2019 Interim Results

25th July 2019

01

Introduction

David Lockwood

Overview

- Recommended cash offer for Cobham from Advent International at 165p* per share. Offer details are in the Rule 2.7 firm offer announcement released this morning
- Actions feeding improving set of financial results with variation in Sector performances, as expected; confidence improving
- Actions to improve execution and reduce overheads in Advance Electronic Solutions in place
- Risk significantly reduced by KC-46 tanker settlement and resolution of UK tax dispute, although some risk remains
- Strategic review of Aviation Services in Australia commenced
- Strong Balance Sheet maintained after H1 2019 settlements
- Resumption of dividend, as previously announced; declared interim payment of 0.4p*
- Full year expectations unchanged

**Interim dividend included in 165p offer price*

02

Financial Results

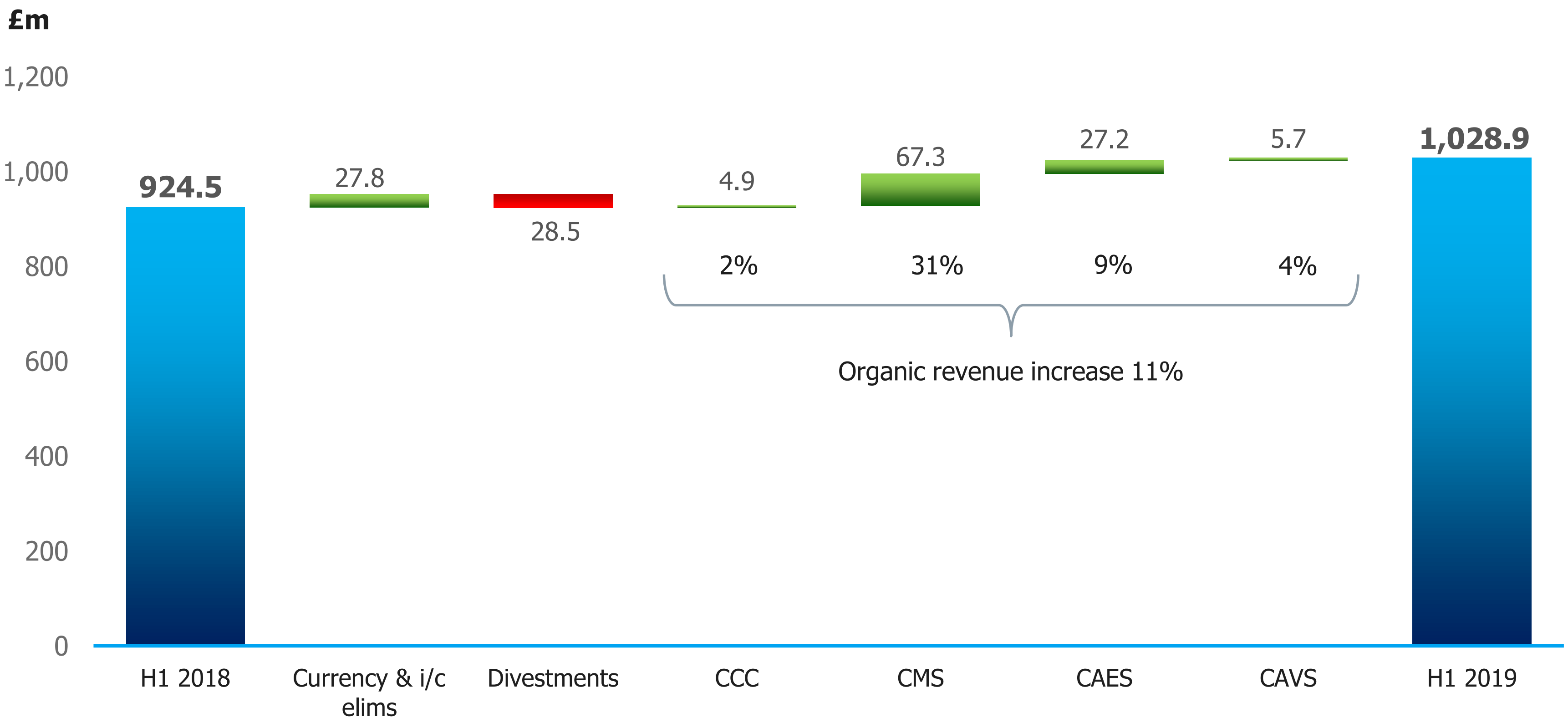
David Mellors

Summary Financial Headlines

£m	H1 2019	H1 2018[1]
Revenue	**1,028.9**	924.5
Underlying operating profit	**107.1**	95.5
Underlying operating margin	**10.4%**	10.3%
Underlying earnings per share (pence)	**3.2**	2.0
Operating cash flow	**64.2**	37.7
Operating cash conversion	**60%**	40%
Free cash flow	**(15.7)**	9.2
Net debt	**(148.3)**	(195.3)
Net debt/EBITDA[2]	**-**	0.2x
Interim dividend per share	**0.4p**	-

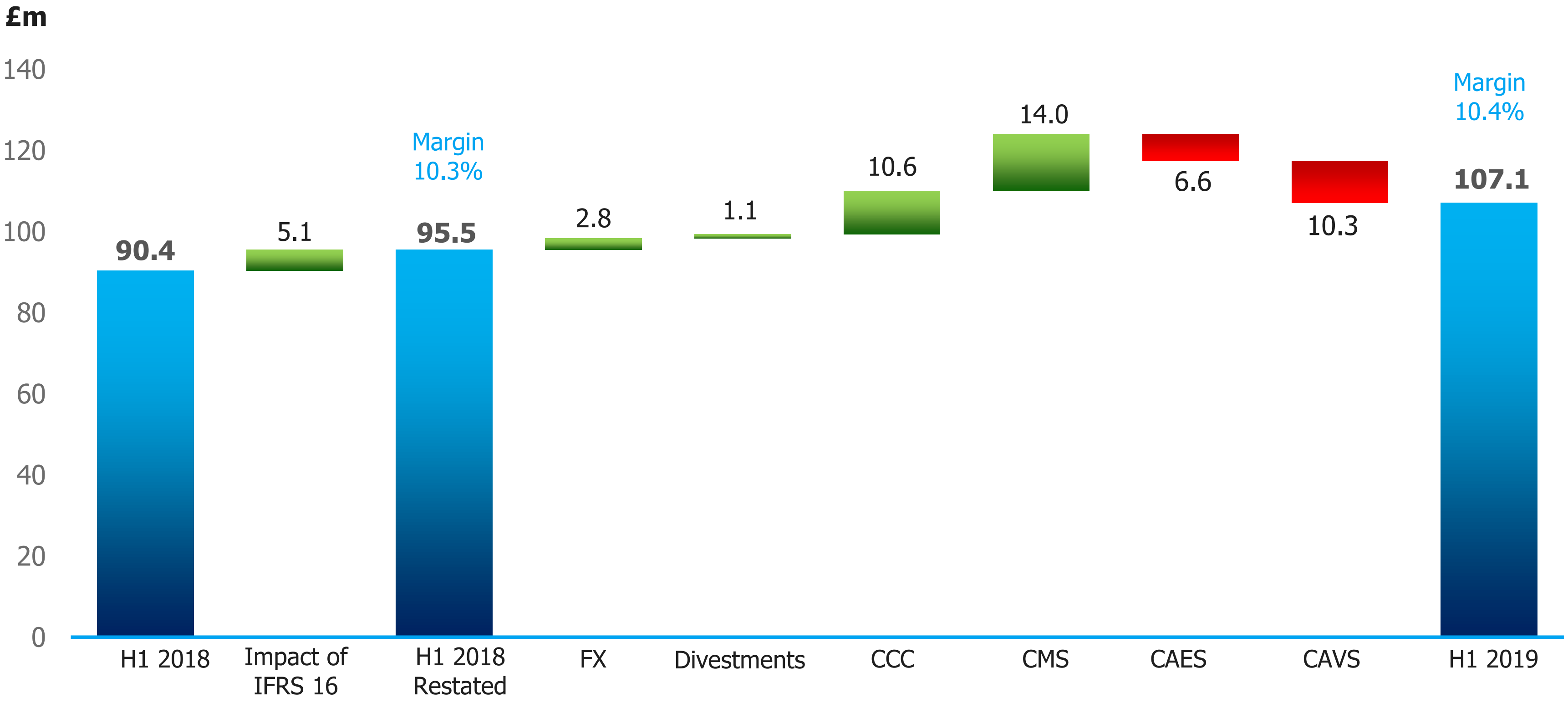
(1) Restated for IFRS 16, Leases
(2) Consistent with bank covenants on a frozen adjusted IFRS basis which excludes the impact of IFRS 16, Leases

