Cobham plc

Annual Report and Accounts 2011

The most important thing we build is trust

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Front cover image
Cobham was awarded a AUD500m contract extension by Qantas to operate 13 Boeing 717 aircraft, which will carry some 1.7 million passengers a year. The award strengthens a 20 year relationship.

Inside front cover image
The revolutionary Boeing 787 relies on Cobham Satellite Communications (SATCOM) equipment and Cobham's nitrogen gas system, which was originally developed for military applications.

Image courtesy of Steve Brimley

Cobham specialises in meeting the almost insatiable demand for data, connectivity and bandwidth in defence, security and commercial environments. Offering a technically diverse and innovative range of technologies and services, the Group protects lives and livelihoods, responding to customer needs with agility that differentiates it. Employing more than 10,000 people on five continents, the Group has customers and partners in over 100 countries. The most important thing we build is trust.

HIGHLIGHTS 2011

Modest organic revenue growth* in core* businesses, with strong performance in commercial and non US defence/security markets

Underlying* EPS growth of 13% at constant translation exchange rates

Group order intake increased 16% at constant translation exchange rates, with book-to-bill of 1.10 times

Excellence in Delivery run rate savings expected to increase from £65m to £75m at the end of 2013

Excellent free cash flow* of £288m, with strong operating cash conversion of 95%

Recommended increase in full year dividend of 33% underpinned by strong earnings and cash generation

You can view this Annual Report, other results material, including a webcast of the results presentation, and other information for shareholders online at **www.cobhaminvestors.com**

Total revenue

(2.5%)

£1,854.4m (2010: £1,902.6m)

Core R&D investment*

+0.2pts

5.2% (2010: 5.0%)

Trading profit*

+4.7%

£364.9m (2010: £348.4m)

Underlying* profit before taxation

+7.1%

£327.9m (2010: £306.1m)

Earnings per Ordinary Share – underlying*

+12.0%

22.05p (2010: 19.68p)

Earnings per Ordinary Share – basic

+26.6%

16.80p (2010: 13.27p)

Total revenue
£m

	Commercial	Defence/security	Total
2011	505	1,349	1,854
2010	497	1,406	1,903
2009	481	1,399	1,880

Dividend
pence

2011	8.00
2010	6.00
2009	5.45

Earnings per Ordinary Share – underlying*
pence

2011	22.05
2010	19.68
2009	18.80

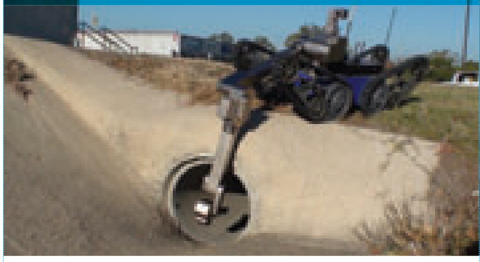
* For definitions of underlying and other terms please refer to inside back cover.

The Annual Report contains certain forward looking statements with regard to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing contained in this Annual Report should be construed as a profit forecast.

COBHAM AT A GLANCE

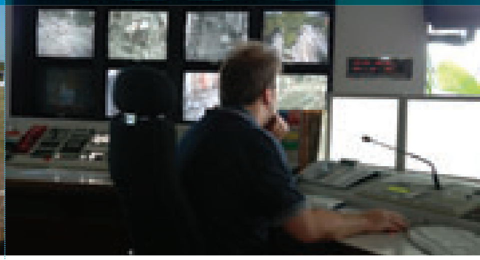
OUR YEAR

JANUARY



Cobham acquired Telerob GmbH, a privately owned German based manufacturer of advanced bomb disposal robots and threat response vehicles. The business has more than 700 systems in 55 countries, with many systems in operation in Asia and the Middle East.

FEBRUARY

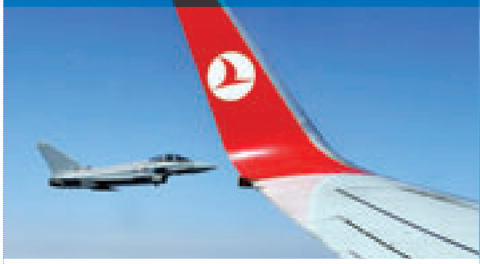


Cobham acquired US surveillance technology company Corp Ten International Inc., a business that designs and develops software which permits multiple tracking and surveillance devices to be managed within a single system.

MARCH

Major David Haslam, Asst. Equerry to HRH Prince Philip Duke of Edinburgh, and Major Peter Norton GC, SO2 Directing Staff for Counter-IED (C-IED) and Explosive Ordnance Engineering at the UK Defence Antenna Systems Academy thanking Cobham staff for work on C-IED technologies.

APRIL

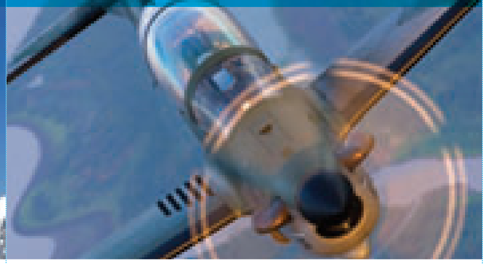


Cobham's HGA-7001 high gain SATCOM antenna entered service with Turkish Airlines, the first A330 operator to take delivery of their aircraft with the Cobham antenna sub system installed, enabling Inmarsat SwiftBroadband throughout the aircraft.

MAY

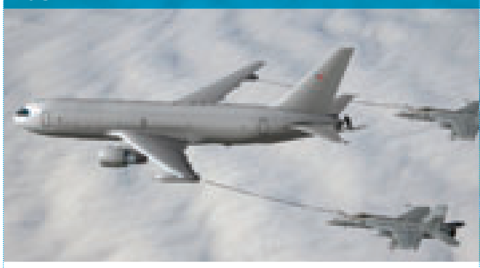
Cobham's Autopilot and Stability Augmentation System (HeliSAS), was granted Supplemental Type Certificate status by the Federal Aviation Administration on the Eurocopter AS350 and EC130 helicopters. HeliSAS reduces pilot workload and increases aircraft stability.

JUNE



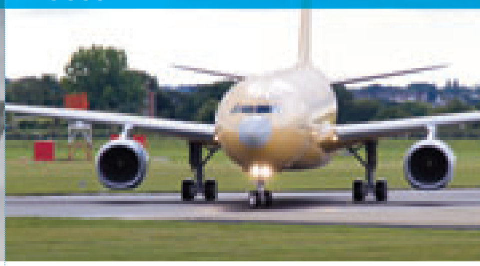
Cobham was selected by Embraer of Brazil to provide an advanced flight display system for 14 EMB-312 Tucanos being upgraded for the Colombian Air Force, beginning in 2012.

JULY



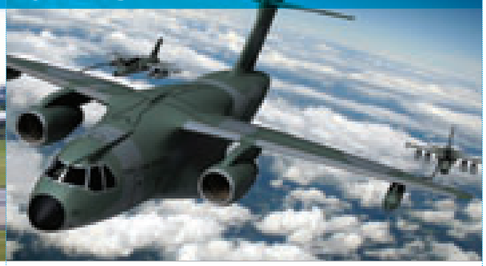
An engineering and manufacturing development order was received for the US KC-46A air refuelling tanker, being one of two totalling US$73m.
Image courtesy of Boeing

AUGUST



The first two A330 aircraft arrived at Cobham's facility at Bournemouth International Airport to commence modification as part of the UK's Future Strategic Tanker Aircraft (FSTA) programme.

SEPTEMBER

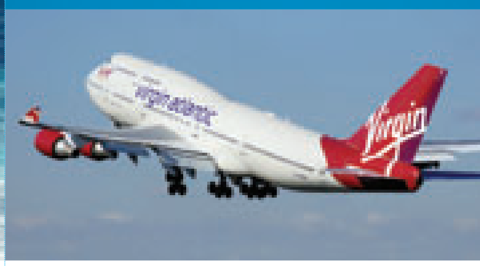


Cobham was selected to develop and supply the Wing Aerial Refuelling Pod for the KC-390 Tactical Military Transport and Tanker Aircraft under development by Brazil's Embraer, receiving an initial contract with a value in excess of US$60 million.

OCTOBER

The acquisition of US based Trivec-Avant Corporation was completed and two contract wins announced totalling more than US$72 million. Trivec-Avant is an industry leader in the field of SATCOM antennas for communications on the move.
Image courtesy of US DoD

NOVEMBER



Cobham's HGA-7001 SATCOM antenna was selected by Virgin Atlantic and Emirates Airlines for Boeing 747 and 777 cabin upgrade programmes. It enables broadband internet usage in the cockpit and in the passenger cabin during flight
Image courtesy of Adrian Pingstone

DECEMBER

Cobham was selected by Embraer to design and supply its robust yet light weight fixed aerial refuelling probe for the KC-390, building on its air refuelling position won in September.

Aerospace and Security

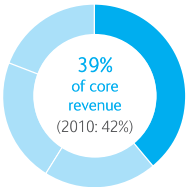
Providing end-to-end avionics and communication equipment, law enforcement and national security solutions, and satellite communication equipment for land, sea and air applications.

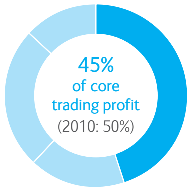
Employees[1]
3,735
(2010: 3,938)

Revenue[2]
£637.0m
(2010: £681.8m)

Trading profit
£152.5m
(2010: £155.7m)

Operating locations
USA, UK, Canada, Denmark, France, South Africa, Finland, Sweden





See page 14 for more information

Defence Systems

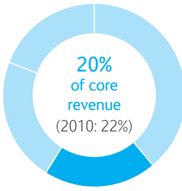
Critical technology for network centric and intelligence operations, moving information around the digital battlefield with customised and off-the-shelf solutions for people and systems to communicate on land, sea and air.

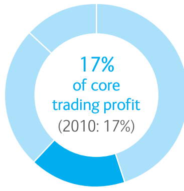
Employees[1]
2,401
(2010: 2,533)

Revenue[2]
£323.9m
(2010: £361.7m)

Trading profit
£57.9m
(2010: £53.2m)

Operating locations
USA, Mexico





See page 16 for more information

Mission Systems

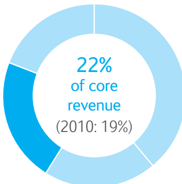
Providing safety and survival systems for extreme environments, nose-to-tail refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotor craft, and remote controlled robots and fully-equipped bomb disposal vehicles for homeland security and military applications.

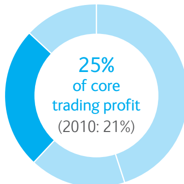
Employees[1]
1,446
(2010: 1,306)

Revenue[2]
£371.8m
(2010: £320.8m)

Trading profit
£87.5m
(2010: £65.1m)

Operating locations
USA, UK, Germany





See page 18 for more information

Aviation Services

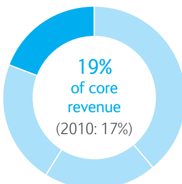
Delivering outsourced aviation services for military and civil customers worldwide through military training, special mission flight operations, outsourced commercial aviation and aircraft engineering.

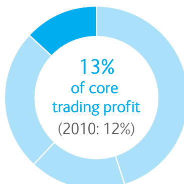
Employees[1]
1,745
(2010: 1,644)

Revenue[2]
£308.1m
(2010: £273.5m)

Trading profit
£44.1m
(2010: £36.4m)

Operating locations
UK, Australia, Germany





1 At year end.
2 Includes interdivisional trading.

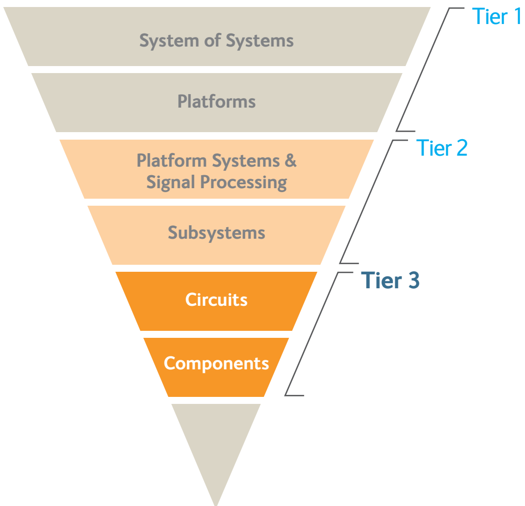
See page 20 for more information

WHAT WE DO: OUR BUSINESS MODEL

WE OFFER A TECHNICALLY DIVERSE AND INNOVATIVE RANGE OF TECHNOLOGIES AND SERVICES THAT HELP TO PROTECT LIVES AND LIVELIHOODS, RESPONDING TO CUSTOMER NEEDS WITH AGILITY THAT DIFFERENTIATES US

Our role within the industry

Our primary focus is on Tier 3 products and components with selective operations at Tier 2.



We focus our development on increasing functionality and consider:

- Size
- Weight
- Power

To develop products that enhance capability in line with customer needs and are:

- Smaller
- Lighter
- More power efficient

Commercial aircraft, fighters, satellites and unmanned vehicles are some of the most expensive real estate in the world, so our ability to provide greater functionality at a lower weight, with a smaller footprint and better power characteristics will remain a key discriminator.

Increasing fuel costs mean that our customers are constantly looking for superior technical performance coupled with lower weight and drag.

Where we fit into the supply chain

Our supply chain

COST OF SALES FOR MATERIALS

£608m

(2010: £606m)
representing 33% (2010: 32%) of revenue

Cobham spent £608m in 2011 with suppliers on five continents. As part of the Excellence in Delivery programme, non-core manufacturing activities are being further outsourced to the supply chain as businesses are integrated into principal manufacturing locations.

There is a major investment in training to improve supply chain management across the Group, as the performance of suppliers is critical to the timely delivery, cost and quality of the goods manufactured by Cobham.

Research and Development

CORE R&D INVESTMENT

£129m

(2010: £125m)

Cobham funded Research and Development or Private Venture (PV) was £70m (2010: £69m) representing 5.2% (2010: 5.0%) of revenue, with a strategic objective of increasing investment to 6%.

The majority of Cobham's customer funded Research and Development (R&D) and Private Venture (PV) is spent when the Group is down selected for a project or programme, so investment is linked to market opportunities.

Customer funding is used to develop products, particularly in the USA.

Regardless of the funding source, the focus is on development rather than research.

Manufacturing

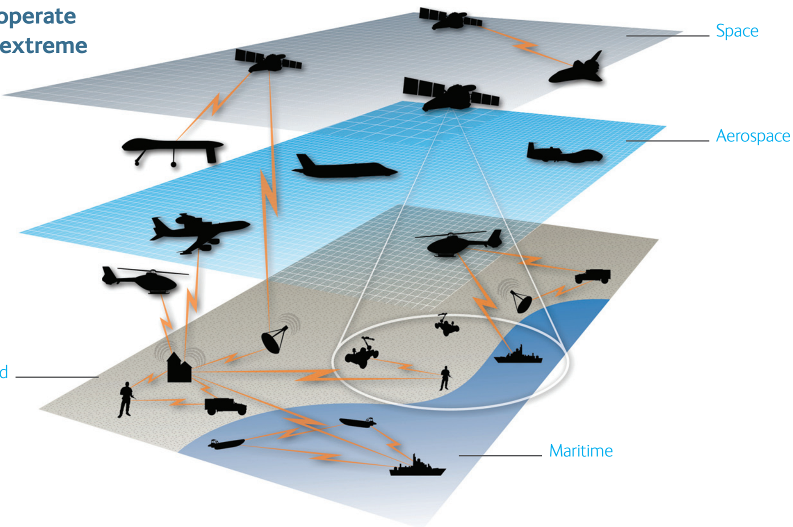
Excellence in Delivery is an ambitious and far reaching programme which, in a period of over three years, will completely transform Cobham by putting excellence at the very heart of everything we do.

There are three components to this programme, which focus on a number of principal manufacturing locations.

STANDARD OPERATING FRAMEWORK
Establishing a Cobham way of doing business in the form of a standard set of good practice tools, processes and techniques that will allow us to deliver operational excellence consistently across our business.

We specialise in meeting the almost insatiable demand for data, connectivity and bandwidth in defence, security and commercial environments.

Supply products that operate everywhere including extreme environments, from deep space to the depths of the ocean



See page 10 for more information

Many of Cobham's capabilities improve communication and keep people safe, which is a common requirement across the Group's defence, security and commercial markets. This is why Cobham's technology can often be adapted from one market to the next, e.g. commercial to defence/security and from one domain to another, e.g. aerospace to land.

NEW ERP SYSTEM
Lock down the standard operating framework processes with a Cobham Enterprise Resource Planning (ERP) system, capture scale economies and reduce complexity further through implementation of shared services.

INTEGRATION
Integrate some smaller production facilities into the principal locations to increase the coverage of our Standard Operating Framework.

Customers

Cobham's customers range from Original Equipment Manufacturers (OEMs) and prime contractors, who incorporate the Group's technology into their products or platforms, to other customers, such as airlines and government agencies who buy Cobham equipment directly.

- OEMs
- PRIMES
- GOVERNMENT AGENCIES
- COMMERCIAL CUSTOMERS

NUMBER OF COUNTRIES WE DO BUSINESS WITH

over 100

AFTERMARKET SALES

17%

CHAIRMAN'S STATEMENT

JOHN DEVANEY CHAIRMAN

HIGHLIGHTS

- Increased focus on chosen markets, each with advantages of scale and differentiation
- Expansion of transformational operational improvement programme and increased efficiencies
- Recommended 33% increase in full year dividend

FULL YEAR DIVIDEND

8.0p +33%

(2010: 6.0p)

Corporate development

We have continued to make good progress in our strategy of focusing on chosen markets where we have scale and differentiation, completing the planned divestment of the non-core Analytic Solutions business for US$350m. In addition we invested some US$280m in acquisitions, bringing us complementary and differentiated technologies. We are increasingly prioritising investments which bring more balance between our defence/security and commercial markets, with focus on products which can be applied to multiple end markets, as this increases return on investment.

I am pleased to say that Excellence in Delivery, our transformation programme, has produced improved operational performance and significant efficiency improvements, in part driving an increase in underlying EPS of 12%. We intend to expand the programme and we estimate that the run rate of efficiency savings at the end of 2013 will increase from £65m to £75m.

Underlining our ongoing commitment to technology investment, we invested £129m on Research and Development in our core businesses, including £70m of company funded investment or Private Venture, representing 5.2% of revenue.

It is our ability to generate cash which provides us with the funds to continue our significant investment in the business and pay a progressive dividend to shareholders. Our free cash flow was excellent, with strong operating cash conversion of 95%.

Shareholder distributions

In March 2011 we announced a programme to return surplus capital to shareholders through a share buy-back of up to £150m. This share buy-back programme was completed in November with a total of 76m shares purchased.

Cobham has high dividend cover, a strong balance sheet after the share buy-back and a highly cash generative business model. As a demonstration of confidence in the Group's future prospects, the Board has decided to make a one-off step change to the 2011 ordinary dividend and is recommending a final dividend of 6.20 pence (2010: 4.372 pence). Together with an interim dividend of 1.80 pence (2010: 1.628 pence), this will result in a total dividend of 8.0 pence (2010: 6.0 pence) per share, an increase of 33% on the prior year.

The Board

We announced in November 2011 that Andy Stevens, Cobham Chief Executive Officer (CEO), had decided to take early retirement due to the recurrence of a long term serious back injury. I have temporarily assumed the position of Executive Chairman, with Andy remaining on the Board to assist with the management of the Group until a new CEO is appointed. The process for finding a replacement is making progress.

Alison Wood joined the Board as a Non-executive Director in July 2011. Alison brings to the Board deep insight of defence and security markets as well as related technology issues through her 17 year career at BAE Systems, prior to becoming Global Director Corporate Development & Strategy for National Grid plc.

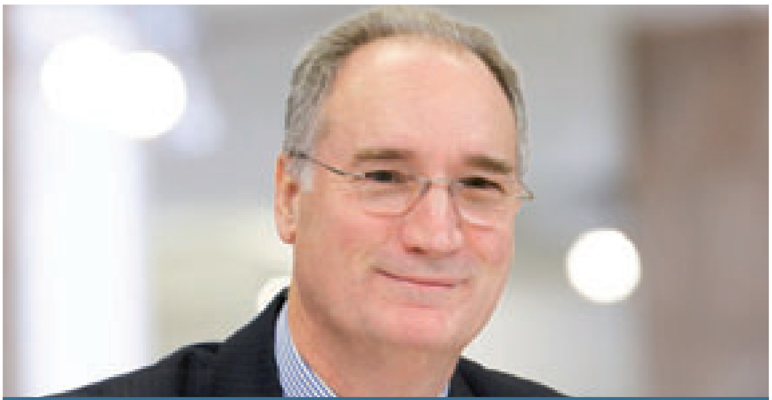
Peter Hooley retired as a Non-executive Director at the conclusion of Cobham's Annual General Meeting in May 2011, after nine years service. I would like to thank Peter for his wise counsel and assured contribution as Chairman of the Audit Committee. Michael Wareing has taken over as Chairman of the Audit Committee, drawing on his considerable financial experience as a former Chief Executive of KPMG International.

Outlook

We have made significant steps towards focusing the portfolio on markets where we have technical differentiation and leading positions. Excellence in Delivery has achieved real operational improvements and better-than-expected efficiency savings and we have a strong balance sheet and a highly cash generative business model, giving us the flexibility to examine attractive acquisition opportunities and increase shareholder distributions. The US Government has confirmed defence and security priorities that favour Cobham and has made some progress in reconciling these to budgetary imperatives. The continued delivery of the strategy gives the Board confidence that we will continue to make progress over the medium term.

John Devaney, Executive Chairman
6 March 2012

CHIEF EXECUTIVE'S REVIEW



ANDY STEVENS CHIEF EXECUTIVE OFFICER

HIGHLIGHTS

- Group order intake increased 16% at constant translation exchange rates
- Excellence in Delivery programme realised £25m of year-on-year efficiency savings
- Underlying EPS increased by 13% at constant translation exchange rates

ORDER BOOK

£2.5bn

(2010: £2.5bn)

Overview of the year

The core businesses, which excludes Analytic Solutions which has now been divested and other smaller businesses yet to be divested, achieved modest organic revenue growth of 0.3% in the year driven by a good performance from Mission Systems and the Aviation Services business. Revenue from both commercial and rest of the world defence/security markets, representing 56% of core business revenue, grew strongly. As anticipated, revenue growth was constrained by continued uncertainty in the US defence/security market.

Group order intake in the year increased 16% at constant translation exchange rates with the book-to-bill ratio at 1.10 times. At the year end, the Group order book was £2.5bn (2010: £2.5bn), which is an increase of 7% on the prior year on a constant translation exchange rate basis and excluding the impact of acquisitions and divestments.

The Group received some very important multi-year orders during 2011 in all of its key markets. These include the initial orders for engineering and manufacturing development on the US KC-46A aerial refuelling tanker totalling US$73m and orders for the Brazilian KC-390 aerial refuelling tanker totalling US$72m. Other significant orders included a US$40m order from Inmarsat to be the maritime terminal launch partner on its Global Xpress broadband service, a significant AUD$500m extension of the Australian QantasLink contract and a €45m contract to a Cobham joint venture to provide helicopter air reconnaissance capability to the Dutch Caribbean Coastguard.

Further progress has been made in 2012, with a further significant award on the KC-46 tanker programme for the supply of body fuel tanks, with an initial engineering order received and other significant bids submitted.

Overall, US defence/security revenue in the core businesses was down 7%, in a year when US Department of Defense investment outlays declined 10%. Encouragingly, non US defence/security revenue increased 5% driven by air refuelling and electronic subsystems exports following significant investments in PV and the development of customer relationships. Commercial revenue increased 10%, benefiting from increased flying activity for Australian resource industry customers, increased Boeing and Airbus production and revenue from the sale of SATCOM antennas to a range of aerospace and marine customers.

The Group underlying trading margin increased by 1.4% points to 19.7% and underlying EPS increased by 13% at constant translation exchange rates, driven by the Excellence in Delivery programme and other cost savings. The £150m share buy-back programme, completed in November, increased EPS by 3%.

Strategy update

The Group's strategy continues to be underpinned by three investment priorities. These are a continuation of investment in technologies in selected faster growing markets, including prioritising investment where this brings more balance between the Group's defence/security and commercial markets. Secondly, achieving excellence in operations; and thirdly focusing the Group's portfolio of businesses on markets where Cobham has scale and differentiation.

Technology investment

Cobham has a unique set of differentiated technologies with leading positions in all its core markets. It has invested to maintain and build on these positions, with a view to generating revenue over a sustained period. Examples of this investment include next generation wireless video links which have numerous airborne and ground security applications, early threat detection on oil and gas wells and broadcast applications, including for the 2012 Olympics. In addition, Cobham has developed an improved oxygen generation system for use in field hospitals and next generation Active Electronically Scanned Array radar subsystems, which provide significantly improved performance and reliability.

Cobham's PV investment is focused on specific areas of customer demand, and this approach generates an excellent return on the investment made. For example, the Group has over several years invested US$14m in PV on its Radio and Audio Integration Management System, which has already won sole source positions on some key commercial aircraft programmes. These positions are currently estimated to generate Cobham some US$250m of revenue over the product's life, which does not include potential future awards on other commercial and/or military aircraft.

Operational excellence

The Group is delighted with the progress being made on Excellence in Delivery, Cobham's transformation programme,

INNOVATION

Cobham has been supplying tactical video links to US and other militaries for decades, for both aerial and ground unmanned vehicles for applications that include Counter-Improvised Explosive Device (C-IED). The technology is also used in applications ranging from TV broadcast of NFL games, to police helicopter surveillance for Super Bowl XLI held in Miami, Florida and the golf Ryder Cup held in Wales.

which was announced in August 2010 and is planned to continue to the end of 2013. There are three components to this programme: the implementation of a Standard Operating Framework across a set of principal locations, the integration of smaller manufacturing facilities into these principal locations and the implementation of an ERP IT system. The programme is bringing a number of significant operational benefits including improved productivity, shortened manufacturing lead times, improved levels of quality and reduced working capital.

During 2011, improvements to the production operations in 10 principal sites were progressively implemented with the remaining sites to be undertaken in 2012. The planned physical integrations are also starting to deliver efficiencies with nine site integrations completed. Work was started on the design of the new ERP system. In production operations, the benefits from the work done are being reflected in improved operational performance metrics such as on time delivery, first pass quality and productivity and production lead time improvements.

The programme also achieved excellent financial results in 2011 realising £25m of annualised year-on-year efficiency savings, ahead of the £21m savings planned. These savings were achieved at a cost in the year of £39m, well below the previously expected cost of £46m. Cumulative gross costs incurred on the programme to the end of the year were £62m.

Building on the considerable financial and operational success of the programme, the Group intends to expand the scope of Excellence in Delivery, including additional scope for supply chain improvements, with phasing such that significant additional benefits will be seen in 2013. As a result, the Group now estimates that the run rate of efficiency savings at the end of 2013 will increase from £65m to £75m, at an unchanged total cost of £131m.

In 2012, work will continue to consolidate and reinforce the production process improvements in the principal locations along with further work on engineering and supply chain processes. Design of the ERP system will be completed and four more site integrations will be undertaken to build further scale and deliver additional benefits. By the end of 2012, a further £8m of annualised, year-on-year efficiency savings are expected to be achieved, with the programme benefits and costs remaining in line with the original plan.

Portfolio optimisation

Cobham continues to have a robust balance sheet, good cash generation and a pipeline of attractive technology acquisitions, with focus maintained on existing markets, enabling it to build further scale and capabilities.

ACQUISITION INVESTMENT

US$280m

In addition, the Excellence in Delivery programme gives Cobham an enhanced capability to more efficiently integrate acquisitions and generate cost synergies from them. Cobham remains determined only to undertake strategically attractive transactions where these satisfy its financial criteria and disciplined investment approach.

Consistent with its strategy, Cobham has invested up to US$280m on acquisitions before working capital adjustments in 2011, with the performance of these acquisitions in the year accretive to EPS and consistent with plan.

Cobham has continued to make good progress in its strategy to focus on markets where it has scale and differentiation. To this end and as previously announced, Cobham completed the planned divestment of the non-core Analytic Solutions business in November 2011 for US$350m. Good progress is also being made on the divestment of the remaining non-core businesses, with Cobham MAL Limited having been divested in December 2011.

Andy Stevens, Chief Executive Officer
6 March 2012

OUR MARKETS

BUILDING LEADING MARKET POSITIONS IN SELECTED FASTER GROWTH MARKETS WITH A HIGH TECHNOLOGY FOCUS

Cobham operates in three key markets: US defence/security, accounting for 44% of core revenue, non US defence/security and commercial, each accounting for 28% of core revenue.

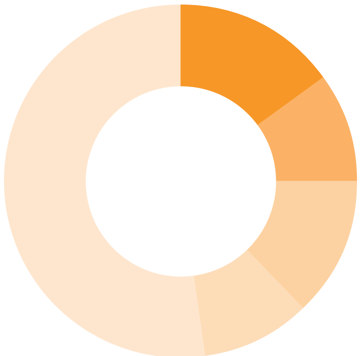
In the US defence/security market while significant uncertainty remains, the US Government is making some progress towards developing a sustainable 10 year plan. At the end of 2011, the President signed the 2012 defence budget, containing flat year on year base budget investment accounts, without the prolonged delay in agreeing the prior year budget. The 2013 Presidential base budget request is broadly consistent with 2012, although with investment accounts 4% lower. In addressing the significant budgetary demands, the Secretary of Defense has put forward plans for a modest increase in the base budget up to 2017. Strategic defence priorities have also been formally reiterated with continued focus on a number of key areas, including investment in special operations forces, unmanned systems and electronics. These priorities overlap significantly with Cobham's capabilities and should enable the Group to outperform the defence market over the medium term. In addition to strong positions on legacy platforms, which also have significant export and upgrade potential, such as the F-16 and the F-18 fighter aircraft, the V-22 tiltrotor aircraft and the Predator/Reaper unmanned aerial system, the Group has successfully positioned itself on important future growth platforms including substantial content on the KC-46A aerial refuelling tanker aircraft and the CH-53K heavy lift helicopter. The Group also has a strong position on the F-35 multi-role fighter aircraft and while expected production increases have been slowed, this aircraft retains its significant potential for growth over the medium term.

The Group's non US defence/security markets have good potential due to Cobham's breadth of geographic reach and presence on a wide range of platforms and programmes. This enables it to balance continued budgetary pressures, particularly in Europe, with a focus on exports to faster growing geographies such as India, Brazil, the Gulf Cooperation Council countries in the Middle East and parts of South East Asia, where sustained growth in defence/security budgets is expected. The Group has strong, established positions on non US platforms with good export potential such as the A330MRTT aircraft, the Eurofighter Typhoon fighter aircraft and the NH90 utility helicopter. This export driven strategy delivered progress in the year with important awards on the Brazilian KC-390 aerial refuelling tanker aircraft and on the Eurocopter EC175 and NH90 utility helicopters.

Cobham's commercial markets have good growth prospects, being driven by large jet, helicopter and general aviation production and the marine SATCOM market, which has exposure primarily to the oil and gas market and commercial shipping. Cobham also has specialist aviation markets in Australia, with a number of significant customers in the resources industry there. Rising passenger numbers, demand for more fuel efficient aircraft and for improved aviation and marine communication products is expected to drive growth in Cobham's markets. Production at Airbus and Boeing is expected to grow strongly in 2012 and Cobham has good positions on recently launched platforms with increasing production rates, such as the Boeing 787, for which deliveries are expected to increase from three aircraft in 2011 to around 40 aircraft in 2012, and the Airbus A380 for which deliveries are expected to increase from 26 aircraft to 32 aircraft. Cobham has also continued to achieve new awards in its commercial aviation markets in the year, including on the new French Skylander commuter aircraft and the Chinese COMAC C919 passenger aircraft. In the marine market, Cobham was chosen by Inmarsat as launch partner on its new Global Xpress broadband service.

Revenue analysis for core businesses

By geography



	2010	2011
European Union (excluding UK)	14%	15%
UK	10%	10%
Australia	12%	13%
RoW	9%	10%
USA	55%	52%

By market

	2010	2011
US defense/security	48%	44%
Non US defense/security	25%	28%
Commercial	27%	28%

OUR CAPABILITIES

TECHNOLOGY IN ACTION

Many of Cobham's capabilities improve communication and keep people safe, which is a common requirement across the Group's defence/security and commercial markets. This is why Cobham's technology can often be adapted from one market to the next, e.g. commercial to defence/security and from one domain to another, e.g. aerospace to land.

Commercial aircraft, fighters, satellites and unmanned aerial vehicles (UAVs) are some of the most expensive real estate in the world, so the ability to provide greater functionality with a smaller footprint or size, lower weight and better power characteristics will remain key discriminators. This is often referred to as SWaP – size, weight and power.

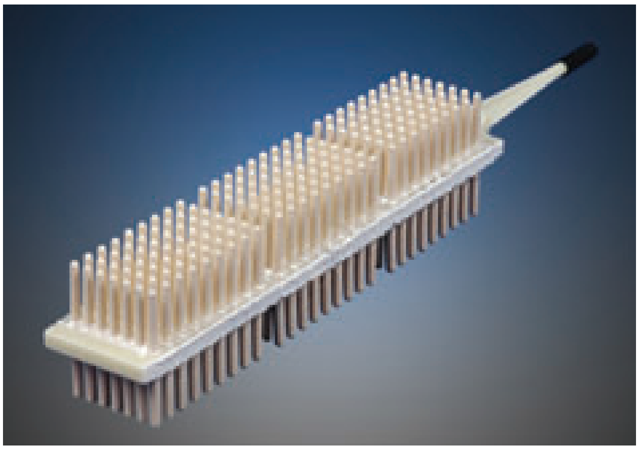
As energy costs increase, customers are constantly looking for superior technical performance coupled with lower weight and drag. They are also interested in the total cost of ownership, so factors such as the ease of installation and the degree of maintenance and support required are also major considerations, especially as many platforms are in service for decades. The following examples illustrate just a few of the innovative products that Cobham has developed that meet these demands.

Airborne SATCOM
Cobham's top of the range SATCOM antenna provides broadband connectivity into aircraft via satellite. It enables both cabin and cockpit connectivity, allowing passengers to stay connected to the internet during flight, as well as providing enhanced cockpit communications and data services. The system is up to half the weight of and a third smaller than competitor antennas, which is why 40 airlines and other customers have already selected the system, which according to one aircraft manufacturer, will save it some US$24,000 per aircraft per year.

The Group's latest generation SATCOM system, the SB200 shown below, combines two antennas into one, simplifying installation, weighing less than 1½ pounds (0.68 Kgs). It provides a 20 fold increase in speed over comparable competitive systems, bringing email and internet functionality at an affordable price to operators of smaller jets and turboprops.

Ceramic Oxygen Generating System (COGS)
Shown below is Cobham's patented, unique ceramic membrane oxygen generating technology that produces high purity oxygen suitable for military, medical and aviation applications. It is unique because the oxygen generation process is solid state with no moving parts. Instead of filling and shipping multiple cylinders of oxygen, the Cobham system generates oxygen at the point where it is used, eliminating the need for delivery and storage. The technology has been demonstrated in Afghanistan, where aircrews normally get 100% pure liquid oxygen by air or road transport, which is dangerous and costly.

FOR MORE INFORMATION ON OUR STRATEGY PLEASE REFER TO PAGES 12 AND 13



COMMERCIAL AIRCRAFT, FIGHTERS, SATELLITES AND UAVs ARE SOME OF THE MOST EXPENSIVE REAL ESTATE IN THE WORLD

Radio and Audio Integration Management System (RAIMS)

For more than a decade, Cobham has been investing in the development of a highly integrated, space saving Radio and Audio Integration Management System (RAIMS). The system enables aircrew to control many of an aircraft's communications, navigation and data-link systems through a single integrated interface, lowering pilot workload and saving weight and space in the cockpit. As the image opposite illustrates, the size, weight and power of the system have been considerably reduced as well as the cabling and installation costs associated with the number of boxes or units in each system.

