterial.

The rate of UK corporation tax will reduce from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. As this had been substantively enacted prior to 31 December 2016, UK deferred taxes have been calculated at 19% or 17% where the liability is expected to crystallise after 1 April 2017 or 1 April 2020 respectively.

21. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
Non-current assets	–	**19.7**	–	**19.7**
Current assets	–	**8.5**	–	**8.5**
Current liabilities	**(0.6)**	**(40.2)**	**(1.4)**	**(42.2)**
Non-current liabilities	**(1.2)**	**(30.6)**	**(0.4)**	**(32.2)**
Fair value at 31 December 2016	**(1.8)**	**(42.6)**	**(1.8)**	**(46.2)**
Non-current assets	–	6.5	–	6.5
Current assets	–	9.1	–	9.1
Current liabilities	(0.5)	(28.9)	(1.2)	(30.6)
Non-current liabilities	(1.8)	(10.9)	(1.2)	(13.9)
Fair value at 31 December 2015	(2.3)	(24.2)	(2.4)	(28.9)

The movements in the fair values of derivative financial instruments during the year are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
At 1 January 2015	(3.3)	(13.6)	(3.0)	(19.9)
(Loss)/gain through income statement – not hedged	–	(10.9)	0.4	(10.5)
Gain reclassified to income statement	1.1	–	–	1.1
Loss through OCI – hedged items	(0.3)	(0.3)	–	(0.6)
Foreign exchange adjustments	0.2	0.6	0.2	1.0
At 1 January 2016	**(2.3)**	**(24.2)**	**(2.4)**	**(28.9)**
(Loss)/gain through income statement – not hedged	**–**	**(16.7)**	**1.0**	**(15.7)**
Gain reclassified to income statement	**1.1**	**0.5**	**–**	**1.6**
Loss through OCI – hedged items	**(0.2)**	**(2.2)**	**–**	**(2.4)**
Foreign exchange adjustments	**(0.4)**	**–**	**(0.4)**	**(0.8)**
At 31 December 2016	**(1.8)**	**(42.6)**	**(1.8)**	**(46.2)**

Interest rate swaps are designated as cash flow hedging instruments and hedge accounting is applied. In addition, a small number of specific foreign exchange derivatives with a fair value at 31 December 2016 of £0.3m (2015: £2.4m) are designated as cash flow hedging instruments or as hedging instruments for net investment hedging purposes, and hedge accounting is applied. There is no material ineffectiveness in cash flow hedges to be reported through the Income Statement.

The majority of foreign exchange and inflation derivatives are not accounted for using hedge accounting. Movements in fair values are recorded in the Income Statement within administrative expenses and are excluded from underlying profit in note 2. Also excluded from underlying profit are losses of £23.6m (2015: loss £8.3m) arising from the movement in fair values of currency swaps which offset movements in currency balances held, and gains and losses arising on foreign exchange derivatives related to dividend flows within the Group.

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the accounting policies in note 1 and in note 23, financial risk management.

22. Retirement benefit schemes

Retirement benefit obligations per the Balance Sheet consist of:

£m	**2016**	2015
Defined benefit scheme assets	**790.0**	663.9
Defined benefit obligations	**(877.0)**	(720.6)
	(87.0)	(56.7)

Pension expense included in employment costs in note 4 are as follows:

£m	**2016**	2015
Defined benefit schemes	**1.6**	2.7
Defined contribution schemes	**33.5**	28.1
	35.1	30.8

The Group operates a number of funded defined benefit schemes (where benefits are based on employees' length of service and average final salary), the most significant being the Cobham Pension Plan (CPP). The assets of all of these schemes are held separately from those of the Group in funds under the control of trustees. All defined benefit schemes have been closed to new members since 2003 and the UK schemes were closed to future accrual from 1 April 2016. The Group also manages a number of defined contribution pension arrangements, where the Group's contribution is fixed at a set percentage of employees' pay.

The defined benefit schemes expose the Group to a number of risks, as described below:
- Volatility of investment returns. If the investment return is lower than the discount rate set with reference to corporate bond yields then the scheme deficit will increase;
- Inflation risk. Pensionable salaries, deferred pensions and pensions in payment are subject to inflationary increases. A higher inflation rate will lead to higher defined benefit obligations;
- Changes in bond yields. Volatility in the financial markets can have a significant impact on corporate bond yields which are used to generate a discount rate assumption. Lower corporate bond yields will lead to higher defined benefit obligations;
- Life expectancy risk. The schemes' obligations are to provide benefits for the life of the member and therefore increases in life expectancy will lead to higher defined benefit obligations.

The trustees seek to mitigate these risks and have invested in liability driven investments that mitigate bond yield, inflation and investment risks. The remaining assets include significant investment in diversified growth funds which seek to manage investment risks. In addition there have been a number of buy-in arrangements where assets are transferred to an insurance company in return for a qualifying insurance policy which provides an income stream equivalent to the obligations to pensioners covered by the arrangement. The most significant buy-in arrangement relates to pensioners of the CPP as at 1 July 2013. The insurance contract assets are measured at a value equal to the related liabilities, mitigating the risks associated with those liabilities.

Actuarial valuations of the present value of the defined benefit obligations for the CPP are carried out on a triennial basis by qualified independent actuaries; the most recent valuation was as at 1 April 2015. Actuarial valuations of other schemes have been carried out at regular intervals as required by the applicable country regulations. The actuarial valuations were updated by qualified independent actuaries for accounting purposes to 31 December 2016. In the UK, within 15 months of each triennial valuation, the employer and the trustees are required to agree a schedule of contributions to ensure that the Plan is fully funded over time on a suitably prudent basis. The Group expects to contribute £18.7m to its defined benefit pension schemes in 2017 and £18.7m in 2018. Thereafter the current schedules of contributions require £8.8m of contributions each year through to 2022.

There were no significant contributions outstanding at the end of 2016 or 2015 for the defined benefit schemes. £0.4m (2015: £0.7m) was outstanding in respect of defined contribution schemes but not due for payment at 31 December 2016.

The principal financial assumptions used for the purpose of the actuarial valuations were as follows:

	2016		2015	
	UK schemes	**USA scheme**	UK schemes	USA scheme
Rate of increase in salary costs	**3.70%**	**3.70%**	3.45%	3.45%
Rate of increase in pensions in payment unless overridden by specific scheme rules	**3.45%**	**3.45%**	3.20%	3.20%
Rate of increase in deferred pensions	**2.45%**	**2.45%**	2.20%	3.20%
Discount rate	**2.65%**	**3.95%**	3.80%	4.13%
Inflation assumption	**3.45%**	**3.45%**	3.20%	3.20%

The mortality assumptions used for the CPP are based upon actuarial tables which reflect actual recent mortality experience and also allow for future mortality improvements. The mortality tables used to estimate life expectancy are known as 'SAPS CMI 15' (2015: SAPS CMI 14). In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Further life expectancy
Male	1951	2016	22.6 years
Female	1951	2016	24.6 years
Male	1980	2045	25.2 years
Female	1980	2045	27.3 years

At 31 December 2016 it has been assumed that members will commute on average 25% (2015: 25%) of their pension for cash at retirement.

The sensitivity of scheme liabilities to changes in certain key assumptions, after adjusting for liabilities covered by insurance contracts, is provided below:

	Change in assumption	Change in liabilities
Discount rate	Increase by 1.0%	-9%
Inflation rate	Increase by 0.5%	+3%
Life expectancy	Increase by one year	+2%

If the change in assumptions were in the opposite direction to that shown above, the impact would be approximately symmetrical.

A summary of the movements in the net liability and the amounts recognised in the Income Statement and OCI are as follows:

	2016			2015		
£m	Scheme assets	Defined benefit obligations	Total	Scheme assets	Defined benefit obligations	Total
Current service cost included in administrative expenses	–	(1.6)	(1.6)	–	(6.9)	(6.9)
Past service cost included in administrative expenses	–	–	–	–	(7.1)	(7.1)
Gain on curtailment included in administrative expenses	–	–	–	–	9.8	9.8
Gain on curtailment included in business restructuring	–	–	–	–	1.5	1.5
Scheme administration expenses	(0.2)	–	(0.2)	(0.7)	–	(0.7)
Amounts recognised in operating profit	(0.2)	(1.6)	(1.8)	(0.7)	(2.7)	(3.4)
Net interest	25.1	(26.9)	(1.8)	23.5	(26.6)	(3.1)
Amounts credited/(charged) to other finance expense	25.1	(26.9)	(1.8)	23.5	(26.6)	(3.1)
Actual return less interest income on pension scheme assets	112.3	–	112.3	(26.3)	–	(26.3)
Experience gains and losses arising on scheme liabilities	–	(1.0)	(1.0)	–	12.2	12.2
Actuarial gains and losses arising from changes in financial assumptions	–	(163.6)	(163.6)	–	38.1	38.1
Actuarial gains arising from changes in demographic assumptions	–	9.7	9.7	–	5.6	5.6
Amounts recognised in OCI	112.3	(154.9)	(42.6)	(26.3)	55.9	29.6
Employer contributions	18.5	–	18.5	22.7	–	22.7
Member contributions	0.4	(0.4)	–	1.8	(1.8)	–
Benefits paid	(33.0)	33.0	–	(28.7)	28.7	–
Amounts included in Cash Flow Statement	(14.1)	32.6	18.5	(4.2)	26.9	22.7
Exchange differences	3.0	(5.6)	(2.6)	1.0	(1.5)	(0.5)
Net movement in the year	126.1	(156.4)	(30.3)	(6.7)	52.0	45.3
Net liability at start of year	663.9	(720.6)	(56.7)	670.6	(772.6)	(102.0)
Net liability at end of year	790.0	(877.0)	(87.0)	663.9	(720.6)	(56.7)
UK schemes	770.9	(842.2)	(71.3)	649.2	(692.8)	(43.6)
US scheme	19.1	(34.8)	(15.7)	14.7	(27.8)	(13.1)
Net liability at end of year	790.0	(877.0)	(87.0)	663.9	(720.6)	(56.7)

The cumulative amount of actuarial losses recognised in OCI since transition to IFRS is £248.8m (2015: £206.2m). Of the actuarial losses recognised in the year, the changes in financial assumptions are primarily driven by the movements in the discount rate.

The actual return on scheme assets was £137.4m (2015: £2.8m loss). The weighted average duration of the scheme liabilities is estimated to be 17 years.

