PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

3 March 2016

Underlying[1] results	2015	2014	Change	Constant FX Change
Order intake	**£2,148m**	£1,908m	+13%	+12%
Revenue	**£2,072m**	£1,852m	+12%	+11%
Trading Profit	**£332m**	£287m	+16%	+16%
Profit before Tax	**£280m**	£257m	+9%	+11%
Earnings per share (EPS)	**19.5p**	18.5p	+5%	+7%
Operating cash conversion[2]	**71%**	73%	-2%pts	
Statutory results	**2015**	2014	Change	Constant FX Change
Revenue	**£2,072m**	£1,852m	+12%	+11%
Profit before Tax	**£(40)m**	£24m		
EPS	**(3.3)p**	2.6p		
Net Debt	**£1,207m**	£1,223m		
Full year dividend per share*	**11.18p**	10.65p	+5%	

** recommended*

- Robust performance driven by the full year contribution from the Aeroflex acquisition; integration accelerated and anticipated to be complete by the end of 2017 with total costs and benefits in line with original expectations

- Group order intake up 13% and book-to-bill of 1.04x; Group benefiting from multi-year orders on missile programmes

- Total revenue growth of 12% and trading profit increase of 16%; Group organic[3] revenue declined 1%, with good non-US defence/security growth offset by commercial headwinds

- Group trading margin of 16.0% (2014: 15.5%) with benefits including cost efficiencies and non-repeat of 2014 £15m aerial refuelling provision largely offsetting reduced shorter cycle commercial volumes

- Private Venture[4] investment increased to £138m or 8.2% of revenue (2014: £97m or 6.7%); technology investment closely aligned to attractive market opportunities

- Statutory profit and EPS include non-underlying charges associated with the acquisition and integration of Aeroflex, net profit from divestments and goodwill impairment

- Cash conversion of 71% (2014: 73%) reflects continued investment in PV and capital expenditure and an outflow from working capital, partially driven by increases in inventory on development programmes and in shorter cycle businesses

- Net debt reduction to £1,207m (2014: £1,223m) includes benefit of divestments but also £80m adverse foreign exchange impact and accelerated Aeroflex integration costs

- Proactive portfolio divestments to allow increased focus on core capabilities; Surveillance divestment completed in early 2016

Bob Murphy, Chief Executive Officer, said:

"We have delivered a robust performance in 2015 in challenging conditions with increased headwinds in some of our commercial markets towards the end of the year which had an adverse impact on earnings and cash generation. We have continued to deliver on our strategic objectives and made excellent progress with the integration of the Aeroflex business. In addition, we have enhanced our focus by divesting a number of businesses in certain markets and with technologies which did not fit our growth strategy, although this will have a dilutive impact on earnings this year.

"In 2016, we anticipate that trading in our defence and security portfolio will be stable, reflecting our expectations for overall trends in global spending in these markets. Demand conditions in some of our commercial markets remain subdued and, with the current macroeconomic uncertainty, there is no underlying improvement anticipated in these markets. Given these factors, we will continue to manage our cost base proactively together with increased focus on cash generation and debt reduction. We expect an earnings bias to the second half of the year.

"The Board remains confident that the continued investment in technology and know-how will enable the Group to maintain its leading positions in markets with good prospects, leaving Cobham well placed to deliver growth over the medium term."

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, 3 March 2016, with a live webcast that is accessible on the Cobham website (www.cobhaminvestors.com). The webcast will be made available on the website for subsequent viewing. There will also be a live dial-in facility available which can be accessed in the UK and internationally on +44 (0) 20 3003 2666, using the password Cobham and in the US/Canada on +1 646 843 4608, also using the password Cobham. The published Annual Report will be available as a download file on www.cobhaminvestors.com from 21 March 2016.

A PDF copy of this preliminary announcement can be downloaded from www.cobhaminvestors.com/reports-and-presentations/2015.

The following notes apply throughout these preliminary results:

1. *To assist with the understanding of earnings trends, the Group has included within its published statements non-GAAP measures including trading profit and underlying earnings results. Trading profit has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity and business restructuring costs as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments, gains and losses arising on dividend related foreign exchange contracts, impairments of intangible assets and items deemed by the Directors to be of an exceptional nature.*

   All underlying measures include the operational results of all businesses including those held for sale until the point of sale.

   Business acquisition and divestment related items excluded from trading profit and underlying earnings include the amortisation of intangible assets recognised on acquisition, 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 and other direct costs associated with business combinations and terminated divestments.

   Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. In 2015, these relate primarily to the integration of the Aeroflex businesses acquired in 2014.

   Underlying earnings are defined as trading profit less net underlying finance costs, which exclude acquisition related items, and after deducting associated taxation and non-controlling interests.

   A reconciliation of operating profit and profit before taxation to the respective underlying numbers is shown on page 14.

2. *Free cash flow is defined as net cash from operating activities less cash flows related to the purchase or disposal of property, plant, equipment and intangible assets but excluding payments relating to M&A activities.*

   Operating cash flow is free cash flow before payment of tax, interest and restructuring costs. Operating cash conversion is defined as operating cash flow as a percentage of trading profit.

   A reconciliation of trading profit to operating cash is shown on page 13.

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

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

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

OVERVIEW OF THE YEAR

Group order intake was up 13% at £2,148m (2014: £1,908m) with like-for-like order intake 2% higher. There was a book-to-bill ratio of 1.04x (2014: 1.03x) which benefited from the receipt of some significant orders for subsystems and components for a number of multi-year missile programmes. At the year end the Group's order book had increased 1% at constant exchange rates, after taking into account divestments.

Total Group revenue increased by 12% to £2,072m (2014: £1,852m), primarily driven by the Aeroflex acquisition, net of divestments. There was also a £12m net benefit from foreign currency translation.

Group organic revenue declined 1% in the year. There was good growth of 4% in non-US defence/security markets, including higher avionics retrofit and aftermarket revenue and increased actuation volumes for air-to-ground munitions. In the US defence/security market organic revenue declined 1% with increased aerial refuelling revenue offset by lower volumes in certain mature production programmes in the Advanced Electronic Solutions Sector. Organic revenue in commercial markets declined by 6%. This included significantly lower marine SATCOM volumes particularly in the fourth quarter, being impacted by adverse demand conditions in shipping and oil and gas markets, as well as lower wireless revenue, after a strong 2014.

The Group's trading profit was £332m (2014: £287m), an increase of £45m including a full year contribution of £23m from acquisitions net of the impact of divestments. This result also included the positive impact from efficiency savings, Aeroflex integration benefits and the non-repeat of the £15m aerial refuelling provision taken in 2014. There was a partial offset from the adverse impact of lower shorter cycle commercial volumes and an adverse revenue mix in the Advanced Electronic Solutions Sector. The trading margin increased to 16.0% (2014: 15.5%).

The Group has continued to invest in technology and company funded Private Venture (PV or company funded R&D – Research and Development) investment has increased in the year to £138m (2014: £97m), primarily a result of the Aeroflex acquisition, with investment at 8.2% (2014: 6.7%) of revenue. In addition, customer funded technology investment amounted to £120m (2014: £101m). This related primarily to aerial refuelling development programmes, with the Group continuing to make encouraging progress. Notably, the US KC-46 tanker entered flight test at the end of the third quarter of 2015.

The Group has made excellent progress integrating the former Aeroflex businesses and it is anticipated that the programme will be complete by the end of 2017, significantly ahead of schedule, with total costs and benefits in line with original expectations. Some £25m (US$37m) of year-on-year efficiencies have been achieved in 2015 with total business restructuring costs of £67m.

The Group has exited certain peripheral markets and technologies. These divestments have helped the Group to reduce complexity and focus on areas of core capability, so concentrating investment in markets with the most attractive long term potential.

Underlying EPS was 19.5p (2014: 18.5p), an increase of 5% on the prior year or 7% at constant currency.

Operating cash flow, which is stated after net capital expenditure but before interest and tax payments, increased to £235m (2014: £208m). Operating cash conversion was broadly consistent with the prior year at 71% (2014: 73%). This included increased working capital of £49m and an increase in capital expenditure of £24m. Free cash flow was £106m (2014: £114m) after restructuring payments of £48m primarily relating to the Aeroflex integration (2014: £32m).