IP Mesh Radios

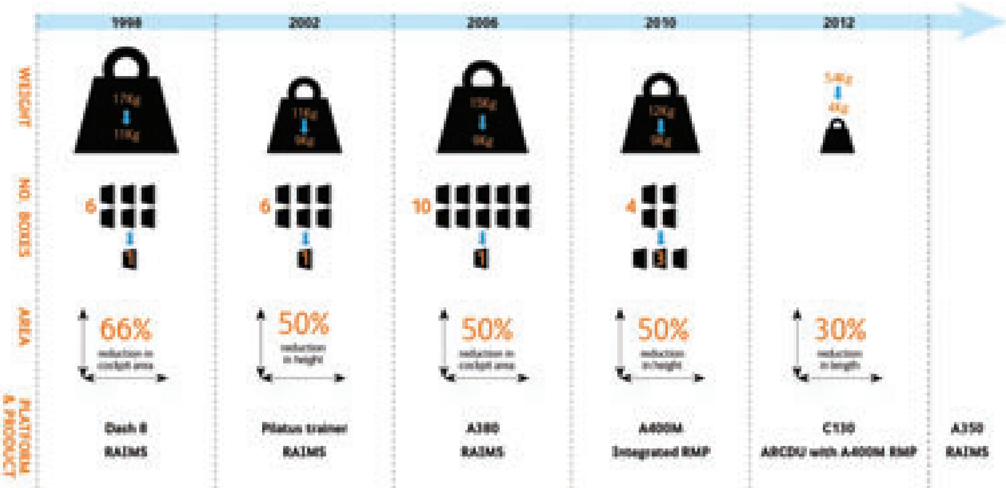
Since their launch in 2009, Internet Protocol (IP) Mesh radios or nodes have been widely used in both law enforcement and commercial applications including large sporting events, where the flexibility of a fluid self-healing mesh communications network, combined with non-line of sight characteristics, have made them market leaders.

The latest generation of wireless video links, incorporates dual channel technology and high definition pictures, enabling video, audio and Global Positioning System (GPS) information to be transmitted over a much greater range – which can be in excess of 30kms. This technology will be used by a number of TV broadcast channels and other customers at the 2012 Olympics.

The image opposite shows that in the space of three years the weight of each unit has been reduced by 85%, power usage by 50% and the physical space each unit takes up is down by 90%. This product family has potential airborne, fixed and ground mobile security applications, as well as commercial marine applications for early threat detection on gas and oil wells.

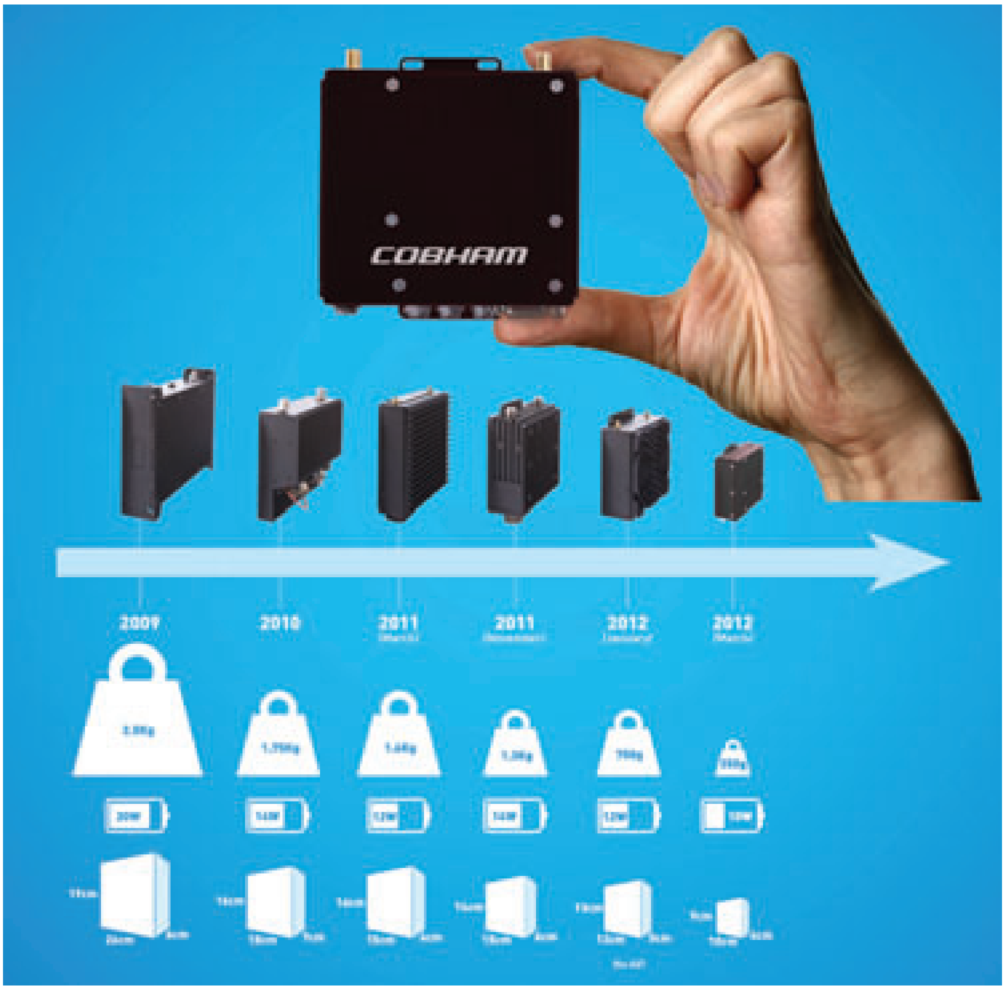
OVER THREE YEARS WEIGHT REDUCED BY 85%, POWER USAGE BY 50%, VOLUME BY 90%

Radio and Audio Integration Management System (RAIMS)



US$14M INVESTMENT IN RAIMS ESTIMATED TO GENERATE SOME US$250M OF REVENUE

IP Mesh Radios



OUR STRATEGY

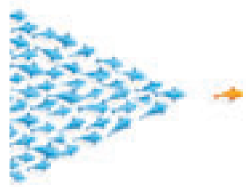
THE GROUP'S STRATEGY IS TO BUILD AND MAINTAIN LEADING MARKET POSITIONS IN SELECTED HIGHER GROWTH TECHNOLOGY MARKETS

OBJECTIVE

1 Focus on defence, security and commercial markets

- Focus on markets and customers the Group understands
- Pursue growth opportunities in large markets
- Win larger positions through collaboration

2 Sell technically differentiated products and services



- Stand out from the competition
- Compete on technology and reputation
- Solve difficult problems

DESCRIPTION

1 Cobham continues to focus on its defence/security and commercial markets. The term 'commercial' includes civil and general aviation, as well as marine markets. The Group understands these markets and knows how to be successful in them. With collaboration across the Group, Cobham is able to win larger programme positions, which its individual companies would be unable to win individually.

2 Cobham's technology helps it stand out from its competitors with products based on differentiated technology. This means having the best product solutions in the market and investing in people to stay at the forefront of technology.

For more information

1: See page 9
2: See page 10, 11

KEY PERFORMANCE INDICATORS

THE FOLLOWING KEY PERFORMANCE INDICATORS ARE USED TO MONITOR PROGRESS IN IMPLEMENTING THE GROUP'S STRATEGIC OBJECTIVES

The Board closely monitors progress made against the Group's five strategic objectives with the aid of a scorecard of financial and non-financial metrics, and this scorecard is regularly updated and reviewed. Cobham considers the most important of these scorecard metrics to be its Key Performance Indicators (KPIs).

The Group's KPIs have been set out on page 13 and each one has been cross-referenced to the relevant strategic objectives on pages 12 and 13 and to a further specified page where performance in the year is described in more detail.

The Remuneration Committee has also linked total compensation with the achievement of specific and measurable progress against Key Performance Indicators, both as individually specified financial targets and within personal objectives. This ensures that employee performance is aligned with the achievement of the Group's strategic objectives and with shareholder expectations.

The Directors' remuneration report on pages 44 to 53 sets out Cobham's remuneration policy and its application in more detail.

3 Build sustainable scale positions

- Develop and hold top three market positions
- Have the scale to re-invest
- Build credibility and staying power

4 Deliver operational excellence

- Delight customers
- Help employees do what they do best
- Excellence across the Group

5 Actively manage the portfolio

- Focus on businesses with growth potential
- Growing the Group's capabilities
- Acquire businesses that will accelerate growth

Cobham wants to develop and hold a top three market position by building and maintaining scale to support future investment in people and technology. Cobham needs to have enough scale in its markets to have the financial muscle or credibility that customers look for in what is a very long term industry.

See page 7

This is what Excellence in Delivery, combined with our talent development programmes are all about. It's about enabling all our employees to do what they do best, delighting customers by improving quality and on time delivery and shortening product lead times.

See page 4

The strategy is to acquire businesses that deliver technologies or capabilities that will help the Group build scale in its chosen markets, accelerate growth and increase shareholder value. Cobham has successfully acquired some 50 companies in the past decade investing around £1.5 billion, so this is very much part of the strategy. The Group has also sold businesses to keep focused on markets where we have scale and differentiation.

See page 8

Key performance indicators	2011 actual	2010 actual	Strategic objectives						For more information
Core businesses' organic revenue growth	0.3%	0.7%	Faster than our markets	1	2	3	4	5	See pages 22 and 23
Underlying EPS growth at constant translation exchange rates	12.6%	3.8%	High single digit	1	2	3	4	5	See page 23
Operating cash conversion	94.8%	79.3%	>80%				4		See page 25
Core businesses' PV investment	5.2%	5.0%	6%	1	2	3			See page 22
Staff safety – major accident incident rate	465	565	zero		2	3	4		See page 33
Voluntary staff turnover	8.4%	8.0%	<10%		2	3	4		See page 33

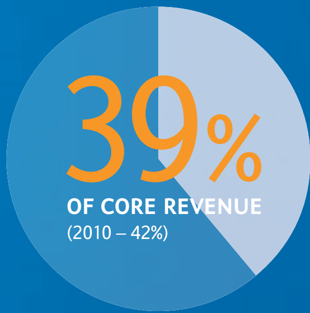
Total revenue was down due to an adverse US dollar exchange rate, a net reduction from acquisitions and disposals and an organic decline of 3%. Many of the Division's commercial businesses continued to improve but this was offset by some defence/security businesses, where there was lower land based vehicle intercoms revenue and reduced shipments of surveillance equipment, particularly in the US.

Image below
Deliveries of Radio and Audio Integration Management Systems (RAIMS) increased, with the Airbus A380 production rate rising to 26 aircraft in 2011 and further production increases expected.

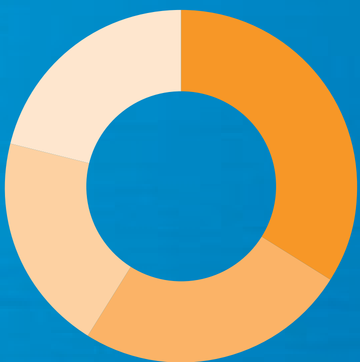
Copyright Airbus S.A.S. 2007

PERFORMANCE HIGHLIGHTS

- Deliveries of Radio and Audio Integration Management Systems (RAIMS) benefited from increased Airbus A380, A330 and Airbus narrow body production rates, and will benefit further from anticipated 2012 production increases
- Strong demand has continued for wireless video links including the latest mesh radio products. These products have been used in the roll-out of 'Safe City' initiatives, security applications and in sports and movie events, including the 2012 Olympics
- A range of new SATCOM products are being developed in anticipation of rapid growth in the Ka band frequency market
- Selected for the supply of the complete avionics suite on the SK105 Skylander commuter aircraft, with first hardware deliveries expected in 2012



REVENUE BY MARKET DRIVER



	2010	2011
US defence/ security	35%	34%
Non US defence/ security	24%	25%
Commercial Aerospace/GA	19%	20%
Maritime/ other	22%	21%

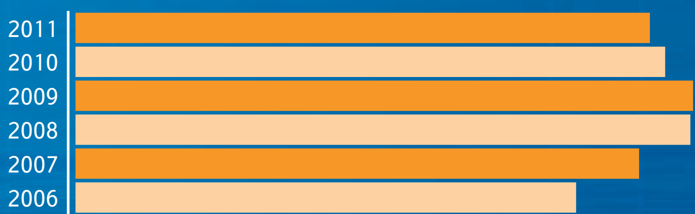
FINANCIAL HIGHLIGHTS

	2010	Acquisitions/ Disposals & Currency Translation	Organic growth	2011
Revenue[1] £m	681.8	(27.3)	(17.5)	637.0
Trading Profit £m	155.7			152.5
Margin	22.8%	0.7pts	0.4pts	23.9%

[1] Includes inter divisional trading

ORGANIC REVENUE

Five year organic revenue CAGR 2.8%



Excludes translation FX, Acquisitions and Disposals. Prior year numbers are pro forma for illustration purposes.

For more information view the results webcast **www.cobhaminvestors.com**

INNOVATION

Smaller, lighter
Cobham's lightest, smallest and lowest cost SwiftBroadband solution, the SB200, enables connectivity to data networks, internet, email, fax, and telephony for virtually any small aircraft or helicopter.

Main image
Cobham was selected by Inmarsat as the maritime launch partner for its new global broadband service with a US$40m deal to develop, manufacture, test, train, distribute and support maritime terminals for the Global Xpress service, which is part of a larger investment by Inmarsat to build its next generation Ka band satellite network.

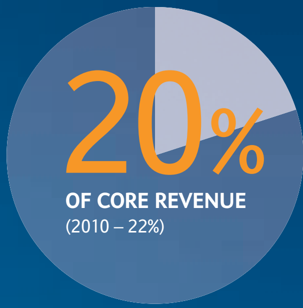
Total revenue was down due to an adverse US dollar exchange rate and an organic decline of 7%. The business is almost entirely focused on the US defence market with orders and revenue affected by the 10% reduction in investment outlays.

Image below
A breakthrough radio developed by Cobham has already led to contracts worth US$48m. The next-generation radio technology overcomes issues of unreliable and interference prone communications by turning each radio itself into a base station.

Image courtesy of US DoD

PERFORMANCE HIGHLIGHTS

- First low rate production deliveries of electronic warfare subsystems on the F-35 programme, as subsystems completed development and qualification
- Missile guidance subsystems, particularly for the Advanced Anti-Radiation Guided Missile and Advanced Medium Range Air-to-Air Missile programmes
- Completion of qualification and delivery of the first integrated radar subsystems for the Apache Block III attack helicopter. The programme enters production in 2012 for use by the US Army and several other armed forces
- Release by the US Government in late 2011 and early 2012 of the next tranche of Wideband Global Satellite awards to Boeing, after a gap in funding, with Cobham as a significant supplier



REVENUE BY MARKET DRIVER

	2010	2011
US defence/ security	97%	94%
Non US defence/ security	3%	6%

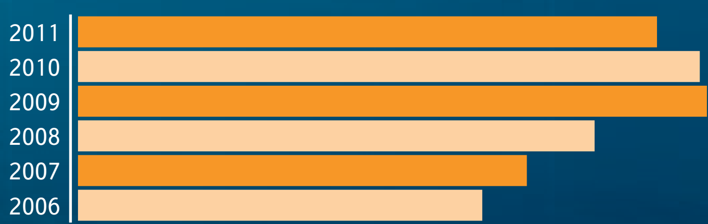
FINANCIAL HIGHLIGHTS

	2010	Currency Translation	Organic growth	2011
Revenue[1] £m	361.7	(13.2)	(24.6)	323.9
Trading Profit £m	53.2			57.9
Margin	14.7%	0.1pts	3.1pts	17.9%

[1] Includes inter divisional trading

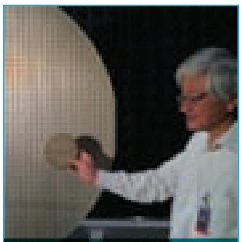
ORGANIC REVENUE

Five year organic revenue CAGR 7.4%



Excludes translation FX, Acquisitions and Disposals. Prior year numbers are pro forma for illustration purposes.

For more information view the results webcast **www.cobhaminvestors.com**



INNOVATION

Hurricane Hunter
Cobham's highly sensitive weather radar antenna fitted to a US 'Hurricane Hunter' aircraft proved its value, providing key information about Hurricane Irene as it swept through the Caribbean and the US east coast.

Main picture
The Lockheed Martin F-35 Joint Strike Fighter carries more than 100 Cobham components, including radar and self-protection modules and pilot personal safety equipment. In 2011, the first low rate production deliveries of electronic warfare subsystems commenced, following the completion of development and qualification phases.

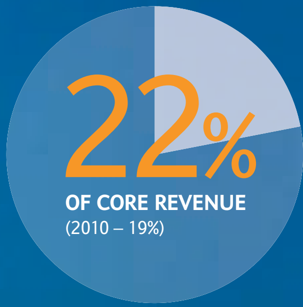
Image courtesy of defenseimagery.mil

Total revenue was up due to organic growth of 8% driven by the Mission Equipment business, primarily due to increased revenue from aerial refuelling products and strong aftermarket sales. Headline revenue also benefited from the January 2011 acquisition of Telerob, which was partly offset by the adverse US dollar exchange rate.

Image below
Cobham was selected to develop and supply the Wing Aerial Refuelling Pod for the KC-390 tanker aircraft under development by Brazil's Embraer receiving an initial contract with a value in excess of US$60 million.

PERFORMANCE HIGHLIGHTS

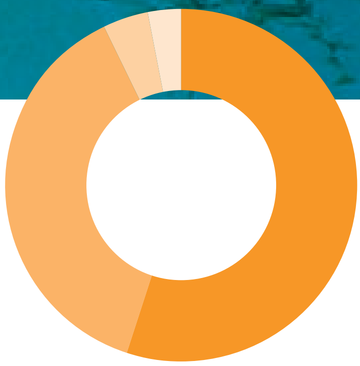
- **Shipments of fifth generation A330MRTT aerial refuelling equipment for the UK, Australia, Saudi and UAE air forces**
- **Wins on the significant and long-term US KC-46 and Brazilian KC-390 aerial refuelling programmes, with significant initial contract awards**
- **First deliveries of the new Boeing 787 commercial aircraft, which utilises Cobham's nitrogen gas system, with aircraft deliveries scheduled to increase from three in 2011 to around 40 in 2012**
- **Following the integration of Telerob, opportunities for unmanned ground systems are now being pursued in the US market along with continuing interest in the global market**



INNOVATION

Surviving gunfire
Cobham has developed a unique carbon-fibre composite that can survive the impact of gunfire which means that service personnel using these oxygen cylinders do not have to choose between safety and performance. This composite oxygen cylinder passed the tumbling 0.50 calibre armour piercing gunfire test required for US Department of Defense and Department of Transportation certification – the first in the world to do so.

REVENUE BY MARKET DRIVER



	2011
●	55%
●	38%
●	4%
●	3%

FINANCIAL HIGHLIGHTS

	2010	Acquisitions & Currency Translation	Organic growth	2011
Revenue[1] £m	320.8	23.9	27.1	**371.8**
Trading Profit £m	65.1			**87.5**
Margin	20.3%	(0.1)pts	3.3pts	**23.5%**

[1] Includes inter divisional trading

ORGANIC REVENUE

Five year organic revenue CAGR 6.2%

Excludes translation FX, Acquisitions and Disposals. Prior year numbers are pro forma for illustration purposes.

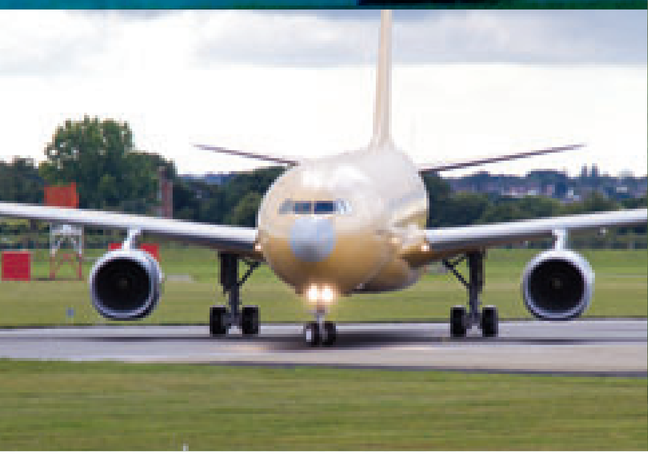
For more information view the results webcast **www.cobhaminvestors.com**

Main picture
Cobham acquired Telerob, a privately owned German based manufacturer of advanced bomb disposal robots and threat response vehicles. The business has more than 700 systems in 55 countries, with many systems in operation in Asia and the Middle East.

AVIATION SERVICES

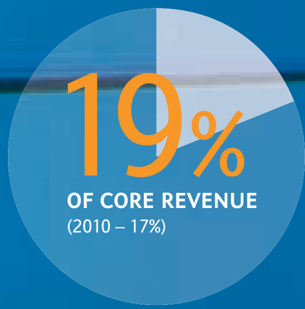
Total revenue, which excludes joint ventures, was up due to organic growth of 7%, primarily due to the Australian operations, and a favourable Australian dollar translation rate.

Image below
The first two A330 aircraft arrived at Cobham's facility at Bournemouth International Airport to commence modification as part of the UK's Future Strategic Tanker Aircraft (FSTA) programme.



PERFORMANCE HIGHLIGHTS

- Further progress made in Australia as certain key resource sector customers extended contracts, while others expanded operations, contracting for more or larger aircraft
- Conversion work commenced on the UK tanker programme, with the first two A330MRTT aircraft inducted into the modification programme
- A significant AUD500m order was received in Australia to extend and expand the B717 QantasLink contract, with the additional aircraft to commence operations in 2012
- A €45m contract to a Cobham joint venture to provide helicopter air reconnaissance capability to the Dutch Caribbean Coastguard, starting in 2012



Unmanned refuelling

Cobham is undertaking research with the University of Bristol into autonomous air-to-air refuelling for unmanned aircraft systems technology, eliminating the pilot from this complex task. It could pave the way for applications such as maritime surveillance in Australia, where Cobham operates the world's largest maritime surveillance contract.

Image courtesy of University of Bristol

REVENUE BY MARKET DRIVER

	2010	2011
Non US defence/ security	48%	44%
Commercial Aerospace/GA	52%	56%

FINANCIAL HIGHLIGHTS

	2010	Currency Translation	Organic growth	2011
Revenue[1] £m	273.5	15.7	18.9	308.1
Trading Profit £m	36.4			44.1
Margin including Joint Ventures	13.3%	(0.2)pts	1.2pts	14.3%
Margin excluding Joint Ventures	11.1%	(0.1)pts	0.3pts	11.3%

[1] Includes inter divisional trading

ORGANIC REVENUE

Five year organic revenue CAGR 4.5%

Excludes translation FX, Acquisitions and Disposals. Prior year numbers are pro forma for illustration purposes.

For more information view the results webcast **www.cobhaminvestors.com**

Main picture
Cobham was awarded a AUD500m contract extension by Qantas to operate 13 Boeing 717 aircraft, which will carry some 1.7 million passengers a year. The award strengthens a 20 year relationship.

FINANCIAL REVIEW

OUR STRONG BALANCE SHEET AND CASH GENERATIVE BUSINESS MODEL ENABLE US TO INVEST AND INCREASE SHAREHOLDER DISTRIBUTIONS.

WARREN TUCKER CHIEF FINANCIAL OFFICER

Results

Orders

Group order intake in the year increased to £2,045.7m (2010: £1,798.9m), representing 16% growth at constant translation exchange rates. Group book-to-bill in the year was 1.10 times. Excluding Aviation Services, where order intake can be uneven due to its significant, long-term programmes, and the non-core businesses, book-to-bill was 1.05 times.

At the year end, the Group order book was £2.5bn (2010: £2.5bn), including £1.1bn (2010: £1.1bn) for the Aviation Services business. At constant translation exchange rates and excluding the impact of acquisitions and disposals, the order book increased 7% on the prior year.

Revenue

Group revenue of £1,854.4m (2010: £1,902.6m) was adversely impacted by US dollar exchange rates and a net reduction from the impact of acquisitions and disposals. Organic growth, as anticipated, was marginally negative at -0.6%, due to the performance of the non-core businesses, principally Analytic Solutions which has now been divested. However, in the core businesses organic revenue increased 0.3%.

US defence/security revenue in the core businesses was down 7%, in a year when US Department of Defense investment outlays declined 10%. Non US defence/security revenue increased 5% driven by aerial refuelling and electronic subsystems exports. Commercial revenue increased 10%, benefiting from increased flying activity for Australian resource industry customers, increased Boeing and Airbus production and revenue from the sale of SATCOM antennas to a range of aerospace and marine customers.

Revenue analysis

An analysis of revenue in the Group's core businesses by key end markets is set out in the table below:

	2011 £m	2011 %	2010 £m	2010 %
US defence/security	**722.6**	**44**	788.2	48
Non US defence/security	**455.5**	**28**	401.9	25
Commercial	**455.5**	**28**	439.9	27
Total	**1,633.6**	**100**	1,630.0	100

HIGHLIGHTS

- Group order intake increased 16% at constant translation exchange rates, with book-to-bill of 1.10 times
- Modest organic revenue growth in core businesses, with a strong performance in commercial and non US defence/security markets, together representing 56% of revenue
- Underlying EPS growth of 13% at constant translation exchange rates
- Run rate of annualised Excellence in Delivery savings at the end of 2013 to increase from £65m to £75m, at unchanged cost of £131m
- Excellent free cash flow of £288m, with strong operating cash conversion of 95%
- Recommended full year dividend increase of 33% underpinned by strong earnings and cash generation

GROUP ORDER INTAKE

£2,046m

(2010: £1,799m)

Technology investment

Cobham has a unique set of differentiated technologies with leading positions in all its core markets. Maintaining the Group's technical differentiation is central to Cobham's strategy and total R&D investment in the core businesses was £128.9m (2010: £124.8m). It has invested £69.8m (2010: £68.8m) in PV, representing 5.2% (2010: 5.0%) of revenue.

Cobham's intention, as investment opportunities present themselves, is to increase PV over time which will drive future revenue and profitability as new or improved products and services are brought to market.

Trading profit

Group trading profit increased to £364.9m (2010: £348.4m), with trading profit in the core businesses increasing to £340.4m (2010: £312.1m). Trading profit in the non-core businesses declined to £24.5m (2010: £36.3m).

The Group's underlying trading margin increased to 19.7% (2010: 18.3%). The margin in the core businesses increased to 20.8% (2010: 19.1%), driven by Excellence in Delivery and other cost savings.

Underlying net finance expense

The underlying net finance expense was £37.0m (2010: £42.3m). The net interest expense on cash and debt holdings, held primarily in US dollars, reduced to £38.2m (2010: £40.6m). As anticipated, there was a non-cash, net finance income of £1.2m (2010: £1.7m expense) from pension schemes. This item is expected to be an expense of £2.0m in 2012.

Underlying profit before tax

The Group's underlying profit before tax increased by 7% to £327.9m (2010: £306.1m).

Refer to page 24 for a reconciliation of operating profit, profit before taxation and profit after taxation attributable to equity shareholders to the respective underlying numbers.

Economic profit

Economic profit is considered to be an important measure for the Group as a whole and for each of its Divisions, as it demonstrates that returns exceed the full cost of investing in assets. Cobham achieved economic profit of £198.4m in the year (2010: £185.1m).

Economic profit is defined as trading profit less an asset charge which reflects the Group's pre-tax weighted average cost of capital and which is applied to the capital invested in the business. This investment includes acquired goodwill, other tangible and intangible fixed assets and working capital.

Taxation

On an underlying basis, the Group's effective tax rate decreased to 25.5% (2010: 26.5%), in part due to the lower UK tax rate. The effective tax rate is calculated by dividing the Group's underlying tax charge of £81.2m (£79.5m) by its underlying profit before tax of £318.5m (2010: £300.1m), which is stated after excluding the £9.4m (2010: £6.0m) share of post-tax results of joint ventures.

It is anticipated that in 2012 the effective underlying tax rate will decrease by at least a further 1% point, in part due to a decrease in the UK tax rate.

Earnings per share (EPS)

Underlying EPS increased 12.0% to 22.05 pence (2010: 19.68 pence), driven by the improvement in the trading margin. The £150m share buy-back programme, completed in November, increased EPS by 3%. At constant translation exchange rates underlying EPS increased 12.6%.

In addition to the above, basic EPS was higher than the comparable period at 16.8 pence (2010: 13.3 pence), in part due to £23.8m (2010: £1.0m) of post-tax business divestments and similar income and £3.9m of post-tax insurance income (2010: £18.7m expense) from a prior year settlement of a commercial dispute. Reducing basic EPS were post-tax business restructuring charges (primarily Excellence in Delivery) of £22.0m (2010: £9.4m), which are stated net of the profit on sale of a site in California, USA, post-tax debt and interest rate swap cancellation costs relating to original financing of a divested business of £11.3m (2010: £nil) and some smaller items.

Dividends

The Board is recommending a final dividend of 6.20 pence (2010: 4.372 pence). Together with an interim dividend of 1.80 pence (2010: 1.628 pence), which was paid on 11 November 2011, this will result in a total dividend of 8.0 pence (2010: 6.0 pence) per share, an increase of 33% on the prior year. The full year dividend is 2.8 times covered by underlying EPS, with dividend payments in the year covered 4.1 times by free cash flow generated. The 2012 interim dividend will be rebalanced to reflect the normal split between interim and full year dividend.

The shares will be traded ex-dividend on 2 May 2012. The dividend is payable on 1 June 2012 to all shareholders on the register at 4 May 2012, subject to shareholder approval.

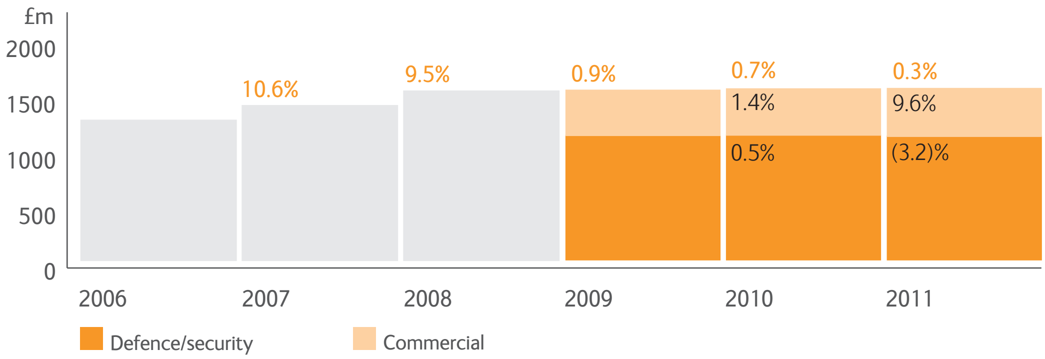
The fixed cumulative preferential dividend payment on the 6 per cent, second cumulative preference shares of £1 each has been approved by the Board at the rate of 6.0 pence per share (2010: 6.0 pence). The dividend in respect of the year ended 31 December 2011 will be paid on 1 June 2012 to all shareholders on the register at 4 May 2012.

Share buy-back

The Group completed its share buy-back programme of up to £150m in November. A total of 76m shares, representing 6.6% of the issued ordinary share capital have been purchased for £150m, excluding transaction costs, and held in treasury.

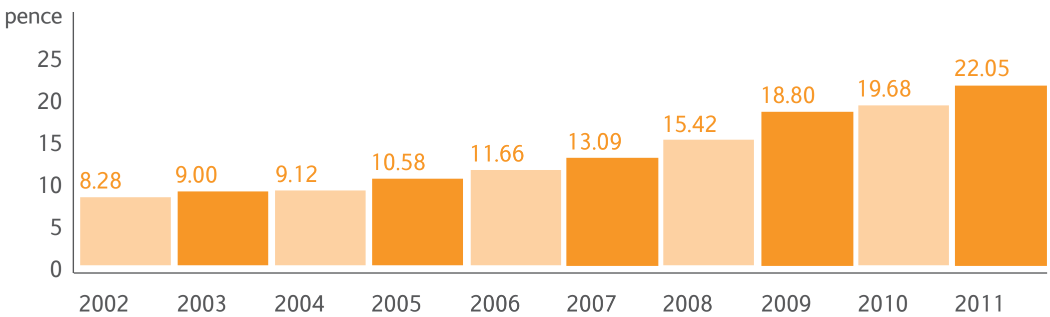
Core businesses' organic revenue growth

Five year organic revenue CAGR 4.3%



Underlying earnings per share

11.8% CAGR at constant translation exchange rates over last ten years



Reconciliation of Underlying Profit

Trading profit is calculated as follows:

£m	2011	2010
Result before joint ventures	252.1	224.1
Share of post-tax results of joint ventures	9.4	6.0
Operating profit	261.5	230.1
Adjusted to exclude:		
Business restructuring – primarily Excellence in Delivery	31.9	17.5
Unrealised movements in non-hedge accounted derivative financial instruments	5.4	2.8
Amortisation of intangible assets arising on acquisition	68.0	63.3
Settlement of commercial dispute	(6.0)	28.8
M&A related adjustments	4.1	5.9
Trading profit	364.9	348.4

Underlying profit before tax is calculated as follows:

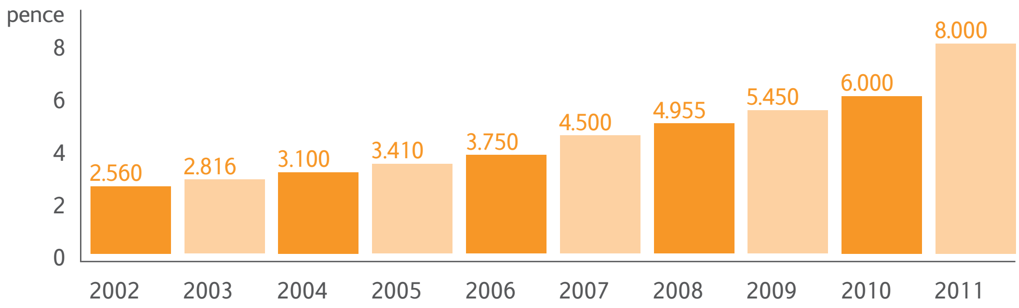
£m	2011	2010
Profit before taxation	234.3	189.3
Adjusted to exclude:		
Business restructuring – primarily Excellence in Delivery	31.9	17.5
Unrealised movements in non-hedge accounted derivative financial instruments	5.4	2.8
Amortisation of intangible assets arising on acquisition	68.0	63.3
Settlement of commercial dispute	(6.0)	28.8
M&A related adjustments	4.1	5.9
Business divestments and similar income	(27.1)	(1.5)
Debt and interest rate swap cancellation costs relating to original financing of divested business	15.4	–
Unwinding of acquisition related discounting	1.9	–
Underlying profit before taxation	327.9	306.1

Profit after tax used in the calculation of underlying EPS is calculated as follows:

£m	2011	2010
Profit after taxation attributable to equity shareholders	187.9	152.7
Adjusted to exclude (after tax):		
Business restructuring – primarily Excellence in Delivery	22.0	9.4
Unrealised movements in non-hedge accounted derivative financial instruments	3.9	2.0
Amortisation of intangible assets arising on acquisition	44.9	40.5
Settlement of commercial dispute	(3.9)	18.7
M&A related adjustments	3.1	4.2
Business divestments and similar income	(23.8)	(1.0)
Debt and interest rate swap cancellation costs relating to original financing of divested business	11.3	–
Unwinding of acquisition related discounting	1.2	–
Underlying profit after taxation	246.6	226.5
Underlying earnings per ordinary share (pence)	22.05	19.68

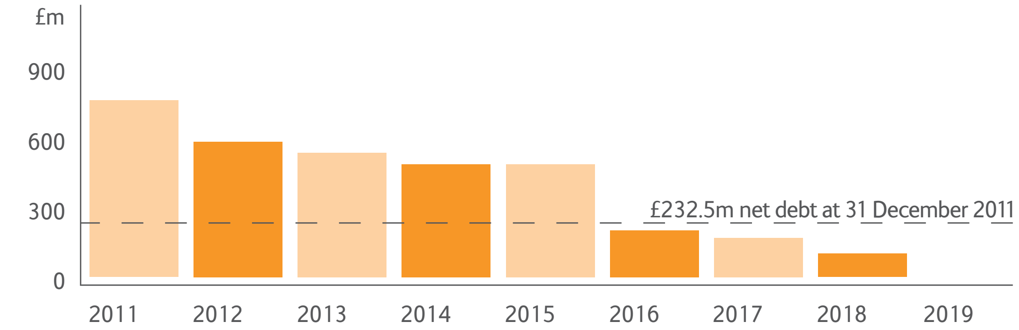
Dividend per ordinary share

Double digit dividend growth



Maturity profile of the Group's outstanding debt facilities

The Group has significant debt facility headroom



At the close of business on 31 December 2011, there were 1,079m (31 December 2010: 1,155m) ordinary shares in issue, excluding the shares held in treasury. The weighted average number of shares in the year attributable to ordinary shareholders was 1,118m (31 December 2010: 1,151m) or 1,121m (31 December 2010: 1,157m) on a diluted basis.

