COBHAM

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

7 March 2013

	2011	**2012**	Change
Order intake	£2,046m	**£1,656m**	-19%
Group revenue	£1,854m	**£1,749m**	-6%
Core[1] revenue (ongoing businesses)	£1,633m	**£1,713m**	+5%
Underlying[2] trading margin	19.7%	**19.0%**	-0.7%pts
Underlying[2] profit before tax	£328m	**£302m**	-8%
Basic profit before tax	£234m	**£206m**	
Underlying[2] earnings per share (EPS)	22.0p	**22.6p**	+3%
Basic EPS	16.8p	**16.1p**	
Operating cash conversion[3]	95%	**104%**	
Full year recommended dividend per share	8.0p	**8.8p**	+10%

- £2.4bn order book, unchanged at constant translation exchange - headline order intake significantly reduced by divestments
- Organic[4] revenue broadly flat - Group revenue reduced by divestments
- Underlying EPS up 3.2% at constant translation exchange, supported by ahead of plan Excellence in Delivery benefits and a lower underlying tax rate
- Thrane & Thrane acquisition brings further strength in commercial markets and is ahead of plan, with integration progressing well
- Strong operating cash conversion of 104% and good free cash flow of £273m, before Excellence in Delivery costs, with robust balance sheet and net debt/EBITDA of 0.9 times
- Recommended full year dividend increase of 10%, in line with long standing progressive policy, to 8.8 pence per share

Commenting on the results and outlook, Bob Murphy, Chief Executive Officer, said:

"We have delivered a good set of results in market conditions that continue to be challenging.

"The US defence/security market remains highly uncertain and we expect a period of declining, then flat, US Government budgets consistent with previous down cycles. As set out in our November 2012 Interim Management Statement, our plans are based on Group revenue declining organically by low-to-mid single digits in 2013, as the decrease in defence/security revenue is only partially offset by growth in commercial markets. In 2013, Group operating margins are expected to be slightly lower than in 2012.

"Excellence in Delivery has achieved £48m of savings to the end of 2012. The majority of savings from the additional restructuring of the cost base announced in November 2012 will be re-invested to generate incremental organic revenue and gain market share, while slightly increasing operating margins. On the basis of current market trends, we continue to anticipate a return to modest organic growth from 2014, rising above mid single digit growth thereafter. The Group has a highly cash generative business model and robust balance sheet. These also allow us to invest in carefully selected acquisitions to bring more balance between our defence/security and commercial businesses, promoting long term revenue growth through the cycles, and underpin the Group's policy of paying a 10% progressive annual dividend increase."

ENQUIRIES

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PRELIMINARY RESULTS PRESENTATION INCLUDING WEBCAST AND DIAL-IN DETAILS

There will be a preliminary results presentation at 9.30am UK time on Thursday, 7 March 2013. The preliminary results presentation will be webcast live on the Cobham website (www.cobhaminvestors.com) and webcast viewers will be able to ask questions by email during the presentation. The webcast will be made available on the website for subsequent viewing. There will also be a listen only dial-in facility available which can be accessed in the UK and internationally on +44 (0)20 3003 2666, password Cobham and in the US/Canada on +1 646 843 4608, password Cobham. The published Annual Report will be available as a download file on www.cobhaminvestors.com from 22 March 2013.

The following notes apply throughout these preliminary results:

1. *All numbers referring to 'core' businesses exclude Analytic Solutions, which was divested in November 2011, and Commercial Systems which was substantially divested in July 2012.*

2. *To assist with the understanding of earnings trends, the Group has included within its published statements trading profit and underlying earnings results. Trading profit has been defined as operating profit from continuing operations excluding the impacts of certain M&A related costs and business restructuring costs as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments and items deemed by the Directors to be of an exceptional nature. Underlying earnings are defined as trading profit less net underlying finance costs, which excludes the unwinding of acquisition related discounting, and after deducting taxation and non-controlling interests.*

   M&A related costs excluded from trading profit and underlying earnings include the amortisation of intangible assets recognised on business combinations and the writing off of the pre-acquisition profit element of inventory written up on acquisition. M&A related costs also include other direct costs associated with business combinations, adjustments to contingent consideration related to previously acquired businesses and direct costs from terminated divestments.

   Business restructuring costs comprise exceptional costs or profits associated with the restructuring of the Group's portfolio including costs associated with the Excellence in Delivery programme.

   A reconciliation of operating profit and profit before taxation to the respective underlying numbers is shown on page 13.

3. *Operating cash flow is defined as cash generated from operations after cash flows from the purchase or disposal of property, plant, equipment and intangible assets. Operating cash conversion is defined as operating cash flow as a percentage of trading profit, excluding profit from joint ventures. Free cash flow is operating cash flow after net interest, taxation, dividends received from joint ventures and the cash cost of business restructuring.*

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

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

5. *Private Venture (PV or company funded R&D – Research and Development) measures exclude Aviation Services, where there is no R&D activity.*

6. *A Group-wide brand charge of up to 1% is charged to the Divisions from Head Office. The allocation of 2011 comparative profit between the Divisions and Head Office has been restated accordingly.*

OVERVIEW OF THE YEAR

Cobham has delivered a good set of results in market conditions that continue to be challenging.

At the year end, the Group's £2.4bn order book was unchanged on the prior year at constant translation exchange rates. Order intake was lower in the year primarily due to the impact of divestments and the large multi-year orders received in 2011 by Aviation Services and Mission Equipment. Excluding Aviation Services and Mission Equipment and the fluctuations from their large multi-year orders, book-to-bill was solid at 1.0 times.

Group revenue was 6% lower, after the impact of divestments, with organic revenue broadly flat. A strong performance in Australia and increasing shipments of products, including radios and antennas, to large transport aircraft manufacturers helped to increase Cobham's commercial revenue by 2%. There was 4% growth in non US defence/security revenue, with a strong performance in a number of areas, including aerial refuelling, antennas and aerospace communications products, partially offset by lower land revenue. US defence/security revenue was down 4%, mostly due to reduced revenue in land markets.

The Group's underlying trading margin decreased slightly to 19.0% (2011: 19.7%), primarily due to anticipated declines in operating margins in Defence Systems, which benefited from favourable production contract margins in the first half of 2011, and in Aviation Services.

Excellence in Delivery (EiD) made considerable progress in the year, with the programme bringing operational and customer benefits. During 2012, as a result of the accelerated achievement of benefits, the programme exceeded the planned level of savings by £6m, with £14m of year-on-year efficiency savings. This brings the total annualised benefits to £48m since the programme commenced. Excellence in Delivery costs in the year were £38m.

During the year total Research & Development (R&D) investment, including customer funded projects, was £156m (2011: £135m), including significant development work on aerial refuelling programmes. Company funded investment, or Private Venture[5] (PV), was £75m (2011: £75m), representing 5.3% (2011: 4.9%) of Group revenue.

Underlying EPS increased 2.6% to 22.6p (2011: 22.0p), including a lower underlying tax rate and the full year effect of the 2011 share buy-back. At constant translation exchange rates underlying EPS increased 3.2%.

Operating cash conversion was strong at 104%, increasing on the prior year (2011: 95%). The Group generated good free cash flow of £241m (2011: £251m), after EiD payments. Year end net debt was £360m (2011: £232m), with the Group conservatively geared at 0.9 times net debt/EBITDA, after the £275m net outflow during the year relating to acquisitions.

MARKETS

Cobham operates in three key markets: US defence/security, non US defence/security and commercial.

During the year, there has been a significant increase in the proportion of revenue from commercial activities primarily due to organic revenue changes and the acquisition of the predominantly commercial Thrane & Thrane.

Revenue Split	**Organic Growth 2012**	Group Actual 2011	**Group Proforma 2012**
US defence/security	**-4%**	48%	**40%**
Non US defence/security	**4%**	25%	**26%**
Commercial	**2%**	27%	**34%**

Proforma 2012 includes a full year revenue contribution from Thrane & Thrane.

US defence/security market

The US Department of Defense has been operating under a stop-gap funding measure known as a Continuing Resolution since October 2012, with no approved Government budget in place for 2013 and associated restrictions on spending. There is further heightened near term uncertainty, as no political agreement was reached ahead of the 1 March 2013 deadline, with significant budget cuts now being implemented. Regardless of the outcome of ongoing political debates, and as set out in Cobham's November 2012 Interim Management Statement, it is apparent that the US defence/security market has entered a down cycle.

