25 July 2019

Legal Entity Identifier: 213800A41R9NL49E5632

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2019

"Improving operational and financial performance with recommended cash offer for Cobham announced at 165p per share."

	Note	Statutory results		Underlying results[1]	
£m		**H1 2019**	H1 2018	**H1 2019**	H1 2018
Order intake		**970.2**	1,027.1	**970.2**	1,027.1
Revenue		**1,028.9**	924.5	**1,028.9**	924.5
Organic revenue[2] growth		**11%**	-%	**11%**	-%
Operating profit		**68.7**	213.9	**107.1**	95.5
Operating margin				**10.4%**	10.3%
Earnings per share		**2.0p**	7.0p	**3.2p**	2.0p
Operating cash conversion	3			**60%**	40%
Free cash flow	3			**(15.7)**	9.2
Net debt	4	**(148.3)**	(195.3)	**(148.3)**	(195.3)
Net debt/EBITDA	5			**nil**	0.2x
Interim dividend per share		**0.4p**	-	**0.4p**	-

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 statutory measures in this statement on page 22. Comparatives have been restated for IFRS 16, Leases, unless otherwise stated.

- Recommended cash offer for Cobham at a price of 165p* per share by funds managed by Advent International. For details, refer to Rule 2.7 firm offer announcement released this morning

- Strong Group organic revenue growth of 11% driven by programme timing and from increased demand; all Sectors contributing to organic revenue growth

- Underlying operating profit increased 12% to £107.1m, reflecting another strong Mission Systems result and improving performance in Communications and Connectivity. Actions to improve execution and reduce overheads in Advanced Electronic Solutions in place

- Risk significantly reduced by KC-46 tanker settlement and resolution of UK tax dispute, although some risk remains

- Free cash better than previously expected with a £15.7m outflow, after settlement of KC-46 (£48.7m) and taxation (£69.5m) disputes

- Balance Sheet remains strong with net debt/EBITDA[5] gearing ratio at nil

- Strategic review of Aviation Services in Australia commenced

- Resumption of dividend as previously announced; interim payment 0.4p*

- Full year expectations unchanged

*Interim dividend included in 165p offer price

David Lockwood, Cobham Chief Executive Officer, said:

"We have continued to make good progress to improve operational performance and to significantly reduce the Group's risk profile. These results include organic revenue growth across all the Sectors. Underlying operating profit increased 12%, driven by another strong performance from Mission Systems and an improving result from Communications and Connectivity. The Board has confidence that the necessary actions to drive operational performance are in place across the Group, which will underpin our expectations for this year and into the longer term."

ENQUIRIES

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INTERIM RESULTS PRESENTATION INCLUDING WEBCAST AND DIAL-IN DETAILS

There will be an interim results presentation at 9.00am UK time on Thursday, 25 July 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 audio 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 +1 212 999 6659, confirmation code Cobham.

A PDF of this interims announcement is available for download from www.cobhaminvestors.com/reports-and-presentations/2019.

The following notes apply throughout these interim results:

1. *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 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 34); 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. 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 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 22.

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. Both of these measures have been updated following the implementation of IFRS 16, Leases, to take into account lease payments. 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.*

   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 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. 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.

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

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

5. *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.*

6. *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.*

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

It is pleasing to see the results of the actions we have been taking feeding an improving set of financial results, although there is more to do. We have also made significant progress resolving legacy issues in the period.

The Group has delivered 11% organic revenue growth, an increased underlying operating profit of £107.1m (2018: £95.5m, restated to include IFRS 16 impacts), with a Group underlying operating margin of 10.4% (2018: 10.3%). Underlying operating cash flow was ahead of expectations. These results reflect another strong performance from Mission Systems and improvement in Communications and Connectivity, partially offset by lower profits in Advanced Electronic Solutions and Aviation Services. As previously disclosed, 2018 Group underlying operating profit was enhanced by £4.3m of net one-off credits as well as a further one-off gain of £2.1m on conversion to IFRS 16, Leases, as a result of aircraft lease surrenders.

Performance by Sector

Mission Systems delivered excellent organic revenue growth of 31%. This was driven primarily by programme timing with increased throughput from improved execution, supply chain management and a reduction in arrears (c19% organic revenue growth). In addition, there was increased demand for products (c12% organic revenue growth) from new build and retrofit activity. There was also a further increase in underlying operating profit with the margin increasing to 15.6% (2018: 13.8%). This reflected the increased production volumes, as well as improvements in quality and manufacturing, and cost efficiencies. The margin was also enhanced by a small amount of high margin product supply and licence income, which is not expected to recur. These more than offset increased investment in technology and other costs required to deliver the growth.

Communications and Connectivity also performed well with organic revenue growth of 2% and increased underlying operating margin to 13.4% (2018: 8.4%). This reflects significant operational improvements, increased volumes and the benefits of 2018 restructuring. There was also a reduction in Private Venture (PV or company funded R&D – Research and Development) expense, including on the next generation Aviator S SATCOM system in development, as it entered flight testing phase.

As we have said before, Advanced Electronic Solutions has leading edge technology, well aligned to its customers' priorities, and it delivered organic revenue growth of 9%. Its recent underperformance has been driven by poor execution and increased overhead costs. We said at the 2018 Preliminary Results that addressing this was the top priority for 2019. Shawn Black, who joined the Sector in November 2018 as Chief Operating Officer, became Sector President on 1 July 2019. The new management team is addressing the continued commercial and execution issues within the Sector and has reviewed the largest programmes. Underlying operating profit in the period has been impacted by reduced margins on certain programmes and an adverse product mix in the space business. The underlying profit margin was lower at 8.2% (2018: 11.2%). A programme charge of £9.3m was booked in the period, which was largely offset by a £5.2m property disposal profit and a small net benefit from the overhead cost reduction exercise announced at the 2018 year end.

The lower Aviation Services profit reflected the lost contribution from the UK Defence Helicopter Flying School (DHFS) contract, which completed at the end of March 2018, the impact of a £3.2m charge relating to the loss on disposal of helicopters and the subsequent partial write down of the remaining unused fleet. Profit in 2018 included a £4.4m credit related to the release of lease servicing and make good provisions. On conversion to IFRS 16, the prior year also included a further one-off gain of £2.1m, as a result of aircraft lease surrenders. The underlying operating margin was 0.8% (2018: 7.5%). Pleasingly, the Aviation Services business returned to organic revenue growth in the year, being 4% higher, driven by Australian commercial markets including new fly-in, fly-out contracts.

Cash and Balance Sheet

There was a free cash outflow of £15.7m and this was after:

- Cash relating to exceptional onerous contracts and other legacy items totalling £66.4m. This includes the one-off impact of the previously announced payment to Boeing of US$63m (£48.7m), relating to the KC-46 settlement.

Reflecting our continued focus on cash generation, underlying operating cash conversion was 122% before these exceptional cash outflows. Following the implementation of IFRS 16, we have elected to include the capital element of lease payments within operating cash flow and free cash flow. This ensures consistency of disclosure with prior years.

- A total £69.5m one-off payment to the UK tax authorities, which has finally settled the Group's exposure to a long-standing matter, relating to the availability of interest deductions on one of the Group's internal financing structures.

Resolving these legacy items represents a material de-risking of the Group.

Having set out the Group's capital allocation policy in the 2018 preliminary results, we have continued our focus on capital efficiency. This includes recycling capital out of low return assets. In the period, we generated £13.3m of cash proceeds, primarily from the disposal of buildings and surplus helicopters.

It is testament to the resilience of our Balance Sheet that net debt at 30 June 2019 was only £148.3m, even after the dispute settlement payments. This also includes £154.1m of lease related liabilities, which have been included on the Balance Sheet following the introduction of IFRS 16. The net debt/EBITDA gearing ratio, as defined in the Group's banking agreements, remained at nil at 30 June 2019.

In line with the Board's intention set out in the 2018 Preliminary Results to reinstate the dividend, and reflecting the progress we have made, the Board has declared an interim dividend of 0.4p. This will be paid on 8 November 2019 to shareholders on the register on 11 October 2019, with an ex-dividend date of 10 October 2019.

Strategic Review of Aviation Services in Australia

We have continued to review regularly the Group's portfolio of businesses and decided to commence a strategic review of the Australian operations of Aviation Services.

The business is Australia's third largest aviation group, with diversified operations across Special Mission, Airline Services and Regional Services markets. It has over 1,300 staff and operates over 50 aircraft for blue-chip customers including Qantas, the Australian Border Force, the Australian Maritime Safety Authority and Chevron. In 2018, it delivered revenue of AUS$386m (£216m), with organic revenue growth of 10% in the first half of 2019.

The purpose of the review is to decide how best to optimise value in the interests of the company and its stakeholders.

Onerous Contracts and Other Legacy Issues

Overall, we have made significant progress in resolving onerous contracts and other legacy items during 2019. This has reduced the Group's risk profile, although some risk does remain – in particular, around KC-46 Wing Aerial Refuelling Pod (WARP) qualification and the recent EC State Aid tax decision. We continue to monitor and proactively manage these issues.

Following the agreement announced in February 2019, the one-off net settlement of US$63m (£48.7m) relating to the KC-46 programme was paid to Boeing in March 2019.

Progress is being made on the KC-46 WARP qualification, the last piece of the aircraft's aerial refuelling system yet to be in production. The WARP qualification programme is anticipated to complete around the middle of 2020, as previously announced. WARP flight testing also began in June 2019. Centerline Drogue System (CDS) full rate production has now commenced.

Total remaining balances relating to the exceptional onerous contracts and other legacy issues were £140m at 30 June 2019 (31 December 2018: £206m). Net cash outflows in relation to these balances were £66.4m in the period.

As mentioned above, we have also made a one-off payment of £69.5m to settle finally the tax dispute with the UK tax authorities. As stated at the time of the agreement, the payment was within the amounts previously provided for tax. Unrelated to this, the Group continues to monitor developments relating to the European Commission's (EC) State Aid decision on UK Controlled Foreign Company (CFC) legislation, and it has recorded a liability in the period. This follows the EC's final decision in April 2019 that the UK Government's CFC tax regime partially represents State Aid. Refer to page 41 for further details of provisions for uncertain tax positions.

Operational Execution and Culture Change

Our target is to increase the Group's medium term underlying operating margin to 12-14%. Our self-improvement efforts have continued and we are making good progress, with more to do, and we remain absolutely focused on driving improvement.