At the year end the Group's net debt had decreased to £1,207m (2014: £1,223m). This included net divestment proceeds of £137m, which were partially offset by adverse exchange rate movements of £80m (2014: £59m). The net debt/EBITDA ratio was 2.9x at the year end.

MARKETS

Cobham operates in three broad market segments: commercial, which comprises aerospace, marine, wireless and other land markets; US defence/security and non-US defence/security. The proportion of Group revenue attributable to each market segment and the organic growth in each is set out below.

	2015		2014	
	Revenue	**Organic Growth**	Revenue	Organic Growth
Commercial	**38%**	**(6)%**	39%	5%
US defence/security	**36%**	**(1)%**	34%	(4)%
Non-US defence/security	**26%**	**4%**	27%	(6)%
Group	**100%**	**(1)%**	100%	(2)%

Commercial Markets

Cobham has leading positions in aerospace markets where it supplies specialist products for a range of aircraft including wide body and narrow body passenger aircraft, regional jets, business jets and helicopters. It also provides specialist aviation services, principally in Australia. In addition, it has a leading position in the marine SATCOM market and in wireless markets, where it supplies specialist test and measurement solutions and intelligent digital distributed antenna systems. The Group has a particular focus on communication related markets, especially where on the move data transmission is required, this being often for use in harsh environments.

Certain of the Group's commercial markets are currently experiencing headwinds, which are driven principally by slowing economic growth particularly in Asia-Pacific and weakness in oil, gas and other natural resource markets. Notwithstanding this, the Group is confident that all its commercial markets have good long term prospects, driven by attractive macro trends such as the very strong growth in global mobile data traffic and the increasing global demand for air travel.

US defence/security market

Cobham has leading positions in the US defence/security market. These are underpinned principally by the Group's differentiated communication related technologies, with its components and subsystems having a variety of applications including for electronic warfare, radar, missile guidance systems and satellite actuation and power distribution modules. It also has leading positions in aerial refuelling and pneumatic and actuation products primarily for aircraft platforms. Its capabilities are well aligned to US Department of Defense priorities, as set out in the June 2015 document, 'The National Military Strategy of the United States of America'. These priorities include enhancing communications, networked intelligence and the ability to project force swiftly around the world.

The US defence/security market began to stabilise in 2015. This has been underpinned by a new two year bipartisan budget agreement covering 2016 and 2017. This agreement includes a year-on-year increase in the investment budget for 2016, followed by a broadly flat 2017 investment budget request. However, despite this evidence of an improving market environment, there is a continuing time lag between budgetary approval and investment outlays, or the spending of the budget. This time lag delays market growth with the US Treasury department reporting that investment outlays were 5% lower in calendar 2015, despite a modest year-on-year budgetary increase.

The Group continues to believe that, over the coming years, individual company positioning will be the key determinant of growth. It is anticipated that Cobham will benefit from its good positions on priority programmes including the F-35 Joint Strike Fighter, the KC-46 tanker aircraft and a number of missile, radar and electronic warfare upgrade programmes. However, it is expected there will be a two-way impact in this market, as there will also be reduced funding for legacy positions as these are wound down to support the increased investment in next generation priority platforms and programmes.

Non-US defence/security markets

Cobham aims to leverage its technology and capabilities into accessible markets worldwide outside of the US, either by benefiting from export orders won by its US and non-US defence/security customers or by direct sales to the end customer, as its critical components and subsystems are used globally on a diverse range of platforms and programmes.

Demand conditions in non-US defence/security markets have continued to improve. In particular, there is a good level of demand in Asia-Pacific and in the Middle East, where there are heightened regional security tensions and local conflicts. The Group has continued to benefit from these market conditions, including orders from a number of different countries for missile control subsystems on high volume air-to-ground missiles and laser guided munitions.

In Europe, some countries have started to increase their defence budgets modestly in response to heightened security threats. However, budgetary increases are not being applied throughout the region and, overall, public deficits and indebtedness remain high. This is likely to continue to hold back growth in European defence/security investment.

STRATEGY

The Group builds and maintains leading positions in its chosen markets by leveraging innovative technology and know-how with a deep insight into customers' needs. It continues to make good progress against its five strategic actions as set out below.

1. Understanding customer needs and developing customer relationships

The Group continues to focus on opportunities to improve customer satisfaction and to anticipate future requirements. Cobham has undertaken a comprehensive survey of its largest customers, which identified opportunities to deepen key relationships and to underpin the Group's position as a preferred supplier of high quality products and services. Increasing emphasis on customer engagement has led to regular contact with key customers on market developments, new business opportunities and ideas for next generation products and technologies. As a result of this enhanced collaboration, Cobham is identifying targeted PV investment to further grow its market share.

2. Investing in and applying discriminating technology

The Group has continued to invest in technology to drive its growth. Company funded PV investment increased to £138m (2014: £97m), primarily as a result of the full year impact of Aeroflex. This investment represents some 8.2% (2014: 6.7%) of revenue. The Group has continued to align this spending with customer demand for differentiated products and services in growing markets, including for avionics, SATCOM, wireless and microelectronics applications. Examples of the Group's technology investments in 2015 include:

- Cobham SATCOM achieved the first voice call over Inmarsat's SwiftBroadband aviation communication service using its new AVIATOR 200S compact unit. This unit is the first of several solutions that will be available to airlines in anticipation of the new generation SwiftBroadband Safety service in 2016;
- Cobham Wireless launched a new TeraVM cyber security threat analysis solution that assesses infrastructure defences by replicating real-life incidents, including denial of service and database related injection attacks;
- Initial orders were received for the Mission Systems Sector's new lightweight polymer lined high pressure gas storage vessels. This technology, developed utilising experience gained in military and space applications, is being targeted at commercial industrial markets, including compressed natural gas vehicles. It offers customers superior fuel preservation and improved safety;
- The Advanced Electronic Solutions Sector continues to align its investments to US defence/security priorities specifically in radio frequency technology differentiation. Additionally, it continues to invest in high-reliability electronics for commercial space, medical and industrial applications.

In addition to company funded PV, customer funded R&D was £120m (2014: £101m) primarily relating to aerial refuelling development programmes. The Group has continued to make encouraging progress, with the Airbus A400M entering low rate initial production at the end of the year. Also, the KC-46 entered flight test at the end of the third quarter of 2015 with free air stability testing and receiver contact trials undertaken. This was followed by the first successful transfer of fuel to a US Navy F/A-18 in February 2016. It is expected that the rate of R&D investment in these programmes will moderate in 2016, as the Group continues to progress into low rate initial production.

3. Improving operational performance

The Group continued to make good progress with its continuous improvement activities. This progress is reflected in improvements over the past five years to key operational metrics such as on time delivery, supplier defective parts per million and supplier on time delivery. The positive trend has continued during the year, culminating in operational performance levels not previously achieved by the Group. These continuous improvement activities are also vital to delivering lower inventory and working capital levels in the future and, despite the increase in 2015, there is encouraging progress in a number of areas.

The Group has successfully completed the implementation of its new enterprise resource planning (ERP) information technology (IT) system at the pilot operating location, with the system fully operational at the site. The ERP system will be progressively rolled out across its other operating locations over the next three years.

4. Allocating capital to growing markets

Following on from the September 2014 acquisition of Aeroflex, the Group has made excellent progress integrating this business, achieving some £25m (US$37m) of year-on-year efficiencies in 2015. The efficiencies have been achieved through a combination of site integration activity, reduced Aeroflex head office costs and direct and indirect supply chain benefits for the combined Group. Business restructuring costs incurred in the year, primarily relating to the Aeroflex integration, were £67m.

It is anticipated that this progress will continue, resulting in the Aeroflex integration programme being complete by the end of 2017, with the total costs and benefits in line with the Group's original expectations. The expected completion of the integration programme ahead of schedule will be a major achievement.

The Group has also exited certain markets and technologies in the year. These divestments comprise:

- Weinschel and Inmet in June 2015, for US$80m cash;
- The Group's Composites businesses in November 2015, for US$200m cash;
- Metelics in December 2015, for US$38m cash.

In January 2016 the Group also divested its Surveillance business for US$10m cash.

Although resulting in earnings dilution in 2016, these divestments have enabled the Group to focus on areas of core capability and reduce portfolio complexity, helping it to concentrate its investment in markets with the most attractive long term potential.

