COBHAM

2018 Preliminary Results

Thursday 7th March 2019

01

Introduction

David Lockwood

Summary

COBHAM

1 | A year of progress – financials in-line

2 | Strong Mission Systems performance; Advanced Electronic Solutions underperformed

3 | The KC-46 settlement and programme progress

4 | Divestment provides focus on defence, aerospace and space markets, with improved margins

5 | Strong balance sheet allowing capital allocation policy; dividend reinstatement with 2019 interims

6 | Expectations for 2019 progress unchanged

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Financial Results

David Mellors

Summary Financial Headlines

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£m	2018	Organic[2] 2017	2017[1]
Order intake	**1,946.3**	1,726.5	1,915.4
Revenue	**1,863.3**	1,895.8	2,091.6
Underlying operating profit	**196.1**	185.1	213.1
Underlying operating margin	**10.5%**	9.8%	10.2%
Underlying earnings per share (pence)	**5.0**		6.2
Operating cash flow	**123.4**		217.6
Operating cash conversion	**63%**		102%
Free cash flow	**62.6**		140.6
Net cash/(debt)	**10.3**		(383.5)
Net debt/EBITDA ratio	**-**		1.3x

(1) Restated following adoption of IFRS 15
(2) Organic comparatives restated to provide comparison adjusted for the impact of divestments and exchange rates

2018 Underlying Impact of KC-46 Settlement

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	Reported Numbers*		KC-46 settlement impact	Excluding KC-46 settlement	
	2018 £m	Organic % v 2017	£m/%	2018 £m	Organic % v 2017
Group					
Order intake	**1,946.3**	13%	67.3	2,013.6	17%
Revenue	**1,863.3**	(2%)	79.8	1,943.1	3%
Underlying operating margin	**10.5%**	0.7%	(0.4%)	10.1%	0.3%
Mission Systems Sector					
Order intake	**400.5**	(20%)	67.3	467.8	(7%)
Revenue	**402.7**	(4%)	79.8	482.5	15%
Underlying operating margin	**18.7%**	6.0%	(2.9%)	15.8%	3.1%

* *Including KC-46 settlement impact*

2016 Exceptional Charges Update

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£m	Opening balance	Cash flow utilised	Income statement[2] (Charge)/released	FX	Closing balance[3]
2017	(191)[1]	67	9	3	**(112)**
2018	(112)	103	(198)	1	**(206)**
Cumulative totals @ 31 Dec 2018	**(191)**	**170**	**(189)**	**4**	**(206)**

(1) Opening balance comprises 2016 non-underlying charges of £237m which included £56m of asset write offs and IFRS 15 restatement
(2) Non-underlying in the income statement
(3) Closing balance comprises net liabilities held in working capital £73m (31 December 2017: Net liability £30m) and provisions £133m (31 December 2017: £82m)

Balance Sheet Progress

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£m	31 Dec 2018	31 Dec 2017(1)	31 Dec 2016(1)(2)
Working capital	286*	302	397
Net cash/(debt)	10	(384)	(1,028)
Net debt/EBITDA gearing ratio	-	1.3x	3.0x
Balance of exceptional charges	(206)	(112)	(191)
Pension deficit	(47)	(63)	(87)

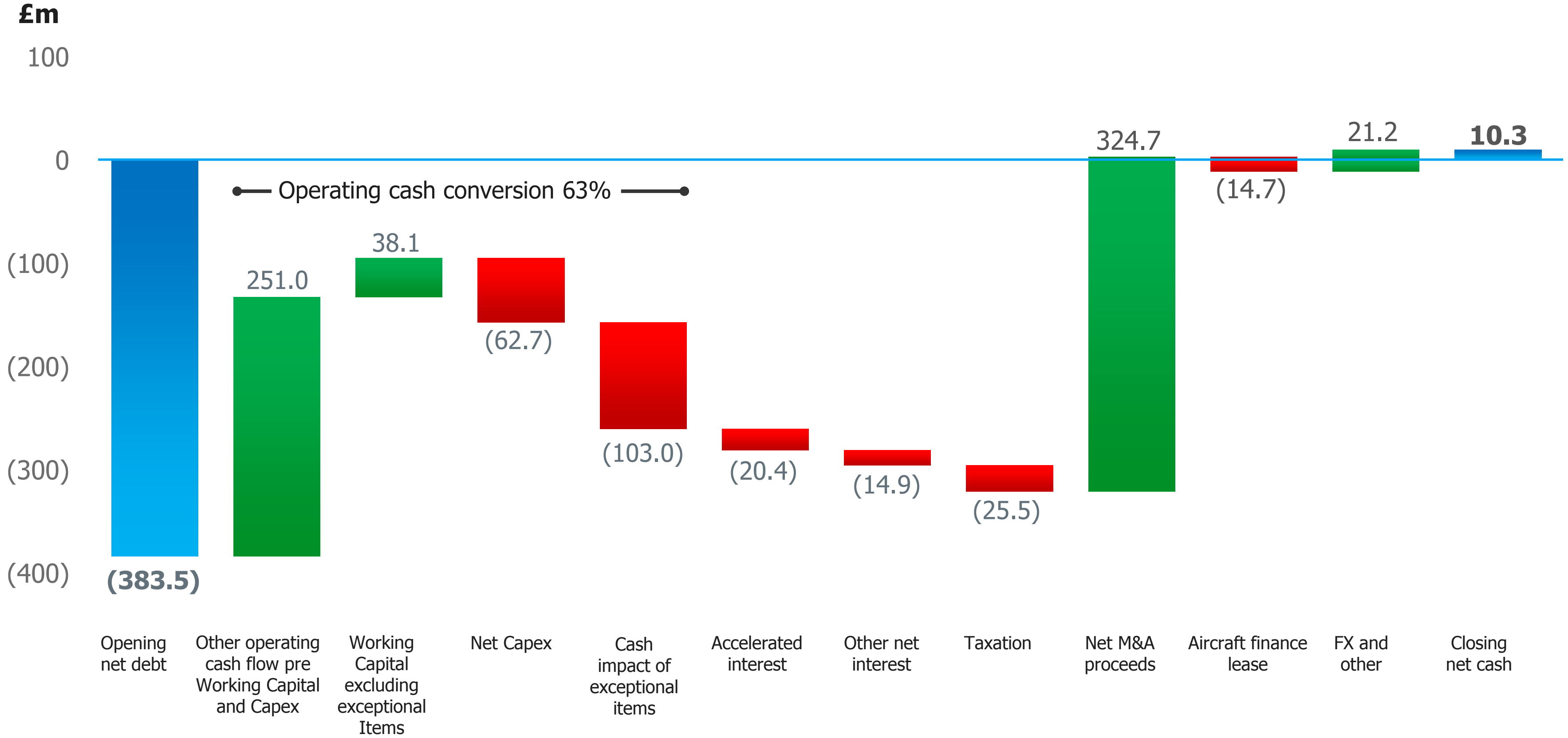
The figures above exclude tax provisions – refer to contingent liability note 16 in the Preliminary Announcement.