Revenue Bridge
H1 2018 to H1 2019

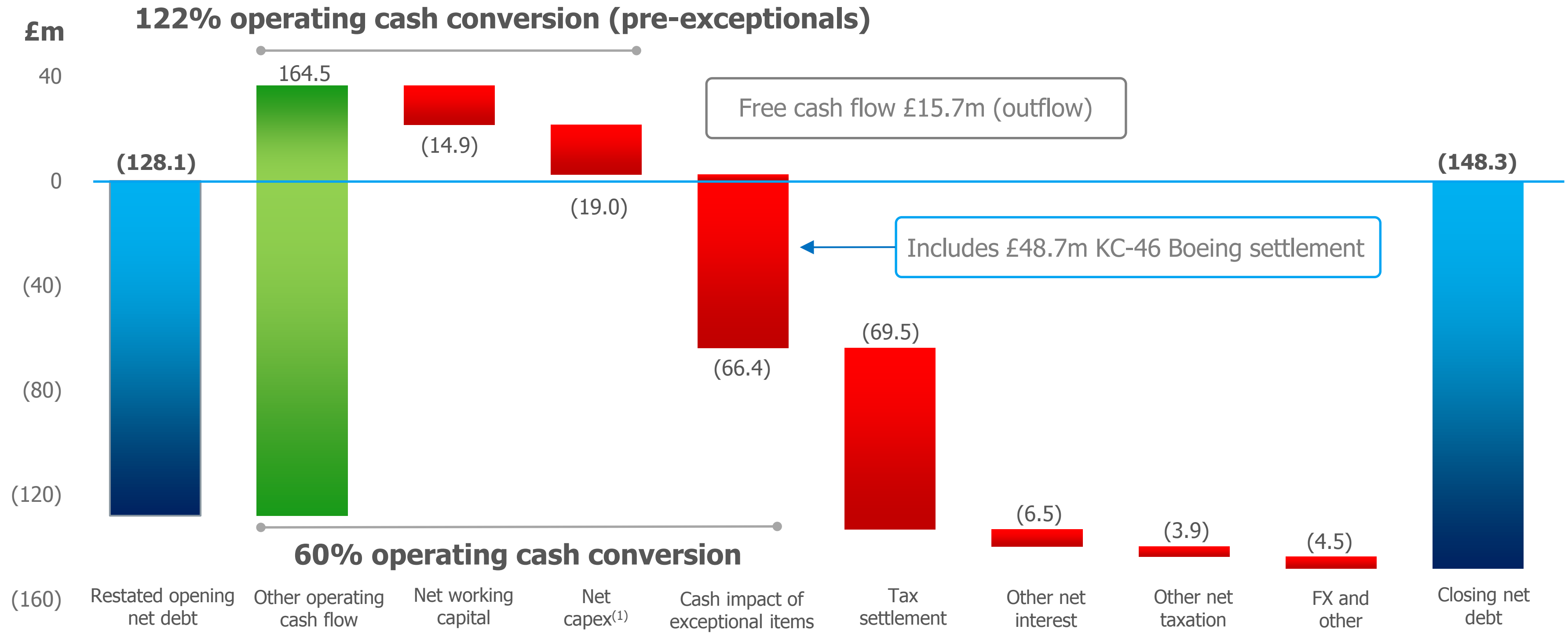


Underlying Operating Profit Bridge

H1 2018 to H1 2019



Movements in Net Debt



(1) Net capex is stated after proceeds on disposal of property, plant and equipment of £13.3m
(2) Full details on cash conversion can be found in the Appendix (page 38)

2016 Exceptional Charges Update

COBHAM

£m	Opening balance	Cash flow utilised	Income statement (charged/released)[2]	FX	Closing balance[3]
2017	(191)[1]	67	9	3	**(112)**
2018	(112)	103	(198)	1	**(206)**
2019	(206)	66	-	-	**(140)**
Cumulative totals @ 30 June 2019	**(191)**	**236**	**(189)**	**4**	**(140)**

(1) Opening balance comprises 2016 non-underlying charges of £237m which included £56m of asset write offs and IFRS 15 restatement
(2) Non-underlying in the income statement. Net charge in 2018 included £200.0m charge on KC-46 less £1.7m provision release
(3) Closing balance comprises net liabilities held in working capital £26m (31 December 2018: £73m) and provisions £114m (31 December 2018: £133m)

Communications and Connectivity

COBHAM

£m	H1 2018[1]	FX	Divested	Organic	H1 2019
Order intake	336.2	3.0	(32.3)	(52.3)	**254.6**
Revenue	279.9	2.8	(28.5)	4.9[2]	**259.1**
Underlying operating profit	23.6	(0.6)	1.1	10.6	**34.7**
Underlying operating margin	8.4%	(0.3%)	1.4%	3.9%	**13.4%**
Order book	284.1				**268.8**

Organic revenue increase driven by:

- Growth from FliteLine radio on USAF T-38 trainer, Radio Management System on USAF T-6 trainer
- Increased avionics revenue including NH-90 and slip-ring sales
- Partially offset by lower maritime SATCOM shipments

(1) Restated following adoption of IFRS 16
(2) Organic revenue growth 2%
Note: Revenue by currency; USD 33%, EUR/DKK 58%

Profit increase due to:

- Increased sales volumes, operational improvements and 2018 restructuring benefits
- Lower PV expense (£3.3m), including Aviator S entering flight testing phase
- Prior year higher inventory and receivables provisions (£4.3m)

Mission Systems

£m	H1 2018[1]	FX	Organic	H1 2019
Order intake	237.1	11.2	73.5	**321.8**
Revenue	209.0	10.2	67.3[2]	**286.5**
Underlying operating profit	28.9	1.8	14.0	**44.7**
Underlying operating margin	13.8%	0.2%	1.6%	**15.6%**
Order book	762.0			**785.8**