5. Enhancing the skills and capabilities of employees

The Group has increased its focus on key functional capabilities in the year, following the completion of its previously reported organisation design project. This includes continued activity to enhance Cobham's project and programme management capabilities, which will help ensure that its investments are being made effectively and efficiently. There has been a rigorous approach to assessing the competencies of individuals, complemented by a comprehensive training and development programme, which has led to a significant increase in the number of professional qualifications achieved. This approach is now being extended to all other critical functions including engineering, operations and supply chain, finance, compliance, contracts, and human resources.

BOARD CHANGES

In January 2016 it was announced that Simon Nicholls, who currently serves as Cobham's Chief Financial Officer (CFO), will be leaving the company to take up the role of CFO of Wolseley plc. The search to replace him is underway and, to ensure a smooth transition, Simon will remain in place until his successor has been identified.

In February 2015 Alan Semple, who was previously CFO at John Wood Group plc, joined the Cobham Board as a Non-executive Director. He became Chairman of the Audit Committee in April 2015, replacing Mike Wareing, who has remained a member of the Committee.

FINANCIAL RESULTS

Orders

Group order intake was up 13% at £2,148m (2014: £1,908m). Excluding the full year impact of the Aeroflex acquisition and the impact of divestments, order intake on a like-for-like basis was 2% higher. Order intake benefited from the receipt of some significant orders in the Advanced Electronic Solutions Sector and the Mission Systems Sector for subsystems and components for a number of multi-year missile programmes.

The Group's book-to-bill ratio was 1.04x (2014: 1.03x). The book-to-bill ratio was 1.09x (2014: 1.01x) excluding the Aviation Services Sector, which is characterised by the receipt of large multi-year orders.

At the year end, the Group's order book was £2,477m (2014: £2,508m). This represents an increase of 1% at constant exchange rates after taking into account the divestments completed during the year. Included within this, the Aviation Services Sector's order book was £1,067m (2014: £1,187m).

Summary of Underlying Results

A summary of the Group's underlying results is set out below and a reconciliation of underlying profit numbers to statutory profit numbers is set out on page 14:

£m	**2015**	2014
Revenue	**2,072**	1,852
Trading Profit	**332**	287
Trading Margin	***16.0%***	*15.5%*
Underlying Net Finance Expense	**(52)**	(30)
Underlying Profit Before Tax	**280**	257
Underlying Tax	**(60)**	(52)
Underlying Tax Rate	***21.5%***	*20.3%*
Underlying Profit After Tax	**220**	205
Weighted Average Number of Shares (millions)	***1,130***	*1,108*
Underlying EPS (pence)	**19.5**	18.5

Foreign Currency Translation Exchange Rates

The following are the average and closing rates for the four foreign currencies that have most impact on translation of the Group's income statement and balance sheet into pounds sterling:

	2015	2014
Income statement - average rate		
US$/£	**1.53**	1.65
AUS$/£	**2.03**	1.83
€/£	**1.38**	1.24
DKK/£	**10.27**	9.25
Balance sheet - closing rate		
US$/£	**1.47**	1.56
AUS$/£	**2.03**	1.91
€/£	**1.36**	1.29
DKK/£	**10.13**	9.60

Revenue

A summary of changes to Group revenue in the year is as follows:

2014	FX Translation	Acquisitions/Divests.	Organic Growth	2015
£1,852m	**£12m**	**£235m**	**£(27)m**	**£2,072m**

Total Group revenue increased by 12% to £2,072m (2014: £1,852m), primarily driven by the full year impact of the Aeroflex acquisition, net of divestments completed during the year. There was also a £12m net benefit from foreign currency translation, primarily relating to the US dollar. This was partially offset by an adverse impact principally from the Australian dollar, the euro and the Danish krone.

Group organic revenue declined 1% in the year. There was good growth of 4% in non-US defence/security markets, where there was higher retrofit and aftermarket revenue for avionics products within the Communications and Connectivity Sector and increased revenue from actuation products for air-to-ground munitions within the Mission Systems Sector. In the US defence/security market organic revenue declined 1%. There was increased aerial refuelling revenue on the Lockheed Martin C-130 and the Boeing KC-46 programmes within the Mission Systems Sector, but this was offset by lower volumes of integrated assemblies and microelectronics due to the continued run off of certain mature production programmes in the Advanced Electronic Solutions Sector.

The overall growth in defence/security markets was offset by a 6% decline in organic revenue in commercial markets, principally within the Communications and Connectivity Sector. The Sector benefited from growth in aerospace markets, driven by higher volumes of SATCOM and avionics products. However, this was offset by significantly lower marine SATCOM volumes, particularly in the fourth quarter, which was due to reduced demand in oil and gas, and shipping markets. There was also lower organic revenue from wireless products, after a strong 2014.

Trading Profit

The Group's trading profit was £332m (2014: £287m), an increase of £45m including a full year contribution of £23m from acquisitions net of the impact of divestments. This result also included the positive impact from efficiency savings, Aeroflex integration benefits and the non-repeat of the £15m aerial refuelling provision taken in 2014. There was a partial offset to this from the adverse impact of lower shorter cycle commercial volumes and the adverse revenue mix in the Advanced Electronic Solutions Sector. The trading margin increased to 16.0% (2014: 15.5%).

Group statutory operating profit was £12m (2014: £57m). The most significant items not included in underlying profit were additional amortisation expense on intangible assets arising on business combinations of £177m (2014: £114m). This relates primarily to the full year impact of the Aeroflex acquisition. In addition, there were increased business restructuring costs of £67m primarily relating to the integration of Aeroflex (2014: £52m – Excellence in Delivery programme and Aeroflex integration). There was also an impairment of goodwill of £27m (2014: £nil) relating to the Group's unmanned systems business and amounts provided related to businesses held for sale of £69m (2014: £nil). This related to the Surveillance business which was divested shortly after the year end. These items were offset in part by business acquisition and divestment related items of £39m (2014: £41m loss), primarily the net profit on divestments completed in the year.

Underlying Net Finance Expense and Underlying Profit Before Tax

The Group's net underlying finance charge for the year was £52m (2014: £30m). The underlying net expense on cash and debt holdings was £49m (2014: £26m), with the increase primarily reflecting the full year impact of interest on borrowings related to the Aeroflex acquisition. There was also a net adverse impact from foreign currency translation of £4m. The non-cash net finance charge from pension schemes was £3m (2014: £4m). In 2016, the Group's non-cash net finance charge from pension schemes is expected to be £2m.

The Group's underlying profit before tax was £280m (2014: £257m) and the statutory loss before tax was £40m (2014: profit of £24m).

Taxation

The Group's underlying tax rate increased to 21.5% (2014: 20.3%) from an underlying tax charge of £60m (2014: £52m) reflecting the full year impact of the former Aeroflex businesses, where the Group has a higher marginal tax rate.

Earnings per Share (EPS)

Underlying EPS was 19.5p (2014: 18.5p), an increase of 5% on the prior year. The primary drivers of the increase in underlying EPS were the net impact of acquisitions and divestments, and efficiencies, partially offset by the dilutive impact of the May 2014 share placing and adverse foreign currency translation. At constant currency underlying EPS was up 7% on the prior year.

Basic EPS was a loss of 3.3p (2014: profit of 2.6p), principally due to the impact of the items set out in the paragraph on statutory operating profit above.

Retirement Obligations

The Group operates a number of defined benefit pension schemes with the largest being the Cobham Pension Plan (CPP) in the UK. At the year end the estimated deficit for accounting purposes, which is the difference between the value of the schemes' assets and the present value of future liabilities, was £57m before deferred tax (2014: £102m). The reduced deficit was primarily due to the impact of net employer contributions made and an increase in corporate bond rates which has resulted in a higher discount rate being applied to scheme liabilities.

In addition, the CPP is being closed to future accrual from 1 April 2016 and this is expected to reduce scheme risk further.

Cash Flow

Operating cash flow, which is stated after net capital expenditure but before interest and tax payments, increased to £235m (2014: £208m). Operating cash conversion was broadly consistent with the prior year at 71% (2014: 73%). This included increased working capital of £49m and, as anticipated, increased capital expenditure, which was £24m higher, with the largest increase being within the Aviation Services Sector. The increased capital expenditure reflected continuing investment in the aircraft fleet as a result of multi-year awards won in 2014. In addition, the Group increased its expenditure on IT as it commenced the roll-out of its new ERP system.

