1 MARCH 2018

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PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Encouraging first year of turnaround: increased focus and reduced risk with agreed divestment, and a more resilient Balance Sheet.

	Note	Statutory results		Underlying results[2]	
£m		**2017**	2016	**2017**	2016
Order intake		**1,916.6**	2,084.0	**1,916.6**	2,084.0
Revenue		**2,052.5**	1,943.9	**2,052.5**	1,943.9
Organic revenue growth/(decline)				**1%**	(8)%
Operating profit/(loss)		**104.1**	(779.1)	**210.3**	225.0
Operating margin				**10.2%**	11.6%
Earnings per share	1	**3.5p**	(45.9)p	**6.0p**	7.8p
Operating cash conversion	3			**103%**	81%
Free cash flow				**140.6**	50.7
Net debt	4	**383.5**	1,028.2		
Net debt/EBITDA				**1.3x**	3.0x
Full year dividend per share		**-**	2.03p	**-**	2.03p

Underlying results are presented to assist with the understanding of the Group's performance trends. These measures are defined in the notes on page 3 and reconciled to GAAP measures in this statement on page 23.

- Revenue 6% higher, benefiting from favourable currency translation. Organic[5] revenue growth of 1%
- Underlying operating profit of £210.3m, slightly ahead of expectations
- Progressing delivery on the onerous contracts provided for in 2016, including KC-46, although risks and challenges remain
- Strong free cash flow generation as a result of management focus, later phasing of 2016 onerous contract cash flows, lower capital expenditure and £27m of advance customer receipts
- More resilient Balance Sheet with year-end gearing ratio at 1.3x and US$545m revolving credit facilities refinanced for five years or over
- Agreed divestment of AvComm and Wireless test and measurement for US$455m in cash; transaction will increase focus, reduce risk and further strengthen Balance Sheet
- Unchanged expectations for 2018 before divestment and currency translation

David Lockwood, Cobham Chief Executive Officer, said:

"We have completed an encouraging first year of Cobham's turnaround with improvements to customer engagement, transparency and control. I have seen early signs of progress against our operational priorities, while risks and challenges remain. I continue to have confidence in our medium term prospects."

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, 1 March 2018, with a live webcast on the Cobham website (www.cobhaminvestors.com). The webcast will be available on the website for subsequent viewing. There will also be a live dial-in facility available which can be accessed in the UK and internationally on +44 (0) 20 3003 2666, confirmation code Cobham and in the US/Canada on +1 646 843 4608, confirmation code Cobham. The published Annual Report will be available as a download file on www.cobhaminvestors.com from 21 March 2018.

A PDF of this preliminary announcement is available for download from www.cobhaminvestors.com/reports-and-presentations/2017.

The following notes apply throughout these preliminary results:

1. *EPS for the prior period has been restated to reflect the impact of the 2017 Rights Issue.*

2. *To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP alternative performance measures including underlying operating profit and underlying profit. The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.*

   Management uses underlying measures to assess the operating performance of the Group, having adjusted for specific items as defined below. They form the basis of internal management accounts and are used for decision making including capital allocation and a subset also forms the basis of internal incentive arrangements. By using underlying measures in segmental reporting, this further ensures readers of the financial statements can recognise how incentive performance is targeted. Underlying measures are also presented in this report because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements.

   All underlying measures include the operational results of all businesses including those held for sale until the point of sale. These definitions are applied consistently on a year to year basis.

   Underlying operating profit has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity and prior periods' business restructuring costs. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments, gains and losses arising on dividend related foreign exchange contracts and other items deemed by the Directors to be of a non-operating nature including the impairment of intangible assets.

   Underlying profit before taxation is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and specific finance costs.

   Further details of specific adjusting items can be found in note 2 on page 32.

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

3. *Free cash flow and operating cash flow are considered to provide a consistent measure of the operating cash flow of the Group's business. These alternative performance measures are used in internal management accounts and for decision making, including capital allocation. In addition to underlying profit measures, underlying cash conversion is also used for internal incentive arrangements, and presenting this information allows users of the financial statements to better understand the way in which performance is targeted.*

   Free cash flow is defined as net cash from operating activities plus dividends received from joint ventures, less cash flow related to the purchase or disposal of property, plant, equipment and intangible assets but excluding payments relating to business acquisition and divestment related 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 underlying operating profit, excluding the share of post-tax results of joint ventures and associates.

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

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

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

6. *Private Venture (PV or company funded R&D – Research and Development) measures exclude Aviation Services, where, due to the nature of its business, there is no R&D activity. Total PV investment excludes bid costs, which were previously included in the total, with 2016 restated.*

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

We are reporting financial results for 2017 which are slightly ahead of expectations, with Group underlying trading profit of £210.3m and organic revenue growth of 1%.

We delivered much improved cash generation in 2017, with operating cash conversion of 103%, and net debt of £383.5m at the year end. The Balance Sheet is now stronger than a year ago, reflecting the May 2017 Rights Issue and the benefit of our cash generation. The cash generation has been achieved from a combination of management focus and a benefit from some deferred cash phasing against the 2016 onerous contract charges and lower capital expenditure. There was also some favourable working capital timing, including £27m of advance customer receipts.

During my first year, I have been impressed with the Group's technology and capabilities and its people and I have also had regular contact with many of our customers. This has reinforced my early conviction that Cobham has a number of high quality businesses with differentiated technology and know-how and leading positions in a number of attractive markets. Taken together, this gives me confidence in the Group's medium term prospects.

Encouraging first year of our turnaround plan

Last year we identified a number of significant opportunities for improvement. These included improved execution, better first-pass quality, a reduction in organisational complexity and duplication and improved capital allocation decision making. We continue to believe that these should enable Cobham to deliver underlying operating margins 2-3% higher over the medium term, all else being equal. I also identified three operational priorities comprising (1) customer focus, (2) leadership and simplification and (3) control and execution. It was clear at the time that the improvement process would be iterative and would take at least two years before we saw the benefits, while business units were also likely to respond at different speeds, giving potential for an uneven recovery.

Operational environment

Driven by heightened security threats, we are beginning to see an increase in global defence budgets overall, although these are not without political risk. In addition, the US National Defense Strategy document, published in early 2018, makes technology modernisation one of its main themes, with favourable implications for Cobham. Commercial aerospace markets continue to see overall volume growth, although there remain areas of commercial market weakness, including maritime and flying services in Australia. Across all our markets customers demand value-for-money, driving the need to be competitive on price; this alongside flawless execution and enhanced capability. It is to prosper in this environment that we are pursuing our turnaround strategy.

Progress against operational priorities

We have made progress on the three operational priorities which I originally set out and these will continue to be a focus for 2018. The key achievements are set out below:

Customer Focus
There has been emphasis on customers and enhancing our delivery to them, including:

- Significantly increasing the level of CEO and senior management engagement with customers, supplementing business unit level engagement. Customer score cards are reviewed by the Group Executive every month and we are prioritising our on-time delivery performance;

- Improving co-ordination between our businesses to deliver greater customer-facing collaboration and participation in joint customer presentations;

- Increasing training on root cause problem solving as well as on lean manufacturing. This will enhance our ability to deliver to customers.

Leadership and Simplification
We are simplifying processes and procedures which will provide more time to focus on customers, including:

- A further gathering of the top 200 senior managers in January 2018, to reinforce the growing sense of purpose and collaboration and to explore how we remove internal inefficiencies that hinder delivery;

- The new streamlined and updated Group policy framework is being rolled out to enable clear governance;

- Monthly operating reviews at the business unit level enabling a more constructive and forward-looking dialogue with our leaders. The revised strategic planning cycle is more closely aligned to budget setting, bringing together two linked processes.

I have also strengthened the management team, focusing on capability gaps, including the appointments of:

- Air Marshall Greg Bagwell as Strategic Advisor;

- Chris Shaw as Chief Operations Officer;

- Paul Kahn as President of the Communications and Connectivity Sector; and

- Gillian Duggan as Executive Vice President Human Resources and Communications.

These individuals bring strong operational track records, with considerable energy and ideas. I will continue to selectively strengthen the broader management team.

Control and Execution
Underpinning our performance expectations is a need to improve our ability to forecast and enhance operational controls, including:

- Strengthening the supply chain and quality management functions, consolidating them under one leader, to drive improved performance and standardisation across the Group;

- Making significant investments to improve manufacturing performance and appointing the first dedicated manager to drive a Group-wide manufacturing strategy;

- Definition and clarity over the minimum standards of financial control for all our businesses – delineating those that are mandatory and those that are expected.

In conclusion, we are beginning to see early signs of progress across the business. I am proud of how most of Cobham's employees have responded to the challenge and, in particular, their demonstration of real commitment to customers. However, while we have many improvement actions in-train and we have started to build the foundations of future success, there is much that is work-in-progress and a lot left to do.

Update on onerous contracts and other 2016 charges

We are progressing delivery on our contracts against which we took significant charges in 2016, including on the largest of them, the KC-46 US tanker programme. KC-46 qualification is ongoing as part of the overarching US Federal Aviation Administration certification process. The work is being carried out according to the terms of the original development contract signed in 2011, which contains some significant terms including relating to delayed performance. The Centreline Drogue System (CDS) qualification is nearing completion and the Wing Aerial Refuelling Pod (WARP) qualification will be ongoing into the second half of 2018.

We continue to support delivery of the first 18 KC-46 production aircraft to the US Air Force during 2018. A number of challenges remain, and the focus continues to be on achieving improvements in the supply chain and quality management.

On other programmes, we have taken some additional charges at the 2017 year end within Group underlying operating profit but overall our estimates for the 2016 onerous contract provisions are still appropriate. 2018 will be a critical year for delivering against these contracts.

We have also adjusted our assessment of the legal, environmental, warranty and other regulatory matters charged to specific adjusting items in 2016, and this has given rise to a credit adjustment of £8m, relating to a number of items which have been resolved within their original cost estimates. The credit adjustment is excluded from underlying operating profit consistent with the treatment of the original provisions.

Balance Sheet

Our year end gearing ratio was 1.3x (31 December 2016: 3.0x) with the improved position due primarily to the May 2017 Rights Issue, which raised £497m net of expenses. This was enhanced by a greater level of focus on our cash position, enabling us to deliver cash conversion of 103% in the year. We will continue the focus on cash.

In December 2017 we successfully completed a scheduled refinancing of revolving credit facilities maturing in October 2018, replacing these at a similar cost with US$545m of new bank facilities with maturities of five years or over, thus removing refinancing risk from the Group turnaround.