The fair value of major categories of scheme assets, and as a percentage of total scheme assets, is as follows:

	2016		2015	
	£m	%	£m	%
UK equity instruments	66.9	8.5%	55.7	8.4%
Overseas equities	31.2	3.9%	26.7	4.0%
Emerging markets equities	21.2	2.7%	18.1	2.7%
Liability driven investments	79.0	10.0%	60.9	9.2%
Corporate bonds	85.6	10.8%	4.8	0.7%
Private credit	14.7	1.9%	–	–
Diversified growth funds	146.1	18.5%	160.5	24.2%
Insurance contracts	318.4	40.3%	287.6	43.3%
Other assets including cash	26.9	3.4%	49.6	7.5%
	790.0	100.0%	663.9	100.0%

Scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

Other retirement benefit schemes
The assets and liabilities of other immaterial retirement benefit schemes are as follows:

	2016		2015	
£m	Assets	Liabilities	Assets	Liabilities
French indemnity schemes	–	(5.6)	–	(4.0)
German based schemes	1.0	(1.5)	3.3	(3.4)
US based schemes	–	–	1.8	(2.2)
	1.0	(7.1)	5.1	(9.6)

The actuarial loss for these schemes in the year to 31 December 2016, recognised in OCI, was £1.2m (2015: £nil). The net liabilities are included in other liabilities in note 18. The German based schemes are substantially covered by insurance policies.

23. Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks which include the effects of changes in foreign currency exchange rates, interest rates, liquidity risk and credit risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by using foreign currency financial instruments, debt and other instruments, including interest rate swaps. Other derivative financial instruments may be used from time to time to manage exposures such as inflation risk. The financial risk management policies agreed by the Board have not changed during the year and are summarised below. The Group does not trade in financial instruments.

Foreign currency risk
The Group is based in the UK, reports in sterling and has significant investment in overseas operations in the USA, Australia and other European countries. As a result, the Group's Balance Sheet, including the net debt position, can be affected by movements in these countries' exchange rates. The Group's policy is to reduce, or eliminate where practical, both structural and transactional foreign exchange risk and, consequently, the net foreign exchange gains and losses included in the Income Statement amounted to a loss of £26.1m (2015: £12.1m gain). All currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Cobham plc management.

The Group has the following exposure to foreign currency denominated monetary assets and monetary liabilities in the Balance Sheet, translated into sterling at the relevant year-end exchange rates:

	2016		2015	
£m	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
US dollars	377.8	(1,290.8)	340.9	(1,569.7)
Euros	116.4	(163.2)	100.2	(143.5)
Australian dollars	40.3	(43.8)	30.6	(42.0)
Danish kroner	24.1	(68.2)	4.1	(53.9)
Other currencies	42.6	(8.2)	30.4	(8.4)
	601.2	(1,574.2)	506.2	(1,817.5)
Sterling denominated monetary assets and liabilities	110.8	(186.7)	225.8	(108.6)
	712.0	(1,760.9)	732.0	(1,926.1)

Foreign currency borrowings are used to mitigate the impact of foreign currency exchange differences arising from the Group's overseas net assets. The Group typically borrows in the currency of the acquisition. Monetary liabilities in the table above include US dollar borrowings of £1,061.8m (2015: £1,330.2m) and Danish krone borrowings of £48.4m (2015: £41.6m) which match exposures arising from currency denominated net assets. Foreign currency contracts are also used to manage exposure to currency risks.

On consolidation, the net assets of overseas subsidiaries (which include the monetary assets and liabilities shown in the table above) are translated at closing exchange rates and exchange differences arising are accounted for in OCI and through the translation reserve (note 25).

The Group is exposed to foreign currency risk in the income statement where individual subsidiaries hold non-functional currency monetary assets and liabilities and when an operating unit makes sales and purchases in currencies other than its own functional currency. The Group undertakes a formal process to actively manage and mitigate this exposure through a combination of matching non-functional currency revenues and costs, matching non-functional currency monetary assets and liabilities and through the use of forward contracts.

Group policy is that at least 80% of the next 12 months' forecast cash flows in non-functional currencies are covered by forward foreign exchange contracts, except on the shorter cycle businesses where the profile of hedging is based off customer commitments when approved by the Group CFO. Where forecasted currency cash flows do not arise this will result in increased income statement exposure to foreign currency exchange differences. These are however managed at a Group level and mitigating action is taken where possible.

The sterling/US dollar and Danish krone/US dollar exchange rates are the most important for the Group. The Group has the following forward foreign currency contracts outstanding for net sales of US dollars for sterling and Danish kroner:

	US$m amount		Average US$: £ exchange rate	
	2016	2015	2016	2015
Expiring within one year	141.8	108.9	1.42	1.53
Expiring within one to two years	40.2	62.4	1.43	1.52
Expiring after two years	34.7	37.0	1.52	1.57
US$/sterling contracts outstanding at 31 December	216.7	208.3	1.43	1.53

	US$m amount		Average US$: DKK exchange rate	
	2016	2015	2016	2015
Expiring within one year	95.1	148.5	6.16	5.65
Expiring within one to two years	–	95.1	–	6.16
Expiring after two years	1.7	1.7	6.07	6.07
US$/DKK contracts outstanding at 31 December	96.8	245.3	6.15	5.85

The latest expiry date of forward foreign currency contracts for sales of US dollars is July 2022 and it is the Group's current belief that the net dollar receipts by its subsidiaries will exceed the level of the outstanding commitments.

Sensitivity analysis

Financial instruments denominated in a currency other than the functional currency in which they are measured create exposure to foreign currency exchange rate risk. These financial instruments include the monetary assets and liabilities and the forward foreign currency contracts shown in the tables above. The sensitivity arising on these financial instruments from a weakening in sterling against the respective foreign currency at the balance sheet date is set out below, with a negative number indicating a reduction in profit after taxation or total equity.

	2016			2015		
£m	Sensitivity	Profit or loss	Total equity	Sensitivity	Profit or loss	Total equity
US dollars to sterling	11%	(20.7)	(20.7)	8%	(13.9)	(13.9)
US dollars to Danish kroner	11%	(7.0)	(7.0)	12%	(16.5)	(16.5)
Euros to sterling	11%	(7.4)	(7.4)	8%	(4.9)	(4.9)

The sensitivities used represent management's assessment of the possible changes in foreign exchange rates, based on experience over the previous five years. However these potential changes are hypothetical and actual rates in future may differ significantly as a result of developments in global financial markets. This sensitivity analysis has been based on the assumption that all other variables, including interest rates, remain constant.

Interest rate risk

The Group has long and short term borrowings at both fixed and floating rates of interest. In managing its borrowing costs, the Group monitors its exposure to movements in interest rates, having regard to prevailing market conditions and, where necessary, uses interest rate swaps to manage the interest rate risk.

£m	2016	2015
Senior notes	788.2	822.7
Bank loans at fixed rate	60.7	50.8
Bank loans swapped to fixed rate	22.7	24.1
Fixed rate borrowings	871.6	897.6
Bank loans and overdrafts	392.3	498.3
Senior notes	–	105.1
Finance leases	0.5	0.5
Floating rate borrowings	392.8	603.9
Total borrowings	1,264.4	1,501.5

All floating rate borrowings have regular repricing dates.

Floating to fixed interest rate swaps, designated as cash flow hedges, have been used to mitigate the interest rate exposure arising on selected floating rate debt. Interest rate swaps outstanding at the year end are as follows:

		Period of swap contract		2016		2015	
Hedged item	Fixed rate	from	to	Currency value	£m	Currency value	£m
Australian dollar loans	6.3%	May 2006	January 2020	**AUS$33.3m**	**19.5**	AUS$41.5m	20.5
	6.4%	January 2007	January 2020	**AUS$5.5m**	**3.2**	AUS$7.2m	3.6
					22.7		24.1

The Group does not currently hold any fair value hedging instruments such as fixed to floating interest rate swaps.

Surplus funds are placed on short term fixed rate deposit and as such also give rise to interest rate exposure. There was no material sensitivity to changes in interest rates at the year end.

Liquidity risk

The Group's policy on managing liquidity risk throughout the year has been to maintain a mix of short, medium and long term borrowings with lenders. Overdraft and revolving credit facilities provide short term flexibility whilst the revolving credit facilities provide longer term committed funding.

As shown in note 17, at 31 December 2016 undrawn committed borrowing facilities of £123.9m (2015: £122.7m) were available to the Group in various currencies.

At an operating level, the Group has a positive cash flow from operating activities and where practical the funds generated by business units are managed on a regional basis. In the UK and USA, most business units utilise local banking facilities within a UK or US group arrangement. This allows a balance to be maintained between continuity of funding, security and flexibility.

The table below summarises the remaining contractual maturity for the Group's borrowings and other financial liabilities. The amounts shown are the contractual undiscounted cash flows which include interest, analysed by contractual maturity. The difference between the contractual cash flows and the carrying amount of these liabilities reflects the effects of interest not included in the carrying amount and discounting applied in assessing fair value.

£m	Within one year	1–2 years	2–5 years	Over 5 years	Total
Non-derivative financial liabilities					
Borrowings	**102.6**	**301.6**	**667.4**	**388.8**	**1,460.4**
Trade and other payables	**310.0**	**3.0**	**3.2**	**6.0**	**322.2**
At 31 December 2016	**412.6**	**304.6**	**670.6**	**394.8**	**1,782.6**
Derivative liabilities					
Interest rate swaps	**0.9**	**0.6**	**0.3**	**–**	**1.8**
Foreign exchange derivatives					
Gross cash outflows	**724.9**	**66.1**	**41.5**	**6.1**	**838.6**
Gross cash inflows	**(683.8)**	**(58.5)**	**(36.9)**	**(4.8)**	**(784.0)**
Inflation swap	**1.4**	**0.4**	**–**	**–**	**1.8**
At 31 December 2016	**43.4**	**8.6**	**4.9**	**1.3**	**58.2**
Non-derivative financial liabilities					
Borrowings	206.6	163.2	837.0	513.5	1,720.3
Trade and other payables	292.8	2.4	2.9	2.5	300.6
At 31 December 2015	499.4	165.6	839.9	516.0	2,020.9
Derivative liabilities					
Interest rate swaps	0.9	0.7	0.8	–	2.4
Foreign exchange derivatives					
Gross cash outflows	459.4	140.6	25.3	10.4	635.7
Gross cash inflows	(430.5)	(131.8)	(24.8)	(9.7)	(596.8)
Inflation swap	1.2	0.9	0.3	–	2.4
At 31 December 2015	31.0	10.4	1.6	0.7	43.7

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables and there are no significant concentrations of credit risk.