Organic revenue primarily driven by:

- Programme timing with increased throughput on existing programmes (c19% growth) - improved execution, supply chain management and arrears reduction
- Increased demand (c12% growth), including releases and restraints, fuel tank inerting and weapons carriage and release
- Actuation volumes expected to moderate following growth

(1) Restated following adoption of IFRS 16
(2) Organic revenue growth 31%
Note: Revenue by currency; USD 76%

Profit increase due to:

- Increased production volumes
- Improvement in quality and manufacturing, and cost efficiencies; more than offset increased PV and SG&A expense to deliver growth
- Small amount of non-recurring high margin product supply and licence income

Advanced Electronic Solutions

£m	H1 2018[1]	FX	Organic	H1 2019
Order intake	379.6	23.8	(56.8)	**346.6**
Revenue	279.4	17.6	27.2[2]	**324.2**
Underlying operating profit	31.3	1.8	(6.6)	**26.5**
Underlying operating margin	11.2%	(0.1%)	(2.9%)	**8.2%**
Order book	606.4			**679.5**

Organic revenue increase driven by:

- Growth in electronic warfare and missile guidance programmes
- Demand for semiconductor, rotary joint and space waveguide products
- Lower revenue from completed Mars 2020 programme

Profit impacted by:

- Reduced margins on certain programmes; adverse space product mix
- Programme charge of £9.3m, largely offset by £5.2m property disposal profit and small net benefit from the overhead cost reduction announced at the 2018 year end;
- Prior year £4.2m net credit from reassessment of legal, property and inventory provisions

(1) Restated following adoption of IFRS 16
(2) Organic revenue growth 9%
Note: Revenue by currency; USD 99%

Aviation Services

£m	H1 2018[1]	FX	Organic	H1 2019
Order intake	74.8	(1.5)	(25.4)	**47.9**
Revenue	157.0	(2.7)	5.7[2]	**160.0**
Underlying operating profit	11.7	(0.2)	(10.3)	**1.2**
Underlying operating margin	7.5%	-	(6.7%)	**0.8%**
Order book	1,004.4			**877.5**

Organic revenue increase driven by:

- Increased Australia commercial revenue, including growth in fly-in, fly-out for natural resources customers
- Partially offset by completed UK DHFS contract - £11.2m revenue in Q1 2018

Profit impacted by:

- Lost profit contribution from DHFS; additional £3.2m charge on helicopter disposal and write down
- Prior year £4.4m credit related to release of lease service and make good provisions
- On conversion to IFRS 16, prior year one-off gain on aircraft lease surrender of £2.1m

(1) Restated following adoption of IFRS 16
(2) Organic revenue growth 4%
Note: Revenue by currency; AUS$ 69%

03
Business Review

David Lockwood

Good progress against all objectives

COBHAM

	Fix the Balance Sheet	Capital Allocation & Dividend	Focus the Portfolio	Onerous Contracts & Other Legacy Items	Improve Operational Performance & Culture Change
TARGET	• Maintain strong balance sheet with gearing <1.5x net debt/EBITDA	• Allocation of capital for capability and organic growth • Progressive dividend with appropriate earnings and free cash flow cover • Bolt-on M&A with strong fit and effective integration	• Focus on defence, aerospace and space markets	• Full rate production on onerous legacy contracts • Other contingent liabilities resolved or risks mitigated	• On-time customer delivery (OTTP) >90% • Underlying operating margin 12-14% • Sustainable cash conversion around 90% • 'Every Mission Matters'
H1 PROGRESS	• Strong balance sheet at 30 June 2019; significant de-risking • Net debt/EBITDA - nil • Net debt includes IFRS 16 - lease debt on balance sheet	• PV investment £44.1m • Investment effectiveness e.g. Cobham Delivery Framework • Organic revenue and underlying operating profit improvement • Reinstated dividend, interim payment of 0.4p*	• Increased focus following 2018 divestments • Regular Board level portfolio review • Commenced strategic review of CAVS operations in Australia	• KC-46 update - see following slide • Tax settlement with UK tax authorities • EC State Aid tax decision on UK CFC legislation in April 2019	• Positive trend in operational metrics, notably quality • Underlying operating margin driven by CMS & CCC • 122% operating cash conversion before exceptionals • Culture change traction

**Interim dividend included in 165p offer price*

KC-46 US Tanker Programme – Hose and Drogue

COBHAM

Financial

- Net settlement of US$63m (£49m) paid

Programme status

- Centerline Drogue System (CDS) – full rate production now commenced
- Progress on Wing Aerial Refuelling Pod (WARP) qualification consistent with previous guidance (completion around middle of 2020)
- WARP flight testing commenced June 2019 – test duration of eight to ten weeks

Advanced Electronic Solutions – Operational Improvement Actions

COBHAM

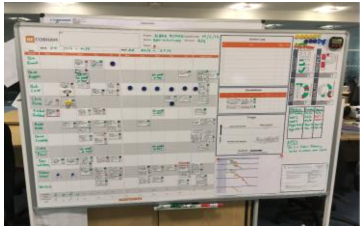
2019 Actions (set out in 2018 Prelims)	**H1 2019 Progress**
• New management team	• Senior management appointments including general management, finance and programmes
• Enhanced discipline including: - Bidding and contracts - Programme management	• Enhanced proposal controls, additional oversight, training and improved guidelines; benefits to accrue over time • Strengthened programme controls, including oversight and follow-up of actions; programme charges taken in H1
• Renew focus on profit and cash generation	• Greater focus on programme cash phasing • Significant overhead cost reductions (see below)
• Overhead cost reduction plan: US$20m anticipated savings in 2019	• Plan implemented

Addressing under-performance remains the priority for 2019

Wimborne – Improving Operational and Financial Metrics

COBHAM

A leading provider of aerial refuelling and weapons carriage & release products and services



Improvement Actions

- Improvement plans with strategic suppliers
- Programme delivery and execution leading to fewer project overruns/cost increases
- Investment in shop floor and continuous improvement
- Reduction in cost of poor quality; improved first time yield
- Process and organisation simplification; better aligned to customer needs

Improving Performance

- Customer arrears halved
- Deliveries on contract for a major aerial refuelling customer
- Increased shop floor productivity
- Overall customer On Time metric improved

Actions taken driving organic revenue growth and improved underlying operating profit margin

Strategic Review of Aviation Services Australia

Review of Aviation Services operations in Australia

- Commenced strategic review
- Optimise value in interests of company and stakeholders

Business overview

- Australia's third largest aviation group; diversified operations in Special Mission, Airline Services and Regional Services markets
- Revenue of AUS$386m (£216m) in 2018 and attractive opportunities for growth; 10% organic revenue growth in H1 2019
- Over 1,300 staff operating >50 aircraft for blue-chip customers including Qantas, the Australian Border Force, the Australian Maritime Safety Authority and Chevron
- Long term contracts; cash generative operations

Overview

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- Actions to improve execution and reduce overheads in Advance Electronic Solutions in place
- Risk significantly reduced by KC-46 tanker settlement and resolution of UK tax dispute, although some risk remains
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04
Questions

