7 MARCH 2019

Legal Entity Identifier: 213800A41R9NL49E5632

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

'Progress in operational and financial performance; intention to reinstate dividend payment'

	Note	Statutory results		Underlying results[1]	
£m		**2018**	2017	**2018**	2017
Order intake		**1,946.3**	1,915.4	**1,946.3**	1,915.4
Revenue		**1,863.3**	2,091.6	**1,863.3**	2,091.6
Organic revenue[2] growth		**(2)%**	1%	**(2)%**	1%
Operating profit		**111.9**	106.9	**196.1**	213.1
Operating margin				**10.5%**	10.2%
Earnings per share		**3.1p**	3.7p	**5.0p**	6.2p
Operating cash conversion	3			**63%**	102%
Free cash flow	3			**62.6**	140.6
Net cash/(debt)	4	**10.3**	(383.5)	**10.3**	(383.5)
Net debt/EBITDA				**-**	1.3x

Underlying results are presented to assist with the understanding of the Group's performance trends. These measures are defined in the notes on page 3 and reconciled to GAAP measures in this statement on page 36

Financial and operating highlights

- Encouraging order intake, up 13% at constant currency and excluding divestments
- Underlying operating profit of £196.1m after £5.5m adverse currency translation and £22.5m lost contribution from divestments
- Strong performance from Mission Systems; Advanced Electronic Solutions underperformed, now planning a cost reduction with anticipated savings in 2019 of US$20m
- Boeing KC-46 agreement announced on 19 February 2019. Includes non-underlying £86m dispute settlement and £74m costs to complete, with rebased schedule and Boeing payment withhold ended
- Operating cash conversion adversely impacted by £103m utilisation of 2016 exceptional charges

Balance Sheet, new capital allocation and dividend policy

- £10.3m net cash at year end; new capital allocation policy prioritises organic investment with net debt/EBITDA gearing ratio maintained below 1.5x
- Intention to reinstate progressive dividend at 2019 interims; anticipated 1.0p in first full year

Outlook

- Overall expectations for progress in 2019 remain unchanged

David Lockwood, Cobham Chief Executive Officer, said:

"We can see the benefits of our improvement actions starting to come through across most of the business, particularly so in Mission Systems. However, Advanced Electronic Solutions underperformed. We have strengthened its management, increased the focus on execution and formulated an overhead cost reduction plan.

"We have also set out a new capital allocation policy, which establishes a prudent approach to gearing and prioritises organic investment. We anticipate resuming dividend payments with our next interim results.

"Overall the Board's expectations for progress in 2019 remain unchanged with a range of potential outcomes. We continue to believe that there are considerable opportunities to improve the performance of the Group over the medium term and our continuing focus on customers, culture, operational improvement, business simplification and cash will allow us to realise this potential."

ENQUIRIES

Cobham plc	
Julian Wais, Director of Investor Relations	+44 (0)1202 857998
MHP Communications	
Reg Hoare/Tim Rowntree/Nessyah Hart	+44 (0)20 3128 8100

PRELIMINARY RESULTS PRESENTATION INCLUDING WEBCAST AND DIAL-IN DETAILS

There will be a preliminary results presentation at 9.30am UK time on Thursday, 7 March 2019, with a live webcast on the Cobham website (www.cobhaminvestors.com). The webcast will be available on the website for subsequent viewing. There will also be a live dial-in facility available which can be accessed in the UK and internationally on +44 (0) 20 3003 2666, confirmation code Cobham and in the US/Canada on +1 646 843 4608, confirmation code Cobham. The published Annual Report will be available as a download file on www.cobhaminvestors.com from 22 March 2019.

A PDF of this preliminary announcement is available for download from www.cobhaminvestors.com/reports-and-presentations/2018.

The following notes apply throughout these preliminary results:

1. *To assist with the understanding of earnings trends, the Group has included within its preliminary 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 uses 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 (explained in detail in note 3 on page 36); this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements. In 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 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 is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and specific finance costs.

   A reconciliation of the statutory results to the respective underlying measures is shown on page 23.

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

3. *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 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 flow 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 prior periods' business 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.

   A reconciliation of underlying operating profit to operating cash flow is shown on page 22.

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

5. *Private Venture (PV or company funded R&D – Research and Development) measures exclude Aviation Services, where, due to the nature of its business, there is no R&D activity. Total PV investment excludes bid costs, with 2017 restated.*

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

2018 has been a year of progress with Group financial metrics in-line overall and an agreement reached with Boeing regarding the KC-46 programme.

We expected there would be some significant cash flow challenges during 2018. These related principally to the utilisation of the 2016 exceptional provisions and accelerated interest payments on the debt pay-down. Despite these challenges, we reported £62.6m of free cash flow and ended the year with £10.3m of net cash on the balance sheet.

The headline numbers mask a divergence in performance between the Group's businesses. Mission Systems had a much better year achieving strong underlying operating profit growth. Before the one-off adverse revenue impact from the KC-46 settlement, it also achieved organic revenue growth across its markets - aerial refueling, pneumatics and actuation. Communications and Connectivity and Aviation Services performed largely as we had anticipated. Advanced Electronic Solutions underperformed. Although it achieved organic revenue growth, underlying operating profit decreased. This result was driven by its operational performance due to poor execution, including £9.5m of programme charges, and it also reflected increased overhead costs. Addressing this will be the priority for 2019, and over the last few months we have strengthened the management team. An overhead cost reduction plan has been formulated, which is anticipated to achieve savings in 2019 of US$20m. Investment is continuing to improve its operating facilities.

We can see the benefits of our actions starting to coming through but, as anticipated, progress has been uneven and there remains work to do. We have set out a new capital allocation policy which establishes a prudent approach to gearing and prioritises organic investment. We intend to reinstate dividend payments with our 2019 interim results.

We continue to believe that there is considerable potential to improve the performance of the Group over the medium term and our continuing focus on customers, culture, operational improvement, business simplification and cash generation will allow us to realise this.

Market Environment

We have seen increased defence budgets in the US, with ongoing security tensions around the globe. Our strategic positioning in defence/security markets means that our capabilities and know-how are well aligned with end-user priorities. For example, current US Department of Defense priorities include capability modernisation for space and communication and situational awareness.

While security tensions are likely to persist, there are high levels of government debt and budget deficits in many of our largest accessible defence markets, including the US. This will constrain growth in defence spending and continue the emphasis on value-for-money.

We anticipate that most of our commercial end-markets, including aerospace and space, will see volume growth. However, customers in these markets will also continue to demand value-for-money alongside consistent on-time delivery and high quality standards.

This is the back-drop to our improvement strategy: an environment where demand for our capabilities is accompanied by a requirement for value as well as consistent delivery to customer expectations. We continue to believe that the Group's underlying operating margin enhancement will come from our ability to reduce costs through improved execution, enhanced quality, reduced complexity and effective capital allocation.

Our Improvement Progress
The key components of Cobham's turnaround are:

- Returning the business to financial strength;
- Focusing the portfolio;
- Resolving onerous contracts and other legacy issues;
- Operational execution and culture change;
- New capital allocation policy and dividend.

A summary of progress against each is as follows.

Returning the Business to Financial Strength
Two years ago there was £1,028m of net debt on the balance sheet and a net debt/EBITDA gearing ratio of 3.0x, putting Cobham in a weak financial and commercial position. In contrast, at the end of 2018 there was £10m of net cash on the Balance Sheet. This transformation has been achieved with the help of our shareholders through the 2017 Rights Issue, which raised £497m net proceeds. However, the remainder has been achieved through self-help. In 2018 we completed a number of divestments, principally the AvComm and Wireless test and measurement businesses, realising £325m net proceeds. Over the last two years we have also generated free cash flow of £203m, in part from reducing working capital by £67m. This free cash flow result was achieved after £170m of cash was utilised on onerous contracts and other legacy items.

We have said before that our net debt/cash position is only one aspect of any assessment of Cobham's balance sheet strength, and we also finished 2018 with £206m of unutilised balances on the exceptional onerous contracts and other legacy issues. This includes the £160m impact from the KC-46 settlement and programme update announced on 19 February 2019, described in more detail below. Utilisation of these remaining balances will continue to weigh on our cash generation in 2019 and 2020.

Focusing the Portfolio
We are increasingly focused on our defence, aerospace and space markets having previously announced the divestments of AvComm, Wireless test and measurement and 'Opera' software businesses in the first half of 2018. In November 2018, we also divested the Group's small lightning test and consultancy business for £1.9m. These were previously all part of Communications and Connectivity.

Resolving Onerous Contracts and Other Legacy Issues
As set out above, we continue to progress the contract, legal and regulatory issues originally provided at the 2016 year end. On 19 February 2019 we updated the market on the largest of these, the KC-46 tanker programme. We announced a settlement regarding Boeing's damages assertions, taking a non-underlying charge of £160m in these 2018 results, comprising £86m for dispute settlement and £74m for additional costs to complete. This is in addition to a £40m non-underlying charge taken in the interims.

The £86m settlement will be paid during the first half of 2019, after offset against £37m of withheld hose and drogue invoices. This will result in a £49m balancing payment to Boeing, with the payment withhold against Cobham invoices ended.

The agreement has settled all disputed matters to the date of the agreement, settled the damages assertions and rebased the schedule for qualification and production of Wing Aerial Refuelling Pod (WARP) and production of the Centerline Drogue System. The stringent terms of the original contract remain in place.

The complex WARP qualification remains in its early stages and is now anticipated to complete around the middle of 2020, with associated flight test commencing in the first half of 2019. The rebased schedule, in which WARP qualification is a critical milestone, has led to a reassessment of the aggregate remaining risks, including supply chain, resource and concurrency ahead of final WARP certification and production. The £74m non-underlying charge for additional costs to complete reflects the best estimate of the retained contract risks, as well as the costs of the revised schedule. The agreed schedule is dependent on certain key third party approvals.

Total remaining balances relating to the exceptional onerous contracts and other legacy issues at 31 December 2018 were £206m (2017: £112m). Net cash outflows relating to these were £103m (2017: £67m) with the balances expected to be utilised primarily over the next two calendar years.

Additionally, interest deductions on one of the Group's financing arrangements has been under challenge for some time and we have again included this tax matter within the contingent liabilities note. The Group is actively involved in attempting to resolve this matter ahead of a Tribunal hearing scheduled for autumn 2019.

As previously announced, the Financial Conduct Authority investigation relating to Cobham's compliance with the Listing Rules, Disclosure and Transparency Rules and the Market Abuse Regulations between April 2016 and February 2017 was discontinued in August 2018.

Operational Execution and Culture Change

We have consistently stated the route to a 2-3% higher medium term underlying operating margin is within our control and will be achieved through our own improvement efforts. It is therefore pleasing to see the Group's operational performance metrics responding positively to our actions. There has been an increase of 3% points in Cobham's customer on-time to promise metric (on-time delivery to customers) to 87% in the last two years and our quality-related key performance indicators are also improving. Supply chain management is a priority area as, without timely supplier deliveries, we cannot improve our own delivery. The timeliness of supplier deliveries is improving as we consolidate the Group's supply chain to provide best value – reliability and quality at optimal cost.

We have continued to simplify the Sectors, providing additional customer focus. We reorganised Aviation Services into two regionally focused businesses in 2018, and we have largely completed the head office merger of its UK and EMEA fixed and rotary wing businesses. Following the business unit reorganisation in Communications and Connectivity in the first half, we have announced the merger of some operating sites and these will be completed in 2019. Advanced Electronic Solutions has been reorganised into business units focused around its technology capabilities. We continue to believe that ongoing simplification will yield significant results.

In early 2019 we launched our new Cobham purpose, understanding that an effective culture will enable us to better serve our customers, for whom 'Every Mission Matters'. This is supported by desired behaviours which are to be bold, inventive, determined and be a team.

New Capital Allocation Policy and Dividend

We have set out a new capital structure and capital allocation policy building on our improving performance and strengthened balance sheet. The Board will continue to chart a prudent financial course with the Group maintaining a net debt/EBITDA gearing ratio below 1.5x. This approach recognises the cash needs of the onerous contracts and other legacy items, the remaining contingent liabilities, as well as the flexibility and customer confidence a strong balance sheet brings.