The expected completion of the AvComm and Wireless test and measurement divestment will add resilience to the Balance Sheet, and reduce the net debt/EBITDA ratio by approximately 1.0x on a proforma basis. It is our intention to take a conservative approach to the capital structure in 2018, as we strive to retire the remaining major risks and exposures. The Board therefore intends to use the net divestment proceeds, in addition to existing cash, to pay down approximately £440m of debt. This will include repaying private placement debt (senior notes), giving rise to estimated accelerated interest costs (make-whole payments) of up to £30m. The debt repayment will de-risk the Group's Balance Sheet with the future interest expense reduced by approximately £18m per full year.

One year ago the Board set a net debt/EBITDA threshold of 1.5x in response to the immediate need to strengthen the Balance Sheet. This was necessary to give our customers, employees and shareholders confidence in the financial position of the Group. We will review Cobham's Balance Sheet structure as the risk profile of the Group reduces and we will set out a capital allocation policy at the end of 2018.

Strategy

Our three operational priorities are only the first step in delivering an improvement in Cobham's fortunes. We announced at our 2017 interim results that Cobham is best placed to generate value when it focuses on its defence, aerospace and space markets. We can add value where we serve markets we know with technology and capabilities, where we have real depth in skill and understanding.

We announced in February 2018 that we had agreed to divest the AvComm and Wireless test and measurement businesses for US$455m cash consideration, following an auction, with the businesses comprising approximately 8% of Group revenue in 2017. We are retaining the distributed antenna systems business, which has been managed within the Wireless business unit. On completion of the divestment, we will have increased the coherency of the portfolio, reducing risk by exiting businesses with little commonality with the Group. Completion is subject to US anti-trust clearance and other customary conditions, and is anticipated within the first half of 2018.

Our strategy is focused on organic growth and is aligned to our operational improvement priorities, as it will succeed when we combine our high value-add technology and capabilities with improved execution and delivery. Future growth will be driven by increasing the number of products and services we supply to our customers, as well as selling more of our technology and capabilities into attractive geographies. We will avoid higher risk, unrelated diversification.

Technology investment

A technology focused company like Cobham needs to fund Private Venture[6] (PV or company funded R&D – Research and Development) investment. This keeps our products and technology fresh, by delivering the cost-savings customers want and the capability enhancements they need. We are moving Cobham towards an appropriate methodology to ensure we are consistently allocating this investment for optimal return. In 2017, PV investment, excluding bid costs, was £121.9m (2016: £123.9m), representing 7.2% of revenue (2016: 7.8%).

In the Communications and Connectivity Sector, we are continuing the development of the Aviator 'S' SATCOM product for Airbus single aisle and long range aircraft families, as well as the new digital Radio and Audio Integrated Management System for the Airbus A320neo. The Mission Systems Sector has continued to invest in next generation On-Board Oxygen Generating Systems (OBOGS). The OBOGS permits production of aircraft oxygen during flight, with the new product securing a launch customer. The Advanced Electronics Solutions Sector has been investing in gallium arsenide (GaAs) and gallium nitride (GaN) technology for monolithic microwave integrated circuits, providing a competitive advantage in missile and electronic warfare markets, with increasing participation on a number of military platforms.

Dividend

It was previously announced that the Board would not announce a dividend in respect of the financial year 2017. The Board recognises the importance of dividend payments to shareholders and will review its dividend policy as the turnaround progresses and the risk profile improves, seeking to resume a dividend when it is appropriate to do so.

Financial Conduct Authority

We previously reported that the Financial Conduct Authority had notified us that it had appointed investigators to ascertain whether the company had breached the Listing Rules and the Disclosure and Transparency Rules between April 2016 and February 2017, and the Market Abuse Regulations between July 2016 and February 2017. It is currently not possible to predict what the outcome of this investigation will be.

Outlook

The Group is one year into its turnaround programme. Whilst early progress is encouraging, there remains much to do in order to improve operational execution and efficiency and return the Group to strength. Risks and challenges remain in our business and the necessary actions to complete the turnaround are expected to take time and have associated costs. Overall for the Group, the Board's expectations for 2018 remain unchanged with a range of potential outcomes. Reported performance for 2018 will be affected by the timing of completion of the AvComm and Wireless test and measurement divestment, as well as foreign exchange rates impacting the translation of overseas business results. The Board has confidence in the medium term outlook for the Group.

David Lockwood, OBE
Chief Executive Officer

BOARD

The Board has undergone a number of changes during the year, consistent with the rolling succession plan agreed by the Board at the time of the Rights Issue in early 2017. Cobham previously announced in July 2017 the appointment of John McAdam as a Non-executive Director and Senior Independent Director, replacing Jonathan Flint who retired from the Board in August 2017.

In addition, Cobham previously announced the appointment of René Médori as a Non-executive Director from 1 January 2018. He has joined the Board's Audit and Risk Committees, and will become Chairman of the Audit Committee in April 2018 when Alan Semple will retire from the Board. Cobham also previously announced the appointment of General Norton Schwartz (retired) as a Non-executive Director from 1 January 2018. He has joined the Board's Remuneration and Risk Committees.

Cobham also today announces that General Michael Hagee (retired) and Birgit Nørgaard will retire from the Board in April 2018. General Hagee will remain on the Cobham Advanced Electronic Solutions Sector Board, to which he was appointed in the first half of 2017.

FINANCIAL OVERVIEW OF THE PERIOD

Order intake was £1,916.6m (2016: £2,084.0m). Order intake in 2016 benefited from an initial net AUS$719m order booked relating to the significant, repriced and multi-year Qantas contract in the Aviation Services Sector. Excluding this, and at constant currency, 2017 order intake was 8% higher. The Group's book-to-bill was 0.93x (2016: 1.07x); excluding Aviation Services book-to-bill was 1.06x (2016: 0.99x).

Group revenue increased to £2,052.5m (2016: £1,943.9m), driven by favourable currency translation and organic revenue growth of 1%. Organic revenue was driven by growth of 6% (£25.5m) in the Mission Systems Sector and 6% (£31.0m) in the Advanced Electronic Solutions Sector, partly offset by a 3% (£22.7m) organic decline in the Communications and Connectivity Sector and a 2% (£9.0m) decline in the Aviation Services Sector.

The Group's statutory operating profit was £104.1m (2016: £779.1m loss). The improved statutory operating profit included lower amortisation of intangible assets arising on business combinations of £138.9m (2016: £161.2m), favourable movements in non-hedge accounted derivative financial instruments of £28.9m (2016: £39.3m adverse) and lower net impairment of goodwill and other intangible assets of £1.7m (2016: £573.8m). There was also a credit adjustment of £1.4m (2016: £33.3m charge) relating to revisions to the carrying value of other assets, a credit adjustment of £8.0m (2016: £24.4m charge) relating to adjustments to the assessment of legal and other provisions and a credit adjustment relating to other business acquisition and divestment related items of £0.8m (2016: £1.7m charge). In addition, in 2016 the Group took charges of £179.1m against contract loss provisions, including £150.0m against the KC-46 US tanker programme. Partially offsetting these items were amounts relating to prior period restructuring of £4.7m (2016: £8.7m credit) and the lower underlying operating profit.

Group underlying operating profit was £210.3m (2016: £225.0m), including the impact of a favourable currency translation movement of £13.0m. Excluding the currency impact, there was a reduction of £27.7m, with the most significant movements as follows:

- A £19.1m reduction in the Aviation Services Sector at constant currency which primarily reflected the first year of the repriced Qantas contract, as well as the wind-down and demobilisation of helicopter contracts in Trinidad and Tobago and Qatar. There were also £3.2m of non-recurring charges, relating to the settlement of legacy issues largely provided for in the first half;

- An £8.8m reduction in the Mission Systems Sector at constant currency which was adversely impacted by costs incurred on additional resources to improve quality and supply chain management, as well as some additional charges taken against development programmes. This was partially offset by increased revenue including from actuation control subsystems.

The Group's net finance charge was £37.2m (2016: £68.8m - including £19.0m of make-whole payments relating to the pay down of senior notes). Included within the underlying net finance charge was a net expense on cash and debt holdings of £34.9m (2016: £48.0m).

This benefited from lower average net debt following the 2016 and 2017 Rights Issues, as well as from the Group's free cash flow generation. The non-cash finance charge from pension schemes was £2.3m (2016: £1.8m).

The Group's overall tax credit was £11.9m (2016: £52.8m), in part reflecting an improvement over prior year Group profit after specific adjusting items. The Group's underlying tax rate increased to 23.0% (2016: 22.6%) from an underlying tax charge of £39.8m (2016: £39.6m). The increased rate was primarily a result of the geographic profit mix in the year.

Basic EPS was 3.5p (2016: (45.9)p), including the restatement of the prior year figure following the 2017 Rights Issue. Underlying EPS was 23% lower at 6.0p (2016: 7.8p, restated), primarily due to the higher average share count following the 2017 Rights Issue.

Operating cash flow, which is stated after net capital expenditure, but before interest and tax payments was £217.6m (2016: £181.8m). Operating cash conversion was 103% (2016: 81%). This was driven by a cash inflow from working capital, including improvements due to advance customer receipts of £27m. Cash conversion was also assisted by lower capital expenditure of £79.8m (2016: £92.2m), before proceeds from asset disposals of £5.1m (2016: £6.1m). Operating cash flow included £66.6m of net utilisation against the charges taken at 31 December 2016.

Free cash flow is stated after net interest payments of £34.9m (2016: £71.2m - including £19.0m of make-whole payments on senior notes paid down) and tax payments of £32.2m (2016: £20.1m). There were also payments relating to prior periods' restructuring programmes of £9.9m (2016: £39.8m).

Below free cash flow, there was a net inflow of £497.2m primarily relating to the proceeds of the Rights Issue completed in the first half (2016: £492.9m - primarily Rights Issue).

The Group's net debt decreased to £383.5m (31 December 2016: £1,028.2m). Consistent with the Group's borrowing agreements, the net debt/EBITDA gearing ratio was 1.3x at the year end (31 December 2016: 3.0x). Interest cover improved to 6.8x (2016: 5.1x).

In December 2017, the Group completed a scheduled refinancing of its bank facilities maturing in October 2018, with new facilities totaling US$545m and maturities of five years or over at a similar cost.

SECTOR REVIEW

Restatement of Segmental Results

As previously announced, Cobham has changed its segmental reporting of underlying operating profit to eliminate the profit previously reported within the 'Head Office and Other' line. The 2017 underlying operating profit numbers and the 2016 comparatives include these changes in the following Sector Review.