Acquisitions and divestments

Cobham divested the non-core Analytic Solutions business for US$350m in November 2011 and the Engineering Consultancy business in February 2011 for £13.5m. In addition, Cobham MAL Limited, part of the remaining non-core businesses, was divested for a nominal sum in December 2011.

The Group acquired Telerob GmbH (Telerob) for €78m in January 2011, and Corp Ten International Inc. in February 2011 for up to US$24m. These businesses complement existing capabilities in Cobham's homeland security markets. In October 2011, Trivec-Avant Corporation was purchased for up to US$144m, bringing with it industry leading SATCOM capabilities that align with Cobham's Antenna Systems business.

Cash flow

Operating cash flow, which is stated after capital expenditure but before interest and tax payments, was £337.1m (2010: £271.4m). Cash flow benefited from a decrease in working capital and lower net capital expenditure of £49.8m (2010: £57.1m). Operating cash conversion was strong at 94.8% (2010: 79.3%) of trading profit, before the Group's share of post-tax results of joint ventures.

After net interest and tax payments and the receipt of dividends from joint ventures, the Group generated excellent free cash flow of £287.9m (2010: £218.6m), from which it paid dividends of £69.4m (2010: £64.6m) and £159.5m (2010: £7.1m inflow) on share purchases, of which £150m (2010: nil) related to the share buy-back programme.

In addition, the Group made £37.0m (2010: £13.4m) of payments relating to Excellence in Delivery and received net proceeds of £77.1m (2010: £34.7m outflow) relating to acquisitions and divestments and other items.

Treasury

The Group's treasury activities are managed centrally by the Group Treasury function, which reports to the Chief Financial Officer.

FOR MORE INFORMATION ON OUR STRATEGY PLEASE REFER TO PAGES 12 AND 13

CORE R&D INVESTMENT

£129m

(2010: £125m)

The Treasury function operates within written policies and delegation levels that have been approved by the Board. It is the Group's policy that trading in financial instruments is used only for risk management purposes.

Net debt and financing

At the year end, the balance of free cash flow was used to reduce net debt, comprising short term cash balances and fixed term borrowings, after funding and exchange movements, to £232.5m (2010: £326.1m). The net cash inflow in the year was partly offset by movements in exchange rates included above of £5.5m, as it is the Group's policy to hold a significant proportion of its borrowings in foreign currency, principally US dollars, as a natural hedge against assets and earnings denominated in those currencies.

The Group's year end gearing position had fallen to approximately 0.5 times net debt/EBITDA with robust net interest cover at 10 times (2010: nine times).

Included within net debt are sterling cash deposits, as well as US dollar denominated borrowings, which are held for the reasons described in the section on foreign exchange that follows. At 31 December 2011 the Group held total cash and short term bank deposits, all with an original maturity of three months or less of £345.6m (31 December 2010: £473.0m).

The Group's principal borrowings include:

- A £300m multi-currency credit agreement that expires in July 2012. Interest is payable at the applicable LIBOR rate of the drawn currencies plus margin, of which £100.4m (2010: £275.4m) had been drawn down under this agreement at the year end
- US$170m of senior notes maturing in October 2012 with a 5.58% coupon
- US$315m of senior notes maturing in tranches in 2014, 2016 and 2019 with an average coupon of 6.67%
- US$105m of senior notes maturing in 2018, with an interest rate at the applicable LIBOR rate plus margin

OPERATING CASH CONVERSION

95%

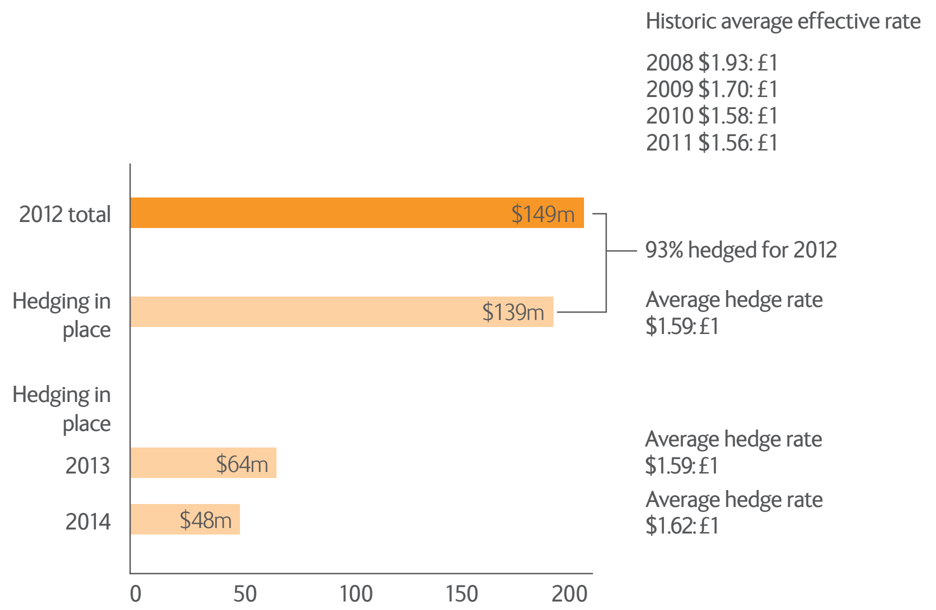
(2010: 79%)

Cash flow

£m	2011	2010
Trading profit (excluding joint ventures)	355.5	342.4
Depreciation and other movements	69.2	69.3
Pension contributions in excess of service cost	(48.8)	(11.4)
Decrease/(Increase) in working capital and provisions	11.0	(71.8)
Net capital expenditure	(49.8)	(57.1)
Operating cash flow	337.1	271.4
Operating cash/trading profit (excluding joint ventures)	94.8%	79.3%
Net interest paid	(33.0)	(37.2)
Taxation paid	(24.3)	(21.6)
Dividend received from joint ventures	8.1	6.0
Free cash flow	287.9	218.6
Restructuring costs	(37.0)	(13.4)
Dividends paid	(69.4)	(64.6)
Acquisition payments less disposal proceeds, other related costs and loans to JVs	71.1	(5.9)
Settlement of commercial dispute	6.0	(28.8)
Issue of share capital less purchase of treasury shares	(159.5)	7.1
Exchange movements	(5.5)	(26.5)
Decrease in net debt	93.6	86.5

Foreign exchange transaction exposure

93% hedged in 2012



Dollar/Euro exposure predominantly hedged for 2012 with $40m @ 1.36 & 2013 $24m @ 1.39

A new forward starting US$360m multi-currency revolving credit agreement was signed in October 2011 to replace the existing £300m facility. The new facility is available from April 2012 and matures in October 2016, with a lender's option to extend for up to two years. Interest is payable at LIBOR plus margin.

Further details on the Group's borrowings are given in note 19 to the Group financial statements.

Foreign exchange

The Group has identified volatility in foreign exchange rates as one of its principal risks (see contract risk and execution – page 29) with the Group's aim being to reduce, or eliminate whenever practical, transaction foreign exchange risk, of which the pound sterling/US dollar exchange rate is the most important. Primarily this is because many global aerospace and defence contracts are denominated in US dollars. Additionally, translation exposure arises on the earnings of operating companies largely based in the USA, partly offset by dollar denominated interest costs.

The average and closing US$/£ exchange rates in the year are as follows:

US$/£	2011	2010
Average rate	1.60	1.55
Year end rate	1.55	1.57

All foreign exchange hedging transactions are approved under delegated authority from the Board. A number of financial instruments are used to manage transactional foreign exchange exposure, such as forward rate contracts. The Group has a policy of hedging at least 80% of estimated transactional exposure for the next 12 months, a proportion of exposures between 12 and 36 months and firm exposures on long term contracts. Details of the most significant of these instruments are described in notes 23 and 25 of the Notes to the Group financial statements. Some 93% of the Group's anticipated exposure to the US dollar in the Group's UK subsidiaries is hedged for 2012 at an average rate of US$1.59.

With respect to translation exposure, the Group generally funds the acquisition of overseas companies using borrowings denominated in the same currency. This serves to hedge acquired assets with liabilities in the same currency and provides partial hedging of currency denominated profits through the interest line.

Interest rates

The Group has various long and short term borrowings at both fixed and floating rates of interest. The Group continually monitors its exposure to movements in interest rates to bring greater stability and certainty to borrowing costs, with the policy being to assess the proportion of borrowings that are fixed and floating in the context of prevailing market conditions. Throughout 2011, the Group's exposure to floating rates of interest on its borrowings was predominantly converted to fixed rate exposure through the use of interest rate swaps.

Note 25 of the Group financial statements on page 95 gives more details on the financial risks facing the Group.

Retirement obligations

The Group operates a number of defined benefit schemes, the most significant being the Cobham Pension Plan. At 31 December 2011, the estimated shortfall for accounting purposes between the value of the defined benefit schemes' assets and the present value of the future liabilities had reduced since the previous year end to £71.2m before deferred tax (2010: £82.0m, H1 2011: £68.3m). The biggest elements of this decrease were:

- An actuarial loss of £40.6m, which related almost entirely to a fall in the value of scheme assets in the year;
- Employer contributions made in excess of the service cost (net employer funding) of £48.8m. In part, these contributions relate to the purchase of insurance contracts which effectively de-risk liabilities in two of the Group's schemes.

A table setting out the principal movements in the deficit during the year is as follows:

	£m
Pension deficit at 1 January 2011	(82.0)
Interest income	1.2
Actuarial loss	(40.6)
Net employer funding	48.8
Gain on business divestment	1.4
Pension deficit at 31 December 2011	(71.2)

The Group's defined benefit pension schemes have been closed to new entrants since 2003, with alternative defined contribution schemes offered in all cases. Cobham remains committed to the support of the pension schemes within the Group and continues to work with the trustees of those schemes to ensure that net deficit issues are managed appropriately.

Further details on the Group's retirement benefit schemes, the amounts recognised in operating profit and the changes in value of defined benefit schemes during the year is given in note 24 to the Group financial statements.

FOR MORE INFORMATION ON OUR STRATEGY PLEASE REFER TO PAGES 12 AND 13

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the business overview on pages 14 to 21 and the principal risks on page 28. In addition, notes 23 and 25 of the Notes to the Group financial statements include the Group's objectives, policies and processes for managing its capital, financial risk management, details of financial instruments and hedging activities and its exposure to credit, liquidity and other risks.

The Group has considerable financial resources together with long term contracts with a number of customers across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully, despite the current economic outlook.

Accordingly, after making enquiries, the Directors have formed a judgement at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group and parent company financial statements.

PRINCIPAL RISKS

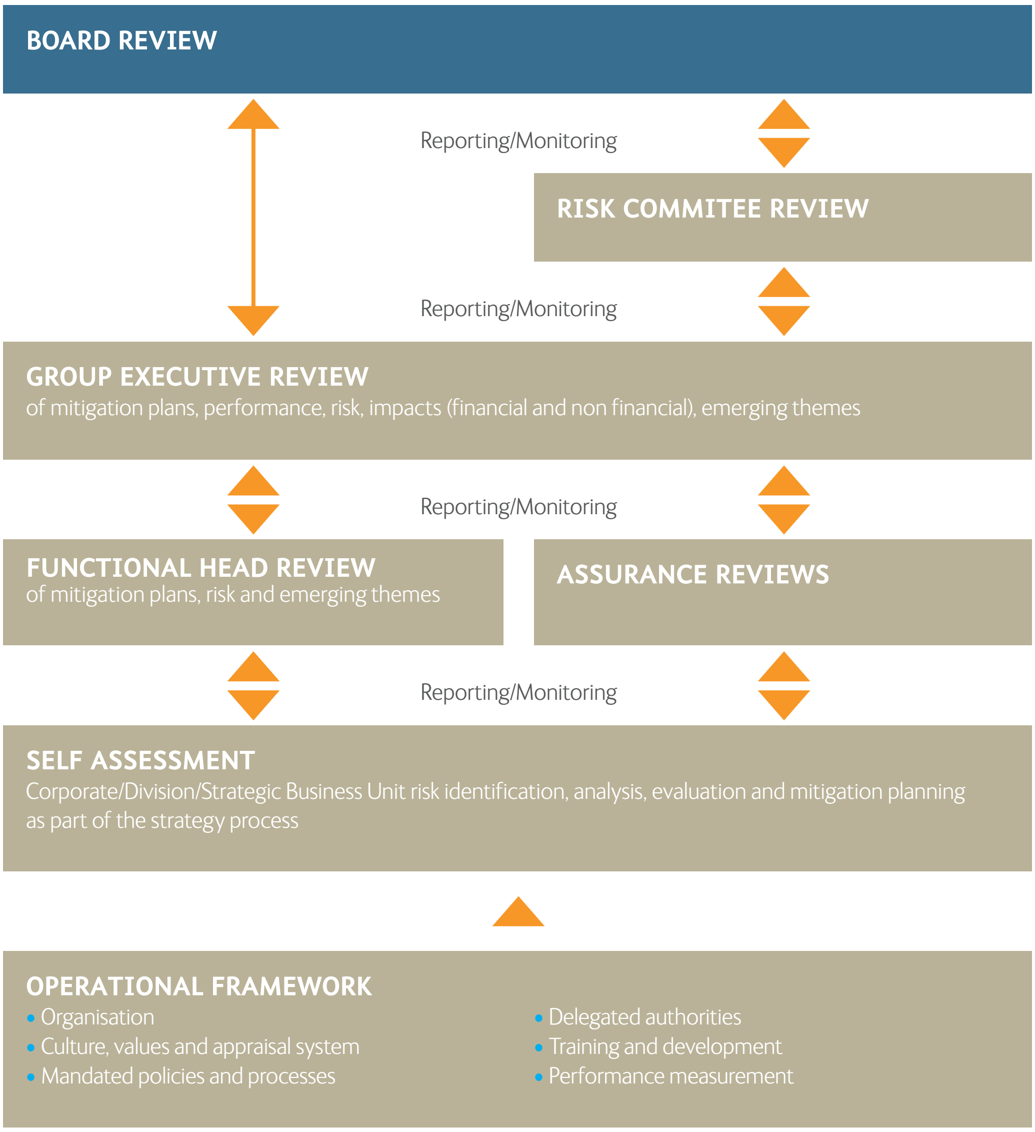
EFFECTIVE MANAGEMENT OF RISK AND OPPORTUNITY IS ESSENTIAL TO THE DELIVERY OF THE GROUP'S FINANCIAL AND NON FINANCIAL OBJECTIVES

The Board has ultimate accountability for risk management systems and controls, with the Audit Committee having delegated responsibility for monitoring and reviewing the effectiveness of the system. More details are set out on page 42.

Cobham's Risk Committee, which is an executive committee, is responsible for overseeing execution of the risk management framework throughout the Group. The process for monitoring and controlling risk, illustrated below, emphasises continuous evaluation and monitoring by Divisional Presidents, together with their respective management teams, including business unit management. The risk framework is structured to ensure that risks are identified promptly, managed appropriately and that actions are undertaken in line with Group objectives.

The principal risks and actions taken to mitigate them are shown in the table on the opposite page. The risks are not intended to be set out in any particular order.

How we monitor and control risk



Principal risks

Risk	Description/Context	Impact/Sensitivity	Mitigation/Comment
Inability to attract and retain staff with appropriate levels of skills and talent	The success of the Group's investment in technology and the ability to build and maintain scale positions in our chosen markets are dependent on our ability to attract and retain the appropriate talent and skills.	Without the appropriate quality and quantity of skills throughout the organisation it would be increasingly difficult to execute the strategy and grow.	In order to attract and retain the appropriate skills, the Group has rigorous talent management plans and an effective appraisal system. It provides competitive compensation packages that incentivise desired behaviours (see page 45). A dedicated careers website and team are focused on recruiting people in the UK and USA. The Group ensures work for employees is challenging and rewarding and is increasing participation in Group-wide, coordinated development and training programmes (see page 56). The Group is pursuing a 'zero harm' Safety, Health and Environment (S|H|E) she strategy (see page 30).
Contract risk and execution	The Group designs and assembles products and engages in services that are often custom built, utilising complex technologies, under fixed price contracts. This gives rise to specific risks, including cost overruns, foreign exchange and inflation risks.	A failure to anticipate and resolve technical problems, estimate and control costs and offset inflationary pressures can result in schedule and cost overruns. Also, failure to mitigate risk by underestimating the contract may mean potential exposure to penalties, claims and warranties.	To mitigate contract risk, a thorough review of terms and conditions prior to signing ensures contract provisions are fully understood and risks fairly allocated between parties. Execution risk is mitigated through rigorous application of the Group's Life Cycle Management process to all bids, contracts and development projects, with independent assessment and meaningful metrics applied through project reviews, design reviews and phase reviews. The Group also continually reviews and manages (including hedging) inflation and exchange rate risks (see page 95).
Deterioration in the macro economic environment adversely impacting our core markets	The Group's revenue is derived from global commercial, defence and security markets. The level and type of spending is dependent on a complex mix of macroeconomic, fiscal and strategic defence and security imperatives.	A change in global growth rates or changes in government spending priorities, which could lead to changes in market growth and programme terminations or delays, or a fundamental shift in how customers procure products or services, could have a material adverse effect on the Group's future results.	The Group mitigates this risk through targeted PV investment on products and services that are priorities for our customers (see page 7). Market developments, order intake trends and order book cover are reviewed monthly to enable action to be taken, including cost control measures. The successful completion of the Excellence in Delivery programme, which will enable Cobham to optimise its market positions, will give a standardised operating framework, and transform operating performance. The Group is increasing the level of business in higher growth geographic markets such as India, Brazil, parts of the Middle East and Asia (see page 9). The Group is looking for opportunities to grow its commercial business to provide an appropriate balance between the Group's defence/security and commercial end markets.
Failure to comply with laws, regulations and restrictions	The Group must comply with numerous domestic and international laws, regulations and restrictions. Cobham operates in a highly regulated environment and is subject to the laws, regulations and restrictions of many jurisdictions, including those of the US, the UK and other countries. Among other things, these include import and export controls, government contracting rules and anti-bribery provisions, as well as applicable S|H|E legislation.	Sanctions for failure by the Group, or its sales agents, or others acting on its behalf to comply with these laws, regulations and restrictions could include fines, penalties, suspension or debarment of the Group from future government contracts for a period of time. Such sanctions could have an impact on the Group's financial position and future operations.	Cobham continues to enhance compliance processes across the Group. These include numerous policies and procedures which are regularly reviewed, including procedures related to the use of sales and marketing representatives, anti-bribery and corruption, gifts and hospitality, whistle blowing and investigation of ethics and compliance concerns. Mandatory training is undertaken on a variety of compliance related subjects including US Government contracting, and anti-bribery and corruption. Cobham has reviewed and strengthened procedures in the light of the Bribery Act 2010 and is currently pursuing a 'zero harm' strategy for S|H|E (see page 30).

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

COBHAM'S GOAL IS TO LINK KEY STAKEHOLDER ISSUES WITH SHAREHOLDER VALUE THROUGH ITS CORPORATE STRATEGY AND OPERATIONAL PERFORMANCE

Cobham's corporate responsibility and sustainability approach adds shareholder value

To be successful and sustainable in its chosen markets Cobham must attract and retain the most talented people, improve operating efficiency, manage risk and protect reputation through striving for a strong environmental, social and governance culture.

Developing good quality relationships with key stakeholders

Cobham's goal is to link its key stakeholder issues with shareholder value through its strategy and operational performance. To develop this approach Cobham has joined Business in the Community and participated in the Corporate Responsibility Index to benchmark its progress. As part of this process Cobham is developing the management of its corporate responsibility and sustainability activities into a structured continuous improvement system that will facilitate management in the implementation of key programmes and initiatives.

The Group also intends to continue to participate in key investor surveys from EIRiS, Carbon Disclosure Project and Bloomberg. To supplement this, performance data and publicly disclosed policies will be made available on the corporate responsibility section of the Cobham website.

As part of an industry initiative, Cobham is also participating in the development of standardised supply chain metrics and will be well placed to cooperate as they are cascaded through the supply chain.

HIGHLIGHTS

- Benchmarking shows Cobham is a competitive employer and connecting well with potential recruits
- Energy (electricity, natural gas and heating oil) and resource use improved
- Number and severity of health and safety accidents reduced
- Updated anti-bribery and corruption policy implemented to address requirements of UK Bribery Act

A focus on learning and development to deliver the workforce of the future

Delivering Cobham's strategy requires a focus on talent, an area in which Cobham has already made good progress.

Identifying Cobham's current talent pool and developing a clear understanding of its future requirement is an essential part of the Strategic Workforce Planning cycle, with review of some functional areas completed.

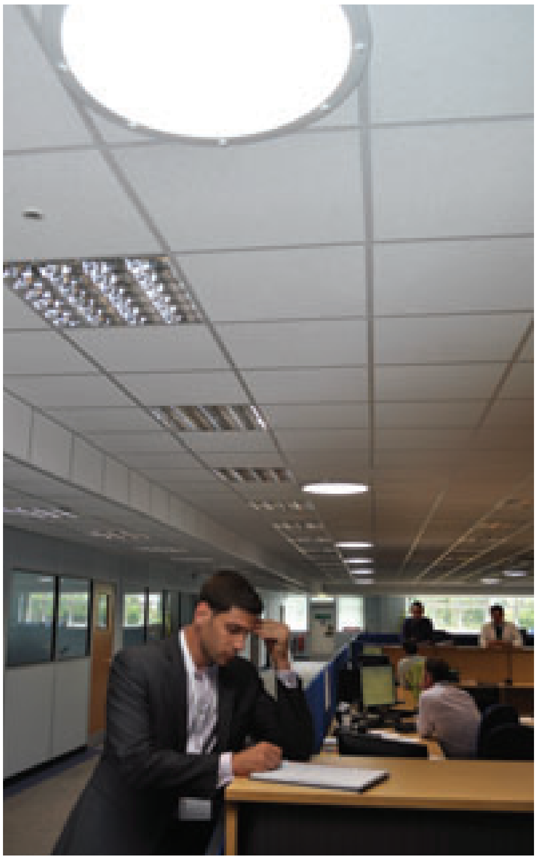
To fill the gap between future requirement and current capability, Cobham is developing in-house talent and attracting new talent. A benchmarked review has shown Cobham is competitive and connecting well with potential recruits. Cobham has developed its 'Innovators with Insight' employer brand and over 11,000 applications have been managed via the new applicant tracking system and careers website. Cobham's Performance and Development Review process develops its in-house talent. The momentum behind Cobham's development programmes has been maintained, with over 70% of participants in the Senior Development Programme assuming bigger roles. In 2011, 13 high performing graduates completed the Graduate Development Programme and moved into their first permanent positions. The award winning apprenticeship programme now covers all the largest UK engineering locations.

Creating a better place to work

Developing a strong safety, health and environment mindset supports the goals of developing an ethical business culture and attracting and retaining talent, improving operating efficiency and the community licence to operate. Cobham has set itself a goal to pursue 'zero harm' – zero work-related fatalities, injuries and illnesses – and to minimise its impact on the environment wherever possible. This is a challenging goal but is achievable through embedding the right attitudes, behaviours and competencies. Cobham has implemented a standardised approach including a three-tiered management performance framework to drive continuous improvement. All business units were set a target to achieve the foundation

IDENTIFYING COBHAM'S CURRENT TALENT POOL AND DEVELOPING A CLEAR UNDERSTANDING OF ITS FUTURE REQUIREMENTS IS AN ESSENTIAL PART OF THE STRATEGIC WORKFORCE PLANNING CYCLE

Above/below
Cobham Aviation Services based at Bournemouth International Airport in the UK, installed sunpipes into upgraded hangar facilities to improve the working environment for employees and reduce energy consumption. The carbon footprint reduction is estimated at 16 tonnes of carbon over five years for a system that requires no maintenance and has a guarantee of 10 years.



level of our performance framework: 76% achieved the first level and 14% achieved higher levels. Leading safety and environmental indicators, a management scorecard and a set of best practice technical standards were also rolled out to help reach the 'zero harm' goal. Cobham recorded zero fatalities and reduced the number and severity of lost time accidents.

Consumption of electricity, natural gas and heating oil as well as the generation of waste materials were reduced at Cobham's facilities. However, an increase in operational flying hours for customers combined with an increase in business travel (due to changes in customer geographies) and improved reporting practices contributed to higher greenhouse gas emissions.

Going forward, the focus will be on embedding the standards, performance management systems and processes to drive continuous improvement in the safety, health and environmental aspects of Cobham's operations, activities, products and services. Particular areas of focus will include employee wellbeing, energy efficiency and resource efficiency.

Pursuing the highest ethical standards

Cobham's goal is to maintain a strong business ethics culture that will minimise liability, manage risk and protect reputation in an increasingly regulated and complex global marketplace.

Cobham recognises the importance of setting the tone from the top. The executive-level Business Ethics & Compliance Committee oversees the ethics and compliance programme. It sets out the policies and management standards and oversees ethics investigations and compliance concerns. The Group Executive discusses monthly reports, which include updates on ethics and compliance cases raised and training, with updates at each Board meeting.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY CONTINUED

The ethics and compliance programme is based around the key principles of prevent, detect and respond:

Prevent – This includes a range of measures to help prevent ethics and compliance issues from occurring.

Training – Employees are provided with sessions on business and compliance issues, including ethical awareness, contracting with the United States government, international trade compliance and with the introduction of the UK Bribery Act 2010, anti-bribery and corruption. Business Unit Ethics and Compliance Officers ensure timely completion of employee training: 99% of employees completed required Ethical Awareness training and 97% of employees completed anti-bribery and corruption training.

Company policies and procedures have been updated for emerging issues, such as the UK Bribery Act. Cobham has revised its Anti-Bribery and Corruption Policy, including robust processes to manage third parties.

Detect and respond – Cobham ensures the early detection and response of ethics and compliance issues and these are dealt with swiftly and effectively. Employees are actively encouraged to use a free and confidential ethics helpline, which is available 24 hours a day, with a formal investigation process into ethical and compliance concerns.

Data verification

Cobham collects data annually on all key corporate responsibility and sustainability KPIs from its wholly-owned operational subsidiaries. This excludes Cobham's joint ventures which are not under operational control, sites with less than 5 people, sites leased to tenants, vacant properties being disposed of, and any business units that have been closed or divested during the course of the year for which there is less than six months of reported data. During 2011 divestments included Cobham Analytic Solutions in the US and Cobham MAL Ltd in the UK. However, as these business units were divested within Q4 they have been included to provide a more complete representation of energy use and greenhouse gas emissions. Data for Cobham Analytic Solutions was reported up to 1 November 2011 and pro-rated to the transaction completion date whilst data for Cobham MAL Ltd was based on 2010 data normalised by turnover and pro-rated for the duration of 2011 ownership.

100% of Cobham's wholly-owned operations by turnover have been reviewed internally to identify omissions and significant variations (i.e. 5%) from the preceding year. Cobham has commissioned an external assurance provider, ERM, to provide limited assurance of its 2011 carbon data (i.e. Scope 1 and 2) as presented in the table opposite. The assurance statement will be made available on the corporate responsibility section of Cobham's website.

'Canteen' kids fly high
Cobham Aviation Services in Adelaide, Australia provided a BAe 146 to fly 65 youngsters, on 13 August 2011, to the heart of Australia, to Uluru (previously Ayers Rock), where they were able to get together with other 'Canteen' kids from Darwin and Alice Springs at the Uluru Voyages resort for the weekend.

Canteen is an organisation for young people living with cancer and the event was designed to allow the children to develop peer support networks that will help them through their cancer journey.

Image courtesy of The Advertiser, Adelaide. Photographer, Tait Schmaal

Strategic objectives

1 Focus on defence, security and commercial markets

2 Sell technically differentiated products and services

3 Build sustainable scale positions

4 Deliver operational excellence

5 Actively manage the portfolio

Key focus areas and performance indicators (KPIs)	Objectives for 2011	2011 actual	2010 actual	Target	Objectives for 2012	Strategic objectives
Stakeholder engagement						2 4
Improve stakeholder engagement processes	Develop repeatable stakeholder engagement process	Defined CR&S engagement with investor community	Completed overview survey of stakeholder requirements	**Group level**	Undertake participation in Dow Jones Sustainability Index	
Staff and talent						2 3 4
Number of senior appointments sourced internally (%)	Increase the number of senior appointments sourced internally	>30%	>30%	**30%**	>30%	
Voluntary turnover (%)	<10%	8.4%	8.0%	**<10%**	<10%	
Safety, health and environment						2 3 4
Fatalities	Maintain zero fatalities	0	0	**0**	Zero fatalities	
Major Accident Incidence Rate (Number of accidents resulting in more than 3 days absence per 100,000 employees)	Reduction on previous year	465	565	**0**	Implementation of leading KPIs	
Recordable Incidence Rate (Number of accidents resulting in more than first aid per 100 employees)	Reduction on previous year	1.60	1.69	**0**	Per Major Accident Incidence Rate above	
Scope 1 GHG (tCO_2e)[1]	Reduction on previous year	123,647	90,097[5]	**<100,000**	Undertake limited assurance on data	
Scope 2 GHG (tCO_2e)[2]	Per Scope 1 GHG above	61,879	62,868[6]	**<60,000**	Per Scope 1 GHG above	
Scope 3 GHG (tCO_2e)[3]	Increase scope and improve reporting	334,321	304,630[7]	**Increase scope and improve reporting**	Per Scope 1 GHG above	
Energy efficiency (MWh/£m turnover)[4]	Reduction on previous year	998	850[8]	**900**	Reduction on previous year	
Business ethics and compliance						1 4
Appointment of Ethics Officers in business units	Coverage across all units	Completed	Substantially completed for all units	**Maintain coverage across all units**	Coverage across all units	
Ethical awareness training for all employees	All employees	99%	90%	**100% employees**	100% employees	

[1] Scope 1 GHG KPI comprises natural gas, heating oil and aviation fuel purchased by Cobham for use in Cobham owned aircraft or other Cobham owned equipment, company (petrol, diesel and hybrid) car use. Non-automotive diesel has been excluded but based on data not externally assured in 2011, it contributes less than 0.05% of Cobham's Scope 1 data.
[2] Scope 2 GHG KPI comprises purchased electricity (from both renewable and non-renewable energy tariffs).
[3] Scope 3 GHG KPI comprises business travel (non-company owned car use, train travel and flights) and aviation fuel (purchased by Cobham for use in leased aircraft or other leased equipment or provided by customers for use on customer operations).
[4] Energy Efficiency KPI includes electricity, natural gas, heating oil and aviation fuel purchased by Cobham or provided by customers.
[5] Scope 1 – was 92,394 tCO_2e – error identified in 2011 external assurance process.
[6] Scope 2 – was 61,171 tCO_2e – error identified in 2011 external assurance process.
[7] Scope 3 – was 309,908 tCO_2e – error identified in 2011 external assurance process.
[8] Energy efficiency KPI – was 907 MWH/£m turnover – error identified in 2011 external assurance process.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS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Independent Directors


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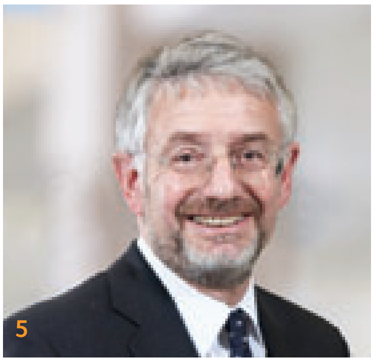
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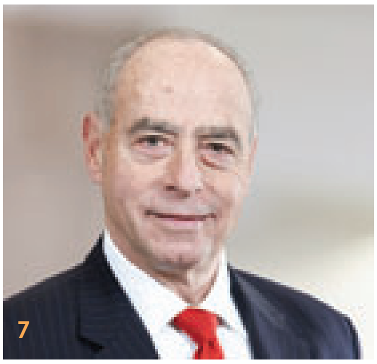
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Board Meeting Attendance for 2011

	Board
Number held	11
Number attended	
J Devaney	11
A Stevens	11
W Tucker	11
M Beresford	11
J Patterson	11
M Wareing	11
M Ronald	11
M Hagee	11
A Wood[1]	6
P Hooley[2]	4

[1] A Wood elected on 1 July 2011 and joined the Nomination Committee on 1 December 2011.
[2] P Hooley retired on 6 May 2011.