The Group has a conservative policy towards the credit risk related to liquid funds and derivative financial instruments with balances currently spread across a range of reputable financial institutions. The levels of credit risk are monitored through the Group's ongoing risk management processes, which include a regular review of the banks' credit ratings. Risk in this area is limited further by setting a maximum level for term deposits with any one counterparty.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Customers are typically large global companies or government agencies with long term trading relationships. The Group also has in place procedures that require appropriate credit checks on potential customers before sales are made. Existing customer accounts are monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. At 31 December 2016, additional provisions were made following the balance sheet review exercise as described in note 2. The Board do not believe there is any further credit risk provision required in excess of the provision for impaired receivables shown in note 15.

Group management monitor the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 31 December 2016, 9.5% (2015: 9.6%) of gross trade receivables were overdue by one month or more.

The maximum exposure to credit risk at 31 December 2016 is the fair value of each class of receivable as disclosed in note 15.

In the UK and the USA, the Group has master netting arrangements in respect of bank balances. In the normal course of business, these bank accounts are settled on a net basis within each currency and as such are presented net in the balance sheet as shown in note 14. In the event of an automatic enforcement event, the bank balances are set off against each other to achieve a net position. Derivatives can also be offset by counterparties in the event of a default; net amounts that result on this basis are shown in note 14.

Inflation risk

The Group's exposure to inflation is considered to be a general business risk which is mitigated through normal commercial activity. The Group has one swap contract which was designed to manage the inherent inflation risk in a specific operational contract. The fair value of this swap contract is included in derivative financial instruments shown in note 21.

Capital risk management

Group policy is to maintain a strong capital base so as to maintain stakeholder confidence and to sustain future development of the business.

Following the Group's announcement on 16 February 2017, the Board has confirmed their intention to raise further equity of £500m in order to achieve the target net debt/EBITDA ratio of 1.5.

Capital is defined as total equity excluding non-controlling interests and amounted to £488.8m at 31 December 2016 (2015: £908.8m). Within this overall policy, the Group seeks to maintain an appropriate finance structure through a mixture of debt and retained earnings. Funding needs are reviewed periodically and also each time a significant acquisition or business divestment is made. A number of factors are considered which include the net debt/EBITDA ratio, forecast trading requirements, future funding needs (usually potential acquisitions) and proposed dividend levels. Group banking arrangements are also considered; these include financial covenants which are based on adjusted IFRS results as outlined on page 31.

As a result of these considerations a rights issue was completed in June 2016 as detailed in note 24 raising net proceeds of £490.6m which were applied to existing debt, strengthening the balance sheet and improving the net debt/EBITDA ratio. The Board continued to review the position on a regular basis during the year and the Group's policy was updated in respect of the impact of foreign currency movements on the net debt/EBITDA ratio.

Furthermore, in January 2017 it was announced that no dividend would be paid in respect of the year ended 31 December 2016.

24. 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 2.5p each were issued on 17 June 2016 at an issue price of 89p per share. Net proceeds of £490.6m were realised, net of costs of £16.1m.

As at 31 December 2016 88,587,855 (2015: 89,634,016) ordinary shares were held in treasury including 12,636,131 (2015: 13,682,292) shares held in the Cobham Employee Benefit Trust. At 31 December 2016 the market value of treasury shares was £145.0m (2015: £253.8m), including shares with a market value of £20.7m (2015: £38.7m) held by the Cobham Employee Benefit Trust.

During the year ended 31 December 2016 treasury shares were used to satisfy awards and options under the Group's share based payment schemes. The net cost of treasury shares after receipts from option exercises is deducted from retained earnings and total equity.

Further details of the share capital of Cobham plc can be found on page 78.

25. Other reserves

£m	Note	Translation reserve	Hedge reserve	Share based payment reserve	Total other reserves
At 1 January 2015		13.6	(0.7)	29.8	42.7
Foreign exchange differences on translation of overseas operations		(29.2)	–	–	(29.2)
Reclassification of foreign exchange on divestment of overseas operation		(9.0)	–	–	(9.0)
Movements on cash flow hedges – interest rate swaps	21	0.2	(0.3)	–	(0.1)
Movements on cash flow hedges – foreign exchange contracts		–	0.1	–	0.1
Reclassification of fair value of cash flow hedges to Income Statement		–	1.1	–	1.1
Transfer of share based payment reserve on exercise		–	–	(1.5)	(1.5)
Share based payments recognised in reserves	26	–	–	(3.0)	(3.0)
Tax effects		–	(0.2)	(1.1)	(1.3)
Foreign exchange adjustments		–	(0.1)	–	(0.1)
At 1 January 2016		**(24.4)**	**(0.1)**	**24.2**	**(0.3)**
Foreign exchange differences on translation of overseas operations		**34.6**	–	–	**34.6**
Reclassification of foreign exchange on divestment of overseas operations	27	**6.7**	–	–	**6.7**
Movements on cash flow hedges – interest rate swaps	21	**(0.4)**	**(0.2)**	–	**(0.6)**
Movements on cash flow hedges – foreign exchange contracts		**0.1**	**(2.3)**	–	**(2.2)**
Reclassification of fair value of cash flow hedges to Income Statement		–	**1.6**	–	**1.6**
Transfer of share based payment reserve on exercise		–	–	**(5.1)**	**(5.1)**
Share based payments recognised in reserves	26	–	–	**3.8**	**3.8**
Tax effects		**(0.1)**	**0.5**	**(1.2)**	**(0.8)**
Foreign exchange adjustments		–	**0.2**	–	**0.2**
At 31 December 2016		**16.5**	**(0.3)**	**21.7**	**37.9**

The translation reserve comprises all foreign exchange differences arising on the results and financial position of subsidiaries whose functional currencies differ from the Group's reporting currency together with foreign exchange movements arising on interest rate swaps designated as cash flow hedges.

The hedge reserve reflects movements in fair values on cash flow hedging derivatives as detailed in notes 21 and 23.

The share based payment reserve includes the cost of awards as assessed under IFRS 2 and detailed in note 26, together with related deferred tax provided under IAS 12. The appropriate proportion of this reserve is transferred to retained earnings following vesting or exercise.

26. Share based payments

The Group offers a number of long term incentive schemes which provide a mix of performance based incentive and retention based awards as described below and in the Directors' Remuneration Report on page 67. All schemes are equity settled and the total amount included in the Income Statement arising from share based payment schemes is as follows:

£m	2016	2015
PSP	**1.7**	2.1
RSP	**1.3**	1.3
Other schemes	**0.8**	0.7
Release of amounts charged in previous years	–	(7.1)
	3.8	(3.0)

During the year ended 31 December 2015, £7.1m charged to the Income Statement in previous years was released, reflecting actual vesting experience and a reassessment of the expected future vesting of outstanding awards, based on non-market related performance conditions.

The PSP scheme is offered to senior executives across the Group and allows for annual grants of conditional shares and nil-cost options with vesting conditions based on the Group's financial performance, taking into account both market based conditions such as TSR growth and non-market based measures such as EPS growth or cash conversion. The scheme includes retention awards granted from time to time to specific personnel and buy-out awards granted to key new starters, both vesting after a maximum of three years conditional only upon continued employment within the Group.

RSP awards provide conditional shares based solely on continued employment within the Group over a maximum of four years.

Awards granted in 2016 include medium term awards under both the PSP and RSP plans which vest based on performance over an 18 month period to 31 December 2017.

Charges for other schemes relate to share options which were last awarded in 2013 and 2014 to senior executives under the ESOS and BCP schemes respectively, and under the Group's ShareSave scheme, which is open to all UK employees.

The number of awards outstanding at 31 December are as follows:

Number of awards (thousands of shares)	2016	2015
PSP	9,998	10,026
RSP	3,618	1,317
ESOS	3,794	4,031
BCP	17	22
ShareSave	7,612	5,979
At 31 December	25,039	21,375

Details of movements in the awards under the PSP scheme are as follows:

Number of awards (thousands of shares)	2016	2015
At 1 January	10,026	10,380
Awards granted	4,100	3,591
Effect of rights issue	1,314	–
Awards forfeited or cancelled	(3,909)	(3,713)
Exercised	(1,489)	(88)
Expired	(44)	(144)
At 31 December	9,998	10,026

Weighted average remaining contractual life of PSP awards outstanding	1.09 years	1.24 years
Number of PSP awards exercisable at 31 December (thousands)	23	87

Awards under the PSP schemes were granted in March and August 2016, with an average fair value of £1.602 (2015 awards: £2.835). Fair values are calculated using the Black-Scholes option pricing model modified by a Monte Carlo simulation to determine the likely impact of market related performance conditions. The weighted average inputs into the models were as follows:

	2016	2015
Weighted average share price	£1.646	£3.058
Expected life	2.16 years	2.98 years
Expected employee cancellation rate	4.0%	4.4%
Risk free rate	0.6%	0.6%

The expected lives used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability and behavioural considerations. The expected employee cancellation rates are based on assessments of historic rates of voluntary cancellations of contracts by employees. Participants of the PSP schemes receive the benefit of dividend payments and therefore dividend yields are not taken into consideration in the valuation models.

The fair values of ShareSave awards granted in the year are significantly lower than for PSP, RSP and BCP awards due to the effect of the exercise price which is set based upon the market value of the Company's ordinary shares around the date of grant.

27. Business 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 as shown in note 16.

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 years			**(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

28. Operating lease arrangements

At the balance sheet date the Group had outstanding commitments for minimum lease payments due under non-cancellable operating leases as follows:

£m	2016	2015
Within one year	**30.3**	27.7
Between one and two years	**27.7**	24.9
Between two and three years	**25.1**	23.0
Between three and four years	**16.6**	20.9
Between four and five years	**14.0**	14.8
After five years	**45.5**	61.1
	159.2	172.4

Operating lease payments during the year totalled £32.3m (2015: £30.1m) including rental costs of £7.8m (2015: £7.5m) relating to operational aircraft used in the Group's service businesses; the remainder primarily relates to the rental of office and operating facilities.

Operating lease commitments include £23.8m (2015: £20.0m) related to onerous leases which have been provided for at the balance sheet date.

29. 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.

30. Related party transactions

There were no material transactions between Group entities and related parties during the current or previous year other than £0.6m (2015: £nil) of goods sold to and £0.9m (2015: £0.5m) of goods purchased from joint ventures and associates. Group policy is for all transactions with related parties to be made on an arms length basis and no guarantees have been given to, or received from, related parties. No expense has been recognised for bad or doubtful debts in respect of amounts owed by related parties.

Details of the compensation of key management personnel (the Group Executive Committee as referred to on page 50) can be found in note 4.

The Directors of Cobham plc had no material transactions with the Company during the year, other than as a result of service agreements. Details of Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 62 to 77.

31. 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, the Group 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 the Group's customers, suppliers and employees confidence that Cobham's credit is good and the risk of doing business with the Group 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.