* *Excludes £49m payable to Boeing arising from KC-46 settlement*

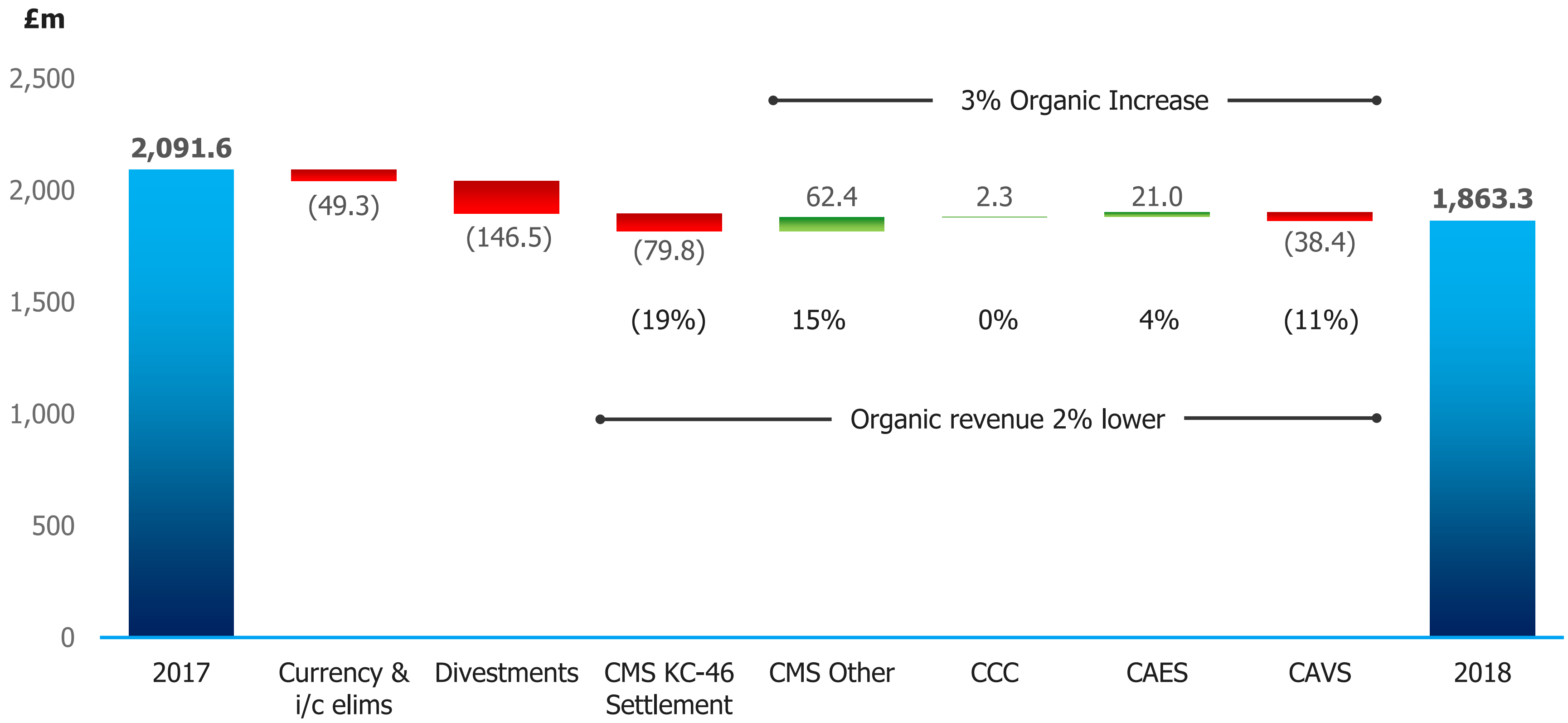
(1) *Restated following adoption of IFRS 15*

(2) *Includes Balance Sheet of AvComm and Wireless businesses, divested in March 2018. Theses were treated as assets held for sale in 31 December 2017 Group Balance Sheet. Working capital balance for AvComm and Wireless at 31 December 2016 was £34.6m*

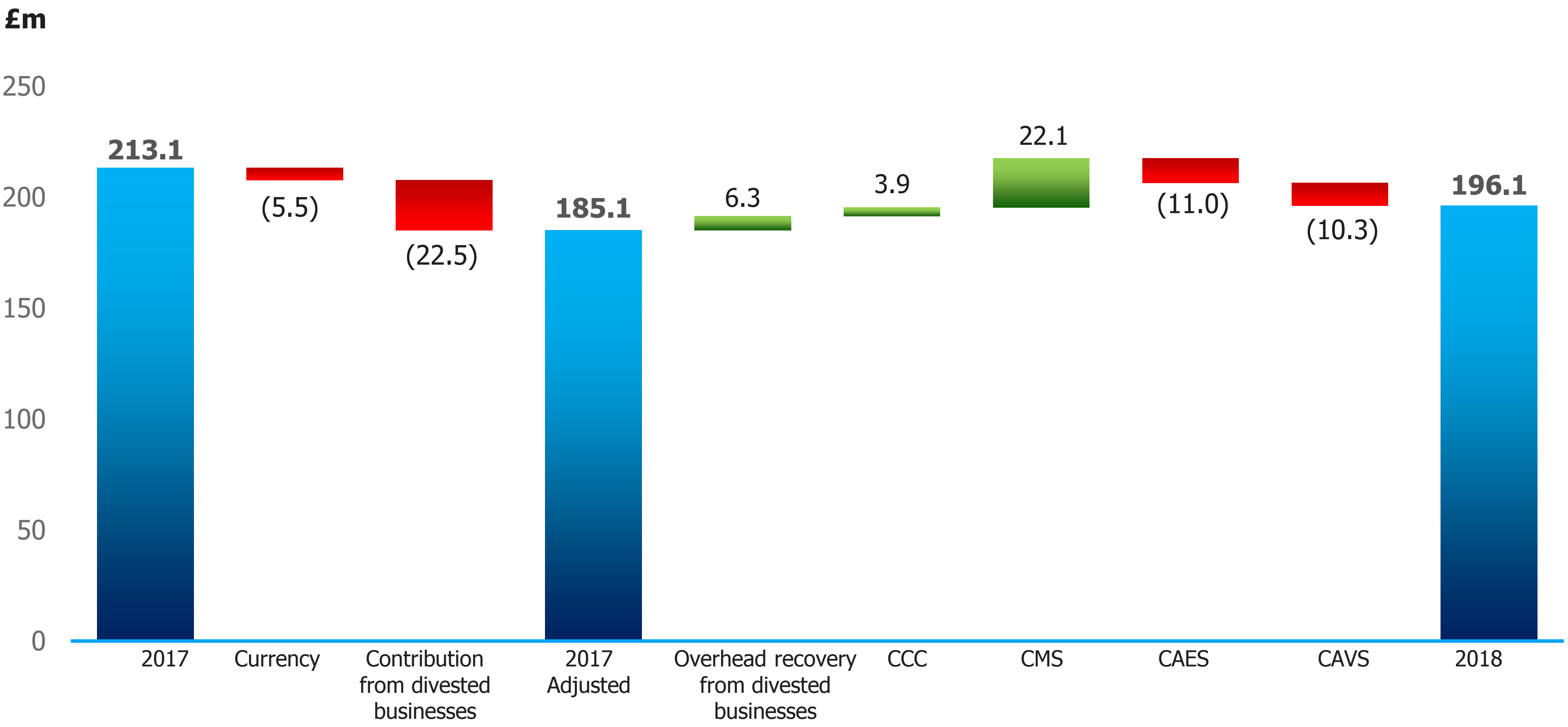
Movements in Net Debt



Revenue Bridge



Underlying Operating Profit Bridge



Communications and Connectivity

£m	2017	FX	Divested	Organic	2018
Order intake	715.2	(4.1)	(147.1)	33.1	**597.1**
Revenue	700.7	(4.5)	(146.5)	2.3	**552.0**
Underlying operating profit	69.0	(0.8)	(16.2)	3.9	**55.9**
Underlying operating margin	9.8%	-	(0.3)%	0.6%	**10.1%**
Order book	266.8				**278.5**