The increase in working capital was in part due to higher inventory levels in shorter cycle businesses, as production was increased in anticipation of customer demand that did not materialise. In addition, there was a net working capital increase from development programmes, reflecting the ongoing high level of investment, despite the receipt of significant customer milestone payments in the year. Partially offsetting this, there was good progress in some business units, where improved operational execution resulted in lower inventory and debtors.

Free cash flow was £106m (2014: £114m) after restructuring payments of £48m, primarily relating to the Aeroflex integration (2014: £32m – Excellence in Delivery and Aeroflex integration). Also included within free cash flow were interest payments of £49m (2014: £25m), including the full year impact of the Aeroflex acquisition debt and an adverse foreign currency translation impact. In addition, there were tax payments of £32m (2014: £37m).

Below free cash flow, the Group paid dividends in the year of £122m (2014: £108m). The increased dividend payments reflect the Group's progressive dividend policy and the impact of the additional shares issued via the prior year placing.

Net divestment proceeds of £137m (2014: £897m net acquisition payments) in the year primarily comprised the proceeds from the divestments of Weinschel and Inmet, the Composites businesses and Metelics, partially offset by final acquisition costs relating to Aeroflex.

In addition, there was a £25m outflow (2014: £180m – net receipt, primarily from the issuance of new shares) relating to the net purchase of treasury shares held to satisfy future vesting of Director and employee awards and options under the Group's share based payment schemes.

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

£m	**2015**	2014
Trading profit	**332**	287
Depreciation, amortisation & other items	**68**	83
Pension contributions in excess of pension charges	**(18)**	(17)
Increase in working capital	**(49)**	(71)
Net capital expenditure	**(98)**	(74)
Operating cash flow	**235**	208
Operating cash/trading profit	***71%***	*73%*
Underlying net interest paid	**(49)**	(25)
Taxation paid	**(32)**	(37)
Free cash flow before restructuring costs	**154**	146
Restructuring costs	**(48)**	(32)
Free cash flow	**106**	114
Dividends paid	**(122)**	(108)
Acquisition payments less divestment proceeds & other related costs	**137**	(897)
Net purchase of treasury shares and placing	**(25)**	180
Exchange movements	**(80)**	(59)
Decrease/(Increase) in net debt	**16**	(770)

Net Debt and Gearing

At the year end the Group's net debt had decreased to £1,207m (2014: £1,223m). This was after adverse exchange rate movements of £80m (2014: £59m) which were largely driven by translation of Cobham's US dollar denominated debt. The net debt/EBITDA ratio was 2.9x.

Dividend

The Board is recommending a final dividend for 2015 of 8.13p (2014: 7.746p). This, together with the interim dividend of 3.05p (2014: 2.904p), will result in a total dividend per share for 2015 of 11.18p (2014: 10.65p), an increase of 5%.

The shares will be traded ex dividend on 28 April 2016. The dividend will be payable on 27 May 2016 to all holders on the register at 29 April 2016, subject to shareholder approval.

RECONCILIATION OF UNDERLYING MEASURES

£m	**2015**	2014
Operating Profit	**12**	57
Adjusted to exclude:		
Business restructuring	**67**	52
Derivative financial instruments	**19**	22
Amortisation of intangible assets arising on business combinations	**177**	114
Impairment of goodwill	**27**	-
Exceptional legal costs	**-**	1
Amounts provided related to businesses held for sale	**69**	-
Other business acquisition and divestment related items	**(39)**	41
Total operating reconciling items	**320**	230
Trading Profit	**332**	287

Underlying Profit Before Tax is calculated as follows:		
Profit before taxation	**(40)**	24
Total operating reconciling items as above	**320**	230
Non-underlying finance costs	**-**	3
Underlying Profit Before Taxation	**280**	257
Taxation charge on underlying profit	**(60)**	(52)
Underlying Profit After Taxation	**220**	205
Underlying EPS (pence)	**19.5**	18.5

SECTOR REVIEW

Group Operating Summary

	Revenue		**Trading Profit**	
£m	**2015**	2014	**2015**	2014
Cobham Communications and Connectivity	**772**	697	**108**	118
Trading Margin			***14.0%***	*17.0%*
Cobham Mission Systems	**382**	334	**68**	36
Trading Margin			***17.8%***	*10.8%*
Cobham Advanced Electronic Solutions	**538**	410	**81**	64
Trading Margin			***15.0%***	*15.6%*
Cobham Aviation Services	**390**	412	**57**	55
Trading Margin			***14.7%***	*13.2%*
Head Office and Eliminations	**(10)**	(1)	**18**	14
Cobham Group	**2,072**	1,852	**332**	287
Trading Margin			***16.0%***	*15.5%*

Cobham Communications & Connectivity

Provides aircraft and in-building communications equipment; satellite communication equipment for land, sea and air applications; and test and measurement instrumentation for radio frequency, cellular communications and wireless networking.

£m	2015	2014 Constant FX	2014 Reported	Organic Revenue
Revenue	**772**	687	697	**(4)%**
Trading Profit	**108**	113	118	
Margin	**14.0%**	16.5%	17.0%	

Total revenue at constant currency increased by £85m due to the contribution from the former Aeroflex wireless business, net of the Composites divestment. Organic revenue declined by 4%.

The Sector saw good organic revenue growth in its defence/security markets including higher retrofit and aftermarket revenue for avionics products and increased Surveillance shipments. Within its commercial markets there was also strong growth in aerospace revenue driven by higher volumes of SATCOM and avionics products. However, this was more than offset by significantly lower marine SATCOM revenue, due to reduced demand in oil and gas and in commercial shipping markets. There was also lower organic revenue in commercial land markets impacting in particular wireless products, after a strong 2014.

Trading profit was £108m (2014: £113m at constant currency) primarily reflecting the impact of the reduced volumes in the shorter cycle commercial businesses. This was partially offset by the full year impact of the Aeroflex acquisition, net of the Composites divestment, and a good contribution from efficiencies, including from integration. Reflecting the factors above, the Sector's trading margin was 14.0% (2014: 17.0%).

Other notable events in the year included:

- Cobham Wireless deployed the world's first intelligent digital DAS (*id*DAS) system covering the 'Fan Mile' in central Berlin, with an i*d*DAS order also received for a Swedish tunnel programme;
- Rockwell Collins selected Cobham's Aviator 200S modem for the Chinese COMAC C919 aircraft. This secures a future commitment for hundreds of shipsets over the life of the aircraft and adds to the SATCOM antenna award already secured on this aircraft;
- Inmarsat have selected Cobham SATCOM to deliver an advanced Mobile Satellite Services terminal for its S-band European aviation connectivity network. This is part of its recently announced European Aviation Network high-speed inflight connectivity solution, which it anticipates will enter commercial service at the end of 2016;
- Cobham Aerospace Communications has received an award from Dassault for its Rafale fighter aircraft, adding a standard fit intercom system with crew alert capability to other Cobham products already on this aircraft, including antennas and lights; and
- Cobham opened a new Singapore office to support its Asia-Pacific market penetration. This brings all the Sector businesses together under one roof.

Cobham Mission Systems

Provides safety and survival systems for extreme environments, nose-to-tail aerial refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft. It also provides remote controlled robots for bomb disposal.

£m	**2015**	2014 Constant FX	2014 Reported	**Organic Revenue**
Revenue	**382**	349	334	**10%**
Trading Profit	**68**	39	36	
Margin	**17.8%**	11.1%	10.8%	

Total revenue increased by £33m at constant currency, with organic revenue increasing by 10%. Organic growth was driven by the new multi-year C-130 production contract for the US Air Force and Marine Corps and higher aerial refuelling engineering and development revenue on the US KC-46 tanker programme. In addition, there was increased revenue from actuation control subsystem volumes for air-to-ground missiles and laser guided munitions.

Trading profit was £68m (2014: £39m at constant currency) and benefited from the impact of higher production volumes and the non-repeat of the £15m aerial refuelling provision taken in 2014. Reflecting the above factors, the Sector's trading margin improved to 17.8% (2014: 10.8%).