32. Subsidiaries and other related undertakings

The Group operates through a number of subsidiary undertakings and a full listing of these at 31 December 2016 is provided below. The Group owns 100% of the share capital of all subsidiaries with the exception of TEAM SA (98.7% owned).

The Group also has interests in a small number of joint ventures and one associated undertaking which are included in the list below. The joint ventures and associates all have share capital consisting solely of ordinary shares, which are indirectly held, and the country of incorporation or registration is also their principal place of operation. No further disclosures are provided concerning the assets and results of the joint ventures or associated undertaking on the basis of materiality.

Name of undertaking	Address of registered office or equivalent
Aedion Investments Unit Trust	26 New Street, St Helier, Jersey JE2 3RA
Aeroflex Asia Ltd.	Unit 7-8, 13/F, Progress Commerical Building, 9 Irving Street, Causeway Bay, Hong Kong
Aeroflex Colorado Springs, Inc.	Wilmington, USA
Aeroflex Control Components, Inc.	CSC-Lawyers Incorporating Service (Company), 601 Abbot Road, East Lansing, MI 48823, USA
Aeroflex France SAS	Villa G, 8-10 rue du Bois Sauvage, 91000, Evry, France
Aeroflex GmbH	Gutenbergstr. 2–4 85737 Ismaning, Germany
Aeroflex Holding Corp.	Wilmington, USA
Aeroflex Incorporated	Wilmington, USA
Aeroflex Innovations (Shanghai) Co. Ltd.	1008-1009, No76, Pujian Road, 10F, You You International Plaza, Shanghai 200127, PRC
Aeroflex Ireland Limited	Adelphi Plaza (Ground Floor) George's Street Upper, Dún Laoghaire, Co. Dublin, Ireland
Aeroflex Japan KK	16F Fukoku Seimei Bldg., 2-2-2 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011, Japan
Aeroflex Limited	Stevenage, England
Aeroflex Microelectronic Solutions, Inc.	CSC-Lawyers Incorporating Service (Company), 601 Abbot Road, East Lansing, MI 48823, USA
Aeroflex Plainview, Inc.	Wilmington, USA
Aeroflex RAD Europe Limited	Stevenage, England
Aeroflex RAD, Inc.	Corporation Service Company, 80 State Street, Albany, New York 12207-2543, USA
Aeroflex Singapore Pte. Ltd.	21 Media Circle, Infinite Studios, #06-04 & #05-01, Singapore 138562, Singapore
Aeroflex Systems Private Limited	602, 6th Floor, Raheja Paramount, Residency Road, Bangalore – 560025, Karnataka, India
Aeroflex Technology Service (Beijing) Co. Ltd.	CircleNo. 38 Taikang Building Block 1, Unit 1501-03, & 1507, Chaoyang District, Beijing, PRC
Aeroflex Test Solutions Limited	Wimborne, England
Aeroflex Wichita, Inc.	Wilmington, USA
AFI Flight Inspection GmbH	Hermann-Blenk-Straße 8a, 38108 Braunschweig, Germany
AFI Holdings GmbH	Hermann-Blenk-Straße 8a, 38108 Braunschweig, Germany
Air Précision SAS	5 avenue Denis Papin, BP 36, 92353 Le Plessis Robinson, France
Asia Pacific Airlines (Papua New Guinea) Pty Limited	Blake Dawson, 4th Floor, Mogoru Motor Building, Champion Parade, Port Moresby, National Capital District, Papua New Guinea
Asia Pacific Airlines Pty Limited	Adelaide, Australia
Atlantic Microwave Corporation	Wilmington, USA
Avenue 64 Limited	Wimborne, England
Aviation Défense Service SA (45% joint venture) [2]	Zone Aéroportuaire Nîmes Arles Camargue, 30800 Saint Gilles, France
A-xell Wireless AB	Torhamnsgatan 30F, 164 40 Kista, Sweden
Axell Wireless Asia Pte Limited	21 Media Circle, Infinite Studios, #06-04 & #05-01, Singapore 138562, Singapore
Axell Wireless Israel Limited	6 Bareket St., Petah-Tikva 49002, Israel, P.O.BOX: 2506 4912501, Israel
Axell Wireless Limited	Wimborne, England
Axell Wireless, Inc.	Wilmington, USA
Carleton Life Support Systems, Inc	Wilmington, USA
Carleton Technologies, Inc	Wilmington, USA
Chelton Antennas SA	7 chemin de Vaubesnard, 91410 Dourdan, France
Chelton Avionics, Inc	Wilmington, USA
Chelton Limited	Wimborne, England
Chelton Technologies Canada Limited	PO Box 10424, Pacific Centre, 1300-777 Dunsmuir Street, Vancouver V7Y 1K2, Canada
Chelton Telecom and Microwave SAS	31 avenue de la Baltique, 91140 Villebon sur Yvette, France
Chelton, Inc	Corporation Service Company d/b/a CSC-Lawyers Inco, 211 E. 7th Street, Suite 620, Austin, TX 78701, USA
Cob Finance LLC	Wilmington, USA
Cobham Advanced Electronic Solutions Mexico, S.A. de C.V.	Baker & McKenzie Abogados, S.C., Pedregal 24, Lomas Virreyes, 11040 Ciudad de México, D.F., Mexico
Cobham Advanced Electronic Solutions, Inc.	Wilmington, USA
Cobham AES Holdings Inc.	Wilmington, USA
Cobham Aviation Services Engineering Pty Limited	Adelaide, Australia

Name of undertaking	Address of registered office or equivalent
Cobham CTS Limited	Wimborne, England
Cobham Defence Communications Limited	Wimborne, England
Cobham Defense Products, Inc.	Wilmington, USA
Cobham Flight Inspection Limited	Wimborne, England
Cobham Gaisler AB	Kungsgatan 12, SE-411, 19 Göteborg, Sweden
Cobham Holdings (US) Inc.	Wilmington, USA
Cobham Holdings Inc.	Wilmington, USA
Cobham India Private Limited	4th Floor, Statesman House, Barakhamba Road, New Delhi – 110001, India
Cobham Leasing Limited	Wimborne, England
Cobham Management Services Inc.	Wilmington, USA
Cobham Mission Equipment Inc.	Wilmington, USA
Cobham Properties Inc.	Wilmington, USA
Cobham SAR Services Pty Limited	Adelaide, Australia
Cobham Slip Rings Naples Inc.	Wilmington, USA
Comant Industries Incorporated	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
Continental Microwave and Tool Co, Inc.	Corporation Service Company, 84 State Street, Boston, MA 02109, USA
European Antennas Limited	Wimborne, England
FB Heliservices Kenya Limited	PO Box 764, 00606, Nairobi, Kenya
FB Heliservices Limited	Wimborne, England
FB Leasing Limited	Wimborne, England
FBH Cyprus Limited	12 Kennedy Avenue, Kennedy Business Centre, 2nd Floor, Office 203, P.C. 1087, Nicosia, Cyprus
FBS Limited	Wimborne, England
Fleet Support Pty Limited	Adelaide, Australia
Flight Refuelling Limited [1]	Wimborne, England
FR Aviation Group Limited	Wimborne, England
FR Aviation Limited	Wimborne, England
FR Aviation Services Limited	Wimborne, England
FR Investments Inc.	Wilmington, USA
Glyndale Pty Limited	Adelaide, Australia
Groupement Troyen d'Electronique	Rue Catherine et William Booth, 10000 Troyes, France
Hyper-Technologies SAS	28 rue des Dames, 78340 Les Clayes sous Bois, France
IFR Finance Inc.	10200 West York Street, Wichita, KS 67215-8999, USA
IFR Finance Limited Partnership [3]	Stevenage, England
IFR Systems, Inc.	Wilmington, USA
Jet Systems Pty Limited	Adelaide, Australia
Label SAS	10 allée de Montréal, 74108 Annemasse, France
Lock Financing Limited	Suite 6, Rineanna House, Shannon Free Zone, Co. Clare, Ireland
Lockman Denmark Financing S.à r.l	20 rue des Peupliers, L-2328, Luxembourg
Lockman Denmark Holdings A/S	Lundtoftegårdsvej 93 D, DK-2800 Kongens Lyngby, Denmark
Lockman Electronic Holdings Limited	Wimborne, England
Lockman Finance Limited	Wimborne, England
Lockman Financing Limited	Wimborne, England
Lockman Financing S.à r.l	20 rue des Peupliers, L-2328, Luxembourg
Lockman Investments Limited	Wimborne, England
Lockman Properties Limited	Wimborne, England
Lockwash Investments LLC	Wilmington, USA
Lockwash US Limited	Wimborne, England
Manlock Investments Limited	Wimborne, England
Mastsystem International Oy	Muovilaaksontie 8, 82110 Heinävaara, Joensuu, Finland
Micro-Mesh SARL	35 rue de Montlhéry, BP 20191, 94563 Rungis, France
Multiphase Pumping Systems Limited	Wimborne, England
NAS Services Pty Limited	Adelaide, Australia
NAT Seattle Inc.	Wilmington, USA
National Air Support Pty Limited	Adelaide, Australia
National Investments Asia Pacific Pty Limited	Adelaide, Australia
National Jet Express Pty Limited	Adelaide, Australia
National Jet Operations Services Pty Limited	Adelaide, Australia