To facilitate analysis, a five year history incorporating this change was published in December 2017 at www.cobhaminvestors.com/reports-and-presentations/2017.

Cobham Communications and Connectivity

Provides high performance equipment and solutions to enable reliable connectivity across a range of demanding environments in aerospace, avionics, satellite and radio and mobile connectivity markets.

£m	2016	FX Translation	Organic[5]	**2017**
Order intake	647.3	30.6	37.3	715.2
Revenue	690.2	33.2	(22.7)	700.7
Operating profit*	58.2	6.1	4.7	69.0
Operating margin*	8.4%			9.8%
Order book	255.1			266.8

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

Organic revenue was 3% lower, principally impacted by lower volumes in the AvComm and SATCOM business units. This was partially offset by higher organic revenue in the Antenna Systems and Wireless business units.

Within AvComm revenue was impacted by the previously announced transition between master distributors in the first half, albeit with a half-on-half improvement. The SATCOM business had lower revenue in its maritime markets, with the environment continuing to be challenging. Revenue in Antenna Systems was driven by increased antenna shipments on US defence/security programmes and, in Wireless, revenue reflected increased shipments of 5G related test and measurement products, including the TM/E-500 family.

In February 2018 the agreed divestment of the Sector's AvComm and Wireless test and measurement businesses to Viavi Solutions Inc. was announced for US$455m in cash, payable on completion. In 2017, the businesses recorded aggregate revenue of £169.6m and underlying operating profit of £13.6m (a £24.8m contribution before the allocation of central charges and £2.4m of restructuring costs). The transaction is expected to complete within the first half of 2018.

Underlying operating profit increased by £4.7m after the impact from exchange rates, reflecting improved sales volumes and a restructured cost base in the Wireless business as well as higher sales volumes in Antenna Systems. In 2016, Wireless profit was also reduced by £9m due to accounting adjustments related to operational issues. These movements were partially offset by lower trading in the AvComm and SATCOM businesses, as well as increased PV investment in next generation aerospace SATCOM products.

The Sector has won some significant awards during the year, including the conformal antenna suite and an initial order for the anti-jam GPS system on the next generation South Korean K-FX fighter aircraft programme. In addition, the Sector has received initial orders for its Flightline radio for an upgrade of the Boeing T-38 trainer aircraft in the US, with further orders expected. Having also completed the development of its next generation panel mounted RT-7000 radio, the Sector made initial shipments in the first half, with a strong pipeline of orders for the product from government and commercial aviation customers.

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. The Sector's primary focus is serving niche areas of the defence and security market globally, which is supplemented with an expanding presence in commercial aviation markets by applying its differentiated technology, particularly in pneumatic and actuation systems.

£m	2016	FX Translation	Divestment	Organic[5]	**2017**
Order intake	381.6	14.0	(9.9)	132.5	518.2
Revenue	386.4	14.8	(7.7)	25.5	419.0
Operating profit*	60.0	2.5	1.5	(8.8)	55.2
Operating margin*	15.5%				13.2%
Order book	649.1				709.1

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

The 6% increase in organic revenue reflected continuing growth in actuation control subsystems for air-to-ground munitions, with a significant production increase during the year. Aerial refuelling revenue increased on the KC-46 and V-22 Aerial Refuelling System development programmes, partially offset by lower Airbus A400M revenue. There were also increased shipments of the Sector's long life Air Separation Module for the Boeing 737 NG, which reduces the flammability of its fuel tanks, with a further airline customer signed in the year.

Underlying operating profit decreased by £8.8m after the impact from exchange rates and the 2016 divestment. Underlying operating profit was adversely impacted by costs incurred on additional resource to improve quality and supply chain management, as well as some additional charges taken against development programmes. However, there was a benefit from increased volumes, including from actuation control subsystems.

A comprehensive business change programme is underway in the Sector's Wimborne, UK facility, where a number of development programmes are moving into production. The programme, which commenced in 2017, comprises all areas of the business, including a reorganisation of the shop floor to accommodate a ramp up in production rate, a streamlining of business processes, and an investment in continuous improvement activities. There is also renewed focus on subsystems and components which have the potential to provide critical technology differentiation, with a view to achieving the required rates of delivery, quality and reliability.

Order intake increased on the prior year in part through strong demand for actuation control subsystems for air-to-ground and laser guided munitions, with multi-year contracts secured from two major US primes for domestic and export markets. There was also continued strength in air separation products and technologies.

In addition, 808E Hose Drum Unit (HDU) certification flight tests were completed in December for the A400M programme. This latest series of flight tests were conducted by day and night with F/A-18 and A400M receiver aircraft. Final type approval for the HDU is continuing. The Sector has also secured customer funding to develop a Helicopter Refuelling capability for the A400M, a significant enhancement for this aircraft.

Cobham has accumulated over 15,000 CRU-123 (oxygen sensor) flight hours on the Boeing T-45 aircraft. The CRU123 records oxygen concentration and pressure and has been instrumental in supporting the US Navy's Physiologic Events (hypoxia) investigation. Furthermore, the Sector's new VigilOX (breathing sensor suite) is currently undergoing US Navy flight testing, to demonstrate its ability to enhance diagnostic capability. The unique combination of both systems provides a comprehensive picture of aircraft and pilot physiological interaction, benefiting flight crew safety.

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 addresses defence and commercial markets, including missiles, radars, electronic warfare, satellite electronics and select industrial applications.

£m	2016	FX Translation	Organic[5]	**2017**
Order intake	542.1	27.5	(6.6)	563.0
Revenue	511.6	25.8	31.0	568.4
Operating profit*	66.2	3.0	(5.9)	63.3
Operating margin*	12.9%			11.1%
Order book	673.9			610.4

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

The Sector's 6% organic revenue performance reflected increases across a number of product areas including space related actuation, power distribution modules for satellite programmes and the Low Band Consolidation (LBC) electronic warfare programme, which passed its preliminary design review. Additionally there were increased volumes on the F-35 Joint Strike Fighter programme, with the Sector having significant electronic warfare and radar subsystem content, with further content won.

Underlying operating profit decreased by £5.9m after the impact from exchange rates. As previously reported, there was an adverse impact from investments made to strengthen the Sector's functional infrastructure and this included the build out and deployment of various IT and compliance systems.

During 2017 and 2018 a significant investment is also being made in the San Diego facility, which is currently increasing production, to improve on-time delivery and quality management. The work, which includes some US$30m of capital investment, covers engineering, manufacturing and testing operations and will also result in increased manufacturing space and more efficient use.

The Sector has received a number of Low Rate Initial Production awards for air and missile defence programmes. The Advanced Off-board Electronic Warfare (AOEW) pod programme also successfully passed its preliminary design review. This is a major milestone for this long-term programme, which will provide US Navy MH-60 helicopters with enhanced electronic warfare surveillance and countermeasure capabilities against anti-ship missile threats, extending the detection range of existing ship-based electronic warfare systems. The Sector also worked with partners on the European Space Agency (ESA)'s Next Generation Microprocessor (NGMP) development to bring to market a space-qualified quad-core processor, providing faster processing power.

The Sector continues to operate under a Special Security Agreement, with the Sector Board critical to Sector governance and performance. As previously announced, the Board was significantly strengthened in the first half with the appointments of Admiral Steve Abbot USN (retired), General Mike Hagee USMC (retired), Cindy Moran and Scott Webster.

Cobham Aviation Services

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

£m	2016	FX Translation	Organic[5]	**2017**
Order intake	513.4	38.5	(429.5)	122.4
Revenue	357.2	18.4	(9.0)	366.6
Operating profit*	40.6	1.3	(19.1)	22.8
Operating margin*	11.4%			6.2%
Order book	1,368.6			1,114.9

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

Organic revenue was 2% lower, reflecting a reduction in revenue from commercial markets, attributable to lower flying activity for Australian natural resources customers and the adverse impact from the first full year of the repriced contract with Qantas. In addition, Helicopter Services revenue was lower, being impacted by the completion of certain overseas contracts, including search and rescue operations in Trinidad and Tobago and maintenance activity in Qatar. However, there was a benefit from an increase in fixed wing special mission revenue, primarily relating to the commencement of the Australian Maritime Safety Authority (AMSA) contract.

Operating profit was £19.1m lower after the impact of exchange rates. This primarily reflected the Qantas contract, with some other smaller adverse trading impacts in the Sector's commercial markets, and also the wind-down and demobilisation of helicopter operations in Trinidad and Tobago and Qatar. The results also reflected £3.2m of non-recurring charges, relating to the settlement of legacy issues largely provided for in the first half.

In order to enhance customer focus as well as reduce overheads, the Sector is being restructured into two regionally based businesses, one based in Australia and one focused on the UK and EMEA. This will shorten decision chains and remove a layer of management. This restructuring will happen during 2018.

The Sector's order intake was lower than the prior year, which included receipt of the net initial order for AUS$719m relating to the multi-year Qantas contract extension.

The Australian natural resources market is showing some early signs of recovery and Aviation Services won a number of contract awards in 2017, including the commencement of operations for the Oz Minerals fly-in, fly-out mine at Prominent Hill. Significantly, the Sector also secured a five year contract extension to continue its operations for Chevron, albeit at a lower rate of flying activity. This agreement, along with the 10 year contract extension for Qantas, provides a foundation on which to re-build the commercial business, when demand increases.

In addition, all four specially modified Bombardier Challenger CL-604 aircraft for the AMSA contract are now fully operational and after the recent establishment of the Cobham Helicopter Academy, based in Newquay, UK, a launch customer has been secured. The Academy will allow the Sector to continue helicopter training services when the UK Defence Helicopter Flying School contract finishes at the end of March 2018.

The Sector signed a teaming agreement with Draken International in the year, for jointly developing solutions for the delivery of operational readiness training under the UK Ministry of Defence's (MoD's) Air Support to Defence Operational Training (ASDOT) programme. ASDOT will meet the training component of UK air support from 2020, progressively replacing contracted and military service provision as these expire, including Cobham's existing operational readiness training for the UK MoD.

OTHER FINANCIAL ITEMS

Summary of Underlying Results

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP alternative performance measures including underlying operating profit and underlying profit.

The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Management use underlying measures to assess the operating performance of the Group, having adjusted for specific items as detailed in note 2 on page 32. They form the basis of internal management accounts and are used for decision making including capital allocation and a subset also forms the basis of internal incentive arrangements. By using underlying measures in segmental reporting, this further ensures readers of the financial statements can recognise how incentive performance is targeted. Underlying measures are also presented in this announcement because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements. A reconciliation of statutory to underlying profit numbers is set out on page 23.