The Board has also agreed a capital allocation policy which will lie at the core of a disciplined approach to investment and value creation. Priorities for capital allocation are as follows:

1) **Organic investment**. Investing in businesses we know and understand is the best way to deliver shareholder value. We will invest for capability enhancement and growth, including in technology and people and on capital expenditure for equipment and infrastructure, as well as for the resolution of legacy items;

2) **Dividends.** The Board intends to reinstate an ordinary dividend payment with the 2019 interim results. It intends to follow a progressive policy which will take into consideration the profitability and underlying growth of Cobham's businesses and its capital requirements, while ensuring an appropriate level of earnings and free cash flow cover. It anticipates announcing a first full year dividend of 1.0p. Approximately 40% of the full year dividend will be paid at the interim stage;

3) **Bolt-on M&A**. We will carefully consider bolt-on size business acquisitions and other investments where there is strong strategic fit and management bandwidth to properly integrate;

4) **Shareholder returns.** If after such investments and distributions, and having taken into account forecast cash flows, there is surplus capital, then the Board will look to return cash to shareholders.

Technology Investment

Effective investment in technology is a capital allocation priority. We have continued to work hard to enhance project controls that underpin the effectiveness of our investments and we have also addressed tools, processes and training and development. This will help bring to market an exciting pipeline of new products and capabilities.

During 2018, Group Private Venture[5] (PV or company funded R&D – Research and Development) investment, excluding bid costs, was £103.2m (2017: £121.9m), representing 6.7% (2017: 7.1%) of revenue. Excluding divestments, and at constant currency, PV investment was £96.0m (2017: £86.8m), representing 6.3% (2017: 5.7%) of revenue.

Important examples of investment include:

- In Communications and Connectivity we made first deliveries of our low-cost, high-volume space microwave modules for a new satellite mega-constellation. In addition, we have continued to make significant investment in the Aviator 200S SATCOM system which will be supplied for the A320neo, A330neo and A350 aircraft families. The system completed its critical design review during the year;

- In Mission Systems we have continued to invest in oxygen technology, including working with the US Air Force (USAF) to develop the next generation On-Board Oxygen Generating System and physiological monitoring capability. In addition, Mission Systems is also enhancing its Fuel Tank Inerting capability, with focus on the growing narrow-body commercial aircraft market;

- Advanced Electronic Solutions continues its focus on the development of Gallium Nitride (GaN) based, high frequency, active electronically scanned array radar front ends. This addresses the need for enhanced operational flexibility for missile and airborne applications. Investment also continued to develop data-link assemblies for guided munitions. This has led to initial contract awards for two missile programmes, with production anticipated from 2020.

Outlook

We can see the benefits of our improvement actions starting to come through across most of the business, particularly so in Mission Systems. However, Advanced Electronic Solutions underperformed. We have strengthened its management, increased the focus on execution and formulated an overhead cost reduction plan.

Overall the Board's expectations for progress in 2019 remain unchanged with a range of potential outcomes. We continue to believe that there are considerable opportunities to improve the performance of the Group over the medium term and our continuing focus on customers, culture, operational improvement, business simplification and cash will allow us to realise this potential.

David Lockwood, OBE
Chief Executive Officer

BOARD

René Médori and Norton Schwarz joined the Board as Non-executive Directors in January 2018, with Marion Blakey joining in August. General Michael Hagee (retired), Birgit Nørgaard and Alan Semple retired from the Board in April 2018. René Médori replaced Alan Semple as Chairman of the Audit Committee.

Mike Wareing has informed the Board of his intention to step down as Chairman, having led the Board through a period of significant change over the last two years and having been a Director since December 2010. A search for his successor is underway and it is intended that Mike will leave the Board before the end of 2019.

FINANCIAL OVERVIEW OF THE PERIOD

Order intake was £1,946.3m (2017: £1,915.4m). At constant currency and excluding divestments, 2018 order intake increased by 13%. Group book-to-bill was 1.04x (2017: 0.92x); excluding Aviation Services, which is characterised by the receipt of multi-year orders, book-to-bill was 1.11x (2017: 1.04x).

Group revenue was £1,863.3m (2018: £2,091.6m). Revenue was adversely impacted by divestments and currency translation with organic revenue 2% lower. The organic result was driven by an adverse revenue adjustment of £79.8m to the KC-46 programme, following the Boeing settlement; excluding this, Group organic revenue increased 3%.

There was organic revenue growth of 4% in Advanced Electronic Solutions, which benefited from higher revenue related to missile data link subsystems and increased F-35 production, driving growth in radar and electronic warfare subsystem shipments. After the adverse revenue impact from the KC-46 settlement, organic revenue in Mission Systems decreased 4%. Excluding this, there was a 15% increase, with growth from its aerial refuelling, pneumatics and actuation markets. Organic revenue decreased 11% in Aviation Services primarily driven by the completion of the UK Defence Helicopter School (DHFS) contract at the end of March 2018.

Group statutory operating profit was £111.9m (2017: £106.9m). This was adversely impacted by charges relating to the KC-46 dispute settlement and an increase in the cost estimates of fixed price contract profitability of £200.0m (2017: £nil), an adverse movement in non-hedge accounted derivative financial instruments of £19.7m (2017: £28.9m favourable), amortisation of intangible assets arising on business combinations of £89.8m (2017: £138.9m) and a net pension charge of £3.4m (2017: £nil). These were partially offset by a profit on divestments and other M&A costs of £227.0m (2017: £0.8m) and a credit of £1.7m (2017: £8.0m) relating to adjustments to legal and other provisions provided 31 December 2016. In 2017 the Group's operating profit also included £4.7m relating to prior period restructuring programmes, £1.7m relating to the net impairment of goodwill and other assets and a £1.4m credit relating to the adjustments to revisions of the carrying value of other assets provided at 31 December 2016.

Group underlying profit was £196.1m (2017: £213.1m) after adverse currency translation of £5.5m and the lost contribution from divestments of £22.5m. Excluding these factors, Mission Systems increased its underlying operating profit by £22.1m, driven by higher production volumes and aftermarket activities, with Communications and Connectivity increasing by £3.9m due to improved volume and product mix. However, Advanced Electronic Solutions decreased by £11.0m, due to increased costs on certain programmes, including £9.5m of charges, and increased overhead costs. In Aviation Services underlying operating profit was £10.3m lower, due to contract completions. The Group's underlying operating profit also benefited from dividends received by Cobham plc from the AirTanker Group of £9.9m (2017: £0.6m), which were slightly higher than anticipated. These dividends formed part of the net allocation of corporate overheads to the Sectors. The benefit of the dividends have been offset by charges within the Sectors for restructuring, property and other items. The increase in Group underlying operating margin to 10.5% (2017: 10.2%) reflected the factors above and the decrease in lower margin KC-46 revenue related to the February 2019 Boeing settlement.

The Group's net finance expense was £40.9m (2017: £37.2m). Included was a net finance charge on cash and debt holdings and uncertain tax provisions of £39.4m (2017: £34.9m). Included within this was £20.4m (2017: nil) related to the accelerated interest (make-whole) payments made in the first half. This was incurred as a result of the pay-down of certain medium term debt. The non-cash finance charge from pension schemes was £1.5m (2017: £2.3m).

The Group's tax credit was £2.7m (2017: £14.4m credit). As expected, the Group's underlying tax rate was 23.0% (2017: 21.2%) from an underlying tax charge of £35.6m (2017: £37.3m). The lower underlying tax rate in 2017 was due to a one-off credit from the IFRS 15 revaluation of deferred tax and the change in US tax rate.

Basic EPS of 3.1p (2017: 3.7p) was impacted by the net adjusting items to statutory operating profit set out above. Underlying EPS decreased to 5.0p (2017: 6.2p). This was due to an adverse impact from currency translation, the increase in the average number of shares following the 2017 rights issue, an adverse impact from the 2018 divestments and the accelerated interest charges related to debt pay-down.

Operating cash flow was £123.4m (2017: £217.6m) and operating cash conversion was 63% (2017: 102%). Cash generation was adversely impacted by the net cash utilisation of the adjusted 2016 exceptional charges of £103.0m (2017: £66.6m). However, there was a favourable cash flow impact from a decrease in working capital of £23.1m (2017: £44.1m). Capital expenditure outflows were lower at £69.5m (2017: £79.8m), as a result of deferred spending.

Free cash flow was £62.6m (2017: £140.6m). Free cash flow included net interest payments of £35.3m (2017: £34.9m), including the accelerated interest payments of £20.4m. In addition, net tax payments were lower at £25.5m (2017: £32.2m) with the Group benefiting in the first half from a tax refund relating to a prior period.

Below free cash flow there was a net inflow of £324.7m primarily relating to the divestment of the AvComm and Wireless test and measurement businesses. There was a net debt increase of £14.7m (2017: £nil) relating to an aircraft finance lease signed in the first half. In 2017, the Group received total net rights issue proceeds and sums relating to the allocation of treasury shares of £497.2m.

At 31 December 2018 the Group had net cash of £10.3m (2017: £383.5m net debt). Consistent with the Group's borrowing agreements, the Group's net interest cover had increased to 12.3x at the year end (31 December 2017: 6.8x).

SECTOR REVIEW

Cobham Communications and Connectivity

Provides critical and innovative technology to enable resilient connection for complex, harsh, hazardous and regulated environments, in air and space, on land and at sea, and under the ground. Everywhere, at any time and in the most demanding environments, to be relied on to keep safe connection around the world.

£m	2017	FX Translation	Divestments	Organic[2]	**2018**
Order intake	715.2	(4.1)	(147.1)	33.1	597.1
Revenue	700.7	(4.5)	(146.5)	2.3	552.0
Operating profit*	69.0	(0.8)	(16.2)	3.9	55.9
Operating margin*	9.8%	-	(0.3)%	0.6%	10.1%
Order book	266.8				278.5

*[2]See page 3 for definition of organic revenue *Underlying measures are defined in note 1 on page 3*

Communications and Connectivity's business units have been reorganised to optimise customer focus and investment. The SATCOM business is now focused on maritime and land markets, with its aerospace activities incorporated within the Aerospace Communications business unit. An Electrical and Electronic Equipment business unit has been established, comprising the microwave, space and slip ring activities previously part of Aerospace Communications. The Antennas business unit has been renamed Aerospace Connectivity.

Total revenue decreased by £146.5m due to the 2018 divestments of AvComm, Wireless test and measurement, Opera software and the lightning test and consultancy businesses. Organic revenue increased by 0.4%. This was driven by the ongoing retrofit of the Sector's FliteLine radios on the USAF fleet of T-38 trainer aircraft, initial shipments of the new RT-7000 aircraft radio, as well as increased sales of 'Minehound' counter-Improvised Explosive Devices detectors to international customers. This was partially offset by lower retrofit SATCOM revenue from airlines complying with the requirement for four minute voice communications in Chinese air space.

Underlying operating profit increased by £3.9m after the impact of divestments and exchange rates. This reflected increased volumes, an improved product mix and operational improvements. However, there was an offsetting increase in PV investment, primarily relating to the next generation Aviator S SATCOM product.

Adding to existing agreements with Airbus for its A320neo, A330neo and A350 aircraft, a Technical Services Agreement was signed with Boeing for the certification of the Aviator 200S SATCOM system on the 737MAX and 777X aircraft. The agreement will make the Cobham product a line fit option, providing next generation SwiftBroadband Safety (SB-S) services to airline users of these aircraft.

In its maritime markets, the SATCOM business is expected to benefit from its ability to supply Iridium L-Band as part of a VSAT bundle, as well as a standalone terminal. This gives Cobham a competitive advantage as the only manufacturer currently able to offer a combined VSAT and L-Band Iridium solution in the same package.

Inroads are also being made into the important Low Earth Orbit mega-constellation market, with orders received to supply GlobalStar and SpaceX, along with a long term agreement with Airbus Space for microwave products.

The next generation RT-7000 Integrated Modular Architecture Radio has been released to production with first installations completed on Leonardo helicopter platforms.

Building on the 2018 business unit reorganisation, the Sector has announced the integration of two smaller sites in the US into its existing Prescott, Arizona site. This will be completed during 2019. In addition, the Wireless business unit's production and back-office activities, currently based in Chesham UK, are also expected to be integrated into the Aerospace Connectivity site in Marlow, UK during 2019.

Cobham Mission Systems

Provides proven and trusted solutions in air-to-air refuelling, life support and weapons carriage. A leading global supplier of critical control solutions, helping customers increase the safety and mission capabilities of personnel and equipment in extreme environments.

			Organic[2]		
£m	2017**	FX Translation	KC-46 Settlement	Other	**2018**
Order intake	517.1	(15.1)	(67.3)	(34.2)	400.5
Revenue	431.8	(11.7)	(79.8)	62.4	402.7
Operating profit*	55.2	(2.0)	-	22.1	75.3
Operating margin*	12.8%	(0.1)%	2.9%	3.1%	18.7%
Order book	721.6				747.5

[2]See page 3 for definition of organic revenue
**Underlying measures are defined in note 1 on page 3*
***Restated for impact of IFRS 15*

Organic revenue decreased 4%. Excluding the adverse revenue impact from the KC-46 settlement disclosed above, there was a 15% increase in organic revenue which reflected in part increased air-to-air refuelling production volumes. This included Airbus A330MRTT tanker shipments to Korea, France, Singapore and a multi-nation consortium, as well as increasing production for the Airbus A400M tanker. The first aerial refuelling pods were also shipped to Embraer for its new KC-390 tanker and there was continuing strong aerial refuelling aftermarket demand.