1 J DEVANEY
Executive Chairman

BEng, CEng, FIMechE, FIEE
Age: 64

Appointed: Director February 2010, Chairman May 2010 and Executive Chairman November 2011
Skills and Experience: John's executive career was built in engineering companies within the Varity Group. John has previously served as Non-executive Director of Northern Rock and Chairman of Marconi plc, later renamed Telent. He was President of Perkins Engines in the mid-1980s, and he went on to be President of Kelsey-Hayes, the automotive components manufacturer. He was subsequently Chief Executive of Eastern Electricity, the largest regional electricity company in the UK at the time. Following its acquisition by Hanson he was appointed Executive Chairman of the Group.
External Appointments: Non-executive Chairman of National Express plc, the passenger transport Group, and Non-executive Chairman of NATS, the National Air Traffic Services
Committee Membership: Chairman of the Nomination Committee and member of the Remuneration Committee

2 A STEVENS
Chief Executive Officer, Executive Director
BSc, CEng, FIET, FRAeS
Age: 55

Appointed: November 2003, appointed Chief Executive Officer January 2010
Skills and Experience: Andy has resigned from his role as Chief Executive Officer due to a recurring long-term serious back injury. He will continue to carry out some duties until a new Chief Executive Officer is appointed. Andy joined the Group as Managing Director of the Aerospace Systems Group. He was appointed Chief Operating Officer of the Technology Divisions in September 2005 and in March 2007 assumed responsibility for operational management, performance and profit and loss accountability for the Group. Prior to joining he qualified as a chartered engineer at Dowty Group and subsequently became Chief Operating Officer of Messier Dowty International before joining Rolls-Royce as Managing Director, Defence Aerospace.
External Appointments: None
Committee Membership: Executive Directors Committee

3 W TUCKER
Chief Financial Officer, Executive Director
BSc, ACA, MBA
Age: 49

Appointed: May 2003
Skills and Experience: Warren joined the Group as Chief Financial Officer in 2003, is a chartered accountant and has an MBA from INSEAD. Prior to joining, he worked at Arthur Andersen, Lazard, held senior finance positions at British Airways, Euro Disney and was Deputy Group Financial Director of Cable and Wireless.
External Appointments: Non-executive Director and member of the Audit Committee of Reckitt Benckiser Group
Committee Membership: Executive Directors Committee

4 M BERESFORD
Senior Independent Non-executive Director
CBE, MAMechSc, FIET
Age: 69

Appointed: 2004
Skills and Experience: Marcus was Chairman of Ricardo plc from 2003 to 2009 and was a Non-executive Director of Spirent plc from 1999 until late 2006. He was an Executive Director of GKN plc from 1992 to 2002 and Chief Executive from 2001 to 2002.
External Appointments: Non-executive Director of Melplash Agricultural Society Limited
Committee Membership: Member of the Nomination, Audit and Remuneration Committees

5 J PATTERSON
Independent Non-executive Director
CBE, MBChB, FRCP, Fmed Sci
Age: 64

Appointed: 2005
Skills and Experience: John qualified in medicine in 1971 and obtained a Membership (now Fellowship) of the Royal College of Physicians in 1974. He joined ICI (now AstraZeneca) in 1975 and in December 2004 was appointed to the main Board as Executive Director responsible for development. He retired as a Director of that firm in March 2009. He is a former President of the Association of the British Pharmaceutical Industry, a former Non-executive Director of Amersham plc and a former member of the supervisory Board of the UK Medicines Control Agency.
External Appointments: Non-executive Director of Ferring Holding SA and Non-executive Governor of Manchester Academic Health Science Centre
Committee Membership: Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees

6 M WAREING
Independent Non-executive Director
CCMG, FCA, FCCA, MCSI
Age: 57

Appointed: 2010
Skills and Experience: Michael worked for KPMG from 1973 until 2009 when he retired. Between 2005 and 2009, he was International Chief Executive Officer, KPMG, Chairman, KPMG International Executive Team and Chairman, KPMG Iberoamerica Board. He was formerly the Prime Minister's Envoy for Reconstruction in Southern Iraq.
External Appointments: Non-executive Director and Chairman of the Audit Committee of Wolseley plc and Senior Independent Non-executive Director and Chairman of the Audit Committee of Intertek Group plc, Chairman of the Iraq Advisory Board for G4S plc and Economic Development Adviser to the Government of Afghanistan
Committee Membership: Chairman of the Audit Committee and member of the Nomination Committee

7 M RONALD
Independent Non-executive Director
CBE, BA, BScEE, MScEE
Age: 70

Appointed: 2007
Skills and Experience: Mark was, until his retirement at the end of 2006, Chief Operating Officer of BAE Systems plc and Chief Executive Officer of BAE Systems Inc, its wholly-owned US subsidiary. Previously he was Vice-President, programme management with Litton Industries and Chief Operating Officer of AEL Industries. Mark was a Non-executive Director of DynCorp International Inc.
External Appointments: Non-executive Director of ATK Inc. and Aeroflex Holdings, Inc., senior adviser of Veritas Capital LLC and a management consultant
Committee Membership: Member of the Nomination and Remuneration Committees

8 M HAGEE
Independent Non-executive Director
Age: 67

Appointed: 2008
Skills and Experience: Mike served in the US Marine Corps for almost 39 years ending his career in 2007 as Commandant of the Marine Corps and a member of the Joint Chiefs of Staff. His numerous military assignments included Commanding General, 1st Marine Expeditionary Force, Deputy Director of Operations at the US European Command and Executive Assistant to the Director of Central Intelligence. He also served in a number of diplomatic missions including the presidential diplomatic mission to Somalia.
External Appointments: President and CEO of the Admiral Nimitz Foundation in Fredericksburg, Texas, USA, Co-Chairman of the National Security Advisory Council for the Center of US Global Engagement and US Global Leadership Campaign, Non-executive Director of sgi Corp., Kaseman, LLC DynCorp International Inc. and Freedom Group Inc.
Committee Membership: Member of the Audit, Nomination and Remuneration Committees

9 A WOOD
Independent Non-executive Director
MA, MBA
Age: 48

Appointed: 2011
Skills and Experience: Alison is currently Global Director Corporate Development & Strategy for National Grid plc. She was formerly Group Strategic Development Director for BAE Systems plc responsible for corporate strategy, mergers and acquisitions and strategic business development across the UK and US. She has held two Non-executive Directorships; BTG plc (from 2004 to 2008) and THUS plc (from 2007 to 2008).
External Appointments: Chairman of Aerospace, Aviation and Defence Knowledge Transfer Network
Committee Membership: Member of the Nomination Committee

CORPORATE GOVERNANCE CONTINUED

This part of the Annual Report, together with the Directors' remuneration report set out on pages 44 to 53, describes how the Company has applied and complied with the principles contained in the UK Corporate Governance Code published in June 2010 (the Code). The Code is available at frc.org.uk/corporate/combinedcode.cfm.

THE BOARD'S ROLE IS TO LEAD THE GROUP WITH A VIEW TO THE CREATION OF STRONG, SUSTAINABLE FINANCIAL PERFORMANCE AND LONG-TERM SHAREHOLDER VALUE.

Statement of compliance with the provisions of the Combined Code

The Ordinary Shares are listed on the London Stock Exchange. In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 December 2011 and at the date of this Annual Report, it was compliant with the provisions of the Code.

Share capital

Details of the share capital of the Company and the powers of the Directors in relation to allotment, issue and market purchases of shares are given in the Directors' report on page 54.

The Board composition

The Board comprises an Executive Chairman (John Devaney), a Chief Executive Officer (Andy Stevens), a Chief Financial Officer (Warren Tucker) and six other Non-executive Directors of whom Marcus Beresford is the Senior Independent Director. All Non-executive Directors are considered to be independent and the Chairman was considered to be independent on appointment. They all held office throughout the year except Alison Wood, who joined the Board on 1 July 2011. Peter Hooley retired from the Board and stood down as Chairman of the Audit Committee at the conclusion of the Annual General Meeting (AGM) on 6 May 2011.

Biographies of the Directors, giving details of their experience and other significant commitments, are set out on pages 34 and 35. The wide ranging experience and backgrounds of the Non-executive Directors enable them to debate and constructively challenge management in relation to both the development of strategy and the performance of the Group. The attendance of Directors at Board meetings are set out on page 34 and attendance at principal Board committee meetings as members of such committees during the year are set out in the reports from each committee on pages 40, 42, and 44.

Non-executive Directors are appointed for specified terms of three years which can be extended by agreement provided that the individual's performance continues to be effective. The rules for the appointment and replacement of Directors are set out in the Company's Articles of Association (the Articles) copies of which can be obtained from Companies House in the UK or by contacting the Company Secretary. Changes to the Articles must be approved by shareholders passing a special resolution. The Directors and the Company (in the latter case by ordinary resolution) may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director.

All Non-executives have confirmed they will have sufficient time to meet what is expected of them and copies of their appointment letters are available on request to the Company Secretary and will be available for inspection at the AGM. Under the Articles, Directors are subject to re-election by shareholders at the first AGM after their appointment by the Board and are subject to re-appointment if they have held office for three years or more since their previous appointment by shareholders and, in the case of Non-executive Directors, if they have held office for nine years or more since first being appointed by shareholders. However, in accordance with the UK Corporate Governance Code, which recommends that all directors of FTSE 350 companies seek re-election by shareholders on an annual basis, all Directors currently in office will retire and seek re-election at the AGM. In addition, Alison Wood, who was appointed by the Board on 1 July 2011, is seeking election by shareholders at the 2012 AGM for the first time. The Board has set out in the circular a resolution to elect Alison Wood as a Non-executive Director and explains why it believes she should be elected. The Chairman confirms to shareholders when proposing re-election or re-appointment that the individual's performance continues to be effective and that the individual continues to demonstrate commitment to the role. Non-executive Directors are subject to Companies Act provisions relating to the removal of a Director.

The Chairman is, among other things, responsible for chairing Board meetings and leading the Board. The Chief Executive Officer's responsibilities include operational performance, Corporate social responsibility and the development and implementation of the Group's strategy. He focuses also on long-term growth and development of the Group, its people and customer relationships. The Board's policy is that the roles of Chairman and Chief Executive Officer should be performed by different people. The division of responsibilities between the Chairman's role and that of the Chief Executive Officer is documented and clearly understood. Although the current Chief Executive Officer has resigned from his role, due to a recurring long-term serious back injury, he is serving his notice and will continue to carry out some duties until a new Chief Executive Officer is appointed.

The Senior Independent Director's responsibilities include the provision of an additional channel of communication between the Chairman and the Non-executive Directors. He also provides another point of contact for shareholders if they have concerns which communication through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer has failed to resolve, or where these contacts are inappropriate.

The Board and its proceedings

Board meetings, scheduled in accordance with the annual timetable, take place five times a year on a face to face basis, five times a year by telephone and otherwise as required. There is contact between meetings to progress the Group's business as required. Meetings were held at the head office in Wimborne, at the Company's London office and at an international operational location. In addition, the Senior Independent Director held a meeting with the Non-executives in the absence of the Chairman to appraise the Chairman's performance and his performance was evaluated. In addition, the Chairman has held meetings with the Non-executives in the absence of the Executive Directors.

The Board's role is to lead the Group with a view to the creation of strong, sustainable financial performance and long-term shareholder value. In doing so, it reviews and agrees Group strategy, ensures that the necessary resources are in place, monitors management performance, and supervises the conduct of the Group's activities within a framework of prudent and effective internal controls. During the year, the Board and senior management participated in two separate meetings devoted to the consideration and development of the Group's strategy.

The Board has adopted a schedule of matters reserved for its specific approval. The schedule provides the framework for those decisions which can be made by the Board and those which can be delegated either to committees or otherwise. Among the key matters on which the Board alone may make decisions are the Group's business strategy, its five year plan, its consolidated budget, Group policies, dividends, acquisitions and disposals, and all appointments to and removals from the Board. Authority is delegated to management on a structured basis in accordance with the provisions of the Corporate Framework ensuring that proper management oversight exists at the appropriate level. Matters delegated in this way include, within defined parameters, the approval of bids and contracts, capital expenditures and financing arrangements.

The Board has adopted procedures relating to the conduct of its business, including the timely provision of information, and the Company Secretary is responsible for ensuring that these are observed and for advising the Board on corporate governance matters. The Company Secretary is appointed, and can only be removed, by the Board.

If a Director were to have a concern which cannot be resolved this would be recorded in the Board minutes. On resignation, Non-executive Directors are invited to provide a written statement to the Chairman for circulation to the Board if they have concerns. No such statements were made during 2011.

All potential situational and transactional conflicts of interest are disclosed, noted and authorised. Procedures are in place and operating effectively to keep such disclosures up to date.

Performance evaluation

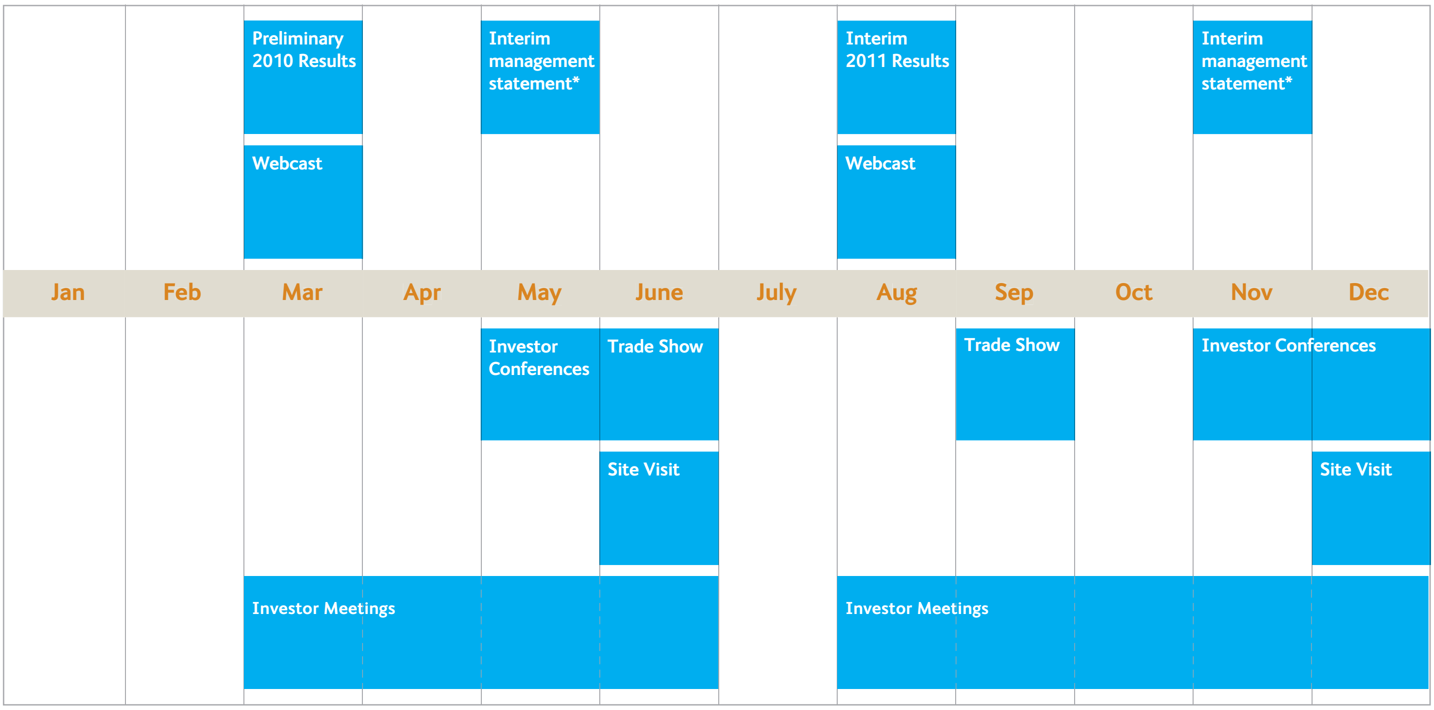
The Board conducts an evaluation of its activities on an annual basis. During 2011, the Board and its committees undertook an internal evaluation. The evaluation included the circulation of a questionnaire, a review of actions taken in response to the 2009 external evaluation and 2010 internal evaluation. The Board considered the output and has approved an action plan to address issues arising. A Board evaluation undertaken by external facilitators is planned for 2012.

A table of action instigated by previous performance evaluations is included below.

Board and Committees performance evaluation

Evaluation Year	Observations	Actions Taken
2009	Review the Board sub-committee memberships and establish a management committee for risk. Propose formal terms of reference and executive membership for approval.	The Board established and approved an executive Risk Committee in October 2009, to enable the Board and management to manage risk more effectively throughout the Group. The risk management process has been strengthened, and continues to evolve.
	Implement a formal induction programme for newly appointed Board members.	The Board implemented a structured induction programme in 2010 for new Board members and those joining Board committees. All new Board members starting with Michael Wareing have been through the induction programme.
	Review diversity within the Board membership and ensure that it is a priority going forward for the Nomination Committee.	The Nomination Committee, led by the Chairman, drafted a specification for a new Non-executive Director position in 2010 and the Board collectively has placed a greater emphasis on diversity within the members of the Board.
2010	Proactively attempt to recruit a diverse member of the Board during 2010.	The Board conducted a thorough search of candidates in 2010, utilising a global recruitment consultant, to recruit Alison Wood as the Group's newest Non-executive Director elected on 1 July 2011.
	Increase dialogue between Executive Directors and Non-executive Directors to better leverage skills and experience of Non-executive Directors in strategic needs.	The strategic review process was completely revised for 2011 with the Board committing more time and input into the Group Strategic Plan.
	Review the consultant support to the Remuneration Committee.	The Remuneration Committee reviewed the relationship with their remuneration consultants, introduced new communication channels and strengthened the reporting process that has significantly improved the input of the consultants to the Committee.
2011	Devote time, as part of the Nomination Committee's review, to discuss the profile of the individual required for new Board members before each appointment.	The appointment of the new Chief Executive Officer will be led by the Chairman, taking into account the profile discussed with the Nomination Committee and specifically ensuring the appointee is the right individual to take forward the Group Strategic Plan.
	Establish a plan to bring in new talent for key posts, ensuring talent and succession planning are driven forward.	Talent and succession planning will continue to be a Board focus during 2012.
	Increase the frequency of discussions at the Board on market positioning, on technology assets, and on implementation of the Group Strategic Plan.	The Board will implement new reporting and quarterly strategic updates during 2012.

Summary of 2011 Investor Relations activity



*Interim management statement is a short quarterly update on the Group's trading

Financial reporting

In the Directors' view, the Annual Report and Accounts for 2011, together with the interim management statements, the interim report and other reports made during the year, present a balanced and understandable assessment of the Group's position and prospects.

The Directors have adopted the going concern basis in preparing the Annual Report and Accounts as stated in the Financial review on pages 22 to 27.

Shareholder relations

The Board is accountable to shareholders for the performance and activities of the Group and engages in regular dialogue with them. During the year the Chairman has been available and has met with shareholders, while the Chief Executive Officer and Chief Financial Officer held regular meetings with shareholders to discuss information made public by the Group.

Presentations were given on the day of the announcement of the preliminary and interim results. Copies of the associated presentation materials, together with webcasts, can be accessed at **www.cobhaminvestors.com**. Presentations are conducted in accordance with the FSA's Disclosure Rules on the dissemination of inside information to ensure the protection of such information that has not already been made available generally to the Company's shareholders.

The Board is kept informed of investors' views through the receipt of regular reports from the Company's brokers and updates from the Chairman, Chief Executive Officer and Chief Financial Officer. Any significant correspondence with shareholders is also made available.

Communication with shareholders takes place via RNS announcements, the Company's website, the Annual Report, the interim management statements and at the AGM. The AGM is attended by all Directors and shareholders have the opportunity to hear a statement as to progress made during the year, to question the Board on its stewardship of the Company and to meet Directors informally. The results of the votes on the resolutions proposed at the AGM are published on the Company's website.

Responsibility statements

Statements relating to the responsibilities of the Directors are on page 58 and those relating to the auditors are on pages 59 and 109.

Board committees

The Board is ultimately responsible for corporate governance and the Group's system of internal control, with day to day responsibility resting with management.

The Board is supported in its work by a number of committees. The Company Secretary acts as secretary to all Board committees. Committee chairmen provide oral reports on the work undertaken by their committees at the following Board meeting. Information relating to the Nomination and Audit Committees appears below and the activities of the Remuneration Committee are described in the Directors' remuneration report on pages 44 to 53. All Board committees are provided with sufficient resources to undertake their duties.

The other principal Board committee is the Executive Directors Committee. The Executive Directors are members of this Committee under the chairmanship of the Chief Executive Officer. The purpose is to assist the Chief Executive Officer in the performance of his duties and its terms of reference include establishing and implementing internal policies, systems and controls to ensure that potential inside information is communicated to it, considered, verified and released to the market where required, the discharge of obligations arising under the Company's share plans, the determination of the remuneration of the Non-executive Directors, the approval of banking facilities and the approval of bids and contracts. This Committee met on 17 occasions during the year and, in addition, as required to respond to business needs and market conditions.

The Group Executive Committee and the other principal management committees are shown in the table above.

Nomination Committee

Comments from the Chairman

"Succession planning has been a key focus for the Nomination Committee this year as we continually seek the right talent to execute our articulated strategy. The process for selection for the appointment of Alison Wood was managed in conjunction with Korn/Ferry Whitehead Mann, recruitment consultants who have signed up to the voluntary Code of Conduct for executive search firms. Korn/Ferry provided a short list of candidates whom I interviewed and confirmed with the Board my preferred choice. Alison was then interviewed by the Executive Directors and the majority of the Non-executive Directors before being offered the Non-executive Director role. This exhaustive process combined with the Committee's continual review process of the Board and senior Group executives provides the Group with the necessary range of talent, experience and skills to ensure the Group is well positioned for the future.

The Committee is currently working on the appointment of a successor to the Chief Executive Officer, who for health reasons, will be leaving the Group later this year."

J Devaney

Membership and attendance

Number held	2
Number attended	
J Devaney (Chairman)	2
M Beresford	2
J Patterson	2
M Ronald	2
M Hagee	2
M Wareing	2
A Wood[1]	1
P Hooley[2]	1

[1] A Wood elected on 1 July 2011 and joined the Nomination Committee on 1 December 2011
[2] P Hooley retired on 6 May 2011

Other attendees

Chief Executive Officer

Role and focus

The Nomination Committee's main duties are to:
- Review the structure, size and composition of the Board.
- Consider succession planning for Directors and other senior executives.

Review of 2011

Highlights:
- Evaluated the balance of skills, knowledge and experience of the Board.
- Considered external appointments to subsidiary Boards.
- Considered succession planning to ensure the Group is well positioned for the future.
- Conducted a thorough and comprehensive search for a new independent Board member.
- Initiated the search for a new Chief Executive Officer.
- Conducted an effectiveness review.

The Committee's terms of reference, which were reviewed during the year, are available on the Company's website at **www.cobhaminvestors.com** or on application to the Company Secretary. The Committee is cognisant of the need for diversity when considering the composition of the Board and considers diversity in the whole, taking into account not only gender but nationality, age and experience. The Committee will consider the collection of detailed data on gender diversity and the setting of targets during 2012.

Succession planning

Succession planning takes place at Board and senior management level on a regular basis to ensure that the Group is managed by executives with the necessary skills, experience and knowledge. The Board has a role to play in overseeing the development of management resources in the Group. Specifically, the Board wants to see depth and quality in management and robust processes are in place to help the Board in this task.

Succession planning for Non-executive Directors is based on maintaining a depth of knowledge and experience on the Board. The Nomination Committee actively manages Non-executive Director succession having regard to anticipated retirement dates for existing Directors and initiates focused searches for Non-executive Directors as positions are required.

The current Board composition in relation to the Non-executive Directors, as of 31 December 2011, in terms of length of service and current term is shown diagrammatically below.

Directors' professional development

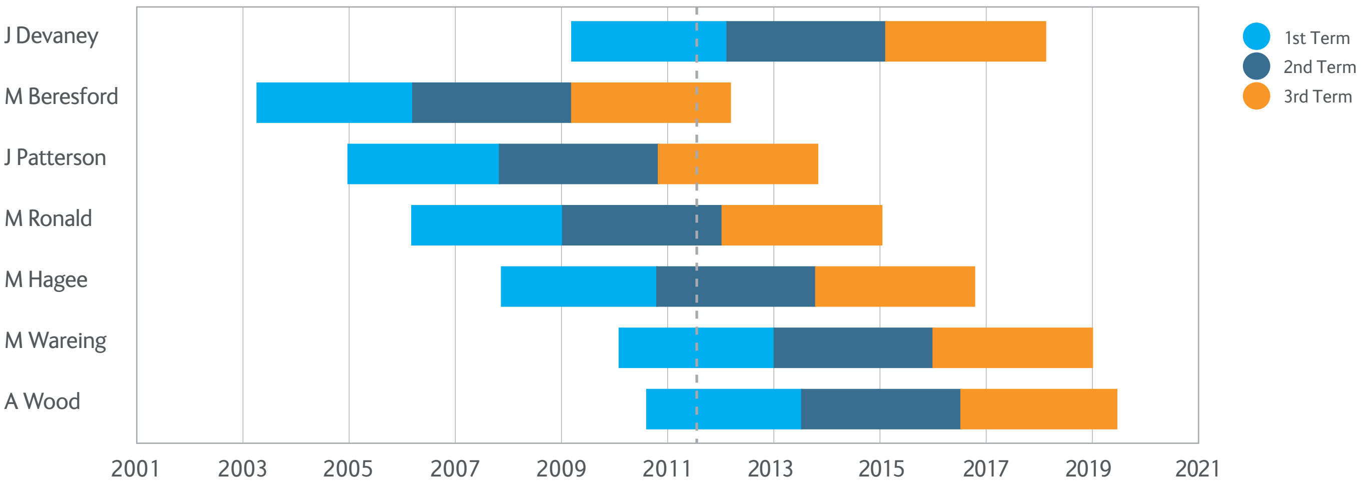
On appointment, Directors undertake a structured induction programme in the course of which they receive information about the operations and activities of the Group, the role of the Board and the matters reserved for its decision, the Group's corporate governance practices and procedures and their duties, responsibilities and obligations as Directors of a listed public limited company. This is supplemented by visits to key locations and meetings with, and presentations by, senior executives.

Training for Directors is available as required and is provided mainly by means of external courses, internal computer based training, or in-house presentations. In addition, Directors' knowledge of the legal and regulatory environment is updated through the provision of information by the Group's advisors and by means of regular updates from the Company Secretary and the legal team.

FOR MORE INFORMATION

www.cobhaminvestors.com

Board Succession Planning



Audit Committee

Comments from the Chairman

"It is the Group's goal to implement best practice in financial accounting and disclosure. This has been a priority of the Committee throughout the year and will continue to be so in future. We have taken measures throughout the year to ensure that sound policies on internal controls are in place, to ensure the independence and effectiveness of the external auditors, and to ensure the appropriate risk mitigation framework is in place throughout the Group."

M Wareing

Membership and attendance

Number held	3
Number attended	
M Wareing (Chairman)	3
M Beresford	3
J Patterson	3
M Hagee	3
P Hooley[1]	1

[1] P Hooley retired on 6 May 2011

Other attendees (by invitation)

- Chief Financial Officer**
- Head of Internal Audit*
- Group Director of Financial Control
- PricewaterhouseCoopers LLP*
- Other senior management as required

* Meetings with the Committee are held in the absence of any executive management periodically during the year
** Meetings with the CFO are held with committee members only

Role and focus

The Audit Committee's main duties are to:

- Monitor the integrity of the Group's financial statements and any formal announcements relating to its financial performance, reviewing accounting policies used and judgements applied.
- Consider the effectiveness of the Group's internal financial control systems.
- Monitor and review the effectiveness of the Group's internal audit activities.
- Make recommendations as to the appointment, remuneration and terms of engagement of the external auditors.
- Monitor and review the external auditors' independence and objectivity and the effectiveness of the audit process.
- Review arrangements by which the Group's employees may confidentially raise concerns about possible improprieties. It is the Committee's objective to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action to be taken.

Review of 2011

Highlights:

- Reviewed the effectiveness of risk management and internal controls with the external auditors and the Head of Internal Audit.
- Reviewed reports from the external auditors and the Head of Internal Audit.
- Considered reports on a number of matters including pension scheme, treasury and funding plans, taxation, disaster recovery planning and corporate governance issues.
- Considered reports on internal controls and specifically controls in relation to the Excellence in Delivery programme and IT controls.
- Conducted an effectiveness review of the Committee and the internal and external auditors.
- The Group has an anti-bribery, anti-corruption policy and arrangements for handling whistle-blowing and the Committee regularly receives and considers reports on calls made to the helpline.

The Committee's terms of reference, which were reviewed during the year, are available on the Company's website or on application to the Company Secretary.

The Chairman of the Committee is Michael Wareing. He is an independent Director. The Board is satisfied, since he was the former International Chief Executive of KPMG until 2009, has been Chairman of the Audit Committee of Wolseley plc for two years and is a chartered accountant, that he has 'recent and relevant financial experience' as required by the Code. The other members of the Committee are all independent Directors. Details of their experience are set out on pages 34 to 35.

Risk management and internal controls

The Committee believes that the current arrangements comprising a rotational programme of internal financial and other control reviews by the internal audit function, business reviews carried out by the Chief Executive Officer and Chief Financial Officer and a process of self-assessment of internal financial controls by all business units provides appropriate coverage of the Group's activities. Where weaknesses have been identified, plans for remedying them are developed and progress monitored.

The Group operates under a system of internal controls which has been developed and refined over time to meet its needs and the risks and opportunities to which it is exposed. This includes a strategic planning process involving the preparation of a five year plan, a comprehensive budgeting system with an annual budget which is approved by the Board, the regular revision of financial forecasts for the year, the monitoring of financial performance and the appropriate delegation of authorities to operational management. Delegations and other operational controls are contained in the Corporate Framework and the Group Finance Manual. Specifically with regard to the financial reporting process and the preparation of the Group financial statements, the system includes an annual and semi-annual representation letter from all business units. Included in those letters are written acknowledgements that financial reporting is based upon reliable data and that the results are properly stated in accordance with Group policies. The review and monitoring of the effectiveness of the internal controls including, but not limited to, financial controls and the Group's financial and operational risk management systems is delegated to the Audit Committee.

Risk management is an integral part of the system of internal control. Divisional Presidents are required to ensure that appropriate processes, including the maintenance of business unit and divisional risk registers, exist to identify and manage risks and to regularly carry out formal risk assessments. The executive Risk Committee undertakes a top level review of significant risks and the Chief Executive Officer reports regularly to the Board on their mitigation.

The latest principal risks and the risk management process are highlighted on pages 28 and 29.

The Board is responsible for the Group's system of internal control, the aim of which is to manage risks that are significant to the fulfilment of the Group's business objectives and to contribute to the safeguarding of shareholders' investment and the Company's assets. The Audit Committee is responsible for monitoring and reviewing the effectiveness of the system. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, is reviewed in accordance with the guidance for Directors on internal control issued by the Financial Reporting Council.

The Audit Committee monitors the adequacy of internal financial controls and compliance with Group standards through a combination of a self-assessment process involving all business units supplemented by regular internal audit reviews and visits. The Board receives reports on a regular basis from the Audit Committee in relation to the effectiveness of the Group's system of internal control and has, accordingly, reviewed the effectiveness of the Group's system of internal control in respect of 2011. The review covered all material controls, including financial, operational and compliance controls and risk management systems.

External auditors

The Committee and the external auditors have safeguards to avoid the possible compromise of the auditors' objectivity and independence. These include the adoption by the Committee of a policy regarding the supply of audit and non-audit services and of a policy on the employment of external audit staff. Non-audit services, as defined from time to time in the policy, can be provided subject to pre-approval by the Committee where the cost of any individual engagement exceeds a pre-defined limit. The Committee has received reports from the external auditors confirming their independence and objectivity.

The external auditors operate, in relation to the senior engagement auditor, a rotation policy after five years and the current audit partner was appointed in early 2009. The Committee has reviewed the effectiveness of the external auditors and has recommended that a resolution be proposed at the AGM to re-appoint the external auditors and to allow the Board to set their remuneration. The Committee is satisfied that the external auditors remain independent.

The nature of services received from and fees paid to the external auditors during the year are set out in note 2 to the Group financial statements.

DIRECTORS' REMUNERATION REPORT

Remuneration Committee

Comments from the Chairman

"The Committee feel very strongly that rewards should be linked to both Group and personal performance. The economic conditions in Cobham's industry sectors and the Group's performance in the previous year led us to award no salary increases in 2011 for the Executive Directors and the majority of the Group Executive, although there were awards throughout the Group focused on those parts of the business that continued to perform well.

As a result of the continuing economic uncertainty, no changes have been made to the long-term incentive schemes during the year. In line with our normal practice, the targets for the 2012 annual bonus have been reviewed and set against the Group Strategic Plan and the Board's short-term performance targets.

During the year we have introduced a clawback provision in line with current external guidelines and the Group has rolled out an Excellence in Performance programme across all employees, including the executive team, which increases the emphasis on rewarding personal performance within the context of the business. Details can be found on page 45 of this report.

Looking forward to 2012, base pay for the executive team has been increased by 3% in line with the awards across the Group."

J Patterson

Membership and attendance

Number held	4
Number attended	
J Patterson (Chairman)	4
M Beresford	4
J Devaney	3
M Hagee	4
MH Ronald	4
P Hooley[1]	1

[1] P Hooley retired on 6 May 2011

Other attendees (by invitation)

- Chief Executive Officer
- Executive Vice President Human Resources
- Vice President Compensation and Benefits
- Deloitte LLP

Role and focus

The Remuneration Committee's main duties are to:

- Make recommendations to the Board on the Group's policies on Executive Directors' remuneration
- Determine, on the Board's behalf, the specific remuneration packages of the Chairman, Executive Directors, Group Executive and Company Secretary

Review of 2011

Highlights:

- Reviewed all remuneration plans including annual base salary, annual incentives, long-term incentives, and pension schemes.
- Reviewed proposed compensation awards for Chief Executive Officer, Chief Financial Officer, Group Executive.
- Reviewed advice from the external advisor on remuneration strategy and policy, incentive design and market data relevant to the size and activities of the Company.
- Oversight of the introduction of the Group's Excellence in Performance programme, an integrated performance development and total compensation system, applicable to all employees including the Executive Directors.

This report provides the information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations).

It also describes how the Group applies the principles of the Code in relation to remuneration. The report has been approved by the Board and shareholder approval will be sought at the forthcoming AGM.

The Committee's terms of reference are available on the Company's website or on application to the Company Secretary.

The Committee received advice during the year from Deloitte LLP on remuneration strategy, incentive design and market data. Additional advice was received from the Executive Vice President Human Resources and the Company Secretary. In addition, Deloitte LLP provided services to the Group relating to the execution of the Excellence in Delivery programme. In this respect, the Committee is satisfied that any potential conflicts are appropriately managed. Deloitte LLP have taken a leading role in developing, and have signed up to, the voluntary Code of Conduct in relation to Executive Remuneration Consulting in the UK. They were appointed in November 2009 and their performance is considered by the Committee as part of their performance evaluation.

Whilst proposals from the Committee take account of the advice received, the ultimate decision is made by the Board in the absence of any advisers.

Remuneration policy

The Board's policy is to recruit, motivate and retain executives of high calibre by rewarding them for superior performance with competitive remuneration packages. In particular, the executive pay policy for the current and subsequent financial years is designed to retain those executives with the skills and experience necessary to enable the Group to achieve its objectives and satisfy shareholder expectations.

Paying for performance is the guiding principle of the Excellence in Performance programme. Compensation decisions, including salary and annual incentives, are linked to the Group's performance against the Group Strategic Plan, in particular, to cash conversion and EPS growth, and separately to the performance of the individual employee.

The philosophy is to deliver total competitive compensation comparable to that of aerospace and defence peers if sustained competitive performance is achieved. For solid performance, actual total compensation delivered is targeted in line with the market.

The primary elements of the 2011 remuneration package focus on supporting different objectives, as illustrated in the table on the following page, which also shows the opportunity for 2011 and 2012 executive remuneration performance measures.

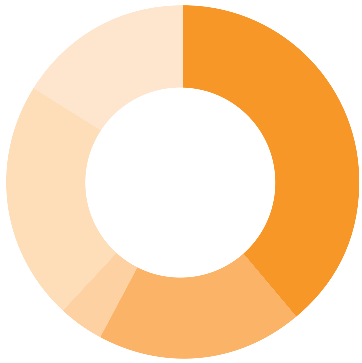
In defining the Group's remuneration policy, the Committee takes into account best practice guidelines set by institutional investor bodies such as the Association of British Insurers. The Chairman of the Company also ensures the Company, through the Committee and its Chairman, maintains contact with principal shareholders about remuneration matters.

The Company's short-term incentives are paid, and long-term incentives vest, only if stretching performance targets are achieved and the Committee is satisfied that executive management has acted in a responsible and diligent manner. The Remuneration Committee considers corporate performance on governance issues when setting the remuneration targets of Executive Directors and the Group Executive. The Remuneration Committee has considered whether the incentive structures may raise risks by inadvertently motivating irresponsible behaviour and is of the view that this is not the case.

The Remuneration Committee introduced clawback provisions to the incentive programmes applicable to the 2011 annual incentive and long-term incentive awards, giving them discretion to reduce awards or require repayment of cash paid to a participant in relation to annual and long-term incentives within the preceding 12 months for material mis-statement of financial results, reputational damage to the Group or gross misconduct of the individual.

Around half of each Executive Director's total target remuneration is variable and is linked to corporate performance. The chart below illustrates the proportions of the Executive Directors' remuneration packages comprising fixed (i.e. salary and pension) and variable elements of pay, assuming target annual bonus and expected values of long-term incentives are achieved.

Executive Director pay mix, 2011



	2011
Base salary	39%
Annual bonus	19%
Bonus Co-Investment Plan (BCP)	4%
Performance Share Plan (PSP)	22%
Pension	16%

Note: No awards made to Executive Directors under the Executive Share Option Scheme (ESOS) in 2011.