Appendices

IFRS 16 Restatement of underlying profit

Full Year

£m	Previously reported	Add back: Rental cost	Deduct: Depreciation	Lease interest and tax	Restated
	FY 2018				
Underlying operating profit					
Communications and Connectivity	55.9	9.3	(8.4)	-	56.8
Mission Systems	75.3	1.5	(1.3)	-	75.5
Advanced Electronic Solutions	52.9	8.7	(5.9)	-	55.7
Aviation Services	12.0[1]	5.3	(2.0)	-	15.3[2]
Group	**196.1**	**24.8**	**(17.6)**	**-**	**203.3**
Underlying operating profit margin	*10.5%*	£7.2m[2]			*10.9%*
Underlying net finance costs	**(40.9)**			**(6.8)**	**(47.7)**
Taxation	**(35.6)**			**(0.1)**	**(35.7)**
Underlying profit after taxation	**119.6**				**119.9**
Underlying EPS	**5.0p**				**5.0p**

1) *Aviation Services underlying operating profit includes £4.4m credit in H1 2018 relating to lease servicing and make good provisions no longer required*
2) *Aviation Services underlying operating profit includes £2.1m one-off gain under IFRS 16 in H1 2018 from early termination of aircraft leases*

IFRS 16 Restatement of underlying profit

Half Year

£m	Previously reported	Add back: Rental cost	Deduct: Depreciation	Lease interest and tax	Restated
	H1 2018				
Underlying operating profit					
Communications and Connectivity	22.9	4.6	(3.9)	-	23.6
Mission Systems	28.8	0.7	(0.6)	-	28.9
Advanced Electronic Solutions	29.9	4.3	(2.9)	-	31.3
Aviation Services	8.8[1]	4.1	(1.2)	-	11.7[2]
Group	**90.4**	**13.7**	**(8.6)**	**-**	**95.5**
Underlying operating profit margin	*9.8%*	£5.1m[2]			*10.3%*
Underlying net finance costs	**(29.5)**			**(3.4)**	**(32.9)**
Taxation	**(14.0)**			**(0.4)**	**(14.4)**
Underlying profit after taxation	**46.9**				**48.2**
Underlying EPS	**2.0p**				**2.0p**

1) *Aviation Services underlying operating profit includes £4.4m credit in H1 2018 relating to lease servicing and make good provisions no longer required*
2) *Aviation Services underlying operating profit includes £2.1m one-off gain under IFRS 16 in H1 2018 from early termination of aircraft leases*

IFRS 16 Restatement of Net Debt

Full Year

	FY 2018				
£m	**Previously reported**	**IFRS 16 Indebtedness[1]**	**Lease rental and IFRS 16 interest**	**Presentational adjustment[2]**	**Restated**
Operating cash flow	**123.4**	**-**	**24.5**	**(17.7)**	**130.2**
Net interest paid including make-whole payment	(35.3)	-	(6.8)	-	(42.1)
Net taxation paid	(25.5)	-	-	-	(25.5)
Free cash flow	**62.6**	**-**	**17.7**	**(17.7)**	**62.6**
Net divestments	324.7	-	-	-	324.7
New lease arrangements (net of leases surrendered)	(14.7)	(3.1)	-	-	(17.8)
Less: Lease capital payments	-	-	-	17.7	17.7
Exchange movements	21.2	(4.6)	-	-	16.6
Decrease in net debt	**393.8**	**(7.7)**	**17.7**	**-**	**403.8**
Opening net debt	**(383.5)**				**(531.9)**
Closing cash/(net debt)	**10.3**				**(128.1)**

1) *New lease arrangements (net of leases surrendered) represent leases taken out in 2018, now recorded as debt on the balance sheet*
2) *Free Cash Flow presentation has been adjusted to include capital element of lease payments to maintain consistency of disclosure with prior years*

IFRS 16 Restatement of Net Debt

Half Year

	H1 2018				
£m	**Previously reported**	**IFRS 16 Indebtedness[1]**	**Lease rental and IFRS 16 interest**	**Presentational adjustment[2]**	**Restated**
Operating cash flow	**34.3**	**-**	**12.7**	**(9.3)**	**37.7**
Net interest paid including make-whole payment	(30.3)	-	(3.4)	-	(33.7)
Net taxation received/(paid)	5.2	-	-	-	5.2
Free cash flow	**9.2**	**-**	**9.3**	**(9.3)**	**9.2**
Net divestments	324.3	-	-	-	324.3
New lease arrangements (net of leases surrendered)	(14.7)	(0.9)	-	-	(15.6)
Less: Lease capital payments	-	-	-	9.3	9.3
Exchange movements	11.1	(1.7)	-	-	9.4
Decrease in net debt	**329.9**	**(2.6)**	**9.3**	**-**	**336.6**
Opening net debt	**(383.5)**				**(531.9)**
Closing net debt	**(53.6)**				**(195.3)**

1) *New lease arrangements (net of leases surrendered) represent leases taken out in 2018, now recorded as debt on the balance sheet*
2) *Free Cash Flow presentation has been adjusted to include capital element of lease payments to maintain consistency of disclosure with prior years*

IFRS 16 Restatement of Balance Sheet

COBHAM

	31 December 2018		
£m	**As originally stated**	**IFRS 16 adjustments**	**Restated**
Assets			
Property, plant and equipment	388.2	99.9	488.1
Deferred tax	89.8	2.6	92.4
Other assets	2,119.9	(1.1)	2,118.8
	2,597.9	**101.4**	**2,699.3**
Liabilities			
Bank and other borrowings	(396.6)	12.8	(383.8)
Lease obligations	-	(151.2)	(151.2)
Trade and other payables	(395.4)	6.8	(388.6)
Provisions	(200.7)	5.9	(194.8)
Deferred tax	(5.1)	3.5	(1.6)
Other liabilities	(408.4)	-	(408.4)
	(1,406.2)	**(122.2)**	**(1,528.4)**
Net assets	**1,191.7**	**(20.8)**	**1,170.9**