Building on the organic revenue in the year, the Sector has continued to make good progress, in particular:

- Representing a significant milestone, the Boeing KC-46 flight test programme commenced in September 2015. Cobham is supporting Boeing through the test programme with 18 aircraft to be delivered to the US Air Force by August 2017;

- Low rate initial production deliveries of the wing dispense aerial refuelling equipment commenced in October 2015 for the Airbus A400M final assembly line;

- An initial agreement with a launch airline customer for the new, high performance and long life air separation module (ASM) for Boeing 737NG operators. The ASM is the heart of the safety system which delivers inert gas to aircraft fuel tanks, so reducing fire risk; and

- Robust missile actuation orders continued for control subsystems on high volume air-to-ground missiles and laser guided munitions.

Cobham Advanced Electronic Solutions

Provides critical solutions for communication on land, at sea, in the air and in space through off-the-shelf and customised products including radio frequency, microwave, and high reliability microelectronics, antenna subsystems and motion control solutions. This incorporates defence, wireless/mobile and fixed broadband, X-ray imaging, medical and industrial markets.

£m	**2015**	2014 Constant FX	2014 Reported	**Organic Revenue**
Revenue	**538**	442	410	**(7)%**
Trading Profit	**81**	68	64	
Margin	**15.0%**	15.5%	15.6%	

Total revenue increased by £96m at constant currency largely due to the contribution from the former Aeroflex microelectronics business, net of divestments.

Organic revenue growth declined by 7%. This included the benefits of increased volumes of microelectronic components and subsystems, with good growth in missile, electronic warfare and radar programme revenue for US and non-US defence/security customers. However, this was more than offset by significantly lower US defence/security volumes on some mature production programmes and reduced revenue from rotary joints, used on radar or microwave communication systems, and from wave guide products.

Trading Profit was £81m (2014: £68m at constant currency) including the full year impact of Aeroflex, net of divestments, and a good contribution from efficiencies relating to the Aeroflex integration. The Sector's trading margin was 15.0% (2014: 15.6%) impacted by lower mature production programme volumes and lower margin programmes in development and in low rate initial production.

Notwithstanding the lower organic revenue, the Sector has leading positions in its markets and differentiated technologies including on several franchise programmes that will contribute to future revenue:

- Increasing production of the F-35 Joint Strike Fighter, on which the Sector has significant content;
- Increasing demand for radio frequency electronics, with Sector positions on a number of growing missile programmes, including the Standard Missile-6 and the Advanced Medium-Range Air-to-Air Missile; as well as the Boeing P-8 Poseidon, an anti-submarine warfare aircraft;
- Further investments to improve ship survivability, including increased funding for the Surface Electronic Warfare Improvement Program;
- Continuing strong demand for mixed signal application specific integrated circuits for medical and industrial applications; and
- Several important space awards, including on the NASA Mars 2020 Rover programme, where the Sector provides critical actuators that drive the Rover wheels, operates its steering, deploys its remote sensing mast and operates two of its cameras.

Cobham Aviation Services

Delivers outsourced aviation services for military and commercial customers worldwide through military training, special mission flight operations, outsourced commercial aviation, fly-in fly-out services to the natural resources industry and aircraft engineering.

£m	**2015**	2014 Constant FX	2014 Reported	**Organic Revenue**
Revenue	**390**	387	412	**1%**
Trading Profit	**57**	52	55	
Margin	**14.7%**	13.4%	13.2%	

Total revenue increased by £3m at constant currency. Organic revenue was 1% higher, primarily due to increased government special mission and helicopter services revenue. This included increased fixed wing revenue in Australia, partially offset by lower operational readiness training activity in the Middle East. Revenue from commercial markets was broadly flat, although the second half was impacted by a deepening of the Australian resource industry downturn. There was some increased commercial airline services activity with Qantas, reflecting the additional aircraft brought into service in the first half of 2014, but this was balanced by some change of scope in the services provided under the contract.

Trading profit was £57m (2014: £52m at constant currency) with a Sector trading margin of 14.7% (2014: 13.2%). This margin improvement is largely linked to the extension of some key contracts and associated life reassessment.

While the market is quite volatile, Aviation Services has continued to achieve successes, which should benefit revenue:

- Mobilisation of an additional two Boeing 717s is progressing well, ahead of their introduction into service with Qantas in early 2016. This will bring the total number of aircraft operated by Cobham on behalf of this customer to twenty;
- A two year extension was secured with the UK Ministry of Defence to continue services under the Defence Helicopter Flying School until the end of March 2018;
- Modifications are well underway for three of four aircraft for the 12-year AUS$640m Australian Maritime Safety Authority contract. Flying operations are scheduled to commence in the second half of 2016; and
- An agreement was signed with General Atomics to create an affiliation covering whole life support arrangements, focusing on Predator® and B/MQ-9 Reaper® unmanned systems in the UK and in Australia.

OUTLOOK

The Group has delivered a robust performance in 2015 in challenging conditions with increased headwinds in some commercial markets towards the end of the year which had an adverse impact on earnings and cash generation. Cobham has continued to deliver on its strategic objectives and made excellent progress with the integration of the Aeroflex business. In addition, the Group's focus has been enhanced by divesting a number of businesses in certain markets and with technologies which did not fit its growth strategy, although this will have a dilutive impact on earnings this year.

In 2016, Cobham anticipates that trading in its defence and security portfolio will be stable, reflecting its expectations for overall trends in global spending in these markets. Demand conditions in some of the Group's commercial markets remain subdued and, with the current macroeconomic uncertainty, there is no underlying improvement anticipated in these markets. Given these factors, Cobham will continue to manage its cost base proactively together with an increased focus on cash generation and debt reduction. The Group expect an earnings bias to the second half of the year.

The Board remains confident that the continued investment in technology and know-how will enable the Group to maintain its leading positions in markets with good prospects, leaving Cobham well placed to deliver growth over the medium term.

-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 to the various government, regulatory or competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; cancellations, changes or delays to programmes in which the Group is involved; the completion of acquisitions and divestments and changes in commodity or other input 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 2015

£m	Note	2015	2014
Revenue	3	**2,072.0**	1,851.7
Cost of sales		**(1,408.2)**	(1,290.1)
Gross profit		**663.8**	561.6
Selling and distribution costs		**(130.1)**	(100.3)
Administrative expenses		**(521.7)**	(403.7)
Operating profit		**12.0**	57.6
Finance income	4	**5.2**	6.4
Finance costs	4	**(57.0)**	(39.7)
(Loss)/profit before taxation		**(39.8)**	24.3
Taxation	5	**2.1**	4.7
(Loss)/profit after taxation for the year		**(37.7)**	29.0
Attributable to:			
Owners of the parent		**(37.8)**	28.8
Non-controlling interests		**0.1**	0.2
		(37.7)	29.0
Earnings per ordinary share	7		
Basic		**(3.35)p**	2.60p
Diluted		**(3.35)p**	2.58p

Trading profit is calculated as follows (see note 2):

£m	2015	2014
Operating profit	**12.0**	57.6
Adjusted to exclude:		
Business restructuring	**67.5**	52.2
Derivative financial instruments	**18.8**	21.8
Amortisation of intangible assets arising on business combinations	**176.8**	113.6
Impairment of goodwill	**26.6**	-
Exceptional legal costs	**-**	0.8
Other business acquisition and divestment related items	**30.5**	40.7
Trading profit	**332.2**	286.7
Underlying EPS	**19.48p**	18.48p

The definitions of trading profit and underlying EPS are shown on page 3.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2015

£m	2015	2014
(Loss)/profit after taxation for the year	**(37.7)**	29.0
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit retirement benefit obligations (note 13)	**29.6**	(27.7)
Actuarial loss on other retirement benefit obligations	**-**	(0.7)
Tax effects	**(5.9)**	5.0
	23.7	(23.4)
Items that may subsequently be reclassified to profit or loss		
Net translation differences on investments in overseas subsidiaries	**(38.2)**	(18.7)
Reclassification of cash flow hedge fair values	**1.1**	1.3
Hedge accounted derivative financial instruments	**-**	1.6
Tax effects	**(0.2)**	(0.9)
	(37.3)	(16.7)
Other comprehensive expense for the year	**(13.6)**	(40.1)
Total comprehensive expense for the year	**(51.3)**	(11.1)
Attributable to:		
Owners of the parent	**(51.4)**	(11.3)
Non-controlling interests	**0.1**	0.2
	(51.3)	(11.1)