Total compensation statement for Executive Directors

Element	Purpose	Opportunity 2011	Opportunity 2012	Performance measures and vesting schedule	Amount achieved in 2011
Annual base salary	• Provide competitive fixed remuneration reflecting the value of the individual, their skills and experience and performance	CEO – £600,000 CFO – £428,400	CEO – £600,000 CFO – £443,400	• Benchmarked against comparable roles in global listed aerospace and defence companies and UK based companies with a similar market capitalisation to the Group • Assessment of the individual responsibilities, experience, performance and achievement of personal objectives • Reviewed annually on 1 March	• CEO – full annual salary • CFO – full annual salary
Annual incentive	• Motivate achievement of key annual objectives consistent with the Group Strategic Plan	100% of salary (50% of salary for on target performance)	100% of salary (50% of salary for on target performance)	• Financial measures consist of underlying EPS growth and cash generation • Personal objectives are set annually and linked to the Group Strategic Plan • For 2011, the target underlying EPS growth was 7% and the maximum target was 10%. The cash generation target was £239.4m and the maximum target was £251.4m • Personal objectives for the Chief Executive Officer are set and assessed by the Chairman, and by the Chief Executive Officer for the Chief Financial Officer and Group Executive	• CEO Award – 92.5% of base salary • CFO Award – 92.5% of base salary • Outcomes amounted to 85% of annual base salary, and were earned as a result of achieving actual Group cash generation of £287.9m and underlying EPS growth of 12.6% • The balance of the Executive Directors 2011 annual incentive was linked to the achievement of personal objectives such as the strategic review and the Excellence in Delivery programme
Long-term incentive – Bonus Co-investment Plan (BCP)	• Incentivise long-term profitable growth and sector out-performance • Reward relative share price and dividend growth • Provide alignment with shareholders' interests • Support retention and promote share ownership	50% of net bonus may be invested and matched on up to a two for one basis subject to EP targets being met	50% of net bonus may be invested and matched on up to a two for one basis subject to EP targets being met	• 2008 matching awards vesting in 2011 were subject to a three year Economic Profit (EP) growth target of 15% • EP targets for the 2009, 2010 and 2011 matching awards vesting in 2012, 2013, and 2014 respectively are commercially sensitive and are not disclosed	• The BCP award in 2008 vested at 100% on 25 March 2011 based on the achievement of annualised EP growth of 17%, against a maximum of 15%. This resulted in the maximum 2:1 match being awarded
Long-term incentive – Performance Share Plan (PSP)	• Incentivise long-term profitable growth and sector out-performance • Reward relative share price and dividend growth • Provide alignment with shareholders' interests • Support retention and promote share ownership	Normal grants up to 150% of salary with vesting split equally between TSR and EPS Actual awards made in 2011 were 143% of salary	Normal grants up to 150% of salary with vesting split equally between TSR and EPS	Awards prior to 2011 • 50% based on three year TSR relative to comparator group of sector peers with 16.7% vesting for median performance and full vesting for median +10% • 50% based on three year underlying EPS growth with 16.7% vesting for achieving underlying EPS growth of RPI+4% per annum and full vesting requiring RPI +13% per annum Awards in 2011 and 2012 • TSR measure – same as above • 50% based on three year underlying EPS growth with 16.7% vesting for achieving underlying EPS growth of +3% per annum and full vesting requiring +11% per annum	• The PSP award in 2008 vested at 55% on 1 April 2011, based on a TSR achievement of 4.7% per annum against an index of 1.9% (giving a 31% vest for the TSR element) and an EPS achievement of 14.6% annualised growth against a target of RPI+10% per annum (giving a 79% vest for the EPS element) The RPI Index grew from 210.9 to 228.4 over the 2008 PSP performance period, representing an annualised growth rate of 2.7% per annum over the three years
Pension	• Provide competitive post-retirement compensation and benefits consistent with the market	Defined Benefit arrangements	Defined Benefit arrangements	Not applicable	Not applicable

Dilution

The Company's share schemes are funded through shares purchased in the market. Until November 2010, share schemes were funded by new issue shares.

Funding of awards through new issue shares is subject to an overall dilution limit of 10% of issued share capital in any ten year period. Of this, 5% may be used in connection with the Company's discretionary share schemes. As of 31 December 2011, 23.4m (2.17%) and 13.4m (1.24%) shares have been issued pursuant to awards made in the previous ten years in connection with all share schemes and discretionary schemes respectively. Awards that are made, but then lapse or are forfeited, are excluded from the calculations.

Base salary

Andy Stevens was appointed to the position of Chief Executive Officer on 1 January 2010 on an annual salary of £600,000. His salary was positioned below the market median with the intention to increase towards the median subject to performance over time. Warren Tucker, the Chief Financial Officer, received a salary of £428,400 in 2011. From 2011 the annual review date for Executive Directors' salaries was moved to 1 March in order to enable all aspects of compensation to be planned for at the same time. However, given the wider economic environment, no salary increases were awarded for the Executive Directors, the majority of the Group Executive and certain of their direct reports for 2011. For 2012, Andy Stevens' salary will remain unchanged and Warren Tucker's has been increased to £443,400 to reflect Company performance and his personal contribution.

To ensure that salary and employment benefits across the Group are taken into consideration when decisions regarding Executive Directors' remuneration are made, the Committee is briefed on key changes impacting employees.

Annual incentive

The Company operates an annual cash incentive scheme for its Executive Directors. Annual incentives were awarded by the Committee in respect of 2011 having regard to the performance of the Group and personal performance objectives for the year. Details on the annual cash incentive scheme and the amount achieved against targets for 2011 can be found in the table on page 46.

Long-term incentives

Executive Directors, senior executives and certain other staff are eligible to participate in the following incentive schemes:

- The Cobham Bonus Co-investment Plan (BCP)
- The Cobham Performance Share Plan (PSP)
- The Cobham Executive Share Option Scheme (ESOS)

The performance measures against which BCP, PSP and ESOS awards vest include relative TSR, real underlying EPS growth and real EP growth. Together these performance measures help ensure the interests of executives are aligned with those of shareholders (through TSR) whilst also reinforcing capital efficiency (through EP) and bottom-line growth for shareholders (through underlying EPS). There has been no change to performance measures for the 2012 awards.

Bonus Co-investment Plan

The Executive Directors and other members of the Group Executive were invited by the Committee to defer up to 50% of their net earned annual bonus in 2010 (paid in Spring 2011) into Ordinary Shares in return for an opportunity to earn a matching award of shares against the gross bonus invested. Threshold performance results in invested shares being matched pro rata to target achievement and the 2:1 match is awarded for maximum levels of performance. Matching awards vest after three years subject to stretching three year EP growth targets. EP targets are considered to be commercially sensitive and therefore are not disclosed at the start of the cycle. In the event of a change of control, vesting of BCP matching awards is not automatic and would depend on the extent to which the performance conditions had been met at the time and the period elapsed since the date of grant.

Performance Share Plan

Under the PSP, approved by shareholders in 2007, conditional share awards or nil-cost options of up to 150% of base salary may be granted annually to eligible executives. The individual limit of 150% of salary can be exceeded in exceptional circumstances involving the recruitment or retention of a senior employee by approval of the Committee. During 2011, awards were made to employees in the UK, including the Executive Directors and certain employees outside the UK. The awards, equal to 143% of the salary, made to the Executive Directors are disclosed on page 52.

Vesting of PSP awards is based 50% on the Company's three year TSR relative to a comparator group of aerospace and defence sector peers and 50% on the Company's three year real underlying EPS growth. Companies in the TSR comparator group for awards granted in 2011, and to be made in 2012:

BAE Systems	Lockheed Martin
Boeing	Meggitt
EADS	Northrop Grumman
Flir Systems	QinetiQ
Goodrich	Raytheon
IMI	Rockwell Collins
ITT Industries	Rolls-Royce
L-3 Communications	Smiths Group

To the extent that the performance targets are not met over the three year performance period, awards will lapse, i.e. there is no re-testing of the performance conditions. In the event of a change of control, vesting of PSP awards is not automatic and would depend on the extent to which the performance conditions had been met at the time and the period elapsed since the date of grant.

Executive Share Option Scheme

The ESOS was approved by shareholders at the 2004 AGM and amended at the 2007 AGM. It includes an 'Approved' plan, which has been approved by HM Revenue and Customs (HMRC), and an 'Unapproved' plan which is not designed for HMRC approval. Options to acquire Ordinary Shares may be awarded to participants up to a maximum annual value of 200% of base salary (300% for overseas-based participants).

No grants under the ESOS were made to the Executive Directors or UK employees during 2011. ESOS 'time only' and performance awards continue to be made to overseas participants. The vesting of options granted to overseas-based participants (other than senior executives whose awards were subject to performance conditions which are described in the following table) is conditional only on continued employment and they vest in 25% increments on each anniversary of grant over four years. Such phased vesting is in line with common US practice.

Executive Share Option Scheme

Element	Purpose	Opportunity 2011	Opportunity 2012	Performance measures and vesting schedule (not applicable to 'time only' grants)	Amount achieved in 2011
Long-term incentive – Executive Share Option Scheme (ESOS)	• Incentivise long-term profitable growth and sector out-performance • Reward relative share price and dividend growth. • Provide alignment with shareholders' interests. • Support retention and promote share ownership	Options to acquire Ordinary Shares may be awarded to participants up to a maximum annual value of 300% of base salary	Options to acquire Ordinary Shares may be awarded to participants up to a maximum annual value of 300% of base salary	Awards prior to 2011 • Three year underlying EPS growth with 25% vesting for achieving underlying EPS growth of RPI+3% per annum and full vesting requiring RPI+10% per annum Awards in 2011 • Three year underlying EPS growth with 25% vesting for achieving underlying EPS growth of 3% per annum and full vesting requiring +11% per annum	• ESOS awards made in 2008 vested at 100% on 1 April 2011 based on 14.6% annualised EPS growth over the three year vesting period The RPI Index grew from 210.9 to 228.4 over the 2008 ESOS performance period, representing an annualised growth rate of 2.7% per annum over the three years

In the event of a change of control, vesting of ESOS awards is not automatic and would depend on the extent to which the Committee determines the performance conditions had been met at the time. Any vested awards not exercised within one month of the change of control would lapse.

Other share schemes

The Cobham Savings Related Share Option Scheme (Sharesave) is an HMRC approved scheme open to all UK employees. The maximum that can be saved each month is £250 and savings plus interest may be used to acquire shares by exercising the related option. Options have been granted at a 20% discount to market value. The Executive Directors are permitted to participate in the scheme and details of their participation are included in Table 5 on page 52.

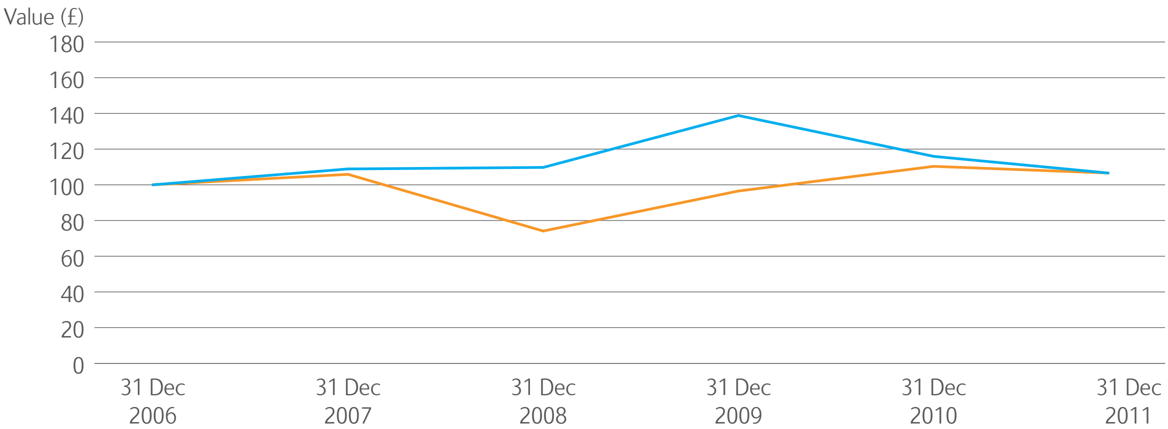
The Company also operates another HMRC approved all-employee share scheme, the Cobham Share Incentive Plan. This scheme operates within specific tax legislation and enables participants to buy Ordinary Shares out of pre-tax income. The Executive Directors are permitted to participate in the scheme and details of their participation are included in Table 4 on page 51.

Performance graph

The graph below illustrates the TSR performance (share price growth plus dividends) of the Company against the FTSE350 Index over the past five years. The FTSE350 Index was chosen as it is a recognised broad equity market index of which the Company was a member during 2011 and is currently, as at 6 March 2012, ranked at 114th.

Five year TSR performance – Cobham vs FTSE350

Value of £100 invested over the 5-year period ending 31 December 2011



Source: Kepler Associates

Directors' pensions

Executive Directors participate in the Cobham Executives Pension Plan (the Pension Plan). The Pension Plan provides benefits on final pay principles against a normal scheme pension age of 60 subject to actuarial reduction for earlier retirement. Pension accrues at 1/30th of pensionable earnings, i.e. base salary (capped as appropriate), for each year of service and participants contribute at a rate of 7%-15% of pensionable earnings. Contributions to the Pension Plan are paid through a salary sacrifice arrangement.

All pensions in payment relating to post-April 1997 rights are increased in line with the retail prices index (RPI), subject to a minimum of 3% per annum and a maximum of 5% per annum, with the balance of pension being increased at 3% per annum. On death in service, a lump sum of four times pensionable earnings is payable together with a spouse's pension of two-thirds of the member's prospective pension. On death after retirement, a spouse's pension is paid at the rate of two-thirds of the member's pre-commutation pension. Similar spouses' pensions are payable on the death of a deferred pensioner prior to retirement.

The pension benefits of Directors who are members of the Pension Plan were restricted by the HMRC earnings cap until 5 April 2006 and thereafter by a scheme specific salary cap. Contributions in respect of such members were paid into funded unapproved retirement benefit schemes (FURBS) until 5 April 2006. No further contributions have been or will be made to FURBS after 6 April 2006. Cash payments in lieu of contributions to FURBS made to Directors are set out in notes to Table 2 on page 50.

The policy in respect of newly appointed Directors is that payments by the Company to a defined contribution top-up arrangement or in the form of non-pensionable cash allowances should normally be 2% of annual basic salary per month.

Details of Directors' pension benefits as required by the Regulations are set out in Table 3 on page 51.

Service contracts

The Board's policy on notice periods for new Executive Directors is that these should not normally exceed one year.

THE BOARD'S POLICY IS TO RECRUIT, MOTIVATE AND RETAIN EXECUTIVES OF HIGH CALIBRE BY REWARDING THEM FOR SUPERIOR PERFORMANCE

It recognises, however, that it may be necessary in the case of new executive appointments to offer a longer initial notice period which would subsequently reduce to one year. Andy Stevens' service contract, which was revised on 6 August 2009 effective from 1 January 2010, is terminable on one year's notice by either party. Andy Stevens served notice on the Company under his contract on 17 November 2011. Warren Tucker's service contract dated 1 January 2004 is terminable on one year's notice by, and six months' notice to, the Company.

The Company may elect to terminate Directors' service contracts by making payments in lieu of notice. Such payments are calculated by reference to the base salary otherwise payable during the notice period. Payments in respect of annual bonus for the relevant periods may also be payable. In the case of Warren Tucker, any payment in lieu of notice shall include a sum equal to the value of his annual benefits. The Company recognises and endorses the obligation of departing Directors to mitigate their own losses.

Personal shareholding

Non-executive Directors are required to acquire, within six months of election to the Board, and hold a shareholding of 5,000 Ordinary Shares.

Ownership guidelines require the Executive Directors to maintain Ordinary Shares to the value of at least one year's salary and to retain a minimum of 50% of net vested PSP and BCP matching shares, and shares equal to 50% of the net gains resulting from the exercise of ESOS options until the relevant shareholding level is met.

The personal shareholding guidelines for the Non-executive Directors have been achieved. In relation to the Executive Directors, achievement of percentage shareholding as required by the guidelines as at the year end was: Andy Stevens 121% and Warren Tucker 80%. Warren Tucker sold shares in 2011. His residual shareholding was above 100%, but the share price has fallen during the year, so the value of his holdings in percentage terms has been reduced. Warren Tucker has increased his shareholding since the year end and the percentage shareholding as at 6 March 2012, were: Andy Stevens 123% and Warren Tucker 88%.

Non-executive Directors

The Board aims to recruit Non-executive Directors of a high calibre with broad commercial, international or other relevant experience. The Non-executive Directors do not have service contracts. No compensation is payable in the event of an appointment being terminated early.

Non-executive Directors do not participate in any of the Company's share schemes, pension schemes or bonus arrangements.

Mark Ronald and Mike Hagee receive an allowance of £5,000 per annum in respect of the additional travelling time required to ensure their attendance at Board meetings.

The Company reimburses reasonable travel and incidental expenditure incurred by Directors in attending meetings of the Board.

No additional fees are payable to the Chairman in respect of his membership of any of the committees or his chairmanship of the Nomination Committee.

Auditable part

The auditable part of this Directors' remuneration report is set out on pages 50 to 53, with the exception of Table 4 which is not subject to audit.

DIRECTORS' REMUNERATION REPORT CONTINUED

Table 1: Non-executive Directors' emoluments

The Executive Directors Committee, the membership of which comprises Executive Directors only, is responsible for recommending the remuneration of the Non-executive Directors with the exception of the Chairman, whose remuneration is determined by the Remuneration Committee. There has been no increase in fees paid to Non-executive Directors in 2011 and no increase has been proposed for 2012.

The 2011 remuneration, current fees and the details of the terms of appointment of the current and past Non-executive Directors, including the Chairman, are stated below:

£k	Commencement date	Expiry date	Base Fee	Full Year Additional Fees* Audit Committee	Remuneration Committee	Senior Independent Director	Actuals Payable Total 2011	Total 2010
J Devaney (Chairman)	1 February 2010	9 May 2013	270	–	–	–	270	248
M Beresford	1 March 2004	9 May 2013	55	2.5	2.5	10	70	70
J Patterson	1 November 2005	31 October 2014	55	2.5	10	–	68	68
M Ronald	8 January 2007	9 May 2013	55	–	2.5	–	63	62
D Turner	1 December 2007	6 May 2010	–	–	–	–	–	91
P Hooley	12 June 2002	6 May 2011	55	10	2.5	–	24	68
M Hagee	3 December 2008	2 December 2014	55	2.5	2.5	–	65	65
M Wareing	1 December 2010	30 November 2013	55	10	–	–	66	6
A Wood	1 July 2011	1 July 2014	55	–	–	–	28	–
Total Non-executive Director remuneration							654	678

*Members of the Nomination Committee do not receive any additional fees.
Note: Difference between full year fee and actuals is explained by individual commencing or retiring during the year or prior year or by the payment of a fee in respect of travelling time for the two US Directors.

Table 2: Executive Directors' emoluments

The 2011 remuneration of the Executive Directors, including the highest paid Director, was as follows:

£k	Executive Directors' base salaries 2011	2010	Fees and other payments 2011	2010	Bonus 2011	2010	Benefits excluding pension 2011	2010	Total excluding pension 2011	2010
A Stevens[1]	600	600	144	144	555	201	35	30	1,334	975
W Tucker[2]	428	428	103	102	396	137	26	27	953	694
Total Executive Director remuneration	1,028	1,028	247	246	951	338	61	57	2,287	1,669

Subject as follows, benefits relate to the provision of company cars and fuel, medical insurance and telephones. A Stevens' benefits do not include telephones. W Tucker's benefits include the provision of professional advice.

[1] Emoluments for A Stevens for 2011 include – under fees and other payments – the sum of £144,000 (2010: £144,000), in lieu of payments into an approved defined contribution top-up arrangement. These payments are not taken into account in calculating bonus and share scheme entitlements.

[2] Emoluments for W Tucker for 2011 include – under fees and other payments – the sum of £102,816 (2010: £102,816), in lieu of payments to an approved defined contribution top-up arrangement. These payments are not taken into account in calculating bonus and share scheme entitlements. W Tucker served as a Non-executive Director of Reckitt Benckiser plc during the year for which the fee was £85,000 (2010: £69,678) per annum. He was not required to waive or return this fee to the Company.

Total 2011 remuneration of all Directors was £2,941,000 (2010: £2,347,000), excluding pension.

Table 3: Directors' pensions

	Accrued pension at 31.12.11	Increase in accrued pension from previous year end (with no adjustment for inflation)	Additional pension earned in excess of inflation during 2011	Transfer value of pension accrued in excess of inflation and members' contributions during 2011	Transfer value of accrued pension at 31.12.10	Transfer value of accrued pension at 31.12.11	Additional transfer value in excess of inflation and members' contributions during 2011
	£ p.a.	£ p.a.	£ p.a.	£	£	£	£
A Stevens	36,375	4,500	3,512	65,468	611,432	893,817	262,135
W Tucker	39,000	4,500	3,431	60,816	533,646	812,041	269,005

Members' contributions taken into account in the above figures are:

	Rate	Total (£)
A Stevens	15%	20,250
W Tucker	7%	9,450

Member contributions are paid through salary sacrifice, from March 2010 and February 2010 for Andy Stevens and Warren Tucker respectively. Employer contributions for the year relating to the above Executive Directors were £188,190 (2010: £162,752).

The inflation figure used for 2011 is 3.1%, being the statutory revaluation rate for deferred pensioners for 2010–11 for a member not retiring in 2011 after one year's service.

The 'Additional transfer value accrued in excess of member's contributions during 2011' is significantly greater than the corresponding value for 2010. This is predominantly due to a reduction in gilt yields over the year, leading to a reduction in the yields used for the calculation of the transfer values. The transfer value basis at 31 December 2011 was therefore significantly stronger than the corresponding basis at 31 December 2010.

Table 4: Directors' share interests

The interests of the Directors and their families in Ordinary Shares were:

		At 01.01.11	At 31.12.11
A Stevens	Includes BCP shares held in trust with Capita Offshore Trustees of 35,394	281,089	393,364
W Tucker	Includes BCP shares held in trust with Capita Offshore Trustees of 76,744	216,140	181,821
M Beresford		15,000	15,000
J Patterson		5,000	5,000
M Ronald		5,000	5,000
M Hagee		5,000	5,000
J Devaney		30,000	30,000
M Wareing		20,000	20,000
A Wood		–	5,000

The above interests are all beneficial. Interests in share options and shares provisionally allocated under the PSP, matched element of the BCP and shares in the Share Incentive Plan, of which Andy Stevens holds 2,610 shares and Warren Tucker holds 4,726 shares, are not included in Table 4. The PSP and BCP matched shares are disclosed in Tables 5 and 6 respectively.

Interests at 6 March 2012, being a date no more than one month prior to the date of the Notice convening the AGM, were the same as at 31 December 2011, except for Warren Tucker whose shareholding increased to 198,431 on 1 February 2012.

Table 5: Directors' share options

Details of Directors' interests in options over Ordinary Shares granted under the Sharesave, ESOS and PSP nil cost options were:

		Number of options during the year					
	Option Scheme	At 01.01.11	Granted	At 31.12.11	Exercise price – pence	Date from which exercisable	Expiry date
A Stevens	ESOS	167,000	–	167,000	134.7	20.09.07	20.09.14
		180,070	–	180,070	133.7	11.05.08	11.05.15
		202,341	–	202,341	185.3	20.04.09	20.04.16
		192,543	–	192,543	204.5	26.03.10	26.03.17
		205,058	–	205,058	201.5	01.04.11	01.04.18
		217,603	–	217,603	184.0	11.03.12	11.03.19
		313,370	–	313,370	191.5	31.03.13	12.08.19
		293,397	–	293,397	247.3	10.03.13	10.03.20
	Subtotal ESOS	1,771,382	–	1,771,382			
	PSP nil cost	242,649	–	242,649	0	10.03.13	10.03.20
		–	367,346	367,346	0	10.03.14	10.03.21
	Subtotal PSP nil cost	242,649	367,346	609,995			
	Sharesave	5,369	–	5,369	169.0	01.02.13	01.08.13
Totals		2,019,400	367,346	2,386,746			
W Tucker	ESOS	155,860	–	155,860	134.7	20.09.07	20.09.14
		180,070	–	180,070	133.7	11.05.08	11.05.15
		186,154	–	186,154	185.3	20.04.09	20.04.16
		178,826	–	178,826	204.5	26.03.10	26.03.17
		190,450	–	190,450	201.5	01.04.11	01.04.18
		205,379	–	205,379	184.0	11.03.12	11.03.19
		209,486	–	209,486	247.3	10.03.13	10.03.20
	Subtotal ESOS	1,306,225	–	1,306,225			
	PSP nil cost	173,251	–	173,251	0	10.03.13	10.03.20
		–	262,285	262,285	0	10.03.14	10.03.21
	Subtotal PSP nil cost	173,251	262,285	435,536			
	Sharesave	16,610	–	16,610	107.6	01.02.12	01.08.12
		–	10,287	10,287	148.0	01.02.17	01.02.17
	Subtotal Sharesave	16,610	10,287	26,897			
Totals		1,496,086	272,572	1,768,658			

The market price of the Ordinary Shares as at 31 December 2011 was 183.4 pence per share and the closing price range during the year was 165.9 pence to 236.5 pence.

During the year, no options under the ESOS have been exercised by the Directors and accordingly no gains were made by Directors on the exercise of share options. Warren Tucker exercised his 2005 Sharesave on 1 February 2012 where the market price of the Ordinary Shares was 186.7 pence per share.

Table 6: Allocations under the Cobham PSP and matched element of the BCP

	Option Scheme	Allocation at 01.01.11	Conditionally awarded during the year[1]	Gross Up Adjustment[2]	Forfeited during the year	Vested during year	Allocation at 31.12.11	Market price at date of vesting – pence	Expiry date[3]
A Stevens	PSP	208,112	–	–	93,650	114,462	–	231.7	01.04.11
		241,891	–	–	–	–	241,891	–	11.03.12
		313,370	–	–	–	–	313,370	–	31.03.13
	Subtotal PSP	763,373	–		93,650	114,462	555,261		
	BCP	57,522	–	38,347	–	95,869	–	228.2	25.03.11
		49,670	–	33,113	–	–	82,783	–	10.03.13
		–	21,118	21,983	–	–	43,101		10.03.14
	Subtotal BCP	107,192	21,118	93,443	–	95,869	125,884		
Totals		870,565	21,118	93,443	93,650	210,331	681,145		
W Tucker	PSP	193,285	–	–	86,978	106,307	–	231.7	01.04.11
		228,302	–	–	–	–	228,302	–	11.03.12
		216,234	–	–	–	–	216,234	–	31.03.13
	Subtotal PSP	637,821	–		86,978	106,307	444,536		
	BCP	97,446	–	64,963	–	162,409	–	228.2	25.03.11
		124,680	–	83,120	–	–	207,800	–	01.06.12
		–	28,808	29,985	–	–	58,793	–	10.03.14
	Subtotal BCP	222,126	28,808	178,068	–	162,409	266,593		
Totals		859,947	28,808	178,068	86,978	268,716	711,129		

[1] The market price of an Ordinary Share on 10 March 2011, being the date of the awards made during the year, was 229.2 pence.

[2] The BCP award gross up column shows the estimated balance of the maturing shares against the gross bonus invested. Awards are accrued on a net bonus invested basis. The exact amount of the entitlement will be ascertained upon vesting of the awards dependent upon the satisfaction of the performance conditions.

[3] The expiry date is the last date by which qualifying conditions in respect of any outstanding interests under the relevant plan have to be fulfilled. This date may either be the expiry of any relevant holding period or (where applicable) of any restricted period.

Allocations at 6 March 2012, being a date not more than one month prior to the date of the Notice convening the AGM, were the same as at 31 December 2011.

By order of the Board
J Patterson
Chairman of the Remuneration Committee
6 March 2012

DIRECTORS' REPORT

The Directors present their report and the audited Group and parent company financial statements of Cobham plc for the year ended 31 December 2011. The Company is registered in England and Wales under company number 30470.

Business review

The Chairman's statement on page 6 of the Annual Report together with the Chief Executive Officer's review on pages 7 and 8, the Business overview on pages 14 to 21, the Financial review on pages 22 to 27, the Principal risks section on pages 28 and 29, the Corporate responsibility and sustainability section on pages 30 to 33 and the Corporate governance section on pages 36 to 43 contain information that fulfils the requirements of the statutory business review and are incorporated in this Directors' report by reference. The statutory business review is addressed only to shareholders and its purpose is to provide a review of the business and to explain the principal risks and uncertainties facing the Group.

Principal activities

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

Dividends

An interim dividend of 1.80 pence per ordinary share of 2.50p each in the capital of the Company (Ordinary Shares) (2010: 1.628 pence) was paid in November 2011. The Directors are recommending a final dividend of 6.20 pence per Ordinary Share (2010: 4.372 pence) payable on 1 June 2012 to ordinary shareholders on the register as at 4 May 2012, making a total ordinary dividend for the year of 8.00 pence (2010: 6.00 pence).

Directors' indemnity arrangements

The Directors have the benefit of a Directors' and officers' liability insurance policy and the Company has entered into qualifying third party indemnity arrangements with them, as permitted by the Companies Act 2006. The policy was in force at the year end and continues in force at the date of this report. The Directors are permitted to take independent legal advice at the Company's expense within set limits in furtherance of their duties.

Directors' interests

None of the Directors is or was materially interested in any significant contract during or at the end of the financial year, particulars of which are required to be disclosed by the Listing Rules of the UK Listing Authority.

Details of Directors' share interests and of their rights to subscribe for shares are shown in the Directors' remuneration report on pages 44 to 53.

Corporate governance

The Company's statement on corporate governance is set out on pages 36 to 43.

Share capital

Details of movements in the share capital of the Company during the year are given in note 26 to the Group financial statements and note 12 to the parent company financial statements respectively.

The Directors have been authorised to allot and issue Ordinary Shares. These powers are exercised under authority of resolutions passed at the Company's AGM.

At the AGM held on 6 May 2011, the Company was authorised to purchase up to 115,408,167 Ordinary Shares. This authority will expire at the conclusion of the 2012 AGM. 75,951,724 Ordinary Shares have been purchased by the Company during the period from 7 March 2011 to 4 November 2011 as part of a share buy-back programme at a cost of £150m (plus transaction costs of £1m). A special resolution will be put to shareholders at the AGM to renew the authority to make market purchases of the Company's shares up to a maximum of 10% of the share capital of the Company.

The rights and obligations attaching to the Ordinary Shares and 6% second cumulative preference shares of £1 each in the capital of the Company are set out in the Articles and note 26.

Subject to applicable statutes, and to the rights conferred on the holders of any other shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as the resolution does not make specific provision) as the Board may decide. Holders of Ordinary Shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives and to exercise voting rights. Holders of Ordinary Shares may receive a dividend and, on a liquidation, may share in the assets of the Company. Holders of Ordinary Shares are entitled to receive the Company's Annual Reports. Subject to meeting certain thresholds, holders of Ordinary Shares may requisition a general meeting of the Company or the proposal of a resolution at an AGM.

Voting rights and restrictions on transfer of shares

On a show of hands at a general meeting of the Company, every holder of shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every £1 in nominal value of the shares of which he is the holder. None of the Ordinary Shares carry any special rights with regard to control of the Company.

There are no restrictions on transfers of shares other than:

- Certain restrictions which may from time to time be imposed by laws or regulations.
- Pursuant to the Company's code for securities transactions including the requirement on the Directors and designated employees to obtain approval to deal in the Company's shares.
- Where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Significant arrangements – change of control

The Company is party to the following significant agreements which contain provisions which take effect, alter or terminate upon a change of control of the Company:

- The Company has entered into a number of credit agreements with banks, and has issued senior notes under private placements. The total amount owing under such agreements at the year-end date is shown in note 19 to the Group financial statements. All agreements contain clauses such that, in the event of a change of control, the Company can offer to or must repay all such borrowings together with accrued interest, fees and other sums owing as required by the individual agreements.
- Under the FB Heliservices (FBH) shareholders agreement entered into in November 2004, change of control of either the Company or its subsidiary holding shares in FBH, without the prior written consent of that other FBH shareholder, entitles the other FBH shareholder to purchase all of the Cobham Group's shareholding in FBH.
- Under the Sentinel contract, entered into in March 2006, the Company must seek approval for any material change in the shareholding of the Company. There is an ancillary Lease Agreement under which a change of control may result in the termination of the lease if such event is likely to have a material adverse effect on the Company's ability to perform its obligations under the lease.
- Under the FSTA shareholders agreement entered into in June 2008, a change of control of the Company may result in a required sale of the Company's shares in FSTA to the other shareholders.

Further information relating to change of control appears in the Directors' remuneration report on pages 47 and 48 under the headings Bonus Co-investment Plan, Performance Share Plan and Executive Share Option Scheme.

Employee share schemes – rights of control

If required to do so by the Company, the trustee of the Cobham Share Incentive Plan (the Plan) will, on receipt of notice from the Company of any offer, compromise, arrangement or scheme which affects shares held in the Plan, invite participants to direct the trustee on the exercise of any voting rights attaching to the shares held by the trustee on their behalf and/or direct how the trustee shall act in relation to those shares.

The trustee will not vote in respect of any shares held in the Plan in respect of which it has received no directions nor will the trustee vote in respect of any shares which are unallocated under the Plan.

The trustees of the Employee Benefit Trust waive all rights to vote in respect of any shares they hold within the Trust.

Research and development

The Group continues to invest in the important area of research and development. During the year the Group expended £75.3m (2010: £73.8m) on non-customer funded research and development. The management of each Group business is responsible for identifying and carrying out suitable research and development programmes having regard to particular market and product needs.

Further information on research and development appears on pages 4, 7 and 22.

Financial instruments

Notes 15, 23 and 25 to the Group financial statements and note 11 to the parent company financial statements contain disclosures relating to the use of financial instruments.

People

The talent pool within the Group comprises all full and part time employees located across five continents, with major population centres in the UK, France, North America and Australia.

Developing this pool, making sure the Group has the skills, functional capabilities and future leaders required to excel in our chosen markets is a declared strategy that is being activity pursued throughout the Group. Strategic Workforce Planning, the identification of the Group's current and future talent requirements, is a clear part of the strategy development process and plans are in place for both attracting the very best talent to the Group and retaining and developing our own team. Benchmarked against others in our sector it is clear our offer is competitive and our bespoke internal talent development programmes show individuals there is real potential for excellent career development.

Major interests in shares

As at 31 December 2011, the Company had been notified of the following interests in the Ordinary Shares:

	Number of shares at the date of notification	Percentage at date of notification
Massachusetts Financial Services Company	62,767,783	5.48
Sprucegrove Investment Management	54,355,449	5.03
Blackrock, Inc.	53,589,089	4.96
Newton Investment Management Limited	57,154,460	4.95
Legal & General Group plc	56,779,341	4.91

Since the year end and up to 6 March 2012, being a date not more than a month prior to the date of the AGM Notice, the Company had been notified of the following interests in the Ordinary Shares in accordance with DTR 5:

	Number of shares at the date of notification	Percentage at date of notification	Date of notification
Legal & General Group plc	46,241,405	4.28%	30 January 2012
Sprucegrove Investment Management	53,754,182	< 5%	22 February 2012

DIRECTORS' REPORT CONTINUED

COBHAM'S DEVELOPMENT PROGRAMMES

Executive Development Programme (EDP)	Develops the existing executive leadership tier and verifies the potential of individuals currently outside the tier.
Senior Development Programme (SDP)	Produces the leaders of tomorrow, capable of leading a Strategic Business Unit and supporting the Divisional President in complex decision making.
Divisional High Potential Programme (DHP)	Ensures the leadership pipeline in the divisions is full and provides a means of assessing talent that is consistent with those of the SDP and EDP and so enables a smooth transition to the 'higher' talent pools.
Graduate Development Programme (GDP)	A two to three year rotational programme that develops Cobham's next generation of innovators, pioneers and entrepreneurs.
Apprenticeship Programme (AP)	Primarily engineering, covering UK locations, the award winning programme ensures we have the technical skills we need.
Mission Critical Workforce (MCW)	Designed to understand and grow the Group's functional capability it comprises competency frameworks built on the Group's strategic direction.

Each of the six talent development programmes, described above, is tailored to our particular needs and every business within the Group is required to encourage employees to step forward and participate via our performance and development review process, at the heart of which is the Performance and Development Review Process (ePDR), an electronic review that is 'owned' by the individual employee.

Further information on talent programmes is contained in the Corporate responsibility and sustainability section set out on pages 30 to 33.