Organic revenue increase driven by:

- Growth in Aerospace Connectivity
  - T-38 trainer radio refit
  - Initial shipments of RT-7000 radio
  - Counter IED sales
- Lower Aerospace Communications retrofit

Profit impacted by:

- Lost contribution from 2018 divestments
- Increased PV investment, primarily Aviator S
- But offset by improved volume, mix and operational improvements

Note: Revenue by currency; USD 29%, EUR/DKK 57%

Mission Systems

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£m	2017[1]	FX	Organic Other	2018 Exc. KC-46	KC-46 Settlement	2018 Inc. KC-46
Order intake	517.1	(15.1)	(34.2)	467.8	(67.3)	**400.5**
Revenue	431.8	(11.7)	62.4	482.5	(79.8)	**402.7**
Underlying operating profit	55.2	(2.0)	22.1	75.3	-	**75.3**
Underlying operating margin	12.8%	(0.1%)	3.1%	15.8%	2.9%	**18.7%**
Order book	721.6					**747.5**

Organic revenue decrease driven by:

- KC-46 settlement revenue de-trade
- Offsets increased revenue from:
  - Aerial refuelling production and aftermarket
  - Fuel Tank inerting and other pneumatic products
  - Actuation products (Urgent Operational Requirements)

Profit increased due to:

- Higher production volumes and aftermarket
- Operating margin also benefited from KC-46 settlement

(1) Restated following the adoption of IFRS 15
Note: Revenue by currency; US$ 76%

Advanced Electronic Solutions

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£m	2017[1]	FX	Organic	2018
Order intake	563.0	(20.2)	178.8	**721.6**
Revenue	594.7	(20.7)	21.0	**595.0**
Underlying operating profit	66.1	(2.2)	(11.0)	**52.9**
Underlying operating margin	11.1%	-	(2.2%)	**8.9%**
Order book	493.8			**653.7**

Organic revenue increase driven by:

- Missile data links
- Electronic warfare and radar shipments - driven by F-35 aircraft production

Profit impacted by:

- Operational performance, including £9.5m charges on programmes
- Increased overhead costs
- Increased PV investment
- Facility and IT infrastructure investment ongoing

2019:

- Overhead cost reduction plan: US$20m anticipated savings in 2019

(1) Restated following the adoption of IFRS 15
Note: Revenue by currency; US$ 98%

Aviation Services

£m	2017	FX	Organic	2018
Order intake	122.4	(3.1)	109.4	**228.7**
Revenue	366.6	(13.1)	(38.4)	**315.1**
Underlying operating profit	22.8	(0.5)	(10.3)	**12.0**
Underlying operating margin	6.2%	0.1%	(2.5%)	**3.8%**
Order book	1,114.9			**990.8**

Organic revenue decrease driven by:

- Completed helicopter contracts
  - UK DHFS completed in Q1 2018
  - Qatar completed in 2017
- Australian commercial revenue stabilised overall

Profit impacted by:

- Lower revenue from completed helicopter contracts
- Restructuring costs - £3.5m

Note: Revenue by currency; AUS$ 68%

IFRS 16 - Leases

- IFRS 16 restatement from 1 January 2019
- At this date, lease liability of approximately £140m with amortised right of use assets of approximately £100m
- 2018 underlying operating profit increase of c£7m with increased interest charge of c£7m
- Future years likely to be neutral on EPS
- No impact on revenue or cash; frozen GAAP bank covenant terms

Capital Allocation Including Dividend Policy

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1 | Organic Investment

- Invest for capability enhancement and growth (e.g. technology, people, capex) as well as resolution of legacy items

2 | Dividend

- Progressive over time
- Resume payment H1 2019; first full year dividend 1.0p
- Appropriate level of earnings and free cash flow cover

3 | Bolt-on M&A

- Bolt-on acquisitions only when
  - Meets Group return on capital criteria
  - A strong strategic fit
  - Management bandwidth to properly integrate

4 | Shareholder Returns

- If capital surplus to needs

Maintain balance sheet <1.5x net debt/EBITDA gearing ratio*

**Excludes IFRS 16 impacts*

03
Business Review

David Lockwood

Update on our progress

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	Fix the Balance sheet	Capital Allocation & Dividend	Focus the Portfolio	Onerous Contracts & Other Legacy Items	Improve Operational Performance & Culture Change
PROGRESS	• £10.3m net cash at 31 Dec 2018	• New capital allocation policy • Dividend payments reinstated at H1 2019	• 2018 divestments – AvComm & Wireless T&M – 'Opera' software – Lightning test & consultancy	• KC-46 - see following slide • FCA investigation discontinued • Tax dispute ongoing	• Improving operational metrics • Divergence in Sector financial performance • New purpose and behaviours
TARGET	• Maintain strong balance sheet with gearing <1.5x net debt/EBITDA	• Allocation of capital for capability and organic growth • Progressive dividend with appropriate earnings and free cash flow cover • Bolt-on M&A with strong fit and effective integration	• Focus on defence, aerospace and space markets	• Full rate production on onerous legacy contracts • Other contingent liabilities resolved or risks mitigated	• On-time customer delivery (OTTP) >90% • Underlying operating margin 12-14% • Sustainable cash conversion around 90% • 'Every Mission Matters'

KC-46 Hose and Drogue Update

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Production status

- First 26 full production standard CDS shipped by 31 December 2018, further deliveries post year end

Agreement with Boeing announced 19 February 2019

- Settles all disputed matters to the date of the agreement (18 February 2019)
- Settles Boeing's damages assertions
- Resets schedule for WARP qualification and production of WARP and CDS
- Original contract terms remain in place

Financial impact

- Non-underlying charge of £160m comprises:
  - £86m settlement cost (£37m offset against withheld invoices, £49m balancing payment to Boeing in H1 2019)
  - £74m estimated additional costs to complete (incremental to the £40m non-underlying charge taken in interim results) to cover all programme aspects including qualification
- Boeing payment withhold ended

Programme status

- Rebases qualification schedule, dependent on third party approvals:
  - Flight test expected to commence in H1 2019
  - WARP qualification, anticipated to complete around middle of 2020, a critical milestone
- WARP and CDS production schedules reset

CDS *- Centerline Drogue System*
WARP *– Wing Aerial Refuelling Pod*

Advanced Electronic Solutions

- **Differentiated technology** and **leading market positions**
- **On key programmes aligned with US defence priorities** – continued PV investment to deliver next generation capabilities
- **Strong order intake** – ongoing investment in facilities and infrastructure to deliver production increases e.g. San Diego

Performance issues	Current Status	2019 Actions
	• **CAES (SSA) Board strengthened** in 2018	
• **Poor execution**: – Operational performance including charges for increased costs on programmes – Increased overhead costs	• **Strengthened Management** (Nov 2018): – New COO position – New CFO appointed	• **Enhanced discipline including:** – Bidding and contracts – Programme management • Renew **focus on profit and cash generation**
• **Duplication/overlap in overhead costs**	• **Refocused businesses** around capabilities	• **Overhead cost reduction plan**; US$20m anticipated savings in 2019

Addressing underperformance - the priority for 2019

Aviation Services

Status

- **UK Defence Helicopter Flying School completion;** some improvement in Australian commercial market
- **Reorganisation into two regionally focused teams**
- **Joint Electronic Warfare Core Staff (JEWCS) an important multi-year win** – a first for the business
- **Strengthened ASDOT* bid team** – QinetiQ bringing innovation in synthetics and aerial targeting