Revenue from fuel tank inerting systems, including for Boeing 737NG Air Separation Modules, also continued to grow with four major US airline aftermarket customers now secured, as well as an international customer. There has also been growth in a number of the Sector's other product lines driven by US defence/security demand, including pneumatic and actuation products. Following a period of growth associated with urgent operational requirements, actuation volumes for a variety of air-to-ground applications are expected to moderate during 2019.

Underlying operating profit increased by £22.1m after the impact of exchange rates. This was driven by the increased production volumes and aftermarket activities. The margin increased to 18.7% (2017: 12.8%), also benefiting from the decrease in lower margin KC-46 revenue related to the Boeing settlement.

Further details on the KC-46 aerial refuelling settlement and ongoing WARP qualification are contained within the Chief Executive Officer's Review on page 5 and 6, including details of the £200.0m charge, which is not in underlying operating profit above. There has also been production progress on the programme with the first 26 full production standard aerial refuelling Centerline Drogue Systems and 16 shipsets of Body Fuel Tanks shipped during the year, with further deliveries post year end.

Aftermarket orders were also secured for the Indian Air Force's SU-30 aerial refuelling buddy store. Mission Systems is also providing modelling expertise to support the recently awarded US Navy MQ-25 unmanned tanker programme. This work aids the potential future joint development of an upgraded buddy store.

Mission Systems has also secured the first Airbus A320 airline aftermarket customers for its fuel tank inerting air separation modules. The two new US airline customers supplement its success in securing Boeing 737NG customers.

The aerial refuelling aftermarket footprint has continued to be developed. Supplementing the existing US repair and overhaul facility at Fort Walton Beach, FL, a new support centre is being opened close to Tinker Air Force base, OK. The end-user proximity will help serve the customer's aftermarket needs, providing a blueprint for future expansion.

Cobham Advanced Electronic Solutions

Provides critical solutions for communication on land, at sea, and in the air and space, by moving data through off-the-shelf and customised products including radio frequency, microwave, and high reliability microelectronics, antenna subsystems and motion control solutions.

As set out on pages 38 and 51 of the 2017 Annual Report and Accounts, the Sector operates under a Special Security Agreement, operating under a Sector Board which is critical to its governance and performance.

During the year, General Kevin Chilton, a former Commander of US Strategic Command joined the Board, in addition to Mark Santamaria the new Sector CFO.

£m	2017**	FX Translation	Organic[2]	2018
Order intake	563.0	(20.2)	178.8	721.6
Revenue	594.7	(20.7)	21.0	595.0
Operating profit*	66.1	(2.2)	(11.0)	52.9
Operating margin*	11.1%	-	(2.2)%	8.9%
Order book	493.8			653.7

[2]See page 3 for definition of organic revenue
**Underlying measures are defined in note 1 on page 3*
***Restated for impact of IFRS 15*

Advanced Electronic Solutions has reorganised its operations around its main technology areas, comprising communication, navigation and identification (CNI); electronic warfare; radar; medical, industrial and security; guided munitions and space. The revised structure incorporates a new Chief Operating Officer position to focus on execution and improvement. Together these changes are intended to facilitate collaboration, deliver cost efficiencies and enhance customer focus.

Organic revenue growth increased 4%. This was driven by guided munitions, radar and electronic warfare related revenue. Increasing F-35 Joint Strike Fighter production drove growth in electronic warfare and radar shipments, with new products focused on missile data-link subsystems driving guided munitions revenue.

Underlying operating profit was £11.0m lower after the impact of exchange rates. Profit was adversely impacted by its operational performance, including £9.5m of programme charges, and increased overhead costs. There was also an increase in PV investment, ongoing investment in the Sector’s San Diego facility and in IT infrastructure.

Addressing the underlying operating profit and cash flow performance is the priority for 2019. The management team has been strengthened and, following the creation of the new COO position, an appointment was made in November 2018, as well as the appointment of the new Chief Financial Officer in the same month. The new management team is working to instill enhanced discipline, including bidding, contracts and programme management. An overhead cost reduction is planned, with anticipated savings in 2019 of US$20m.

The order book increased 32% driven by a multi-year guided munition award and continued growth from radar, electronic warfare and space markets. The award of a significant production contract for a Low Earth Orbit satellite constellation has made Advanced Electronic Solutions a leading waveguide provider in this market.

A number of development and Low Rate Initial Production (LRIP) awards have also been received. Within the radar market LRIP deliveries commenced for the US Navy air and missile defence radar programme. Within the electronic warfare market a key position was won on a pod based ship protection system and on the self-protection subsystem for the F-15 aircraft.

The San Diego facility, which is currently increasing its production volumes across a number of programmes, continues to receive significant investment to transform its production performance, on-time delivery and quality management. This project is expected to conclude in the second half of 2019.

Cobham Aviation Services
Delivers outsourced aviation services for military and civil customers worldwide through training, special mission flight operations, outsourced commercial aviation and aircraft engineering.

£m	2017	FX Translation	Organic[2]	2018
Order intake	122.4	(3.1)	109.4	228.7
Revenue	366.6	(13.1)	(38.4)	315.1
Operating profit*	22.8	(0.5)	(10.3)	12.0
Operating margin*	6.2%	0.1%	(2.5)%	3.8%
Order book	1,114.9			990.8

[2]See page 3 for definition of organic revenue
**Underlying measures are defined in note 1 on page 3*

Aviation Services has been restructured into two regionally based businesses during the year, one focused on UK & EMEA and one on Australia. Work on the restructuring has continued, with new management teams in place, enabling improved customer focus and more efficient decision-making with simplified reporting lines. In the UK & EMEA region, the relocation of its rotary wing business head office to merge with the fixed wing business was largely completed by the year end.

Organic revenue decreased by 11%, driven by the completion of the UK DHFS contract at the end of March 2018, and the prior year completion of a helicopter contract in Qatar. In Australia, additional work was secured in the natural resources sector including new fly-in, fly-out contracts with Oz Minerals, the Independence Group and Dacian Gold, but was offset by lower flying activity for Chevron, following a new contract phase agreed in 2017.

Underlying profit was £10.3m lower after the impact of exchange rates. This largely reflected completion of the DHFS contract and restructuring costs of £3.5m.

In December 2018, Aviation Services received a multi-year order of over £50m to supply Electronic Warfare training pods as part of the NATO Joint Electronic Warfare Core Staff (JEWCS) capability package. These next generation pods will provide complex and realistic training through radar and communications jamming as well as threat simulation, being designed to meet an evolving threat environment. The JEWCS order, the first of its type for Aviation Services, leverages its long experience in providing Operational Readiness Training services to the UK MoD, as well as international customers.

Aviation Services has continued preparations for the UK MoD Air Support to Defence Operations Training (ASDOT) programme, which will replace its O2O operational readiness training contract from mid-2020. In November 2018, QinetiQ joined the Cobham team, alongside existing members Draken International and 3SDL. Cobham submitted its ASDOT bid in early 2019, with the down-selection of a preferred bidder anticipated around the middle of 2019.

OTHER FINANCIAL ITEMS

Summary of Underlying Results

To assist with the understanding of earnings trends, the Group has included within its interim 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 uses underlying measures to assess the operating performance of the Group, having adjusted for specific items as detailed in note 3 on page 36. 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 segmental reporting, this enables readers of the financial statements to recognise how incentive performance is targeted. Underlying measures are also presented in this announcement 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 concerning the adjusting items to be included; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements.

In 2016 certain exceptional items were adjusted for and excluded from underlying measures due to their unusual size and incidence, arising out of the January 2017 Balance Sheet review and including 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.

A reconciliation of statutory to underlying profit numbers is set out on page 23.

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

£m	2018	2017*
Revenue	**1,863.3**	2,091.6
Operating profit	**196.1**	213.1
Operating margin	***10.5%***	*10.2%*
Net finance expense	**(40.9)**	(37.2)
Profit before tax	**155.2**	175.9
Tax	**(35.6)**	(37.3)
Tax rate	***23.0%***	*21.2%*
Profit after tax	**119.6**	138.6
Weighted average number of shares (millions)	***2,379.8***	*2,231.8*
EPS (pence)*	**5.0**	6.2

**Restated to reflect impact of IFRS 15*

Currency Translation Exchange Rates
The following are the average and closing rates for the four foreign currencies that have most impact on translation into pounds sterling of the Group's Income Statement and Balance Sheet:

	2018	2017
Income statement – average rate		
US$/£	**1.33**	1.29
AUS$/£	**1.79**	1.68
€/£	**1.13**	1.14
DKK/£	**8.42**	8.49
Balance sheet – closing rate		
US$/£	**1.27**	1.35
AUS$/£	**1.81**	1.73
€/£	**1.11**	1.13
DKK/£	**8.31**	8.39

The Group's approximate pro-rata Income Statement sensitivity to currency translation is as follows, calculated as the impact of a 10 cent movement in the full year average rate against pound sterling:

£m	Revenue	Underlying Operating Profit
US$	**86**	**10**
AUS$	**17**	**-**
EUR/DKK	**26**	**2**
Other currencies	**3**	**2**
	132	**14**

Statutory Operating Profit
The Group's operating profit was £111.9m (2017: £106.9m). In addition to the underlying operating profit result, statutory profit includes items which have been accounted for as specific adjusting items, consistent with prior years. With some favourable year-on-year changes as follows:

- Profit on divestments and other M&A costs of £227.0m (2017: £0.8m profit), principally relating to the divestment of AvComm and the Wireless test and measurement business;

Further details of the profit on divestments are given below.

- Amortisation of intangibles arising on business combinations of £89.8m (2017: £138.9m);

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

In addition, there was £nil (2017: £4.7m charge) for amounts relating to prior periods' restructuring programmes, which had been accounted for as incremental to ongoing operations. There was also £nil (2017: £1.7m charge) relating to the net impairment of goodwill and other assets, relating to an impairment of the Helicopter Services business unit, largely offset by a partial reversal of a previous impairment of other intangible assets within the Wireless business.

Partially offsetting these were some adverse year-on-year changes as follows:

- The KC-46 dispute settlement and increase in cost estimates of fixed price contracts of £200.0m (2017: £nil);

This charge relates to the settlement of a dispute with Boeing (£86.0m) and increases in the estimates of the costs to complete development of the KC-46 tanker programme (£114.0m), of which £40m was included within the interim results. While KC-46 is part of ongoing trading, this charge is shown as exceptional as it represents changes in the exceptional estimate taken at 31 December 2016. Consistent treatment aids traceability of amounts relating to the same programme and separate treatment from other business activities provides transparency on the operational and financial progress made elsewhere. Further details on the KC-46 charge are included within the Chief Executive Officer's Review on page 5 and 6.

- Adverse movements in non-hedge accounted derivative financial instruments of £19.7m (2017: £28.9m favourable);

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 have impacted the results had the Group chosen to comply with IFRS 9 hedge accounting requirements.

- A credit relating to adjustments to legal and other provisions provided at 31 December 2016 of £1.7m (2017: £8.0m);

The credit relates to legal, environmental, warranty and other regulatory matters provided for in 2016 which have been resolved within their original cost estimates.

- A net pension related charge of £3.4m (2017: £nil);

This includes a £5.5m estimated charge reflecting a 2018 UK High Court decision that defined benefit schemes with Guaranteed Minimum Pensions for men and women in the UK must be equalised. The additional cost has been excluded from underlying measures to reflect the highly unusual nature of this cost, which relates to service cost generated many years ago. Partially offsetting this is a £2.1m gain on curtailment arising from the closure of the US defined benefit scheme to future accrual. It is considered that this event is also unusual, warranting separate disclosure.

In addition, there was £nil (2017: £1.4m credit) relating to the adjustments to revisions of the carrying values of other assets provided at 31 December 2016. This related to a provision against receivables which was considered doubtful at 31 December 2016, but which was subsequently recovered.

Divestments

As previously announced, Cobham divested its AvComm and Wireless test and measurement businesses in the first half for a headline cash consideration of US$455m. In addition, it also divested the Opera Software business in the first half for £7.8m cash. In the second half it divested its lightning test and consultancy business for £1.9m cash.

The divestment of these businesses, all previously part of Communications and Connectivity, brings additional focus on Cobham's defence, aerospace and space markets.