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

£m	**2017**	2016
Revenue	**2,052.5**	1,943.9
Operating profit	**210.3**	225.0
Operating margin	***10.2%***	*11.6%*
Net finance expense	**(37.2)**	(49.8)
Profit before tax	**173.1**	175.2
Tax	**(39.8)**	(39.6)
Tax rate	***23.0%***	*22.6%*
Profit after tax	**133.3**	135.6
*Weighted average number of shares (millions)**	***2,231.8***	*1,732.2*
EPS (pence)*	**6.0**	7.8

**Comparatives restated to reflect the bonus element of the Rights Issue completed during 2017.*

Currency Translation Exchange Rates

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

	2017	2016
Income statement – average rate		
US$/£	**1.29**	1.35
AUS$/£	**1.68**	1.83
€/£	**1.14**	1.22
DKK/£	**8.49**	9.11
Balance sheet – closing rate		
US$/£	**1.35**	1.24
AUS$/£	**1.73**	1.71
€/£	**1.13**	1.17
DKK/£	**8.39**	8.71

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

£m	**Revenue**	**Underlying Operating Profit**
US$	**79**	**9**
AUS$	**16**	**1**
EUR/DKK	**23**	**2**
Other currencies	**4**	**1**
	122	**13**

Statutory Operating Profit

The Group made a statutory operating profit of £104.1m (2016: £779.1m loss). In addition to the underlying operating profit result, statutory profit includes items which have been accounted for as specific adjusting items, consistent with prior years. The net charge arising from these specific adjusting items is lower than the prior year, principally due to the following:

- Amortisation of intangible assets arising on business combinations of £138.9m (2016: £161.2m);

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

- Favourable movements in non-hedge accounted derivative financial instruments of £28.9m (2016: £39.3m adverse);

The impact of derivative financial instruments excluded from underlying results includes changes in the marking to market of non-hedge accounted derivative financial instruments. These amounts relate to foreign currency exchange contracts and would not have impacted the results had the Group chosen to comply with IAS 39 hedge accounting requirements.

- Net impairment of goodwill and other intangible assets of £1.7m (2016: £573.8m);

The Group reviews its valuation of goodwill for potential impairment at least annually. In 2017 the Group impaired its Helicopter Services business unit by £33.5m. In addition, following announcement of the divestment in February 2018, there was a partial reversal of £31.8m against a previous impairment of other intangible assets of the Wireless business. The reversal related to the 2016 impairment of £573.8m against goodwill and other intangible assets in the Wireless, Integrated Electronic Solutions and Semiconductor Solutions business units.

- Adjustments to revisions of the carrying values of other assets provided at 31 December 2016 was a credit adjustment of £1.4m (2016: £33.3m charge);

The credit adjustment, previously announced within the 2017 interims, related to a provision against receivables which was considered doubtful at 31 December 2016, but which has now been recovered. The 2016 charge relates in aggregate to inventory balances, reflecting ageing stock and lower demand forecasts; provisions against aged receivables and tangible and intangible assets no longer expected to be used.

- Adjustments to the assessment of legal and other provisions was a credit adjustment of £8.0m (2016: £24.4m charge).

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

- Other business acquisition and divestment related items was a credit of £0.8m (2016: £1.7m charge).

The credit adjustment predominantly relates to previous divestment activity being concluded within the original cost estimates.

In addition, in 2016 the Group also took aggregate charges of £179.1m against contract loss provisions, including £150.0m against the KC-46 programme.

Partially offsetting these was the following specific adjusting item:

- Amounts relating to prior periods' restructuring programmes of £4.7m (2016: £8.7m credit).

The costs relate to prior periods' restructuring programmes which have been accounted for as incremental to normal operations. The 2016 credit included a reassessment of the level of provisions required in respect of IT integration and remediation costs. There will be no further charges relating to prior periods' restructuring programmes.

Divestments

The Group announced in February 2018 that it had agreed to divest its AvComm and Wireless test and measurement businesses for US$455m in cash payable on completion, which is anticipated within the first half of 2018. In the year ended 31 December 2017 the businesses recorded aggregate revenue of £169.6m and underlying operating profit of £13.6m (a £24.8m contribution, before the allocation of central charges and restructuring costs of £2.4m).

On completion, the coherency of the portfolio will be enhanced, reducing risk by exiting businesses with little commonality with the rest of the Group. The net divestment proceeds (which are subject to certain post completion adjustments and expenses) will be used to strengthen the Balance Sheet and, coupled with existing cash, will pay down approximately £440m of debt. This will include the repayment of private placement debt (senior notes), which will result in estimated accelerated interest costs (make-whole payments) of up to £30m. After the accelerated interest costs, which it is expected will be incurred in the first half of 2018, the Group's future interest expense will be reduced by approximately £18m per full year.

Profit Before Tax

The Group made a statutory profit before tax of £66.9m (2016: loss of £847.9m). The Group's underlying profit before tax was £173.1m (2016: £175.2m).

Tax
The Group's overall tax credit was £11.9m (2016: £52.8m), in part reflecting an improvement over prior year Group profit after specific adjusting items. The Group's underlying tax rate increased to 23.0% (2016: 22.6%) from an underlying tax charge of £39.8m (2016: £39.6m). The increased rate was primarily a result of the geographic profit mix in the year.

The Group is reviewing the implications of the US tax reform, including the Base Erosion and Anti-abuse Tax (BEAT) provisions, and resolving certain tax issues arising from prior years. Given these, and the expected geographical mix of profit, the underlying tax rate is anticipated to remain at approximately the current level, subject to any future changes in tax legislation.

As stated above, the Group previously announced it is reviewing its internal financing structures and is in the process of resolving certain tax issues from prior years. These are set out in more detail in note 6 on page 38 of this Announcement.

Earnings per Share (EPS)
Basic EPS was 3.5p (2016: (45.9)p - including the restatement of the prior year figure for the 2017 Rights Issue bonus factor). In addition to the underlying operating performance, basic EPS was impacted by the specific adjusting items set out in the paragraphs on statutory operating profit above, most notably a charge relating to the amortisation of intangible assets arising on business combinations, partially offset by favourable movements in non-hedge accounted derivative financial instruments.

Underlying EPS was 6.0p, 23% lower than the prior year, primarily due to the higher share count following the 2017 Rights Issue, with underlying profit after tax broadly flat year-on-year.

The Group's average share count in the year was 2,231.8m (2016: 1,506.3m or 1,732.2m restated to reflect the bonus element of the Rights Issue completed during 2017). The share count at 31 December 2017, excluding shares held in treasury, was 2,391.0m (31 December 2016: 1,707.9m).

IFRS 15 (Revenue Recognition) and IFRS 9 (Financial Instruments)
The Group is adopting the new revenue recognition standard, IFRS 15, from 1 January 2018. The standard impacts the timing of revenue recognition on some Group development contracts and on some US government product based contracts. It is estimated that the impact of IFRS 15 is to increase Group revenue by £41m and underlying operating profit by £3m in 2017. There is no impact on Cobham's cash generation or net debt, and it has an immaterial impact on net assets although there will be changes between amounts recoverable on contracts and receivables and payables.

The Group will also adopt IFRS 9 on 1 January 2018. As a result, the valuation of certain of Cobham's minority shareholding investments will increase by approximately £30m, reflecting a requirement to hold these at fair value, rather than at cost, with the change also increasing Group reserves. There are no other material changes arising from the adoption of IFRS 9.

Retirement Obligations

Cobham operates a number of defined benefit schemes, with the largest being the Cobham Pension Plan in the UK. At 31 December 2017, the estimated deficit for accounting purposes, being the difference between the aggregate value of the schemes' assets and the present value of their future liabilities was £63.2m before deferred tax (2016: £87.0m). The most significant movements in the deficit were as follows:

- An increase of £35m due to a reduction in the discount rate;
- A reduction due to net investment returns of £31m;
- A reduction of £11m due to changes to mortality assumptions;
- A reduction of £17m due to net employer contributions.

Cash Flow

Operating cash flow, which is stated after net capital expenditure, but before interest and tax payments was £217.6m (2016: £181.8m). Operating cash conversion was 103% (2016: 81%). This was driven by a cash inflow from working capital, including improvements due to advance customer receipts of £27m. Cash conversion was also assisted by lower capital expenditure of £79.8m (2016: £92.2m), before proceeds from asset disposals of £5.1m (2016: £6.1m). Operating cash flow included £66.6m of net utilisation against the charges taken at 31 December 2016.

Free cash flow was £140.6m (2016: £50.7m). This included net interest payments of £34.9m (2016: £71.2m - including £19.0m of make-whole payments on senior notes paid down). Net tax payments were £32.2m (2016: £20.1m), in part reflecting the Group's increased underlying tax rate.

Also included in free cash flow were payments relating to prior periods' restructuring programmes of £9.9m (2016: £39.8m). A significant element relates to ongoing lease payments on vacated premises provided for in previous years.

Below free cash flow, there was a net inflow of £497.2m primarily relating to the proceeds of the Rights Issue completed in the first half (2016: £492.9m - primarily Rights Issue).

The Group continues to anticipate that it will generate limited free cash flow in 2018, after the impact of the cash utilisation of its onerous contract and other provisions.

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

£m	2017	2016
Underlying operating profit	**210.3**	225.0
Less: share of post-tax results of joint ventures	**0.2**	(0.2)
Underlying operating profit (excluding joint ventures)	**210.5**	224.8
Depreciation and amortisation	**84.8**	80.5
Share based payments	**5.5**	3.8
Decrease in provisions	**(60.9)**	(16.3)
Pension contributions in excess of pension charges	**(17.3)**	(16.7)
Decrease/(increase) in working capital	**69.7**	(8.2)
Gross capital expenditure	**(79.8)**	(92.2)
Proceeds on disposal of property, plant and equipment	**5.1**	6.1
Operating cash flow	**217.6**	181.8
Operating cash/operating profit (excluding joint ventures)	**103%**	81%
Net interest paid	**(34.9)**	(71.2)
Taxation paid	**(32.2)**	(20.1)
Amounts related to prior periods' restructuring programmes	**(9.9)**	(39.8)
Free cash flow	**140.6**	50.7
Dividends paid	**(0.1)**	(126.1)
Business acquisition and divestment related costs paid	**(0.9)**	(2.5)
Net rights issue proceeds and treasury shares allocation	**497.2**	492.9
Exchange movements	**7.9**	(236.4)
Decrease in net debt	**644.7**	178.6
Opening net debt	**(1,028.2)**	(1,206.8)
Closing net debt	**(383.5)**	(1,028.2)

Net Debt, Gearing and 2017 Rights Issue

The Group's net debt decreased to £383.5m (31 December 2016: £1,028.2m), including favourable exchange movements of £7.9m (2016: £236.4m adverse), which were largely driven by the translation of Cobham's US dollar denominated debt between the opening and closing rates. At 31 December 2017 net debt comprised gross debt of £835.4m (31 December 2016: £1,264.4m) and cash of £451.9m (31 December 2016: £236.2m).