Current Priorities

- **Win commercial opportunities** in Australian natural resources
- **Complete fixed/ rotary wing operations merger**
- **Secure two significant contracts** – ASDOT (UK) and Sentinel renewal (Australia)

* *Air Support to Defence Operational Training programme in the UK*

Reorganised with customer focus – upcoming significant awards

Communications and Connectivity

Status

- **Simplified Sector strategy** after divestments (two major, two minor)
- **Reorganised; now customer and market focused –** previously geographic
- **Leadership strengthened** at Sector and business level – internal and external appointments
- **Least integrated Sector with most sites;** room for performance improvement in some businesses
- **Investment strategy** – next generation products launched; strong development pipeline

Current Priorities

- **Simplify sites and operations** – site consolidation underway in UK and US
- Continue **operational improvement** actions, in particular SATCOM, Wireless Coverage; sustain improvements elsewhere
- Focus on executing development pipeline, including significant **Aviator S & RAIMS developments**

Simplified with focus on core markets – strengthened leadership

Mission Systems

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Status

- **Executing US and international growth opportunities** e.g. B737 and A320 fuel tank inerting; T-6 and T-45 trainer aircraft oxygen
- **Significant commercial and programme progress on KC-46**
- **Gradual transition from AAR development to production** e.g. KC-390
- **Good operational performance** at two businesses delivering higher volumes and margin improvement; Wimborne gradually improving

Current Priorities

- **Continue to gain positions in fuel tank inerting and oxygen systems** e.g. KF-X aircraft oxygen award
- **Progress CDS/BFTS to full rate production; complete WARP certification**
- **Aerial refuelling aftermarket** e.g. Tinker US Air Force base
- **Continue to focus** on operational improvement

Significant operational improvement driving better and sustainable performance

Summary

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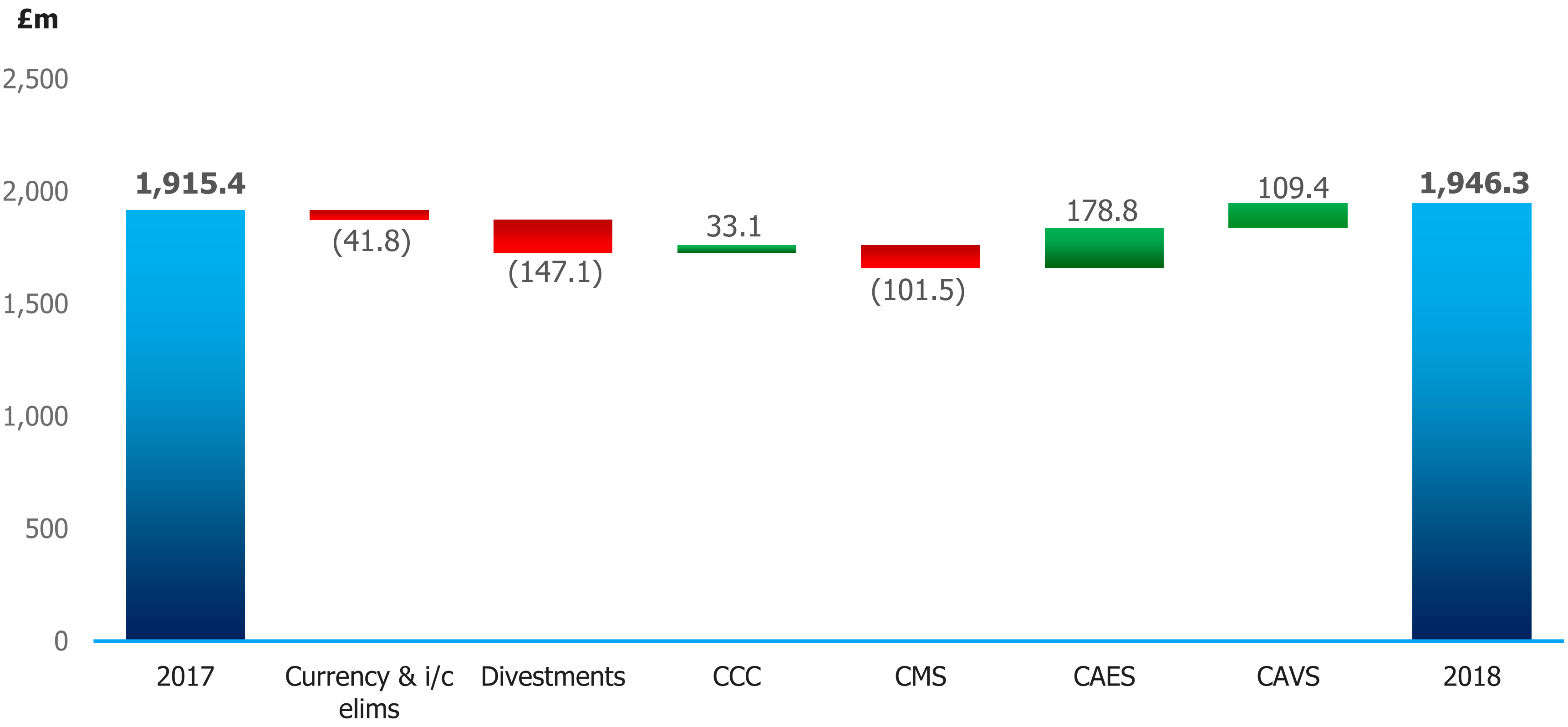
Questions

Appendices

Order Intake Bridge



Revenue and Underlying Operating Profit by Sector Summary at constant exchange[1]

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	Revenue £m		Underlying Operating Profit £m	
	2018	2017	2018	2017
CCC	**552.0**	549.7	**55.9**	52.0
Margin			*10.1%*	*9.5%*
CMS	**402.7**	420.1	**75.3**	53.2
Margin			*18.7%*	*12.7%*
CAES	**595.0**	574.0	**52.9**	63.9
Margin			*8.9%*	*11.1%*
CAVS	**315.1**	353.5	**12.0**	22.3
Margin			*3.8%*	*6.3%*
HO and eliminations	**(1.5)**	(2.3)	-	(6.3)
Subtotal	**1,863.3**	1,895.0	**196.1**	185.1
Margin			*10.5%*	*9.8%*
Divestments	**-**	146.5	-	22.5
Exchange	**-**	50.1	-	5.5
Cobham Group – as reported	**1,863.3**	2,091.6	**196.1**	213.1
Margin			*10.5%*	*10.2%*

(1) 2017 data presented as at 2018 exchange rates

NB: prior year margins come out slightly differently due to impact of FX on mix

Income Statement

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£m	FY18	FY17
Revenue	**1,863.3**	**2,091.6**
Underlying operating profit	**196.1**	**213.1**
Underlying net finance costs	(40.9)	(37.2)
Underlying profit before taxation	**155.2**	**175.9**
Specific adjusting items: to operating profit	(84.2)	(106.2)
Profit before taxation	**71.0**	**69.7**
Taxation	2.7	14.4
Profit after taxation	**73.7**	**84.1**