Profit Before Tax

The Group's statutory profit before tax was £71.0m (2017: £69.7m). The Group's underlying profit before tax was £155.2m (2017: £175.9m).

Tax

The Group's tax credit was £2.7m (2017: £14.4m credit). As expected the Group's underlying tax rate was 23.0% (2017: 21.2%) from an underlying tax charge of £35.6m (2017: £37.3m). The lower underlying tax rate in 2017 was due to a one-off credit from the IFRS 15 revaluation of deferred tax and the change in US tax rate.

Interest deductions on one of the Group's financing arrangements has been under challenge for some time. The Group is actively involved in attempting to resolve this matter ahead of a Tribunal hearing, which is scheduled for autumn 2019. These issues are set out in more detail in note 16 on page 51 of this Announcement.

Earnings per Share (EPS)
Basic EPS was 3.1p (2017: 3.7p) being impacted by the specific adjusting items set out in the paragraphs on statutory operating profit above. These included the KC-46 dispute settlement and increased cost estimates of fixed price contract profitability and adverse movements in non-hedge accounted derivative financial instruments. They were partially offset by profit on divestments and the lower amortisation of intangibles arising on business combinations.

Underlying EPS decreased to 5.0p (2017: 6.2p). This was due to the adverse impact from currency translation, the increase in the average number of shares following the 2017 rights issue, an adverse impact from the 2018 divestments and the accelerated interest charges on debt pay down.

IFRS 15 (Revenue Recognition) and IFRS 9 (Financial Instruments)
The Group has adopted the new revenue recognition standard, IFRS 15, from 1 January 2018. The standard impacts the timing of revenue recognition on some long term development programmes, notably in Mission Systems and on some US government product based contracts in Advanced Electronic Solutions, where control transfers to the customer as the product is being manufactured.

The Group has restated its 2017 comparative numbers to reflect the impact of IFRS 15, which increases Group revenue by £39.1m and underlying operating profit by £2.8m. There is no impact on the Group's cash generation or net debt. There has also been an increase in net assets of £4.1m at 31 December 2017, with larger reclassifications from inventories, receivables and payables to contract assets and liabilities.

In addition, the Group has adopted the new financial instruments standard, IFRS 9, on 1 January 2018. At the date of application, the only impact has been to increase the Group's minority shareholding investments by £39.0m as these are now required to be held at fair value, rather than cost. The Group's reserves have also increased by the same amount. There are no other material changes arising from the adoption of IFRS 9.

Further details on the application of IFRS 15 and IFRS 9 and their impact on Cobham's restated comparative income statement and balance sheet have been included in note 2 to this Announcement on page 33.

IFRS 16 (Leases)
The Group will adopt IFRS 16 from 1 January 2019 on a fully retrospective basis. A detailed review of its lease arrangements has been undertaken and it has estimated right-of-use assets of approximately £100m and associated lease liabilities of approximately £140m at 31 December 2018.

Underlying operating profit in 2018, calculated in accordance with IFRS 16, is estimated to increase by approximately £7m, with an increased interest charge of approximately £7m. IFRS 16 is expected to have a neutral impact on underlying EPS.

The standard will not impact the Group's revenue or cash generation. Cobham's bank covenants include frozen GAAP terms.

Retirement Obligations

Cobham operates a number of defined benefit schemes, with the largest being the Cobham Pension Plan (CPP) in the UK. At 31 December 2018, the estimated deficit for accounting purposes, being the difference between the aggregate value of the schemes' assets and the present value of their future liabilities was £46.6m before deferred tax (2017: £63.2m).

The most significant movements in the deficit related to a reduction of £72.4m due to changes in assumptions, including inflation and discount rates and mortality expectations, and a reduction of £14.4m due to net employer contributions made in the year. Partially offsetting these deficit reductions were actuarial losses on investments, primarily due to liability driven investments and insurance policies, which contributed to overall losses of £63.5m.

The CPP triennial valuation was completed during the year. As a result, monthly deficit contributions to this Scheme, have been reduced from £17.2m to £6.0m per annum, effective September 2018.

Cash Flow

Operating cash flow, which is stated after net capital expenditure, but before interest and tax payments was £123.4m (2017: £217.6m) and operating cash conversion was 63% (2017: 102%). Cash generation was adversely impacted by the net cash utilisation of the adjusted 2016 exceptional charges of £103.0m (2017: £66.6m), which is partly included within the overall decrease in provisions of £103.9m (2017: £38.1m) disclosed in the cash flow statement. Cash flow was favourably impacted by a decrease in working capital of £23.1m (2017: £44.1m decrease). There was lower capital expenditure outflows of £69.5m (2017: £79.8m), as a result of deferred spending. Capital expenditure is stated before proceeds from asset disposals of £6.8m (2017: £5.1m).

Free cash flow was £62.6m (2017: £140.6m). This included net interest payments of £35.3m (2017: £34.9m), including accelerated interest payments of £20.4m arising in the first half. Net tax payments were lower at £25.5m (2017: £32.2m), with the Group benefiting in the first half from a tax refund relating to a prior period. There were no amounts paid in the year relating to prior period restructuring programmes (2017: £9.9m).

Below free cash flow there was a net inflow of £324.7m primarily relating to the divestment of the AvComm and Wireless test and measurement businesses. There was a net debt increase of £14.7m (2017: £nil) relating to an aircraft finance lease signed in the first half. In 2017, the Group received total net rights issue proceeds and sums relating to the allocation of treasury shares of £497.2m.

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

£m	2018	2017*
Underlying operating profit	**196.1**	213.1
Less: share of post-tax results of joint ventures	**(0.5)**	0.2
Underlying operating profit (excluding joint ventures)	**195.6**	213.3
Depreciation and amortisation	**79.0**	84.8
Share based payments	**5.8**	5.5
Decrease 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
Operating cash/operating profit (excluding joint ventures)	***63%***	*102%*
Net interest paid including make-whole payments	**(35.3)**	(34.9)
Net taxation paid	**(25.5)**	(32.2)
Amounts related to prior periods' 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 treasury shares allocation	**-**	497.2
New 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 cash/(net debt)	**10.3**	(383.5)

**Restated for the impact of IFRS 15*

Net Debt and Gearing

At 31 December 2018 the Group had net cash of £10.3m (2017: £383.5m net debt), including favourable exchange movements of £21.2m (2017: £7.9m). At 31 December 2018, the net cash balance comprised gross debt of £396.6m (2017: £835.4m) and cash of £406.9m (2017: £451.9m).

Consistent with the Group's borrowing agreements, the Group's net interest cover had increased to 12.3x at the year end (31 December 2017: 6.8x).

Reconciliation of Underlying Measures

Details of the use of underlying measures are included on page 16 of this Announcement.

£m	2018	2017*
Operating profit	**111.9**	106.9
Adjusted to exclude:		
Amortisation of intangible assets arising on business combinations	**89.8**	138.9
Derivative financial instruments	**19.7**	(28.9)
Net pension adjustments	**3.4**	-
Impairment of goodwill and other intangible assets	**-**	33.5
Reversal of impairment of intangible assets	**-**	(31.8)
Carrying values of other assets provided at 31 December 2016	**-**	(1.4)
Legal and other provisions provided at 31 December 2016	**(1.7)**	(8.0)
Dispute settlement and increased cost estimates of fixed price contracts	**200.0**	-
Amounts relating to prior periods' restructuring programmes	**-**	4.7
Profit on divestments and other M&A costs	**(227.0)**	(0.8)
Total operating reconciling items	**84.2**	106.2
Underlying operating profit	**196.1**	213.1

£m		
Underlying profit before tax is calculated as follows:		
Profit before taxation	**71.0**	69.7
Total operating reconciling items as above	**84.2**	106.2
Underlying profit before taxation	**155.2**	175.9
Taxation charge on underlying profit	**(35.6)**	(37.3)
Underlying profit after taxation	**119.6**	138.6
Underlying EPS (pence)	**5.0**	6.2

**Restated for the impact of IFRS 15*

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

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

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

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

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

Consolidated Income Statement

For the year ended 31 December 2018

£m	Note	2018	2017 (restated)
Revenue	4	**1,863.3**	2,091.6
Cost of sales		**(1,539.9)**	(1,494.8)
Gross profit		**323.4**	596.8
Operating costs		**(438.5)**	(491.0)
Profit on divestments	15	**227.0**	1.1
Operating profit		**111.9**	106.9
Finance income	5	**10.5**	6.1
Finance costs	5	**(51.4)**	(43.3)
Profit before taxation		**71.0**	69.7
Taxation	6	**2.7**	14.4
Profit after taxation for the year		**73.7**	84.1
Attributable to:			
Owners of the parent		**73.5**	83.9
Non-controlling interests		**0.2**	0.2
		73.7	84.1
Earnings per ordinary share	3		
Basic		**3.1p**	3.7p
Diluted		**3.1p**	3.7p

Further details of the restatement of the 2017 Income Statement, due to the implementation of IFRS 15, Revenue from Contracts with Customers, can be found in note 2.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

£m	Note	2018	2017 (restated)
Profit after taxation for the year		**73.7**	84.1
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of fair value of other financial assets	11	**(5.6)**	-
Remeasurement of defined benefit retirement benefit obligations	13	**8.9**	7.4
Actuarial loss on other retirement benefit obligations		**(1.0)**	-
Tax effects		**(1.6)**	(1.4)
		0.7	6.0
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries		**57.2**	(51.4)
Reclassification of foreign exchange on divestment of overseas operations		**(15.8)**	-
Reclassification of cash flow hedge fair values		**(0.3)**	0.5
Hedge accounted derivative financial instruments		**(0.8)**	0.9
Tax effects		**(0.1)**	(0.1)
		40.2	(50.1)
Other comprehensive income/(expense) for the year		**40.9**	(44.1)
Total comprehensive income for the year		**114.6**	40.0
Attributable to:			
Owners of the parent		**114.4**	39.8
Non-controlling interests		**0.2**	0.2
		114.6	40.0

Consolidated Balance Sheet

As at 31 December 2018

£m	Note	2018	2017 (restated)	1 January 2017 (restated)
Assets				
Non-current assets				
Intangible assets	8	**821.2**	893.8	1,165.9
Property, plant and equipment	9	**388.2**	380.9	422.9
Investment properties		**2.3**	2.4	3.6
Investments in joint ventures and associates		**4.1**	3.6	3.6
Contract assets	10	**55.9**	64.3	56.2
Trade and other receivables		**28.4**	28.5	33.2
Other financial assets	11	**39.5**	6.1	6.1
Deferred tax		**89.8**	58.8	43.9
Derivative financial instruments		**23.0**	25.0	19.7
		1,452.4	1,463.4	1,755.1
Current assets				
Inventories		**276.0**	254.2	284.0
Contract assets	10	**131.0**	125.9	116.8
Trade and other receivables		**322.2**	293.8	367.1
Current tax receivables		**7.8**	7.2	3.1
Derivative financial instruments		**1.6**	10.4	8.5
Cash and cash equivalents		**406.9**	451.9	236.2
Assets classified as held for sale		**-**	171.7	-
		1,145.5	1,315.1	1,015.7
Liabilities				
Current liabilities				
Borrowings		**(58.6)**	(0.1)	(60.9)
Contract liabilities	10	**(180.9)**	(105.2)	(104.3)
Trade and other payables		**(376.7)**	(347.8)	(351.5)
Provisions	12	**(93.1)**	(121.7)	(139.2)
Current tax liabilities		**(136.7)**	(135.8)	(141.6)
Derivative financial instruments		**(16.4)**	(12.2)	(42.2)
Liabilities associated with assets classified as held for sale		**-**	(49.1)	-
		(862.4)	(771.9)	(839.7)
Non-current liabilities				
Borrowings		**(338.0)**	(835.3)	(1,203.5)
Trade and other payables		**(18.7)**	(11.6)	(12.1)
Provisions	12	**(107.6)**	(30.6)	(73.0)
Deferred tax		**(5.1)**	(6.3)	(33.6)
Derivative financial instruments		**(27.8)**	(27.2)	(32.2)
Retirement benefit obligations	13	**(46.6)**	(63.2)	(87.0)
		(543.8)	(974.2)	(1,441.4)
Net assets		**1,191.7**	1,032.4	489.7
Equity				
Share capital		**61.7**	61.7	44.6
Share premium		**1,257.9**	1,257.9	778.3
Other reserves		**32.3**	(9.6)	37.9
Retained earnings		**(161.7)**	(278.9)	(372.2)
Total equity attributable to owners of the parent		**1,190.2**	1,031.1	488.6
Non-controlling interests in equity		**1.5**	1.3	1.1
Total equity		**1,191.7**	1,032.4	489.7