Nevertheless, this market remains important to the Group and will remain the largest defence/security market in the world by some way for the foreseeable future. Further, Cobham's capabilities overlap significantly with areas of priority for the customer such as missile defence and intelligence, surveillance and reconnaissance. The Group has strong positions on programmes with growth potential, including the F-35 Joint Strike Fighter, aerial refuelling platforms, the AEGIS Ballistic Missile Defence system and the US Navy Surface Electronic Warfare Improvement programme (SEWIP). The Group also has significant content on various retrofit programmes as a key subsystem and component supplier. These include new developments in electronic warfare and radar products to meet emerging threats while reducing size, weight and power for improved performance. Delivery of these technology upgrades on existing platforms is critical to the sustainment of capabilities in a fiscally constrained environment.

In addition, many of these US platforms and programmes have strong export positions with revenue to be generated from overseas sales, including on the F-15 and F-16 fighter aircraft, the Patriot ballistic missile defence system and the AH-64 attack helicopter.

Non US defence/security markets

While most European markets are expected to be flat to declining in the short to medium term, other markets are expected to grow including in Asia, the Middle East and South America. In aggregate, Cobham's revenue from non US defence/security markets should continue to grow over the medium term.

Cobham benefits from direct sales to these markets but also from export sales of platforms such as the Airbus A330 MRTT and Eurofighter Typhoon aircraft. Cobham has won its first significant order in Brazil for surveillance equipment, following the opening of an office there and won further equipment orders on the Brazilian KC-390 aerial refuelling tanker aircraft. The Group has also benefited from contracts awarded to supply its new generation Audio and Radio

Management Systems on the Pilatus PC-7 trainer aircraft and on various Eurocopter rotary wing aircraft.

In addition, Cobham has a number of long term technology contracts for critical services. These include electronic warfare training in the UK for the Royal Navy and Royal Air Force, in addition to helicopter flying training for the UK Ministry of Defence through its joint venture company, FB Heliservices. In Australia, the Group operates the Sentinel maritime surveillance contract for the Customs and Border Protection Service, using Bombardier Dash 8 maritime patrol aircraft which are highly modified and equipped with sophisticated electronics. During the year, the helicopter flying training contract was extended to 2016, with potential for two one year extensions, while the Sentinel contract was extended to 2021. Cobham's long term contracts foster close customer relationships, enabling the Group to manage the scope of service provision as customer needs evolve.

Commercial markets

Cobham operates in a number of commercial markets where it has technology differentiation and good growth prospects over the medium term. These include specialist aviation markets in Australia and the satellite communication (SATCOM) market, with increasing demand from the mining, offshore oil and gas and commercial shipping industries. The acquisition of Thrane & Thrane in June 2012 has significantly increased Cobham's exposure to commercial markets.

In addition, Cobham has market positions in large transport aircraft, helicopters, regional and business jets and general aviation production. These markets are driven by rising passenger numbers, by demand for more fuel efficient aircraft, by new and improved communication products and by an increasing focus on safety. During the year, Cobham delivered its 1,000th HGA-7001 SATCOM antenna, which provides long range cockpit communications and worldwide broadband connectivity for passengers. The antenna is standard fit on the Boeing 787, Boeing 747-8 and the Airbus A350 and will be standard fit on the Airbus A380 from June 2013, as well as being a specified option on other Airbus and Boeing narrow and wide body aircraft.

Cobham was also named a launch partner by Inmarsat for land based SATCOM terminals to support the new Global Xpress network. This follows a 2011 award naming Cobham the Global Xpress maritime terminal launch partner. Cobham's existing SATCOM capabilities, combined with the Thrane & Thrane acquisition, position the Group well to benefit from future growth in this market.

STRATEGY

The Group leverages its innovative technology, know-how and understanding of customer needs to build and maintain leading positions in the second and third tiers of the global defence/security and commercial aerospace, land and marine markets. This enables it to generate sustainable top and bottom line growth, relative to the markets in which it operates, while consistently generating good free cash flow, thereby creating shareholder value.

Strategy Overview and Objectives

Technology and know-how are the key competitive differentiators for the Group, recognising the importance of providing customers with solutions that are responsive to their needs. The Group is focused on understanding and serving the needs of its current customer base, where it has long term relationships. It will also identify adjacent markets where its technology and know-how can be leveraged to meet the needs of new customers, securing sustainable, long term positions and delivering additional growth, with the Group well positioned to benefit from faster growing markets.

Cobham's market positions and investment in innovation must be underpinned by sector leading customer delivery and operational performance. In this regard, Cobham's EiD programme is critical for the Group. It is the catalyst to drive a culture of continuous improvement and an integrated, streamlined business. The programme has been very successful, enabling Cobham to rationalise its footprint, generate productivity improvements and improve customer delivery. The Group previously announced the extension of this programme, with further emphasis on streamlining the cost base and a focus on the Group's US facing operations, given the expected decline in Government budgets.

The Board believes that the successful delivery of this strategy will increase the Group's agility, enabling it to shift the emphasis of its portfolio over time given the cyclical nature of its markets, and provide sustainable growth in shareholder value. The Group is confident that the actions it is taking, in aggregate, should enable it to generate modest organic growth from 2014 and above mid-single digit organic revenue growth thereafter.

Technology Investment

During the year total R&D investment, including customer funded projects, was £156m (2011: £135m), including significant development work on aerial refuelling programmes. PV was £75m (2011: £75m), representing 5.3% (2011: 4.9%) of Group revenue. The Group plans to increase its PV investment in 2013 to generate incremental organic revenue and gain market share. The Group's renewed focus on customer needs will enable it to identify priority investment areas and so optimise revenue potential from the PV programme.

The increased emphasis on identifying adjacent markets and applications in which Cobham's proven and transferable technologies can be applied is building on a track record of success to date. Cobham's NetNodeIS wireless mesh network has been used successfully in various applications across defence/security markets and is being increasingly used in commercial environments, including in underground mines and oil fields and for broadcast applications. Further, Cobham's slip ring technology, originally used for helicopters across defence/security and commercial markets, is now used extensively for wind turbine applications and its Distributed Passenger Address System, used on the A400M military transport aircraft, has been selected as standard equipment on the Chinese C919 narrow body commercial aircraft.

Thrane & Thrane also invests heavily in PV. It has developed a number of innovative new products including a radio module, which will be the core of all future Broadband Global Area Network products. With initial application in the land SATCOM market, this technology will reduce terminal size by 30%.

Operational Excellence

There has been considerable focus during the year on the Group's programme to re-engineer and streamline operations, EiD, which has reached the end of its second full year and made considerable progress. Alongside financial benefits, the programme is bringing a number of operational and customer benefits, including improved productivity, shortened manufacturing lead times and improved levels of quality. The programme has three components: the implementation of a Standard Operating Framework across a set of principal manufacturing sites (Principal Locations); the implementation of a standard Enterprise Resource Planning (ERP) system; and the integration of manufacturing facilities.

Implementation of the standard production system is now well underway in all Principal Locations, with significant operational improvements being seen. Work on the standard engineering and project management framework is now underway in five sites and the supply chain framework in six sites.

The design phase of the ERP implementation was substantially completed, as anticipated, in December 2012, with focus moving on to building and testing the system in 2013. As planned, there were four integrations of manufacturing facilities in 2012.

The Group is taking further actions to make significant site and headcount rationalisations due to expected volume declines in the US defence/security market. Rationalisation or down-sizing has been announced at five sites in 2013 to date as part of the EiD programme, with the majority of the additional savings to be reinvested in the business to enable Cobham to generate incremental organic revenue.

During 2012, as a result of the accelerated achievement of benefits, the programme exceeded the planned level of savings by £6m, with £14m of year-on-year efficiency savings. This brings the total annualised benefits to £48m since the programme commenced. EiD costs were £38m in the year.

EiD remains on track to deliver a run rate of £75m of annualised year-on-year savings by the end of 2013, albeit this declines to £70m over the following one to two years due to US Government contracting rules. The extension of the integration elements of the programme by two years to the end of 2015 will provide additional benefits of £30m per annum on completion, with the majority of these savings being reinvested into the business. Expected total costs over the life of the programme remain £191m, including the additional integration activity.

Investment in Management Capabilities

To reinforce the Group's understanding of its markets and strengthen the link between customer needs and technology investment, ensuring that the right solutions are available when customers need them, a new Group level position has been established to address business development and technology.

Cobham will also focus on further improving its programme management capabilities. A new Group level position has also been established to provide momentum and visibility on this key competency, which is critical to meeting customer expectations and delivering organic growth.

In addition to this, the delivery of Cobham's strategy depends on the right skills and capabilities being in place. Cobham will increase its investment in learning and development to build the essential skills and capabilities from which to drive future growth.