Income Statement – Specific Adjusting Items

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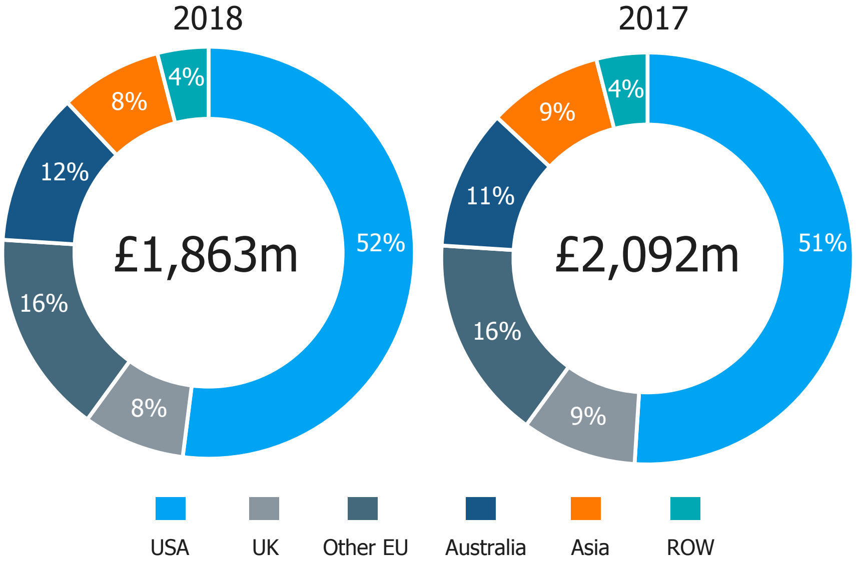
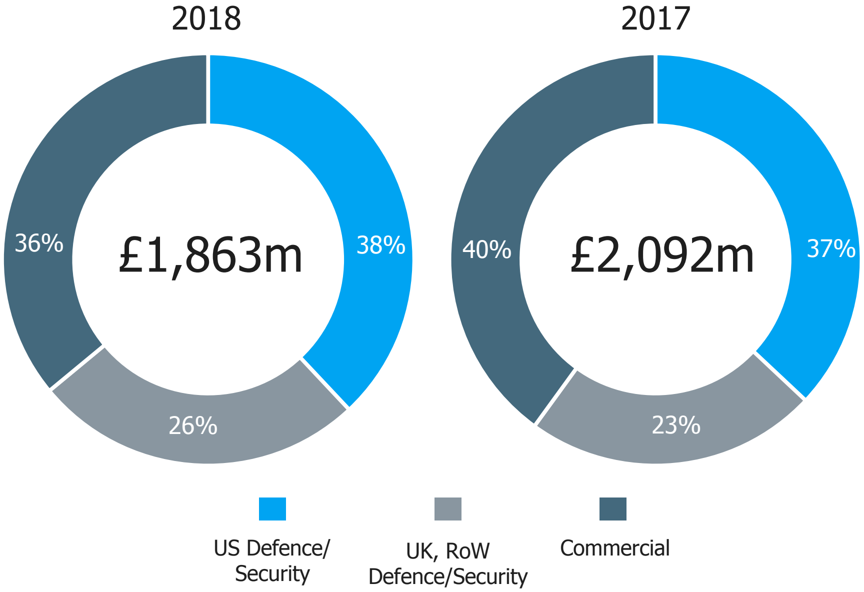
£m	FY18	FY17
Amortisation of intangible assets arising on business combinations	(89.8)	(138.9)
Derivative financial instruments	(19.7)	28.9
Profit on divestments and other M&A costs	227.0	0.8
Impairment of goodwill and other intangible assets	-	(33.5)
Reversal of impairment of intangible assets	-	31.8
Pension adjustments	(3.4)	-
Other items provided as exceptional items at 31 December 2016		
Adjustments to revisions of the carrying values of other assets	-	1.4
Assessment of legal and other provisions	1.7	8.0
Estimates of fixed price contract profitability	(200.0)	-
Amounts related to prior periods' restructuring programmes	-	(4.7)
	(84.2)	**(106.2)**