Further details of the restatement of the comparative Balance Sheets, due to the implementation of IFRS 15, Revenue from Contracts with Customers, can be found in note 2.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

£m	Share capital	Share premium	Other reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
Total equity at 31 December 2017 (as originally stated)	**61.7**	**1,257.9**	**(8.6)**	**(284.0)**	**1,027.0**	**1.3**	**1,028.3**
Change in accounting policy - IFRS 15 (note 2)	**-**	**-**	**(1.0)**	**5.1**	**4.1**	**-**	**4.1**
Total equity at 31 December 2017 (restated)	**61.7**	**1,257.9**	**(9.6)**	**(278.9)**	**1,031.1**	**1.3**	**1,032.4**
Change in accounting policy - IFRS 9 (note 2)	**-**	**-**	**-**	**39.0**	**39.0**	**-**	**39.0**
Total equity at 1 January 2018	**61.7**	**1,257.9**	**(9.6)**	**(239.9)**	**1,070.1**	**1.3**	**1,071.4**
Profit for the year	**-**	**-**	**-**	**73.5**	**73.5**	**0.2**	**73.7**
Other comprehensive income	**-**	**-**	**40.2**	**0.7**	**40.9**	-	**40.9**
Total comprehensive income for the year	**-**	**-**	**40.2**	**74.2**	**114.4**	**0.2**	**114.6**
Share based payments	**-**	**-**	**5.8**	**-**	**5.8**	**-**	**5.8**
Transfer of other reserves to retained earnings	**-**	**-**	**(4.0)**	**4.0**	**-**	**-**	**-**
Tax effects	**-**	**-**	**(0.1)**	**-**	**(0.1)**	**-**	**(0.1)**
Total equity at 31 December 2018	**61.7**	**1,257.9**	**32.3**	**(161.7)**	**1,190.2**	**1.5**	**1,191.7**
Total equity at 1 January 2017 (as originally stated)	44.6	778.3	37.9	(372.0)	488.8	1.1	489.9
Change in accounting policy - IFRS 15 (note 2)	-	-	-	(0.2)	(0.2)	-	(0.2)
Total equity at 1 January 2017 (restated)	44.6	778.3	37.9	(372.2)	488.6	1.1	489.7
Profit for the year (restated)	-	-	-	83.9	83.9	0.2	84.1
Other comprehensive income/(expense) (restated)	-	-	(50.1)	6.0	(44.1)	-	(44.1)
Total comprehensive income/(expense) for the year(restated)	-	-	(50.1)	89.9	39.8	0.2	40.0
Issue of shares, net of costs	17.1	479.6	-	-	496.7	-	496.7
Proceeds on allocation of treasury shares	-	-	-	0.5	0.5	-	0.5
Share based payments	-	-	5.5	-	5.5	-	5.5
Transfer of other reserves to retained earnings	-	-	(2.9)	2.9	-	-	-
Total equity at 31 December 2017 (restated)	61.7	1,257.9	(9.6)	(278.9)	1,031.1	1.3	1,032.4

Consolidated Cash Flow Statement

For the year ended 31 December 2018

£m	Note	2018	2017
Cash generated from operations		**186.1**	282.3
Tax paid		**(25.5)**	(32.2)
Interest paid		**(43.5)**	(41.6)
Interest received		**8.2**	6.7
Net cash from operating activities	7	**125.3**	215.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(63.4)**	(69.0)
Purchase of intangible assets		**(6.1)**	(10.8)
Proceeds on disposal of property, plant and equipment and intangible assets		**6.8**	5.1
Acquisition of subsidiaries net of cash or debt acquired		**-**	(0.3)
Proceeds from/(costs of) business divestments		**324.7**	(0.5)
Net cash generated from/(used in) investing activities		**262.0**	(75.5)
Cash flows from financing activities			
Issue of share capital		**-**	496.7
Dividends paid to non-controlling interests		**-**	(0.1)
Proceeds on allocation of treasury shares		**-**	0.5
Repayment of borrowings		**(470.3)**	(359.6)
Net cash (used in)/from financing activities		**(470.3)**	137.5
Net (decrease)/increase in cash and cash equivalents		**(83.0)**	277.2
Exchange movements		**27.8**	(61.5)
Cash and cash equivalents at start of year		**451.9**	236.2
Cash and cash equivalents at end of year		**396.7**	451.9

Reconciliation of cash and cash equivalents and net cash/(debt)

£m	2018	2017
Cash and cash equivalents per Cash Flow Statement	**396.7**	451.9
Bank overdrafts	**10.2**	-
Cash and cash equivalents per Balance Sheet	**406.9**	451.9
Borrowings - current liabilities	**(58.6)**	(0.1)
Borrowings - non-current liabilities	**(338.0)**	(835.3)
Net cash/(debt)	**10.3**	(383.5)

Reconciliation of movements in net cash/(debt)

£m	2018	2017
Net debt at start of year	**(383.5)**	(1,028.2)
Net (decrease)/increase in cash and cash equivalents	**(83.0)**	277.2
New finance leases	**(14.7)**	-
Repayment of borrowings	**470.0**	359.6
Borrowings of undertakings sold	**0.3**	-
Exchange movements	**21.2**	7.9
Net cash/(debt) at end of year	**10.3**	(383.5)

Notes to the Financial Information
For the year ended 31 December 2018

1. Basis of preparation

The financial information set out in this statement does not constitute the Group's statutory accounts for the years ended 31 December 2018 or 31 December 2017.

Statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies, and those for 2018 will be delivered following the Company's Annual General Meeting.

The auditors have reported on these accounts; their report for the year ended 31 December 2018 was unqualified, and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006.

The attached audited financial information and the full Group Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, interpretations of the IFRS Interpretations Committee and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

Management judgement and estimation uncertainty

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

These judgements and estimates 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 judgements and estimates, 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.

<u>Significant judgements in applying accounting policies</u>

The following are the judgements, apart from those involving estimations, that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

a. Consolidation of Cobham Advanced Electronic Solutions Sector

The Cobham Advanced Electronic Solutions Sector operates under an SSA with the US Government due to the nature of its work on classified US Department of Defense programmes. The results of this Sector have been consolidated based on a judgement that, 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;

b. Revenue recognition and contract accounting

The Group has a number of contracts related to long term development programmes. For the majority of these contracts revenue is recognised over time on a percentage of completion basis. This is where a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion. There are three principal judgements associated with this method of contract accounting:

- Performance obligations: Judgement is applied in determining how many performance obligations there are within each contract and whether the development phase represents a separate obligation. In most cases, the development phase is not considered to be distinct as the customer does not benefit from the development activities alone. It is instead combined with the early contracted production phases such as low rate initial production (LRIP) which are considered a key part of the development cycle.

- Modifications and claims: Judgement is applied in determining whether claims to or from the customer are likely to be successful. Estimation techniques are then used to quantify the impact.

- Costs to fulfil a contract: For some contracts, where revenue is recognised at a point in time (rather than over time), the Group incurs development costs in order to meet its performance obligations and these costs are recognised as an asset. The asset is then amortised to cost of sales as revenue is recognised. Judgement is applied in assessing whether these costs are costs to fulfil a contract or internally generated intangible assets. This judgement will depend on management's assessment of the nature of the underlying costs and whether they principally relate to a particular contract.

c. Capitalisation of development costs
The Group undertakes significant levels of development work which is largely expensed to the Income Statement. Judgement is exercised in determining whether the criteria for capitalisation as described in IAS 38, Intangible Assets are met; in particular in applying the appropriate level of caution to the requirement for the product to be technically feasible and capable of generating a financial return. If these tests are met, further costs are capitalised as an intangible asset until the intangible asset is readily available for use and is then be amortised.

Assumptions and estimation uncertainties
Management considers that there are a number of assumptions concerning the future and other major sources of estimation uncertainty at the balance sheet date, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Those key assumptions and estimation uncertainties are as follows:

a. Uncertain tax positions and deferred tax assets (note 6)
Recognition and measurement of amounts provided in respect of uncertain tax positions are included within net current tax liabilities in the Balance Sheet. The recoverability of deferred tax assets is assessed by reference to estimated future profits in each territory;

b. Impairment of goodwill and intangible assets
Determination of the value in use of Cash Generating Units (CGUs) as assessed in relation to the annual review of goodwill and any subsequent impairment of goodwill and intangible assets, or reversal of previously impaired intangible assets relies on estimated cash flows, discounted to present value;

c. Inventory provisions
Recognition and measurement of provisions for obsolete, slow moving and defective items of inventory;

d. Revenue recognition (note 4), contract assets and liabilities (note 10) and contract loss provisions (note 12)
Recognition and measurement of revenue on long term contracts, associated contract assets and liabilities and contract loss provisions including those relating to the KC-46 programme requires estimation of the costs to complete the contracts including some contingencies for the risks identified, the final costs of technical solutions, the outcome of negotiations with customers (including modifications) and the amounts recoverable under these contracts;

e. Pension assets and liabilities (note 13)
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; and

f. Valuation of the Parent Company's minority shareholdings (note 11)
Fair value is determined based on the estimated cash flows expected to be received, discounted to present value.

Accounting policies
The accounting policies applied are consistent with those published in the financial statements for the year ended 31 December 2017, except for the adoption of new and amended standards as set out below.

Two new standards have been adopted from 1 January 2018, IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments. Details of the restatement arising from these changes can be found in note 2.
The following additional amendments to standards and interpretations of the IFRS Interpretations Committee have been adopted with effect from 1 January 2018:

- Amendments to IFRS 2, Share Based Payment Transactions;
- Amendments to IAS 40, Investment Property;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration; and
- Annual Improvements 2014-2016 cycle.

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

Future accounting developments
The Group will adopt IFRS 16, Leases, from 1 January 2019. It will result in almost all leases being recognised on the Balance Sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases.

The Group intends to take the fully retrospective approach and restate its Balance Sheet and Income Statement as if the new standard had always been applied.

A detailed review of all lease arrangements has been undertaken. The Group expects to recognise right-of-use assets of approximately £100m on 1 January 2019 and lease liabilities of approximately £140m.

The Group expects that profit before tax and EPS for 2018 will not change significantly as a result of adopting the new rules. Underlying operating profit used to measure segment results is expected to increase by approximately £7m. Previously, the operating lease payments were included in underlying operating profit. Going forward, only the amortisation of the right-of-use assets will be included, whereas interest on the lease liability is excluded from this measure.

Total cash flows are not impacted.

Definitions
Underlying measures
Definitions and a description of the use of the non-GAAP measures can be found in note 3.

Operating segments
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. The Group reports four operating segments whose revenue and results are reported to the Board. All operating segments meet the definition of reportable segments as defined in IFRS 8. Costs of the corporate head office and Group functions are allocated across the operating segments.

The Board assesses the trading performance of operating segments based on revenue and underlying operating profit as defined in note 3. Finance income, finance costs and taxation are not segmented and are reviewed by the Board on a consolidated basis.

2. Impact of new accounting standards

As previously identified, the Group has adopted IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers, on 1 January 2018.

IFRS 15, Revenue from Contracts with Customers

Under IFRS 15, revenue is recognised over time for contracts where there is no alternate use for the product and there is a right to payment at all times throughout the contract. A number of long term development programmes, notably within the Mission Systems Sector, meet these criteria. Revenue is also recognised over time for contracts where control transfers as the product is being manufactured. This occurs on some contracts directly with government bodies, most notably in the Advanced Electronic Solutions Sector. On both types of contract, where revenue is now recognised over time, the amounts previously included within inventories as work in progress or finished goods are now recognised, including margin, as a contract asset described as unbilled receivables.

Under IAS 18, it was appropriate, in certain situations, to combine related contracts. Under IFRS 15, the circumstances where this is allowed are more clearly defined and therefore some customer delivery obligations have been treated as separate obligations which impacts the timing of revenue and profit recognition.

On transition to IFRS 15, in addition to the matters described above, the balance sheet presentation has changed in a number of areas. Where there has been no change to the revenue recognition basis arising from IFRS 15, any remaining accrued income balances that were previously included within trade and other receivables are now shown as a contract asset (described as unbilled receivables). Deferred income (where the customer has paid upfront but revenue has not yet been recognised) was previously included in trade and other payables and is now recognised separately as a contract liability (described as advance payments from customers). Costs to fulfil a contract were previously included within inventories as work in progress.