The Group is committed to equal opportunities for all its employees. The Group aims to ensure the workplace is free from discrimination. Recruitment, selection and career development are based on competence and job requirements, irrespective of race, sex, sexual preference, religion or disability. The Group continues to monitor and improve its policies and practices to reflect the requirements of age discrimination legislation. With regard to employees who become disabled, the policy is to take all reasonable steps, including retraining, to ensure that they can remain in employment wherever practicable.

On the topical issue of gender diversity, the Group gathers figures as part of the year end process.

Total Employees*	9,757
Total Female	2,773
Total Male	6,984
% Female	28.4%

* Including full and part time employees but excluding temporary staff and contractors.

Work is required for the Company to attain a gender balance competitive with general commercial practice, however, the balance is broadly comparable to the aerospace and defence sector.

The Group encourages employee participation and consultation at all levels and shares relevant business information. This approach facilitates the evolution of new ideas and practices that add value to the business, promotes team member commitment and helps focus Company and employee expectations. The tools used include in-house newsletters, intranet, extranet and regular employee opinion surveys. Company announcements, team meetings and suggestion schemes all play a part in this process. UK employees are given the opportunity to become shareholders in the Company through the Cobham Savings Related Share Option Scheme and the Cobham Share Incentive Plan. Under the former, employees can acquire shares through the exercise of options granted at a 20% discount to market value with savings made over three, five or seven years. Under the latter, shares may be purchased out of pre-tax income.

The Group sets high standards of performance for employees, and in return, employees expect to be appropriately recognised and rewarded for their contribution. This mutual gain makes the Excellence in Performance programme a process that is fundamental to our continued growth and success. A major component of this system is the ePDR, described above. An outcome of this integrated process is to create an atmosphere where employees understand that there is a direct link between performance and compensation.

Corporate responsibility and sustainability

Information in relation to the Group's commitment to Corporate responsibility and sustainability (including additional information in relation to employment matters) is set out on pages 30 to 33.

Creditors payment policy

It is the policy of the Company that all invoices are paid within 30 days following the end of the month in which the invoices are approved. The total amount of the Company's trade creditors falling due within one year at 31 December 2011 represents 16 days' (2010: 45 days') worth as a proportion of the total amount invoiced by suppliers during the year ended on that date. The creditor days have reduced significantly during the year due to a reduced purchase ledger balance at year end compared to 2010.

Events after the balance sheet date

There are no significant post balance sheet events to report.

Political and charitable gifts

Donations by Group companies during the year for charitable purposes were as follows:

	2011	2010
UK charities:	£	£
Armed services	30,000	6,000
Business enterprise	8,000	18,000
Local interest	3,000	6,000
Other	6,000	8,000
Total UK charities	47,000	38,000
Non UK charities	126,000	105,000
Total	173,000	143,000

No contributions were made to political organisations.

Land and buildings

Details of the carrying amount and market values of the Group's investment properties are as disclosed in note 12 to the Group financial statements.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the AGM.

FOR MORE INFORMATION ON OUR STRATEGY PLEASE REFER TO PAGES 12 AND 13

Annual General Meeting

The Company's AGM will be held at 12 noon on Thursday, 26 April 2012 at the offices of UBS Investment Bank, 1 Finsbury Avenue, London EC2M 2PP.

The Company arranges for the Notice of AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

By order of the Board
L Colloff
Company Secretary
6 March 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the Group financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRS as adopted by the European Union (EU), and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and
- Prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website (www.cobham.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

Each of the Directors, whose names and functions are listed on pages 34 to 35 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with the IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Business overview includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Directors' declaration in relation to relevant audit information

In the case of each Director in office at the date the Directors' report is approved, that:

(a) So far as the Director is aware, there is no relevant audit information of which the Group's auditors were unaware; and

(b) He/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The responsibility statement was approved by the Board of Directors on 6 March 2012 and signed on its behalf by:

J Devaney
Executive Chairman

W Tucker
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COBHAM PLC

We have audited the Group financial statements of Cobham plc for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 58, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRS as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- The Statement of Directors' responsibilities, set out on page 58, in relation to going concern;
- The part of the Corporate governance section relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Cobham plc for the year ended 31 December 2011 and on the information in the Directors' remuneration report that is described as having been audited.

Stuart Watson
Senior Statutory Auditor
for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and
Statutory Auditors
London
6 March 2012

ACCOUNTING POLICIES

General information

These financial statements are the consolidated financial statements of Cobham plc (the Company), a public company limited by shares, registered and domiciled in the United Kingdom and its subsidiaries (the Group). The address of the registered office is Brook Road, Wimborne, Dorset, England BH21 2BJ.

Basis of preparation

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

These financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments which are held at fair value.

The following standards, amendments to standards and interpretations have been adopted with effect from 1 January 2011. No changes to previously published accounting policies or other adjustments were required on their adoption.

- Revised IAS 24 Related Party Disclosures.
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters.
- Annual Improvements 2010.
- Amendment to IAS 32 Classification of Rights Issues.

Management judgement and estimation uncertainty

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

These estimates and judgements 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 estimates and judgements, 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are as follows:

Intangible assets recognised on acquisition

On completion of a business combination, the cost is allocated by recognising the identifiable assets, liabilities and contingent liabilities acquired at fair value. Intangible assets are recognised where they are separable or arise from contractual or legal rights, and have a fair value that can be measured reliably. For the Group these intangible assets usually comprise contractual arrangements, customer relationships and technology based assets, but can also include acquired patents, software rights and licences and development costs.

In establishing the fair value for intangible assets recognised on acquisition and their estimated useful lives, the Group takes account of the individual circumstances of the entity acquired. This includes trading data, such as the value and duration of contracts acquired, the strength, duration and degree of exclusivity of relationships with customers, as well as valuation estimates, such as the estimation of likely external royalty rates that could be associated with technology and branding assets and attributable future cash flows.

Impairment of goodwill

The Group determines whether goodwill is impaired at least once a year. This requires estimation of the value in use of the cash generating units (CGUs) to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 10.

Taxation

The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax provision, deferred tax provisions and income statement in the period in which such determination is made.

Retirement benefits

The Group financial statements include costs and liabilities in relation to retirement benefit obligations. A number of assumptions are made in assessing the costs and present value of the pension assets and liabilities which include the long-term rate of increase of salary costs, discount rate, inflation, the expected return on plan assets and mortality rates. The Group uses published indices and independent actuarial advice to select the values of critical assumptions, which are disclosed in note 24.

Provisions

The consolidated financial statements include appropriate provisions for the estimated outcome of commercial disputes. No such provision is included for contingent liabilities. Due to the significant uncertainty associated with the future level of such claims and contingencies and of the costs arising out of any related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to revisions from time to time if new information becomes available as a result of future events. The Directors take account of the advice of experts in quantifying the expected costs of future adverse judgements.

Principal accounting policies

The principal accounting policies, which have been consistently applied, are as set out below.

Underlying measures

In addition to the information required by IFRS and to assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including trading profit and underlying earnings results.

Trading profit has been defined as operating profit from continuing operations excluding the impacts of certain M&A related costs and business restructuring costs as detailed below. Also excluded are the marking to market of non-hedge accounted derivative financial instruments not realised in the period, impairments of intangible assets and items deemed by the Directors to be of an exceptional nature such as the settlement of a long-standing commercial dispute. Underlying earnings are defined as trading profit less net underlying finance expense, which excludes the unwinding of acquisition related discounting, and after deducting taxation and non-controlling interests.

M&A related costs excluded from trading profit and underlying earnings include the amortisation of intangible assets recognised on acquisition, the writing off of the pre-acquisition profit element of inventory written up on acquisition and costs charged post acquisition related to acquired share options. M&A related costs also include other direct costs associated with business combinations and direct costs arising from any terminated acquisitions or divestments.

Business restructuring costs comprise exceptional profits or losses associated with the restructuring of the Group's business and site integrations including costs associated with the Excellence in Delivery programme.

All underlying measures include the revenue and operational results of both continuing and those operations being sold until the point of sale.

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

Basis of consolidation

The Group financial statements include the financial statements of the parent company, Cobham plc, and of all its subsidiaries made up to the end of the financial period.

Subsidiaries are all entities over which the Company has control, which is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases. On derecognition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Joint ventures are entities where control is shared with one or more third parties. They are not consolidated but are accounted for using the equity method. The Group financial statements include the Group's share of the post acquisition change in net assets and the profit or loss of the jointly controlled entity from the date that joint control commences until the date this ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currencies

The presentation currency of the Group is sterling. Most Group companies, including the parent company, use their local currency as their functional currency. Transactions in currencies other than the functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date and any exchange differences arising are taken to the income statement.

For consolidation purposes the assets and liabilities of foreign operations are translated at the closing exchange rates. Income statements of such undertakings are consolidated at the average rates of exchange as an approximation for actual rates during the year. Exchange differences arising on these translations are accounted for in other comprehensive income (OCI) and the translation reserve.

Business combinations

Businesses acquired are accounted for using the acquisition method of accounting with effect from the date control passes. The cost of an acquisition is measured as the fair value of the consideration transferred. This is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Contingent consideration (not in the form of equity instruments) is accounted for as a financial liability and adjustments to contingent consideration are accounted for as gains or losses recognised through profit or loss and excluded from trading profit and underlying earnings.

Operating segments

The chief operating decision making body for the Group has been identified as the Board. It reviews the Group's internal reporting in order to assess performance and allocate resources. The internal reporting structure has been updated for the revised Group structure applicable from January 2011 and forms the basis of the Group's segmental reporting. Comparatives have been restated to reflect the revised segmental structure and the segments are described further in note 1. All operating segments meet the definition of reportable segments. Details of the composition and purpose of the Board can be found on pages 34 to 37.

The Board assesses the performance of operating segments based on revenue, trading profit as defined above and operating cash generation. Interest income and expenditure, and taxation, are not segmented and are reviewed by the Board on a Group basis.

The Board does not review any information on segment assets and liabilities. Segment assets as disclosed in note 1 have been defined to include intangible assets, property, plant and equipment, investment properties, inventory and trade and other receivables. They do not include tax receivables, cash and bank balances and derivative financial assets.

The Group accounting policies are applied consistently across all segments and activities. Trading between segments is contracted and priced at arm's length commercial terms.

Revenue recognition

Revenue is measured at the fair value of the right to consideration, net of returns, rebates and other similar allowances.

Revenue from the sale of goods not under a long term contract is recognised when the significant risks and rewards of ownership and effective control of the goods have been passed to the customer, recovery of the consideration is probable, and the amount of revenue and costs can be measured reliably. In the case of contracts with a long duration, including contracts with a funded development phase, revenue is recognised based upon the fair value of work performed to date assessed with reference to completed contract milestones which have been accepted by the customer.

Long term contract accounting as described in IAS 11 Construction Contracts is not generally applicable to the longer term contracts for sales of goods entered into by Group companies. Where long term contract accounting is applicable, revenue is recognised on a percentage of completion basis whereby a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion.

Revenue for services is recognised as the services are rendered with reference to the proportion of the service delivered to date. For 'cost-plus' contracts (typically with government departments and agencies), revenue is recognised to the extent of reimbursable costs incurred, plus a proportionate amount of the estimated fee earned. For contracts where revenue is determined on a unit activity basis, revenue is recognised on the basis of activity undertaken in the period.

Revenue excludes inter-company sales, value added tax and other sales taxes.

Taxation including deferred taxation

The tax expense relates to the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year, which differs from profit before taxation as reported in the income statement. Taxable profit excludes items of income and expense that are taxable or deductible in other years and also excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled. Tax is charged or credited to the income statement except when it relates to items recognised in OCI or directly in equity, in which case the deferred tax is also dealt with in OCI or in equity respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Dividends

Dividends are recognised as a liability in the period in which they are fully authorised.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a business at the date of acquisition. Goodwill acquired is allocated at acquisition to the CGUs that are expected to benefit from that business combination. CGUs represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill arising on business combinations is capitalised and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and cannot be subsequently reversed.

On divestment of a business the attributable amount of goodwill is included in the determination of the profit or loss on divestment. This includes any exchange differences reclassified to the income statement from the translation reserve.

Research and development

Research expenditure not chargeable to customers is written off as incurred. Development costs not chargeable to customers are written off as incurred until it can be demonstrated that the conditions for capitalisation as described in IAS 38 Intangible Assets are met. At that point further costs are capitalised as an intangible asset until the intangible asset is readily available for use and it is then amortised on a straight-line basis over the asset's estimated useful life.

Other intangible assets

Intangible assets other than goodwill which are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. These include customer relationships, technology and software, trademarks, licences and patents. The only internally generated intangible assets are development costs which are capitalised as described above and internally developed software where asset recognition criteria are met.

All other intangible assets are amortised over the asset's estimated useful life on a straight-line basis as follows:

Customer relationships	2 to 15 years
Technology and software	2 to 10 years
Development costs	2 to 10 years
Other intangible assets	6 months to 10 years

Useful lives are assessed for each asset on an individual basis taking into account the specific characteristics of the asset.

Property, plant and equipment

Freehold land is not depreciated, but is reviewed for impairment at least annually.

Freehold and leasehold buildings, plant and equipment are held at historic cost less accumulated depreciation and any recognised impairment losses. Cost comprises the purchase price and any costs directly attributable to the asset.

All property, plant and equipment other than land is depreciated on a straight-line basis to the estimated residual values over the estimated useful lives. These lives are as follows:

Freehold buildings	50 years
Leasehold properties	The period of the lease
Plant and equipment	3 to 15 years

Estimated residual values and the estimated useful lives are reviewed annually and adjusted where necessary.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Aircraft overhaul expenditure
Major overhaul expenditure on owned aircraft is capitalised when incurred and the resultant property, plant and equipment is depreciated over its useful economic life. Major overhaul costs that are contractually required on aircraft held under operating leases are provided for over the period between the scheduled maintenance events.

Investment properties
Investment properties, which are properties held to earn rentals or for capital appreciation, are stated at cost in the balance sheet. They are depreciated on a straight-line basis to their estimated residual value over their estimated useful lives of up to 50 years.

Rental income is recognised as revenue on a straight-line basis.

Impairment losses
The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. In addition, intangible assets with an indefinite useful life, such as goodwill, are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Where there is an indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised where the recoverable amount of an asset is lower than its carrying amount. All impairment losses are recognised in the income statement.

An impairment loss (other than arising on goodwill) is reversed only after a change in the estimates used to assess recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Any reversal is recognised in the income statement.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective items.

Non-current assets and disposal groups held for sale
Non-current assets and disposal groups classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within a year of the balance sheet date. The asset or disposal group is also available for immediate sale in its present condition and is being actively marketed at a price that is reasonable in relation to its current fair value.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at trade date. When initially recognised, financial assets and liabilities are measured at fair value.

Financial assets
The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of an asset at initial recognition and re-evaluates the designation at each reporting date.

Financial assets are categorised and subsequently valued as follows:

- Assets held at fair value through profit or loss are those categorised as held for trading under IAS 39 and are classified as current assets or non-current assets dependent upon maturity. Such financial assets are subsequently carried at fair value.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market, including cash and cash equivalents. These are classified as current or non-current assets dependent upon maturity and included within trade and other receivables. The fair value of these financial assets is adjusted for transaction costs that are directly attributable to the acquisition or issue of the asset. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method.

None of the Group's material financial assets fall into the held to maturity or available for sale categories which are defined as follows:

- Held to maturity investments are non-derivative financial assets with fixed maturity dates which the Group intends to hold to maturity.
- Available for sale financial assets are those non-derivative financial assets either designated by management as available for sale or not falling into any of the above categories.

Financial liabilities
Financial liabilities are categorised on initial recognition as liabilities held at fair value through profit or loss, or other liabilities held at cost. Liabilities held at fair value through profit or loss are those categorised as held for trading under IAS 39 and are classified as current or non-current liabilities dependent upon the maturity date of the instruments.

Derivative financial instruments are categorised as held for trading unless they are designated as hedges.

The fair value of financial liabilities held at cost (not at fair value through profit or loss) is adjusted for transaction costs that are directly attributable to the acquisition or issue of the liability. Financial liabilities at fair value through profit or loss are subsequently carried at fair value; financial liabilities not at fair value through profit or loss are stated at amortised cost using the effective interest method.

Trade and other receivables
Trade and other receivables are stated at their amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts. Allowances for irrecoverable amounts are made when there is evidence that the Group may not be able to collect the amount due. All trade receivables which are more than six months overdue are provided for based on estimated irrecoverable amounts determined by reference to past default experience. Amounts which are less than six months overdue are provided where recovery of the balance due is considered to be doubtful. The impairment recorded is the difference between the carrying value of the receivables and the present value of the estimated future cash flows. Any impairment required is recorded in the income statement in administrative expenses. The balance may be written off in full generally where receivables are in excess of 12 months old. At that time any amounts previously provided for impairment are released.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and bank deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of direct issue costs. Borrowing costs, net of amounts capitalised, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Borrowing costs that are directly attributable to relevant property, plant and equipment are capitalised as part of the cost of that asset.

Trade payables
Trade payables do not carry any interest and are stated at their nominal value.

Derivative financial instruments and hedge accounting
As explained in note 25, the Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange contracts and interest rate swap contracts to reduce these exposures and does not use derivative financial instruments for speculative purposes. Other derivative financial instruments may be used from time to time to hedge other exposures such as inflation risks.

The Group has documented its risk management objectives and strategy for undertaking various hedge transactions, and utilises hedge accounting principles in relation to interest rate swaps. These are designated as cash flow hedges which mitigate the Group's exposure to changes in interest rates arising on floating rate debt. From time to time, the Group may also use interest rate swaps to manage its exposure to changes in the fair value of fixed rate borrowings, however there are no such contracts outstanding at the present time. Foreign exchange contracts entered into to mitigate foreign exchange impacts of trading in non-functional currencies, and inflation swaps entered into to mitigate inflation risks, are not accounted for using hedge accounting.

Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Where hedge accounting is applied, the relationship between hedging instruments and hedged items is documented at the inception of the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows (or fair values if appropriate) of hedged items.

Where interest rate swaps are designated and qualify as cash flow hedges, the effective portion of changes in fair value is recognised in OCI through the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to finance income and expense in the income statement in the periods when the hedged item affects profit or loss.

When a cash flow hedging derivative expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the hedging reserve in equity is immediately transferred to the income statement in that period.

The fair value of a hedging derivative is classified as a current asset or liability except when the remaining maturity of the hedged item is more than 12 months.

Where hedge accounting is not applied, the movements in fair value of the derivative instruments are included in the income statement as part of operating profit. The fair value of such derivatives is classified as a current or non-current asset or liability dependent upon the expected realisation of the assets or settlement of the liabilities.

Provisions
A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required at an amount that can be reliably estimated.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at management's best estimates of the expenditure required to settle the Group's liabilities.

Contract loss provisions are recognised for onerous contracts when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Aircraft maintenance provisions are established in respect of significant periodic maintenance costs, where maintenance activity is required on leased operational aircraft or engines on a cycle greater than 12 months. Costs are charged to the income statement on the basis of utilisation of the aircraft. Maintenance carried out on a cycle of 12 months or less is charged to the income statement as incurred.

When aircraft are leased, it is customary for the contract to contain specific conditions regarding the configuration of the aircraft on its return to the lessor at the end of the lease. The estimated cost associated with fulfilling these requirements is charged to the income statement on an aircraft utilisation basis.

Provisions for claims made against the Group and commitments made under performance guarantees are recognised at management's best estimates of the expenditure required to settle the Group's liabilities.

Provisions are discounted at an appropriate risk-free rate when the impact is material.

Pensions
The Group operates a number of defined benefit and defined contribution schemes.

For defined benefit schemes the amounts charged to operating profit are the current service costs. Gains and losses on settlements and curtailments arising on a business divestment are included in profit on divestment. Past service costs are recognised immediately in the income statement if the benefits have vested. If the benefits have not vested, the costs are recognised over the period until vesting occurs. The expected return on assets and interest cost are shown within finance income and expense. Actuarial gains and losses are recognised immediately in OCI.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting net defined benefit asset or liability is presented separately on the face of the balance sheet.

For defined contribution schemes the amounts charged to the income statement in respect of pension costs and other post-retirement benefits are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are recorded as either accruals or prepayments in the balance sheet.

Share capital
Ordinary share capital is classified as equity. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the preference shareholders or if dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the income statement as finance expense.

Treasury shares
When ordinary share capital recognised as equity is acquired by the Company, the shares are held as treasury shares. The consideration paid, including commissions and taxes, is deducted from retained earnings and total shareholders' equity. The proceeds of any treasury shares subsequently sold or re-issued, net of commission and taxes, are recognised as an increase in retained earnings and total shareholders' equity.

Share-based payments
For grants made under the Group's equity settled share-based payment schemes, amounts which reflect the fair value of options awarded as at the time of grant are charged to the income statement over the relevant vesting periods.

The valuation methodology for all schemes is based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

Accounting standards not yet effective
A number of amendments to existing standards have been published that are mandatory for future accounting periods, subject to EU endorsement. Those which are applicable from 1 January 2012 are as follows:

- Amendments to IFRS 7 Financial Instruments: Disclosures.
- Amendment to IAS 12 Deferred tax: Recovery of Underlying Assets.
- Amendments to IFRS 1 First time adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters.

None of these have been adopted early by the Group or are expected to have an impact on the Group's financial reporting.

There are also a number of new standards and amendments to existing standards which, once endorsed by the EU, will be effective from 1 January 2013 and 2015. These include IFRS 9, 10, 11, 12 and 13. Management are currently assessing the impact of these changes on the future reporting of the Group's operations.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

£m	Note	2011	2010
Revenue	1,2	1,854.4	1,902.6
Cost of sales		(1,271.1)	(1,298.1)
Gross profit		583.3	604.5
Selling and distribution costs		(81.0)	(87.2)
Administrative expenses		(250.2)	(293.2)
Share of post-tax results of joint ventures		9.4	6.0
Operating profit	2	261.5	230.1
Finance income	4	43.8	37.8
Finance expense excluding debt and interest rate swap cancellation costs relating to original financing of divested business		(82.7)	(80.1)
Debt and interest rate swap cancellation costs relating to original financing of divested business		(15.4)	–
Finance expense	4	(98.1)	(80.1)
Business divestments and similar income	30	27.1	1.5
Profit before taxation	1	234.3	189.3
Taxation	5	(46.3)	(36.5)
Profit after taxation for the year		188.0	152.8
Profit attributable to equity shareholders		187.9	152.7
Profit attributable to non-controlling interests		0.1	0.1
Profit after taxation for the year		188.0	152.8

All activities of the Group are classed as continuing in the current and comparative year.

	Note	2011	2010
Earnings per Ordinary Share	7		
Basic		16.80p	13.27p
Diluted		16.76p	13.20p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

£m	Note	2011	2010
Profit after taxation for the year		188.0	152.8
Net translation differences on investments in overseas subsidiaries	27	(2.4)	20.8
Actuarial (loss)/gain on pensions	24	(40.6)	15.6
Actuarial loss on other retirement obligations	24	–	(0.4)
Reclassification of cash flow hedge fair values	23	20.4	14.5
Movements in hedge accounted derivative financial instruments	23	(8.1)	(21.9)
Tax effects	5	7.0	(3.6)
Other comprehensive (expense)/income for the year		(23.7)	25.0
Total comprehensive income for the year		164.3	177.8
Attributable to:			
Equity holders of the parent		164.2	177.7
Non-controlling interests		0.1	0.1
		164.3	177.8

Trading profit is calculated as follows:

£m	Note	2011	2010
Operating profit		261.5	230.1
Adjusted to exclude:	8		
Business restructuring – primarily Excellence in Delivery		31.9	17.5
Unrealised movements in non-hedge accounted derivative financial instruments		5.4	2.8
Amortisation of intangible assets arising on business combinations		68.0	63.3
Settlement of commercial dispute		(6.0)	28.8
M&A related adjustments		4.1	5.9
Trading profit	8	364.9	348.4

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

£m	Note	2011	2010
Assets			
Non-current assets			
Intangible assets	10	917.6	1,048.4
Property, plant and equipment	11	318.6	339.7
Investment properties	12	11.2	11.2
Investments in joint ventures	13	16.1	17.2
Trade and other receivables	16	16.9	19.3
Deferred tax	22	18.3	11.4
Derivative financial instruments	23	1.1	0.5
		1,299.8	1,447.7
Current assets			
Inventories	14	304.6	287.4
Trade and other receivables	16	300.6	339.0
Current tax receivables		1.2	15.7
Derivative financial instruments	23	1.4	6.5
Cash and cash equivalents	17	345.6	473.0
Assets classified as held for sale	18	30.3	1.6
		983.7	1,123.2
Liabilities			
Current liabilities			
Borrowings	19	(225.7)	(315.9)
Trade and other payables	20	(336.6)	(359.3)
Provisions	21	(37.1)	(37.8)
Current tax liabilities		(129.3)	(100.0)
Derivative financial instruments	23	(13.4)	(14.8)
Liabilities classified as held for sale	18	(6.9)	–
		(749.0)	(827.8)
Non-current liabilities			
Borrowings	19	(352.4)	(483.2)
Trade and other payables	20	(50.7)	(32.2)
Provisions	21	(8.0)	(4.6)
Deferred tax	22	(15.5)	(37.7)
Derivative financial instruments	23	(17.6)	(27.2)
Retirement benefit obligations	24	(71.2)	(82.0)
		(515.4)	(666.9)
Net assets		1,019.1	1,076.2
Equity			
Share capital	26	28.9	28.9
Share premium account		126.6	126.6
Other reserves	27	83.8	69.8
Retained earnings		779.3	850.5
Total shareholders' equity		1,018.6	1,075.8
Non-controlling interests in equity		0.5	0.4
Total equity		1,019.1	1,076.2
Net debt	9	(232.5)	(326.1)

Approved by a duly appointed and authorised committee of the Board on 6 March 2012 and signed on its behalf by:

J Devaney **W Tucker**

Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

£m	Share capital	Share premium account	Other reserves (note 27)	Retained earnings	Total shareholders' equity	Non–controlling interests in equity	Total equity
Total equity at 1 January 2010	28.6	112.5	53.8	753.1	948.0	0.3	948.3
Profit for the year	–	–	–	152.7	152.7	0.1	152.8
Net translation differences on investments in overseas subsidiaries	–	–	20.8	–	20.8	–	20.8
Actuarial gain on pensions	–	–	–	15.6	15.6	–	15.6
Actuarial loss on other retirement obligations	–	–	–	(0.4)	(0.4)	–	(0.4)
Reclassification of cash flow hedge fair values (note 23)	–	–	14.5	–	14.5	–	14.5
Movements in hedge accounted derivative financial instruments (note 23)	–	–	(21.9)	–	(21.9)	–	(21.9)
Tax effects (note 5)	–	–	1.5	(5.1)	(3.6)	–	(3.6)
Total comprehensive income for the year	–	–	14.9	162.8	177.7	0.1	177.8
Issue of shares	0.3	11.4	–	–	11.7	–	11.7
Purchase of treasury shares	–	–	–	(4.6)	(4.6)	–	(4.6)
Dividends authorised (note 6)	–	–	–	(64.6)	(64.6)	–	(64.6)
Share-based payments (note 28)	–	–	7.3	–	7.3	–	7.3
Transfer of share options reserve on vesting of PSPs	–	2.7	(2.7)	–	–	–	–
Transfer of share options reserve on exercise	–	–	(4.6)	4.6	–	–	–
Release of hedge reserve	–	–	2.6	–	2.6	–	2.6
Tax effects	–	–	(1.5)	(0.8)	(2.3)	–	(2.3)
Total equity at 31 December 2010	28.9	126.6	69.8	850.5	1,075.8	0.4	1,076.2
Profit for the year	–	–	–	187.9	187.9	0.1	188.0
Net translation differences on investments in overseas subsidiaries	–	–	(2.4)	–	(2.4)	–	(2.4)
Actuarial loss on pensions	–	–	–	(40.6)	(40.6)	–	(40.6)
Reclassification of cash flow hedge fair values (note 23)	–	–	20.4	–	20.4	–	20.4
Movements in hedge accounted derivative financial instruments (note 23)	–	–	(8.1)	–	(8.1)	–	(8.1)
Tax effects (note 5)	–	–	(2.3)	9.3	7.0	–	7.0
Total comprehensive income for the year	–	–	7.6	156.6	164.2	0.1	164.3
Purchase of treasury shares	–	–	–	(159.5)	(159.5)	–	(159.5)
Dividends authorised (note 6)	–	–	–	(69.4)	(69.4)	–	(69.4)
Share-based payments (note 28)	–	–	6.1	–	6.1	–	6.1
Dividend equivalents paid on vesting of PSP and BCP awards	–	–	(0.2)	–	(0.2)	–	(0.2)
Transfers of other reserves to retained earnings	–	–	(1.1)	1.1	–	–	–
Release of hedge reserve	–	–	3.6	–	3.6	–	3.6
Tax effects	–	–	(2.0)	–	(2.0)	–	(2.0)
Total equity at 31 December 2011	28.9	126.6	83.8	779.3	1,018.6	0.5	1,019.1

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

£m	Note	2011	2010
Cash flows from operating activities			
Cash generated from operations	9	392.9	299.7
Other costs related to business combinations		(2.4)	(6.1)
Restructuring costs		(37.0)	(13.4)
Tax paid		(24.3)	(21.6)
Interest paid		(42.4)	(45.1)
Debt and interest rate swap cancellation costs relating to original financing of divested business		(15.4)	–
Interest received		9.4	7.9
Net cash from operating activities		280.8	221.4
Cash flows from investing activities			
Dividends received from joint ventures	33	8.1	6.0
Purchase of property, plant and equipment		(48.6)	(64.9)
Purchase of intangible assets		(2.0)	(1.9)
Capitalised expenditure on intangible assets	10	(0.2)	(0.3)
Proceeds on disposal of property, plant and equipment		1.0	10.0
Provision of loan to joint venture	13	(8.0)	–
Acquisition of subsidiaries net of cash acquired	29	(147.8)	(18.9)
Proceeds of business divestments	30	230.4	6.4
Proceeds on disposal of assets previously held for sale		16.9	23.2
Net deferred and contingent consideration		(2.6)	(2.6)
Additional pension contributions related to divestment in prior years		–	(7.9)
Net cash from/(used in) investing activities		47.2	(50.9)
Cash flows from financing activities			
Issue of share capital		–	11.7
Dividends paid	6	(69.4)	(64.6)
Purchase of treasury shares		(159.5)	(4.6)
New borrowings		7.3	98.3
Repayment of borrowings		(246.7)	(114.2)
Net cash used in financing activities		(468.3)	(73.4)
Net (decrease)/increase in cash and cash equivalents		(140.3)	97.1
Cash and cash equivalents at start of year		470.7	361.4
Exchange movements		1.5	12.2
Cash and cash equivalents at end of year	17	331.9	470.7

A reconciliation of cash and cash equivalents to the balance sheet is detailed in note 17.

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. Segmental information

Operating segments

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

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

Changes to the Group's segmental reporting structure were announced in February 2011, to bring together businesses with similar markets or technology consistent with the Group's strategic objective of creating scale in each of its markets.

To reflect these changes, Avionics and Surveillance has been renamed Aerospace and Security to better reflect the operations of this division. A number of businesses were moved from Defence Systems to Aerospace and Security including Defence Communications, Antenna Systems, Passive Microwave Products and US Composites.

Further changes to the segmental reporting structure followed the announcement in the interim management statement released on 6 May 2011 that the Group was planning to divest two non-core businesses, Analytic Solutions and Commercial Systems. The segmental results shown below reflect the current structure of the results as reported to the Board, with non-core businesses reported as a separate segment.

The comparative information shown below has been restated to reflect these changes.

		Revenue		Profit before taxation	
£m	Note	**2011**	2010 (as restated)	**2011**	2010 (as restated)
Aerospace and Security		637.0	681.8	152.5	155.7
Defence Systems		323.9	361.7	57.9	53.2
Mission Systems		371.8	320.8	87.5	65.1
Aviation Services		308.1	273.5	44.1	36.4
Head office, other activities and elimination of inter-segment items		(7.2)	(7.8)	(1.6)	1.7
Core Group		1,633.6	1,630.0	340.4	312.1
Non-core businesses		220.8	272.6	24.5	36.3
Total Group		1,854.4	1,902.6	364.9	348.4
Business restructuring – primarily Excellence in Delivery	8			(31.9)	(17.5)
Unrealised movements in non-hedge accounted derivative financial instruments	23			(5.4)	(2.8)
Amortisation of intangible assets on acquisition	8			(68.0)	(63.3)
Settlement of commercial dispute	8			6.0	(28.8)
M&A related adjustments	8			(4.1)	(5.9)
Net finance expense	4			(54.3)	(42.3)
Business divestments and similar income	30			27.1	1.5
Profit before taxation				234.3	189.3

The Group's share of the post-tax results of joint ventures totalling £9.4m (2010: £6.0m) arises in the Cobham Aviation Services segment.

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

	Depreciation and amortisation		Segment assets	
£m	2011	2010 (as restated)	2011	2010 (as restated)
Aerospace and Security	14.1	14.7	655.7	589.0
Defence Systems	13.3	12.6	518.0	538.2
Mission Systems	5.8	5.2	357.8	277.8
Aviation Services	25.4	22.7	228.2	238.5
Head office, other activities and elimination of inter-segment items	0.5	1.9	64.9	55.5
Core Group	59.1	57.1	1,824.6	1,699.0
Non-core businesses	2.3	2.6	75.2	347.6
Segment total	61.4	59.7	1,899.8	2,046.6
Interests in joint ventures	–	–	16.1	17.2
Unallocated assets	–	–	367.6	507.1
Total Group	61.4	59.7	2,283.5	2,570.9

Details of employees analysed by operating segment can be found in note 3.

Geographical information

Revenue from external customers analysed by their geographical location, irrespective of the origin of the goods and services, is shown below. Revenue from customers located in individual countries within the EU (except the UK) and the Rest of the World is not considered to be individually material.

£m	UK	USA	Australia	Other EU countries	Rest of the World	Total
Revenue						
Year to 31 December 2011	170.6	1,040.2	219.0	253.3	171.3	1,854.4
Year to 31 December 2010	169.5	1,150.6	188.1	235.7	158.7	1,902.6
Non-current assets						
Non-current assets below exclude financial instruments and deferred tax assets.						
Year to 31 December 2011	223.1	762.4	121.7	131.3	41.9	1,280.4
Year to 31 December 2010	246.1	955.0	127.3	66.9	40.5	1,435.8

2. Revenue and profit for the year

Revenue

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

£m	2011	2010
Revenue from sale of goods	1,355.2	1,392.9
Revenue from services	499.2	509.7
	1,854.4	1,902.6

Major customers

£287.2m (2010: £336.7m) of revenue is attributable to US Government departments and agencies, although this is widely spread across different agencies and customers. This accounts for 15.5% (2010: 17.7%) of total revenue and originates primarily within Cobham Defence Systems.

Operating profit for the year

The operating profit for the year is after charging/(crediting):

£m	Note	2011	2010
Staff costs	3	571.8	625.9
Materials cost of goods sold		608.2	606.1
Company funded research and development		75.3	73.8
Property rental income	12	(1.7)	(1.7)
Royalty income		(2.3)	(1.4)
Settlement of commercial dispute		(6.0)	28.8
Depreciation of property, plant and equipment	11	57.1	54.4
Depreciation of investment properties	12	0.3	0.3
Amortisation of intangible assets			
Intangible assets recognised on business combinations		68.0	63.3
Relating to business restructuring		–	2.0
Other intangible assets		4.0	5.0
Loss on disposal of property, plant and equipment		3.4	2.3
Operating lease rentals			
Aircraft		9.3	7.2
Other including plant & machinery and property		27.7	26.7
Net foreign exchange losses		0.4	0.2

Amortisation of intangible assets is included in administrative expenses.