As previously announced, following its May 2017 2 for 5 Rights Issue, Cobham paid down certain debt as it matured, principally £183m of variable rate bank debt. It also paid down a US$44m fixed rate senior note, without incurring make-whole charges.

In December 2017, the Group completed a scheduled refinancing of its revolving credit facilities maturing in October 2018, with new bank facilities totalling US$545m and maturities of five years or over at a similar cost.

Consistent with the Group's borrowing agreements, the net debt/EBITDA gearing ratio was 1.3x at the year end (31 December 2016: 3.0x). Interest cover improved to 6.8x (2016: 5.1x).

Reconciliation of Underlying Measures

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP alternative performance measures including underlying operating profit and underlying profit. The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Management uses underlying measures to assess the operating performance of the Group, having adjusted for specific items as detailed in note 2 on page 3. They form the basis of internal management accounts and are used for decision making including capital allocation and a subset also forms the basis of internal incentive arrangements. By using underlying measures in segmental reporting, this further ensures readers of the financial statements can recognise how incentive performance is targeted. Underlying measures are also presented in this announcement because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements.

The table below provides a reconciliation between the statutory operating profit (2016: loss) and underlying operating profit, as well as between the statutory profit before tax (2016: loss) and underlying profit before tax.

£m	2017	2016
Operating profit/(loss)	**104.1**	**(779.1)**
Adjusted to exclude:		
Amortisation of intangible assets arising on business combinations	**138.9**	**161.2**
Derivative financial instruments	**(28.9)**	**39.3**
Impairment of goodwill and other intangible assets	**33.5**	**573.8**
Reversal of impairment of intangible assets	**(31.8)**	**-**
Carrying values of other assets provided at 31 December 2016	**(1.4)**	**33.3**
Legal and other provisions provided at 31 December 2016	**(8.0)**	**24.4**
Estimates of fixed price contract profitability	**-**	**179.1**
Amounts relating to prior periods' restructuring programmes	**4.7**	**(8.7)**
Other business acquisition and divestment related items	**(0.8)**	**1.7**
Total operating reconciling items	**106.2**	**1,004.1**
Underlying operating profit	**210.3**	**225.0**
£m		
Underlying profit before tax is calculated as follows:		
Profit/(loss) before taxation	**66.9**	**(847.9)**
Total operating reconciling items as above	**106.2**	**1,004.1**
Non-underlying finance costs	**-**	**19.0**
Underlying profit before taxation	**173.1**	**175.2**
Taxation charge on underlying profit	**(39.8)**	**(39.6)**
Underlying profit after taxation	**133.3**	**135.6**
Underlying EPS (pence)	**6.0**	**7.8**

The information contained within this announcement is considered to constitute inside information as stipulated under the Market Abuse Regulations (EU) No.596/2014 ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information will be considered to be in the public domain.

Cautionary Statements

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

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

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

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

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

Consolidated Income Statement

For the year ended 31 December 2017

		2017			2016		
£m	Note	**Underlying**	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Revenue	4	**2,052.5**	**-**	**2,052.5**	1,943.9	-	1,943.9
Cost of sales		**(1,457.9)**	**-**	**(1,457.9)**	(1,358.6)	(208.7)	(1,567.3)
Gross profit		**594.6**	**-**	**594.6**	585.3	(208.7)	376.6
Operating costs		**(384.3)**	**(106.2)**	**(490.5)**	(360.3)	(795.4)	(1,155.7)
Operating profit/(loss)		**210.3**	**(106.2)**	**104.1**	225.0	(1,004.1)	(779.1)
Finance income	5	**6.1**	**-**	**6.1**	4.1	-	4.1
Finance costs	5	**(43.3)**	**-**	**(43.3)**	(53.9)	(19.0)	(72.9)
Profit/(loss) before taxation		**173.1**	**(106.2)**	**66.9**	175.2	(1,023.1)	(847.9)
Taxation	6	**(39.8)**	**51.7**	**11.9**	(39.6)	92.4	52.8
Profit/(loss) after taxation for the year		**133.3**	**(54.5)**	**78.8**	135.6	(930.7)	(795.1)
Attributable to:							
Owners of the parent		**133.1**	**(54.5)**	**78.6**	135.5	(930.7)	(795.2)
Non-controlling interests		**0.2**	**-**	**0.2**	0.1	-	0.1
		133.3	**(54.5)**	**78.8**	135.6	(930.7)	(795.1)
Earnings per ordinary share	3						
Basic		**6.0p**		**3.5p**	7.8p		(45.9)p
Diluted		**6.0p**		**3.5p**	7.8p		(45.9)p

EPS for the comparative period has been restated for the impact of the Rights Issue in May 2017.

Underlying results are presented to assist with the understanding of the Group's performance trends. Definitions of these measures and details of specific adjusting items are detailed in note 2.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

£m	Note	2017	2016
Profit/(loss) after taxation for the year		**78.8**	(795.1)
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	15	**7.4**	(42.6)
Actuarial loss on other retirement benefit obligations		**-**	(1.2)
Tax effects		**(1.4)**	8.9
		6.0	(34.9)
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries		**(50.4)**	41.3
Reclassification of cash flow hedge fair values		**0.5**	1.6
Hedge accounted derivative financial instruments		**0.9**	(2.8)
Tax effects		**(0.1)**	0.4
		(49.1)	40.5
Other comprehensive (expense)/income for the year		**(43.1)**	5.6
Total comprehensive income/(expense) for the year		**35.7**	(789.5)
Attributable to:			
Owners of the parent		**35.5**	(789.6)
Non-controlling interests		**0.2**	0.1
		35.7	(789.5)

Consolidated Balance Sheet

As at 31 December 2017

£m	Note	2017	2016 (restated)
Assets			
Non-current assets			
Intangible assets	9	**893.8**	1,165.9
Property, plant and equipment	10	**380.9**	422.9
Investment properties		**2.4**	3.6
Investments in joint ventures and associates		**3.6**	3.6
Trade and other receivables		**64.5**	66.0
Other financial assets		**6.1**	6.1
Deferred tax		**57.5**	43.9
Derivative financial instruments		**25.0**	19.7
		1,433.8	1,731.7
Current assets			
Inventories	11	**389.4**	405.3
Trade and other receivables		**329.0**	409.8
Current tax receivables		**7.2**	3.1
Derivative financial instruments		**10.4**	8.5
Cash and cash equivalents		**451.9**	236.2
Assets classified as held for sale	13	**171.7**	-
		1,359.6	1,062.9
Liabilities			
Current liabilities			
Borrowings		**(0.1)**	(60.9)
Trade and other payables		**(448.2)**	(440.3)
Provisions	14	**(125.1)**	(180.6)
Current tax liabilities		**(135.8)**	(141.6)
Derivative financial instruments		**(12.2)**	(42.2)
Liabilities associated with assets classified as held for sale	13	**(49.1)**	-
		(770.5)	(865.6)
Non-current liabilities			
Borrowings		**(835.3)**	(1,203.5)
Trade and other payables		**(36.1)**	(31.5)
Provisions	14	**(30.7)**	(57.3)
Deferred tax		**(2.1)**	(27.6)
Derivative financial instruments		**(27.2)**	(32.2)
Retirement benefit obligations	15	**(63.2)**	(87.0)
		(994.6)	(1,439.1)
Net assets		**1,028.3**	489.9
Equity			
Share capital	16	**61.7**	44.6
Share premium	16	**1,257.9**	778.3
Other reserves		**(8.6)**	37.9
Retained earnings		**(284.0)**	(372.0)
Total equity attributable to owners of the parent		**1,027.0**	488.8
Non-controlling interests in equity		**1.3**	1.1
Total equity		**1,028.3**	489.9

Details of the restatement of the 2016 Balance Sheet can be found in note 6.

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

£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 2016	30.4	301.9	(0.3)	576.8	908.8	0.9	909.7
Loss for the year	-	-	-	(795.2)	(795.2)	0.1	(795.1)
Other comprehensive income/(expense)							
Items that will not be reclassified subsequently to profit or loss	-	-	-	(34.9)	(34.9)	-	(34.9)
Items that may subsequently be reclassified to profit or loss	-	-	40.5	-	40.5	-	40.5
Issue of shares, net of costs (note 16)	14.2	476.4	-	-	490.6	-	490.6
Proceeds on allocation of treasury shares	-	-	-	2.3	2.3	-	2.3
Dividends (note 7)	-	-	-	(126.1)	(126.1)	-	(126.1)
Share based payments	-	-	3.8	-	3.8	-	3.8
Transfer of other reserves to retained earnings	-	-	(5.1)	5.1	-	-	-
Tax effects	-	-	(1.2)	-	(1.2)	-	(1.2)
Foreign exchange adjustments	-	-	0.2	-	0.2	0.1	0.3
Total equity at 31 December 2016	44.6	778.3	37.9	(372.0)	488.8	1.1	489.9
Profit for the year	**-**	**-**	**-**	**78.6**	**78.6**	**0.2**	**78.8**
Other comprehensive income/(expense)							
Items that will not be reclassified subsequently to profit or loss	**-**	**-**	**-**	**6.0**	**6.0**	**-**	**6.0**
Items that may subsequently be reclassified to profit or loss	**-**	**-**	**(49.1)**	**-**	**(49.1)**	**-**	**(49.1)**
Issue of shares, net of costs (note 16)	**17.1**	**479.6**	**-**	**-**	**496.7**	**-**	**496.7**
Proceeds on allocation of treasury shares	**-**	**-**	**-**	**0.5**	**0.5**	**-**	**0.5**
Share based payments	**-**	**-**	**5.5**	**-**	**5.5**	**-**	**5.5**
Transfer of other reserves to retained earnings	**-**	**-**	**(2.9)**	**2.9**	**-**	**-**	**-**
Total equity at 31 December 2017	**61.7**	**1,257.9**	**(8.6)**	**(284.0)**	**1,027.0**	**1.3**	**1,028.3**