Revenue by Destination and Market Segment

Group Revenue by Destination

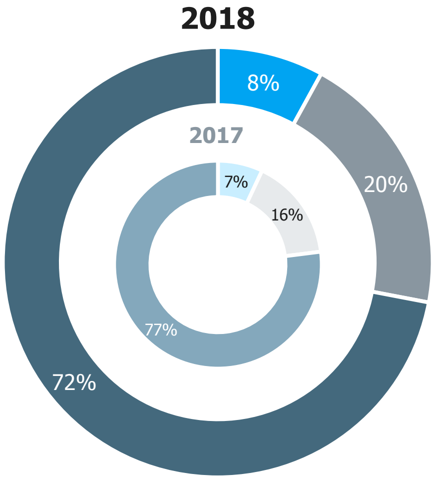


Group Revenue by Market Segment

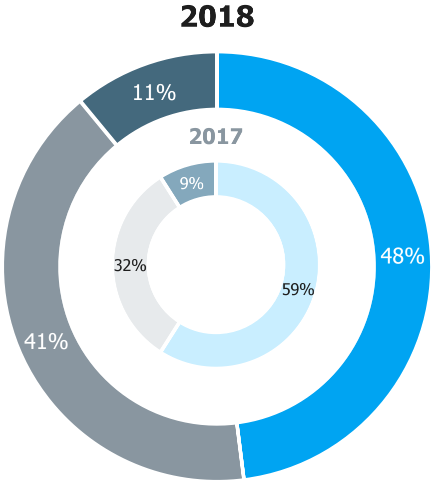


Market Segment Revenue by Sector

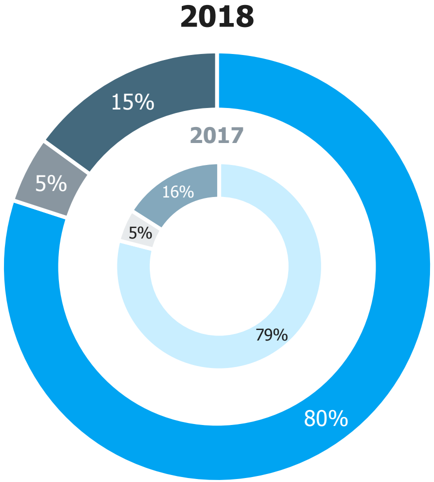
Communications and Connectivity



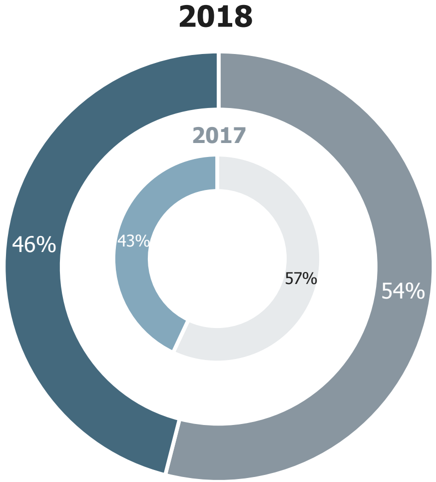
Mission Systems



Advanced Electronic Solutions



Aviation Services



US Defence/ Security

UK, RoW Defence/Security

Commercial

Taxation

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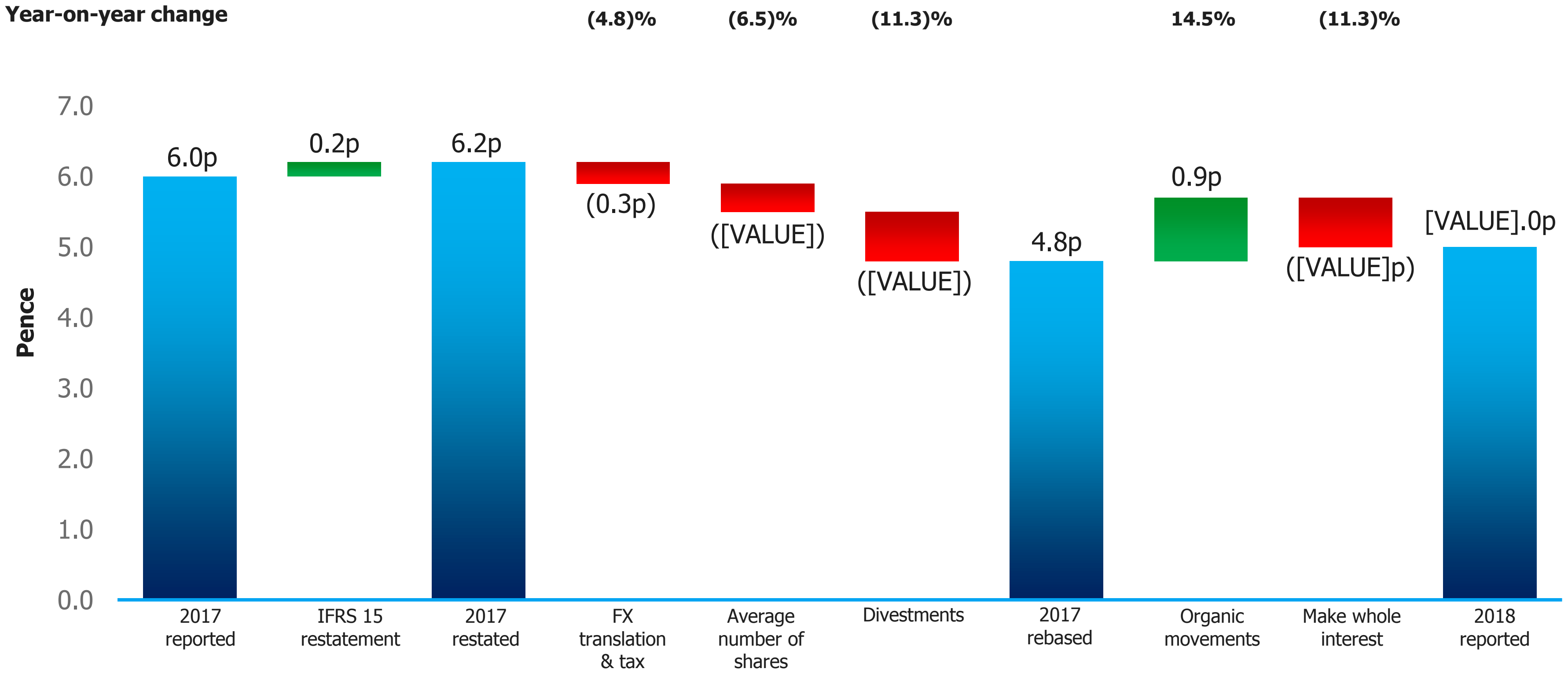
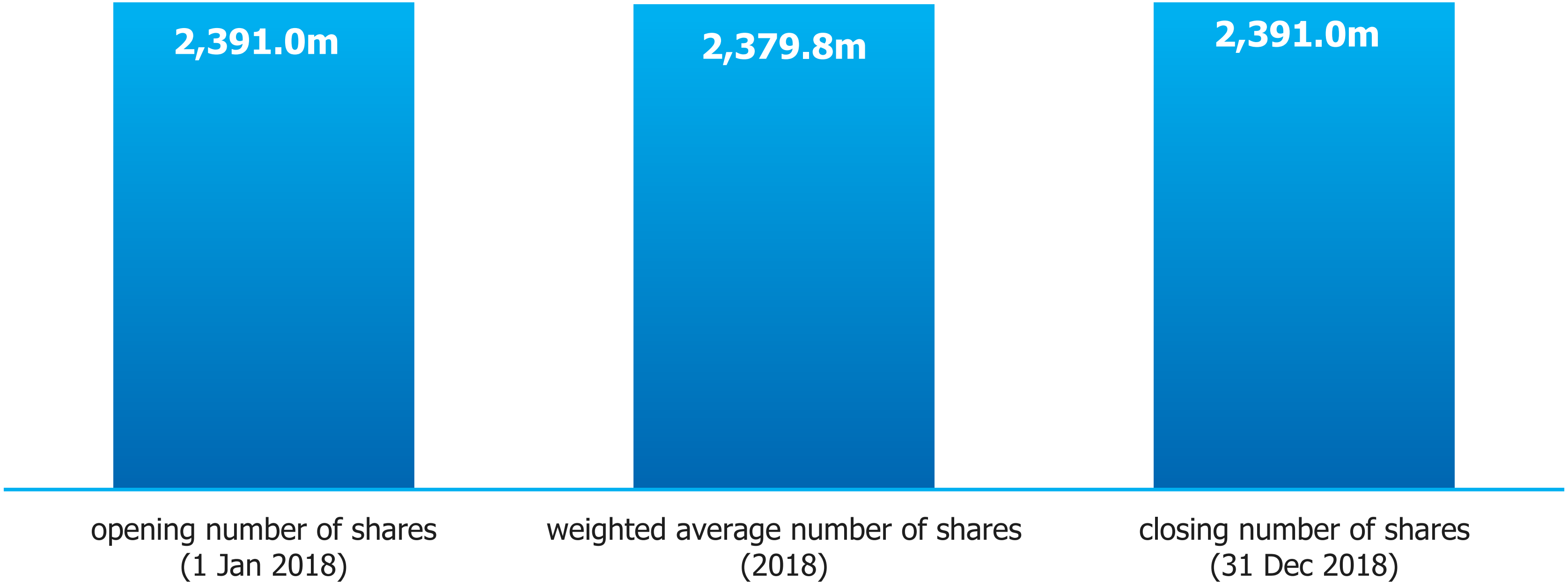
	2018 £m	2017 £m
Underlying tax charge	**(35.6)**	(37.3)
Tax credit on specific adjusting items	**38.3**	51.7
Headline tax credit	**2.7**	14.4
Underlying tax rate	**23.0%**	21.2%

Underlying Earnings Per Share



Shares in Issue



Note: Shares held in Treasury within the Cobham Employee Benefit Trust are excluded from the weighted average number of share calculation

Cash flow – working capital

£m	Inventory	Contract Assets	Receivables	Contract Liabilities	Payables	Current working capital	Non-current	Total working capital
Balance at 1 Jan 2018	254.2	125.9	293.8	(105.2)	(347.8)	**220.9**	81.2	302.1
FX	9.3	6.0	9.7	(3.6)	(8.5)	**12.9**	1.1	14.0
Underlying cash outflow/(inflow)	**10.9**	**1.3**	**14.1**	**(19.0)**	**(13.7)**	**(6.4)**	**(16.7)**	**(23.1)***
KC-46 settlement credit	**-**	**-**	**-**	**(48.7)**	**-**	**(48.7)**	**-**	**(48.7)**
Other	1.6	(2.2)	4.6	(4.4)	(6.7)	**(7.1)**	-	(7.1)
Balance at 31 Dec 2018	276.0	131.0	322.2	(180.9)	(376.7)	**171.6**	65.6	237.2

** Working capital cash inflow excluding exceptional items £38.1m*

Balance Sheet

£m	31 Dec 18	31 Dec 17
Intangible assets	821.2	893.8
Property, plant and equipment	388.2	380.9
Other non-current assets	243.0	188.7
Non current assets	**1,452.4**	**1,463.4**
Inventories	276.0	254.2
Contract Assets	131.0	125.9
Trade and other receivables < 1 year	322.2	293.8
Contract Liabilities	(180.9)	(105.2)
Trade and other payables < 1 year	(376.7)	(347.8)
Current working capital	**171.6**	**220.9**
Net current tax liabilities	(128.9)	(128.6)
Net debt	10.3	(383.5)
Provisions	(200.7)	(152.3)
Retirement benefit obligations	(46.6)	(63.2)
Net assets classified as held for sale	-	122.6
Other net liabilities	(66.4)	(46.9)
Net assets	**1,191.7**	**1,032.4**