This includes the rollout of Cobham's Delivery Framework (CDF) to bring a simpler, standardised approach to programme governance, as well as enhanced controls and oversight. This will help ensure the Group's investment in programmes and other projects is delivered on budget and on time. Rollout of the CDF is expected to be completed in the second half.

We continue to prioritise management of the supply chain, knowing that we can only deliver on time to our customers if the supply chain is also delivering to us on time. We are continuing to drive best value from our supply chain consolidation and we expect this to provide increased reliability and quality, at an optimal ongoing cost.

We are also adopting the recognised Cost of Poor Quality methodology. This identifies the key causes of waste and lack of efficiency across the Group's operations and initiates projects to address each. This will help build on the significant progress we have made to improve our quality-related performance indicators.

In addition, we are conducting a wide ranging review of organisation structures in the Group. The exercise is making good progress and we expect it to be completed by the end of 2019. Once fully implemented, it is expected to reduce our overhead costs and simplify how we work. As I have noted above, Advanced Electronic Solutions has already removed significant overhead costs in 2019. In Communications and Connectivity, good progress is being made on site integrations with two French legal entity mergers completed. Two US sites have closed early in the second half, and a UK site integration is expected to complete by the year end. The merger of the Aviation Services fixed and rotary wing businesses in the UK is now complete. It is operating from a combined office with a single management team in place. Taken together, these actions will not only reduce costs and release cash, but also facilitate doing business in a more joined-up way.

Finally, we have continued to drive relentlessly a reinvigorated culture, based around our purpose statement, which is 'Every Mission Matters'. We are constantly reinforcing the desired behaviours, which are to be bold, to be inventive, to be determined and to be a team. The behaviours are regularly communicated, with successes celebrated, forming a central piece of day-to-day employee engagement.

Technology Investment

Effective and targeted investment in next generation technology is critical to the business. Private Venture[6] investment was £44.1m (2018: £47.7m) in the period, representing 5.1% (2018: 6.4%) of revenue, excluding 2018 divestments. In part, the lower expense in the current year reflects progress on the significant Aviator S programme, which is in now in flight testing phase, as it moves closer towards production.

Elsewhere, we have continued to make significant investment in technology to bring our pipeline of exciting new opportunities to market, consistent with the Group's organic capital allocation priority. A few important examples of this investment include:

- In Communications and Connectivity, the Critical Design Review was completed for the development of the full suite of communications and navigation conformal antenna solutions for the next generation Korean Fighter (KFX) programme. In addition, development has commenced on the next generation of maritime Very Small Aperture Terminal (VSAT) SATCOM products, targeting lower through life cost and increased security. These products will have application on all major new and existing geostationary, low-earth and medium earth orbit (LEO and MEO) constellations.

- In Mission Systems, investment in next generation oxygen technology has continued. This includes the next generation On Board Oxygen Generation System (OBOGS) for current and future opportunities. In addition, investment continues in the 'CRATOS' fuel tank inerting system. This will enhance further our offering into the commercial large aircraft market. The product is expected to bring customers significant operating cost reductions, when compared to existing products.

- In Advanced Electronic Solutions, there is investment in new space markets, to service proposed LEO and MEO satellite constellations. In particular, investment is focused on radio frequency microelectronics, motion control systems, power products, innovative additive manufacturing processes and lower-cost space products.

Outlook

The overall strong first half results includes variations in Sector performance. Mission Systems delivered another strong performance with an improving result from Communications and Connectivity. Advanced Electronic Solutions delivered organic revenue growth, but continued operational challenges adversely affected profitability. Actions are in place to address this. The KC-46 tanker settlement and resolution of the UK tax dispute have significantly reduced the Group's risk profile, while the financial position remains strong.

The Board's expectations for 2019 remain unchanged, although free cash flow in the year should be better than previously expected, following the first half outperformance. The Board has confidence that the necessary actions to drive operational performance are in place across the Group, which will underpin expectations beyond this and into the longer term.

BOARD

On 1 July, Jamie Pike succeeded Mike Wareing as Chairman of the Board. In consequence of this appointment, Jamie Pike ceased to be a member of the Audit Committee. Mike Wareing stepped down as a Director of Cobham with effect from 1 July 2019.

FINANCIAL OVERVIEW OF THE PERIOD

Order intake was £970.2m (2018: £1,027.1m). At constant currency and excluding divestments, order intake decreased by 6%, with a Group book-to-bill of 0.94x (2018: 1.11x). Excluding Aviation Services, which is characterised by the receipt of multi-year orders, book-to-bill was 1.06x (2018: 1.24x).

There was good order intake in Advanced Electronic Solutions, with a book-to-bill of 1.07x. This was 14% lower than the prior year, which benefited from a number of multi-year awards for electronic warfare and missile guidance systems. Communications and Connectivity order intake was lower by 17%, with a book-to-bill of 0.98x, with the prior year benefiting from multi-year radio and airborne SATCOM orders. This was partially offset by a 30% increase in order intake in Mission Systems, which had a book-to-bill of 1.12x. This included the receipt of a further multi-year award for aerial refuelling equipment for the C-130 tanker aircraft.

Group revenue was £1,028.9m (2018: £924.5m), with the impact from the 2018 divestments offset by favourable currency translation. Group organic revenue growth was 11%, with all Sectors contributing. Organic revenue growth in Mission Systems was 31%, driven by programme timing with increased throughput from improved execution, supply chain management and a reduction in arrears (c19% organic revenue growth). There was also increased demand for products (c12% organic revenue growth) from new build and retrofit activity. There was 9% organic revenue growth in Advanced Electronic Solutions, including in the electronic warfare portfolio and missile guidance programmes, and higher demand for products including semiconductors, rotary joints and space waveguides. There was organic revenue growth of 4% in Aviation Services, driven by commercial markets in Australia, but partially offset by the completion of the UK DHFS contract at the end of March 2018. Communications and Connectivity delivered 2% organic revenue growth.

Group statutory operating profit reduced to £68.7m (2018: £213.9m, including a profit on disposal of £216.3m, offset by a £40.0m charge on the KC-46 tanker development programme). Offsetting the 2019 reduction were favourable movements in non-hedge accounted derivative financial instruments of £6.0m (2018: £13.7m adverse). Amortisation of intangible assets arising on business combinations remained broadly unchanged at £44.2m (2018: £45.9m).

Group underlying operating profit was £107.1m (2018: £95.5m, restated for IFRS 16, Leases), including dividends received by Cobham plc from the AirTanker Group of £3.5m (2018: £6.1m). The underlying operating margin was 10.4% (2018: 10.3%).

Underlying profit increased in Communications and Connectivity to £34.7m (2018: £23.6m) (margin from 8.4% to 13.4%), reflecting significant operational improvements and increased volumes, as well as lower PV investment, including on the Aviator S SATCOM system as it entered flight testing phase. Included in 2018 underlying operating profit were £4.3m of additional inventory and receivables provisions.

In Mission Systems underlying operating profit increased to £44.7m (2018: £28.9m) (margin from 13.8% to 15.6%) reflecting increased production volumes, as well as improvements in quality and manufacturing, and cost efficiencies. These more than offset increased investment in technology and other costs required to deliver the growth.

Underlying profit in Advanced Electronic Solutions was lower at £26.5m (2018: £31.3m) (margin from 11.2% to 8.2%). In the period this was impacted by reduced margins on certain programmes, and an adverse profit mix in the space business. A programme charge of £9.3m was booked in the period, which was largely offset by a £5.2m property disposal profit and a small net benefit from the overhead cost reduction exercise announced at the 2018 year end. In 2018, underlying operating profit included a £4.2m net credit, following a reassessment of certain legal, property and inventory provisions.

In Aviation Services, underlying profits reduced to £1.2m (2018: £11.7m) (margin from 7.5% to 0.8%) due to the lost contribution from the DHFS contract and a £3.2m charge relating to the loss on disposal of helicopters and subsequent partial write down of the remaining unused fleet. 2018 also included a £4.4m credit relating to lease servicing and make good provisions no longer required and £2.1m from a one-off gain under IFRS 16 as a result of aircraft lease surrenders.

The Group's net finance charge was £8.2m (2018: £32.9m). Included in this charge was the net finance expense on cash and debt holdings (including IFRS 16 related lease obligations) of £7.7m (2018: £31.8m, of which £20.4m related to accelerated interest (make-whole) costs following a debt pay-down). The non-cash finance charge from pension schemes was £0.5m (2018: £1.1m).

The Group's overall tax charge was £12.6m (2018: £14.3m). Excluding the impacts from uncertain tax positions, the underlying effective tax rate was 22.9% (2018: 23.0%), excluding joint ventures. The underlying tax charge of £21.5m (2018: £14.4m) reflects the net outcome from the settlement of a previously disclosed, long running UK tax dispute and recognition of a liability in respect of the EC's State Aid decision on UK CFC legislation. Including these items, the underlying effective tax rate was 21.8% (2018: 23.0%).

These matters are set out in more detail in note 6 on page 41 of this Announcement.

Basic EPS was 2.0p (2018: 7.0p), with the prior year including the profit on business divestments. Underlying EPS was higher at 3.2p (2018: 2.0p), largely reflecting the favourable impact of increased profit and lower interest costs.

Underlying operating cash flow was £64.2m (2018: £37.7m), with underlying operating cash conversion of 60% (2018: 40%). This is after the net cash utilisation of the exceptional charges for onerous contracts and other legacy items of £66.4m (2018: £43.8m). This included the £48.7m net payment to Boeing following the February 2019 settlement. Before cash flow on exceptional items, underlying operating cash conversion was 122% (2018: 85%). Following the implementation of IFRS 16, the Group has elected to include the capital element of lease payments within operating cash flow. This ensures consistency of disclosure with prior years.

Free cash was a £15.7m outflow (2018: £9.2m inflow), after interest and tax payments. As announced in May 2019, £69.5m was paid to the UK tax authorities in the period (£55.2m tax and £14.3m associated interest), resolving a significant, previously disclosed and long running tax dispute. Including this settlement, net interest payments were £20.8m (2018: £33.7m, including accelerated interest payments of £20.4m from the debt pay-down) and tax payments were £59.1m (2018: £5.2m inflow, with the Group benefiting from a tax refund from a prior period).

Below free cash flow there was £11.4m (2018: £15.6m) relating to lease arrangements signed in the period, net of lease contract changes. Also there was a cash outflow of £3.3m relating to divestments, primarily relating to the divestment of the AvComm and Wireless test and measurement business in 2018 (2018: net inflow of £324.3m).