Consolidated Cash Flow Statement

For the year ended 31 December 2017

£m	Note	2017	2016
Cash generated from operations		**282.3**	226.0
Tax paid		**(32.2)**	(20.1)
Interest paid		**(41.6)**	(74.7)
Interest received		**6.7**	3.5
Net cash from operating activities	8	**215.2**	134.7
Cash flows from investing activities			
Purchase of property, plant and equipment		**(69.0)**	(82.8)
Purchase of intangible assets		**(10.8)**	(9.1)
Capitalised expenditure on intangible assets	9	**-**	(0.3)
Proceeds on disposal of property, plant and equipment		**5.1**	6.1
Acquisition of subsidiaries net of cash or debt acquired		**(0.3)**	(1.4)
(Costs)/proceeds of business divestments		**(0.5)**	1.0
Net used in investing activities		**(75.5)**	(86.5)
Cash flows from financing activities			
Issue of share capital	16	**496.7**	490.6
Dividends paid	7	**-**	(126.1)
Dividends paid to non-controlling interests	7	**(0.1)**	-
Proceeds on allocation of treasury shares		**0.5**	2.3
New borrowings		**-**	9.9
Repayment of borrowings		**(359.6)**	(497.0)
Net cash from/(used in) financing activities		**137.5**	(120.3)
Net increase/(decrease) in cash and cash equivalents		**277.2**	(72.1)
Exchange movements		**(61.5)**	14.3
Cash and cash equivalents at start of year		**236.2**	294.0
Cash and cash equivalents at end of year		**451.9**	236.2

Reconciliation of cash and cash equivalents and net debt

£m	2017	2016
Cash and cash equivalents	**451.9**	236.2
Borrowings - current liabilities	**(0.1)**	(60.9)
Borrowings - non-current liabilities	**(835.3)**	(1,203.5)
Net debt at 31 December	**(383.5)**	(1,028.2)

Notes to the Financial Information

For the year ended 31 December 2017

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 2017 or 31 December 2016.

Statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies, and those for 2017 will be delivered following the Company's Annual General Meeting.

The auditors have reported on these accounts; their report for the year ended 31 December 2017 was unqualified, and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006.

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

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

Management judgement and estimation uncertainty

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

These judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The current economic conditions have been considered when evaluating accounting judgements and estimates, including the application of the going concern basis of preparation. Although estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Significant judgements in applying accounting policies

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

a. Consolidation of Cobham Advanced Electronic Solutions Sector

The Cobham Advanced Electronic Solutions Sector operates under a Special Security Agreement (SSA) with the US Government due to the nature of its work on classified US Department of Defense (DoD) programmes. The results of this Sector have been consolidated based on a judgement that, whilst the day to day operation of this Sector is managed by the SSA Board, the Cobham plc Board retains the right to variable returns and the ability to affect those returns;

b. Classification of assets as held for sale

It is considered that the carrying amount of the assets and liabilities of the AvComm and Wireless test and measurement businesses will be recovered through a sale transaction rather than through continuing use, and these have therefore been classified as held for sale at 31 December 2017. Following the announcement of the divestment of these businesses on 2 February 2018, the Directors believe it is highly probable that the sale will be completed within a year of the balance sheet date;

c. Revenue recognition – milestone recognition

The recognition of significant revenue milestones which often involve judgement surrounding the achievement of those milestones;

d. Capitalisation of development costs

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

Assumptions and estimation uncertainties

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

a. Long term contract provisions (note 14)

Recognition and measurement of onerous contract provisions includes estimates of the costs to complete the contracts, the outcome of negotiations with customers and the amounts recoverable under these contracts;

b. Impairment of goodwill and intangible assets (note 9)

Determination of the value in use of Cash Generating Units (CGUs) as assessed in relation to the annual review of goodwill and any subsequent impairment of goodwill and intangible assets, or reversal of previously impaired intangible assets;

c. Inventory provisions (note 11)

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

d. Uncertain tax positions (note 6)

Recognition and measurement of amounts provided in respect of uncertain tax positions included within net current tax payables in the Balance Sheet; and

e. Pension assets and liabilities (note 15)

Assumptions are made in assessing the costs and present value of the pension assets and liabilities, which include the discount rate, inflation and mortality rates.

Accounting policies

The accounting policies applied are consistent with those published in the financial statements for the year ended 31 December 2016.

No new standards are required to be adopted from 1 January 2017. In September 2017 the IFRS Interpretations Committee issued an agenda decision on interest and penalties related to income taxes. This decision clarified that entities do not have a policy choice between applying IAS 12, 'Income taxes' and applying IAS 37, 'Provisions, contingent liabilities and contingent assets' to interest and penalties related to income taxes. Details of the restatement arising from this change can be found in note 6. A number of amendments to standards have been adopted from 1 January 2017 however these have not impacted the results as reported.

IFRS 15, Revenue from Contracts with Customers
The Group will adopt IFRS 15, Revenue from Contracts with Customers, from 1 January 2018. IFRS 15 introduces a five-step model to be applied to all contracts with customers when determining accounting for revenue. In addition a number of new disclosures will be required. Upon adoption of IFRS 15 in 2018 comparatives will be restated using the fully retrospective approach.

A detailed review of contracts impacted by IFRS 15 has been undertaken and the provisional impact on the Balance Sheet as at 31 December 2016 is a decrease to working capital of £17m, a decrease in provisions of £21m, and a decrease in other Balance Sheet items of £4m resulting in no net impact on reserves.

The impact on 2017 revenue is an increase of approximately £41m, with an increase in operating profit of approximately £3m.

IFRS 9, Financial instruments
IFRS 9 is effective from 1 January 2018. It has an impact on three areas: classification and measurement: impairment of financial assets; and hedge accounting.

The valuation of certain of Cobham's minority shareholding investments will increase by approximately £30m, reflecting a requirement to hold these at fair value, rather than at cost, with the change also increasing Group reserves. There are no other material changes arising from the adoption of IFRS 9.

2. Underlying measures and specific adjusting items

Use of underlying measures
To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP alternative performance measures including underlying operating profit and underlying earnings.

The non-GAAP measures used are not defined terms under IFRS and therefore may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Management uses underlying measures to assess the operating performance of the Group, having adjusted for specific items as defined below. They form the basis of internal management accounts and are used for decision making including capital allocation and a subset also forms the basis of internal incentive arrangements. By using underlying measures in our segmental reporting, this further ensures readers of the financial statements can recognise how incentive performance is targeted. Underlying measures are also presented in this report because the Directors believe they provide additional useful information to shareholders on comparative trends over time. Finally, this presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items; this helps to ensure performance in any one year can be more clearly understood by the user of the financial statements.

Definitions of underlying measures
All underlying measures include the operational results of all businesses including those held for sale until the point of sale. These definitions are applied consistently on a year to year basis.

Underlying operating profit
Underlying operating profit has been defined as operating profit from continuing operations excluding the impacts of business acquisition and divestment related activity and prior periods' business restructuring costs as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments, gains and losses arising on dividend related foreign

exchange contracts and other items deemed by the Directors to be of a non-operating nature including the impairment of intangible assets.

Underlying profit
Underlying profit before taxation is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and specific finance costs.

Details of specific adjusting items

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

£m	Note	2017	2016
Cost of sales			
Revisions of the carrying values of other assets		-	24.1
Estimates of fixed price contract profitability		-	179.1
Assessment of legal and other provisions		-	5.5
		-	208.7
Operating costs			
Amounts related to prior periods restructuring programmes		**4.7**	(8.7)
Derivative financial instruments		**(28.9)**	39.3
Business acquisition and divestment related items			
Amortisation of intangible assets arising on business combinations	9	**138.9**	161.2
(Profit)/loss on divestments		**(1.1)**	1.3
Other M&A related costs		**0.3**	0.4
Impairment of goodwill and other intangible assets	9	**33.5**	573.8
Reversal of impairment of intangible assets	9	**(31.8)**	-
Other items provided at 31 December 2016			
Adjustments to revisions of the carrying values of other assets		**(1.4)**	9.2
Adjustments to the assessment of legal and other provisions provided		**(8.0)**	18.9
		106.2	795.4
Finance costs			
Non-underlying finance costs - make whole payments	5	-	19.0
Taxation			
Tax on specific adjusting items		**(51.7)**	(92.4)

Explanation of specific adjusting items

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

These adjustments include the amortisation of intangible assets arising on business combinations, gains or losses arising on business divestments, adjustments to businesses held for sale, the writing off of the pre-acquisition profit element of inventory written up on acquisition, revaluation gains and losses arising on the original equity interests on stepped acquisitions, other direct costs associated with business combinations and terminated divestments, and adjustments to contingent consideration related to previously acquired businesses.

Amortisation of intangible assets arising as a result of the purchase price allocation on business combinations, such as customer lists, technology based assets and order book and trade names, is not included in underlying measures. Amortisation of internally generated intangible assets such as software and development costs is included within underlying measures.

Likewise impairments of goodwill and other intangible assets arising on business combinations, together with any reversal of impairment of intangible assets, are treated as specific adjusting items as these assets arose from business acquisitions in prior periods.

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

Amounts related to prior periods restructuring programmes

Amounts related to prior periods restructuring programmes were deemed as incremental to normal operations. These costs relate to the integration of the Aeroflex businesses acquired in 2014 specifically in respect of the IT integration and remediation costs resulting from this acquisition. Where restructuring costs are incurred as a result of the ongoing business activity, such costs are included within operating costs and are not excluded from underlying results.

Derivative financial instruments

The impact of derivative financial instruments excluded from underlying results includes changes in the marking to market of non-hedge accounted derivative financial instruments. These amounts relate to foreign currency exchange contracts and would not impact operating results had the Group chosen to comply with IAS 39 requirements to enable these contracts to be hedge accounted. Also included are gains and losses arising on dividend related foreign exchange contracts. As dividend cash flows do not impact operating results, the movement in the fair value of foreign exchange contracts being used to manage the currency risks arising are excluded from underlying results.

Other items

In 2016 additional items which were excluded from underlying results due to their unusual size and incidence arose out of the January 2017 Balance Sheet review. The impact of these items was much larger than would normally be expected in any individual accounting period and they reflected commercial events that were not expected to repeat. They included revisions to the carrying value of assets, changes in estimates of fixed price contract profitability and the assessment of legal and other provisions.