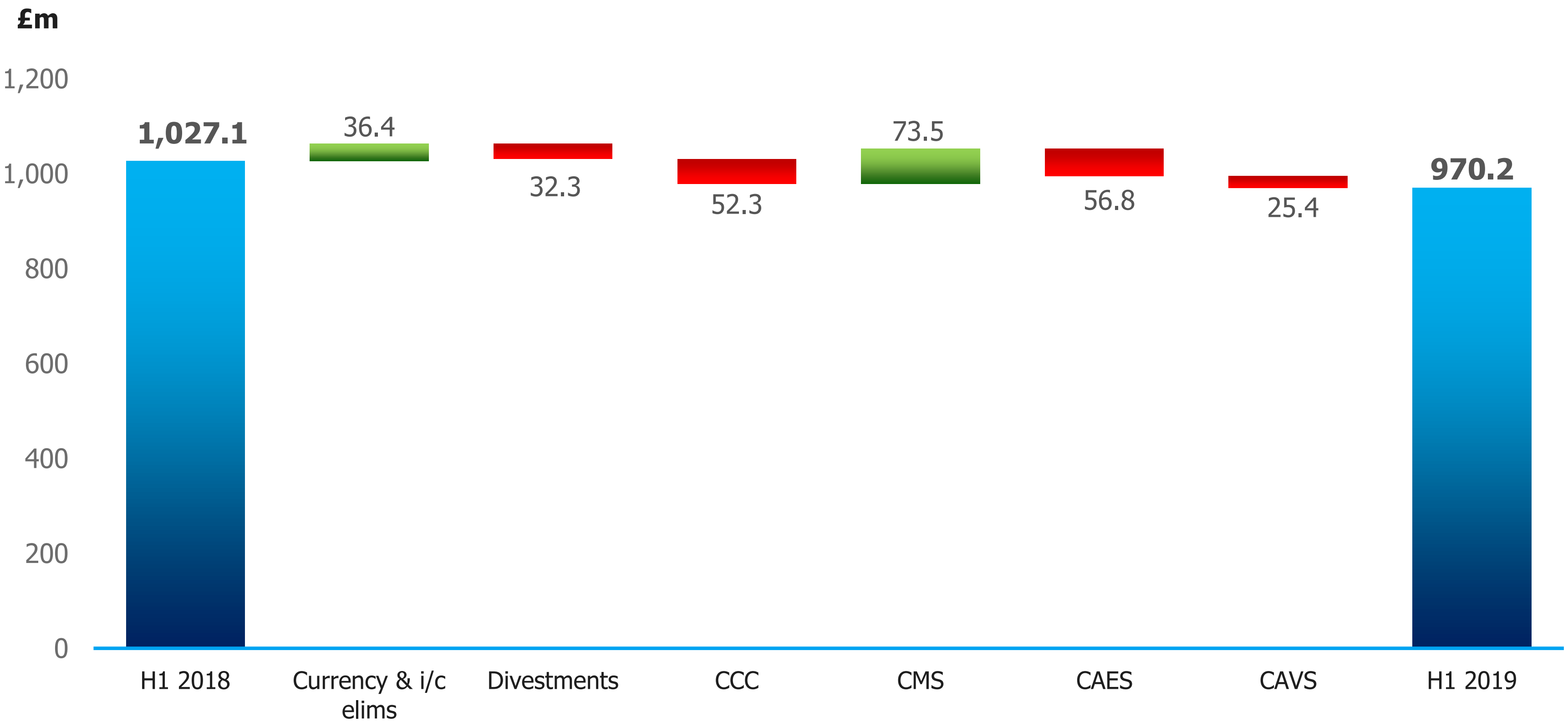
- £99.9m of right-of-use (lease) assets recognised within PPE

- £12.8m of finance leases reclassified from bank and other borrowings to lease obligations
- £138.4m of additional lease liabilities recognised

- Trade and other payables adjusted to remove rent free lease periods (£6.8m) and Provisions adjusted for onerous leases (£5.9m)

- Net debt/EBITDA gearing ratio includes frozen adjusted IFRS basis (bank covenant terms)

Order Intake Bridge
H1 2018 to H1 2019



Revenue and Underlying Operating Profit by Sector

Summary at constant exchange[1]

£m	Revenue		Underlying Operating Profit	
	H1 2019	H1 2018[2]	H1 2019	H1 2018[2]
CCC	**259.1**	254.2	**34.7**	24.1
Margin			***13.4%***	*9.5%*
CMS	**286.5**	219.2	**44.7**	30.7
Margin			***15.6%***	*14.0%*
CAES	**324.2**	297.0	**26.5**	33.1
Margin			***8.2%***	*11.1%*
CAVS	**160.0**	154.3	**1.2**	11.5
Margin			***0.8%***	*7.5%*
Eliminations	**(0.9)**	(0.8)	**-**	-
Subtotal	**1,028.9**	923.9	**107.1**	99.4
Margin			***10.4%***	*10.7%*
Divestments	**-**	28.5	**-**	(1.1)
Exchange	**-**	(27.9)	**-**	(2.8)
Cobham Group – as reported	**1,028.9**	924.5	**107.1**	95.5
Margin			***10.4%***	*10.3%*

1) *2018 data presented at 2019 exchange rates*
2) *Restated following adoption of IFRS 16*
3) *NB: prior year margins come out slightly differently due to impact of FX on mix*

Income Statement

£m	H1 2019	H1 2018[1]
Revenue	**1,028.9**	924.5
Underlying operating profit	**107.1**	95.5
Underlying net finance costs	(8.2)	(32.9)
Underlying profit before taxation	**98.9**	62.6
Specific adjusting items	(38.4)	118.4
Profit before taxation	**60.5**	181.0
Taxation	(12.6)	(14.3)
Profit after taxation	**47.9**	166.7

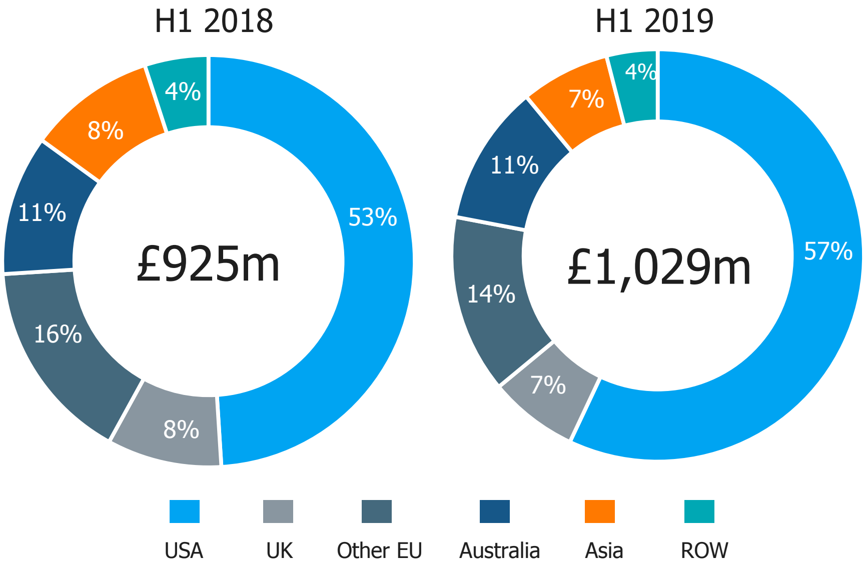
1) *Restated following adoption of IFRS 16, Leases*