At 30 June 2019 the Group's net debt was £148.3m including lease liabilities (31 December 2018: £128.1m). The net debt/EBITDA gearing ratio was nil at 30 June 2019 (31 December 2018: nil). This was calculated consistent with the Group's banking covenants on a frozen adjusted IFRS basis, which excludes the impact of IFRS 16, Leases.

SECTOR REVIEW

Comparative numbers have been restated for the impact of IFRS 16, Leases, which was adopted from 1 January 2019. Cobham has previously published a restatement of its full year and interim 2018 numbers, to reflect the IFRS 16 income statement, cash flow and balance sheet disclosure changes. This is available for viewing on http://www.cobhaminvestors.com/reports-and-presentations/2019.

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	H1 2018**	FX Translation	Divestments	Organic[2]	H1 2019
Order intake	336.2	3.0	(32.3)	(52.3)	**254.6**
Revenue	279.9	2.8	(28.5)	4.9	**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**

[2]See page 3 for definition of organic revenue
** Underlying measures are defined in note 1 on page 3*
*** Restated for IFRS 16*

Headline revenue decreased by £20.8m. This included the prior year divestments of the AvComm and Wireless test and measurement business, and the Opera software business. Organic revenue increased by 2%. This was driven by the ongoing retrofit of the FliteLine radio on the USAF fleet of T-38 trainer aircraft and the Radio Management System on the USAF fleet of T-6 trainer aircraft. There were also increasing sales of avionics, including for the NH-90 Helicopter, with increased slip-ring sales in the US and into energy markets. Revenue in maritime SATCOM markets decreased as a result of reduced demand from certain larger customers. In 2018, revenue benefited from increased sales of counter-IED equipment and airborne search and rescue products into international markets.

Underlying operating profit increased by £10.6m after the impact of divestments and exchange rates. This reflects significant operational improvements, increased volumes and the benefits of restructuring programmes in 2018. There was also a reduction in PV expense of £3.3m, including on the next generation Aviator S SATCOM system, as it entered flight testing phase. In addition, 2018 included increased inventory and receivables provisions of £4.3m. The underlying operating margin increased to 13.4% (2018: 8.4%).

Good integration progress is being made with the merger of two French legal entities completed. Two US sites have closed early in the second half and a UK site integration is expected to complete in the second half.

The Aviator S has passed its Critical Design Review, and is now progressing through its flight testing and approval programme with Airbus. This system is in development for both Airbus and Boeing narrow and wide body aircraft. The new Airbus A320 family Digital Radio and Audio Management System (DRAIMS) is also now being considered for the A350 wide body aircraft. Investment in the Structural Integrated Antenna was successful for Airbus Helicopters with the customer presenting Cobham with its yearly Innovation Award.

The LEO mega-constellation market continues to develop, with increasing activity in space microwave components, including for OneWeb and European Space Agency funded development programmes. In addition, this market is providing multiple new customers for tracker and ground stations, which use Cobham's existing maritime antenna tracking technology.

The rollout of Cobham's next generation RT-7000 Software Defined Radio has continued gathering pace, with government and military customers in four continents. The radio enables a wide variety of airborne missions including Search and Rescue, Law Enforcement, Emergency Medical Services, Military Training, and Special Mission/Intelligence Surveillance and Reconnaissance. The configurability and size, weight and power advantages of the RT-7000 Integrated Modular Architecture are proving a success for these mission critical applications.

In Wireless, the world's largest digital wireless public safety network will go live shortly utilising Cobham's next generation idDAS technology. The train based digital on-board repeater, idOBR, has been commissioned and is now in service in Europe.

Cobham Mission Systems

Providing 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.

£m	H1 2018**	FX Translation	Organic[2]	**H1 2019**
Order intake	237.1	11.2	73.5	**321.8**
Revenue	209.0	10.2	67.3	**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**

[2]See page 3 for definition of organic revenue
** Underlying measures are defined in note 1 on page 3*
*** Restated for IFRS 16*

Organic revenue increased 31% in the period. This resulted primarily from two factors:

- programme timing with increased throughput on existing programmes (c19% organic growth) driven by improved execution, supply chain management and a reduction in arrears;

- increased demand for products (c12% organic growth) including releases and restraints, fuel tank inerting and weapons carriage and release. The latter benefited from new build and retrofit activity as Eurofighter core nation users adopted the Dual Mode Missile Eject Launcher.

Actuation volumes are expected to moderate in the second half following a period of growth associated with Urgent Operational Requirements.

Underlying operating profit increased by £14.0m after the impact of exchange rates. This growth reflected the increased production volumes, as well as improvements in quality and manufacturing, and cost efficiencies. These more than offset the increased PV investment and selling, general and administration expenses required to deliver the growth. This was enhanced by a small amount of high margin product supply and licence income, which is not expected to recur. The margin increased to 15.6% (2018: 13.8%).

Order intake increased and this included a further multi-year refuelling contract award for the Lockheed Martin C-130 tanker aircraft. There were also orders for weapons carriage and release products for the Eurofighter Typhoon and Saab Gripen aircraft.

The KC-46 aerial refuelling settlement was announced in February 2019, and this included the reset of WARP qualification and production of the CDS and WARP on the US Air Force tanker aircraft. Following the settlement, WARP qualification testing has made progress and full rate production on the CDS has now commenced, in addition to shipment of a number of kits and spares. KC-46 body fuel tank production has also continued in the period.

In May 2019, the Sector was selected by Boeing to supply the complete oxygen system on the US Air Force T-X trainer programme. This significant programme is expected to result in the production of around 350 aircraft, with Boeing forecasting a potential market opportunity in the US and internationally of around 2,600 aircraft. The programme will also present the opportunity to benefit from upgrades, as new technology is introduced. The award is a central building block towards Cobham's goal of developing an auto response guided oxygen system, known as ARGOS™. An initial T-X order was received in the half, enabling development of the system to commence.

Successful helicopter aerial refuelling development and operational trials were undertaken on the Airbus A400M aircraft.

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 39 and 59 of the 2018 Annual Report and Accounts, the Sector is managed through a Special Security Agreement, under a Sector Board. These are critical to its governance and performance.

£m	H1 2018**	FX Translation	Organic[2]	**H1 2019**
Order intake	379.6	23.8	(56.8)	**346.6**
Revenue	279.4	17.6	27.2	**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**

[2]See page 3 for definition of organic revenue
** Underlying measures are defined in note 1 on page 3*
*** Restated for IFRS 16*

The Sector announced the retirement of Jill Kale and the appointment of Chief Operating Officer Shawn Black to Sector President, effective 1 July 2019.

Organic revenue increased by 9% across a number of areas, including the electronic warfare portfolio and missile guidance programmes. There was also higher demand for products including semiconductors, rotary joints and space waveguides. This was partially offset by lower revenue from the Mars 2020 programme, which completed around the end of 2018.

Underlying operating profit decreased by £6.6m after the impact of exchange rates. The new management team is addressing the continued commercial and execution issues within the Sector and has reviewed the largest programmes. Underlying operating profit in the period was impacted by reduced margins on certain programmes and an adverse product mix in the space business. A programme charge of £9.3m was booked in the period, which was largely offset by a £5.2m property disposal profit and a small net benefit from the overhead cost reduction exercise announced at the 2018 year end. In 2018, underlying operating profit included a £4.2m net credit following reassessment of certain legal, property and inventory provisions.

The US$20m overhead cost reduction initiative was implemented towards the end of the first quarter. This accompanied several operational improvement activities focused on enhanced profit and cash generation through improvements in bidding, contract management and programme execution. The senior management team has been strengthened to drive improvements to execution, including the addition of a new VP of Operations Finance and a new VP of Programmes.

Investment in the infrastructure at the San Diego facility continued. This work is expected to complete in the second half of the year.

Orders in the period continued to be strong with a book to bill ratio of 1.07x, resulting in an increased order backlog. Order intake was lower than the prior year due to a number of multi-year orders that were received in 2018 for missile guidance and space related applications.

The Sector has continued to invest and position itself successfully in the growing Space 2.0, or New Space market. This includes positions on the new OneWeb constellation, which launched its first six satellites. These use high performance Cobham designed and manufactured waveguides. With further high volume constellations expected to be launched, investment is ongoing in technologies to support this growing market. This includes radio frequency (RF) microelectronics, motion control systems, power products, innovative additive manufacturing processes, and a new series of low-cost space products, called LeanREL™.

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	H1 2018**	FX Translation	Organic[2]	H1 2019
Order intake	74.8	(1.5)	(25.4)	**47.9**
Revenue	157.0	(2.7)	5.7	**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**

[2]See page 3 for definition of organic revenue
** Underlying measures are defined in note 1 on page 3*
*** Restated for IFRS 16*

Organic revenue increased 4% with growth in commercial markets, including seven fly-in, fly-out contracts won or extended in Australia. This was partially offset by lower revenue due to the completion in March 2018 of the UK DHFS contract.

Underlying operating profit decreased by £10.3m after the impact of exchange rates. This result also reflected the lost contribution from the DHFS contract and a £3.2m charge relating to the loss on disposal of helicopters and subsequent partial write down of the remaining unused fleet. In 2018 there was a £4.4m credit related to the release of lease servicing and make good provisions. On conversion to IFRS 16, the prior year also included a further one-off gain of £2.1m, as a result of aircraft lease surrenders. The underlying operating margin was 0.8% (2018: 7.5%).

The reorganisation of the Aviation Services business based in the UK is complete with the merger of the fixed and rotary wing businesses. The Basingstoke rotary wing head office is now closed and a single management team is in place and running the combined business.

New, fuel-efficient Q400 aircraft are scheduled to be introduced to the fly-in, fly-out fleet in Australia during the second half of 2019, in part to cater for Aviation Services' growth in this market.

In the UK, mobilisation is progressing, with early milestones met following the receipt of the multi-year Joint Electronic Warfare Core Staff (JEWCS) contract in December 2018, for over £50m. The contract is for the supply of Electronic Warfare training pods to NATO, as part of a larger capability package.

In April 2019, Aviation Services participated in Joint Warrior NATO training operations, staged in North West Scotland. Aviation Services was the only non-military organisation trusted to deliver front line training for this operation. A complicated air-training outcome was delivered in highly degraded and congested air space, highlighting the capabilities that are utilised to train UK forces and international allies.

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 34. 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 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.

A reconciliation of statutory to underlying profit numbers is set out on page 22.