Acquisition Investment

Cobham's acquisition strategy is to use the significant amount of cash generated after dividend payments and its balance sheet strength to reinforce its technology and market positions through carefully selected acquisitions. Its focus is to bring more balance to its defence/security and commercial businesses, promoting long term revenue growth through the cycles.

The £275m acquisition of Thrane & Thrane is a significant step towards bringing more balance between defence/security and commercial end markets, with the June 2012 acquisition doubling Cobham's predominantly commercial SATCOM revenue. Integration has progressed well and the business has continued to perform ahead of plan. A combined SATCOM strategic business unit has been created, led by the former CEO of Thrane & Thrane, with the management team drawn from across both businesses. Priority has been given to creating an integrated product base and future technology programme, with the next generation of aeronautical SATCOM terminals being the first development programme to be launched. A new global sales force has also been created, supported by extensive training for sales, support and distribution channels. There has been tangible success from cross selling, with early additional orders secured for land SATCOM products.

Consistent with the previously announced pre-tax cost synergies of at least £4m which will be realised in 2013 and 2014, significant areas of engineering overlap have been identified and streamlined. Similarly, subsequent to the delisting of Thrane & Thrane from the NASDAQ OMX in July, cost savings have been secured through a reduction in corporate costs, including Board and other senior management positions.

In July 2012, Cobham completed the planned divestment of its non-core emergency locator beacon businesses for US$73m on a debt and cash free basis, with an additional consideration of up to US$5m contingent on future events. This was the most significant remaining step towards achieving the divestment of the Group's non-core businesses.

The Group continues to focus on identifying and executing attractive acquisition opportunities within the Group's chosen markets and adjacent areas. Cobham has a strong balance sheet and the ability to successfully execute acquisitions, consistent with its disciplined financial criteria, to create value for its shareholders.

BOARD CHANGES

As previously announced, Bob Murphy joined Cobham as Chief Executive Officer on 25 June 2012. He replaced Andy Stevens, who has taken early retirement due to a long term serious back injury. Andy remained on the Board as a Non-executive Director until 1 August 2012.

In April 2012, it was announced that Warren Tucker, Chief Financial Officer, plans to stand down from the Board. Warren is standing down on 1 May 2013 after 10 years' service. Simon Nicholls, currently Group Finance Director of Senior plc, was announced as his successor in November 2012 and will join the Board with effect from 1 May 2013.

FINANCIAL RESULTS

Orders

At the year end, the Group's order book was £2.4bn (2011: £2.5bn), with the order book flat year-on-year at constant translation exchange rates.

Group order intake was £1,656m (2011: £2,046m). Order intake was lower due to divestments, primarily the 2011 divestment of Analytic Solutions, and lower intake in the Mission Equipment and Aviation Services businesses.

The Group book-to-bill ratio was 0.95 times. Excluding Aviation Services and Mission Equipment and the fluctuations from their large multi-year orders, book-to-bill was solid at 1.0 times.

The lower order intake in Mission Equipment was related to the phasing of contract awards. Mission Equipment benefited in 2011 from strong order intake, including significant, initial multi-year awards on the US and Brazilian aerial refuelling tanker programmes, with significant production orders to follow in future years.

Aviation Services benefited from a multi-year AUD$500m QantasLink award in 2011. However, it continued to see good order activity in the fly-in fly-out market from the Australian mining industry in 2012, including significant contract awards from Santos, Minara Resources and BHP Billiton. UK order intake was also lower year-on-year, being impacted by £31m netted against order intake in the first half, relating to the relocation of the remaining UK Future Strategic Tanker Aircraft (FSTA) conversions to Airbus in Spain. In the UK, a significant £193m order to provide helicopter flying training to the UK Ministry of Defence was awarded but not included within the Group's order intake and book-to-bill ratio, being received by joint venture company FB Heliservices.

Summary of Underlying Results

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

	2011	**2012**
£m		
Revenue	1,854	**1,749**
Trading profit	365	**333**
Underlying Net Finance Expense	(37)	**(31)**
Underlying Profit Before Tax	328	**302**
Underlying Tax	(81)	**(59)**
Underlying Tax Rate	*25.5%*	***20.0%***
Underlying Profit After Tax	247	**243**
Weighted Average Number of Shares (millions)	*1,118*	***1,075***
Underlying EPS (pence)	22.0	**22.6**

A reconciliation of underlying profit to statutory profit numbers is set out on page 13 below.

Revenue

Analysis of Group Revenue

Changes to Group revenue in the year were as follows:

2011	**FX Translation**	**Acquisitions/Disposals**	**Organic Growth**	**2012**
£1,854m	**£8m**	**-£102m**	**-£11m**	**£1,749m**

Average 2012 US$/£ exchange rate = $1.58/£1. Average 2011 US$/£ exchange rate = $1.60/£1.

Revenue decreased to £1,749m (2011: £1,854m), primarily due to net divestments, with the additional revenue from the acquisition of Thrane & Thrane and the full year impact of the Trivec-Avant acquisition being more than offset by lower revenue due to the divestment of the non-core emergency locator beacon businesses and the full year impact of the non-core Analytic Solutions divestment. Organic revenue was broadly flat, with growth in the Aviation Services business being offset by Aerospace and Security and Defence Systems.

By end market, organic revenue in Cobham's commercial markets increased 2%, with a strong performance in Australia and increasing shipments of products, including radios and antennas to large transport aircraft manufacturers. Non US defence/security revenue was up 4%, with a strong performance in a number of areas, including aerial refuelling, antennas and aerospace communications products, partially offset by lower land revenue. US defence/security revenue was down 4%, mostly due to reduced revenue in land markets.

Trading Profit

Group trading profit decreased to £333m (2011: £365m), with trading profit in the core businesses decreasing to £328m (2011: £343m), primarily due to the anticipated decline in operating margins in Defence Systems and Aviation Services. Trading profit in the non-core businesses declined to £5m (2011: £22m) due to the divestment of Analytic Solutions and the emergency locator beacon businesses.

The Group's underlying trading margin decreased slightly to 19.0% (2011: 19.7%).

Underlying Net Finance Expense and Underlying Profit Before Tax

The underlying net finance expense was £31m (2011: £37m). The net interest expense on cash and debt holdings reduced to £29m (2011: £38m). The fall in the net interest expense benefited from the maturation of certain debt, partially offset by increased borrowings relating to the acquisition of Thrane & Thrane. As anticipated, there was a non-cash, net finance charge of £2m (2011: £1m income) from pension schemes.

In 2013, an amendment to International Accounting Standard (IAS) 19 will be implemented, requiring Cobham to restate its comparative 2012 numbers upon implementation. The net impact of the change is that the 2012 net finance charge and operating costs will both increase by £1m, resulting in restated 2012 underlying EPS being 0.1p lower at 22.5p.

Including the impact of this IAS19 change, the Group's non-cash net finance charge from pension schemes is expected to be an expense of £3m in 2013.

The Group's underlying profit before tax decreased by 8% to £302m (2011: £328m).

Taxation

As anticipated, the Group's effective tax rate decreased to 20.0% (2011: 25.5%) on an underlying basis. This was largely due to changes to the UK corporation tax rate and the taxation of the financing of overseas subsidiaries, which have beneficial effects on both past liabilities and future effective rates. The effective tax rate is calculated by dividing the Group's underlying tax charge of £59m (2011: £81m) by its underlying profit before tax of £295m (2011: £319m), which is stated after excluding the £7m (2011: £9m) share of post-tax results of joint ventures.

Earnings per Share (EPS)

Underlying EPS increased 2.6% to 22.6p (2011: 22.0p). The increase in underlying EPS includes the lower underlying tax rate and the full year effect of the 2011 share buy-back. At constant translation exchange rates underlying EPS increased 3.2%.

In addition to the above, basic EPS was lower at 16.1p (2011: 16.8p). Notwithstanding the increase in underlying EPS, basic EPS fell as expenditure on business restructuring, primarily EiD, increased by £6m with a 2011 profit on the divestment of Analytic Solutions not repeating, partially offset by changes in the non-cash mark-to-market of movements on foreign exchange hedging contracts.

A full reconciliation of the profit before tax items used in the calculation of underlying EPS is set out on page 13.

Retirement Obligations

The Group operates a number of defined benefit schemes, the most significant being the Cobham Pension Plan. At the year end, the estimated deficit for accounting purposes between the value of the schemes' assets and the present value of the future liabilities was broadly similar to the previous year end at £73m before deferred tax (2011: £71m).