IFRS 15 has been applied retrospectively and therefore comparative information presented in these financial statements has been restated as disclosed in the tables below. A summary of the impact of adopting IFRS 15, as described above, is as follows:

£m	Total equity
At 31 December 2016 (as originally stated)	489.9
Adjustments to retained earnings from adoption of IFRS 15	(0.2)
At 1 January 2017 (restated)	489.7
At 31 December 2017 (as originally stated)	1,028.3
Contracts where revenue is recognised over time rather than at a point in time	18.4
Contracts where performance obligations are now accounted for separately	(11.4)
Deferred tax impact	(2.9)
Adjustments to retained earnings from adoption of IFRS 15	4.1
At 31 December 2017 (restated)	1,032.4

The full impact on the Balance Sheets as at 1 January 2017 and 31 December 2017 and on the Income Statement for the year ended 31 December 2017 are as below:

Impact on Balance Sheet at 1 January 2017

£m	As originally stated	IFRS 15 adjustments	Restated
Assets			
Inventories	405.3	(121.3)	284.0
Contract assets	-	173.0	173.0
Trade and other receivables	475.8	(75.5)	400.3
Other assets	1,913.5	-	1,913.5
	2,794.6	(23.8)	2,770.8
Liabilities			
Contract liabilities	-	(104.3)	(104.3)
Trade and other payables	(471.8)	108.2	(363.6)
Provisions	(237.9)	25.7	(212.2)
Deferred tax	(27.6)	(6.0)	(33.6)
Other liabilities	(1,567.4)	-	(1,567.4)
	(2,304.7)	23.6	(2,281.1)
Net assets	489.9	(0.2)	489.7

Impact on Balance Sheet at 31 December 2017

£m	As originally stated	IFRS 15 adjustments	Restated
Assets			
Inventories	389.4	(135.2)	254.2
Contract assets	-	190.2	190.2
Trade and other receivables	393.5	(71.2)	322.3
Other assets	2,010.5	1.3	2,011.8
	2,793.4	(14.9)	2,778.5
Liabilities			
Contract liabilities	-	(105.2)	(105.2)
Trade and other payables	(484.3)	124.9	(359.4)
Provisions	(155.8)	3.5	(152.3)
Deferred tax	(2.1)	(4.2)	(6.3)
Other liabilities	(1,122.9)	-	(1,122.9)
	(1,765.1)	19.0	(1,746.1)
Net assets	1,028.3	4.1	1,032.4

Impact on Income Statement for the year ended 31 December 2017

£m	As originally stated	IFRS 15 adjustments	Restated
Revenue	2,052.5	39.1	2,091.6
Cost of sales	(1,457.9)	(36.9)	(1,494.8)
Gross profit	594.6	2.2	596.8
Operating costs	(491.6)	0.6	(491.0)
Profit on divestments	1.1	-	1.1
Operating profit	104.1	2.8	106.9
Finance income	6.1	-	6.1
Finance costs	(43.3)	-	(43.3)
Profit before taxation	66.9	2.8	69.7
Taxation	11.9	2.5	14.4
Profit after taxation for the year	78.8	5.3	84.1
Attributable to:			
Owners of the parent	78.6	5.3	83.9
Non-controlling interests	0.2	-	0.2
	78.8	5.3	84.1
Earnings per ordinary share			
Basic	3.5p		3.7p
Diluted	3.5p		3.7p

IFRS 9, Financial Instruments

Following the adoption of IFRS 9, the accounting policies for financial instruments applied during the year ended 31 December 2017 are, on a practical level, largely unchanged.

Retained earnings and other financial assets at 1 January 2018 have been restated by £39.0m as a result of the transition to this new standard. There was, however, no impact on the consolidated income statement, other balance sheet line items or the consolidated cash flows of the Group, nor on EPS. In accordance with the transitional provisions, comparative figures have not been restated.

The restatement relates to Cobham plc's minority shareholdings in equity investments which were accounted for as trade investments and categorised as available for sale under IAS 39. Under IFRS 9, these investments are held at fair value, using a present value methodology. The Company has elected to present movements in fair value in OCI. Further details are shown in note 11.

Reclassification of financial assets into the IFRS 9 categories had no overall impact on the measurement basis applied. The table below provides details of the classification and measurement of financial assets and liabilities under IFRS 9 and IAS 39 at 1 January 2018, the date of initial application, after taking into account the impact of IFRS 15 as described above.

£m	Original IAS 39 measurement category	Revised IFRS 9 measurement category	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets				
Trade receivables, other receivables, cash and cash equivalents	Loans and receivables (amortised cost)	Financial assets at amortised cost	938.5	938.5
Derivative contracts (not hedge accounted)	Fair value through profit or loss	Financial assets at fair value through profit or loss	13.2	13.2
Other financial assets	Amortised cost	Financial assets at fair value through OCI	6.1	45.1
Financial liabilities				
Borrowings, trade payables, accruals, other financial liabilities	Amortised cost	Financial liabilities at amortised cost	(1,274.6)	(1,274.6)
Derivative contracts (not hedge accounted)	Fair value through profit or loss	Financial liabilities at fair value through profit or loss	(17.4)	(17.4)
Hedging instruments				
Assets	Derivatives used for hedging	Derivatives used for hedging	22.2	22.2
Liabilities	Derivatives used for hedging	Derivatives used for hedging	(22.0)	(22.0)
Net financial liabilities at 1 January 2018			(334.0)	(295.0)

3. Underlying measures, EPS and specific adjusting items

Use of underlying measures

To assist with the understanding of earnings trends, the Group has included within this financial information 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 users of the financial statements.

In 2016, certain exceptional items were adjusted for and excluded from underlying measures due to their unusual size and incidence. These arise 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.

Definitions of underlying measures

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

Underlying operating profit 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 as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments 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

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.

Income Statement including underlying results

		2018				2017 (restated)
£m	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
Revenue	**1,863.3**	**-**	**1,863.3**	2,091.6	-	2,091.6
Cost of sales	**(1,339.9)**	**(200.0)**	**(1,539.9)**	(1,494.8)	-	(1,494.8)
Gross profit	**523.4**	**(200.0)**	**323.4**	596.8	-	596.8
Operating costs	**(327.3)**	**(111.2)**	**(438.5)**	(383.7)	(107.3)	(491.0)
Profit on divestments	**-**	**227.0**	**227.0**	-	1.1	1.1
Operating profit/(loss)	**196.1**	**(84.2)**	**111.9**	213.1	(106.2)	106.9
Finance income	**10.5**	**-**	**10.5**	6.1	-	6.1
Finance costs	**(51.4)**	**-**	**(51.4)**	(43.3)	-	(43.3)
Profit/(loss) before taxation	**155.2**	**(84.2)**	**71.0**	175.9	(106.2)	69.7
Taxation	**(35.6)**	**38.3**	**2.7**	(37.3)	51.7	14.4
Profit/(loss) after taxation for the year	**119.6**	**(45.9)**	**73.7**	138.6	(54.5)	84.1

Earnings per ordinary share

		2018				2017 (restated)
£m	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
Amount attributable to non-controlling interests	**(0.2)**	**-**	**(0.2)**	(0.2)	-	(0.2)
Earnings attributable to owners of the parent	**119.4**	**(45.9)**	**73.5**	138.4	(54.5)	83.9
Weighted average number of shares (million)	**2,379.8**		**2,379.8**	2,231.8		2,231.8
Effect of dilutive securities	**4.3**		**4.3**	3.5		3.5
Diluted weighted average number of shares (million)	**2,384.1**		**2,384.1**	2,235.3		2,235.3
Basic EPS	**5.0p**		**3.1p**	6.2p		3.7p
Diluted EPS	**5.0p**		**3.1p**	6.2p		3.7p

Details of the restatement can be found in note 2.

Potentially dilutive securities are unvested awards under the Group's share based payment schemes.

As at 31 December 2018, 85,300,412 (2017: 88,427,023) ordinary shares were held in treasury including 9,348,688 (2017: 12,475,299) shares held in the Cobham Employee Benefit Trust.

Details of specific adjusting items

The specific adjusting items excluded from underlying profit can be analysed as follows:

£m	2018	2017
Cost of sales		
Estimates of fixed price contract profitability	**200.0**	-
Operating costs		
Derivative financial instruments	**19.7**	(28.9)
Net pension adjustments	**3.4**	-
Business acquisition and divestment related items		
Amortisation of intangible assets arising on business combinations	**89.8**	138.9
Other M&A related costs	**-**	0.3
Impairment of goodwill and other intangible assets	**-**	33.5
Reversal of impairment of intangible assets	**-**	(31.8)
Other items provided as exceptional items at 31 December 2016		
Adjustments to revisions of the carrying value of other assets	**-**	(1.4)
Assessment of legal and other provisions	**(1.7)**	(8.0)
Amounts related to prior periods restructuring programmes	**-**	4.7
	111.2	107.3
Profit on divestments		
Profit on divestments (note 15)	**(227.0)**	(1.1)
Taxation		
Tax credit on specific adjusting items	**(38.3)**	(51.7)

Explanation of specific adjusting items

Estimates of fixed price contract profitability

A charge of £200.0m has been taken against increased estimates of cost to complete and recovery on the KC-46 contract comprising £40.0m recorded in the half year and a further £160.0m recorded following the announcement on 19 February 2019. This reflects an adjustment to an item previously disclosed as exceptional and hence it has been presented as a specific adjusting item. The Board recognises that making estimates on complex contracts is inherently judgemental and therefore whilst it has made a best estimate of contract positions at present, the final outcome of the contracts could be more or less favourable than the position taken.

Derivative financial instruments

The impact of derivative financial instruments excluded from underlying results includes changes in the marking to market of non-hedge accounted derivative financial instruments other than fair value gains or losses arising on currency swaps which offset movements in currency balances held. These amounts relate to foreign currency exchange contracts and would not impact operating results had the Group chosen to comply with IFRS 9 requirements to enable these contracts to be hedge accounted. These impacts are excluded as market volatility can result in material changes in fair value, both positive and negative, which distort the underlying results.

Pension adjustments
In October 2018, the English High Court determined that UK defined benefit pension schemes with Guaranteed Minimum Pensions (GMP) must be equalised between men and women. The impact of this ruling on the UK schemes has been estimated at £5.5m and recognised as a past service cost. This has been calculated using the 'C2' method as the Company's current best estimate; the actual method of satisfying the obligations to the members of the pension plans will ultimately need to be agreed by the Company and the trustees of the pension plans. This additional cost has been excluded from underlying measures to reflect the highly unusual nature of this cost which relates to service cost generated many years ago.

Offset against the GMP charge is a gain on curtailment of £2.1m arising from the closure of the US defined benefit pension scheme to future accrual. While this gain arose due to management decisions in the year, such an event is also considered to be unusual and warrants separate disclosure.

Business acquisition and divestment related items
The Group has been acquisitive over time and also divests businesses in accordance with its strategy. Accounting adjustments that arise as a result of business combinations and divestments are not considered to result from the underlying business activity and have therefore been excluded from underlying measures.

These adjustments 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. Amortisation of intangible assets arises as a result of the purchase price allocation on business combinations and includes customer lists, technology based assets, and order book and trade names. It is excluded from underlying measures because it does not relate to the in-year operational performance of the business, being driven by the timing and amount of investment in business combinations. Likewise, impairments of goodwill and other intangible assets arising on business combinations, together with any reversal of impairment of intangible assets, are treated as specific adjusting items as these assets arose from business acquisitions in prior periods. The amortisation of internally generated intangible assets such as software and development costs is included within underlying measures.

Other M&A related costs reflect the finalisation of costs related to acquisitions and divestments in prior years.

Other items
The assessment of legal and other provisions of £1.7m (2017: £8.0m) relates to provisions made at 31 December 2016 which have been reassessed and, in some instances, settled. These provision releases are treated as adjusting items consistent with the treatment of the original provisions.

The 2017 adjustments to revisions of the carrying value of other assets provided at 31 December 2016 related to a provision against aged receivables which was considered doubtful at 31 December 2016 but which was subsequently recovered with only a small loss. The release of this provision was treated as an adjusting item consistent with the treatment of the original provision.

Amounts related to prior periods restructuring programmes
Amounts related to prior periods restructuring programmes were deemed as incremental to normal operations. These costs relate to the integration of the Aeroflex businesses acquired in 2014. This programme is now closed and no further amounts are expected.