Income Statement – Specific Adjusting Items

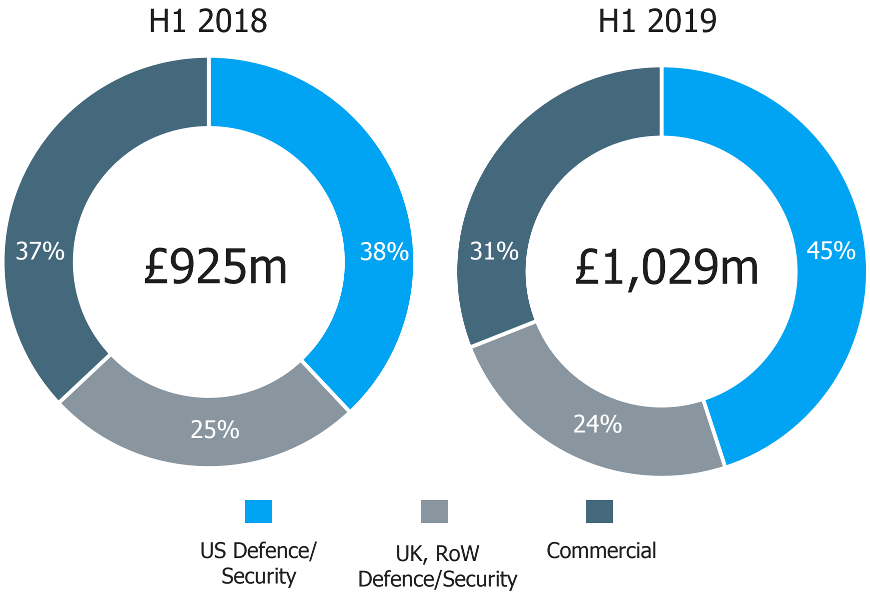
£m	H1 2019	H1 2018
Amortisation of intangible assets arising on business combinations	**(44.2)**	(45.9)
Derivative financial instruments	**6.0**	(13.7)
Legal and other provisions provided at 31 December 2016	**-**	1.7
Profit on divestments	**(0.2)**	216.3
Estimates of fixed price contract profitability	**-**	(40.0)
	(38.4)	118.4

Revenue by Destination and Market Segment

Group Revenue by Destination

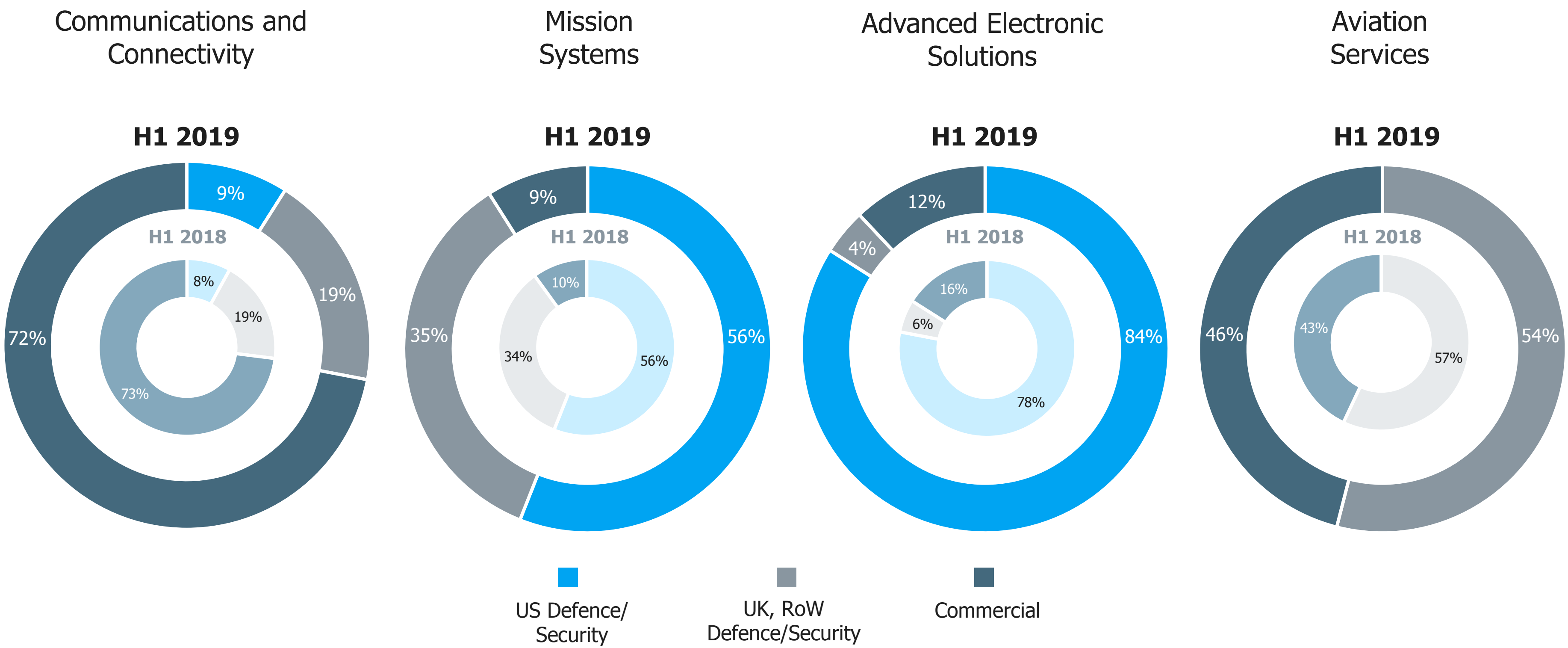


Group Revenue by Market Segment



Note: Organic revenue growth by market segment: US Defence/Security 22%, UK, RoW Defence/Security 6%, Commercial 3%

Market Segment Revenue by Sector

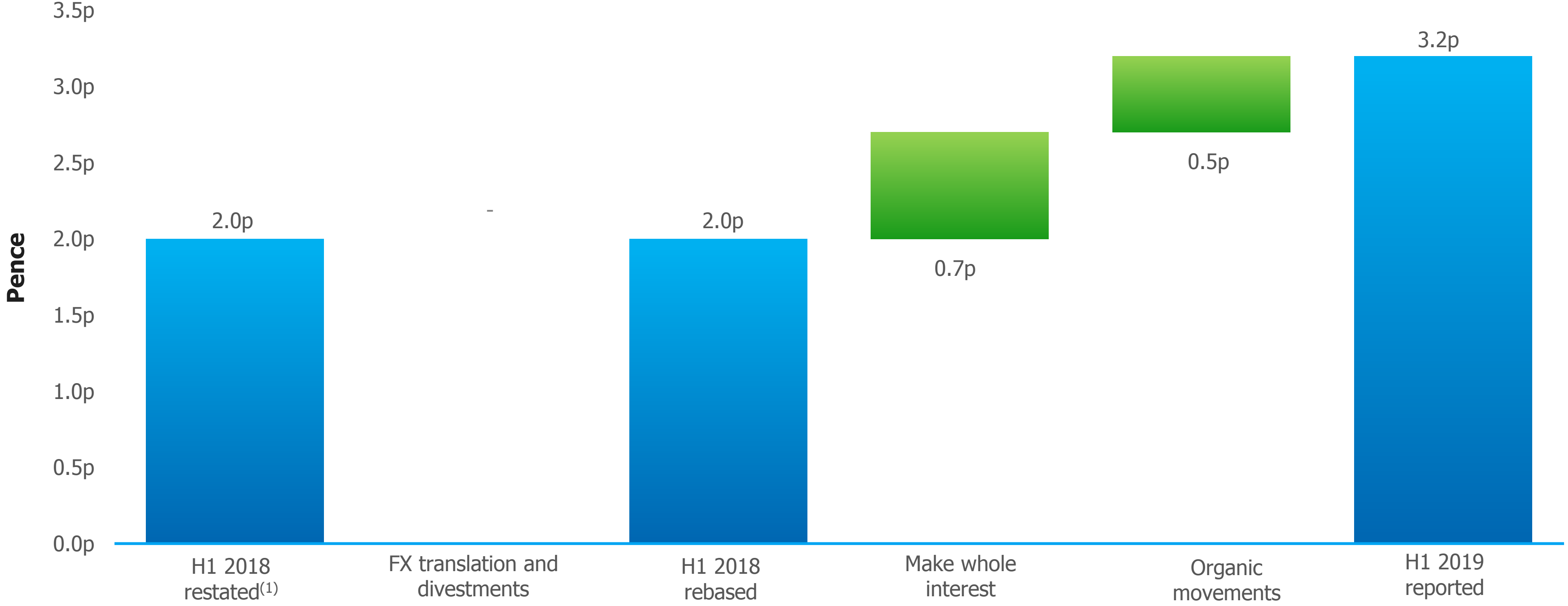


Taxation

£m	H1 2019	H1 2018[1]
Underlying tax charge	**(21.5)**	(14.4)
Tax credit on specific adjusting items	**8.9**	0.1
Headline tax charge	**(12.6)**	(14.3)
Underlying tax rate (excluding Joint Ventures)	**21.8%**	23.0%