The purchase of further insurance policies to de-risk the Group defined benefit schemes is currently under evaluation. If further purchases were to be made this would have the effect, for accounting purposes only, of increasing the estimated deficit.

Cash Flow and Net Debt

Operating cash flow, which is stated after capital expenditure but before interest and tax payments, was £339m (2011: £337m). Operating cash conversion was strong at 104% (2011: 95%) of trading profit, before the Group's share of post-tax results of joint ventures, driven by an improvement in working capital. Pension payments were £15m (2011: £49m) in excess of the service cost.

The Group has included the £32m (2011: £37m) of payments relating to EiD within free cash flow. After this, net interest payments of £29m (2011: £33m), higher tax payments of £45m (2011: £24m) and the receipt of dividends from joint ventures, the Group generated free cash flow of £241m (2011: £251m). Out of this, it paid dividends of £93m (2011: £69m) and £19m (2011: £160m) on share purchases, of which £150m in 2011 related to a share buy-back programme.

In addition, the Group paid a net £275m (2011: £77m inflow) primarily relating to the acquisition of Thrane & Thrane and a loan investment in a Group joint venture in connection with the financing of helicopters. This was partially offset by the proceeds from the divestment of the emergency locator beacon businesses.

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

Cash flow	Year to 31 December 2011	**Year to 31 December 2012**
£m		
Trading profit (excluding joint ventures)	356	**326**
Depreciation and other movements	69	**67**
Pension contributions in excess of service cost	(49)	**(15)**
Decrease in working capital and provisions	11	**24**
Net capital expenditure	(50)	**(63)**
Operating cash flow	337	**339**
Operating cash/trading profit (excl. joint ventures)	95%	**104%**
Net interest paid	(33)	**(29)**
Taxation paid	(24)	**(45)**
Dividends received from joint ventures	8	**8**
Free cash flow before restructuring costs – primarily EiD	288	**273**
Restructuring costs	(37)	**(32)**
Free cash flow after restructuring costs – primarily EiD	251	**241**
Dividends paid	(69)	**(93)**
Acquisition payments less divestment proceeds, other related costs and loans to joint ventures	71	**(275)**
Settlement of commercial dispute	6	**-**
Net purchase of treasury shares	(160)	**(19)**
Exchange movements	(5)	**18**
(Increase)/Decrease in net debt	94	**(128)**

At the year end, after funding and exchange movements, net debt which comprises short term cash balances and fixed term borrowings, increased to £360m (2011: £232m). Included in this were exchange movements of £18m which decreased net debt as it is the Group's policy to hold a significant proportion of its borrowings in foreign currency, principally US dollars, as a natural hedge against assets and earnings denominated in those currencies.

At 31 December 2012, the Group was conservatively geared at 0.9 times net debt/EBITDA, after the £275m net outflow during the year relating to acquisitions.

As previously reported, following the acquisition of Thrane & Thrane, Cobham arranged two new bi-lateral bank facilities which are floating rate and based off applicable LIBOR. They comprise a five year €70m facility and a DKK525m facility that matures in October 2016, the latter of which can be extended at the bank's option for up to two years.

In October 2012, US$170m of 5.58% senior notes matured on their due date.

Dividends

Following the rebalancing at the interim stage, the Board is recommending a final dividend for 2012 of 6.40p (2011: 6.20p). This, together with the interim dividend of 2.40p (2011: 1.80p), will result in a total dividend per share for 2012 of 8.80p (2011: 8.00p), an increase of 10% on the prior year, in line with the Group's long standing, progressive dividend policy. The shares will be traded ex dividend on 1 May 2013. The dividend will be payable on 31 May 2013 to all holders on the register at 3 May 2013, subject to shareholder approval.

The fixed cumulative preferential dividend payment on the 6 per cent, second cumulative preference shares of £1 each has been approved by the Board at the rate of 6.00p per share (2011: 6.00p). The dividend in respect of the year ended 31 December 2012 will be paid on 31 May 2013 to all shareholders on the register at 3 May 2013.

RECONCILIATION OF UNDERLYING PROFIT

	2011	**2012**
Trading profit is calculated as follows:		
£m		
Result before joint ventures	252	**228**
Share of post-tax results of joint ventures	9	**7**
Operating profit	261	**235**
Adjusted to exclude:		
Business restructuring - primarily EiD	32	**38**
Movements in non-hedge accounted derivative financial instruments	6	**(11)**
Amortisation of intangible assets arising on business combinations	68	**69**
Insurance proceeds related to settlement of commercial dispute	(6)	**-**
M&A related adjustments	4	**2**
Trading profit	365	**333**

	2011	**2012**
Underlying profit before tax is calculated as follows:		
£m		
Profit before taxation	234	**206**
Adjusted to exclude:		
Business restructuring - primarily EiD	32	**38**
Movements in non-hedge accounted derivative financial instruments	6	**(11)**
Amortisation of intangible assets arising on business combinations	68	**69**
Insurance proceeds related to settlement of commercial dispute	(6)	**-**
M&A related adjustments	4	**2**
Business divestments and similar income	(27)	**(3)**
Debt and interest rate swap cancellation costs	15	**-**
Unwinding of acquisition related discounting	2	**1**
Underlying profit before taxation	328	**302**
Taxation charge on underlying profit	(81)	**(59)**
Underlying profit after taxation	247	**243**
Underlying earnings per ordinary share (pence)	22.0	**22.6**

DIVISIONAL REVIEW

Group Operating Summary

	Revenue		Trading Profit	
	2011	**2012**	2011[6]	**2012[6]**
£m				
Cobham Aerospace and Security	637	**697**	147	**149**
Margin			*23.1%*	***21.4%***
Cobham Defence Systems	324	**323**	55	**45**
Margin			*16.9%*	***13.9%***
Cobham Mission Systems	372	**373**	84	**81**
Margin			*22.6%*	***21.8%***
Cobham Aviation Services	308	**327**	42	**38**
Margin			*13.5%*	***11.6%***
Head Office and Other	(8)	**(7)**	15	**15**
Core Businesses	1,633	**1,713**	343	**328**
Margin			*21.0%*	***19.2%***
Non-core Businesses	221	**36**	22	**5**
Margin			*10.2%*	***13.4%***
Cobham Group	1,854	**1,749**	365	**333**
Margin			*19.7%*	***19.0%***

Cobham Aerospace and Security

	2011	Acquisitions & Currency Translation	Organic	**2012**
£m				
Revenue	637	84	(24)	**697**
Margin	23.1%	(0.5)%	(1.2)%	**21.4%**

Total revenue increased primarily due to the acquisition of Thrane & Thrane and the full year effect of the Trivec-Avant acquisition. Organic revenue decreased by 4%, driven by lower vehicle intercoms revenue into the US military, which was partially offset by growth in other parts of the Division, particularly commercial radios and antennas for large transport aircraft.

Areas of growth included:

- Strong double digit revenue growth on Airbus platforms, driven by increased production of platforms with higher value shipsets;
- Demand for reliable, fast and cost-effective aeronautical SATCOM solutions resulted in the delivery of the 1000th HGA-7001 antenna, which enables Inmarsat SwiftBroadband for broadband internet usage in flight;
- General Aviation antenna deliveries to customers such as Gogo Aviation, one of the world leaders in in-flight connectivity;

- Increasing slip ring deliveries, which are used in a number of specialist applications, including wind turbines and helicopters;
- Leading-edge expertise in the development and application of advanced Ground Penetrating Radar technologies for counter-Improvised Explosive Device (IED) applications has resulted in increasing revenue from orders received in 2012; and
- Within the SATCOM business, supply of a Very Small Aperture Terminal (VSAT) satellite communication solution, in cooperation with Ericsson, for Maersk's fleet of more than 500 container vessels - the largest single maritime VSAT order ever.

The margin decreased to 21.4% (2011: 23.1%) due to significant volume declines in land products, particularly vehicle intercoms, partially offset by EiD improvements.

In addition, there were a number of important business developments in the year which it is anticipated will benefit future revenue:

- Cobham announced as a land based SATCOM terminal launch partner on Inmarsat's Global Xpress network, adding to a 2011 award as marine terminal launch partner;
- Initial contracts received to supply the next generation of Audio and Radio Management Systems;
- Agreement with Lockheed Martin to manage all F-16 radar repairs for international customers;
- A contract with Embraer to provide the Distributed Passenger Address System on the KC-390 military transport aircraft, adding to four other previous awards the Group has received on this aircraft; and
- Orders for surveillance products in Brazil and Australia, and Citywide surveillance infrastructure activity driving growth in the Middle East.