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

£m	**H1 2019**	H1 2018*
Revenue	**1,028.9**	924.5
Operating profit	**107.1**	95.5
Operating margin	***10.4%***	*10.3%*
Net finance expense	**(8.2)**	(32.9)
Profit before tax	**98.9**	62.6
Tax	**(21.5)**	(14.4)
Tax rate (excluding Joint Ventures)	***21.8%***	*23.0%*
Profit after tax	**77.4**	48.2
Weighted average number of shares (millions)	***2,382.2***	*2,379.1*
EPS (pence)	**3.2**	2.0

** Restated for IFRS 16*

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:

	H1 2019	H1 2018
Income statement – average rate		
US$/£	**1.29**	1.37
AUS$/£	**1.83**	1.78
€/£	**1.14**	1.14
DKK/£	**8.54**	8.46
Balance sheet – period end rate		
US$/£	**1.27**	1.32
AUS$/£	**1.81**	1.79
€/£	**1.12**	1.13
DKK/£	**8.32**	8.43

Statutory Operating Profit

The Group's statutory operating profit was £68.7m (2018: £213.9m). 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.

These items are as follows:

- Amortisation of intangible assets arising on business combinations of £44.2m (2018: £45.9m);

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

- Movements in non-hedge accounted derivative financial instruments of £6.0m favourable (2017: £13.7m adverse);

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 hedge accounting requirements.

The prior year also included the following specific adjusting items:

- Profit on divestments of £216.3m;

In March 2018, the Group completed the divestment of its AvComm and Wireless test and measurement businesses, previously part of the Communications and Connectivity Sector for an all cash consideration of US$455m. In addition, during May 2018, the 'Opera' software business, part of the Communications and Connectivity Sector, was divested for £7.8m.

- Increase in estimates of fixed price contract profitability of £40.0m;

The prior period charge related to an increase in the estimates of the costs to complete development of the KC-46 tanker programme in June 2018. While KC-46 is part of ongoing trading, this charge was shown as exceptional as it represented a change in the estimate taken at 31 December 2016.

- Adjustments to legal and other provisions provided at 31 December 2016 were a credit of £1.7m;

The prior year credit relates to legal, environmental, warranty and other regulatory matters that were provided for in 2016 and were resolved within their original cost estimates.

Narrative on the Group's underlying operating profit performance is set out in the Sector reviews and in the Financial Overview.

Profit Before Tax

The Group's statutory profit before tax was £60.5m (2018: £181.0m). The Group's underlying profit before tax was £98.9m (2018: £62.6m).

Tax

The Group's overall tax charge was £12.6m (2018: £14.3m). Excluding the impacts from uncertain tax positions, the underlying effective tax rate was 22.9% (2018: 23.0%), excluding joint ventures. The underlying tax charge of £21.5m (2018: £14.4m) reflects the net outcome from the settlement of a previously disclosed, long running UK tax dispute and recognition of a liability in respect of EC State Aid decisions. Including these items, the underlying effective tax rate was 21.8% (2018: 23.0%).

These matters are set out in more detail in note 6 on page 41 of this Announcement.

Earnings per Share (EPS)

Basic EPS was 2.0p (2018: 7.0p). Basic EPS was adversely impacted by the net specific adjusting items set out in the paragraphs on statutory operating profit above. In 2018 basic EPS included the profit on divestments, partially offset by an increase in estimates of fixed price contract profitability, both in the prior period.

Underlying EPS was higher at 3.2p (2018: 2.0p), reflecting the favourable impact of lower interest costs and increased underlying operating profit. The Group's average share count in the period was 2,382.2m (2018: 2,379.1m).

IFRS 16, Leases

The Group adopted IFRS 16, Leases, on 1 January 2019. The Group has lease contracts for various properties, aircraft, plant and machinery and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases as either a finance lease or an operating lease. The Group only had a very small number of finance leases, where an asset and liability was recorded on the balance sheet, with the rest accounted for as operating leases. For operating leases, the leased assets were not capitalised and the lease payments were recognised as rental expense in the income statement. This distinction between operating and finance leases has now been removed.

Under IFRS 16, a liability is recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Group. The lease liability is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and reduced by lease payments made, with interest charged to finance costs. The initial cost of right-of-use assets includes the amount of lease liabilities recognised together with initial direct costs paid or lease incentives received. The right-of-use asset is depreciated using on a straight-line basis over of the shorter of the lease term and the useful economic life of the asset.

The standard does not impact the Group's revenue or cash generation, nor is there any impact on bank covenants, which are calculated on a frozen adjusted IFRS basis.

IFRS 16 has been applied fully retrospectively and therefore comparative information presented in this announcement has been restated. Further details on the application of IFRS 16 and its impact on the Group's restated comparative income statement, balance sheet and cash flow statement have been included in note 2 to this Announcement on page 30.

This accounting change has had the following impact on the reported results for the period:

£m	**H1 2019 as reported**	**IFRS 16 impacts**	**Pre-IFRS 16**
Underlying operating profit	107.1	(3.6)	103.5
Net finance costs	(8.2)	3.4	(4.8)
Underlying profit before tax	**98.9**	**(0.2)**	**98.7**

Retirement Obligations

Cobham operates a number of defined benefit pension schemes, with the largest being the UK Cobham Pension Plan (CPP). At 30 June 2019 the Group's estimated deficit for accounting purposes, which is the difference between the aggregate value of the schemes' assets and the present value of their future liabilities, was £36.5m before deferred tax (31 December 2018: £46.6m).

The most significant movements in the deficit relate to net actuarial gains of £7.0m. This arises from changes in assumptions on plan liabilities of £56.9m (increase), principally due to a decrease in the discount rate. These were partially hedged by liability driven investments, which increased in the period, and contributed to actuarial investment gains of £63.9m.

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

Cash Flow

Operating cash flow was £64.2m (2018: £37.7m), with operating cash conversion of 60% (2018: 40%). This was after the net cash utilisation of the exceptional charges for onerous contracts and other legacy items of £66.4m (2018: £43.8m). This primarily impacted working capital, including the £48.7m net payment to Boeing following the February 2019 settlement, which was included within contract liabilities. There were also proceeds from the disposal of property, plant and equipment of £13.3m (2018: £6.1m), principally relating to the sale of surplus property and helicopters. Before cash flow on exceptional items, underlying operating cash conversion was 122% (2018: 85%).

Following the implementation of IFRS 16, the Group has elected to include the capital element of lease payments within operating cash flow and free cash flow. This ensures consistency of disclosure with prior years.

Free cash was a £15.7m outflow (2018: £9.2m inflow), after interest and tax payments. Tax payments were £59.1m (2018: £5.2m inflow, with the Group benefiting from a prior period tax refund). In the current period, there was a one-off payment of £69.5m to the UK tax authorities (comprising £55.2m tax and £14.3m associated interest), which resolved a long-running tax dispute. Including the impact of this settlement, net interest payments were £20.8m (2018: £33.7m, including accelerated interest payments of £20.4m from a debt pay-down).

Below free cash flow there was £11.4m (2018: £15.6m) relating to lease arrangements signed in the period, net of lease contract changes. Also there was an outflow of £3.3m primarily relating to divestments (2018: net inflow of £324.3m, primarily relating to the divestment of the AvComm and Wireless test and measurement business, and a smaller business).

The table below sets out Group cash flows. The presentation of operating cash flow and free cash flow has been adjusted to include the capital element of lease payments to ensure consistency of disclosure with prior years.

£m	**H1 2019**	H1 2018[1]
Underlying operating profit	**107.1**	95.5
Less: share of post-tax results of joint ventures	**(0.1)**	(0.1)
Underlying operating profit (excluding joint ventures)	**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
Decrease 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
Operating cash/operating profit (excluding joint ventures)	***60%***	*40%*
Net interest paid	**(20.8)**	(33.7)
Net taxation (paid)/received	**(59.1)**	5.2
Free cash flow	**(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 for IFRS 16

Net Debt and Gearing

At 30 June 2019 the Group's net debt was £148.3m including lease liabilities (31 December 2018: £128.1m). At 30 June 2019 net debt comprised gross debt of £387.9m (31 December 2018: £383.8m as restated), lease liabilities of £154.1m (31 December 2018: £151.2m as restated) and cash of £393.7m (31 December 2018: £406.9m).

Consistent with the Group's borrowing agreements, which are calculated on a frozen adjusted IFRS basis which excludes the impact of IFRS 16, Leases, the net debt/EBITDA gearing ratio was nil at 30 June 2019 (31 December 2018: nil). Net interest cover was 16.0x (31 December 2018: 12.3x), primarily reflecting the accelerated interest costs in the prior period.

Reconciliation of Underlying Measures

Details of the reasons for and uses of underlying measures are included in note 3 on page 34 of this Announcement.

£m	H1 2019	H1 2018[1]
Operating profit	**68.7**	213.9
Adjusted to exclude:		
Amortisation of intangible assets arising on business combinations	**44.2**	45.9
Derivative financial instruments	**(6.0)**	13.7
Adjustments to legal and other provisions provided at 31 Dec. 2016	**-**	(1.7)
Estimates of fixed price contract profitability	**-**	40.0
Loss/(profit) on divestments	**0.2**	(216.3)
Total operating reconciling items	**38.4**	(118.4)
Underlying operating profit	**107.1**	95.5

£m		
Underlying profit before tax is calculated as follows:		
Profit before taxation	**60.5**	181.0
Total operating reconciling items as above	**38.4**	(118.4)
Underlying profit before taxation	**98.9**	62.6
Taxation charge on underlying profit	**(21.5)**	(14.4)
Underlying profit after taxation	**77.4**	48.2
Underlying EPS (pence)	**3.2**	2.0

[1] Restated for IFRS 16

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, 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 (unaudited)

For the half year ended 30 June 2019

£m	Note	Half year to 30.6.19	Half year to 30.6.18 (restated)
Revenue	4	**1,028.9**	924.5
Cost of sales		**(744.1)**	(712.5)
Gross profit		**284.8**	212.0
Operating costs		**(215.9)**	(214.4)
(Loss)/profit on divestments	15	**(0.2)**	216.3
Operating profit		**68.7**	213.9
Finance income	5	**5.9**	5.5
Finance costs	5	**(14.1)**	(38.4)
Profit before taxation		**60.5**	181.0
Taxation	6	**(12.6)**	(14.3)
Profit after taxation for the period		**47.9**	166.7
Attributable to:			
Owners of the parent		**47.8**	166.6
Non-controlling interests		**0.1**	0.1
		47.9	166.7
Earnings per ordinary share	3		
Basic		**2.0p**	7.0p
Diluted		**2.0p**	7.0p

Further details of the restatement of the June 2018 Income Statement, due to the implementation of IFRS 16, Leases, can be found in note 2.