4. Segment information

Revenue
Revenue comprises income from the sale of goods and services during the year and can be analysed as follows:

£m	2018	2017 (restated)
Total revenue by operating segment		
Communications and Connectivity	**552.0**	700.7
Mission Systems	**402.7**	431.8
Advanced Electronic Solutions	**595.0**	594.7
Aviation Services	**315.1**	366.6
Elimination of inter-segment items	**(1.5)**	(2.2)
	1,863.3	2,091.6
By market		
US defence/security	**709.7**	776.4
UK, RoW defence/security	**475.0**	487.5
Commercial	**678.6**	827.7
	1,863.3	2,091.6
By customer geography		
USA	**990.7**	1,066.6
UK	**142.9**	186.4
Other EU	**297.8**	338.9
Australia	**217.3**	229.4
Asia	**143.7**	194.1
Rest of the world	**70.9**	76.2
Total revenue	**1,863.3**	2,091.6
By revenue recognition category		
Goods transferred at a point in time	**1,171.5**	1,267.3
Goods transferred over time	**230.4**	282.2
Services transferred over time	**395.3**	378.1
Services transferred at a point in time	**66.1**	164.0
	1,863.3	2,091.6

As announced on 19 February 2019, agreement has been reached with Boeing to settle damages assertions, and increased estimates of cost to complete on the KC-46 contract. A further non-underlying charge of £160.0m has been taken, within the Mission Systems segment, in addition to the £40.0m recorded in the first half the year as announced on 26 July 2018. This agreement has reduced both the total value of the contract and the percentage of completion, resulting in a derecognition of £79.8m of revenue. This has been accounted for in the current year as the underlying events occurred during 2018. Whilst some of the revenue related to prior periods, our programme accounting takes into account the facts and circumstances reasonably known at the time.

Revenue by customer geography is revenue from external customers analysed by their geographic location, irrespective of the origin of the goods and services. 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.

£m	**2018**	2017 (restated)
Underlying operating profit		
Communications and Connectivity	**55.9**	69.0
Mission Systems	**75.3**	55.2
Advanced Electronic Solutions	**52.9**	66.1
Aviation Services	**12.0**	22.8
Underlying operating profit	**196.1**	213.1
Specific adjusting items included within:		
Cost of sales	**(200.0)**	-
Operating costs	**(111.2)**	(107.3)
Profit on divestments	**227.0**	1.1
Net finance costs	**(40.9)**	(37.2)
Profit before taxation	**71.0**	69.7
Segment net assets		
Communications and Connectivity	**373.8**	522.7
Mission Systems	**78.7**	191.8
Advanced Electronic Solutions	**579.9**	607.2
Aviation Services	**210.6**	222.2
Head office	**63.1**	22.3
Segment net assets	**1,306.1**	1,566.2
Interests in joint ventures and associates	**4.1**	3.6
Unallocated liabilities	**(118.5)**	(537.4)
Total net assets	**1,191.7**	1,032.4

Details of the restatement can be found in note 2.

5. Finance income and costs

£m	**2018**	2017
Bank interest	**4.5**	3.9
Other finance income	**6.0**	2.2
Total finance income	**10.5**	6.1
Interest on bank overdrafts and loans	**(20.1)**	(38.3)
Interest on obligations under finance leases	**(0.4)**	-
Interest on net pension scheme liabilities	**(1.5)**	(2.3)
Other finance expense	**(29.4)**	(2.7)
Total finance costs	**(51.4)**	(43.3)
Net finance costs	**(40.9)**	(37.2)

Other finance expense for 2018 includes £20.4m of make-whole fees payable in connection with the early repayment of borrowings during the year together with £7.8m related to interest on uncertain tax positions.

6. Tax

£m	2018	2017 (restated)
Charge for the year	**6.8**	22.0
Adjustments to tax charge in respect of prior years	**24.4**	-
Current tax	**31.2**	22.0
Credit for the year	**(17.2)**	(39.8)
Impact of change in tax rates	**(0.8)**	0.1
Adjustments to tax charge in respect of prior years	**(15.9)**	3.3
Deferred tax	**(33.9)**	(36.4)
Total tax credit for the year	**(2.7)**	(14.4)

Details of the restatement can be found in note 2.

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 £4.8m (2017: £8.6m) for the UK.

The effective tax rate for 2018 is (3.8%) (2017: (20.7%)). The tax charge on underlying profit is £35.6m (2017: £37.3m) at an effective rate of 23.0% (2017: 21.2%).

The adoption of IFRS 15 means that the restated Balance Sheet as at 31 December 2017 includes the cumulative impact of earlier profit recognition on some US based contracts. The associated deferred tax liabilities were reduced when the US tax rate change of 35% to 21% was substantially enacted in 2017. This led to a one-time credit in 2017, which is disclosed here as part of the IFRS 15 restatement impact. The 2017 effective tax rate charge is restated to reflect this, but that in-year reduction will not be repeated in future periods. Prior to this restatement, the 2017 underlying effective tax rate was 23%.

Current tax risks (key estimation uncertainty)

The Group is subject to corporate and other tax rules in the jurisdictions where it conducts its business operations. Changes in tax rates, tax reliefs and tax laws, changes in practice or interpretation of the law by the relevant tax authorities, increasing challenges by relevant tax authorities on transfer pricing and other matters, or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may materially adversely affect the Group's financial condition and results of operations.

In addition, tax enforcement has become a higher priority for many tax authorities in jurisdictions in which the Group operates, which has led to an increase in tax audits, enquiries and challenges, or the testing through litigation of the boundaries of the correct interpretation of legislation. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws and the Group may have disagreements with tax authorities which could result in a material restatement to the tax position. For example, the availability of certain interest deductions on one of the Group's internal financing arrangements, principally as a result of various US acquisitions, has been under challenge for some time. Over the life of this internal financing arrangement, the aggregate tax value of the interest deductions amounted to approximately £130m. If decided adversely to the Group, this could lead to increased tax liabilities in excess of those provided in the Group's Balance Sheet, and result in a substantial tax payment becoming due. That payment may also result in an additional interest charge from the relevant authority. The Group is actively involved in attempting to resolve this matter ahead of a Tribunal hearing, which is scheduled for autumn 2019.

The European Commission (EC) has opened an investigation into the UK's controlled foreign company (CFC) rules. The CFC rules levy a charge on foreign entities controlled by the UK that are subject to a lower rate of tax; however there is currently an exemption available for 75% of this charge if the activities being undertaken by the CFC relate to financing. The EC is investigating whether this exemption is in breach of EU State Aid rules, but it is too early to assess what the conclusions of this investigation might be. If there is an adverse final determination on the UK's CFC legislation, the Group estimates that its maximum exposure on this matter is approximately £60m.

The Group has accrued £146.8m (2017: £126.4m) in respect of uncertain tax positions in the UK, US and other tax jurisdictions, together with £18.4m (2017: £10.6m) related to interest on uncertain tax positions. Final resolutions will affect the amounts settled and the timing of any settlements. Whilst resolution remains uncertain, these amounts are included in current liabilities.

7. Cash flow from operations

£m	**2018**	2017 (restated)
Operating profit	**111.9**	106.9
Non-cash items:		
Share of post-tax results of joint ventures and associates	**(0.5)**	0.2
Depreciation and amortization	**169.2**	223.9
Impairment of goodwill and intangible assets	**-**	33.5
Reversal of impairment provision	**-**	(31.8)
Profit on sale of property, plant and equipment and intangible assets	**(0.4)**	(0.2)
Profit on divestments	**(227.0)**	(0.8)
Derivative financial instruments	**19.7**	(28.9)
Adjustments to revisions of the carrying value of other assets	**-**	(1.4)
Assessment of legal and other provisions	**(1.7)**	(8.0)
Pension contributions in excess of pension charges	**(10.1)**	(17.3)
Share based payments	**5.8**	5.5
Operating cash movements:		
Increase in inventories	**(10.9)**	(4.2)
Decrease/(increase) in contract assets	**8.2**	(28.8)
(Increase)/decrease in trade and other receivables	**(13.9)**	26.5
Increase in contract liabilities	**67.7**	18.4
Increase in trade and other payables	**20.7**	31.0
Increase/(decrease) in provisions	**47.4**	(42.2)
Cash generated from operations	**186.1**	282.3
Tax paid	**(25.5)**	(32.2)
Interest paid including make-whole fees	**(43.5)**	(41.6)
Interest received	**8.2**	6.7
Net cash from operating activities	**125.3**	215.2

Use of alternative cash flow performance measures

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 underlying profit measures, underlying cash conversion is also used for internal incentive arrangements, and presenting this information allows users of the financial statements to better understand the way in which performance is targeted.

Definitions of operating cash flow measures

Free cash flow

Free cash flow is defined as net cash from operating activities plus dividends received from joint ventures, less cash flow 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
Operating cash flow is free cash flow before payment of tax, interest and restructuring costs.

Reconciliation of operating cash flow measures

The Cash Flow Statement subtotal of net cash from operating activities is reconciled to alternative measures of cash flow, free cash flow and operating cash flow as follows:

£m	2018	2017
Net cash from operating activities per Cash Flow Statement	**125.3**	215.2
Purchase of property, plant and equipment	**(63.4)**	(69.0)
Purchase of intangible assets	**(6.1)**	(10.8)
Proceeds on disposal of property, plant and equipment	**6.8**	5.1
Business acquisition and divestment related costs paid	**-**	0.1
Free cash flow	**62.6**	140.6
Amounts related to prior periods restructuring programmes	**-**	9.9
Tax paid	**25.5**	32.2
Net finance costs paid	**35.3**	34.9
Operating cash flow	**123.4**	217.6

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

£m	2018	2017 (restated)
Underlying operating profit excluding the share post-tax results of joint ventures	**195.6**	213.3
Operating cash flow	**123.4**	217.6
Cash flow on exceptional items provided at 31 December 2016	**103.0**	66.6
Operating cash flow before net cash flow on exceptional items	**226.4**	284.2
Operating cash conversion including the net cash flow on exceptional items	**63%**	102%
Operating cash conversion before the net cash flow on exceptional items	**116%**	133%

The cash flow on exceptional items principally relates to the KC-46 contract.

8. Intangible assets

£m	**2018**	2017
Carrying amount at start of year	**893.8**	1,165.9
Additions	**6.6**	10.6
Business divestments	**(2.7)**	-
Disposals	**(0.2)**	-
Amortisation and impairment of intangible assets arising on business combinations	**(89.8)**	(138.9)
Other amortization	**(13.9)**	(10.8)
Impairment provision	**-**	(33.5)
Reversal of impairment provision	**-**	31.8
Reclassified as held for sale	**-**	(88.1)
Other reclassifications	**1.5**	0.6
Foreign exchange adjustments	**25.9**	(43.8)
Carrying amount at end of year	**821.2**	893.8

The carrying amount of intangible assets at the year end comprises:

£m	**2018**	2017
Goodwill	**653.2**	637.0
Customer relationships	**79.0**	141.9
Technology based assets	**44.6**	63.4
Order book and trade names	**0.5**	1.2
Software and other	**43.9**	50.3
	821.2	893.8

9. Property, plant and equipment

£m	**2018**	2017
Carrying amount at start of year	**380.9**	422.9
Additions	**78.6**	69.4
Business divestments	**(0.2)**	-
Disposals	**(6.1)**	(4.5)
Depreciation	**(65.4)**	(74.0)
Reclassified as held for sale	**-**	(18.3)
Other reclassifications	**(1.5)**	(0.6)
Foreign exchange adjustments	**1.9**	(14.0)
Carrying amount at end of year	**388.2**	380.9

At 31 December 2018, the Group had commitments for the acquisition of property, plant and equipment of £13.6m (2017: £13.8m).

The carrying amount of the Group's property, plant and equipment includes an amount of £12.5m (2017: £nil) in respect of aircraft held under finance leases. These assets are held as security against the finance lease liabilities.

10. Contract balances

Contract assets

£m	2018	2017 (restated)	1 January 2017 (restated)
Within current assets	**131.0**	125.9	116.8
Within non-current assets	**55.9**	64.3	56.2
	186.9	190.2	173.0

£m	2018	2017 (restated)	1 January 2017 (restated)
Unbilled amounts related to goods and services transferred	**159.6**	156.4	134.2
Costs to fulfill a contract	**27.3**	33.8	38.8
	186.9	190.2	173.0

Unbilled amounts related to goods and services transferred are included in contract balances until they become unconditional, at which point they are transferred to trade receivables. Unbilled amounts arise when revenue is recognised prior to an invoice being raised to the customer; typically this arises when revenue is recognised over time as payments often have milestone payments conditional on customer acceptances on progress.

Costs to fulfill a contract relate to costs incurred in advance of the commencement of delivering performance obligations to the customer, principally in respect of certain air-to-air refuelling contracts and additional provisioning on service delivery contracts.

Contract liabilities

£m	2018	2017 (restated)	1 January 2017 (restated)
Advance payments from customers	**180.9**	105.2	104.3

Advance payments from customers relate to amounts received prior to transferring goods or services to the customer. This includes £48.7m recognised subsequent to the agreement with Boeing on the KC-46 programme.

Details of the restatements can be found in note 2.