Name of undertaking	Address of registered office or equivalent
National Jet Systems Ground Handling Pty Limited	Adelaide, Australia
National Jet Systems Pty Limited	Adelaide, Australia
Northern Airborne Technology Limited	PO Box 10424, Pacific Centre, 1300-777 Dunsmuir Street, Vancouver V7Y 1K2, Canada
Northrop Grumman Cobham Intercoms LLC (50% joint venture)	CT Corporation System, 1209 Orange Street, Wilmington, DE 19801, USA
Omnipless Manufacturing (Pty) Limited	Westlake Drive, Westlake Business Park, Westlake 7945, South Africa
Philtech Co., Ltd (associate owned 30%)	Sujeong-gu, Seongnam-si, Gyeonggi-do, South Korea
Precision Aviation Industries SARL	5 avenue Denis Papin, BP 36, 92353 Le Plessis Robinson, France
Sargent Fletcher Inc.	Wilmington, USA
Satori Air Services Inc	4105 Cousens Street, Saint-Laurent, Quebec H4S 1V6, Canada
Sea Tel, Inc	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
Sivers Lab AB	Torhamnsgatan 30F, 164 40 Kista, Sweden
Société de Marquage et Signalisation SAS	174-178 Quai de Jemmapes, 75010 Paris, France
Surveillance Australia Pty Limited	Adelaide, Australia
TEAM SA	35 rue de Montlhéry, BP 20191, 94563 Rungis, France
Thrane & Thrane A/S	Lundtoftegårdsvej 93 D, DK-2800 Kongens Lyngby, Denmark
Thrane & Thrane Aalborg A/S	Industrivej 30, DK-9490 Pandrup, Denmark
Thrane & Thrane Inc.	CT Corporation System, 4701 Cox Road, Suite 285, Glen Allen, VA 23060, USA
Thrane & Thrane Norge A/S	Cort Adelers gate 16, 0254 Oslo, Norway
Trivec-Avant Corporation	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
Vector Fields Incorporated	Wilmington, USA
Dormant entities	
Aeroflex Asia Pacific Limited	Stevenage, England
Aeroflex Bloomingdale, Inc.	Corporation Service Company, 80 State Street, Albany, New York 12207-2543, USA
Aeroflex Burnham Limited	Stevenage, England
Aeroflex Cambridge Limited	Stevenage, England
Aeroflex SRL	Via Comaggia 10, c/o Studio Legale Tributario, Milan 20123, Italy
Aeroflex Tech., SA	Europa Empresarial, Rozabella, 6 Edif, Paris, 28230 Laz Rosas, Madrid, Spain
Aeroflex Test Solutions India Pvt Limited	602, 6th Floor, Raheja Paramount, 138 Residency Road, Bangalore, Karnataka-560025, India
Chelton Aviation Corporation	Corporation Service Company d/b/a CSC-Lawyers INCO, 211 E. 7th Street, Suite 620, Austin, TX 78701, USA
Chelton Satcom, Inc.	Wilmington, USA
Cobham Aviation SDN BHD	Level 8 Symphony House, Block D13 Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia
Cobham Aviation Services International Limited	Wimborne, England
Cobham Communications and Connectivity Limited	Wimborne, England
Cobham Fluid Systems Limited	Wimborne, England
Cobham Group Limited	Wimborne, England
Cobham Helicopter Services Trinidad	5-7 Sweet Briar Road, St Clair, Port of Spain, Trinidad & Tobago
Cobham Mission Systems Limited	Wimborne, England
Credowan Limited	Wimborne, England
CTS Patents Limited	Wimborne, England
Cobham Whiteley Limited	Wimborne, England
Falcon Special Air Services SDN BHD	Level 8 Symphony House, Block D13 Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia
FB Heliservices Curacao N.V.	Kaya W.F.G. (Jombi), Mensing 36, Curacao
Grenedere Limited	Wimborne, England
ML Aircraft Services Limited	Wimborne, England
ML Aviation Limited	Wimborne, England
National Jet Regional Services Pty Limited	Adelaide, Australia
Racal Antennas Limited	Wimborne, England
SeaTel Europe, Inc.	CSC Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833, USA
Smart Chemical Developments Limited	Wimborne, England
Strabor (Aircraft) Limited	Wimborne, England
Strabor Investments Limited	Wimborne, England
W.E.S. (Manufacturing) Limited	Wimborne, England
W.E.S. Investments Limited	Wimborne, England
Wallop Holdings Limited	Wimborne, England

Full registered office addresses are:

Wimborne, England	Brook Road, Wimborne, Dorset BH21 2BJ, England.
Stevenage, England	Longacres House, Six Hills Way, Stevenage, Hertfordshire, SG1 2AN, England.
Wilmington, USA	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA.
Adelaide, Australia	National Drive, Adelaide Airport SA 5950, Australia.

[1] Issued shares in Flight Refuelling Limited are held by Cobham plc. Otherwise shares are held by, or by a nominee for, a subsidiary of Cobham plc.
[2] The 45% investment in Aviation Défense Service SA is treated as a joint venture because the governance structure means that the Group has joint control with its partner.
[3] Advantage has been taken of the exemption conferred by regulation 7 of the Partnership Accounts Regulations 2008 from the requirements to prepare and publish audited accounts for IFR Finance Limited Partnership.

Independent Auditors' Report to the members of Cobham plc

Report on the Parent Company Financial Statements

Our opinion

In our opinion, Cobham plc's Parent Company Financial Statements (the parent company financial statements):

- Give a true and fair view of the state of the Parent Company's affairs as at 31 December 2016;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Parent Company's ability to continue as a going concern. The matters explained in the Directors' going concern assessment on page 33 disclose that a shareholder vote is required in order to increase the share capital of the Company which is needed to raise additional capital through a rights issue and this has not yet taken place. The rights issue is fully underwritten on a standby basis, subject to customary conditions. These conditions, along with the other matters explained in note 1 to the Group's financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Parent Company was unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report, comprise:

- The Parent Company Balance Sheet as at 31 December 2016;
- The Statement of Changes in Equity for the year then ended; and
- The Notes to the Parent Company Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited. The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101, Reduced Disclosure Framework, and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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

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

In addition, in light of the knowledge and understanding of the Parent Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK and Ireland) reporting

Under International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)) we are required to report to you if, in our opinion, information in the Annual Report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- Otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 81, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group Financial Statements of Cobham plc for the year ended 31 December 2016. That report includes an emphasis of matter.



Pauline Campbell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2016

Parent Company Balance Sheet

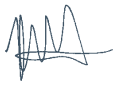
As at 31 December 2016

£m	Note	2016	2015
Assets			
Non-current assets			
Investments in Group and other undertakings	6	**787.3**	789.6
Other investments	6	**6.1**	6.1
Derivative financial instruments	11	**35.0**	11.3
Other receivables	7	**18.3**	18.3
		846.7	825.3
Current assets			
Derivative financial instruments	11	**35.2**	15.0
Trade and other receivables	7	**2,645.8**	2,376.2
Cash and cash equivalents		**204.7**	101.8
		2,885.7	2,493.0
Liabilities			
Current liabilities			
Borrowings	8	**(60.7)**	(215.3)
Trade and other payables	9	**(510.5)**	(510.2)
Provisions	10	**(8.0)**	(6.6)
Derivative financial instruments	11	**(46.4)**	(31.6)
		(625.6)	(763.7)
Non-current liabilities			
Borrowings	8	**(1,203.2)**	(1,344.7)
Derivative financial instruments	11	**(33.3)**	(12.8)
Retirement benefit obligations	12	**(36.8)**	(22.4)
		(1,273.3)	(1,379.9)
Net assets		**1,833.5**	1,174.7
Equity			
Share capital	13	**44.6**	30.4
Share premium		**778.3**	301.9
Other reserves		**13.5**	13.3
Retained earnings		**997.1**	829.1
Total equity		**1,833.5**	1,174.7

Profit for the financial year

In accordance with the concession granted under Section 408 of the Companies Act 2006, the profit and loss account of Cobham plc has not been separately presented in these financial statements. The Company's profit for the year ended 31 December 2016 was £304.6m (2015: £143.9m).

The financial statements on pages 133 to 139 were approved by a duly appointed and authorised committee of the Board on 2 March 2017 and signed on its behalf by:



David Lockwood
Directors



David Mellors

Statement of Changes in Equity

For the year ended 31 December 2016

£m	Share capital	Share premium	Other reserves: Hedge reserve	Other reserves: Share based payment reserve	Retained earnings	Total equity
Total equity at 1 January 2015	30.4	301.9	(2.6)	20.1	825.6	1,175.4
Profit for the year	–	–	–	–	143.9	143.9
Items that will not be reclassified subsequently to profit or loss	–	–	–	–	5.1	5.1
Items that may subsequently be reclassified to profit or loss	–	–	0.3	–	–	0.3
Total comprehensive income for the year	–	–	0.3	–	149.0	149.3
Net purchase of treasury shares	–	–	–	–	(24.9)	(24.9)
Dividends (note 2)	–	–	–	–	(122.1)	(122.1)
Share based payments (note 5)	–	–	–	(3.0)	–	(3.0)
Transfer of share based payment reserve	–	–	–	(1.5)	1.5	–
Total equity at 31 December 2015	30.4	301.9	(2.3)	15.6	829.1	1,174.7
Profit for the year	–	–	–	–	**304.6**	**304.6**
Items that will not be reclassified subsequently to profit or loss	–	–	–	–	**(17.9)**	**(17.9)**
Items that may subsequently be reclassified to profit or loss	–	–	**1.5**	–	–	**1.5**
Total comprehensive income for the year	–	–	**1.5**	–	**286.7**	**288.2**
Issue of shares, net of costs (note 13)	**14.2**	**476.4**	–	–	–	**490.6**
Proceeds on allocation of treasury shares	–	–	–	–	**2.3**	**2.3**
Dividends (note 2)	–	–	–	–	**(126.1)**	**(126.1)**
Share based payments (note 5)	–	–	–	**3.8**	–	**3.8**
Transfer of share based payment reserve	–	–	–	**(5.1)**	**5.1**	–
Total equity at 31 December 2016	**44.6**	**778.3**	**(0.8)**	**14.3**	**997.1**	**1,833.5**

The share based payment reserve includes the cost of awards granted to employees of the Company and Group as assessed under IFRS 2. Where awards which gave rise to charges under IFRS 2 have vested or been exercised, the appropriate proportion of the reserve is transferred to retained earnings.

Distributable reserves at 31 December 2016 amounted to £967.8m (2015: £801.1m).

Notes to the Parent Company Financial Statements

1. Parent Company accounting policies

These financial statements are the financial statements for Cobham plc, the parent company of the Cobham plc Group, which operates as a group holding company.

Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101). The financial statements have been prepared on the going concern basis, under the historical cost convention as modified to include the revaluation of derivative financial assets and liabilities measured at fair value through profit or loss and in accordance with the Companies Act 2006.

In respect of going concern, the Board draw attention to note 1 of the Group Financial Statements which highlights that a material uncertainty exists. This matter affects both the Group and Parent Company Financial Statements.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a cash flow statement and related notes (IAS 7, Statement of Cash Flows and paragraph 10(d) of IAS 1, Presentation of Financial Statements);
- paragraph 38 of IAS 1, Presentation of Financial Statements comparative period reconciliations in respect of paragraph 79(a)(iv) of IAS 1 (number of shares outstanding);
- capital management disclosures required by paragraphs 134-136 of IAS 1;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors concerning the effects of new but not yet effective IFRSs;
- details of compensation of key management personnel required by paragraph 17 of IAS 24, Related Party Disclosures; and
- the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group.

In addition, as the consolidated financial statements of Cobham plc include the equivalent disclosures, the following exemptions under FRS 101 have also been taken:

- share based payment disclosures under paragraphs 45(b) and 46-52 of IFRS 2, Share Based Payment in respect of group settled share based payments; and
- financial instrument information required by IFRS 7, Financial Instruments: Disclosures and paragraphs 91 to 99 of IFRS 13, Fair Value Measurement.