Cobham Defence Systems

	2011	Currency Translation	Organic	**2012**
£m				
Revenue	324	4	(5)	**323**
Margin	16.9%	-	(3.0)%	**13.9%**

Total revenue was broadly flat, with a favourable US dollar exchange rate offset by an organic decline of 2%. The business has been almost entirely focused on US defence but increased its revenue to export markets during the year, with particular emphasis on guidance systems for missile programmes.

Areas of growth included:

- Completion of deliveries on Flight 7 of the Wideband Global Satellite (WGS) with deliveries on Flight 8 commenced. Revenue will continue over the next few years with deliveries on Flights 8, 9 and 10 and potential for foreign sales;
- Microelectronic assembly deliveries on proprietary intelligence, surveillance and reconnaissance and unmanned aerial platforms, with a healthy level of orders to maintain revenue in 2013;
- The F-15 fighter Digital Electronic Warfare System upgrade programme moved from development into production, with revenue expected to increase from continued export shipments; and

- Revenue from the F-35 Joint Strike Fighter electronic warfare and radar microelectronic assemblies increased, with Cobham supplying long lead time products on this aircraft.

As anticipated, the margin decreased to 13.9% (2011: 16.9%), in part due to favourable margins in the first half of 2011 on completion of the then current phases of certain production contracts. There was also accelerated programme investment in contracts in development during the year, which offset EiD benefits.

In addition, there were a number of important business developments in the year which it is anticipated will benefit future revenue:

- Award of the ALQ-99 Low Band Transmitter Full Rate Production Lot 6, for the EA-18G electronic warfare aircraft, which includes orders from the first foreign military sale customer, Australia. This award builds on a previous US Navy award in the first half of 2012;
- Award of Flight 9 and 10 from Boeing on the WGS programme;
- Work commencing on the Integrated Defensive Electronic Counter Measures ALQ-214 V4 Radio Frequency Countermeasures system full rate production 9 contract for microelectronic assemblies. This programme is an upgrade to the F-18 fighter aircraft, with shipments expected in the second half of 2013 and in 2014 and options for further orders; and
- Award of the low rate initial production contract for the SEWIP Block II programme, with deliveries commencing in 2014.

Cobham Mission Systems

	2011	Currency Translation	Organic	**2012**
£m				
Revenue	372	1	-	**373**
Margin	22.6%	-	(0.8)%	**21.8%**

Total revenue was flat, with organic growth in Cobham Mission Equipment driven by increased aerial refuelling revenue, with recognition of a revenue milestone on the FSTA programme on the aircraft's introduction to service with the Royal Air Force. However, growth was impacted by lower revenue from land products.

Areas of growth included:

- Continuing increases in aerial refuelling aftermarket revenue from both US and international customers, including on legacy US Air Force KC-135 and KC-10 aircraft and initial delivery of spares for the new Airbus A330MRTT aircraft;
- Increased shipments of aerial refueling pods for C-130 aircraft to US and international customers, with demand expected to remain strong;
- Engineering development revenue increasing on KC-46 and KC-390 tanker aircraft, with engineering revenue expected to peak in 2013 and 2014; and
- Increasing demand from original equipment manufacturers and aftermarket customers for oxygen and escape slide systems for commercial applications, with continued supply of the fuel tank inerting system on the Boeing 787 commercial aircraft programme.

The margin decreased to 21.8% (2011: 22.6%), due to the volume decline in land products, partially offset by the profit contribution from the recognition of the entry into service milestone on FSTA and EiD benefits.

In addition, there were a number of important business developments in the year which it is anticipated will benefit future revenue:

- Contract awards to provide body fuel tanks and the On-Board Inert Gas Generating System (OBIGGS) Air Separation Module for the USAF KC-46 tanker programme, with engineering activity underway and initial OBIGGS qualification hardware deliveries expected in 2013;
- A five-year IDIQ contract to supply a new configuration of OBIGGS units for US Army AH-64 Apache helicopters that will increase safety, improve supportability and extend sustainment for another 30 years; and
- A contract to provide weapons carriage and release systems for Hawk advanced jet trainer aircraft for the Royal Saudi Air Force.

Cobham Aviation Services

	2011	Currency Translation	Organic	**2012**
£m				
Revenue	308	3	16	**327**
Margin including Joint Ventures	13.5%	-	(1.9)%	**11.6%**
Margin excluding Joint Ventures	10.4%	-	(0.9)%	**9.5%**

Total revenue, which excludes joint ventures, was driven by organic growth of 5%, primarily in the Australian operations. Revenue in Australia benefited from increased flying activity for QantasLink and for the mining and energy sectors.

Areas of growth included:

- Boeing 717 activities in Australia were expanded with two additional aircraft joining the QantasLink fleet during 2012;
- A first contract commenced, with others to follow, to provide modified BAe 146 regional jets for services to gravel and unsealed airstrips for Xstrata. Cobham provides the only capability of this type in Australia; and
- Extended services to the Australian mining industry, including the introduction of a larger aircraft to the long-standing Santos contract and a two year extension to the BHP Billiton fly-in fly-out (FIFO) service contract.

In addition, within Cobham's joint venture company FB Heliservices which is excluded from revenue, the UK Ministry of Defence Helicopter Flying School contract was extended for four years until 2016 and new contracts have been secured with Albania and Qatar for flying training and support services.

The margin including joint ventures decreased to 11.6% (2011: 13.5%), in part due to the low margin on the FSTA conversion work and redundancy costs, including reductions in administrative and other positions primarily incurred in the first half. As anticipated, there was also a lower contribution from the Division's joint ventures.

In addition, there were a number of important business developments in the year which it is anticipated will benefit future revenue:

- A contract was awarded to fit air operable doors to half of the Australian Sentinel fleet. This enables Cobham to provide search and rescue services, with additional revenue potential from this capability;
- The continuing development of Chevron's energy operations on Barrow Island will require increased activity on Cobham's existing FIFO contract, contributing to future growth; and
- Cobham was awarded a two year contract extension to 2021 on the Sentinel contract for surveillance services for the Australian Customs and Border Protection Service.

Non-core Businesses

The Group's remaining non-core business is Commercial Systems, following the prior year divestment of the Analytic Solutions business and the divestment of the emergency locator beacon businesses.

OUTLOOK

Cobham delivered a good set of results in market conditions that continue to be challenging, with underlying EPS increasing by 2.6% on broadly flat organic revenue.

The US defence and security market remains highly uncertain and the Group expects a period of declining, then flat, US Government budgets consistent with previous down cycles. As set out in the November 2012 Interim Management Statement, the Group anticipates that its US defence/security revenue will decline in 2013 by mid-to-high single digits.

However, Cobham has strong growth prospects in its commercial markets driven by the need for technological innovation, rising demand for commercial aircraft and communications solutions for aviation and marine platforms. The Group also enjoys a broad geographical spread with access to growing defence/security markets in the rest of the world. In line with the previous guidance, Cobham's plans are based on Group revenue declining organically by low-to-mid single digits in 2013, as the decrease in defence/security revenue is only partially offset by growth in commercial markets. In 2013, Group operating margins are expected to be slightly lower than in 2012.

EiD, Cobham's successful re-engineering programme has achieved £48m of savings to the end of 2012. As announced in November 2012, Cobham is building on Excellence in Delivery to further restructure its cost base and will reinvest the majority of the additional savings to generate incremental organic revenue growth and gain market share, while slightly increasing operating margins. Accordingly, and on the basis of current market trends, the Group continues to anticipate a return to modest organic growth from 2014, rising above mid single digit growth thereafter.

The Group has a highly cash generative business model and robust balance sheet. These allow it to invest in carefully selected acquisitions to bring more balance between its defence/security and commercial businesses, promoting long term revenue growth through the cycles.

The Board believes that a combination of these robust actions together with the Group's cash generative business model will underpin the Group's long standing policy of paying a 10% progressive annual dividend increase.

- Ends -

Forward Looking Statements

Nothing in this press release should be construed as a profit forecast or be interpreted to mean that the future earnings per share of Cobham will necessarily be greater or less than, the earnings per share for completed financial periods.

This document 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 their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal', or 'estimates'. By their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or will occur in the future.

There are various factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies, political situations and markets in which the Group operates; changes in government priorities due to programme reviews or revisions to strategic objectives; changes in the regulatory or competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; changes to or delays in programmes in which the Group is involved; the completion of acquisitions and divestitures and changes in commodity prices, inflation or currency exchange rates.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Cobham or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Cobham does not intend to update these forward-looking statements.