Cash Conversion

£m	2018	2017
Underlying operating profit (less post tax share of JV results)	**195.6**	**213.3**
Depreciation and amortisation	79.0	84.8
Share based payments	5.8	5.5
Movements in provisions	(103.9)	(38.1)
Pension contributions in excess of pension charges	(13.5)	(17.3)
Decrease in working capital	23.1	44.1
Gross capital expenditure	(69.5)	(79.8)
Proceeds on disposal of property, plant and equipment	6.8	5.1
Operating cash flow	**123.4**	**217.6**
Cash conversion	**63%**	**102%**
Cash flow on exceptional items provided at 31 December 2016	*103.0*	*66.6*
Operating cash flow before net cash flow from exceptional items	*226.4*	*284.2*
Cash conversion before net cash flow from exceptional items	***116%***	***133%***

Movement in Net Debt

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£m	2018	2017
Operating cash flow	**123.4**	**217.6**
Net interest paid	(35.3)	(34.9)
Taxation paid	(25.5)	(32.2)
Amounts related to prior years' restructuring programmes	-	(9.9)
Free cash flow	**62.6**	**140.6**
Dividends paid	-	(0.1)
Net divestments	324.7	(0.9)
Net Rights Issue proceeds and allocation of treasury shares	-	497.2
Finance lease	(14.7)	-
Exchange movements	21.2	7.9
Decrease in net debt	**393.8**	**644.7**
Opening net debt	**(383.5)**	**(1,028.2)**
Closing net cash/(debt)	**10.3**	**(383.5)**

Capital Expenditure and Depreciation

£m	2018		2017	
	Net Capex(1)	Depn(2)	Net Capex(1)	Depn(2)
Cobham Communications and Connectivity	**5.1**	**8.1**	9.3	15.1
Cobham Mission Systems	**12.3**	**7.6**	8.2	6.9
Cobham Advanced Electronic Solutions	**20.7**	**14.5**	29.3	15.9
Cobham Aviation Services	**21.2**	**37.4**	26.9	38.0
Head Office	**3.4**	**11.4**	1.0	8.9
Cobham Group	**62.7**	**79.0**	74.7	84.8

1) Shown net of proceeds on disposal of property, plant and equipment.
2) Depreciation excludes amortisation of acquired intangibles but includes amortisation of other intangibles of £13.9m (2017: £10.8m). Shown net of profit/loss on sale of property, plant and equipment.

Defined Benefit Pension Schemes

IAS 19 balance sheet position

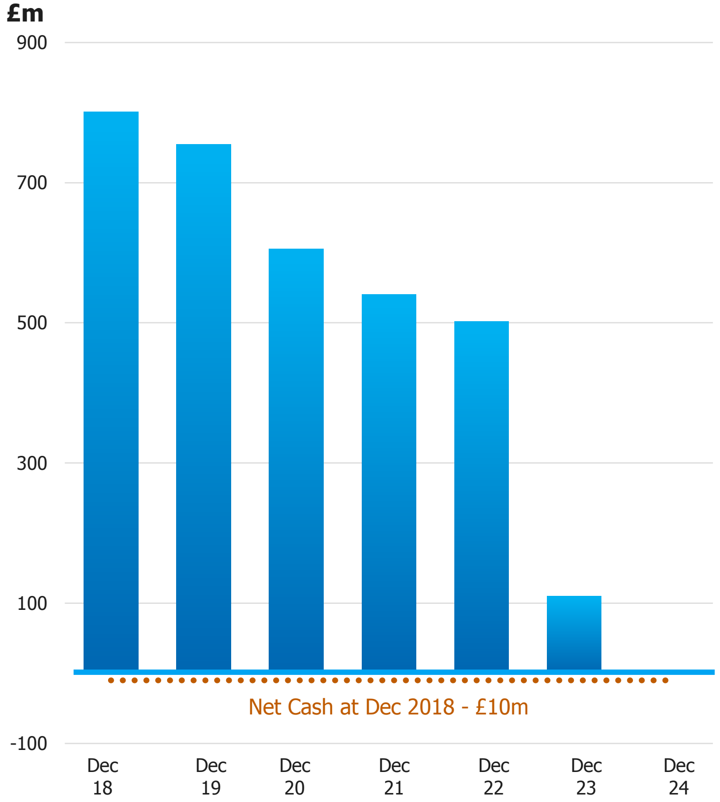
	2018 £m	2017 £m
Scheme assets	**746.4**	816.3
Present value of scheme liabilities	**(793.0)**	(879.5)
Net pension liability before deferred tax	**(46.6)**	(63.2)

	2018	2017
Primary assumptions		
Discount rate	**2.70%**	2.35%
Inflation rate	**3.45%**	3.35%
Life expectancy of male aged 65 in 2045	**90yrs**	90yrs

Sensitivity of scheme liabilities to primary assumptions	**Change**	**Impact**
Discount rate	Increase by 1.0%	Decrease by 10%
Inflation rate	Increase by 0.5%	Increase by 3%
Life expectancy of male aged 65 in 2045	Increase by 1 year	Increase by 2%

Credit Facilities

	Loan/ Facility £m	Usage £m
US$ senior notes		
US$59m Fixed rate (Oct 2019)	**46.6**	46.6
US$83m Fixed rate (Oct 2021)	**64.8**	64.8
US$140m Fixed rate (Oct 2024)	**110.1**	110.1
	221.5	221.5
Bank facilities		
US$40m Schuldschein agreement (May 2020)	**31.4**	31.4
EUR131m Schuldschein agreement (May 2020)	**117.6**	117.6
EUR4m Schuldschein agreement (May 2022)	**3.6**	3.6
US$45m multi-currency revolving facility (Dec 2022)	**35.3**	-
DKK320m multi-currency revolving facility (Dec 2023)	**38.5**	-
US$450m multi-currency revolving credit agreement (Dec 2023)	**353.3**	-
	579.7	152.6
Total committed facilities	**801.2**	**374.1**
Prepaid fees	**-**	(0.5)
Overdrafts		10.2
Finance leases	12.8	12.8
Gross debt	**814.0**	**396.6**
Cash		(406.9)
Net debt/(cash)	**814.0**	**(10.3)**



Covenants

	FY18	FY17	FY16	FY15
Net debt (£m) – balance sheet	10.3	(383.5)	(1,028.2)	(1,206.8)
Net debt (£m) – average rate [1]	10.4	(405.3)	(937.9)	(1,160.7)
EBITDA[2] (£m)	293.4	308.5	316.5	396.4
Net debt to EBITDA (not to exceed 3.5 times)	**-**	**1.3**	**3.0**	**2.9**
EBITA (£m)	228.5	234.3	245.2	333.4
Net interest (£m)	18.6	34.7	48.0	48.7
Interest cover (at or above 3 times)	**12.3**	**6.8**	**5.1**	**6.8**

1) For covenant purposes net debt is typically expressed at average translation rates
2) EBITDA includes pro forma adjustments in respect of acquisitions and divestments

Exchange Rates

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	Average Rate	Period End Rate
2018		
US$	1.33	1.27
AUS$	1.79	1.81
EUR	1.13	1.11
DKK	8.42	8.31
2017		
US$	1.29	1.35
AUS$	1.68	1.73
EUR	1.14	1.13
DKK	8.49	8.39