Consolidated Statement of Comprehensive Income (unaudited)

For the half year ended 30 June 2019

£m	Note	Half year to 30.6.19	Half year to 30.6.18 (restated)
Profit after taxation for the period		**47.9**	166.7
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of fair value of other financial assets	11	**5.0**	(5.9)
Remeasurement of defined benefit retirement benefit obligations	13	**7.0**	6.9
Tax effects		**(1.3)**	(1.3)
		10.7	(0.3)
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries		**4.4**	27.3
Hedge accounted derivative financial instruments		**0.5**	(15.8)
Tax effects		**0.1**	(0.2)
		5.0	11.3
Other comprehensive income for the period		**15.7**	11.0
Total comprehensive income for the period		**63.6**	177.7
Attributable to:			
Owners of the parent		**63.5**	177.6
Non-controlling interests		**0.1**	0.1
		63.6	177.7

Further details of the restatement due to the implementation of IFRS 16, Leases, can be found in note 2.

Consolidated Balance Sheet (unaudited)

As at 30 June 2019

£m	Note	As at 30.6.19	As at 31.12.18 (restated)
Assets			
Non-current assets			
Intangible assets	8	**775.7**	821.2
Property, plant and equipment	9	**469.5**	488.1
Investment properties		**2.2**	2.3
Investments in joint ventures and associates		**4.2**	4.1
Contract assets	10	**52.5**	55.9
Trade and other receivables		**27.2**	28.4
Other financial assets	11	**44.5**	39.5
Deferred tax		**88.0**	92.4
Derivative financial instruments		**0.2**	23.0
		1,464.0	1,554.9
Current assets			
Inventories		**288.0**	276.0
Contract assets	10	**129.4**	131.0
Trade and other receivables		**309.4**	321.1
Current tax receivables		**7.2**	7.8
Derivative financial instruments		**23.4**	1.6
Cash and cash equivalents		**393.7**	406.9
		1,151.1	1,144.4
Liabilities			
Current liabilities			
Bank and other borrowings		**(208.9)**	(56.7)
Lease obligations		**(20.5)**	(16.8)
Contract liabilities	10	**(153.1)**	(180.9)
Trade and other payables		**(323.6)**	(376.7)
Provisions	12	**(95.4)**	(93.1)
Current tax liabilities		**(86.7)**	(136.7)
Derivative financial instruments		**(32.7)**	(16.4)
		(920.9)	(877.3)
Non-current liabilities			
Bank and other borrowings		**(179.0)**	(327.1)
Lease obligations		**(133.6)**	(134.4)
Trade and other payables		**(8.9)**	(11.9)
Provisions	12	**(90.9)**	(101.7)
Deferred tax		**(0.6)**	(1.6)
Derivative financial instruments		**(4.5)**	(27.8)
Retirement benefit obligations	13	**(36.5)**	(46.6)
		(454.0)	(651.1)
Net assets		**1,240.2**	1,170.9
Equity			
Share capital		**61.7**	61.7
Share premium		**1,257.9**	1,257.9
Other reserves		**41.4**	31.7
Retained earnings		**(122.4)**	(181.9)
Total equity attributable to owners of the parent		**1,238.6**	1,169.4
Non-controlling interests in equity		**1.6**	1.5
Total equity		**1,240.2**	1,170.9

Further details of the restatement of the December 2018 Balance Sheet, due to the implementation of IFRS 16, Leases, can be found in note 2.

Consolidated Statement of Changes in Equity (unaudited)

For the half year ended 30 June 2019

£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 2018 (as originally stated)	**61.7**	**1,257.9**	**32.3**	**(161.7)**	**1,190.2**	**1.5**	**1,191.7**
Change in accounting policy - adoption of IFRS 16 (see note 2)	**-**	**-**	**(0.6)**	**(20.2)**	**(20.8)**	**-**	**(20.8)**
Total equity at 31 December 2018 (restated)	**61.7**	**1,257.9**	**31.7**	**(181.9)**	**1,169.4**	**1.5**	**1,170.9**
Profit for the period	**-**	**-**	**-**	**47.8**	**47.8**	**0.1**	**47.9**
Items that will not be reclassified subsequently to profit or loss	**-**	**-**	**-**	**10.7**	**10.7**	**-**	**10.7**
Items that may subsequently be reclassified to profit or loss	**-**	**-**	**5.0**	**-**	**5.0**	**-**	**5.0**
Share based payments	**-**	**-**	**5.5**	**-**	**5.5**	**-**	**5.5**
Transfer of other reserves to retained earnings	**-**	**-**	**(1.0)**	**1.0**	**-**	**-**	**-**
Tax effects	**-**	**-**	**0.2**	**-**	**0.2**	**-**	**0.2**
Total equity at 30 June 2019	**61.7**	**1,257.9**	**41.4**	**(122.4)**	**1,238.6**	**1.6**	**1,240.2**

For the half year ended 30 June 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 1 January 2018 (as previously stated)	61.7	1,257.9	(9.6)	(239.9)	1,070.1	1.3	1,071.4
Change in accounting policy - adoption of IFRS 16	-	-	-	(20.6)	(20.6)	-	(20.6)
Total equity at 1 January 2018 (restated)	61.7	1,257.9	(9.6)	(260.5)	1,049.5	1.3	1,050.8
Profit for the period (restated)	-	-	-	166.6	166.6	0.1	166.7
Items that will not be reclassified subsequently to profit or loss	-	-	-	(0.3)	(0.3)	-	(0.3)
Items that may subsequently be reclassified to profit or loss (restated)	-	-	11.3	-	11.3	-	11.3
Share based payments	-	-	3.2	-	3.2	-	3.2
Transfer of other reserves to retained earnings	-	-	(1.9)	1.9	-	-	-
Tax effects	-	-	(0.1)	-	(0.1)	-	(0.1)
Total equity at 30 June 2018 (restated)	61.7	1,257.9	2.9	(92.3)	1,230.2	1.4	1,231.6

IFRS 16, Leases, has been adopted using the fully retrospective transition approach and therefore total equity at 1 January 2018 has been restated as shown above. Further details of the restatement can be found in note 2.

COBHAM

Consolidated Cash Flow Statement (unaudited)

For the half year ended 30 June 2019

£m	Note	Half year to 30.6.19	Half year to 30.6.18 (restated)
Cash generated from operations	7	**92.1**	68.0
Tax (paid)/received		**(59.1)**	5.2
Interest paid		**(25.3)**	(38.2)
Interest received		**4.5**	4.5
Net cash from operating activities		**12.2**	39.5
Cash flows from investing activities			
Purchase of property, plant and equipment		**(27.7)**	(20.6)
Purchase of intangible assets		**(4.6)**	(6.5)
Proceeds on disposal of property, plant and equipment		**13.3**	6.1
Proceeds of business divestments		**(3.3)**	324.3
Net cash (used in)/generated from investing activities		**(22.3)**	303.3
Cash flows from financing activities			
Repayment of bank and other borrowings		**-**	(468.9)
Lease capital payments		**(8.9)**	(10.3)
Net cash used in financing activities		**(8.9)**	(479.2)
Net decrease in cash and cash equivalents		**(19.0)**	(136.4)
Foreign exchange adjustments		**2.8**	7.6
Cash and cash equivalents at start of period		**396.7**	451.9
Cash and cash equivalents at end of period		**380.5**	323.1

Reconciliation of cash and cash equivalents and net debt

£m	As at 30.6.19	As at 30.6.18 (restated)
Cash and cash equivalents per Cash Flow Statement	**380.5**	323.1
Bank overdrafts	**13.2**	10.6
Cash and cash equivalents	**393.7**	333.7
Bank and other borrowings	**(387.9)**	(373.4)
Lease obligations	**(154.1)**	(155.6)
Net debt	**(148.3)**	(195.3)

Reconciliation of movements in net debt

£m	Half year to 30.6.19	Half year to 30.6.18 (restated)
Net debt at start of period	**(128.1)**	(531.9)
Decrease in cash and cash equivalents per Cash Flow Statement	**(19.0)**	(136.4)
Increase in lease obligations	**(12.0)**	(20.9)
Other lease changes	**0.6**	5.3
Lease capital payments	**8.9**	10.3
Repayment of bank and other borrowings	**-**	468.9
Exchange movements	**1.3**	9.4
Net debt at end of period	**(148.3)**	(195.3)

Further details of the restatement of the June 2018 comparative numbers, due to the implementation of IFRS 16, Leases, can be found in note 2.

Notes to the Interim Financial Statements (unaudited)

For the half year ended 30 June 2019

1. Basis of preparation

This unaudited condensed interim financial information for the half year ended 30 June 2019 has been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority, and with IAS 34, Interim Financial Reporting, as adopted by the European Union (EU) and applicable laws and regulations. It comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes (the Interim Financial Statements). This information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS as adopted by the EU. These Interim Financial Statements have been reviewed, not audited.

The Directors believe, after making enquiries they consider to be appropriate, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. The Directors have made this assessment after consideration of the Group's forecast operating cash flows and related assumptions, undrawn debt facilities, debt maturity review, analysis of debt covenants and in accordance with the Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council.

These Interim Financial Statements and the comparative figures for the half year to 30 June 2018 and for the year ended 31 December 2018 do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Full accounts for that year have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The Interim Results were approved by the Board of Directors and approved for issue on 25 July 2019. The report is being sent to shareholders on request and will be available to members of the public at Cobham plc’s registered office at Brook Road, Wimborne, Dorset, BH21 2BJ, UK and on the Company’s website, www.cobham.com.

Accounting policies

The accounting policies applied are consistent with those published in the financial statements for the year ended 31 December 2018, except for the adoption of new and amended standards as set out below. These accounting policies will be applied for the year ended 31 December 2019.

The Group adopted IFRS 16, Leases, on 1 January 2019. As detailed further in note 2, comparatives have been restated using the fully retrospective approach.

The Group has lease contracts for various properties, aircraft, plant and machinery and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases as either a finance lease or an operating lease. The Group only had a very small number of finance leases, where an asset and liability were recorded on the balance sheet, with the rest accounted for as operating leases. For operating leases, the leased assets were not capitalised and the lease payments were recognised over the lease term as rental expense in the income statement. This distinction between operating and finance leases has now been removed.

Under IFRS 16 a liability is recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Group. The lease liability is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and reduced by lease payments made, with interest charged to finance costs. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, for example a change in the lease term or non-fixed lease payments.

The initial cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, expected asset restoration costs and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the useful economic life of the asset. The right-of-use asset is tested for impairment where appropriate.