1) *Restated following adoption of IFRS 16, Leases*

Underlying Earnings Per Share



1) *There was no impact to underlying EPS following the adoption of IFRS 16, Leases*

Cash flow – working capital

£m	Inventory	Contract Assets	Receivables	Contract Liabilities	Payables	Current working capital	Non-current	Total working capital
Balance at 1 Jan 2019(1)	276.0	131.0	321.1	(180.9)	(376.7)	**170.5**	72.4	242.9
FX	0.9	0.5	1.6	0.1	(0.1)	**3.0**	0.4	3.4
Underlying cash outflow/(inflow)	**9.3**	**(2.1)**	**(12.9)**	**(13.4)**	**35.8**	**16.7**	**(1.8)**	**14.9**
Cash outflow on exceptional items(2)	0.7	-	-	46.0	0.7	47.4	-	47.4
Interest payable movement(3)	-	-	-	-	11.9	**11.9**	-	11.9
Divestment liabilities movement(4)	-	-	-	-	3.1	**3.1**	-	3.1
Other	1.1	-	(0.4)	(4.9)	1.7	**(2.5)**	(0.2)	(2.7)
Balance at 30 June 2019	288.0	129.4	309.4	(153.1)	(323.6)	**250.1**	70.8	320.9

1) *Restated following adoption of IFRS 16, Leases*
2) *Cash outflow on exceptional items includes KC-46 settlement*
3) *Interest payable movement principally relates to the tax dispute settlement (£14.3m)*
4) *Final payment in respect of the AvComm and Wireless disposal (payment of working capital adjustment)*

Balance Sheet

COBHAM

£m	30 June 2019	31 Dec 2018[1]
Intangible assets	775.7	821.2
Property, plant and equipment	469.5	488.1
Other non-current assets	218.8	245.6
Non Current Assets	**1,464.0**	1,554.9
Inventories	288.0	276.0
Contract assets	129.4	131.0
Trade and other receivables < 1 year	309.4	321.1
Contract liabilities	(153.1)	(180.9)
Trade and other payables < 1 year	(323.6)	(376.7)
Current Working Capital	**250.1**	170.5
Net current tax liabilities	(79.5)	(128.9)
Net debt	(148.3)	(128.1)
Provisions	(186.3)	(194.8)
Retirement benefit obligations	(36.5)	(46.6)
Other assets / liabilities	(23.3)	(56.1)
Net Assets	**1,240.2**	1,170.9

1) *Restated following adoption of IFRS 16, Leases*

Cash Conversion

£m	H1 2019	H1 2018[1]
Underlying operating profit (less post tax share of JV results)	**107.0**	95.4
Depreciation and amortisation	52.2	47.6
Profit on disposal of property, plant and equipment and lease changes	(3.0)	(2.7)
Share based payments	5.5	3.2
Movement in provisions	(3.7)	(46.1)
Pension contributions in excess of pension charges	(3.6)	(8.5)
Increase in working capital	(62.3)	(20.9)
Gross capital expenditure	(32.3)	(27.1)
Lease capital payments	(8.9)	(9.3)
Proceeds on disposal of property, plant and equipment	13.3	6.1
Operating cash flow	**64.2**	37.7
Cash conversion	**60%**	40%
Cash flow on exceptional items[2]	***66.4***	*43.8*
Operating cash flow before net cash flow from exceptional items	***130.6***	*81.5*
Cash conversion before net cash flow from exceptional items	***122%***	*85%*

1) *Restated following adoption of IFRS 16, Leases*
2) *Exceptional items relates to items previously treated as exceptional in 2016, including relevant updates (KC-46)*

Movement in Net Debt

£m	H1 2019	H1 2018[1]
Operating cash flow	**64.2**	37.7
Net interest paid	(20.8)	(33.7)
Net taxation (paid)/received	(59.1)	5.2
Free cash flow[2]	**(15.7)**	9.2
Net divestments	(3.3)	324.3
New lease arrangements (net of contractual changes)	(11.4)	(15.6)
Lease capital payments	8.9	9.3
Exchange movements	1.3	9.4
(Increase)/decrease in net debt	**(20.2)**	336.6
Opening net debt	(128.1)	(531.9)
Closing net debt	**(148.3)**	(195.3)

1) *Restated following adoption of IFRS 16, Leases*
2) *Free cash flow presentation has been adjusted to include capital element of lease payments to maintain consistency of disclosure with prior years*

Capital Expenditure and Depreciation

£m	H1 2019		H1 2018(1)	
	Gross Capex(2)	Depn(3)	Gross Capex(2)	Depn(3)
Communications and Connectivity	**2.5**	**6.2**	2.5	7.7
Mission Systems	**1.9**	**4.5**	3.3	3.9
Advanced Electronic Solutions	**10.1**	**11.5**	10.4	10.2
Aviation Services	**14.4**	**23.8**	10.9	19.2
Head Office	**3.4**	**6.2**	-	6.6
Cobham Group	**32.3**	**52.2**	27.1	47.6

1) *Restated following adoption of IFRS 16, Leases*
2) *Gross capex presented above, excluding the proceeds on disposal of property, plant and equipment of £13.3m (H1 2018: £6.1m)*
3) *Depreciation excludes amortisation of acquired intangibles but includes amortisation of other intangibles of £6.1m (H1 2018: £5.5m) and depreciation of right of use assets of £8.4m (H1 2018: £8.6m).*

Defined Benefit Pension Schemes

	H1 2019 £m	FY 2018 £m
Market value of scheme assets	**808.5**	746.4
Present value of scheme liabilities	**(845.0)**	(793.0)
Net pension liability before deferred tax	**(36.5)**	(46.6)

Primary assumptions		
Discount rate	**2.20%**	2.70%
Inflation rate	**3.30%**	3.45%
Life expectancy of male aged 65 in 2045	**90 yrs**	90yrs