11. Other financial assets

£m	2018
At 1 January 2017 and 31 December 2017	**6.1**
Change in accounting policy - adoption of IFRS 9	**39.0**
At 1 January 2018	**45.1**
Revaluation losses recognised in OCI	**(5.6)**
At 31 December 2018	**39.5**

Other financial assets represent Cobham plc's investments in the equity of AirTanker Holdings Limited and AirTanker Services Limited which relate to the Voyager (FSTA) project. These are minority shareholdings which are not held for trading and as such as are held at fair value. The Group has elected to present subsequent changes in fair value in OCI.

The fair value of these assets has been assessed using a present value methodology. The inputs to this calculation are not based on observable market data and hence they fall within level 3 of the IFRS 13 fair value hierarchy.

Valuation of other financial assets (key estimation uncertainty)
Fair value is determined based on the estimated cash flows expected to be received, discounted to present value. The estimated cash flows are calculated using an income approach reflecting the cash flows available to the Company after repayment of debt capital and interest, taking into account operating and financing cash flows. The most significant assumption concerns the anticipated usage of aircraft, including the number and types of sorties flown. The fair value would decrease with lower than anticipated usage of the aircraft or a higher discount rate. A 10% decrease in flying hours would result in a 7% reduction in fair value and a 1% increase in discount rate would reduce the fair value by 6%. Other assumptions include interest and inflation rates, repayment of debt and the residual value of the aircraft.

12. Provisions

£m	2018	2017 (restated)	1 January 2017 (restated)
Current liabilities	**93.1**	121.7	139.2
Non-current liabilities	**107.6**	30.6	73.0
	200.7	152.3	212.2

Movements in provisions during the year are as follows:

£m	Contract loss provisions	Provisions related to businesses divested	Restructuring provisions	Warranty claims	Aircraft maintenance provisions	Other	Total
At 1 January 2018 (as originally stated)	**89.7**	**5.9**	**17.6**	**14.8**	**2.7**	**25.1**	**155.8**
Change in accounting policy - IFRS 15	**(0.5)**	**-**	**-**	**(3.0)**	**-**	**-**	**(3.5)**
At 1 January 2018 (restated)	**89.2**	**5.9**	**17.6**	**11.8**	**2.7**	**25.1**	**152.3**
Additional provisions in the year	**126.8**	**0.6**	**13.0**	**7.8**	**0.2**	**11.0**	**159.4**
Utilisation of provisions	**(71.7)**	**-**	**(11.0)**	**(3.4)**	**(0.3)**	**(9.8)**	**(96.2)**
Provisions released	**(0.9)**	**-**	**-**	**(1.6)**	**(2.2)**	**(13.3)**	**(18.0)**
Reclassifications	**(3.2)**	**-**	**(1.0)**	**(0.1)**	**-**	**4.4**	**0.1**
Foreign exchange adjustments	**1.1**	**-**	**1.1**	**0.3**	**(0.1)**	**0.7**	**3.1**
At 31 December 2018	**141.3**	**6.5**	**19.7**	**14.8**	**0.3**	**18.1**	**200.7**

Details of the restatement can be found in note 2.

Provisions released in the year include the release of £1.7m of other provisions (2017: £4.3m of provisions for warranty claims and £3.7m of other provisions) which have been excluded from underlying earnings as shown in note 3.

13. Retirement benefit obligations

£m	**2018**	2017
Defined benefit scheme assets	**746.4**	816.3
Defined benefit obligations	**(793.0)**	(879.5)
Net liability at end of year	**(46.6)**	(63.2)

£m	**2018**	2017
Net liability at start of year	**(63.2)**	(87.0)
Amount recognised in Income Statement	**(5.8)**	(3.2)
Contributions paid by employer	**14.4**	18.2
Actuarial gains recognised in OCI	**8.9**	7.4
Exchange differences	**(0.9)**	1.4
Net liability at end of year	**(46.6)**	(63.2)

Events during the year

During the year, there have been three major events affecting the Group's defined benefit schemes:

- The CPP completed its triennial valuation. As a result, deficit contributions reduced from £17.2m to £6.0m per annum, with effect from September 2018 and payable up to March 2024;

- The US scheme was closed to future accrual resulting in a gain on curtailment of £2.1m. This gain has been presented as a specific adjusting item within note 3; and

- In October 2018, the English High Court determined that UK defined benefit pension schemes with Guaranteed Minimum Pensions (GMP) must be equalised between men and women. The impact of this ruling on the UK schemes has been estimated at £5.5m and recognised as a past service cost. This has been calculated using the 'C2' method as the Company's current best estimate; the actual method of satisfying the obligations to the members of the pension plans will ultimately need to be agreed by the Company and the trustees of the pension plans. This cost has been presented as a specific adjusting item within note 3.

14. Fair values

Fair values of derivative financial instruments

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

£m	**2018**	2017
Financial assets		
Derivative contracts (designated as hedging instruments)	**22.8**	22.2
Derivative contracts (not hedge accounted)	**1.8**	13.2
Financial liabilities		
Derivative contracts (designated as hedging instruments)	**(23.4)**	(22.0)
Derivative contracts (not hedge accounted)	**(20.8)**	(17.4)
	(19.6)	(4.0)

The fair values of derivative financial instruments have been determined by the use of valuation techniques, primarily discounted cash flows. The inputs to these valuations fall within level 2 of the IFRS 13 fair value hierarchy as they are based on assumptions that are supportable by observable market prices or rates.

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

Borrowings are held at amortised cost which equates to fair value, except for the Group's fixed rate borrowings. At 31 December 2018 the fair value of fixed rate borrowings was £233.6m (2017: £743.7m) compared to their book value of £221.2m (2017: £686.0m).

Fair values of non-financial assets and liabilities

Non-financial assets and liabilities measured at fair value on a non-recurring basis include the other financial assets detailed in note 11.

At 31 December 2017, non-financial assets and liabilities measured at fair value on a non-recurring basis were net assets held for sale of £122.6m. These were measured at fair value less costs to sell as this is lower than the original carrying value of those assets. The fair value is based on the estimated sale price and is classified as level 2 in the IFRS 13 fair value hierarchy.

Other fair value measurements are used by the Group in measuring pension scheme assets at fair value as shown in note 13.

There have been no changes to the valuation techniques used during the year, and no transfers between fair value hierarchy levels.

15. Business divestments

The completion of the divestment of the Group's AvComm and Wireless test and measurement businesses, part of the Communications and Connectivity Sector, was announced on 16 March 2018, for an all-cash consideration of US$455m (subject to certain post-completion adjustments and expenses). In the Group consolidated financial statements for the year to 31 December 2017, the assets and liabilities of these businesses were classified as held for sale and were measured on a non-recurring basis at fair value.

In addition, the Group disposed of the trade and assets of its Opera electromagnetic simulation software business on 25 May 2018. The disposal of the trade and assets of the Lightning Test and Consultancy business was completed on 14 November 2018. Both businesses were formerly within the Communications and Connectivity Sector.

The profit on these divestments has been excluded from underlying operating profit as disclosed in note 3 and analysed below.

£m	AvComm and Wireless	Opera and Lightning Test	Total
Gross consideration	**324.2**	**9.7**	**333.9**
Net assets at date of divestment	**(117.3)**	**(2.1)**	**(119.4)**
Expenses of sale	**(11.9)**	**(0.5)**	**(12.4)**
Foreign exchange adjustments	**23.4**	**-**	**23.4**
Net profit on divestments completed during the year	**218.4**	**7.1**	**225.5**
Net profit relating to divestments completed in prior years			**1.5**
Net profit on divestments before tax			**227.0**
Tax charge on net profit on divestments			**(11.7)**
Net profit on divestments after tax			**215.3**

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

£m	AvComm and Wireless	Opera and Lightning Test	Total
Cash consideration	**325.6**	**9.7**	**335.3**
Expenses of sale	**(11.1)**	**(0.2)**	**(11.3)**
Net cash impact of divestments in current year	**314.5**	**9.5**	**324.0**
Net cash relating to divestments completed in prior years			**0.7**
			324.7

The net assets at the date of divestment were as follows:

£m	AvComm and Wireless at 16.3.2018	Opera and Lightning Test at 25.5.2018 and 14.11.2018	Total
Intangible assets	**86.4**	**2.7**	**89.1**
Property, plant and equipment	**18.5**	**0.2**	**18.7**
Investment property	**0.6**	**-**	**0.6**
Inventories	**18.8**	**-**	**18.8**
Trade and other receivables	**39.8**	**0.3**	**40.1**
Cash and cash equivalents	**0.7**	**-**	**0.7**
Borrowings (finance lease)	**(0.3)**	**-**	**(0.3)**
Trade and other payables	**(24.7)**	**-**	**(24.7)**
Contract liabilities	**(9.6)**	**(1.1)**	**(10.7)**
Current tax liabilities	**(5.0)**	**-**	**(5.0)**
Provisions	**(0.7)**	**-**	**(0.7)**
Deferred tax liabilities	**(7.2)**	**-**	**(7.2)**
Net assets	**117.3**	**2.1**	**119.4**

The net assets of the divested businesses at 31 December 2017 were as follows:

£m	AvComm and Wireless	Opera and Lightning Test	Total
Intangible assets	88.1	1.3	89.4
Property, plant and equipment	18.3	0.3	18.6
Investment property	0.6	-	0.6
Deferred tax assets	3.8	-	3.8
Inventories	20.3	-	20.3
Trade and other receivables	40.6	0.9	41.5
Borrowings	(0.3)	-	(0.3)
Trade and other payables	(23.8)	(0.1)	(23.9)
Contract liabilities	(13.4)	(0.9)	(14.3)
Provisions	(1.0)	-	(1.0)
Deferred tax liabilities	(10.6)	-	(10.6)
Net assets	122.6	1.5	124.1

As noted above, the net assets of the AvComm and Wireless test and measurement businesses were presented as assets and liabilities held for sale at 31 December 2017.

16. Contingent liabilities

The Group makes provisions when it is probable there will be a cash outflow to settle liabilities and it can be reliably estimated. Contingent liabilities are potential future cash outflows which are less certain or cannot be measured reliably. The disclosure below is intended to highlight potential risks that are not provided for in the Balance Sheet.

At 31 December 2018, 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.

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 and fixed fee development contracts, costs incurred and anticipated can significantly exceed amounts estimated as a result of material enhancements to the specifications originally agreed under the contracts. Also, there are onerous contract terms and challenging delivery schedules on air to air refuelling development contracts. The Group may take account of the advice of experts as required in making judgements on contractual issues and whether the outcome of negotiations will result in an appropriate recovery of costs. Judgement is therefore required as regards the estimated costs to complete, the outcome of negotiations with customers and the amounts recoverable under these contracts. The amount recoverable may be subject to direct damages due to the customer and damages or penalties they incur from their own end users.

In the case where the Group is undertaking development activity at its own cost, including production and service readiness, and has given performance undertakings to prospective customers, 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 where it conducts its business operations. Changes in tax rates, tax reliefs and tax laws, changes in practice or interpretation of the law by the relevant tax authorities, increasing challenges by relevant tax authorities on transfer pricing and other matters, or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may materially adversely affect the Group's financial condition and results of operations.

In addition, tax enforcement has become a higher priority for many tax authorities in jurisdictions in which the Group operates, which has led to an increase in tax audits, enquiries and challenges, or the testing through litigation of the boundaries of the correct interpretation of legislation. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws and the Group may have disagreements with tax authorities which could result in a material restatement to the tax position. For example, the availability of certain interest deductions on one of the Group's internal financing arrangements, principally as a result of various US acquisitions, has been under challenge for some time. Over the life of this internal financing arrangement, the aggregate tax value of the interest deductions amounted to approximately £130m. If decided adversely to the Group, this could lead to increased tax liabilities in excess of those provided in the Group's Balance Sheet, and result in a substantial tax payment becoming due. That payment may also result in an additional interest charge from the relevant authority. The Group is actively involved in attempting to resolve this matter ahead of a Tribunal hearing, which is scheduled for autumn 2019.

The European Commission (EC) has opened an investigation into the UK's controlled foreign company (CFC) rules. The CFC rules levy a charge on foreign entities controlled by the UK that are subject to a lower rate of tax; however there is currently an exemption available for 75% of this charge if the activities being undertaken by the CFC relate to financing. The EC is investigating whether this exemption is in breach of EU State Aid rules, but it is too early to assess what the conclusions of this investigation might be. If there is an adverse final determination on the UK's CFC legislation, the Group estimates that its maximum exposure on this matter is approximately £60m.

17. Events after the balance sheet date

On 19 February 2019, Cobham announced that it had reached an agreement with Boeing on damages assertions relating to the KC-46 Tanker programme. As detailed on page 5 and 6 and in note 3, an additional non-underlying charge of £160.0m has been included in these financial statements as this agreement represents an adjusting event occurring after the balance sheet date.

-ends-