Consolidated income statement
For the year ended 31 December 2012

£m	Note	2012	2011
Revenue	2	1,749.4	1,854.4
Cost of sales		(1,173.3)	(1,271.1)
Gross profit		576.1	583.3
Selling and distribution costs		(81.1)	(81.0)
Administrative expenses		(266.7)	(250.2)
Share of post-tax results of joint ventures and associates		7.4	9.4
Operating profit		235.7	261.5
Finance income	6	33.4	43.8
Finance costs excluding swap cancellation costs		(66.0)	(82.7)
Debt and interest rate swap cancellation costs		-	(15.4)
Finance costs	6	(66.0)	(98.1)
Business divestments and similar income	11	2.9	27.1
Profit before taxation	2	206.0	234.3
Taxation	7	(32.6)	(46.3)
Profit after taxation for the year		173.4	188.0
Attributable to:			
Owners of the parent		173.3	187.9
Non-controlling interests		0.1	0.1
		173.4	188.0
Earnings per Ordinary Share	5		
Basic		16.13p	16.80p
Diluted		16.08p	16.76p

Consolidated statement of comprehensive income
For the year ended 31 December 2012

£m	2012	2011
Profit after taxation for the year	173.4	188.0
Net translation differences on investments in overseas subsidiaries	(24.0)	(2.4)
Actuarial loss on pensions	(15.7)	(40.6)
Actuarial loss on other retirement obligations	(0.5)	-
Reclassification of cash flow hedge fair values	7.2	20.4
Movements in hedge accounted derivative financial instruments	(3.1)	(8.1)
Tax effects	(0.8)	7.0
Other comprehensive expense for the year	(36.9)	(23.7)
Total comprehensive income for the year	136.5	164.3
Attributable to:		
Owners of the parent	136.4	164.2
Non-controlling interests	0.1	0.1
	136.5	164.3

Trading profit is calculated as follows:

£m	Note	2012	2011
Operating profit		235.7	261.5
Adjusted to exclude:			
Business restructuring - primarily Excellence in Delivery		37.9	31.9
Movements in non-hedge accounted derivative financial instruments		(11.1)	5.4
Amortisation of intangible assets arising on business combinations		68.9	68.0
Insurance proceeds related to settlement of commercial dispute		-	(6.0)
M&A related adjustments		1.7	4.1
Trading profit	3	333.1	364.9

Consolidated balance sheet
As at 31 December 2012

£m	2012	2011
Assets		
Non-current assets		
Intangible assets	1,102.1	917.6
Property, plant and equipment	304.8	318.6
Investment properties	10.7	11.2
Investments in joint ventures and associates	15.8	16.1
Trade and other receivables	47.1	16.9
Deferred tax	9.8	18.3
Derivative financial instruments	3.4	1.1
	1,493.7	1,299.8
Current assets		
Inventories	306.4	304.6
Trade and other receivables	281.0	300.6
Current tax receivables	7.5	1.2
Derivative financial instruments	3.7	1.4
Cash and cash equivalents	264.2	345.6
Assets classified as held for sale	15.1	30.3
	877.9	983.7
Liabilities		
Current liabilities		
Borrowings	(307.3)	(225.7)
Trade and other payables	(349.9)	(336.6)
Provisions	(36.3)	(37.1)
Current tax liabilities	(119.2)	(129.3)
Derivative financial instruments	(6.6)	(13.4)
Liabilities classified as held for sale	(3.2)	(6.9)
	(822.5)	(749.0)
Non-current liabilities		
Borrowings	(316.8)	(352.4)
Trade and other payables	(39.1)	(50.7)
Provisions	(10.9)	(8.0)
Deferred tax	(44.2)	(15.5)
Derivative financial instruments	(10.3)	(17.6)
Retirement benefit obligations	(73.4)	(71.2)
	(494.7)	(515.4)
Net assets	1,054.4	1,019.1
Equity		
Share capital	28.9	28.9
Share premium account	126.6	126.6
Other reserves	64.2	83.8
Retained earnings	834.1	779.3
Total equity attributable to the owners of the parent	1,053.8	1,018.6
Non-controlling interests in equity	0.6	0.5
Total equity	1,054.4	1,019.1

Net debt	(359.9)	(232.5)

Approved by a duly appointed and authorised committee of the Board on 6 March 2013 and signed on its behalf:

R Murphy W Tucker
Directors

Consolidated statement of changes in equity
For the year ended 31 December 2012

£m	Share capital	Share premium account	Other reserves	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests in equity	Total equity
Total equity at 1 January 2011	28.9	126.6	69.8	850.5	1,075.8	0.4	1,076.2
Profit for the year	-	-	-	187.9	187.9	0.1	188.0
Net translation differences on investments in overseas subsidiaries	-	-	(2.4)	-	(2.4)	-	(2.4)
Actuarial loss on pensions	-	-	-	(40.6)	(40.6)	-	(40.6)
Reclassification of cash flow hedge fair values	-	-	20.4	-	20.4	-	20.4
Movements in hedge accounted derivative financial instruments	-	-	(8.1)	-	(8.1)	-	(8.1)
Tax effects	-	-	(2.3)	9.3	7.0	-	7.0
Total comprehensive income for the year	-	-	7.6	156.6	164.2	0.1	164.3
Net purchase of treasury shares	-	-	-	(159.5)	(159.5)	-	(159.5)
Dividends authorised (note 4)	-	-	-	(69.4)	(69.4)	-	(69.4)
Share-based payments	-	-	6.1	-	6.1	-	6.1
Dividend equivalents paid on vesting of PSP and BCP awards	-	-	(0.2)	-	(0.2)	-	(0.2)
Release of hedge reserve	-	-	3.6	-	3.6	-	3.6
Transfer of other reserves to retained earnings	-	-	(1.1)	1.1	-	-	-
Tax effects	-	-	(2.0)	-	(2.0)	-	(2.0)
Total equity at 31 December 2011	28.9	126.6	83.8	779.3	1,018.6	0.5	1,019.1
Profit for the year	-	-	-	173.3	173.3	0.1	173.4
Net translation differences on investments in overseas subsidiaries	-	-	(24.0)	-	(24.0)	-	(24.0)
Actuarial loss on pensions	-	-	-	(15.7)	(15.7)	-	(15.7)
Actuarial loss on other retirement obligations	-	-	-	(0.5)	(0.5)	-	(0.5)
Reclassification of cash flow hedge fair values	-	-	7.2	-	7.2	-	7.2
Movements in hedge accounted derivative financial instruments	-	-	(3.1)	-	(3.1)	-	(3.1)
Tax effects	-	-	(3.2)	2.4	(0.8)	-	(0.8)
Total comprehensive income for the year	-	-	(23.1)	159.5	136.4	0.1	136.5
Net purchase of treasury shares	-	-	-	(18.7)	(18.7)	-	(18.7)
Dividends authorised (note 4)	-	-	-	(92.5)	(92.5)	-	(92.5)
Share-based payments	-	-	6.8	-	6.8	-	6.8
Dividend equivalents paid on vesting of PSP and BCP awards	-	-	(0.1)	-	(0.1)	-	(0.1)
Release of hedge reserve	-	-	2.8	-	2.8	-	2.8
Transfers of other reserves to retained earnings	-	-	(6.5)	6.5	-	-	-
Tax effects	-	-	0.5	-	0.5	-	0.5
Total equity at 31 December 2012	28.9	126.6	64.2	834.1	1,053.8	0.6	1,054.4

Consolidated cash flow statement
For the year ended 31 December 2012

£m	Note	2012	2011
Operating profit		235.7	261.5
Share of post-tax profits of joint ventures and associates		(7.4)	(9.4)
Depreciation and amortisation		129.2	129.4
Loss on sale of property, plant and equipment		0.6	1.7
M&A related adjustments		(4.7)	4.1
Movements in non-hedge accounted derivative financial instruments		(11.1)	5.4
Pension contributions in excess of service cost		(15.4)	(48.8)
Share-based payments		6.8	6.1
Decrease in provisions		(1.4)	(0.5)
Increase in inventories		(3.6)	(13.7)
Decrease in trade and other receivables		34.4	8.6
(Decrease)/increase in trade and other payables		(1.0)	9.1
Tax paid		(45.2)	(24.3)
Interest paid		(35.3)	(42.4)
Debt and interest rate swap cancellation costs		-	(15.4)
Interest received		6.6	9.4
Net cash from operating activities		288.2	280.8
Cash flows from investing activities			
Dividends received from joint ventures		7.5	8.1
Purchase of property, plant and equipment		(48.2)	(48.6)
Purchase of intangible assets		(13.8)	(2.0)
Capitalised expenditure on intangible assets		(1.4)	(0.2)
Proceeds on disposal of property, plant and equipment		1.0	1.0
Provision of loan to joint ventures net of repayments		(36.9)	(8.0)
Acquisition of subsidiaries net of cash or overdraft acquired	10	(282.7)	(147.8)
Deferred and contingent consideration paid		(3.0)	(2.6)
Proceeds from vesting of warrants in acquired business	10	8.4	-
Proceeds of business divestments	11	43.9	230.4
Proceeds on disposal of assets previously held for sale		3.5	16.9
Net cash (used in)/from investing activities		(321.7)	47.2
Cash flows from financing activities			
Dividends paid	4	(92.5)	(69.4)
Purchase of treasury shares		(26.3)	(165.7)
Proceeds on allocation of treasury shares		7.5	6.2
New borrowings		184.5	7.3
Repayment of borrowings		(113.1)	(246.7)
Net cash used in financing activities		(39.9)	(468.3)
Exchange movements		(8.3)	1.5
Net decrease in cash and cash equivalents		(81.7)	(138.8)
Cash and cash equivalents at 1 January		331.9	470.7
Cash and cash equivalents at 31 December		250.2	331.9