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

1) *After adjustment for liabilities covered by insurance contracts*

Credit Facilities

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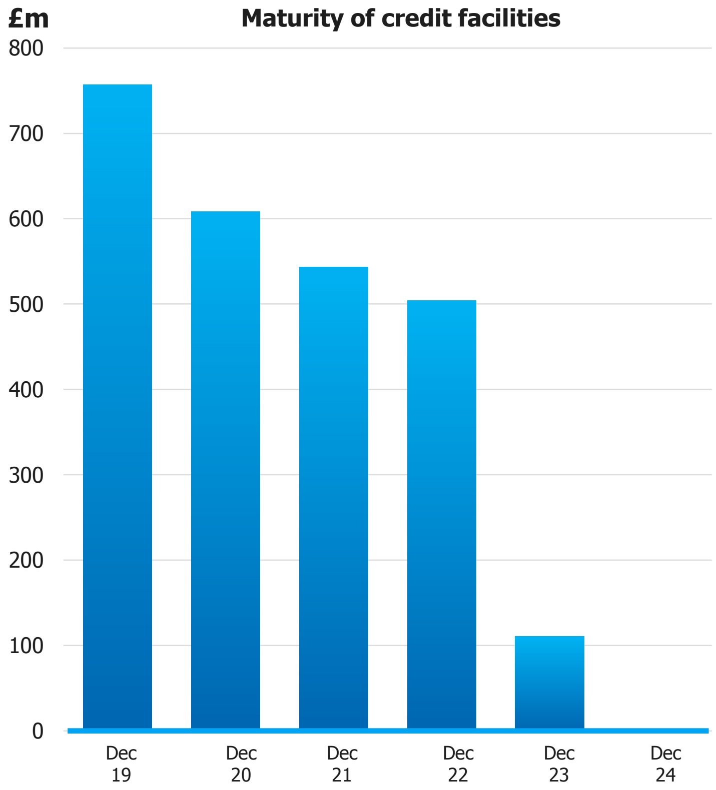
	Loan/ Facility £m	Usage £m
US$ Loan Notes		
US$59m Fixed rate (Oct 2019)	**46.9**	46.9
US$83m Fixed rate (Oct 2021)	**65.1**	65.1
US$140m Fixed rate (Oct 2024)	**110.6**	110 .6
	222.6	222.6
Bank Facilities		
US$40m Schuldschein agreement (May 2020)	**31.6**	31.6
EUR131m Schuldschein agreement (May 2020)	**117.5**	117.5
EUR4m Schuldschein agreement (May 2022)	**3.6**	3.6
US$45m multi-currency revolving facility (Dec 2022)	**35.5**	-
DKK320m multi-currency revolving facility (Dec 2023)	**38.4**	-
US$450m multi-currency revolving credit agreement (Dec 2023)	**355.0**	-
	581.6	152.7
Total Committed Facilities	**804.2**	**375.3**
Prepaid fees	**-**	(0.6)
Overdrafts	**-**	13.2
Lease obligations	**154.1**	154.1
Gross Debt	**958.3**	**542.0**
Cash		(393.7)
Net Debt		**148.3**



Covenants

	H1 2019	FY 2018[(1)]	H1 2018[(1)]	FY 2017
Net (Debt) / Cash (£m) - Balance Sheet	**(5.9)**	10.3	(53.6)	(383.5)
Net (Debt) / Cash (£m) - Average Rate[(2)]	**(4.7)**	10.4	(51.5)	(405.3)
EBITDA[(3)] (£m)	**312.1**	293.4	289.9	308.5
Net debt to EBITDA (not to exceed 3.5 times)	**-**	**-**	**0.2**	**1.3**
EBITA [(3)] (£m)	**241.4**	228.5	238.2	234.3
Net Interest [(3)] (£m)	**15.1**	18.6	23.3	34.7
Interest cover (at or above 3 times)	**16.0**	**12.3**	**10.2**	**6.8**

1) *Banking covenants are on a frozen adjusted IFRS basis, which excludes the impact of IFRS 16, Leases. Therefore, there is no impact of the financial statement restatement.*
2) *For covenant purposes net debt is expressed at average translation rates and is stated on a frozen GAAP basis, pre-IFRS 16, Leases.*
3) *EBITDA includes pro forma adjustments in respect of acquisitions and divestments. Profit measures are as defined for covenant purposes and, for H1, are on a rolling 12 months basis.*

Exchange Rates

	Average Rate	Period End Rate
H1 2019		
US$	1.29	1.27
AUS$	1.83	1.81
EUR	1.14	1.12
DKK	8.54	8.32
FY 2018		
US$	1.33	1.27
AUS$	1.79	1.81
EUR	1.13	1.11
DKK	8.42	8.31
H1 2018		
US$	1.37	1.32
AUS$	1.78	1.79
EUR	1.14	1.13
DKK	8.46	8.43

Definitions

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Underlying measures	To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP alternative performance measures including underlying operating profit and underlying profit. The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. Management uses underlying measures to assess the operating performance of the Group, having adjusted for specific items. 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 because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements. In 2016 certain exceptional items were adjusted for and excluded from underlying measures due to their unusual size and incidence. These arose from the January 2017 Balance Sheet review and included revisions to the carrying value of assets, additional contract loss provisions and legal and other provisions. Where relevant, updates to, and the final outcome of, these items are presented consistently with this treatment as exceptional charges or credits as appropriate. All underlying measures include the operational results of all businesses including those held for sale until the point of sale. These definitions are applied consistently on a year to year basis.
Underlying operating profit	This has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity. 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 are also adjusted.
Underlying profit before taxation	Underlying profit before taxation is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and specific finance costs.
Free cash flow and operating cash flow	Free cash flow and operating cash flow are considered to provide a consistent measure of the operating cash flow of the Group's business. These alternative performance measures are used in internal management accounts and for decision making including capital allocation. Both of these measures have been updated following the implementation of IFRS 16, Leases, to take into account lease payments. In addition to the underlying profit measures, underlying cash conversion is also used for internal incentive arrangements, and presenting this information allows users of the financial statements to better understand the way in which performance is targeted. Free cash flow is defined as net cash from operating activities plus dividends received from joint ventures, less cash flows related to the purchase or disposal of property, plant, equipment and intangible assets and capital lease payments but excluding payments relating to business acquisition and divestment related activities. Operating cash flow is free cash flow before payment of tax, interest (excluding lease interest) and restructuring costs. 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.
Net debt	Net debt is defined as the net of borrowings and lease obligations less cash and cash equivalents at the balance sheet date.
Net debt / EBITDA ratio	Net debt / EBITDA is calculated on a frozen adjusted IFRS basis which excludes the impact of IFRS 16, Leases, consistent with the Group's banking covenants.
Organic revenue	Organic revenue is defined as revenue stated at constant translation exchange rates, excluding the incremental effect of acquisitions and divestments.
Private venture	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.

Disclaimer

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

This document contains certain ‘forward-looking statements’ with respect to the financial condition, results of operations and business of Cobham plc (Cobham) and to certain of Cobham’s plans and objectives with respect to these items. Forward-looking statements are sometimes but not always identified by their use of a date in the future or such words as “anticipates”, “aims”, “due”, “could”, “may”, “should”, “expects”, “believes”, “intends”, “plans”, “targets”, “goal”, or “estimates” (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 the economies, political situations and markets in which the Group operates; changes in government priorities due to programme reviews or revisions to strategic objectives; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; changes to, delays in or commercial discussions relating to programmes in which the Group is involved; the completion of any 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. Cobham does not intend to update these forward-looking statements.

No statement in this document is intended as a profit forecast and no statement in this document 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.

Notes

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