Consolidated Balance Sheet
As at 31 December 2015

£m	Note	2015	2014 Restated
Assets			
Non-current assets			
Intangible assets	9	**1,729.5**	2,040.8
Property, plant and equipment	10	**379.9**	390.0
Investment properties		**4.3**	10.4
Investments in joint ventures and associates		**3.0**	3.1
Trade and other receivables		**71.3**	51.1
Other financial assets		**6.1**	6.1
Deferred tax		**11.4**	10.5
Derivative financial instruments		**6.5**	7.6
		2,212.0	2,519.6
Current assets			
Inventories		**410.4**	429.5
Trade and other receivables		**366.0**	435.3
Current tax receivables		**8.6**	0.4
Derivative financial instruments		**9.1**	8.7
Cash and cash equivalents	8	**294.7**	225.6
Assets classified as held for sale		**16.8**	2.1
		1,105.6	1,101.6
Liabilities			
Current liabilities			
Borrowings	8	**(156.4)**	(1.5)
Trade and other payables		**(398.1)**	(505.5)
Provisions	12	**(74.3)**	(60.5)
Current tax liabilities		**(125.1)**	(119.2)
Derivative financial instruments		**(30.6)**	(20.7)
Liabilities associated with assets classified as held for sale		**(12.7)**	-
		(797.2)	(707.4)
Non-current liabilities			
Borrowings	8	**(1,345.1)**	(1,446.8)
Trade and other payables		**(24.8)**	(36.2)
Provisions	12	**(68.2)**	(66.5)
Deferred tax		**(102.0)**	(134.5)
Derivative financial instruments		**(13.9)**	(15.5)
Retirement benefit obligations	13	**(56.7)**	(102.0)
		(1,610.7)	(1,801.5)
Net assets		**909.7**	1,112.3
Equity			
Share capital		**30.4**	30.4
Share premium		**301.9**	301.9
Other reserves		**(0.3)**	42.7
Retained earnings		**576.8**	736.4
Total equity attributable to the owners of the parent		**908.8**	1,111.4
Non-controlling interests in equity		**0.9**	0.9
Total equity		**909.7**	1,112.3

Details of the restatement of the 2014 Balance Sheet can be found in note 14.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

£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 2014	28.9	126.6	55.2	832.7	1,043.4	0.8	1,044.2
Profit for the year	-	-	-	28.8	28.8	0.2	29.0
Items that will not be reclassified subsequently to profit or loss	-	-	-	(23.4)	(23.4)	-	(23.4)
Items that may subsequently be reclassified to profit or loss	-	-	(16.7)	-	(16.7)	-	(16.7)
Total comprehensive expense for the year	-	-	(16.7)	5.4	(11.3)	0.2	(11.1)
Issue of shares	1.5	175.3	-	-	176.8	-	176.8
Net proceeds from treasury shares	-	-	-	3.3	3.3	-	3.3
Dividends (note 6)	-	-	-	(108.3)	(108.3)	-	(108.3)
Share based payments	-	-	6.1	-	6.1	-	6.1
Transfer of other reserves to retained earnings	-	-	(3.3)	3.3	-	-	-
Tax effects	-	-	1.5	-	1.5	-	1.5
Foreign exchange adjustments	-	-	(0.1)	-	(0.1)	(0.1)	(0.2)
Total equity at 31 December 2014	30.4	301.9	42.7	736.4	1,111.4	0.9	1,112.3
Loss for the year	**-**	**-**	**-**	**(37.8)**	**(37.8)**	**0.1**	**(37.7)**
Items that will not be reclassified subsequently to profit or loss	**-**	**-**	**-**	**23.7**	**23.7**	**-**	**23.7**
Items that may subsequently be reclassified to profit or loss	**-**	**-**	**(37.3)**	**-**	**(37.3)**	**-**	**(37.3)**
Total comprehensive expense for the year	**-**	**-**	**(37.3)**	**(14.1)**	**(51.4)**	**0.1**	**(51.3)**
Net purchase of treasury shares	**-**	**-**	**-**	**(24.9)**	**(24.9)**	**-**	**(24.9)**
Dividends (note 6)	**-**	**-**	**-**	**(122.1)**	**(122.1)**	**-**	**(122.1)**
Share based payments	**-**	**-**	**(3.0)**	**-**	**(3.0)**	**-**	**(3.0)**
Transfer of other reserves to retained earnings	**-**	**-**	**(1.5)**	**1.5**	**-**	**-**	**-**
Tax effects	**-**	**-**	**(1.1)**	**-**	**(1.1)**	**-**	**(1.1)**
Foreign exchange adjustments	**-**	**-**	**(0.1)**	**-**	**(0.1)**	**(0.1)**	**(0.2)**
Total equity at 31 December 2015	**30.4**	**301.9**	**(0.3)**	**576.8**	**908.8**	**0.9**	**909.7**

Consolidated Cash Flow Statement

For the year ended 31 December 2015

£m	Note	2015	2014
Operating profit		**12.0**	57.6
Non-cash items:			
Share of post-tax profits of joint ventures and associates		**(0.2)**	(0.2)
Depreciation and amortisation		**254.4**	190.8
Impairment of goodwill		**26.6**	-
Profit on sale of property, plant and equipment		**(1.4)**	(0.3)
Business acquisition and divestment related items		**27.3**	23.8
Derivative financial instruments		**18.8**	21.8
Pension contributions in excess of pension charges		**(17.8)**	(16.9)
Share based payments		**(3.0)**	6.1
Operating cash movements:			
Increase in inventories		**(34.6)**	(11.9)
Decrease/(increase) in trade and other receivables		**19.1**	(68.3)
(Decrease)/increase in trade and other payables		**(38.6)**	17.3
Increase in provisions		**7.4**	12.9
Tax paid		**(31.5)**	(37.0)
Interest paid		**(53.0)**	(31.5)
Interest received		**3.6**	3.7
Net cash from operating activities		**189.1**	167.9
Cash flows from investing activities			
Purchase of property, plant and equipment		**(97.8)**	(63.7)
Purchase of intangible assets		**(18.6)**	(12.4)
Proceeds on disposal of property, plant and equipment		**17.7**	2.3
Investment in loan notes		**-**	(9.0)
Acquisition of subsidiaries net of cash or debt acquired		**(52.6)**	(846.1)
Contingent consideration paid		**-**	(28.5)
Proceeds of business divestments	15	**205.2**	6.6
Net cash from/(used in) investing activities		**53.9**	(950.8)
Cash flows from financing activities			
Issue of share capital		**-**	176.8
Dividends paid	6	**(122.1)**	(108.3)
Purchase of treasury shares		**(29.3)**	(5.5)
Proceeds on allocation of treasury shares		**4.4**	8.8
New borrowings	8	**257.9**	1,467.5
Repayment of borrowings	8	**(271.0)**	(699.9)
Net cash (used in)/from financing activities		**(160.1)**	839.4
Net increase in cash and cash equivalents		**82.9**	56.5
Exchange movements		**(13.2)**	(31.2)
Cash and cash equivalents at start of year		**224.3**	199.0
Cash and cash equivalents at end of year		**294.0**	224.3

A reconciliation of cash and cash equivalents to the Balance Sheet and movement in net debt is detailed in note 8.

Notes to the Financial Information

For the year ended 31 December 2015

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 2015 or 31 December 2014.

Statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies, and those for 2015 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, interpretations of the IFRS Interpretations Committee and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of estimates and judgements that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Accounting policies

The accounting policies applied are consistent with those published in the financial statements for the year ended 31 December 2014. From 1 January 2015 a number of amendments to existing standards, which were effective from 1 January 2015 and have been endorsed by the EU, have been adopted; however no changes to previously published accounting policies or other adjustments were required on their adoption.