Management judgement and estimation uncertainty

The preparation of financial statements requires the use of estimates and judgements that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The current economic conditions have been considered when evaluating accounting estimates and judgements, including the application of the going concern basis of preparation. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, relate to retirement benefit obligations. A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates. The Company uses published indices and independent actuarial advice to select the values of critical assumptions.

The principal accounting policies, which have been consistently applied, are as set out below.

Dividends

Dividends payable are recognised as a liability in the period in which they are fully authorised. Dividend income is recognised when the shareholders' right to receive payment has been established.

Retirement benefit obligations

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The plans are funded defined benefit schemes and assets are held in separate trustee administered funds. The assets and liabilities of the CPP have been allocated to the contributing companies based on the proportional number of members. The Company also operates and contributes to a defined contribution scheme.

For the defined benefit schemes, current service costs and costs related to the administration of the schemes are charged to operating profit. Past service costs are recognised immediately in the income statement. The interest on net assets or liabilities is shown within finance income and costs. Actuarial remeasurements are recognised immediately in other comprehensive income (OCI).

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the face of the balance sheet.

For the defined contribution scheme, the amount charged to the income statement in respect of pension costs and other post-retirement benefits are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are recorded as either accruals or prepayments in the balance sheet.

Current and deferred taxation

Current tax is provided at the amounts expected to be paid using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset is realised or liability is settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis and deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Tax is charged or credited to the income statement except when it relates to items recognised in OCI or directly in equity, in which case the tax is also recognised in OCI or directly in equity respectively. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Investments in Group and other undertakings

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value and include the fair value at the date of grant of share based payment awards to employees of subsidiary undertakings, net of amounts recovered as management charges.

Other investments are stated at cost less any provision for impairment in value.

Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

Share capital

Ordinary share capital is classified as equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the preference shareholders or if dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the income statement as interest expense.

Treasury shares
When ordinary share capital recognised as equity is acquired by the Company, the shares are held as treasury shares. The consideration paid, including commissions and taxes, is deducted from retained earnings and total equity.

Foreign currencies
The functional currency of the Company is sterling.

Transactions in currencies other than sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date. Non-monetary items (such as investments) that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency (such as some derivative financial instruments) are translated using the exchange rates at the date when the fair value was determined.

All exchange differences arising are taken to the income statement.

Financial instruments
The policies disclosed in note 1 to the Group Financial Statements on page 95 for the recognition, measurement and presentation of financial instruments are applicable to the Parent Company Financial Statements.

Amounts receivable from and owed to subsidiaries are recognised at amortised cost using the effective interest method and are reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently held at amortised cost. Interest is accounted for on an accruals basis in the income statement. Premiums payable on settlement or redemption and direct issue costs are capitalised and amortised over the period to which the facility relates.

Share based payments
For grants made to employees of Cobham plc under the Group's equity share based payment schemes, amounts which reflect the fair value of awards as at the time of grant are charged to the income statement over the vesting period, taking into account management's best estimate of the number of awards expected to vest. The vesting estimate, which includes progress against non-market related performance conditions, is reviewed and updated at each balance sheet date. The fair value of awards made to employees of subsidiary undertakings, net of amounts recovered as management charges, is recognised as a capital contribution and recorded in investments.

The valuation methodology for all schemes is based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

2. Dividends

£m	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

3. Employees

The average number of employees, including Directors, during the year was 162 (2015: 162). All staff were employed in administrative functions. Costs for these employees were as follows:

£m	2016	2015
Wages and salaries	**12.9**	12.9
Social security costs	**1.0**	0.9
Pension costs	**9.6**	9.7
Share based payments	**0.7**	(1.5)
	24.2	22.0

Disclosures in respect of the emoluments of Directors and key management personnel can be found in the Directors' Remuneration Report on pages 62 to 77 and in note 4 of the Group Financial Statements respectively.

4. Audit fees

The audit fee in respect of the Parent Company Financial Statements was £47,000 (2015: £49,000).

5. Share based payments

Employees of Cobham plc participate in equity settled share based payment schemes which are operated by the Group for senior executives and also in the Group's ShareSave scheme which is open to all UK employees.

At 31 December, the following awards were outstanding under each scheme:

Number of awards (thousands of shares)	2016	2015
PSP	**3,242**	3,050
RSP	**388**	123
ESOS	**180**	474
BCP	**17**	22
ShareSave	**696**	364
	4,523	4,033

Options outstanding under the ESOS scheme had a weighted average remaining contractual life of 1.7 years (2015: 2.3 years) and exercise prices which range from £1.56 to £1.98 (2015: £1.56 to £1.98 as adjusted for the bonus impact of the rights issue). Options outstanding under the ShareSave scheme had a weighted average remaining contractual life of 3.1 years (2015: 3.1 years) and exercise prices which range from £1.26 to £2.05 (2015: £1.26 to £2.05).

Exercises of awards under the ESOS and ShareSave schemes were made at various times throughout the year. The average share price in that period was £1.842p (2015: £2.964p).

Further details of these schemes can be found in the Directors' Remuneration Report on page 67 and in note 26 to the Group Financial Statements.

6. Investments in Group and other undertakings

£m	Shares	Share based payments	Total
Cost and net book amount			
At 1 January 2016	**777.3**	**12.3**	**789.6**
Share based payment awards granted to employees of Group undertakings net of recoveries	–	**1.7**	**1.7**
Other movement	**(4.0)**	–	**(4.0)**
At 31 December 2016	**773.3**	**14.0**	**787.3**

In the opinion of the Directors the value of investments in subsidiary undertakings is not less than the aggregate amount at which they are shown above.

A list of all subsidiaries is provided in note 32 to the Group Financial Statements. The market capitalisation of the Group as a whole is given in the Group Financial Record on page 140.

The Company has minority shareholdings in two companies in connection with the FSTA programme. The total amount invested is £6.1m (2015: £6.1m) and this is held as a trade investment.

7. Trade and other receivables

Current assets

£m	2016	2015
Amounts owed by Group undertakings	**2,621.4**	2,360.4
Deferred tax	**15.2**	6.9
Prepayments and accrued income	**9.2**	8.9
	2,645.8	2,376.2

Amounts owed by Group undertakings are unsecured and repayable on demand. All such balances, excluding trading balances, are interest bearing.

The net deferred tax asset can be analysed as follows:

£m	2016	2015
Derivative financial instruments	**7.5**	1.8
Retirement benefit obligations	**7.4**	4.5
Share based payments	**0.2**	0.5
Accelerated capital allowances	**0.1**	0.1
	15.2	6.9

Movements in the net deferred tax asset are as follows:

£m	
At 1 January 2016	**6.9**
Charge to reserves	**3.9**
Charge to income statement	**4.4**
At 31 December 2016	**15.2**

Non-current assets

£m	2016	2015
Loan notes	**18.3**	18.3

The loan notes relate to the FSTA programme, are interest bearing and due for repayment in 2035.

8. Borrowings

Current liabilities

£m	2016	2015
Bank overdrafts	–	59.7
Bank loans	–	100.7
Senior notes	**60.7**	54.9
	60.7	215.3

Non-current liabilities

£m	2016	2015
Bank loans	**475.7**	471.8
Senior notes	**727.5**	872.9
	1,203.2	1,344.7

Further details of the Company's principal borrowing facilities are disclosed in notes 14 and 17 to the Group Financial Statements.

The loans falling due after more than one year are due for repayment as follows:

£m	2016	2015
Between one and two years	**267.4**	41.6
Between two and five years	**204.9**	427.3
After five years	**3.4**	2.9
	475.7	471.8

Senior notes falling due after more than one year mature as follows:

£m	2016	2015
Between one and two years	–	84.8
Between two and five years	**383.6**	330.1
After five years, maturing between 2021 and 2024	**343.9**	458.0
	727.5	872.9

Following the rights issue completed in June 2016, senior notes with a face value of US$312.5m were repaid in September 2016.

9. Trade and other payables

£m	2016	2015
Trade payables	**2.4**	2.3
Amounts owed to Group undertakings	**488.2**	484.6
Corporation tax payable	**3.3**	1.2
Other tax and social security	**1.3**	1.7
Accruals and deferred income	**15.3**	20.4
	510.5	510.2

Interest is charged on amounts owed to Group undertakings at rates varying between 0.25% and 9.0%. These amounts are unsecured and are repayable on demand.

10. Provisions

£m	Legal claims	Other provisions	Total
At 1 January 2016	**–**	**6.6**	**6.6**
Charge to income statement	**1.4**	**–**	**1.4**
At 31 December 2016	**1.4**	**6.6**	**8.0**

Other provisions of £6.6m (2015: £6.6m) relate to longer term warranties given on divestments completed in 2005. All amounts have been determined based on the Directors' current estimates of likely outcomes and the timing of any claims remains uncertain.

11. Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange contracts and interest rate swap contracts to reduce these exposures and does not use derivative financial instruments for speculative purposes. Other derivative financial instruments may be used from time to time to manage exposures such as inflation risk.

The fair values of derivative financial instruments are as follows, these are financial assets measured at fair value through profit or loss, or financial liabilities categorised as held for trading:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
Non-current assets	**–**	**34.6**	**0.4**	**35.0**
Current assets	**–**	**33.8**	**1.4**	**35.2**
Current liabilities	**(0.6)**	**(44.4)**	**(1.4)**	**(46.4)**
Non-current liabilities	**(1.2)**	**(31.7)**	**(0.4)**	**(33.3)**
At 31 December 2016	**(1.8)**	**(7.7)**	**–**	**(9.5)**
Non-current assets	–	10.1	1.2	11.3
Current assets	–	13.8	1.2	15.0
Current liabilities	(0.5)	(29.9)	(1.2)	(31.6)
Non-current liabilities	(1.8)	(9.8)	(1.2)	(12.8)
At 31 December 2015	(2.3)	(15.8)	–	(18.1)

The movements in the fair values of derivative financial instruments during the year are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
At 1 January 2015	(3.3)	(8.0)	–	(11.3)
Loss through income statement – not hedged	–	(7.6)	–	(7.6)
Gain reclassified to income statement	1.1	–	–	1.1
Loss through OCI – hedged items	(0.3)	(0.2)	–	(0.5)
Foreign exchange adjustments	0.2	–	–	0.2
At 1 January 2016	**(2.3)**	**(15.8)**	**–**	**(18.1)**
Gain through income statement – not hedged	**–**	**7.1**	**–**	**7.1**
Gain reclassified to income statement	**1.1**	**0.4**	**–**	**1.5**
(Loss)/gain through OCI – hedged items	**(0.2)**	**0.6**	**–**	**0.4**
Foreign exchange adjustments	**(0.4)**	**–**	**–**	**(0.4)**
At 31 December 2016	**(1.8)**	**(7.7)**	**–**	**(9.5)**

Hedge accounting is applied for interest rate swaps and a small number of specific foreign exchange derivatives with a fair value at 31 December 2016 of £18.5m (2015: £1.5m) which are designated as cash flow hedging instruments. There is no material ineffectiveness in cash flow hedges to be reported through the income statement.