	Impact of pro rata 10 cent movement	
£m	**Revenue**	**Underlying Operating Profit**
US$	86	10
AUS$	17	0
EUR/DKK	26	2
Other	3	2
	132	14

Hedging

Transaction Exposure

	$ / DKK		$ / £	
2019 Total	$104m		$122m	
Hedging in Place	$93m	89%	$113m	93%
Average Hedge Rate	*$1:DKK 6.20*		*$1.36:£1*	
2020	$35m		$28m	
Average Hedge Rate	*$1:DKK 6.34*		*$1.38:£1*	
2021 - 2023	$3m		$25m	
Average Hedge Rate	*$1:DKK 5.98*		*$1.49:£1*	

Dollar/Euro exposure predominantly hedged for 2019 with US$45m @ 1.23

Historic Average Effective Rate

2015 $1.59: £1

2016 $1.51: £1

2017 $1.41: £1

2018 $1.36: £1

IR Calendar

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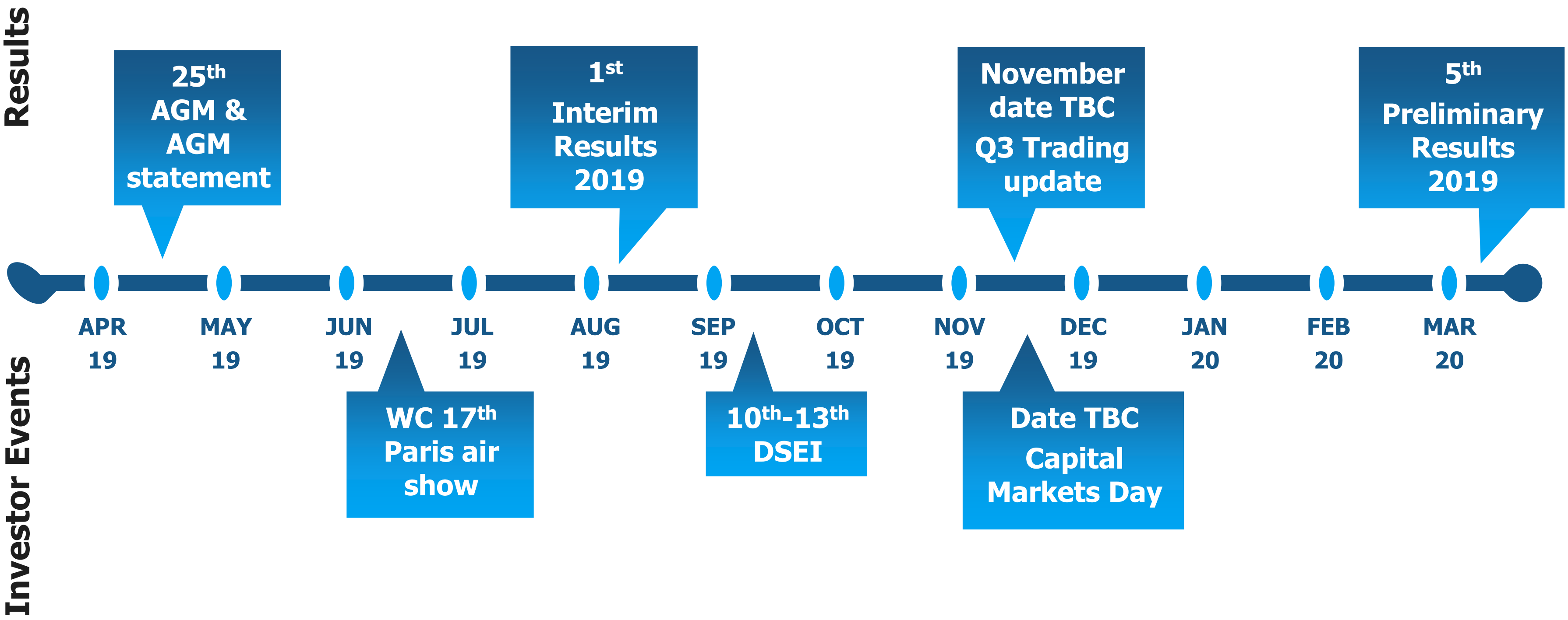

IFRS 15 Impact on Segmental

£m	FY17 as Published			IFRS 15 Impact			FY17 Restated		
	Revenue	Profit	Margin	Revenue	Profit	Margin	Revenue	Profit	Margin
CCC	700.7	69.0	9.8%	-	-	-	700.7	69.0	9.8%
CMS	419.0	55.2	13.2%	12.8	-	(0.4%)	431.8	55.2	12.8%
CAES	568.4	63.3	11.1%	26.3	2.8	-	594.7	66.1	11.1%
CAVS	366.6	22.8	6.2%	-	-	-	366.6	22.8	6.2%
elims	(2.2)	-	-	-	-	-	(2.2)	-	-
Group	**2,052.5**	**210.3**	**10.2%**	**39.1**	**2.8**	**-**	**2,091.6**	**213.1**	**10.2%**

Definitions

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Underlying measures

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

Management use underlying measures to assess the operating performance of the Group, having adjusted for specific items as defined below. They form the basis of internal management accounts and are used for decision making including capital allocation and a subset also forms the basis of internal incentive arrangements. By using underlying measures in our segmental reporting, this further ensures readers of the financial statements can recognise how incentive performance is targeted. Underlying measures are also presented in this report because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements.

In the year ended 31 December 2016, certain exceptional items were adjusted for and excluded from underlying measures due to their unusual size and incidence. These arose from the January 2017 Balance Sheet review and included revisions to the carrying value of assets, additional contract loss provisions, and legal and other provisions. Where relevant, updates to, and the final outcome of, these items are presented consistently with this treatment as exceptional charges or credits as appropriate.

All underlying measures include the operational results of all businesses including those held for sale until the point of sale. These definitions are applied consistently on a year to year basis.

Underlying operating profit

This has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity and prior periods' business restructuring costs. 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 a non-operating nature including the impairment of intangible assets. Changes in items previously treated as exceptional in 2016 will also be adjusted.

Underlying profit before taxation

Underlying profit before taxation is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and specific finance costs.

Free cash flow and operating cash flow

Free cash flow and operating cash flow are considered to provide a consistent measure of the operating cash flow of the Group's business. These alternative performance measures are used in internal management accounts and for decision making including capital allocation. In addition to the underlying profit measures, underlying cash conversion is also used for internal incentive arrangements, and presenting this information allows users of the accounts to better understand the way in which performance is targeted.

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. The underlying cash conversion ratio is operating cash flow divided by underlying operating profit, excluding the share of post-tax results of joint ventures and associates.

Net cash/(debt)

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

Organic revenue

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

Disclaimer

For the purposes of the following disclaimers, references to this 'document' shall be deemed to include references to the presenters' speeches, the question and answer session and any other related verbal or written communications.

This document contains certain 'forward-looking statements' with respect to the financial condition, results of operations and business of Cobham plc (Cobham) and to certain of Cobham's plans and objectives with respect to these items. Forward-looking statements are sometimes but not always identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal", or "estimates". By their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or will occur in the future. There are various factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include but are not limited to, changes in the economies, political situations and markets in which the Group operates; changes in government priorities due to programme reviews or revisions to strategic objectives; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; changes to or delays in programmes in which the Group is involved; the completion of any acquisitions and divestitures and changes in currency exchange rates. All or written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Cobham or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Cobham does not intend to update these forward-looking statements.

Notes

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