1. Basis of preparation

The financial information set out in this statement does not constitute the Group's statutory accounts for the years ended 31 December 2012 and 31 December 2011.

Statutory accounts for the year ended 31 December 2011 have been delivered to the Registrar of Companies, and those for 2012 will be delivered following the Company's Annual General Meeting.

The auditors have reported on those accounts; their reports were unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

There were no changes to previously published accounting policies or other adjustments required on adoption of new or amended standards which became applicable in 2012.

2. Segmental information

Operating segments

The Group reports four segments whose revenue and results are reported to the Board. The principal activities of these segments are as follows:

Cobham Aerospace and Security	Providing end-to-end avionics and communication equipment, law enforcement and national security solutions, and satellite communication equipment for land, sea and air applications.
Cobham Defence Systems	Supplying critical technology for network centric and intelligence operations, moving information around the digital battlefield with customised and off-the-shelf solutions for people and systems to communicate on land, sea and air.
Cobham Mission Systems	Providing safety and survival systems for extreme environments, nose-to-tail refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotor craft, and remote controlled robots and fully-equipped bomb disposal vehicles for homeland security and military applications.
Cobham Aviation Services	Delivering outsourced aviation services for military and civil customers worldwide through military training, special mission flight operations, outsourced commercial aviation and aircraft engineering.

Non-core businesses are those which were identified for divestment in 2011. The Analytic Solutions and Beacons businesses were divested in 2011 and 2012 respectively.

£m	Note	Revenue 2012	Revenue 2011	Profit before taxation 2012	Profit before taxation 2011 (as restated)
Aerospace and Security		697.3	637.0	149.1	146.9
Defence Systems		322.9	323.9	44.9	54.7
Mission Systems		372.6	371.8	81.3	84.2
Aviation Services		326.6	308.1	38.0	41.5
Head office, other activities and elimination of inter-segment items		(6.5)	(7.2)	14.9	15.1
Core Group		1,712.9	1,633.6	328.2	342.4
Non-core businesses		36.5	220.8	4.9	22.5
Total Group		1,749.4	1,854.4	333.1	364.9
Business restructuring - primarily Excellence in Delivery				(37.9)	(31.9)
Movements in non-hedge accounted derivative financial instruments				11.1	(5.4)
Amortisation of intangible assets arising on business combinations				(68.9)	(68.0)
Insurance proceeds related to settlement of commercial dispute				-	6.0
M&A related adjustments				(1.7)	(4.1)
Net finance costs	6			(32.6)	(54.3)
Business divestments and similar income	11			2.9	27.1
Profit before taxation				206.0	234.3

The Group's share of the post-tax results of joint ventures and associates totalling £7.4m (2011: £9.4m) arises in Aviation Services (£7.0m, 2011: £9.4m) and Aerospace and Security (£0.4m, 2011: £nil).

The comparative segmental analysis of profit before taxation above has been re-presented to reflect the Group-wide brand charge of up to 1%, now charged to the segments from Head Office.

Depreciation of property, plant and equipment, investment properties and amortisation of internally generated intangibles are included in the calculation of trading profit as provided to the Board. Segment assets are not reviewed by the Board.

£m	Depreciation and amortisation 2012	Depreciation and amortisation 2011	Segment assets 2012	Segment assets 2011
Aerospace and Security	14.7	14.1	941.5	655.7
Defence Systems	14.8	13.3	448.2	518.0
Mission Systems	6.5	5.8	343.0	357.8
Aviation Services	23.6	25.4	226.2	228.2
Head office, other activities and elimination of inter-segment items	-	0.5	76.0	64.9
Core Group	59.6	59.1	2,034.9	1,824.6
Non-core businesses	0.7	2.3	32.3	75.2
Segment total	60.3	61.4	2,067.2	1,899.8
Interests in joint ventures and associates	-	-	15.8	16.1
Unallocated assets	-	-	288.6	367.6
Total Group	60.3	61.4	2,371.6	2,283.5

Geographical information

Revenue from external customers analysed by their geographical location, irrespective of the origin of the goods and services, is shown below. Revenue from customers located in individual countries within the EU (except the UK) and the Rest of the World is not considered to be individually material. Non-current assets exclude derivative financial instruments and deferred tax assets.

£m	UK	USA	Australia	Other EU countries	Rest of the World	Total
Revenue						
Year to 31 December 2012	172.3	885.6	241.4	292.5	157.6	1,749.4
Year to 31 December 2011	170.6	1,040.2	219.0	253.3	171.3	1,854.4
Non-current assets						
At 31 December 2012	258.0	666.7	111.5	401.7	42.6	1,480.5
At 31 December 2011	223.1	762.4	121.7	131.3	41.9	1,280.4

3. Underlying profit and earnings per share

£m	2012	2011
Operating profit	235.7	261.5
Business restructuring - primarily Excellence in Delivery	37.9	31.9
Movements in non-hedge accounted derivative financial instruments		
On contracts open at the year end	(6.9)	4.4
On contracts closed during the year	(4.2)	1.0
Amortisation of intangible assets arising on business combinations	68.9	68.0
Insurance proceeds related to settlement of commercial dispute	-	(6.0)
M&A related adjustments	1.7	4.1
Trading profit	333.1	364.9
Net underlying finance costs	(30.9)	(37.0)
Underlying profit before taxation	302.2	327.9
Taxation charge on underlying profit	(58.9)	(81.2)
Non-controlling interests	(0.1)	(0.1)
Underlying profit after tax attributable to owners of the parent	243.2	246.6
Underlying basic EPS	22.63p	22.05p
Underlying diluted EPS	22.57p	22.00p

Business restructuring costs of £37.9m (2011: £38.5m) were incurred as part of the Group's Excellence in Delivery programme. These costs are incremental to normal operations and exclusively relate to the ongoing design and implementation of Standard Operating Frameworks within the principal locations, initial development costs of a new ERP computer system, together with site consolidation and consequential asset write downs and workforce reduction costs. Business restructuring in 2011 also includes a gain on disposal of property of £6.6m.

Underlying profit excludes the profit on business divestments and similar income (see note 11).

Underlying administrative expenses, which exclude business restructuring, movements in non-hedge accounted derivative financial instruments, amortisation of intangible assets arising on business combinations, insurance proceeds related to the settlement of a commercial dispute and other M&A related adjustments, amounted to:

£m	2012	2011
Underlying administrative expenses	169.3	146.8
% of revenue	9.7%	7.9%

4. Dividends

The following dividends on Ordinary Shares were authorised and paid during the year:

£m	2012	2011
Final dividend of 6.2 pence per share for 2011 (2010: 4.372 pence)	66.7	49.8
Interim dividend of 2.4 pence per share for 2012 (2011: 1.8 pence)	25.8	19.6
	92.5	69.4

In addition to the above, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2012 of 6.4 pence per share which will absorb an estimated £68.3m of shareholders' funds. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If authorised, it will be paid on 31 May 2013 to shareholders who are on the register of members as at 3 May 2013. The total dividend in respect of the financial year ended 31 December 2012 will therefore be 8.8 pence per share (2011: 8.0 pence). The total amount payable in respect of 2012 will be £94.1m.