2. Underlying measures

Underlying measures, defined on page 3, are derived from operating profit as set out below:

£m	2015	2014
Operating profit	12.0	57.6
Business restructuring	67.5	52.2
Derivative financial instruments	18.8	21.8
Amortisation of intangible assets arising on business combinations	176.8	113.6
Impairment of goodwill	26.6	-
Exceptional legal costs	-	0.8
Other business acquisition and divestment related items		
Profit on divestments	(53.8)	(0.3)
Amounts provided related to businesses held for sale	69.0	-
Pre-acquisition profit element of inventory written off	9.3	19.6
Other M&A related costs	6.0	21.4
Trading profit	332.2	286.7
Underlying net finance costs	(51.8)	(29.7)
Underlying profit before taxation	280.4	257.0
Taxation charge on underlying profit (effective rate 21.5%, 2014: 20.25%)	(60.2)	(52.0)
Non-controlling interests	(0.1)	(0.2)
Underlying profit after tax attributable to owners of the parent	220.1	204.8
Underlying basic EPS	19.48p	18.48p
Underlying diluted EPS	19.40p	18.38p

Underlying administrative expenses, after adjusting for the reconciling items in the table above, amounted to £201.5m (2014: £174.8m), representing 9.7% (2014: 9.4%) of revenue.

Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. In 2015, these relate primarily to the integration of the Aeroflex businesses acquired in 2014.

Amortisation of intangible assets arising on business combinations includes £98.4m (2014: £13.6m) related to the Aeroflex businesses acquired in 2014.

During 2015 an impairment provision of £26.6m was made in respect of the goodwill arising on the acquisition of Telerob in 2011.

Amounts provided related to the businesses held for sale in respect of the Surveillance businesses include an impairment of goodwill of £44.8m and £2.4m impairment of other intangible assets. These are included within administrative expenses in the Income Statement.

Net cash from operating activities is reconciled to free cash flow and operating cash flow as follows:

£m	**2015**	2014
Net cash from operating activities per Cash Flow Statement	**189.1**	167.9
Purchase of property, plant and equipment	**(97.8)**	(63.7)
Purchase of intangible assets	**(18.6)**	(12.4)
Proceeds on disposal of property, plant and equipment	**17.7**	2.3
Business acquisition and divestment related costs paid	**15.1**	20.3
Free cash flow	**105.5**	114.4
Business restructuring	**48.2**	31.3
Tax paid	**31.5**	37.0
Underlying net finance costs paid	**49.4**	25.2
Operating cash flow	**234.6**	207.9

3. Revenue and segmental information

Revenue

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

£m	**2015**	2014
Revenue from sale of goods	**1,585.4**	1,368.2
Revenue from services	**486.6**	483.5
	2,072.0	1,851.7

Revenue from services includes service contracts in the Aviation Services Sector together with logistics support, maintenance and repairs in other Sectors.

Operating segments

£m	Revenue 2015	Revenue 2014	Trading profit 2015	Trading profit 2014	Segment net assets 2015	Segment net assets 2014 Restated
Communications and Connectivity	**771.8**	697.1	**108.4**	118.3	**844.0**	1,066.3
Mission Systems	**382.4**	333.5	**68.0**	35.9	**289.2**	303.0
Advanced Electronic Solutions	**538.0**	410.1	**80.5**	64.0	**996.0**	1,067.8
Aviation Services	**390.1**	412.2	**57.3**	54.5	**257.1**	284.0
Head office, other activities and elimination of inter-segment items	**(10.3)**	(1.2)	**18.0**	14.0	**19.9**	(24.5)
Total Group	**2,072.0**	1,851.7	**332.2**	286.7	**2,406.2**	2,696.6
Interests in joint ventures and associates					**3.0**	3.1
Unallocated liabilities					**(1,499.5)**	(1,587.4)
Total net assets					**909.7**	1,112.3

Trading profit is reconciled to the result before taxation as follows:

£m	Note	2015	2014
Trading profit		**332.2**	286.7
Business restructuring		**(67.5)**	(52.2)
Derivative financial instruments		**(18.8)**	(21.8)
Amortisation of intangible assets arising on business combinations		**(176.8)**	(113.6)
Impairment of goodwill		**(26.6)**	-
Exceptional legal costs		**-**	(0.8)
Other business acquisition and divestment related items		**(30.5)**	(40.7)
Net finance costs	4	**(51.8)**	(33.3)
(Loss)/profit before taxation		**(39.8)**	24.3

Geographical information

Revenue from external customers analysed by their geographic location, irrespective of the origin of the goods and services, is shown below. Non-current assets are analysed by the physical location of the assets and exclude financial instruments and deferred tax assets.

£m	Revenue 2015	Revenue 2014	Non-current assets 2015	Non-current assets 2014 Restated
USA	**985.1**	814.4	**1,156.8**	1,457.2
UK	**223.0**	228.3	**551.3**	515.7
Other EU	**305.2**	286.5	**275.4**	317.0
Australia	**226.6**	247.2	**106.2**	87.6
Rest of the world	**332.1**	275.3	**27.0**	66.8
	2,072.0	1,851.7	**2,116.7**	2,444.3

Revenue from customers located in the rest of the world includes £230.4m (2014: £169.9m) from customers in Asia. 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.

Included in non-current assets located in EU countries other than the UK are assets of £232.0m (2014: £229.9m) located in Denmark.

4. Finance income and costs

£m	2015	2014
Bank interest	**3.1**	4.5
Other finance income	**2.1**	1.9
Total finance income	**5.2**	6.4
Interest on bank overdrafts and loans	**(52.8)**	(30.9)
Interest on net pension scheme liabilities	**(3.1)**	(3.6)
Other finance expense	**(1.1)**	(5.2)
Total finance costs	**(57.0)**	(39.7)
Net finance costs	**(51.8)**	(33.3)

Other finance expense for 2014 includes £2.6m of arrangement fees for the Aeroflex acquisition finance facility and unwinding of acquisition related discounting of £1.0m. These costs are excluded from underlying profit in note 2.

5. Taxation

£m	2015	2014
Current tax	**29.0**	32.3
Deferred tax	**(31.1)**	(37.0)
Total tax credit for the year	**(2.1)**	(4.7)

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction. The total tax credit for the year includes a charge of £9.2m (2014: £5.5m credit) for the UK.

6. Dividends

£m	2015	2014
Final dividend of 7.746p per share for 2014 (2013: 7.04p)	**87.7**	75.5
Interim dividend of 3.05p per share for 2015 (2014: 2.904p)	**34.4**	32.8
Total dividend authorised and paid during the year	**122.1**	108.3

In addition to the above, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 8.13p per share at an estimated total cost of £91.5m. 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 27 May 2016 to shareholders who are on the register of members as at 29 April 2016. The total dividend in respect of the financial year ended 31 December 2015 will therefore be 11.18p per share (2014: 10.65p). The total amount payable in respect of 2015 will be £125.9m.

7. Earnings per ordinary share

		2015			2014	
	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	**(37.8)**	**1,129.9**	**(3.35)**	28.8	1,108.0	2.60
Effect of potentially dilutive securities		**-**			6.4	
Diluted EPS	**(37.8)**	**1,129.9**	**(3.35)**	28.8	1,114.4	2.58

8. Cash and cash equivalents and net debt

Reconciliation of cash and cash equivalents and net debt

£m	2015	2014
Cash and cash equivalents per Cash Flow Statement	294.0	224.3
Bank overdrafts	0.7	1.3
Cash and cash equivalents per Balance Sheet	294.7	225.6
Borrowings - current liabilities	(156.4)	(1.5)
Borrowings - non-current liabilities	(1,345.1)	(1,446.8)
Net debt at 31 December	(1,206.8)	(1,222.7)

Reconciliation of movements in net debt

£m	2015	2014
Net debt at 1 January	(1,222.7)	(453.4)
Increase in cash and cash equivalents in the year per Cash Flow Statement	82.9	56.5
New borrowings	(257.9)	(1,467.5)
Repayment of borrowings	271.0	699.9
Exchange movements	(80.1)	(58.2)
Net debt at 31 December	(1,206.8)	(1,222.7)

9. Intangible assets

£m	2015	2014 restated
Carrying amount at 1 January	2,040.8	1,162.2
Additions	16.9	12.9
Acquired with business combinations	-	944.7
Business divestments	(110.8)	-
Disposals	-	(0.1)
Amortisation and impairment	(254.6)	(118.4)
Reclassifications	0.4	1.6
Foreign exchange adjustments	36.8	37.9
Carrying amount at 31 December	1,729.5	2,040.8

During the year £44.8m of goodwill related to the Surveillance businesses was impaired and these businesses were then transferred to held for sale. An impairment provision of £26.6m was also created during the year representing the goodwill held for the Telerob business within the Mission Systems Sector, based on the results of the annual impairment review.