During the year the Group obtained the following services from the Company's auditors, PricewaterhouseCoopers LLP and its associates, as follows:

£m	2011	2010
Annual audit of the parent company and Group financial statements	1.1	1.2
Audit of the Company's subsidiaries	0.8	0.8
Total fees payable for audit and assurance services	1.9	2.0
Fees payable for other services		
Tax compliance services	0.2	0.2
Other tax advisory services	1.1	1.1
Other assurance services	0.2	0.1
Services relating to corporate finance transactions	–	0.1
Total fees payable for other services	1.5	1.5
Total fees payable to the auditors	3.4	3.5

In addition to the amounts shown above, the auditors received fees of £31,500 (2010: £30,000) for audit of the Group's pension schemes.

A description of the work of the Audit Committee is set out in the Corporate governance statement on pages 42 and 43 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

3. Employment costs

The average number of employees during the year, analysed by segment, is as follows:

	2011	2010 (as restated)
Aerospace and Security	3,753	4,194
Defence Systems	2,475	2,708
Mission Systems	1,419	1,328
Aviation Services	1,664	1,720
Head office and other activities	118	120
Core Group	9,429	10,070
Non-core businesses	1,267	1,566
Total Group	10,696	11,636

The aggregate employment costs of Group employees are as follows:

£m	Note	2011	2010
Wages and salaries		494.4	532.3
Social security costs		43.3	48.7
Pension costs			
Defined benefit	24	4.2	4.8
Defined contribution	24	24.0	30.8
Share-based payments	28	5.9	9.3
		571.8	625.9

4. Finance income and expense

£m	Note	2011	2010
Finance income:			
Bank interest		8.6	5.4
Expected return on pension scheme assets	24	32.7	29.9
Other finance income		2.5	2.5
Total finance income		43.8	37.8
Finance expense:			
Interest on bank overdrafts and loans		(40.3)	(43.6)
Interest on pension scheme liabilities	24	(31.5)	(31.6)
Debt and interest rate swap cancellation costs relating to original financing of divested business		(15.4)	–
Other finance expense		(10.9)	(4.9)
Total finance expense		(98.1)	(80.1)
Net finance expense excluding pension schemes		(40.1)	(40.6)
Debt and interest rate swap cancellation costs relating to original financing of divested business		(15.4)	–
Net finance income/(expense) on pension schemes		1.2	(1.7)
Net finance expense		(54.3)	(42.3)

Other finance expense above includes £3.1m (2010: £3.1m) in relation to interest rate swaps (previously designated as cash flow hedges) which were terminated during 2009 and are being amortised over the life of the original contracts. It also includes £1.9m (2010: £nil) relating to the unwinding of acquisition related discounting, excluded from underlying profit in note 8.

Following the sale of the Analytic Solutions business, US$350.0m of borrowings were repaid as shown in note 19. These funds were initially raised to finance the acquisition of the business. The make-whole payments on the early repayment of the debt and the cost of cancelling the associated interest rate swaps, amounting to £15.4m, are excluded from underlying profit in note 8.

5. Income tax expense

£m	Note	2011	2010
Current tax		51.7	34.3
Deferred tax	22	(5.4)	2.2
Total tax charge for the year		46.3	36.5

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction. The total tax charge for the year includes £32.1m (2010: £28.4m) for the UK. The tax charge included in share of post-tax results of joint ventures amounts to £2.8m (2010: £2.4m).

The total charge for the year can be reconciled to the accounting profit as follows:

£m	2011	2010
Profit before tax	234.3	189.3
Tax at the domestic income tax rate of 26.5% (2010: 28.0%)	62.1	53.0
Tax effect of share of results of joint ventures	(2.5)	(1.7)
Profit on business divestments	(3.9)	–
Effect of differences in overseas taxation rates	1.7	1.9
Expenditure qualifying for additional R&D tax relief	(6.2)	(6.3)
Adjustments to tax charge in respect of prior years	(8.5)	(7.4)
Impact of other items	3.6	(3.0)
Total tax charge for the year	46.3	36.5

In addition to the tax expense charged to the income statement, a tax credit of £7.0m (2010: charge £3.6m) has been included in OCI as follows:

£m	2011	2010
Actuarial (loss)/gain on pensions	(9.3)	5.2
Actuarial loss on other retirement obligations	–	(0.1)
Movements in hedge accounted derivative financial instruments	2.3	(1.5)
	(7.0)	3.6

6. Dividends

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

£m	2011	2010
Final dividend of 4.372 pence per share for 2010 (2009: 3.971 pence)	49.8	45.8
Interim dividend of 1.800 pence per share for 2011 (2010: 1.628 pence)	19.6	18.8
	69.4	64.6

In addition to the above, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2011 of 6.2 pence per share which will absorb an estimated £66.8m of shareholders' funds. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If authorised, it will be paid on 1 June 2012 to shareholders who are on the register of members as at 4 May 2012. The total dividend in respect of the financial year ended 31 December 2011 will therefore be 8.0 pence per share (2010: 6.0 pence). The total amount payable in respect of 2011 will be £86.4m.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

7. Earnings per Ordinary Share

	2011			2010		
	Earnings £m	**Weighted average number of shares million**	**Per-share amount pence**	Earnings £m	Weighted average number of shares million	Per-share amount pence
Basic earnings per share (EPS)						
Earnings attributable to ordinary shareholders	187.9	1,118.4	16.80	152.7	1,150.7	13.27
Effect of dilutive securities						
Options		1.6			3.9	
Long-term incentive plans		1.1			2.2	
Diluted EPS	187.9	1,121.1	16.76	152.7	1,156.8	13.20

8. Underlying profit and earnings per share

In addition to the information required by IAS 33 Earnings per Share the Directors believe that it is helpful to calculate an underlying earnings per share figure. Underlying profit is defined in detail in the accounting policies on page 60.

£m	2011	2010
Operating profit	261.5	230.1
Business restructuring – primarily Excellence in Delivery	31.9	17.5
Unrealised movements in non-hedge accounted derivative financial instruments	5.4	2.8
Amortisation of intangible assets arising on business combinations	68.0	63.3
Settlement of commercial dispute	(6.0)	28.8
M&A related adjustments	4.1	5.9
Trading profit	364.9	348.4
Net underlying finance expense	(37.0)	(42.3)
Underlying profit before taxation	327.9	306.1
Taxation charge on underlying profit	(81.2)	(79.5)
Non-controlling interest	(0.1)	(0.1)
Underlying profit after tax attributable to equity shareholders	246.6	226.5
Underlying basic EPS	22.05p	19.68p
Underlying diluted EPS	22.00p	19.58p

Business restructuring costs of £38.5m (2010: £23.4m) were incurred as part of the Group's Excellence in Delivery programme. All costs were incremental to normal operations and exclusively relate to the design and implementation of Standard Operating Frameworks within the sites identified as principal locations, site consolidation, asset write downs and workforce reduction costs. Business restructuring in 2011 also includes a gain of £6.6m on the disposal of property held for sale at 31 December 2010 following a site integration. In 2010 other business restructuring primarily related to profits from the sale of part of a site due to the relocation of a business to a site with a smaller footprint.

Underlying profit excludes the profit on business divestments and similar income (see note 30).

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

£m	2011	2010
Underlying administrative expenses	146.8	174.9
% of revenue	7.9%	9.2%

9. Notes to the consolidated cash flow statement

Cash flows from operating activities

£m	Note	2011	2010
Operating profit		261.5	230.1
Adjustments for:			
Share of post-tax profits of joint ventures		(9.4)	(6.0)
Depreciation	11,12	57.4	54.7
Amortisation of intangible assets excluding that related to restructuring		72.0	68.3
Loss on sale of property, plant and equipment		1.7	2.3
Business restructuring – primarily Excellence in Delivery	8	31.9	17.5
M&A related adjustments	8	4.1	5.9
Unrealised movements in non-hedge accounted derivative financial instruments	23	5.4	2.8
Pension contributions in excess of service cost	24	(48.8)	(11.4)
Share-based payments	28	6.1	7.3
Decrease in provisions		(0.5)	(16.6)
Operating cash flows before movements in working capital		381.4	354.9
Increase in inventories		(13.7)	(18.6)
Decrease/(increase) in trade and other receivables		8.6	(1.0)
Increase/(decrease) in trade and other payables		16.6	(35.6)
Movements in working capital		11.5	(55.2)
Cash generated from operations		392.9	299.7

Reconciliation of net cash flow to movement in net debt

£m	2011	2010
(Decrease)/increase in cash and cash equivalents in the year	(140.3)	97.1
Net decrease in borrowings	239.4	15.9
Exchange movements	(5.5)	(26.5)
Movement in net debt in the year	93.6	86.5
Net debt at start of year	(326.1)	(412.6)
Net debt at end of year	(232.5)	(326.1)

Analysis of net debt

Net debt can be analysed as follows:

£m	2011	2010
Cash and cash equivalents	345.6	473.0
Borrowings – current liabilities	(225.7)	(315.9)
Borrowings – non-current liabilities	(352.4)	(483.2)
	(232.5)	(326.1)

10. Intangible assets

£m	Goodwill	Customer relationships	Technology based assets	Development costs	Other	Total
Cost						
At 1 January 2010	719.3	307.5	120.7	3.8	98.3	1,249.6
Additions – purchased	–	–	–	–	1.9	1.9
Additions – internally generated	–	–	–	0.3	–	0.3
Recognised on business combinations	15.6	12.5	2.4	–	0.2	30.7
Disposals and derecognitions	(0.5)	–	–	–	(39.5)	(40.0)
Resulting from movements in contingent consideration	(0.4)	–	–	–	–	(0.4)
Foreign exchange adjustments	11.4	8.5	2.9	0.1	3.4	26.3
Reclassifications	–	–	–	–	2.0	2.0
At 1 January 2011	745.4	328.5	126.0	4.2	66.3	1,270.4
Additions – purchased	–	–	–	–	2.0	2.0
Additions – internally generated	–	–	–	0.2	–	0.2
Recognised on business combinations	78.8	55.4	34.1	–	4.8	173.1
Business divestments	(138.8)	(122.7)	(10.9)	–	(3.7)	(276.1)
Disposals and derecognitions	–	(18.9)	(3.7)	(0.8)	(3.0)	(26.4)
Foreign exchange adjustments	2.0	1.2	0.9	–	0.2	4.3
Reclassifications	(8.9)	(5.7)	(8.3)	(0.2)	(13.7)	(36.8)
At 31 December 2011	678.5	237.8	138.1	3.4	52.9	1,110.7
Accumulated amortisation						
At 1 January 2010	–	84.6	36.2	1.5	64.3	186.6
Charge for the year	–	40.9	16.4	0.6	12.4	70.3
Disposals and derecognitions	–	–	–	–	(39.4)	(39.4)
Foreign exchange adjustments	–	1.7	0.6	–	2.2	4.5
At 1 January 2011	–	127.2	53.2	2.1	39.5	222.0
Charge for the year	7.0	41.4	18.3	0.5	11.8	79.0
Eliminated on business divestments	–	(54.1)	(4.9)	–	(3.5)	(62.5)
Disposals and derecognitions	–	(18.9)	(3.7)	(0.5)	(3.0)	(26.1)
Foreign exchange adjustments	–	0.9	0.4	–	0.1	1.4
Reclassifications	(7.0)	(4.4)	(1.9)	–	(7.4)	(20.7)
At 31 December 2011	–	92.1	61.4	2.1	37.5	193.1
Carrying amount						
At 31 December 2011	678.5	145.7	76.7	1.3	15.4	917.6
At 31 December 2010	745.4	201.3	72.8	2.1	26.8	1,048.4

Customer relationships represents customer lists, customer contracts and the related customer relationships recognised on acquisition.

Technology based assets represent trade secrets and processes, patented and unpatented technology and know-how recognised on acquisition, together with purchased technology assets.

Other intangible assets represent purchased and acquired patents, licences and trademarks, software rights and licences and the order backlog of acquired businesses at the date of acquisition. Order backlog is derecognised when it has been fully amortised.

During the year the Group acquired Telerob Holdings GmbH and Trivec-Avant Corporation. These businesses now form part of the Mission Equipment and Antenna Systems strategic business units. Corp Ten International Inc., part of Cobham Tactical Communications and Surveillance, was also acquired in 2011. Further details can be found in note 29. In 2010 RVision, Inc was acquired, and is now part of Cobham Tactical Communications and Surveillance.

Reclassifications include the transfer of assets held for sale (see note 18).

The Group has no indefinite life intangible assets other than goodwill. Goodwill is allocated to the lowest level within the Group at which the goodwill is monitored for internal management purposes. The Group tests goodwill impairment for each cash generating unit (CGU) annually or more frequently if there are indications that goodwill might be impaired. As a result of the site integration and other Excellence in Delivery activity CGUs are now typically considered to be Strategic Business Units (SBUs) while in 2010 CGUs were typically Business Units. In this year of transition a review has been performed to ensure that this change has not prevented any impairments from being recognised had the testing been performed at Business Unit level, with no issues identified.

The recoverable amounts of the CGUs are determined from value in use calculations unless specific conditions at a CGU dictate otherwise. The only specific condition in 2011 related to a business held for sale as at 31 December 2011 and £7.0m of goodwill has been written down to align the net assets of the business with the likely proceeds of divestment. If this business was not held for sale then no adjustment would have been required on a value in use valuation basis.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating cash projections during the period for which management have detailed plans. Management estimate discount rates using pre-tax rates that reflect current market assessments of the Group's time value of money and the risks specific to the CGU being measured.

The Group annually prepares cash flow forecasts for the following five years at SBU level and this is approved by management. The growth rate assumed after this five year period is based on long-term GDP projections of the primary market for the CGU. The long-term projections used are in the range 2.5% to 3.0%. The growth rates assume that demand for the Group's products in the USA and in the UK remains broadly in line with the underlying economic environment in the long-term future. Taking into account the expectation of future market conditions management believe that the evolution of selling prices and direct costs will reflect past practices. Where five year forecasts are not available for a CGU the long-term growth projections are applied to the following year's cash flow forecast.

The pre-tax rates used to discount the forecast cash flows are within the range 9.0% to 10.8% (2010: 10.1%), having considered the country and currency risks in the principal territories in which the Group operates.

The goodwill allocated to four CGUs are considered to be individually significant as they represent more than 10% of the Group's total goodwill carrying value. Key assumptions and sensitivities of these CGUs are as follows:

	Goodwill carrying value (£m)	Headroom £m)	Pre-tax discount rate
Sensor Systems	229	246	9.7%
Antenna Systems	142	1,152	9.5%
Tactical Communications and Surveillance	109	383	9.4%
Life Support	86	586	9.7%

Sensitivity analysis has been performed and no impairment losses would arise if the discount rate increased by 20%, if the growth rate was zero or if cash flows reduced by 20%.

The Directors have not identified any other likely changes in other significant assumptions that would cause the carrying value of recognised goodwill to exceed its recoverable amount.

11. Property, plant and equipment

£m	Land and buildings Freehold	Land and buildings Long leases	Land and buildings Short leases	Plant and machinery (including aircraft & vehicles)	Fixtures fittings tools and equipment	Payments on account and assets under construction	Total
Cost							
At 1 January 2010	77.4	31.5	8.5	512.0	74.0	17.6	721.0
Additions	5.4	1.8	4.0	27.6	8.4	17.7	64.9
Acquired with business combinations	–	–	–	0.1	0.2	–	0.3
Business divestments	–	–	–	(1.4)	(1.1)	–	(2.5)
Disposals	(6.6)	(0.2)	–	(20.9)	(6.8)	–	(34.5)
Foreign exchange adjustments	3.0	0.3	0.2	36.9	2.9	0.4	43.7
Reclassifications	7.0	–	–	6.1	4.8	(23.3)	(5.4)
At 1 January 2011	86.2	33.4	12.7	560.4	82.4	12.4	787.5
Additions	1.3	2.5	0.5	32.5	8.1	3.8	48.7
Acquired with business combinations	–	–	–	0.4	0.6	–	1.0
Business divestments	–	(0.2)	(2.5)	(4.6)	(4.3)	–	(11.6)
Disposals	(1.5)	–	(0.1)	(28.5)	(3.2)	–	(33.3)
Foreign exchange adjustments	0.1	0.1	–	2.0	(0.5)	–	1.7
Reclassifications	(1.2)	0.6	(0.4)	3.7	(3.5)	(7.4)	(8.2)
At 31 December 2011	84.9	36.4	10.2	565.9	79.6	8.8	785.8
Accumulated depreciation							
At 1 January 2010	23.5	8.8	4.6	311.6	54.3	–	402.8
Depreciation charge for the year	3.2	2.3	1.3	39.1	8.5	–	54.4
Eliminated on business divestments	–	–	–	(1.3)	(1.0)	–	(2.3)
Eliminated on disposals	(4.0)	–	–	(17.4)	(5.9)	–	(27.3)
Foreign exchange adjustments	0.8	0.1	0.1	18.1	2.1	–	21.2
Reclassifications	(0.9)	–	0.1	0.2	(0.4)	–	(1.0)
At 1 January 2011	22.6	11.2	6.1	350.3	57.6	–	447.8
Depreciation charge for the year	4.1	2.7	1.4	43.2	5.7	–	57.1
Eliminated on business divestments	–	(0.2)	(1.3)	(2.4)	(2.2)	–	(6.1)
Eliminated on disposals	(0.2)	–	(0.1)	(25.8)	(2.8)	–	(28.9)
Foreign exchange adjustments	0.1	0.1	–	1.2	(0.5)	–	0.9
Reclassifications	(1.1)	–	0.1	(1.6)	(1.0)	–	(3.6)
At 31 December 2011	25.5	13.8	6.2	364.9	56.8	–	467.2
Carrying amount							
At 31 December 2011	59.4	22.6	4.0	201.0	22.8	8.8	318.6
At 31 December 2010	63.6	22.2	6.6	210.1	24.8	12.4	339.7

12. Investment properties

£m	Total
Cost	
At 1 January 2010	12.5
Foreign exchange adjustments	0.2
At 1 January 2011	12.7
Reclassifications	0.3
Foreign exchange adjustments	0.1
At 31 December 2011	13.1
Accumulated depreciation	
At 1 January 2010	1.2
Depreciation charge for the year	0.3
At 1 January 2011	1.5
Depreciation charge for the year	0.3
Foreign exchange adjustments	0.1
At 31 December 2011	1.9
Carrying amount	
At 31 December 2011	11.2
At 31 December 2010	11.2

All of the Group's investment properties are held under freehold interests and are valued under the cost model.

Property rental income earned by the Group from its investment properties amounted to £1.7m (2010: £1.7m), which is net of all direct costs associated with the leasing of the property except depreciation. The buildings are leased to commercial users on operating leases with terms of between 5 and 25 years, commencing between 1998 and 2010.

The fair value of the Group's UK investment properties has been assessed to be £11.8m (2010: £10.8m). These values are based on Directors' estimates using current market data. The fair value of the Group's investment property in the USA is assessed to be US$10.5m (2010: US$10.0m) based on market data.

13. Investments in joint ventures

The Group has the following interests in joint ventures within the Aviation Services segment:

- 45% of the voting share capital in Aviation Défense Service SA, a company incorporated in France.
- 50% of the voting share capital in FB Heliservices Limited, a company incorporated in England.
- 50% of the voting share capital in FBS Limited, a company incorporated in England.
- 50% of the voting share capital in FB Leasing Limited, a company incorporated in England.

Notwithstanding the fact that the holding is 45%, the governance structure for Aviation Défense Service SA is such that the Group has joint control with its partner and therefore the investment is treated as a joint venture.

Within the Cobham Aerospace and Security segment the Group has a 50% interest in Northrop Grumman Cobham Intercoms LLC, a company incorporated in the USA.

The share of the balance sheets and income statements of the joint ventures which has been included in the consolidated financial statements is as follows:

£m	2011	2010
Current assets	17.1	16.1
Non-current assets	45.3	46.7
Current liabilities	(16.9)	(18.2)
Non-current liabilities	(29.4)	(27.4)
Net assets	16.1	17.2
Income	51.7	44.1
Expenses	(39.4)	(35.7)

During the year a loan of £8.0m was made to FB Heliservices Limited on commercial terms, utilising surplus cash.

14. Inventories

£m	2011	2010
Raw materials and consumables	132.2	125.1
Work in progress	183.6	170.4
Finished goods and goods for resale	29.9	32.2
Allowance for obsolescence	(41.1)	(40.3)
	304.6	287.4

During the year £13.1m (2010: £15.0m) was provided, £6.2m (2010: £10.7m) was utilised and £6.4m (2010: £2.6m) of the allowance for obsolescence was reversed.

This allowance is reviewed by management on a regular basis and further amounts are provided or released as considered necessary. The amounts are generally determined based on factors which include ageing and known demand. Subsequent events may give rise to these estimates being revised and, consequently, to reversal of amounts previously provided. No inventory was written off directly to the income statement (2010: £nil).

Inventory will be realised within the normal operating cycle of the businesses and the amount expected to be realised after more than 12 months is not considered to be material.

15. Financial instruments

The Group's financial assets and liabilities can be categorised as follows:

£m	Note	Loans and receivables	Fair value through profit or loss	Amortised cost	Derivatives used for hedging	Total carrying amount
Financial assets						
Trade receivables	16	239.6	–	–	–	239.6
Other receivables	16	58.5	–	–	–	58.5
Cash and cash equivalents	17	345.6	–	–	–	345.6
Derivative contracts (not hedge accounted)	23	–	2.5	–	–	2.5
Financial liabilities						
Borrowings	19	–	–	(578.1)	–	(578.1)
Trade payables	20	–	–	(102.9)	–	(102.9)
Other liabilities	20	–	–	(140.5)	–	(140.5)
Derivative contracts (not hedge accounted)	23	–	(18.6)	–	–	(18.6)
Hedging instruments						
Liabilities	23	–	–	–	(12.4)	(12.4)
Net financial liabilities as at 31 December 2011						(206.3)

£m	Note	Loans and receivables	Fair value through profit or loss	Amortised cost	Derivatives used for hedging	Total carrying amount
Financial assets						
Trade receivables	16	265.8	–	–	–	265.8
Other receivables	16	70.2	–	–	–	70.2
Cash and cash equivalents	17	473.0	–	–	–	473.0
Derivative contracts (not hedge accounted)	23	–	7.0	–	–	7.0
Financial liabilities						
Borrowings	19	–	–	(799.1)	–	(799.1)
Trade payables	20	–	–	(107.7)	–	(107.7)
Other liabilities	20	–	–	(139.2)	–	(139.2)
Derivative contracts (not hedge accounted)	23	–	(17.3)	–	–	(17.3)
Hedging instruments						
Liabilities	23	–	–	–	(24.7)	(24.7)
Net financial liabilities as at 31 December 2010						(272.0)

IFRS 7 requires the disclosure of financial assets and liabilities held at fair value using a hierarchy that reflects the significance of the inputs used in making the measurements. All financial instruments measured at fair value in the table above are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs which are based on observable market data.

The fair value of derivative financial instruments, fixed rate loans and finance leases have been determined by the use of valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates, whilst the fair value of bank overdrafts and floating rate loans are based on market values. The carrying value of trade and other receivables and trade payables and other liabilities are assumed to approximate to their fair values due to their short-term nature.

As at 31 December 2011, the fair value of the fixed rate senior notes is £370.4m (2010: £394.7m).

The Directors consider that the carrying amounts of all other financial assets and liabilities recorded in these financial statements is equal to, or approximates to, their fair value.

The Group's investment in the Future Strategic Tanker Aircraft companies as described in note 16d is classified as available for sale. The Group does not hold any financial assets which would be classified as held to maturity.

The total interest income and expense for financial assets and liabilities not held at fair value through profit or loss is as shown in note 4.

16. Trade and other receivables

16a. Current

£m	2011	2010
Trade receivables (net of provision for impairment)	239.6	265.8
Accrued income	15.1	38.3
Other receivables	26.5	12.6
Prepayments	19.4	22.3
	300.6	339.0

16b. Non-current

£m	2011	2010
Other receivables	16.9	19.3

16c. Impairment of trade receivables

£m	2011	2010
Trade receivables	241.6	268.2
Provision for impairment of trade receivables	(2.0)	(2.4)
Net trade receivables	239.6	265.8

The Group has not experienced any material change in performance with respect to the recovery of trade receivables. A significant proportion of its business is directly with government agencies or in respect of large government funded military programmes, where risk is considered to remain low. Information concerning credit risk is shown in note 25.

The credit quality of trade receivables can be analysed as follows:

£m	2011	2010
Amounts currently or not yet due and not impaired	192.6	218.5
Amounts past due but not impaired	46.0	46.6
Amounts for which full or partial impairment provision has been made	3.0	3.1
At 31 December	241.6	268.2

Trade receivables which are past due but not considered by management to be impaired are aged as follows:

£m	2011	2010
Due at 31 December	33.1	32.9
1 month overdue	7.1	5.9
2 months overdue	3.3	4.0
3 or more months overdue	2.5	3.8
	46.0	46.6

The total amounts and ageing of trade receivables considered to be fully or partially impaired are as follows:

£m	2011	2010
Due at 31 December	0.2	0.5
1 month overdue	–	0.1
2 months overdue	0.1	–
3 or more months overdue	2.7	2.5
	3.0	3.1

£2.0m (2010: £2.4m) has been provided against the above trade receivables which are considered fully or partially impaired. Movements in this provision during the year are as follows:

£m	2011	2010
At 1 January	2.4	5.4
Additional provisions	3.9	2.6
Utilised	(1.2)	(1.5)
Unused amounts reversed	(0.5)	(4.2)
Business divestments	(2.6)	–
Foreign exchange movements	–	0.1
At 31 December	2.0	2.4

Other classes of financial assets within trade and other receivables do not include any overdue or impaired assets.

16d. Trade investments

Cobham plc has non-controlling shareholdings in three companies in connection with the Future Strategic Tanker Aircraft project. The total amount invested in 2008 was £44,000. This is held as a trade investment and the results of these companies are not consolidated within the results of the Group. Cobham plc has committed to making further investments in this project as detailed in note 32.

17. Cash and cash equivalents

£m	2011	2010
Cash and cash equivalents per balance sheet	345.6	473.0
Bank overdrafts	(13.7)	(2.3)
Cash and cash equivalents per cash flow statement	331.9	470.7

Cash and cash equivalents include term deposits in Australia equivalent to £12.5m in total (2010: £9.3m). These term deposits are held primarily to satisfy a requirement to provide security over the residual value of leased assets under an agreement which expires in 2020 but can be realised within three months under the terms of the agreements. Also, in connection with the Future Strategic Tanker Aircraft project, a small number of accounts have been established, the balances of which are subject to charges in certain circumstances. There were no balances on these accounts during 2011 or 2010 or at the year end dates.

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

The divestment of the Commercial Systems business was announced in May 2011 and treated as non-core for segmental reporting as shown in note 1. As at 31 December 2011 the following assets and liabilities, which form part of the Commercial Systems business, have been classified as held for sale in the balance sheet:

£m	2011	2010
Intangible assets	17.2	–
Property, plant and equipment	3.4	1.6
Inventories	6.8	–
Trade and other receivables	2.9	–
Total assets classified as held for sale	30.3	1.6
Trade and other payables	(2.5)	–
Tax and other liabilities	(4.4)	–
Total liabilities associated with assets classified as held for sale	(6.9)	–
Total net assets of disposal groups and non-current assets held for sale	23.4	1.6

Assets held for sale also includes empty properties at sites now integrated into other locations.

These assets are expected to be disposed of within 12 months of the balance sheet date.

The gain on disposal of property held for sale at 31 December 2010 amounted to £6.6m and has been excluded from underlying profit in note 8.

The cash flows arising during the year relating to assets classified as held for sale in prior years include £8.7m (2010: £24.5m) relating to the disposal of M/A-COM Technology Solutions Inc (MTS). Other cash flows arising in the year from assets held for sale in prior years amounted to a net inflow of £8.2m (2010: net outflow of £1.3m).

19. Borrowings

£m	2011	2010
Current:		
Bank loans and overdrafts	114.1	313.3
Loan notes	1.0	1.3
Senior notes	110.3	1.1
Other borrowings	0.1	0.1
Finance leases	0.2	0.1
	225.7	315.9
Non-current:		
Bank loans	48.3	47.9
Loan notes	0.5	2.4
Senior notes	302.5	432.1
Other borrowings	0.4	0.2
Finance leases	0.7	0.6
	352.4	483.2
Total borrowings	578.1	799.1

US$350.0m of borrowings were repaid following the divestment of the Analytic Solutions business in October 2011, including floating rate revolving credit facilities and fixed rate loan notes.

Bank loans and overdrafts include a total of £100.4m (2010: £275.4m) drawn under a revolving multi-currency credit agreement of £300.0m which expires in July 2012. Refinancing has been agreed in the form of a forward starting US$360.0m multi-currency revolving credit agreement which was signed in October 2011. This facility is available from April 2012 and matures in October 2016, with a lender's option to extend for up to two years. Interest is payable at LIBOR plus margin.

The drawdowns under the revolving multi-currency credit agreement are for periods not exceeding three months and hence the balance is reported within current borrowings. All bank overdrafts are repayable on demand.

Other principal borrowing facilities include a US$75.0m (£48.3m) fully drawn credit agreement which expires in December 2031 although the lender has a series of put options exercisable every three years from December 2013. In addition, senior notes are outstanding as set out below:

		2011	2010	2011	2010
Principal	Maturity date	US$m	US$m	£m	£m
US$170.0m fixed rate	2012	170.0	170.0	110.3	109.5
US$85.0m fixed rate	2014	76.5	85.0	49.2	54.3
US$90.0m fixed rate	2016	81.0	90.0	52.1	57.5
US$50.0m floating rate	2017	50.0	50.0	32.2	31.9
US$105.0m floating rate	2018	105.0	105.0	67.6	67.1
US$175.0m fixed rate	2019	157.5	175.0	101.4	111.8
		640.0	675.0	412.8	432.1

None of the various loan and note subscription agreements contain any provisions for charges over Group assets, although they do include both financial and non-financial covenants. The terms of the financial covenants are based on adjusted IFRS results. There have been no breaches of the terms of agreements or defaults during the current or comparative periods.

20. Trade and other payables

20a. Current liabilities

£m	2011	2010
Payments received on account	48.2	62.8
Trade payables	102.6	107.5
Other taxes and social security	15.2	19.0
Accruals and deferred income	133.5	138.5
Contingent and deferred consideration	8.1	3.5
Other liabilities	29.0	28.0
	336.6	359.3

20b. Non-current liabilities

£m	2011	2010
Payments received on account	14.9	7.9
Trade payables	0.3	0.2
Accruals and deferred income	10.4	6.1
Contingent and deferred consideration	19.9	12.0
Other liabilities	5.2	6.0
	50.7	32.2

21. Provisions

£m	2011	2010
Current liabilities	37.1	37.8
Non-current liabilities	8.0	4.6
	45.1	42.4

Movements in provisions during the year are as follows:

£m	Warranty claims	Contract loss provisions	Aircraft maintenance provisions	Provisions related to businesses divested	Other	Total
At 1 January 2011	6.5	5.6	3.0	15.8	11.5	42.4
Additional provisions in the year	6.0	3.4	2.8	–	3.6	15.8
Acquired on business combinations	0.4	–	–	–	2.5	2.9
Utilisation of provisions	(3.6)	(3.7)	(0.2)	(0.5)	(2.0)	(10.0)
Unused amounts reversed in the year	(1.3)	(2.5)	(1.1)	–	(0.1)	(5.0)
Reclassifications	(0.3)	1.1	–	–	(1.8)	(1.0)
At 31 December 2011	7.7	3.9	4.5	15.3	13.7	45.1

Closing balances are analysed as:

Current liabilities	6.9	2.9	1.4	15.3	10.6	37.1
Non-current liabilities	0.8	1.0	3.1	–	3.1	8.0
	7.7	3.9	4.5	15.3	13.7	45.1

Warranty claims

The warranty provision represents management's best estimate of the Group's liability under warranties granted on products sold, based on past experience and industry averages for defective products. It is anticipated that most of these costs will be incurred in the next financial year.

Contract loss provisions

Contract loss provisions represent management's best estimate of the amount by which the expected benefits from certain specific contracts are lower than the unavoidable cost of meeting the obligations under those contracts. The timeframe within which such provisions will unwind varies by contract, but is generally within one year.

Aircraft maintenance provisions

Aircraft maintenance provisions are established in respect of significant periodic maintenance costs, where maintenance activity is required on leased operational aircraft or engines on a cycle greater than 12 months, and where specific conditions exist regarding the state of a leased aircraft on its return to the lessor at the end of the lease. Costs are charged to the income statement on the basis of utilisation of the aircraft and are credited to the provision. The provision is then utilised by absorbing the actual costs incurred in carrying out the maintenance activity or on incurring the expenditure required to return the aircraft to the state of maintenance required before return of the aircraft to the lessor.

Provisions related to businesses divested

These provisions relate to businesses divested in prior years and include amounts provided in respect of the divestment of MTS in 2009 and warranties given on the divestments of the Countermeasures operations and the Fluid and Air group in 2005. All amounts have been determined based on management's current estimates of likely outcomes. Due to uncertainties surrounding the timing of settlement of these items, they have been disclosed as current liabilities.

Other provisions

Other provisions include amounts provided in respect of announced business restructuring and legal claims. All amounts have been determined based on management's current estimates of likely outcomes and most are expected to be settled within one year.

22. Deferred tax

£m	2011	2010
Deferred tax assets	(18.3)	(11.4)
Deferred tax liabilities	15.5	37.7
	(2.8)	26.3

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements thereon:

£m	Accelerated tax depreciation	Retirement benefit obligations	Intangible assets	Other	Total
At 1 January 2010	9.8	(32.3)	53.5	(16.0)	15.0
Charge/(credit) to income statement	1.7	5.0	(10.4)	5.9	2.2
Charge/(credit) to other comprehensive income	–	5.2	–	(4.8)	0.4
Charge to reserves	–	–	–	2.0	2.0
Acquired with business combinations	–	–	6.1	–	6.1
Foreign exchange adjustments	0.5	–	1.5	(1.4)	0.6
At 1 January 2011	12.0	(22.1)	50.7	(14.3)	26.3
(Credit)/charge to income statement	(1.0)	13.6	(12.4)	(5.6)	(5.4)
Credit to other comprehensive income	–	(9.3)	–	(0.6)	(9.9)
Charge to reserves	–	–	–	0.6	0.6
Acquired with business combinations	(0.3)	–	17.3	–	17.0
Business divestments	–	–	(27.2)	–	(27.2)
Foreign exchange adjustments	0.1	–	(0.4)	–	(0.3)
Reclassifications	–	–	(3.9)	–	(3.9)
At 31 December 2011	10.8	(17.8)	24.1	(19.9)	(2.8)

In the table above, intangible assets excludes balances relating to goodwill. Other deferred tax assets and liabilities shown above include balances arising from temporary differences in relation to provisions, share-based payments, goodwill and derivative financial instruments.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances (after offset) for balance sheet purposes are analysed as follows:

£m	2011	2010
Deferred tax liabilities fall due as follows:		
Within one year	5.0	0.9
After one year	10.5	36.8
	15.5	37.7

Deferred tax assets are recoverable as follows:

Within one year	(13.9)	(6.1)
After one year	(4.4)	(5.3)
	(18.3)	(11.4)

Without taking into consideration the offsetting of balances, deferred tax balances are as follows:

£m	Accelerated tax depreciation	Retirement benefit obligations	Intangible assets	Other	Total
Deferred tax assets	(0.2)	(17.8)	–	(23.1)	(41.1)
Deferred tax liabilities	11.0	–	24.1	3.2	38.3
At 31 December 2011	10.8	(17.8)	24.1	(19.9)	(2.8)
Deferred tax assets	(0.1)	(22.1)	–	(24.2)	(46.4)
Deferred tax liabilities	12.1	–	50.7	9.9	72.7
At 31 December 2010	12.0	(22.1)	50.7	(14.3)	26.3

At the balance sheet date, the Group has unused capital losses of £64.9m (2010: £65.6m) potentially available for offset against future capital profits in certain circumstances. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future qualifying profit streams. These losses can be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries and joint ventures for which deferred tax liabilities have not been recognised is £511.2m (2010: £403.9m).