Adjustments to revisions of the carrying value of other assets provided at 31 December 2016 relate to a provision against aged receivables which was considered doubtful at 31 December 2016 but which has been recovered during the first half of the year ended 31 December 2017. The release of this provision has been treated as an adjusting item consistent with the treatment of the original provision.

Adjustments to the assessment of legal and other provisions relate to provisions made at 31 December 2016 which have been reassessed during 2017. These provision releases have been treated as an adjusting item consistent with the treatment of the original provisions.

3. Earnings per ordinary share

£m		2017 Underlying	2017 Specific adjusting items	2017 Total	2016 (restated) Underlying	2016 (restated) Specific adjusting items	2016 (restated) Total
Profit/(loss) after taxation for the year		**133.3**	**(54.5)**	**78.8**	135.6	(930.7)	(795.1)
less amount attributable to non-controlling interests		**0.2**	**-**	**0.2**	0.1	-	0.1
Earnings attributable to owners of the parent		**133.1**	**(54.5)**	**78.6**	135.5	(930.7)	(795.2)
Weighted average number of shares	million	**2,231.8**		**2,231.8**	1,732.2		1,732.2
Basic EPS		**6.0p**		**3.5p**	7.8p		(45.9)p
Weighted average number of shares	million	**2,231.8**		**2,231.8**	1,732.2		1,732.2
Effect of dilutive securities	million	**3.5**		**3.5**	2.0		-
Diluted weighted average number of shares	million	**2,235.3**		**2,235.3**	1,734.2		1,732.2
Diluted EPS		**6.0p**		**3.5p**	7.8p		(45.9)p

Potentially dilutive securities are unvested awards under the Group's share based payment schemes. When losses are made, EPS is not impacted by any potential dilution.

Basic and diluted EPS figures for the comparative period have been restated and adjusted by the bonus factor of 1.15 to reflect the bonus element of the May 2017 Rights Issue, in accordance with IAS 33, Earnings per Share. Amounts as originally stated were (52.8) pence basic and diluted EPS, and 9.0 pence basic and diluted underlying EPS.

4. 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	2017	2016
Revenue from sale of goods	**1,508.8**	1,445.0
Revenue from services	**543.7**	498.9
	2,052.5	1,943.9

Operating segments

£m	Revenue 2017	Revenue 2016	Underlying operating profit 2017	Underlying operating profit 2016 (restated)	Segment net assets 2017	Segment net assets 2016 (restated)
Communications and Connectivity	**700.7**	690.2	**69.0**	58.2	**523.0**	573.7
Mission Systems	**419.0**	386.4	**55.2**	60.0	**206.2**	196.3
Advanced Electronic Solutions	**568.4**	511.6	**63.3**	66.2	**583.4**	686.1
Aviation Services	**366.6**	357.2	**22.8**	40.6	**222.2**	276.3
Head office, other activities and elimination of inter-segment items	**(2.2)**	(1.5)	**-**	-	**13.8**	37.5
Total Group	**2,052.5**	1,943.9	**210.3**	225.0	**1,548.6**	1,769.9
Interests in joint ventures and associates					**3.6**	3.6
Unallocated liabilities					**(523.9)**	(1,283.6)
Total net assets					**1,028.3**	489.9

The segmental analysis of underlying operating profit for 2016 as shown above has been restated with the effect of eliminating the net underlying operating profit previously reported as Head Office and other activities. The Directors consider that the revised allocation, whereby all costs of the corporate head office and Group functions are allocated across the operating segments, more fairly represents the underlying performance of the Group and its Sectors.

Underlying operating profit is reconciled to the profit/(loss) before taxation as follows:

£m	Note	2017	2016
Underlying operating profit		**210.3**	225.0
Specific adjusting items included within:			
Cost of sales	2	**-**	(208.7)
Operating costs	2	**(106.2)**	(795.4)
Net finance costs	5	**(37.2)**	(68.8)
Profit/(loss) before taxation		**66.9**	(847.9)

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 2017	Revenue 2016	Non-current assets 2017	Non-current assets 2016
USA	**1,028.8**	941.9	**647.3**	862.0
UK	**188.3**	185.2	**172.1**	269.6
Other EU	**337.5**	312.1	**294.8**	289.6
Australia	**229.5**	213.9	**146.2**	151.4
Rest of the world	**268.4**	290.8	**20.3**	23.4
	2,052.5	1,943.9	**1,280.7**	1,596.0

The largest component of revenue from customers located in the rest of the world is £193.9m (2016: £195.1m) from customers in Asia including the Middle East. The balance of this geographic location includes South America, Africa, and non EU European countries. 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.

5. Finance income and costs

£m	2017	2016
Bank interest	3.9	0.9
Other finance income	2.2	3.2
Total finance income	6.1	4.1
Interest on bank overdrafts and loans	(38.3)	(51.9)
Interest on net pension scheme liabilities	(2.3)	(1.8)
Other finance expense	(2.7)	(19.2)
Total finance costs	(43.3)	(72.9)
Net finance costs	(37.2)	(68.8)

Other finance expense for 2016 includes £19.0m of make-whole fees payable in connection with the early repayment of fixed term borrowings following the Rights Issue in June 2016. These costs are excluded from underlying earnings.

6. Taxation

£m	2017	2016
Charge for the year	22.0	45.1
Adjustments to tax charge in respect of prior years	-	4.5
Current tax	22.0	49.6
Credit for the year	(39.9)	(107.6)
Impact of change in tax rates	2.7	5.0
Adjustments to tax charge in respect of prior years	3.3	0.2
Deferred tax	(33.9)	(102.4)
Total tax credit for the year	(11.9)	(52.8)

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction. The total tax credit for the year includes a credit of £8.6m (2016: credit £44.3m).

The effective tax rate for 2017 is (17.8%) (2016: 6.2%). The tax charge on underlying profit is £39.8m (2016: £39.6m) at an effective rate of 23.0% (2016: 22.6%).

Current tax risks

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

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

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

On 22 December 2017 extensive changes to the US tax system were made. A number of risks to the Group arise as a result, including Anti-base erosion, the way that interest deductions are made, foreign tax credits and tax of foreign earnings. These risks are currently being assessed as further clarity is provided by the US tax authorities.

In respect of the above risks and other uncertain tax positions in the UK, US and other tax jurisdictions, amounts totalling £126.4m (2016: £138.7m) have been accrued. Final resolutions will affect the amounts settled and the timing of any settlements. Whilst resolution remains uncertain, these amounts are included in current liabilities.

Prior year restatement

In September 2017 the IFRS Interpretations Committee issued an agenda decision on interest and penalties related to income taxes. This decision clarified that entities do not have a policy choice between applying IAS 12, 'Income taxes' and applying IAS 37, 'Provisions, contingent liabilities and contingent assets' to interest and penalties related to income taxes. As a consequence the Group has reassessed its treatment of interest and penalties related to its global uncertain tax positions as presented in the 2016 Annual Report and Accounts. This resulted in other liabilities within trade and other payables increasing by £9.5m, current tax liabilities decreasing by £7.9m, and deferred tax assets increasing by £1.6m and 2016 balances have been restated accordingly.

7. Dividends

No dividends have been paid or approved by Cobham plc during the year ended 31 December 2017. The following dividends were paid in the prior year:

£m	2016
Final dividend of 7.07p per share for 2015 (restated)	91.6
Interim dividend of 1.77p per share for 2016 (restated)	34.5
	126.1

Dividend per share figures above have been restated to reflect the bonus element of the May 2017 Rights Issue.

A dividend of £0.1m (2016: £nil) was paid to the holders of non-controlling interests in TEAM SA, a subsidiary of Cobham plc.

8. Cash flow from operations

£m	Note	**2017**	2016
Operating profit/(loss)		**104.1**	(779.1)
Non-cash items:			
Share of post-tax results of joint ventures and associates		**0.2**	(0.2)
Depreciation and amortisation		**223.9**	248.1
Impairment of goodwill and intangible assets	9	**33.5**	573.8
Reversal of impairment provision	9	**(31.8)**	-
(Profit)/loss on sale of property, plant and equipment		**(0.2)**	4.4
Business acquisition and divestment related items		**(0.8)**	1.7
Derivative financial instruments		**(28.9)**	39.3
Adjustments to revisions of the carrying values of other assets	2	**(1.4)**	-
Adjustments to the assessment of legal and other provisions	2	**(8.0)**	-
Pension contributions in excess of pension charges		**(17.3)**	(16.7)
Share based payments		**5.5**	3.8
Operating cash movements:			
(Increase)/decrease in inventories		**(26.7)**	50.8
Decrease in trade and other receivables		**24.1**	21.9
Increase/(decrease) in trade and other payables		**71.1**	(9.7)
(Decrease)/increase in provisions		**(65.0)**	87.9
Cash generated from operations		**282.3**	226.0
Tax paid		**(32.2)**	(20.1)
Interest paid		**(41.6)**	(74.7)
Interest received		**6.7**	3.5
Net cash from operating activities		**215.2**	134.7

Use of alternative cash flow performance measures

Free cash flow and operating cash flow are considered to provide a consistent measure of the operating cash flow of the Group's business. These alternative performance measures are used in internal management accounts and for decision making including capital allocation. In addition to underlying profit measures, underlying cash conversion is also used for internal incentive arrangements, and presenting this information allows users of the financial statements to better understand the way in which performance is targeted.

Definitions of operating cash flow measures

Free cash flow

Free cash flow is defined as net cash from operating activities plus dividends received from joint ventures, less cash flows related to the purchase or disposal of property, plant, equipment and intangible assets but excluding payments relating to business acquisition and divestment related activities.

Operating cash flow

Operating cash flow is free cash flow before payment of tax, interest and restructuring costs.