The option not to apply IFRS 16 to leases with a term of 12 months or less and low value leases has been taken.

IFRIC 23, Uncertainty over Income Tax Treatments, has also been adopted from 1 January 2019 but had no impact on the Group's accounting policies. There were no other changes to previously published accounting policies.

In the interim financial statements, taxes on income are accrued using the best estimate of the weighted average tax rate that is expected to be applicable for the full financial year.

Definitions

Underlying measures

Definitions and a description of the use of non-GAAP alternative performance 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. Details of the composition and purpose of the Board can be found on pages 52 and 53 of the 2018 Annual Report and Accounts. The Group reports four operating segments whose revenue and results are reported to the Board as disclosed in note 4. 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 above. 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

IFRS 16, Leases

As described in note 1, the Group adopted IFRS 16, Leases, on 1 January 2019. The accounting standard has been applied fully retrospectively with a date of initial application of 1 January 2019, and therefore comparative information presented in these financial statements has been restated as disclosed in the tables below.

Impact on Balance Sheet at 31 December 2018

The main restatement impacts to the Balance Sheet related to the recognition of right-of-use assets and additional lease obligations. IFRS 16 adjustments to lease obligations also included the restatement of amounts previously reported as finance lease obligations within borrowings and net debt. Trade and other receivables and trade and other payables have been restated to remove balances related to leases such as lease incentives, advance payments and accrued liabilities. Provisions were restated to remove onerous lease provisions.

£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
Equity			
Retained earnings	(161.7)	(20.2)	(181.9)
Other	1,351.9	(0.6)	1,351.3
Total equity attributable to owners of the parent	1,190.2	(20.8)	1,169.4
Non-controlling interests in equity	1.5	-	1.5
Total equity	1,191.7	(20.8)	1,170.9

Impact on Income Statements

There was a small impact to the Income Statement as a result of adopting IFRS 16. Operating profit increased, reflecting the removal of lease payments previously charged to profit, partially offset by depreciation of the right-of-use assets. This impact is split between cost of sales and operating costs depending on how the leased item was utilised within the business.

	Half year to 30.6.18			Year to 31.12.18		
£m	As originally stated	IFRS 16 adjustments	Restated	As originally stated	IFRS 16 adjustments	Restated
Revenue	924.5	-	924.5	1,863.3	-	1,863.3
Cost of sales	(714.6)	2.1	(712.5)	(1,539.9)	3.4	(1,536.5)
Gross profit	209.9	2.1	212.0	323.4	3.4	326.8
Operating costs	(217.4)	3.0	(214.4)	(438.5)	3.8	(434.7)
Profit on divestments	216.3	-	216.3	227.0	0.1	227.1
Operating profit	208.8	5.1	213.9	111.9	7.3	119.2
Finance income	5.5	-	5.5	10.5	-	10.5
Finance costs	(35.0)	(3.4)	(38.4)	(51.4)	(6.8)	(58.2)
Profit before taxation	179.3	1.7	181.0	71.0	0.5	71.5
Taxation	(13.9)	(0.4)	(14.3)	2.7	(0.1)	2.6
Profit after taxation for the period	165.4	1.3	166.7	73.7	0.4	74.1
Attributable to:						
Owners of the parent	165.3	1.3	166.6	73.5	0.4	73.9
Non-controlling interests	0.1	-	0.1	0.2	-	0.2
	165.4	1.3	166.7	73.7	0.4	74.1
Earnings per ordinary share						
Basic	6.9p		7.0p	3.1p		3.1p
Diluted	6.9p		7.0p	3.1p		3.1p

Details of underlying measures are shown in note 3.

Impact on Cash Flow Statement

Net cash flow was not impacted by the adoption of IFRS 16, however the line item presentation has been updated as appropriate. Definitions of alternative cash flow performance measures have also been updated as described in note 7.

	Half year to 30.6.18			Year to 31.12.18		
£m	As originally stated	IFRS 16 adjustments	Restated	As originally stated	IFRS 16 adjustments	Restated
Operating profit	208.8	5.1	213.9	111.9	7.3	119.2
Non-cash items:						
Depreciation and amortisation	84.9	8.6	93.5	169.2	17.6	186.8
Profit recognised on lease cancellations and modifications	-	(1.6)	(1.6)	-	(1.6)	(1.6)
Profit on divestments	(216.3)	-	(216.3)	(227.0)	(0.1)	(227.1)
Other non-cash items	7.2	-	7.2	12.8	-	12.8
Operating cash movements:						
(Increase)/decrease in working capital	(21.3)	0.4	(20.9)	71.8	0.3	72.1
(Decrease)/increase in provisions	(8.0)	0.2	(7.8)	47.4	1.0	48.4
Cash generated from operations	55.3	12.7	68.0	186.1	24.5	210.6
Tax received/(paid)	5.2	-	5.2	(25.5)	-	(25.5)
Net interest paid	(30.3)	(3.4)	(33.7)	(35.3)	(6.8)	(42.1)
Net cash from operating activities	30.2	9.3	39.5	125.3	17.7	143.0
Net cash generated from investing activities	303.3	-	303.3	262.0	-	262.0
Cash flows from financing activities						
Repayment of bank and other borrowings	(469.9)	1.0	(468.9)	(470.3)	1.3	(469.0)
Lease capital payments	-	(10.3)	(10.3)	-	(19.0)	(19.0)
Net cash used in financing activities	(469.9)	(9.3)	(479.2)	(470.3)	(17.7)	(488.0)
Net decrease in cash and cash equivalents	(136.4)	-	(136.4)	(83.0)	-	(83.0)
Foreign exchange adjustments	7.6	-	7.6	27.8	-	27.8
Cash and cash equivalents at start of period	451.9	-	451.9	451.9	-	451.9
Cash and cash equivalents at end of period	323.1	-	323.1	396.7	-	396.7

Impact on cash and cash equivalents and net debt

	Half year to 30.6.18			Year to 31.12.18		
£m	As originally stated	IFRS 16 adjustments	Restated	As originally stated	IFRS 16 adjustments	Restated
Cash and cash equivalents per Cash Flow Statement	323.1	-	323.1	396.7	-	396.7
Bank overdrafts	10.6	-	10.6	10.2	-	10.2
Cash and cash equivalents	333.7	-	333.7	406.9	-	406.9
Bank and other borrowings	(387.3)	13.9	(373.4)	(396.6)	12.8	(383.8)
Lease obligations	-	(155.6)	(155.6)	-	(151.2)	(151.2)
Net debt	(53.6)	(141.7)	(195.3)	10.3	(138.4)	(128.1)

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 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 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 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.

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 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 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.

Income Statement including underlying results

Half year to 30.6.19

£m	Underlying	Specific adjusting items	Total
Revenue	1,028.9	-	1,028.9
Cost of sales	(744.1)	-	(744.1)
Gross profit	284.8	-	284.8
Operating costs	(177.7)	(38.2)	(215.9)
Loss on divestments	-	(0.2)	(0.2)
Operating profit	107.1	(38.4)	68.7
Finance income	5.9	-	5.9
Finance costs	(14.1)	-	(14.1)
Profit before taxation	98.9	(38.4)	60.5
Taxation	(21.5)	8.9	(12.6)
Profit after taxation for the period	77.4	(29.5)	47.9
Earnings per ordinary share			
Profit after taxation for the period	77.4	(29.5)	47.9
Less amount attributable to non-controlling interests	(0.1)	-	(0.1)
Earnings attributable to owners of the parent	77.3	(29.5)	47.8
Weighted average number of shares (million)	2,382.2		2,382.2
Effect of dilutive securities	6.5		6.5
Diluted number of shares	2,388.7		2,388.7
Basic EPS	3.2p		2.0p
Diluted EPS	3.2p		2.0p

£m	Half year to 30.6.18 restated Underlying	Specific adjusting items	Total	Year to 31.12.18 restated Underlying	Specific adjusting items	Total
Revenue	924.5	-	924.5	1,863.3	-	1,863.3
Cost of sales	(672.5)	(40.0)	(712.5)	(1,336.5)	(200.0)	(1,536.5)
Gross profit	252.0	(40.0)	212.0	526.8	(200.0)	326.8
Operating costs	(156.5)	(57.9)	(214.4)	(323.5)	(111.2)	(434.7)
Profit on divestments	-	216.3	216.3	-	227.1	227.1
Operating profit	95.5	118.4	213.9	203.3	(84.1)	119.2
Finance income	5.5	-	5.5	10.5	-	10.5
Finance costs	(38.4)	-	(38.4)	(58.2)	-	(58.2)
Profit before taxation	62.6	118.4	181.0	155.6	(84.1)	71.5
Taxation	(14.4)	0.1	(14.3)	(35.7)	38.3	2.6
Profit after taxation for the period	48.2	118.5	166.7	119.9	(45.8)	74.1
Earnings per ordinary share						
Profit after taxation for the period	48.2	118.5	166.7	119.9	(45.8)	74.1
Less amount attributable to non-controlling interests	(0.1)	-	(0.1)	(0.2)	-	(0.2)
Earnings attributable to owners of the parent	48.1	118.5	166.6	119.7	(45.8)	73.9
Weighted average number of shares (million)	2,379.1		2,379.1	2,379.8		2,379.8
Effect of dilutive securities	4.0		4.0	4.3		4.3
Diluted number of shares	2,383.1		2,383.1	2,384.1		2,384.1
Basic EPS	2.0p		7.0p	5.0p		3.1p
Diluted EPS	2.0p		7.0p	5.0p		3.1p

Further details of the restatements can be found in note 2.

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

At 30 June 2019, 84,276,229 (31 December 2018: 85,300,412) ordinary shares were held in Treasury, including 8,324,505 (31 December 2018: 9,348,688) 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	**Half year to 30.6.19**	Half year to 30.6.18	Year to 31.12.18 (restated)
Cost of sales			
Estimates of fixed price contract profitability	**-**	40.0	200.0
Operating costs			
Derivative financial instruments	**(6.0)**	13.7	19.7
Net pension adjustments	**-**	-	3.4
Business acquisition and divestment related items			
Amortisation of intangible assets arising on business combinations	**44.2**	45.9	89.8
Other items provided as exceptional items at 31 December 2016	**-**	(1.7)	(1.7)
	38.2	57.9	111.2
Loss/(profit) on divestments			
Loss/(profit) on divestments (note 15)	**0.2**	(216.3)	(227.1)
Taxation			
Tax credit on specific adjusting items	**(8.9)**	(0.1)	(38.3)

Explanation of specific adjusting items

Estimates of fixed price contract profitability

These charges relate to increased estimates of cost to complete and recovery on the KC-46 contract. They reflect adjustments to estimates of an exceptional item and hence have been presented as a specific adjusting item. The Board recognises that making estimates on complex contracts is inherently judgemental and therefore whilst it has taken a reasonable view of contract positions at present, the final outcome of the contracts could be more or less favourable than the position taken.