The majority of foreign exchange and inflation derivatives are not accounted for using hedge accounting and movements in fair values are recorded in the income statement.

The most significant assumptions in valuing the derivatives are the exchange rates for GBP: USD, GBP: DKK and GBP: EUR.

12. Retirement benefit obligations

Retirement benefit obligations in the balance sheet comprise:

£m	2016	2015
Defined benefit scheme assets	**415.7**	349.0
Defined benefit obligations	**(452.5)**	(371.4)
	(36.8)	(22.4)

Defined benefit pension schemes

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The plans are funded defined benefit schemes (where benefits are based on employees' length of service and average final salary) and assets are held in separate trustee administered funds. The plans have been closed to new members since 2003 and have been closed to future accrual from 1 April 2016.

Details of actuarial valuation processes and risks, assumptions and sensitivities relating to the CPP and CEPP are not significantly different to those disclosed in note 22 to the Group Financial Statements on page 118.

The Company expects to contribute £8.5m to its defined benefit pension schemes in 2017 and £8.5m in 2018. There were no significant contributions outstanding at the end of 2016 or 2015.

Changes in the fair value of scheme assets are as follows:

£m	2016	2015
At 1 January	**349.0**	275.0
Interest	**13.1**	10.9
Actuarial gains	**62.3**	67.0
Scheme administration expenses	**–**	(0.2)
Contributions by members	**–**	0.1
Contributions by employers	**8.7**	8.6
Benefits paid	**(17.4)**	(12.4)
At 31 December	**415.7**	349.0

Changes in the present value of the defined benefit obligations are as follows:

£m	2016	2015
At 1 January	**371.4**	310.8
Current service cost	**–**	0.1
Past service cost	**–**	0.2
Interest cost	**13.8**	12.2
Actuarial losses arising from changes in financial assumptions	**89.7**	64.9
Actuarial gains arising from changes in demographic assumptions	**(5.0)**	(4.3)
Contributions by members	**–**	0.1
Gain on curtailment	**–**	(0.2)
Benefits paid	**(17.4)**	(12.4)
At 31 December	**452.5**	371.4

The actual return on scheme assets was £75.4m (2015: £77.9m). The weighted average duration of the scheme liabilities is estimated to be 17 years.

The fair value of major categories of scheme assets, and as a percentage of total scheme assets, is as follows:

	2016		2015	
	£m	%	£m	%
UK equity instruments	**27.7**	**6.7%**	23.6	6.8%
Overseas equities	**16.1**	**3.9%**	13.7	3.9%
Emerging markets equities	**11.0**	**2.6%**	9.3	2.7%
Liability driven investments	**40.8**	**9.8%**	31.3	9.0%
Corporate bonds	**41.3**	**9.9%**	–	–
Private credit	**7.6**	**1.8%**	–	–
Insurance contracts	**181.9**	**43.8%**	163.0	46.7%
Diversified growth funds	**75.4**	**18.2%**	82.6	23.6%
Other assets	**13.9**	**3.3%**	25.5	7.3%
	415.7	**100.0%**	349.0	100.0%

Scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company.

Defined contribution pension schemes
The Company also operates and participates in the Cobham Personal Pension Plan, a defined contribution scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The pension cost charged represents contributions payable by the Company to the funds and amounted to £1.0m (2015: £0.9m). No contributions were outstanding at 31 December 2016 (2015: £nil).

13. Share capital

£m	2016	2015
Allotted, issued and fully paid		
Equity		
1,783,815,575 (2015: 1,214,527,625) 2.5p ordinary shares	**44.6**	30.4
Non-equity		
19,700 (2015: 19,700) 6% second cumulative preference shares of £1	–	–

Preference shares with a value of £19,700 are classified as borrowings.

Following a 1 for 2 fully underwritten rights issue, 569,287,950 ordinary shares of 2.5p each were issued on 17 June 2016 at an issue price of 89p per share. Net proceeds of £490.6m were realised, net of costs of £16.1m.

Further details of the share capital of Cobham plc, including changes resulting from treasury shares, can be found on page 78 and in note 24 to the Group Financial Statements.

14. Contingent liabilities and commitments

The Company has contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business entered into for, or on behalf of, certain Group undertakings.

As the conditions of the above guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made at the year end.

The Company had no capital commitments at 31 December 2016 (2015: £nil).

15. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with related parties that are part of the Cobham plc Group or investees of the Group. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 from disclosing related party transactions with its wholly owned subsidiary undertakings. The only transactions with non-wholly owned subsidiaries relate to the receipt of management and brand charges totalling £1.3m (2015: £1.0m) from TEAM SA which is 98.7% owned. No amounts were outstanding at the current or prior year end.

There were no material transactions with the Directors, their close family members or other connected parties to be reported during the year other than arising from Directors' service agreements. Details of Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 62 to 77.

Group Financial Record

£m	2012	2013	2014	2015	2016
Revenue	1,749.4	1,789.7	1,851.7	2,072.0	**1,943.9**
Underlying profit before taxation	300.2	288.0	257.0	280.4	**179.1**
Profit/(loss) before taxation for the year	204.0	126.6	24.3	(39.8)	**(847.9)**
Taxation	(32.2)	(12.1)	4.7	2.1	**52.8**
Profit/(loss) after taxation	171.8	114.5	29.0	(37.7)	**(795.1)**
Net assets employed					
Intangible assets	1,102.1	1,162.2	2,040.8	1,729.5	**1,165.9**
Property, plant and equipment (including investment properties)	315.5	360.7	400.4	384.2	**426.5**
Investments	15.8	3.1	3.1	3.0	**3.6**
Other non-current assets	60.3	43.3	75.3	95.3	**134.1**
Current assets	877.9	849.9	1,101.6	1,105.6	**1,062.9**
	2,371.6	2,419.2	3,621.2	3,317.6	**2,793.0**
Current liabilities	(576.4)	(574.8)	(707.4)	(797.2)	**(864.0)**
Non-current liabilities excluding retirement benefit obligations	(667.4)	(712.9)	(1,699.5)	(1,554.0)	**(1,352.1)**
Net assets excluding retirement benefit obligations	1,127.8	1,131.5	1,214.3	966.4	**576.9**
Retirement benefit obligations	(73.4)	(87.3)	(102.0)	(56.7)	**(87.0)**
Net assets including retirement benefit obligations	1,054.4	1,044.2	1,112.3	909.7	**489.9**
Financed by					
Ordinary share capital	28.9	28.9	30.4	30.4	**44.6**
Reserves	1,024.9	1,014.5	1,081.0	878.4	**444.2**
Total equity attributable to the owners of the parent	1,053.8	1,043.4	1,111.4	908.8	**488.8**
Non-controlling interests in equity	0.6	0.8	0.9	0.9	**1.1**
Total equity	1,054.4	1,044.2	1,112.3	909.7	**489.9**
Net debt	(359.9)	(453.4)	(1,222.7)	(1,206.8)	**(1,028.2)**
Operating cash flow	339.3	268.5	207.9	234.6	**181.8**
Operating cash conversion	104%	85%	73%	71%	**81%**
pence					
Dividend paid per ordinary share	8.60	9.04	9.94	10.80	**10.16**
Earnings per ordinary share – underlying	19.1	18.3	15.7	16.5	**9.0**
Earnings per ordinary share – basic	13.5	9.1	2.2	(2.8)	**(52.8)**
Earnings per ordinary share – diluted	13.5	9.0	2.2	(2.8)	**(52.8)**
Net assets per ordinary share	91.3	90.4	91.6	74.9	**27.5**
£m					
Market capitalisation as at 31 December	2,549	3,169	3,934	3,440	**2,920**

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

Shareholder Information

Analysis of shareholders

Analysis of ordinary shareholders on the register at 31 December 2016:

Size of holding	Number of registered holders	Percentage of registered holders	Number of ordinary shares held	Percentage of ordinary shares
Up to 1,000	1,326	27.61	628,412	0.04
1,001–10,000	2,327	48.45	8,577,756	0.48
10,001–50,000	682	14.20	14,342,399	0.80
50,001–250,000	208	4.33	25,063,241	1.40
250,001–1,000,000	121	2.52	64,333,934	3.61
1,000,001 and above	139	2.89	1,670,869,833	93.67
Total	**4,803**	**100.00**	**1,783,815,575**	**100.00**

Source: Equiniti Group plc

At 31 December 2016, there were 4,803 ordinary shareholders on the register, compared with 5,142 at 31 December 2015. The total includes Treasury shareholding of 75,951,724 shares.

Registrars

Enquiries concerning shareholdings or dividends should, in the first instance, be addressed to the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone: 0371 384 2163* or +44 (0)121 415 7047 if calling from outside the UK). Shareholders should promptly notify the registrars of any change of address or other particulars.

The registrars provide a range of shareholders' services online. The portfolio service provides access to information on investments including balance movements, indicative share prices and information on recent dividends and also enables address and mandate details to be amended online. For further information and practical help on transferring shares or updating your details, please visit **www.shareview.co.uk**. The share dealing service enables shares to be sold by UK shareholders by telephone, post or over the internet. For telephone sales please call 0345 603 7037 between 8am and 4:30pm, Monday to Friday. For postal sales, please send your completed documentation to the address above. For internet sales, please visit **www.shareview.co.uk/dealing**.

Individual Savings Accounts (ISAs)

The registrars also offer an ISA for Cobham shareholders. Further information may be obtained by visiting **www.shareview.co.uk**, or telephone 0345 300 0430 (or +44 (0) 121 415 0105 if calling from outside the UK).

You should bear in mind that investments, both their value and the income they provide, can go down as well as up and you might not get back what you originally invested.

Capital gains tax

For the information of shareholders who held Cobham plc ordinary shares on 31 March 1982, the market value, adjusted for capitalisation and rights issues, of the Company's ordinary shares on that date for capital gains tax purposes, unadjusted for the share sub-division of July 2005, was 86.02p.

ShareGift

Do you have a small shareholding which is uneconomical to sell? You may want to consider donating it to ShareGift (registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting **www.sharegift.org** or calling +44 (0) 207 930 3737.