10. Property, plant and equipment

£m	Note	2015	2014
Carrying amount at 1 January		390.0	350.8
Additions		99.0	63.6
Acquired with business combinations		-	48.6
Business divestments	15	(19.8)	-
Disposals		(10.3)	(1.9)
Depreciation		(73.0)	(72.1)
Reclassifications		(6.0)	(1.6)
Foreign exchange adjustments		-	2.6
Carrying amount at 31 December		379.9	390.0

At 31 December 2015, the Group had commitments for the acquisition of property, plant and equipment of £29.3m (2014: £48.5m).

11. Fair values of financial assets and liabilities

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	2015	2014
Financial assets		
Derivative contracts (designated as hedging instruments)	4.4	2.7
Derivative contracts (not hedge accounted)	11.2	13.6
Financial liabilities		
Derivative contracts (designated as hedging instruments)	(4.3)	(3.3)
Derivative contracts (not hedge accounted)	(40.2)	(32.9)
	(28.9)	(19.9)

Borrowings are held at amortised cost which equates to fair value except for the Group's fixed rate borrowings. At 31 December 2015 the fair value of those borrowings was £976.1m (2014: £926.5m) compared to their book value of £873.5m (2014: £825.7m).

The fair value of the fixed rate borrowings and derivative financial instruments have been determined by the use of valuation techniques, primarily discounted cash flows, based on assumptions that are supportable by reference to 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.

The assets and liabilities of the Group's Surveillance businesses have been classified as held for sale in the Balance Sheet as at 31 December 2015 and are measured on a non-recurring basis at fair value, based on the agreed selling price less costs to sell.

12. Provisions

£m	2015	2014 Restated
Current liabilities	74.3	60.5
Non-current liabilities	68.2	66.5
	142.5	127.0

Movements in provisions during the year are as follows:

£m	
At 1 January 2015 (as restated)	127.0
Additional provisions in the year	49.7
Reclassified as held for sale	(1.2)
Utilisation of provisions	(34.3)
Unused amounts reversed in the year	(3.6)
Disposed with undertakings	(1.0)
Reclassifications	2.0
Foreign exchange adjustments	3.9
At 31 December 2015	142.5

13. Retirement benefit obligations

£m	2015	2014
Net liability at 1 January	**(102.0)**	(87.3)
Amount recognised in the Income Statement	**(6.5)**	(9.7)
Contributions paid by the employer	**22.7**	23.0
Amounts recognised in OCI	**29.6**	(27.7)
Exchange differences	**(0.5)**	(0.3)
Net liability at 31 December	**(56.7)**	(102.0)

14. Business combinations (prior year restatement)

In the Group Financial Statements for the year ended 31 December 2014, the fair values of assets and liabilities recognised on acquisition of the Aeroflex businesses were marked as provisional. An ongoing detailed review of these amounts has resulted in adjustments which have reduced net assets acquired by £46.0m, with an equal increase in goodwill.

In accordance with IAS 8, the Balance Sheet as at 31 December 2014 has been restated. The assets and liabilities impacted are summarised in the 2014 Balance Sheet extract below. The other primary statements were unaffected by this restatement.

£m	As previously reported	Adjustments	As restated
Goodwill	1,219.7	46.0	1,265.7
Intangible assets	777.5	(2.4)	775.1
Trade and other receivables	53.3	(2.2)	51.1
Total non-current assets (including line items not affected)	2,478.2	41.4	2,519.6
Inventories	431.4	(1.9)	429.5
Trade and other receivables	436.6	(1.3)	435.3
Total current assets (including line items not affected)	1,104.8	(3.2)	1,101.6
Trade and other payables	(503.6)	(1.9)	(505.5)
Provisions	(54.1)	(6.4)	(60.5)
Total current liabilities (including line items not affected)	(699.1)	(8.3)	(707.4)
Provisions	(13.3)	(53.2)	(66.5)
Deferred tax	(157.8)	23.3	(134.5)
Total non-current liabilities (including line items not affected)	(1,771.6)	(29.9)	(1,801.5)
Net assets	1,112.3	-	1,112.3

15. Business divestments

A number of divestments have been completed during the year:
- Weinschel and Inmet, Advanced Electronic Solutions Sector (announced on 24 April 2015 and completed on 8 June 2015);
- Cobham Composites, primarily Communications and Connectivity Sector (announced on 10 August 2015 and completed on 25 November 2015);
- Wireless operations in Nanjing, China, Communications and Connectivity Sector (completed on 2 November 2015);
- Metelics, Advanced Electronic Solutions Sector (announced and completed on 15 December 2015).

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

£m	Weinschel and Inmet	Composites	Metelics and other	Total
Gross consideration	**52.4**	**133.6**	**27.1**	**213.1**
Net assets at date of divestment	**(66.6)**	**(50.2)**	**(41.8)**	**(158.6)**
Expenses of sale	**(1.5)**	**(4.7)**	**(2.6)**	**(8.8)**
Foreign exchange adjustments	**2.9**	**1.9**	**3.3**	**8.1**
Net profit/(loss) on divestments before tax	**(12.8)**	**80.6**	**(14.0)**	**53.8**
Tax charge on net profit/(loss) on divestment	**(12.8)**	**(8.0)**	**(2.5)**	**(23.3)**
Net profit/(loss) on divestments after tax	**(25.6)**	**72.6**	**(16.5)**	**30.5**

The net cash impact of the divestments is as follows:

£m	Weinschel and Inmet	Composites	Metelics and other	Total
Cash consideration	**52.4**	**133.6**	**27.1**	**213.1**
Expenses of sale	**(1.5)**	**(4.5)**	**(1.9)**	**(7.9)**
	50.9	**129.1**	**25.2**	**205.2**

The net assets divested during the year were as follows:

£m	Weinschel and Inmet	Composites	Metelics and other	Total
At date of divestment				
Attributable goodwill	**34.4**	**12.3**	**19.2**	**65.9**
Other intangible assets	**30.3**	**1.0**	**13.6**	**44.9**
Property, plant and equipment	**3.5**	**11.9**	**4.4**	**19.8**
Inventories	**7.4**	**20.8**	**5.8**	**34.0**
Trade and other receivables	**3.5**	**10.7**	**4.0**	**18.2**
Trade and other payables including provisions	**(3.5)**	**(4.7)**	**(3.6)**	**(11.8)**
Deferred tax	**(9.0)**	**(1.8)**	**(1.6)**	**(12.4)**
Net assets	**66.6**	**50.2**	**41.8**	**158.6**
At 31 December 2014				
Attributable goodwill	33.7	12.1	16.8	62.6
Other intangible assets	31.9	2.4	16.1	50.4
Property, plant and equipment	3.6	9.9	4.6	18.1
Inventories	7.6	10.9	4.8	23.3
Trade and other receivables	4.3	9.3	4.7	18.3
Cash and cash equivalents and overdrafts	(0.2)	4.0	1.4	5.2
Trade and other payables including provisions	(3.4)	(9.2)	(3.3)	(15.9)
Deferred tax	(10.4)	(0.4)	(6.7)	(17.5)
Net assets	67.1	39.0	38.4	144.5

16. Contingent liabilities

At 31 December 2015, 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.

As previously notified, the Group identified one, more significant, contractual breach dating back some years, in respect of goods provided into a geographic market representing only a small amount of revenue for the Group. The circumstances surrounding the breach remain under review and neither the outcome nor timing of resolution can be estimated. No further information is disclosed as it could be prejudicial.

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 development contracts, costs incurred and anticipated can significantly exceed amounts estimated at inception as a result of material enhancements to the specifications originally agreed under the contracts. Judgement is therefore required as regards the final costs of technical solutions, the outcome of negotiations with customers and the amounts recoverable under these contracts. The Directors take account of the advice of experts in making these judgements and believe that the outcome of negotiations will result in an appropriate recovery of costs incurred in excess of original baselines.

17. Events after the balance sheet date

On 15 January 2016 it was announced that the divestment of the Surveillance businesses had been completed for consideration of US$10m. These businesses were treated as held for sale at 31 December 2015.

-ENDS-