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. At 31 December 2018, the impact of this ruling on the UK schemes was estimated at £5.5m and recognised as a past service cost. This was 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 was 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 in 2018 was 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 2018, such an event was also considered to be unusual and warranted separate disclosure.

Business acquisition and divestment related items
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 items provided as exceptional items at 31 December 2016
These items relate to the assessment of legal and other provisions made at 31 December 2016 which were reassessed and, in some instances, settled. These provision releases were treated as adjusting items consistent with the treatment of the original provisions.

4. Segment information

Half year to 30.6.19

Segmental results

£m	Communications and Connectivity	Mission Systems	Advanced Electronic Solutions	Aviation Services	Total Group
Total revenue	**259.1**	**286.5**	**324.2**	**160.0**	**1,029.8**
Elimination of inter-segment revenue					**(0.9)**
External revenue					**1,028.9**
Underlying operating profit	**34.7**	**44.7**	**26.5**	**1.2**	**107.1**
Specific adjusting items (note 3)					**(38.4)**
Net finance costs					**(8.2)**
Profit before taxation					**60.5**

External revenue

£m	Communications and Connectivity	Mission Systems	Advanced Electronic Solutions	Aviation Services	Total Group
External revenue by market					
US defence/security	**24.3**	**159.8**	**274.1**	**-**	**458.2**
UK, RoW defence/security	**47.9**	**101.6**	**11.5**	**86.9**	**247.9**
Commercial	**186.3**	**25.0**	**38.5**	**73.0**	**322.8**
	258.5	**286.4**	**324.1**	**159.9**	**1,028.9**
External revenue by customer geography					
USA	**78.6**	**205.2**	**302.4**	**-**	**586.2**
UK	**20.6**	**20.2**	**3.8**	**32.0**	**76.6**
Other EU	**100.7**	**39.8**	**4.1**	**3.1**	**147.7**
Australia	**1.3**	**1.0**	**0.1**	**106.1**	**108.5**
Asia	**38.9**	**13.0**	**7.8**	**15.2**	**74.9**
Rest of the world	**18.4**	**7.2**	**5.9**	**3.5**	**35.0**
	258.5	**286.4**	**324.1**	**159.9**	**1,028.9**
External revenue by revenue recognition category					
Goods transferred at a point in time	**225.9**	**225.1**	**184.4**	**-**	**635.4**
Goods transferred over time	**8.1**	**24.7**	**123.1**	**-**	**155.9**
Services transferred over time	**13.1**	**20.1**	**14.1**	**152.4**	**199.7**
Services transferred at a point in time	**11.4**	**16.5**	**2.5**	**7.5**	**37.9**
	258.5	**286.4**	**324.1**	**159.9**	**1,028.9**

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.

Half year to 30.6.18 (restated)
Segmental results

£m	Communications and Connectivity	Mission Systems	Advanced Electronic Solutions	Aviation Services	Total Group
Total revenue	279.9	209.0	279.4	157.0	925.3
Elimination of inter-segment revenue					(0.8)
External revenue					924.5
Underlying operating profit	23.6	28.9	31.3	11.7	95.5
Specific adjusting items (note 3)					118.4
Net finance costs					(32.9)
Profit before taxation					181.0

External revenue

£m	Communications and Connectivity	Mission Systems	Advanced Electronic Solutions	Aviation Services	Total Group
External revenue by market					
US defence/security	22.0	116.0	217.8	-	355.8
UK, RoW defence/security	53.7	72.0	17.7	89.4	232.8
Commercial	203.9	21.0	43.4	67.6	335.9
	279.6	209.0	278.9	157.0	924.5
External revenue by customer geography					
USA	75.2	156.2	253.1	-	484.5
UK	17.1	9.2	3.0	44.4	73.7
Other EU	112.6	27.6	7.5	3.0	150.7
Australia	3.8	3.3	0.3	97.9	105.3
Asia	47.9	7.5	9.2	7.9	72.5
Rest of the world	23.0	5.2	5.8	3.8	37.8
	279.6	209.0	278.9	157.0	924.5
External revenue by revenue recognition category					
Goods transferred at a point in time	245.3	161.5	155.1	-	561.9
Goods transferred over time	7.8	15.8	113.8	-	137.4
Services transferred over time	15.2	17.2	6.0	156.0	194.4
Services transferred at a point in time	11.3	14.5	4.0	1.0	30.8
	279.6	209.0	278.9	157.0	924.5

5. Finance income and costs

£m	**Half year to 30.6.19**	Half year to 30.6.18 (restated)
Bank interest	**2.8**	2.6
Other finance income	**3.1**	2.9
Total finance income	**5.9**	5.5
Interest on bank overdrafts and loans	**(7.5)**	(12.1)
Interest on lease obligations	**(3.7)**	(3.5)
Interest on net pension scheme liabilities	**(0.5)**	(1.1)
Other finance expense	**(2.4)**	(21.7)
Total finance costs	**(14.1)**	(38.4)
Net finance costs	**(8.2)**	(32.9)

Further details of the restatement of the 2018 comparatives, due to the implementation of IFRS 16, Leases, can be found in note 2.

Other finance expense for the half year to 30 June 2018 includes £20.4m of make-whole fees payable in connection with the early repayment of borrowings during that period.

6. Tax

£m	**Half year to 30.6.19**	Half year to 30.6.18 (restated)
Tax on underlying profit (effective rate 21.8%; 2018: 23.0%)	**21.5**	14.4
Tax on specific adjusting items	**(8.9)**	(0.1)
Total taxation charge (effective rate 20.8%; 2018: 7.9%)	**12.6**	14.3

Current tax risks

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 reassessment of the tax position.

In May 2019, the Group announced that it had reached an agreement with the UK tax authorities in respect of a dispute in connection with the availability of interest deductions on one of the Group's internal financing arrangements. This resulted in a one-off net payment of £55.2m, together with a one-off interest payment of £14.3m, to finally settle the Group's exposure to this matter.

The Group continues to monitor developments relating to the European Commission (EC) State Aid investigations. In April 2019, the EC published a decision on the UK Government's CFC regime, stating that it partially represents State Aid. The UK Government has appealed this decision, however in the meantime it has an obligation to collect monies from UK businesses. A liability has been recorded in respect of State Aid in the current period on the basis that the Group considers it is more likely than not that there will be an outflow of economic resources in connection with this matter, which was previously disclosed as a contingent liability. There are a number of uncertainties associated with this issue, including the result of the UK Government's appeal, which may take some time to resolve and could result in the ultimate outcome being materially different to the amount of liability recorded.

The underlying tax charge of £21.5m (2018: £14.4m) reflects the net outcome of movements in uncertain tax positions during the period, including the settlement described above and recognition of the estimated outflow from the EU ruling on State Aid. Excluding this, the underlying effective tax rate was 22.9% (2018: 23.0%).

At 30 June 2019, the Group has accrued £85.9m (31 December 2018: £146.8m) in respect of uncertain tax positions in the UK, US and other tax jurisdictions, together with £5.9m (31 December 2018: £18.4m) 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	Half year to 30.6.19	Half year to 30.6.18 (restated)
Operating profit	**68.7**	213.9
Non-cash items:		
Share of post-tax profits of joint ventures and associates	**(0.1)**	(0.1)
Depreciation and amortisation	**96.4**	93.5
Profit on sale of property, plant and equipment	**(3.0)**	(1.1)
Profit recognised on lease cancellations and modifications	**-**	(1.6)
Loss/(profit) on divestments	**0.2**	(216.3)
Derivative financial instruments	**(6.0)**	13.7
Pension contributions in excess of pension charges	**(3.6)**	(8.5)
Share based payments	**5.5**	3.2
Operating cash movements:		
Increase in inventories	**(10.0)**	(16.4)
Decrease in contract assets	**5.7**	11.6
Decrease/(increase) in trade and other receivables	**14.1**	(9.5)
(Decrease)/increase in contract liabilities	**(32.6)**	6.6
Decrease in trade and other payables	**(39.5)**	(13.2)
Decrease in provisions	**(3.7)**	(7.8)
Cash generated from operations	**92.1**	68.0
Tax (paid)/received	**(59.1)**	5.2
Interest paid	**(25.3)**	(38.2)
Interest received	**4.5**	4.5
Net cash from operating activities	**12.2**	39.5

Further details of the restatement of the 2018 comparatives, due to the implementation of IFRS 16, Leases, can be found in note 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. Both of these measures have been updated following the implementation of IFRS 16, Leases, to take into account lease payments. 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 flows related to the purchase or disposal of property, plant, equipment and intangible assets and lease capital payments 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 (excluding lease 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	**Half year to 30.6.19**	Half year to 30.6.18 (restated)
Net cash from operating activities per Cash Flow Statement	**12.2**	39.5
Purchase of property, plant and equipment	**(27.7)**	(20.6)
Purchase of intangible assets	**(4.6)**	(6.5)
Lease capital payments	**(8.9)**	(9.3)
Proceeds on disposal of property, plant and equipment	**13.3**	6.1
Free cash flow	**(15.7)**	9.2
Tax paid/(received)	**59.1**	(5.2)
Net finance costs paid	**20.8**	33.7
Operating cash flow	**64.2**	37.7

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	**Half year to 30.6.19**	Half year to 30.6.18 (restated)
Underlying operating profit excluding the share of post-tax results of joint ventures	**107.0**	95.4
Operating cash flow	**64.2**	37.7
Cash flow on exceptional items	**66.4**	43.8
Operating cash flow before net cash flow on exceptional items	**130.6**	81.5
Operating cash conversion including net cash flow on exceptional items	**60%**	40%
Operating cash conversion before net cash flow on exceptional items	**122%**	85%

The cash flow on exceptional items relates to items previously treated as exceptional in 2016, including relevant updates and principally in connection with the KC-46 contract.