Shareholder Security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting **www.fca.org.uk**. You can also call the FCA Consumer Helpline on 0800 111 6768 (or +44 (0) 20 7066 1000 if calling from outside the UK).

Financial calendar

AGM	27 April 2017
Interim results	3 August 2017

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* Lines are open Monday to Friday 8.30am to 5.30pm; excluding Public Holidays in England and Wales.

Glossary

Term	Full name	Description
737NG	Boeing 737 Next Generation	Part of the Boeing 737 family of twin engine narrow-body commercial airliners. Boeing 737 Next Generation models include the -600, -700, -800 and -900ER.
A320neo Family	Airbus A320neo	A single-aisle aircraft product line
A400M	Airbus A400M	A versatile large military aircraft that performs three differing duties: short-medium range flights; long range flights; and the ability to provide aerial refuelling capabilities.
AMSA	Australian Maritime Safety Authority	A statutory authority whose principal functions are promoting maritime safety and protection of the marine environment; preventing and combating ship-sourced pollution in the marine environment; providing infrastructure to support safety of navigation in Australian waters; providing a national search and rescue service to the maritime and aviation sectors.
Aviator 200S	Aviator 200S	The AVIATOR S series provides SATCOM solutions for airline fleets for the purpose of air traffic control and aircraft operation control. The AVIATOR S enables secure data communication, Internet Protocol (IP) connectivity and multiple voice capabilities.
B717	Boeing 717	A narrow-body passenger aircraft designed for short-haul, high frequency commercial use.
C-130	Lockheed Martin C-130	A tactical airlifter. C-130 variants are also used for special operations, aerial refuelling, close air support, search and rescue and personnel recovery.
CI	Continuous improvement	Continuous improvement is the ongoing improvement of products, services or processes through incremental and breakthrough activities.
CL-604	Bombardier Challenger CL-604 aircraft	A business jet being modified by Cobham.
COMAC C919	COMAC C919	A narrow-body passenger aircraft currently being developed by the Commercial Aircraft Corporation of China (COMAC).
COSO ERM	Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management	An integrated framework which helps businesses assess and enhance their internal control systems. The framework is used to control activities and to better achieve established objectives.
Dassault Rafale	Multirole fighter aircraft	A twin engine, multirole fighter aircraft
EA-18G	Boeing EA-18G Growler	A variant of the F/A-18F Super Hornet, the EA-18G Growler is an airborne electronic attack platform that provides tactical jamming and electronic protection.
ERP	Enterprise Resource Planning	An IT system which integrates all business processes, including manufacturing, finance and accounting, human resources, sales and marketing, purchasing, distribution, and inventory into one central cohesive repository. It allows businesses to run more efficiently, with real time access to data across many business functions.
Eurofighter Typhoon	Multirole fighter aircraft	A twin engine, multirole fighter aircraft

Term	Full name	Description
F-#	US Air Force designated fighter aircraft	Designation for aircraft used for air-to-air combat or for multiple roles, including ground support missions.
FYDP	Future Years Defense Program	A US Department of Defense centralised report providing data on current and planned resource allocations, providing visibility over projected defence spending.
GX	Inmarsat Global Xpress	A global satellite service which is the world's first to offer mobile broadband coverage. Global Xpress provides increased data speeds and bandwidth to customers in the government, maritime and aeronautical sectors.
idDAS	Intelligent Digital Distributed Antenna Systems	An in-building wireless coverage solution allowing mobile operators to dynamically allocate capacity around a facility to locations only where and when it is needed.
Ka-band	Ka-band	Used in satellite communications, Ka-band offers higher bandwidth than alternative frequencies allowing greater data transfer rates.
KC-46	Boeing KC-46	An aerial refuelling tanker, currently being developed for the US Air Force to replace its ageing fleet of KC-135 Stratotankers.
Saab Gripen	Multirole fighter aircraft	A single engine, multirole fighter aircraft
SAILOR 100 GX	SAILOR 100 Global Xpress	An advanced 3-axis stabilized Ka-band antenna system designed for the Inmarsat GX satellite network.
SATCOM	Satellite Communication	Enables fixed and mobile communications such as telephone calls, television or internet connections, using an orbiting satellite to transfer data around the earth.
SEWIP	Surface Electronic Warfare Improvement Program	An evolutionary series of enhancements to the US Navy's AN/SLQ-32 electronic warfare system for surface ships.
SwiftBroadband-Safety	SwiftBroadband-Safety	Inmarsat's flight deck communications platform designed for global, high-speed, secure, IP connectivity for the cockpit
TeraVM	TeraVM	A fully virtualised IP test and measurement solution that can emulate and measure millions of unique application flows as a means to test wireless networks.

Definitions

KPI definitions

Group organic revenue growth
Revenue growth stated at constant translation exchange rates, excluding the incremental effect of acquisitions and divestments.

Underlying EPS growth at constant translation exchange rates
The year-on-year increase in underlying profit after taxation, stated at constant translation exchange rates, divided by the weighted average number of ordinary shares.

Operating cash conversion
Operating cash flow as a percentage of underlying operating profit, excluding the share of profit from joint ventures and associates.

Return on invested capital
Underlying operating profit as a percentage of the average invested capital during the year.

Invested capital comprises net assets adjusted to exclude net debt, retirement benefit obligations, derivative financial instruments, current and deferred tax, provisions and other financial assets. Intangible assets recognised on business combinations are grossed up to their original cost before amortisation and an adjustment is also made to reinstate the historic goodwill previously written off directly to reserves.

PV investment
Private Venture (PV) or company funded Research and Development (R&D) measures exclude Aviation Services, where there is no R&D activity.

Voluntary staff turnover
The number of voluntary leavers divided by the number of employees at the start of the period, excluding employees who became redundant, were dismissed or retired.

On time to promise
Number of complete orders delivered on time as a percentage of the total number of orders promised for delivery in the same period..

Further Financial Definitions

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 (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, revaluation gains and losses arising on the original equity interests on stepped acquisitions, other direct costs associated with business combinations and terminated divestments, and adjustments to contingent consideration related to previously acquired businesses.

Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. 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, changes in estimates of fixed price contract profitability and the assessment of 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).

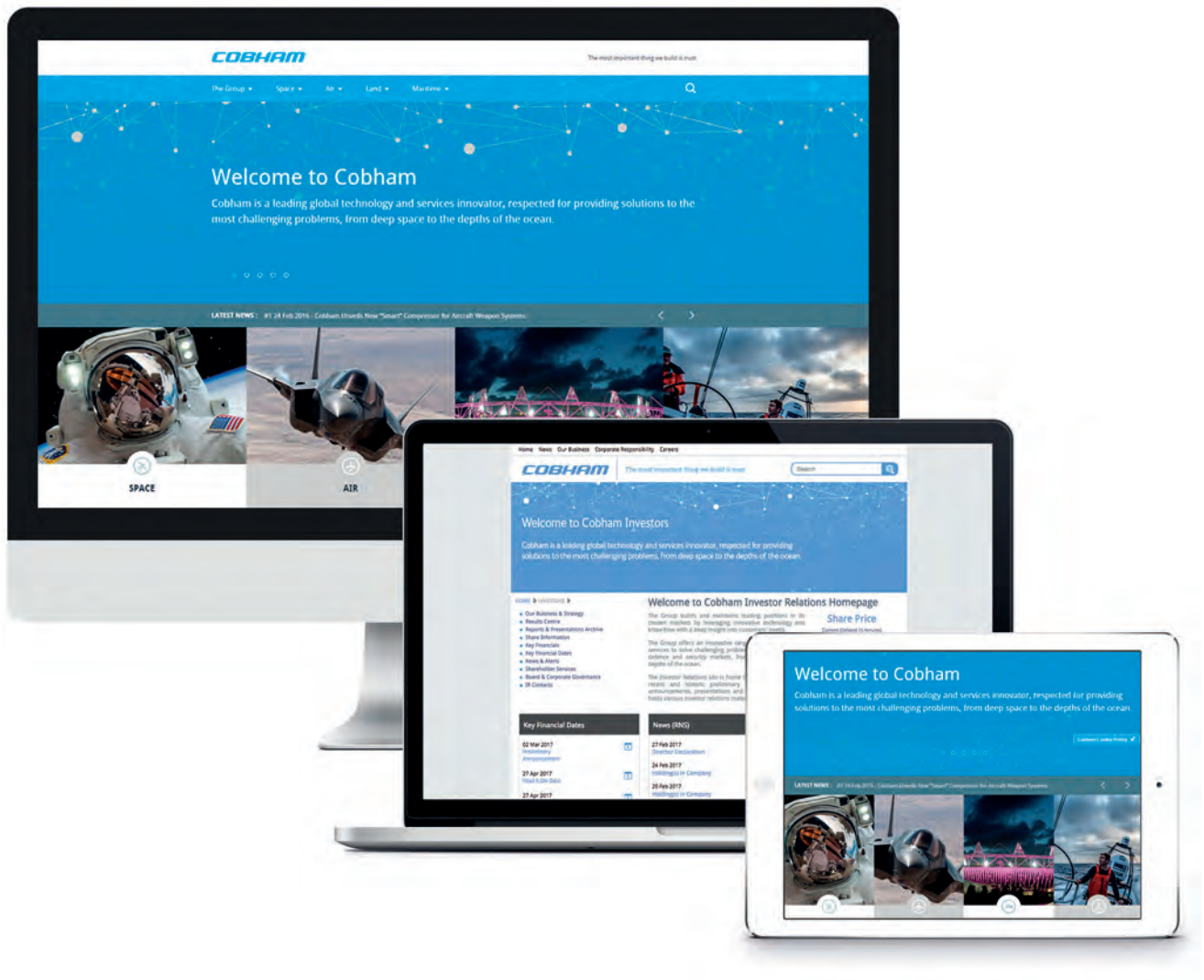
Free cash flow and operating cash flow
Free cash flow is defined as net cash from operating activities plus dividends received from joint ventures, less cash flows related to the purchase or disposal of property, plant, equipment and intangible assets but excluding payments relating to business acquisition and divestment related activities. Operating cash flow is free cash flow before payment of tax, interest and restructuring costs.

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

Geographical sectors
When providing sectoral analysis by geography, US revenue includes revenue to US based customers on programmes which could be designated as export and is therefore UK, RoW defence/security from a market analysis perspective.

Find more online
Our website provides further information including shareholder services and governance, details of our products and services, corporate responsibility and sustainability, and more at:

www.cobham.com



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www.cobhaminvestors.com

Corporate responsibility and sustainability
www.cobhamsustainability.com

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