Reconciliation of operating cash flow measures

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

£m	2017	2016
Net cash from operating activities per Cash Flow Statement	215.2	134.7
Purchase of property, plant and equipment	(69.0)	(82.8)
Purchase of intangible assets	(10.8)	(9.1)
Capitalised expenditure on intangible assets	-	(0.3)
Proceeds on disposal of property, plant and equipment	5.1	6.1
Business acquisition and divestment related costs paid	0.1	2.1
Free cash flow	140.6	50.7
Amounts related to prior periods restructuring programmes	9.9	39.8
Tax paid	32.2	20.1
Underlying net finance costs paid	34.9	71.2
Operating cash flow	217.6	181.8

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

£m	2017	2016
Underlying operating profit excluding the share post-tax result of joint ventures	210.5	224.8
Operating cash flow	217.6	181.8
Underlying cash conversion	103%	81%

9. Intangible assets

£m	2017	2016
Carrying amount at start of year	**1,165.9**	1,729.5
Additions	**10.6**	8.2
Additions - internally generated	**-**	0.3
Business divestments	**-**	(1.0)
Disposals	**-**	(0.2)
Amortisation of intangible assets arising on business combinations	**(138.9)**	(161.2)
Other amortisation	**(10.8)**	(14.0)
Impairment provision	**(33.5)**	(573.8)
Reversal of impairment provision	**31.8**	-
Reclassified as held for sale	**(88.1)**	-
Other reclassifications	**0.6**	2.0
Foreign exchange adjustments	**(43.8)**	176.1
Carrying amount at end of period	**893.8**	1,165.9

Goodwill

Goodwill must be allocated to CGUs for the purposes of reporting and accounting. Cobham has previously defined CGUs in line with Business Units. However during the year, the Group determined that following completion of all historic integration activities, the strategic review undertaken in 2017 and increasing numbers of new customer platforms using multiple Cobham products, CGUs are now more appropriately defined at the Sector level. This avoids the need to allocate goodwill on an increasingly arbitrary basis and represents the lowest level at which goodwill is now monitored by management. Prior to making the assessment of impairment at this new level, impairment reviews were performed at the Business Unit level. Where relevant any impairments arising are discussed below.

The carrying value of goodwill is allocated to the following Sectors:

£m	2017	2016
Communications and Connectivity	**278.8**	310.0
Mission Systems	**89.8**	92.4
Advanced Electronic Solutions	**225.1**	244.1
Aviation Services	**43.3**	78.7
Total	**637.0**	725.2

Helicopter Services goodwill arose on the acquisition of the FB Group in 2013. The previously announced loss of the UK Defence Helicopter Flying School contract, which expires at the end of March 2018, meant this business has been more sensitive to its ability to secure extensions on its remaining portfolio of contracts and to secure new business. In 2017 the business was not able to win extensions with two key non-UK customers where local governments are reconsidering whether or not, and how, they fund training activities. Reflecting the lower level of secured income into future projections an impairment provision of £33.5m has been expensed leaving a balance of £17.3m.

£31.8m of a previous impairment of intangible assets held in the Wireless business was reversed with reference to the expected sale proceeds less costs to sell for the AvComm and Wireless businesses, which were subsequently reclassified as held for sale in the Balance Sheet.

10. Property, plant and equipment

£m	2017	2016
Carrying amount at start of year	**422.9**	379.9
Additions	**69.4**	81.5
Business divestments	**-**	(0.9)
Disposals	**(4.5)**	(10.5)
Depreciation	**(74.0)**	(72.2)
Reclassified as held for sale	**(18.3)**	-
Other reclassifications	**(0.6)**	(2.3)
Foreign exchange adjustments	**(14.0)**	47.4
Carrying amount at end of period	**380.9**	422.9

At 31 December 2017 the Group had commitments for the acquisition of property, plant and equipment of £13.8m (2016: £14.3m).

11. Inventories

£m	2017	2016
Raw materials and consumables	**179.9**	210.7
Work in progress	**247.0**	238.2
Finished goods and goods for resale	**38.5**	42.5
Allowance for obsolescence	**(76.0)**	(86.1)
	389.4	405.3

12. Fair values of financial assets and liabilities

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

£m	2017	2016
Financial assets		
Derivative contracts (designated as hedging instruments)	**22.2**	18.9
Derivative contracts (not hedge accounted)	**13.2**	9.3
Financial liabilities		
Derivative contracts (designated as hedging instruments)	**(22.0)**	(20.4)
Derivative contracts (not hedge accounted)	**(17.4)**	(54.0)
	(4.0)	(46.2)

Borrowings are held at amortised cost which equates to fair value except for the Group's fixed rate borrowings. At 31 December 2017 the fair value of those borrowings was £743.7m (2016: £932.8m) compared to their book value of £687.4m (2016: £848.9m). The fair value of the fixed rate borrowings and derivative financial instruments have been determined by reference to observable market prices and 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.

13. Non-current assets and disposal groups held for sale

On 2 February 2018, the divestment of the Group's AvComm and Wireless test and measurement businesses, part of the Cobham Communications and Connectivity Sector was announced. The following assets and liabilities have been classified as held for sale in the Balance Sheet as at 31 December 2017, and are measured on a non-recurring basis at fair value, taking into account the agreed selling price of US$455m. The divestment is expected to complete within the first half of 2018, subject to regulatory approval.

£m	2017
Property, plant and equipment	18.3
Investment property	0.6
Intangible assets	88.1
Deferred tax	3.8
Inventories	20.3
Trade and other receivables	40.6
Total assets classified as held for sale	171.7
Trade payables and other liabilities	(37.5)
Deferred tax	(10.6)
Provisions	(1.0)
Total liabilities associated with assets classified as held for sale	(49.1)
Total non-current assets and disposal groups held for sale	122.6

There were no non-current assets or disposal groups held for sale at 31 December 2016.

14. Provisions

£m	2017	2016
Current liabilities	125.1	180.6
Non-current liabilities	30.7	57.3
	155.8	237.9

Movements in provisions during the year are as follows:

£m	Contract loss provisions	Provisions related to businesses divested	Restructuring provisions	Warranty claims	Aircraft maintenance provisions	Other	Total
At 1 January 2017	147.0	6.6	23.4	17.0	3.3	40.6	237.9
Additional provisions in the year	8.3	-	-	6.0	1.0	7.2	22.5
Utilisation of provisions	(66.5)	(0.7)	(2.1)	(3.5)	(1.0)	(6.5)	(80.3)
Provisions released	(1.2)	-	(1.5)	(6.0)	(0.6)	(4.2)	(13.5)
Reclassified as held for sale	-	-	-	(0.7)	-	(0.3)	(1.0)
Other reclassifications	5.5	-	(1.5)	2.2	-	(8.5)	(2.3)
Foreign exchange adjustments	(3.4)	-	(0.7)	(0.2)	-	(3.2)	(7.5)
At 31 December 2017	89.7	5.9	17.6	14.8	2.7	25.1	155.8

Provisions released in the year include the release of £4.3m of warranty and £3.7m of legal and other provisions which have been excluded from underlying earnings as shown in note 2.

15. Retirement benefit obligations

£m	2017	2016
Defined benefit scheme assets	**816.3**	790.0
Defined benefit obligations	**(879.5)**	(877.0)
	(63.2)	(87.0)

Movements in the net liability are as follows:

£m	2017	2016
Net liability at start of year	**(87.0)**	(56.7)
Amounts recognised in the Income Statement	**(3.2)**	(3.6)
Employer contributions	**18.2**	18.5
Amounts recognised in OCI	**7.4**	(42.6)
Exchange differences	**1.4**	(2.6)
Net liability at end of year	**(63.2)**	(87.0)

16. Share capital

	Number of 2.5p shares	Share capital £m	Share premium £m
At 1 January 2016	1,214,527,625	30.4	301.9
Issued in the year	569,287,950	14.2	476.4
At 31 December 2016	**1,783,815,575**	**44.6**	**778.3**
Issued in the year	**683,145,540**	**17.1**	**479.6**
At 31 December 2017	**2,466,961,115**	**61.7**	**1,257.9**

Shares were issued on 4 May 2017 as a result of a 2 for 5 fully underwritten Rights Issue at an issue price of 75 pence per share. Net proceeds of £496.7m were realised after costs of £15.7m. In the prior year, shares were issued following a 1 for 2 fully underwritten Rights Issue which raised net proceeds of £490.6m after costs of £16.1m.

17. Contingent liabilities

At 31 December 2017, 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.

As announced in June 2017, Cobham was notified by the Financial Conduct Authority that it had appointed investigators to ascertain whether the Company had breached the Listing Rules and the Disclosure and Transparency Rules between April 2016 and February 2017 and the Market Abuse Regulation between July 2016 and February 2017. It is currently not possible to predict what the outcome of this investigation will be.

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

The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain and could materially impact the Group's future reported earnings. In particular, on fixed price development contracts, costs incurred and anticipated can significantly exceed amounts estimated as a result of material enhancements to the specifications originally agreed under the contracts. Judgement is therefore required as regards the estimated costs to complete, the outcome of negotiations with customers and the amounts recoverable under these contracts. The amount recoverable may be subject to direct damages due to the customer and damages or penalties they incur from their own end users. In particular there are onerous contract terms and challenging delivery schedules on air to air refuelling development contracts. The Group may take account of the advice of experts as required in making these judgements and whether the outcome of negotiations will result in an appropriate recovery of costs.

In the case where the Group is undertaking development activity at its own cost, but has given performance undertakings to prospective customers, then a liability for losses consequent upon the failure to meet such undertakings could exist.

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

In addition, tax enforcement has become a higher priority for many tax authorities in jurisdictions in which the Group operates, which has led to an increase in tax audits, enquiries and challenges, or the testing through litigation of the boundaries of the correct interpretation of legislation. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws and the Group may have disagreements with tax authorities which could result in a material restatement to the tax position. For example, the availability of certain interest deductions on one of the Group’s internal financing arrangements, principally as a result of various US acquisitions, has been under challenge for some time. Over the life of this internal financing arrangement, the aggregate tax value of the interest deductions amounted to approximately £130m. If decided adversely to the Group, this could lead to increased tax liabilities in excess of those provided in the Group’s Balance Sheet, and result in a substantial tax payment becoming due. That payment may also be subject to an interest charge from the relevant authority. The Group has taken external advice and considers that it has strong support for its position. However, the timing and resolution of this issue is uncertain.

The European Commission (EC) has opened an investigation into the UK’s controlled foreign company (CFC) rules. The CFC rules levy a charge on foreign entities controlled by the UK that are subject to a lower rate of tax, however there is currently an exemption available for 75% of this charge if the activities being undertaken by the CFC relate to financing. The EC are investigating whether this exemption is in breach of EU State Aid rules, but it is too early to assess what the conclusions of this investigation might be.

On 22 December 2017 extensive changes to the US tax system were made. A number of risks to the Group arise as a result, including anti-base erosion, the way that interest deductions are made, foreign tax credits and tax of foreign earnings. These risks are currently being assessed as further clarity is provided by the US tax authorities.

18. Events after the balance sheet date

The Group's US$75m credit agreement was repaid in January 2018 following the refinancing activity completed in December 2017.

The divestment of the AvComm and Wireless test and measurement businesses was announced on 2 February 2018, as disclosed in note 13.

-Ends-