5. Earnings per Ordinary Share

	2012			2011		
	Earnings £m	Weighted average number of shares million	Per-share amount pence	Earnings £m	Weighted average number of shares million	Per-share amount pence
Basic earnings per share (EPS)						
Earnings attributable to owners of the parent	173.3	1,074.7	16.13	187.9	1,118.4	16.80
Effect of dilutive securities						
Options		2.3			1.6	
Long term incentive plans		0.7			1.1	
Diluted EPS	173.3	1,077.7	16.08	187.9	1,121.1	16.76

6. Finance income and costs

£m	2012	2011
Finance income:		
Bank interest	4.0	8.6
Expected return on pension scheme assets	26.6	32.7
Other finance income	2.8	2.5
Total finance income	33.4	43.8
Finance costs:		
Interest on bank overdrafts and loans	(32.1)	(40.3)
Interest on pension scheme liabilities	(28.6)	(31.5)
Debt and interest rate swap cancellation costs	-	(15.4)
Other finance expense	(5.3)	(10.9)
Total finance costs	(66.0)	(98.1)
Net finance costs excluding pension schemes	(30.6)	(40.1)
Debt and interest rate swap cancellation costs	-	(15.4)
Net finance (costs)/income on pension schemes	(2.0)	1.2
Net finance costs	(32.6)	(54.3)

Other finance expense above includes £2.8m (2011: £3.1m) in relation to interest rate swaps (previously designated as cash flow hedges) which were terminated during 2009 and are being amortised over the life of the original contracts. It also includes £1.7m (2011: £1.9m) relating to the unwinding of acquisition related discounting, excluded from underlying profit in note 3.

Debt and interest rate swap cancellation costs of £15.4m were incurred in 2011 relating to the original financing of the Analytic Solutions business which was divested during that year. These costs are excluded from underlying profit as shown in note 3.

7. Income tax expense

£m	2012	2011
Current tax	47.4	51.7
Deferred tax	(14.8)	(5.4)
Total tax charge for the year	32.6	46.3

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction. The total tax charge for the year includes £6.8m (2011: £32.1m) for the UK. The tax charge included in the share of post-tax results of joint ventures and associates amounts to £1.5m (2011: £2.8m).

8. Cash and cash equivalents and net debt

Analysis of net debt

£m	2012	2011
Cash and cash equivalents per balance sheet	264.2	345.6
Borrowings - current liabilities	(307.3)	(225.7)
Borrowings - non-current liabilities	(316.8)	(352.4)
	(359.9)	(232.5)

Reconciliation of net cash flow to movement in net debt

£m	2012	2011
Net debt at 1 January	(232.5)	(326.1)
Decrease in cash and cash equivalents in the year per cash flow statement, before exchange movements	(73.4)	(140.3)
New borrowings	(184.5)	(7.3)
Repayment of borrowings	113.1	246.7
Exchange movements	17.4	(5.5)
Net debt at 31 December	(359.9)	(232.5)

9. Retirement benefit obligations

£m	2012	2011
Net liability at start of year	(71.2)	(82.0)
Amounts recognised in the income statement	(6.6)	10.9
Contributions paid by the employer	20.0	40.5
Actuarial losses recognised in consolidated statement of comprehensive income	(15.7)	(40.6)
Exchange differences	0.1	-
Net liability at end of year	(73.4)	(71.2)

As part of the Group's risk management strategy for defined benefit obligations, certain liabilities relating to past service of pensioner and deferred members of defined benefit schemes were subject to a buy-in arrangement on 14 December 2011. Under the terms of this arrangement, the schemes impacted transferred assets to an insurance company in return for a qualifying insurance policy which provides annuity payments equal to the liabilities covered by the arrangement as they fall due. This eliminated the Group's exposure to the interest, inflation and longevity risks associated with these liabilities. The insurance contract asset is measured at a value equal to the related liabilities. Contributions of £19.6m were payable into the schemes in 2011 representing the difference between the cost of this asset and the net obligations transferred. The Group continues to review its exposure to risks associated with pension obligations, including the potential purchase of further insurance policies. The purchase of insurance policies would have the effect of increasing the net liability recognised under IAS 19.

During the year the Group merged two of the smaller defined benefit pension plans into the Cobham Pension Plan in order to improve the efficiency of administration of the schemes and to realise additional benefits of scale.

Following the disposal of the Engineering Consultancy Group business in 2011, curtailment gains of £1.4m were recognised in the income statement in that year. The amount recognised in 2011 in the income statement also included £12.5m relating to past service following changes to the rate of certain UK pension increases.

10. Business combinations

During the year, the issued share capital of Thrane & Thrane A/S was acquired through market and private purchases and a public offer. On 10 April, the Group held 25.6% of the issued share capital and has included its share of post-tax results of the business in the income statement alongside the Group's share of post-tax results of joint ventures. Control was achieved on 8 June 2012 when, through a combination of shares purchased and unconditional and irrevocable agreements with shareholders, Cobham controlled 96.9% of the issued share capital, and the business has been consolidated as a subsidiary from that date. Subsequently, during 2012, the remaining share capital has been acquired.

In accordance with IFRS 3, the revaluation gains on previously held equity interests in Thrane & Thrane that arise on gaining control of the company have been recognised in the income statement. This business is now part of the Aerospace and Security division.

The fair value of Thrane & Thrane can be reconciled as follows:

£m	
Cash consideration including compulsory purchase obligations	279.6
Share of profit during the period the investment was held as an associated undertaking	0.4
Revaluation gains arising on equity interests on transfer of control	1.0
Fair value at date control achieved	281.0

A summary of the fair values of the net assets acquired are as follows:

£m	
Non-current assets	147.3
Current assets	65.4
Current liabilities	(41.8)
Non-current liabilities	(40.4)
Net assets acquired	130.5
Goodwill	150.5
Total value of business acquired	281.0

All intangible assets were recognised at their respective fair values. The residual excess of the total cost over the fair value of the net assets acquired is recognised as goodwill in the financial statements. Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised, such as the value of the workforce. Goodwill is not anticipated to be deductible for tax purposes.

Acquired receivables are included in current assets in the table above at their fair values and relate to trade and other receivables which are considered to be recoverable in full.

The results since the date of acquisition are as follows:

£m	
Third party revenue	70.3
Operating profit	8.8
Loss after tax	(8.6)

The loss after tax since the date of acquisition includes the impacts of amortisation of the intangible assets which are recognised as a result of the business combination and are included within the results of the acquired business for management reporting purposes.

If this acquisition had taken effect on 1 January 2012, it is estimated that Group total revenues would have been £1,808.5m and profit after tax £181.3m. This information is not necessarily indicative of the results had the operations been acquired at the start of the period, nor of future results of the combined operations.

The net cash flows resulting from business combinations are as follows:

£m	
Cash consideration paid for the business combination completed in the current year	279.6
Net overdraft acquired with the business combination completed in the current year	2.9
Consideration relating to a business combination completed in 2011	0.2
	282.7

In addition to the above, £8.4m was received in respect of the exercise of share warrants within the acquired business. M&A related costs relating to the acquisition, recognised within administrative expenses during the year, were £5.4m.

11. Business divestments and similar income

£m	2012	2011
Net profit on business divestments before tax	7.8	25.0
Additional profit on divestment of M/A-COM Technology Solutions Inc	4.1	9.1
Additional profit on other divestments in prior years	3.3	-
Revaluation gain arising on equity interests in Thrane & Thrane	1.0	-
Adjustments to businesses held for sale	(13.3)	(7.0)
	2.9	27.1

The divestment of the emergency locator beacons businesses, part of Commercial Systems, was completed on 6 July 2012. Cash consideration was US$73.0m with up to US$5.0m additionally payable contingent upon future events. The assets and liabilities of these businesses were shown as held for sale at 30 June 2012.

During 2011, the Analytic Solutions business, Cobham MAL Limited and the Engineering Consultancy Group part of Cobham Technical Solutions were divested.

The profit on the divestments in 2012, which has been excluded from trading profit, can be analysed as follows:

£m	
Gross consideration	48.0
Net assets at date of divestment	(40.1)
Expenses of sale	(4.9)
Foreign exchange adjustments	4.8
Net profit on divestments before tax	7.8
Tax charge on net profit on divestments	(1.2)
Net profit on divestments after tax	6.6

The net cash impact of the divestments is as follows:

£m	
Cash consideration	48.5
Expenses of sale	(4.6)
	43.9

The net assets divested during the year were as follows:

£m	At date of divestment	At 31 December 2011
Attributable goodwill	22.5	22.3
Other intangible assets	0.2	0.2
Property, plant and equipment	1.6	1.6
Inventories	11.3	9.8
Trade and other receivables	6.2	5.3
Trade and other payables including provisions	(3.0)	(2.9)
Deferred tax	1.3	0.6
Net assets	40.1	36.9