8. Intangible assets

£m	**Half year to 30.6.19**	Year to 31.12.18
Carrying amount at start of period	**821.2**	893.8
Additions	**4.0**	6.6
Business divestments	**-**	(2.7)
Disposals	**-**	(0.2)
Amortisation of intangible assets arising on business combinations	**(44.2)**	(89.8)
Other amortisation	**(6.1)**	(13.9)
Reclassifications	**-**	1.5
Foreign exchange adjustments	**0.8**	25.9
Carrying amount at end of period	**775.7**	821.2

9. Property, plant and equipment

£m	**As at 30.6.19**	As at 31.12.18 (restated)
Owned property, plant and equipment	**354.3**	375.7
Right-of-use assets	**115.2**	112.4
	469.5	488.1

Owned property, plant and equipment

£m	Half year to 30.6.19	Year to 31.12.18 (restated)
Carrying amount at start of period	**375.8**	380.9
Additions	**26.9**	64.6
Business divestments	**-**	(0.2)
Disposals	**(11.3)**	(6.1)
Depreciation	**(37.6)**	(63.9)
Reclassifications	**-**	(1.5)
Foreign exchange adjustments	**0.5**	1.9
Carrying amount at end of period	**354.3**	375.7

Right-of-use assets

£m	Half year to 30.6.19	Year to 31.12.18 (restated)
Carrying amount at start of period	**112.4**	109.5
Additions	**12.0**	23.1
Disposals	**(0.2)**	(3.7)
Depreciation	**(8.4)**	(18.7)
Reclassifications	**(0.7)**	-
Foreign exchange adjustments	**0.1**	2.2
Carrying amount at end of period	**115.2**	112.4

Further details of the restatement of the 2018 comparatives, due to the implementation of IFRS 16, Leases, can be found in note 2.

Commitments for the acquisition of property, plant and equipment are as follows:

£m	As at 30.6.19	As at 31.12.18
Commitments at end of period	**18.1**	13.6

10. Contract assets and contract liabilities

Contract assets

£m	As at 30.6.19	As at 31.12.18
Within current assets	**129.4**	131.0
Within non-current assets	**52.5**	55.9
	181.9	186.9

Contract assets primarily relate to unbilled amounts related to goods and services transferred. These are included in contract balances until they become unconditional, at which point they are transferred to trade receivables.

Contract liabilities

£m	**As at 30.6.19**	As at 31.12.18
Contract liabilities	**153.1**	180.9

Contract liabilities primarily relate to advance payments from customers. The balance at 31 December 2018 included £48.7m recognised subsequent to the agreement with Boeing on the KC-46 programme.

11. Other financial assets

£m	**Half year to 30.6.19**	Year to 31.12.18
At start of period	**39.5**	45.1
Revaluation gains/(losses) recognised in OCI	**5.0**	(5.6)
At end of period	**44.5**	39.5

Other financial assets represent Cobham plc's investments in 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 are held at fair value. The Group has elected to present 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.

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 assumptions concern 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 9% reduction in fair value and a 1% increase in discount rate would reduce the fair value by 5%. Other assumptions include interest and inflation rates, repayment of debt and the residual value of the aircraft.

During the half year ended 30 June 2019, dividends of £3.5m (2018: £6.1m) were received which are presented within operating costs in the income statement.

12. Provisions

£m	**As at 30.6.19**	As at 31.12.18 (restated)
Current liabilities	**(95.4)**	(93.1)
Non-current liabilities	**(90.9)**	(101.7)
	(186.3)	(194.8)

The movements in provisions in the period, which primarily relate to contract loss provisions, were as follows:

£m	**Half year to 30.6.19**	Year to 31.12.18 (restated)
At start of period	**(194.8)**	(145.8)
Additional provisions in the period	**(22.4)**	(159.0)
Utilisation of provisions	**23.2**	94.7
Provisions released	**3.1**	18.5
Reclassifications	**5.1**	(0.1)
Foreign exchange adjustments	**(0.5)**	(3.1)
At end of period	**(186.3)**	(194.8)

Further details of the restatement of the 2018 comparatives, due to the implementation of IFRS 16, Leases, can be found in note 2.

13. Retirement benefit obligations

£m	**As at 30.6.19**	As at 31.12.18
Defined benefit scheme assets	**808.5**	746.4
Defined benefit obligations	**(845.0)**	(793.0)
Net liability at end of period	**(36.5)**	(46.6)

£m	**Half year to 30.6.19**	Year to 31.12.18
Net liability at start of period	**(46.6)**	(63.2)
Amount recognised in Income Statement	**(0.5)**	(5.8)
Contributions paid by employer	**3.6**	14.4
Actuarial gains recognised in OCI	**7.0**	8.9
Exchange differences	**-**	(0.9)
Net liability at end of period	**(36.5)**	(46.6)

The estimated shortfall between the value of defined benefit pension scheme assets and the present value of future liabilities at 30 June 2019 has decreased by £10.1m since 31 December 2018, excluding the deferred tax impact. Actuarial gains of £7.0m include a loss of £56.9m on plan liabilities, primarily due to a decrease in the discount rate driven by an increase in corporate bond yields. The impact of changes in the discount rate is largely hedged by liability driven investments which increased in value during the period, contributing to actuarial investment gains of £63.9m.

The amount recognised in the Income Statement for the year to 31 December 2018 includes a charge of £5.5m related to the equalisation of Guaranteed Minimum Pensions (GMP) and a credit of £2.1m following the closure to future accrual of the US pension scheme. Both of these amounts were presented as specific adjusting items within note 3 and further detail is provided in that note.

The fair value of major categories of scheme assets is as follows:

£m	As at 30.6.19	As at 31.12.18
UK equity instruments	**9.9**	11.0
Global equities	**99.0**	87.3
Liability driven investments	**147.6**	113.9
Corporate bonds	**73.9**	76.2
Private credit	**35.6**	34.2
Diversified growth funds	**125.5**	119.2
Insurance contracts	**284.6**	274.9
Other assets including cash	**32.4**	29.7
	808.5	746.4

Insurance contract assets relate to a number of buy-in arrangements where assets are transferred to an insurance company in return for a qualifying insurance policy which provides an income stream equivalent to the obligations to pensioners covered by the arrangement. These are measured at a value equal to the related liabilities.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	As at 30.6.19	As at 31.12.18
Discount rate	**2.20%**	2.70%
RPI inflation assumption (rate of increase in pensions in payment unless overridden by specific scheme rules)	**3.30%**	3.45%
CPI inflation assumption (rate of increase in deferred pensions)	**2.30%**	2.45%
Life expectancy in years:		
Male member currently aged 65	**87**	87
Female member currently aged 65	**89**	89
Male member aged 65 in 2045	**90**	90
Female member aged 65 in 2045	**91**	91

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	As at 30.6.19	As at 31.12.18
Financial assets		
Derivative contracts (designated as hedging instruments)	**22.6**	22.8
Derivative contracts (not hedge accounted)	**1.0**	1.8
Financial liabilities		
Derivative contracts (designated as hedging instruments)	**(22.5)**	(23.4)
Derivative contracts (not hedge accounted)	**(14.7)**	(20.8)
	(13.6)	(19.6)

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 including lease obligations are held at amortised cost which equates to fair value, except for the Group's fixed rate borrowings. At 30 June 2019 the fair value of fixed rate borrowings was £239.8m (31 December 2018: £233.6m) compared to a book value of £222.2m (31 December 2018: £221.2m).

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.

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 period, and no transfers between fair value hierarchy levels.

15. Business divestments

In March 2018, the Group completed the divestment of its AvComm and Wireless test and measurement businesses, part of the Communications and Connectivity Sector, together with two smaller businesses in the same Sector.

£m	**Half year to 30.6.19**	Half year to 30.6.18	Year to 31.12.18 (restated)
AvComm and Wireless	**(0.2)**	208.3	218.5
Opera and Lightning Test	**-**	7.2	7.1
Additional profit on other divestments in prior years	**-**	0.8	1.5
	(0.2)	216.3	227.1

The (loss)/profit on divestments has been excluded from underlying operating profit as disclosed in note 3.

16. Contingent and other 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 30 June 2019, the Company and the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the Group Financial Statements.

The Company and various of its subsidiaries are, from time to time, parties to various legal proceedings and claims, and management do not anticipate that the outcome of these, either individually or in aggregate, will have a material adverse effect upon the Group’s financial position.

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 reassessment of the tax position.

The Group continues to monitor developments relating to the European Commission (EC) State Aid investigations. In April 2019, the EC published a decision on the UK Government's CFC regime, stating that it partially represents State Aid. The UK Government has appealed this decision, however in the meantime it has an obligation to collect monies from UK businesses. A liability has been recorded in respect of State Aid in the current period on the basis that the Group considers it is more likely than not that there will be outflow of economic resources in connection with this matter, which was previously disclosed as a contingent liability. There are a number of uncertainties associated with this issue, including the result of the UK Government's appeal, which may take some time to resolve and could result in the ultimate outcome being materially different to the amount of liability recorded.

17. Related party transactions

Transactions between Cobham plc and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed. There were no material related party transactions during the periods covered by these Interim Financial Statements.

Statement of Key Risks and Uncertainties

The Board and Audit Committee meet regularly; they monitor and update the Group's risks, and ensure mitigation activities are in place. As part of the interim process, they concluded that the Group's principal risks identified on pages 36 to 41 of the 2018 Annual Report and Accounts remain valid and relate to:

1. Volatile macroeconomic environment;
2. Market characteristics and contracting environment;
3. Shortage of appropriate skills and talent;
4. Project and programme management not being effective;
5. Customer expectations not being met;
6. Business change programmes not being successfully executed;
7. Occurrence of an event leading to a significant business interruption;
8. Failure to comply with laws and regulations;
9. Governance framework being poorly constructed and implemented;
10. Information assurance security measures being insufficient to prevent data loss;
11. Taxation liabilities being larger than anticipated;
12. Value creating M&A activity not being identified and/or executed; and
13. The deficit within the Cobham Pension Plan changing.

The Group's risk management process is detailed on pages 34 and 35 of the 2018 Annual Report and Accounts.

Statement of Directors' Responsibilities

The Directors confirm that to the best of their knowledge, these condensed Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report.

The Directors of Cobham plc are shown on pages 52 and 53 of the 2018 Annual Report and Accounts. Since the year end, the following changes have been made:

- Jamie Pike joined the Board on 1 May 2019 and was appointed as Chairman of the Board on 1 July 2019; and
- Mike Wareing stepped down as a director of the Company effective 1 July 2019.

A list of current Directors is maintained on the Cobham Group website: www.cobham.com.

On behalf of the Board

David Lockwood	David Mellors
Chief Executive Officer	Chief Financial Officer

25 July 2019

Independent review report to Cobham plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland), Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
25 July 2019

-ends-

FOR WEBSITE PUBLICATION ONLY:

The maintenance and integrity of the Cobham plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.