The main rate of UK corporation tax will reduce from 26% to 25% from 1 April 2012, with further reductions proposed to reduce the rate to 23% by 1 April 2014.

The Group's share of the tax on temporary differences arising in connection with interests in joint ventures (included within the Group's share of assets and liabilities as shown in note 13) was £3.9m (2010: £3.7m).

23. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

£m	Interest rate swaps – cash flow hedges	Foreign exchange derivatives	Inflation swap	Total
Non-current assets	–	1.1	–	1.1
Current assets	–	1.4	–	1.4
Current liabilities	(5.8)	(7.6)	–	(13.4)
Non-current liabilities	(6.6)	(9.3)	(1.7)	(17.6)
Fair value at 31 December 2011	(12.4)	(14.4)	(1.7)	(28.5)
Non-current assets	–	0.5	–	0.5
Current assets	–	6.5	–	6.5
Current liabilities	(9.6)	(5.2)	–	(14.8)
Non-current liabilities	(15.1)	(12.1)	–	(27.2)
Fair value at 31 December 2010	(24.7)	(10.3)	–	(35.0)

The movements in fair value of derivative financial instruments during the year are as follows:

£m	Note	Interest rate swaps – cash flow hedges	Foreign exchange derivatives	Inflation swap	Total
Fair value at 1 January 2010		(17.3)	(9.6)	–	(26.9)
Movements in year to 31 December 2010					
Fair value loss through income statement – not hedged		–	(2.8)	–	(2.8)
Fair value gain through income statement – other		–	2.1	–	2.1
Fair value gain reclassified to income statement		14.5	–	–	14.5
Fair value loss through OCI – hedged items	27	(21.2)	–	–	(21.2)
Foreign exchange adjustments	27	(0.7)	–	–	(0.7)
Fair value at 31 December 2010		(24.7)	(10.3)	–	(35.0)
Movements in year to 31 December 2011					
Fair value loss through income statement – not hedged		–	(3.7)	(1.7)	(5.4)
Fair value loss through income statement – other		–	(0.4)	–	(0.4)
Cancellation of cash flow hedge		9.0	–	–	9.0
Fair value gain reclassified to income statement		11.4	–	–	11.4
Fair value loss through OCI – hedged items	27	(8.3)	–	–	(8.3)
Foreign exchange adjustments	27	0.2	–	–	0.2
Fair value at 31 December 2011		(12.4)	(14.4)	(1.7)	(28.5)

Interest rate swaps are designated as cash flow hedging instruments and hedge accounting is applied. There is no material ineffectiveness in cash flow hedges to be reported through the income statement.

Foreign exchange and inflation derivatives are not accounted for using hedge accounting and movements in fair values are recorded in the income statement as part of operating profit. The movement in the fair value of currency swaps which offset movements in currency balances are offset against exchange movements in those balances in the income statement.

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the statement of accounting policies and in note 25.

Following the divestment of the Analytic Solutions business and repayment of a portion of floating rate debt during the year as described in note 19, a number of interest rate swaps were cancelled. These interest rate swaps had previously been designated as cash flow hedges and the related hedge reserve has been reclassified to the income statement.

Interest rate swaps which had previously been designated as cash flow hedges were also cancelled in 2009, and the related hedge reserve is being amortised over the life of the original forecast issuance (the hedge item). In 2011, £3.6m (2010: £3.1m) was reclassified from the hedge reserve to the income statement and reflected in finance expense.

24. Retirement benefit schemes

Defined contribution schemes

The Group manages a number of defined contribution pension arrangements.

The total expense recognised in the income statement of £24.0m (2010: £30.8m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

£0.8m (2010: £3.7m) was outstanding in respect of defined contribution schemes but not due for payment at 31 December 2011.

Defined benefit schemes

The Group operates a number of funded defined benefit schemes, the most significant being the Cobham Pension Plan (CPP). The assets of all of these schemes are held separately from those of the Group in funds under the control of trustees. All defined benefit schemes have been closed to new members since 2003.

Actuarial valuations of the present value of the defined benefit obligations for the CPP are carried out on a triennial basis by qualified independent actuaries, the most recent valuation was as at 1 April 2009. Actuarial valuations of other schemes have been carried out at regular intervals as required by the applicable country regulations. The actuarial valuations were updated by qualified independent actuaries for accounting purposes to 31 December 2011.

As part of the Group's risk management strategy for defined benefit obligations, certain liabilities relating to past service of pensioner and deferred members of defined benefit schemes were subject to a buy-in arrangement on 14 December 2011. Under the terms of this arrangement, the schemes impacted transferred assets to an insurance company in return for a qualifying insurance policy which provides annuity payments equal to the liabilities covered by the arrangement as they fall due. This eliminates the Group's exposure to the interest, inflation and longevity risks associated with these liabilities and is a meaningful, but not yet significant, first step of a project to review the Group's exposure to risks associated with pension obligations.

The buy-in did not impact on the reported profits of the Group for the year or on the defined benefit obligations calculated under IAS 19. The insurance contract asset is measured at a value equal to the related liabilities. Contributions of £19.6m were payable into the schemes representing the difference between the cost of this asset and the net obligations transferred.

Additional contributions of £7.9m were paid in 2010 to the CPP in connection with the disposal of the Fluid and Air group which completed in 2005.

There were no significant contributions outstanding at the end of 2011 or 2010 for the defined benefit schemes.

Following the disposal of the Engineering Consultancy Group business, curtailment gains of £1.4m have been recognised in the income statement.

The amount recognised in the income statement also includes £12.5m relating to past service following changes to the rate of certain UK pension increases.

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

	2011		2010	
	UK Schemes	**USA Scheme**	UK Schemes	USA Scheme
Rate of increase in salary costs	3.62%	3.62%	4.09%	4.09%
Rate of increase in pensions in payment unless overridden by specific scheme rules	3.12%	3.12%	3.59%	3.59%
Rate of increase in deferred pensions	2.12%	3.12%	2.89%	3.59%
Discount rate	4.85%	4.85%	5.42%	5.54%
Inflation assumption	3.12%	3.12%	3.59%	3.59%
Expected return on scheme assets	5.12%	5.46%	6.25%	6.80%

The mortality assumptions used for the CPP are based upon actual recent mortality experience of members within the scheme and also allow for future mortality improvements. The mortality assumption used in 2010 was denoted by actuaries as 'PA92 year of birth long cohort'. The more recent tables known as 'SAPS CMI 09' have been used for 2011. In practical terms this is demonstrated in the table below:

	Year of birth	Year age 65	Further life expectancy
Male	1946	2011	22.5 years
Female	1946	2011	24.6 years
Male	1980	2045	25.8 years
Female	1980	2045	27.9 years

At 31 December 2011 it has been assumed that members will commute on average 20% (2010: 20%) of their pension for cash at retirement. This implies a full take-up of the permitted 25% (2010: 25%) commutation by approximately 80% (2010: 80%) of eligible members on retirement.

A summary of the movements in the net liability and the amounts recognised in the income statement and other comprehensive income are as follows:

	2011			2010		
£m	**Scheme assets**	**Defined benefit obligations**	**Total**	Scheme assets	Defined benefit obligations	Total
Net liability at start of year	510.8	(592.8)	(82.0)	446.1	(561.3)	(115.2)
Amounts recognised in operating profit						
Current service cost included in administrative expenses	–	(4.2)	(4.2)	–	(4.8)	(4.8)
Past service credit included in administrative expenses	–	12.5	12.5	–	–	–
Gain on curtailment included in profit on divestment	–	1.4	1.4	–	–	–
Amounts credited/charged to other finance income/expense						
Expected return on pension scheme assets	32.7	–	32.7	29.9	–	29.9
Interest on pension scheme liabilities	–	(31.5)	(31.5)	–	(31.6)	(31.6)
Amounts recognised in other comprehensive income						
Actual return less expected return on pension scheme assets	(40.3)	–	(40.3)	24.1	–	24.1
Experience losses arising on scheme liabilities	–	1.8	1.8	–	1.3	1.3
Changes in assumptions underlying present value of scheme liabilities	–	(2.1)	(2.1)	–	(9.8)	(9.8)
Amounts included in cash flow statement						
Employer contributions	20.9	–	20.9	16.2	–	16.2
Employer contributions related to buy-in arrangement	19.6	–	19.6	–	–	–
Employer contributions connected to prior year divestment	–	–	–	7.9	–	7.9
Member contributions	3.2	(3.2)	–	3.3	(3.3)	–
NI rebates	0.5	(0.5)	–	0.7	(0.7)	–
Benefits paid	(18.9)	18.9	–	(17.9)	17.9	–
Other changes						
Exchange differences	0.2	(0.2)	–	0.5	(0.5)	–
Net liability at end of year	528.7	(599.9)	(71.2)	510.8	(592.8)	(82.0)

Total employer contributions exceeded current service cost and past service credit by £48.8m (2010: £11.4m, excluding contributions connected to a prior year business divestment).

The present value of funded obligations relating to the US scheme is US$30.1m (2010: US$26.0m) and the fair value of scheme assets relating to the US scheme is US$18.4m (2010: US$17.5m).

The sensitivity of scheme liabilities to changes in certain key assumptions is provided below:

- Increasing the discount rate by 0.1% would decrease scheme liabilities by £10.2m.
- Increasing the inflation rate by 0.1% would increase scheme liabilities by £6.9m.
- If each scheme member was expected to live for an additional year then scheme liabilities would increase by £11.8m.

The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income since transition to IFRS is £166.8m loss (2010: £126.2m loss). Of the actuarial losses recognised in the year for changes in assumptions underlying present value of scheme liabilities, approximately £60m relating to the decrease in the discount rate mitigated by approximately £40m increase relating to the inflation assumption and £19m relating to changes in the mortality assumption.

The actual return on scheme assets was £7.6m loss (2010: gain £54.0m). The Group expects to contribute £19.4m to its defined benefit pension schemes in 2012.

The fair value of major categories of scheme assets, and as a percentage of total scheme assets, are as follows:

	2011		2010	
	£m	%	£m	%
Equity instruments	176.2	33.3%	238.7	46.8%
Debt instruments	259.6	49.1%	223.4	43.7%
Property	43.3	8.2%	43.1	8.4%
Insurance contracts	36.9	7.0%	–	–
Other assets	12.7	2.4%	5.6	1.1%
	528.7	100.0%	510.8	100.0%

The expected rates of return on individual categories of scheme assets are determined by reference to relevant indices published by, for example, the London Stock Exchange. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the schemes' investment portfolio.

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The history of the scheme for the current and previous four periods is as follows:

£m	2011	2010	2009	2008	2007
Present value of defined benefit obligations	(599.9)	(592.8)	(561.3)	(458.4)	(457.7)
Fair value of scheme assets	528.7	510.8	446.1	407.2	420.5
Net liability	(71.2)	(82.0)	(115.2)	(51.2)	(37.2)
Experience adjustments on scheme liabilities	1.8	1.3	1.8	(5.5)	(0.3)
Experience adjustments on scheme assets	(40.3)	24.1	13.8	(49.2)	(31.2)

Other retirement benefit schemes
A number of the Group's subsidiaries based in France contribute to a retirement indemnity scheme. The liabilities of the scheme were valued by an independent actuary as at 31 December 2010 at €3.8m and are recorded in these financial statements at £3.2m (2010: £3.3m). These liabilities are included in other liabilities in note 20. A German subsidiary acquired during the year has some retirement obligations that are covered by an insurance policy. The gross value of these obligations are €2.2m.

The actuarial loss for these schemes in the year to 31 December 2011, recognised in OCI, was £nil (2010: £0.4m).

25. Financial risk management

The Group's multi-national operations and debt financing expose it to a variety of financial risks which include the effects of changes in foreign currency exchange rates, credit risk, liquidity risk and interest rates. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by using foreign currency financial instruments, debt, and other instruments, including interest rate swaps. Other derivative financial instruments may be used from time to time to hedge other exposures such as inflation risks. The financial risk management policies agreed by the Board have not changed during the year and are summarised below. The Group does not trade in financial instruments or use complex derivative financial instruments.

Foreign currency risk

The Group, which is based in the UK and reports in sterling, has significant investment in overseas operations in the USA, with further investments including those in Australia and other European countries. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. The Group's policy is to reduce, or eliminate where practicable, both structural and transactional foreign exchange risk. All currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Cobham plc management.

The carrying amounts of the Group's total foreign currency denominated monetary assets and monetary liabilities, translated at the relevant year-end exchange rates, are as follows:

			2011			2010
£m	US$	€	AUS$	US$	€	AUS$
Monetary assets	235.5	100.9	107.8	268.8	86.7	85.3
Monetary liabilities	(647.3)	(49.4)	(98.8)	(882.9)	(37.8)	(109.5)

Foreign currency borrowings are used to mitigate the impact of foreign currency exchange rates on the Group's overseas net assets. The Group typically borrows US dollars to fund acquisitions in the USA and uses intercompany debt to create a natural economic hedge. The following borrowings (included in monetary liabilities in the table above) and foreign exchange contracts match exposures arising from currency denominated net assets:

£m	2011	2010
US dollar borrowings	460.1	526.9
US dollar foreign exchange contracts	193.0	161.0

On consolidation, the net assets of overseas subsidiaries (which include monetary assets and liabilities shown in the tables above) are translated at closing exchange rates and exchange differences arising are accounted for in other comprehensive income and the translation reserve (note 27).

The Group is exposed to foreign currency risk in the income statement where individual subsidiaries hold non-functional currency monetary assets and liabilities and when an operating unit makes sales and purchases in currencies other than its own functional currency. The Group undertakes a formal process to actively manage and mitigate this exposure through a combination of matching non-functional currency revenues and costs, matching non-functional currency monetary assets and liabilities and through the use of forward contracts.

The sterling/US dollar exchange rate is the most important as far as the Group is concerned, particularly given the level of US dollars which non-US based subsidiaries expect to receive from their normal business activities, and the proportion of the Group based in the USA. In addition to the longer term borrowing structure, a number of financial instruments are used to manage the foreign exchange position, such as forward contracts. It is the Group's current belief that the net dollar receipts by its subsidiaries will exceed the level of the outstanding commitment.

The following table details the forward foreign currency contracts for net sales of US dollars outstanding as at 31 December:

		US$m amount		Average US$: £ exchange rate
	2011	2010	2011	2010
Expiring within one year	138.5	182.7	1.59	1.56
Expiring within one to two years	63.8	52.4	1.59	1.60
Expiring after two years	46.2	83.1	1.61	1.61
	248.5	318.2	1.59	1.58

The latest expiry date of forward foreign currency contracts for sales of US dollars is December 2014.

The following table details the Group's sensitivity to a weakening in sterling against the respective foreign currencies. The sensitivities below represent management's assessment of the possible changes in foreign exchange rates, based on experience over the previous five years. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumption that the change is effective throughout the financial year. The analysis assumes that all other variables, including interest rates, remain constant and includes the effect of derivative financial instruments. A positive number indicates an increase in profit after taxation and total equity.

£m	Sensitivity 2011	Profit or loss 2011	Total equity 2011	Sensitivity 2010	Profit or loss 2010	Total equity 2010
US dollars	20%	(28.6)	(28.6)	21%	(33.9)	(33.9)
Euros	16%	(18.0)	(18.0)	15%	(9.0)	(9.0)
Australian dollars	22%	(0.3)	(0.3)	21%	(0.3)	(0.3)

The exposure to movements in exchange rates arises due to outstanding non-functional currency financial instruments, receivables and payables at the year end, including borrowings.

In order to provide comparable information, sensitivity has also been assessed based on a 10% weakening in sterling against the respective foreign currency, as follows:

£m	Sensitivity 2011	Profit or loss 2011	Total equity 2011	Sensitivity 2010	Profit or loss 2010	Total equity 2010
US dollars	10%	(12.7)	(12.7)	10%	(14.2)	(14.2)
Euros	10%	(10.5)	(10.5)	10%	(5.6)	(5.6)
Australian dollars	10%	(0.1)	(0.1)	10%	(0.1)	(0.1)

Interest rate risk

The Group has various long and short-term borrowings, principally in US dollars and Australian dollars at both fixed and floating rates of interest. The Group continually monitors its exposure to movements in interest rates in order to bring greater stability and certainty with respect to borrowing costs. Group policy is to assess borrowings with regard to fixed or variable rates of interest depending on prevailing market conditions and to use interest rate swaps to manage the interest rate risk.

Borrowings are held under both fixed and floating rates as follows:

£m	2011	2010
Fixed rates		
Senior notes	313.0	334.2
Floating rates		
Bank loans and overdrafts	162.4	361.2
Senior notes	99.8	99.0
Loan notes	1.5	3.7
Other borrowings and finance leases	1.4	1.0
	265.1	464.9
	578.1	799.1

All floating rate borrowings have regular repricing dates. Interest rate swaps which mitigate the exposure arising on floating rate debt are as follows, all are designated as cash flow hedges:

Hedged item	Fixed rate	Period of swap contract from	Period of swap contract to	2011 Currency value	2011 £m	2010 Currency value	2010 £m
US dollar loans	3.22%	June 2010	June 2013	US$65.0m	41.8	US$260.0m	166.1
	3.49%	March 2008	March 2013	US$80.0m	51.5	US$139.0m	88.8
	3.61%	August 2008	August 2013	US$150.0m	96.5	US$211.0m	134.8
Australian dollar loans	6.30%	May 2006	January 2020	AUS$74.4m	49.1	AUS$82.7m	54.1
	6.40%	January 2007	January 2020	AUS$14.3m	9.4	AUS$16.1m	10.5
					248.3		454.3

The Group does not currently hold any interest rate swaps designated as fair value hedging instruments.

Surplus funds are placed on short term fixed rate deposit and as such also give rise to interest rate exposure.

The following table details the Group's sensitivity to a change of 1.0% in interest rates throughout the year, with all other variables, including foreign currency exchange rates, held constant.

A positive number indicates an increase in profit after taxation and total equity where interest rates rise. A fall in interest rates would have the equal but opposite effect on the basis that all other variables remain constant.

	2011		2010	
£m	Profit or loss	Total equity	Profit or loss	Total equity
Sterling	0.8	–	1.9	–
US dollars	0.2	2.5	–	9.1
Euros	0.3	–	0.1	–
Australian dollars	0.3	2.3	0.2	2.6

Liquidity risk

The Group has a positive cash flow from operating activities and where practicable the funds generated by operating companies are managed on a regional basis. For short-term working capital purposes in the UK, most operating companies utilise local bank facilities within an overall Group arrangement. In the US a central treasury function is maintained which all US subsidiaries use. These practices allow a balance to be maintained between continuity of funding, security and flexibility.

As regards liquidity, the Group's policy throughout the year has been to maintain a mix of short, medium and long-term borrowings with their lenders. Short-term flexibility is achieved by overdraft and revolving credit facilities. The table below summarises the remaining contractual maturity for the Group's financial liabilities. The amounts shown are the contractual undiscounted cash flows which include interest, analysed by contractual maturity.

	2011			2010		
£m	Within one year	1–5 years	Over 5 years	Within one year	1–5 years	Over 5 years
Non-derivative financial liabilities						
Trade and other payables	203.1	37.9	2.4	220.8	26.4	2.7
Borrowings	225.8	151.1	201.3	316.0	214.9	268.4
Derivative contracts						
Gross cash outflows	(220.6)	(122.1)	(0.7)	(74.8)	(151.8)	–
Gross cash inflows	206.6	108.7	–	59.2	127.4	–

In addition, and to provide flexibility in the management of the Group's liquidity, it is the Group's policy to maintain undrawn committed borrowing facilities in various currencies. At 31 December 2011, £202.1m (2010: £46.6m) was available to the Group under existing facilities, including the £300.0m multi-currency facility which expires in July 2012. As shown in note 19, a new facility for US$360.0m has been agreed to replace this facility.

Credit risk

The Group has no significant concentrations of credit risk. The Group's principal financial assets are bank balances, cash and trade and other receivables.

The Group has a conservative policy towards the credit risk on liquid funds and derivative financial instruments with balances currently spread across a range of reputable financial institutions, such counterparties are banks with satisfactory credit ratings assigned by international credit rating agencies. The levels of credit risk are monitored through the Group's ongoing risk management processes, which includes a regular review of the banks' credit ratings. Risk in this area is limited further by setting a maximum level for deposits with any one counterparty.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Customers are typically large global companies or government agencies with long-term trading relationships. The Group also has in place procedures that require appropriate credit checks on potential customers before sales are made. Existing customer accounts are monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. The Directors therefore believe there is no further credit risk provision required in excess of normal provision for impaired receivables.

Group management monitor the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 31 December 2011, 6.5% (2010: 6.1%) of gross trade receivables were overdue by one month or more.

The maximum exposure to credit risk at 31 December 2011 is the fair value of each class of receivable as disclosed in note 16. Letters of credit are the only collateral held as security against trade receivables. These are obtained in a limited number of cases in accordance with good business practice and secure less than £1.0m of receivables.

The Group has pledged assets only in respect of bank accounts as disclosed in note 17 and a small amount of finance leases. No assets have been pledged in respect of any of the Group's primary borrowing facilities or other financial liabilities.

In the UK and the USA, the Group has master netting arrangements in respect of bank balances. In the normal course of business these bank accounts are settled on a net basis within each currency and as such are presented net in the financial statements. In the event of an automatic enforcement event the bank balances are automatically set off against each other to achieve a net position.

Inflation risk

The Group's exposure to inflation is considered to be a general business risk which is mitigated through normal commercial activity. During 2011, a specific operational contract was agreed for which it was deemed appropriate to enter into a swap to manage the inherent inflation risk in the contract.

Capital risk management

Group policy is to maintain a strong capital base, defined as total shareholders' equity, excluding non-controlling interests, totalling £1,018.6m at 31 December 2011 (2010: £1,075.8m), so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings. Funding needs are reviewed periodically and also each time a significant acquisition or business divestment is made. A number of factors are considered which include the net debt/EBITDA ratio, future funding needs (usually potential acquisitions) and proposed dividend levels. Group banking arrangements are also considered, these include financial covenants which are based on adjusted IFRS results. This policy has been reviewed by the Board on a regular basis during the year and, given the current economic climate, continues to be considered appropriate. There have been no breaches of the terms of the Group banking arrangements or defaults during the current or prior year.

During the year the Board considered that the proceeds from exiting sub-scale and other non-strategic businesses were estimated to be broadly surplus to funding requirements and consequently £150.0m of capital was returned to shareholders through a share buy-back programme; further details are shown in note 26.

26. Share capital

Authorised

£m	2011	2010
1,479,200,000 (2010: 1,479,200,000) Ordinary Shares of par value 2.5 pence	37.0	37.0
20,000 6% second cumulative Preference Shares of £1	–	–

Ordinary Shares – issued and fully paid

	Number of shares	£m
At 1 January 2010	1,146,334,157	28.6
Exercise of share options	8,193,468	0.3
At 1 January and 31 December 2011	1,154,527,625	28.9

The Company has one class of Ordinary Shares which carry no right to fixed income, representing 99.9% of the total issued share capital. On a show of hands every member holding Ordinary Shares who is present in person or by a duly authorised representative has one vote and on a poll every member who is present in person or by proxy has one vote for every £1 in nominal value of the shares of which the member is the holder.

75,951,724 shares were acquired by the Company in the year to 31 December 2011 under the share buy-back plan announced on 3 March 2011 and these are held as treasury shares. The total cost of these shares is £150.0m (plus £1.0m of commissions and taxes) which has been deducted from retained earnings and total shareholders' equity.

Additional treasury shares have also been purchased by the Cobham Employee Benefit Trust in connection with a number of the Group's share incentive schemes, and shares have been transferred from the trust to employees upon vesting of share schemes during the period. No new shares have been issued during 2011 in connection with the exercise of share options.

In addition to the Ordinary Shares described above, 19,700 6% second cumulative Preference Shares have been issued which represent 0.1% of total issued share capital. These are non-redeemable and are classified as borrowings with a value of £19,700.

The shareholders of the 6% second cumulative Preference Shares are entitled to receive a fixed cumulative preference dividend at the rate of 6% per annum in priority to the payment of dividends on the Ordinary Shares. In addition, on a return of assets on the liquidation or otherwise of the Company, the assets available for distribution are to be applied first in repaying to the holders of the 6% second cumulative Preference Shares the amounts paid up on their shares. On a show of hands, every member holding 6% second cumulative Preference Shares who is present in person has one vote and on a poll, every member has one vote for every £1 in nominal amount of the shares of which the member is the holder.

27. Other reserves

£m	Note	Translation reserve	Hedging reserve	Share options reserve	Total other reserves
At 1 January 2010		43.6	(14.7)	24.9	53.8
Currency differences on translation of foreign operations		20.8	–	–	20.8
Movements on cash flow hedges	23	(0.7)	(21.2)	–	(21.9)
Reclassification to income statement		–	17.1	–	17.1
Share-based payments recognised in reserves	28	–	–	7.3	7.3
Transfer of share options reserve on vesting of PSPs		–	–	(2.7)	(2.7)
Transfer of share options reserve on exercise		–	–	(4.6)	(4.6)
Tax effects		0.2	0.4	(0.6)	–
At 1 January 2011		63.9	(18.4)	24.3	69.8
Foreign exchange differences on translation of overseas operations		(2.4)	–	–	(2.4)
Movements on cash flow hedges	23	0.2	(8.3)	–	(8.1)
Reclassification to income statement		–	24.0	–	24.0
Transfer of translation reserve on settlement of cash flow hedge contracts		3.7	–	–	3.7
Share-based payments recognised in reserves	28	–	–	6.1	6.1
Transfer of share options reserve on exercise		–	–	(4.8)	(4.8)
Dividend equivalents paid on vesting of PSP and BCP awards		–	–	(0.2)	(0.2)
Tax effects		(0.3)	(3.0)	(1.0)	(4.3)
At 31 December 2011		65.1	(5.7)	24.4	83.8

The translation reserve comprises all foreign exchange differences arising on the results and financial position of subsidiaries whose functional currencies differ from the Group's reporting currency. Foreign exchange movements arising on interest rate swaps designated as cash flow hedges are also included here and following the settlement of the financial instrument, any balances remaining are transferred to retained earnings.

The hedging reserve reflects movements in fair values on cash flow hedging derivatives as detailed in notes 23 and 25.

The share options reserve includes the cost of share options as assessed under IFRS 2 together with deferred tax provided under IAS 12 relating to share-based payments, where the calculated future tax benefit is in excess of the amount charged to date under IFRS 2. Where share options which gave rise to charges under IFRS 2 have been exercised, the appropriate proportion of the share options reserve is transferred to retained earnings.

Retained earnings includes the purchase of Cobham plc ordinary shares by the Cobham Employee Benefit Trust in connection with the Cobham Bonus Co-investment Plan, the Cobham Executive Share Option Scheme and the Cobham Savings Related Share Option Scheme, and the allocation of the shares upon the exercise of options. Unallocated shares are held as treasury shares. At 31 December 2011, the trust held 2,828,612 (2010: 1,959,353) ordinary shares with a market value of £5.2m (2010: £4.0m).

28. Share-based payments

The total expense for share-based payments is as follows:

£m	2011	2010
Equity settled share-based payment schemes	6.1	7.3
Cash settled share-based payment schemes	(0.2)	(0.2)
Cash settled share-based payments related to business combinations	–	2.2
Total share-based payment expense	5.9	9.3

Details of the schemes which give rise to these charges are as follows:

Equity settled share-based payment schemes
The Group operates a number of incentive schemes for certain senior executives as follows:

- The Cobham Performance Share Plan (PSP).
- The Cobham Bonus Co-investment Plan (BCP).
- The Cobham Executive Share Option Scheme (ESOS).

The PSP scheme allows for annual grants of conditional shares which mainly vest 50% based on the Group's three year Total Shareholder Return relative to that of a sector comparator group and 50% based on the growth of the Group's underlying EPS over the same period.

The BCP scheme allows participants to defer up to 50% of their net earned annual performance bonus into Cobham shares in return for an opportunity to earn up to a 2:1 matching award of shares against the gross bonus invested, based on three-year Economic Profit growth targets.

Under the ESOS, options are granted at a price not less than the market value of the Group's Ordinary Shares on, or shortly before, the date the options are granted. Exercise is conditional upon the Group's underlying EPS growth over a three year period. The scheme also includes a 'time-only' section which is offered to participants based in the USA. This allows for options to be granted with 25% vesting on each annual anniversary conditional only on continued employment within the Group.

Further details of the above schemes can be found in the Directors' remuneration report on pages 47 and 48.

Entry to the Cobham Savings Related Share Option Scheme (ShareSave) is available to all employees of participating UK subsidiaries. Employees may purchase the Group's shares at 80% of the closing market price on the date of grant during a two-week period each year, up to an HMRC imposed maximum contribution value of £3,000 in any one year. The shares so purchased are generally placed in the employee's share savings plan and will only be released to employees who remain in the Group's employment for a period of three years from the date of grant.

Details of the awards are as follows:

Number of awards	PSP	BCP	ESOS	ShareSave
At 1 January 2010	5,730,975	924,828	23,083,576	8,243,964
Awards granted	1,592,165	172,978	5,097,184	1,631,776
Awards forfeited or cancelled by employee	(631,490)	(15,540)	(1,686,273)	(262,349)
Exercised	(998,963)	–	(5,267,753)	(1,977,000)
Expired	–	–	(14,670)	(123,686)
At 1 January 2011	5,692,687	1,082,266	21,212,064	7,512,705
Awards granted	3,413,572	88,425	2,388,345	2,153,126
Awards forfeited or cancelled by employee	(1,386,117)	(52,968)	(2,051,523)	(543,685)
Exercised	(882,518)	(541,452)	(1,427,940)	(1,597,118)
Expired	–	–	(151,787)	(232,491)
At 31 December 2011	6,837,624	576,271	19,969,159	7,292,537

Exercisable at 31 December 2011	1,657	–	8,778,735	63,837
Exercisable at 31 December 2010	–	–	5,453,656	143,904

The weighted average remaining contractual life in years of awards is as follows:

Outstanding at 31 December 2011	2.00	0.80	6.80	2.58
Outstanding at 31 December 2010	1.28	0.65	7.44	2.24

The number of BCP awards shown in the table above reflects matching shares granted against the net bonus invested and will be grossed up for tax at the time of vesting. The rules of the BCP scheme allow for a matched award based on the gross amount of the bonus, dependent upon satisfaction of the performance conditions. The exact amount of the entitlement will be ascertained upon vesting of the awards. For the award vesting in 2011, the operation of the gross up mechanism resulted in an additional 348,267 matching shares being awarded to the holders of the 541,452 matched shares exercised in year.

Under the ESOS and ShareSave schemes, exercises were made at various times throughout the year. The average share price in that period was £2.024 (2010: £2.330).

All awards under the PSP and BCP schemes have a nil exercise price. The weighted average exercise prices of awards under the ESOS and ShareSave schemes are as follows:

£	ESOS	ShareSave
At 1 January 2010	1.842	1.501
Awards granted	2.473	1.790
Awards forfeited or cancelled by employee	2.016	1.686
Exercised	1.773	1.264
Expired	1.037	1.568
At 1 January 2011	1.997	1.619
Awards granted	2.332	1.480
Awards forfeited or cancelled by employee	2.115	1.732
Exercised	1.787	1.440
Expired	1.963	1.680
At 31 December 2011	2.040	1.606
Exercisable at 31 December 2011	1.897	1.619
Exercisable at 31 December 2010	1.740	1.519

The range of exercise prices for ESOS and ShareSave awards are as follows:

Outstanding at 31 December 2011		
Lowest exercise price	0.912	1.076
Highest exercise price	2.473	1.790
Outstanding at 31 December 2010		
Lowest exercise price	0.912	0.939
Highest exercise price	2.473	1.790

Details of awards granted or commencing during the current and comparative year are as follows:

£	PSP	BCP	ESOS	ShareSave
During 2011:				
Effective date of grant or commencement date	14 March, 11 August and 31 December	10 March	17 March	1 February
Average fair value at date of grant or scheme commencement	1.655	1.470	0.361	0.658
During 2010:				
Effective date of grant or commencement date	15 March and 13 April	5 March	15 and 26 March	1 February
Average fair value at date of grant or scheme commencement	2.005	0.895	0.586	0.508

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

The fair values in the table above were calculated using the Black-Scholes option pricing model (modified by a Monte Carlo simulation for PSP awards) to determine the likely impact of market related performance conditions. The inputs into the model were as follows:

	PSP	BCP	ESOS	ShareSave
2011 awards:				
Weighted average share price	£2.151	£2.292	£2.185	£2.355
Weighted average exercise price	nil	nil	£2.332	£1.790
Expected volatility	32%	33%	29%	25%-31%
Expected life	2.8 years	3 years	3.9 years	3-7 years
Expected employee cancellation rate	1.5%	nil	5.7%	2.9%
Risk free rate	1.9%	1.7%	2.0%	2.5%
Expected dividend yield	n/a	2.6%	2.6%	2.4%
2010 awards:				
Weighted average share price	£2.693	£2.486	£2.614	£2.155
Weighted average exercise price	nil	nil	£2.473	£1.690
Expected volatility	31%	31%	29%	21%-25%
Expected life	3 years	3 years	4.5 years	3-7 years
Expected employee cancellation rate	4.0%	nil	8.0%	2.2%
Risk free rate	1.9%	1.9%	2.5%	2.1%
Expected dividend yield	n/a	2.2%	2.1%	2.3%

Expected volatility was determined through the assessment of the historical volatility over a period consistent with the expected life of the award. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The expected employee cancellation rate is based on an assessment of historic rates of voluntary cancellations of contracts by employees.

Most participants of the PSP scheme receive the benefit of dividend payments and therefore dividend yields are not taken into consideration in the valuation model.

Cash settled share-based payment schemes
Share appreciation rights (SARs) were issued in 2006 and 2007 to a number of senior executives which required the Group to pay the intrinsic value of the award to the employee at the date of exercise. These awards vested in 2009 and the majority expired in November 2011. The expense for the year for these awards was £0.2m credit (2010: £0.2m credit), arising from changes in the fair value of the outstanding awards at the balance sheet date together with additional amounts arising at the date of exercise. The fair value of the SARs outstanding at 31 December 2011 was £0.133 (2010: £0.204).

Details of the awards are as follows:

Number of awards	2011	2010
At 1 January	222,820	514,108
Forfeited during the year	–	(106,308)
Exercised during the year	(42,868)	(184,980)
Expired	(175,249)	–
At 31 December	4,703	222,820
Exercisable at 31 December	4,703	222,820
Weighted average remaining contractual life of outstanding awards (in years)	0.10	0.86

Share-based payments related to business combinations
Expenses of £2.2m were incurred in 2010 in connection with cash-settled options issued to certain employees in 2008. These awards were fully expensed by the end of 2010. These costs are included within M&A related adjustments and excluded from underlying earnings as described in note 8.

29. Business combinations

On 18 January 2011, the purchase of the entire share capital of Telerob Holdings GmbH (Telerob) was completed for €70.6m. The company is based in Germany and manufactures advanced bomb disposal robots and threat response vehicles. It is reported in the Cobham Mission Systems segment.

The acquisition of 100% of the share capital of the US surveillance technology company Corp Ten International Inc. (Corp Ten) was completed on 2 February 2011. Consideration comprises US$13.6m with additional cash consideration of up to US$12.5m contingent upon future performance. Corp Ten reports in the Cobham Aerospace and Security segment.

The completion of the acquisition of the whole of the share capital of Trivec-Avant Corporation (Trivec) was completed on 28 October 2011, for cash consideration of US$126.4 million. Additional cash consideration of up to US$18.0 million is payable between 2013 and 2014, contingent on future performance. It is reported in the Cobham Aerospace and Security segment.

Components of the cost of the acquisitions during the year are as follows:

£m	Telerob	Corp Ten	Trivec	Total
Cash	59.7	8.4	78.0	146.1
Contingent consideration	–	6.1	9.4	15.5
Deferred consideration	–	–	0.2	0.2
	59.7	14.5	87.6	161.8

Contingent consideration has been provided at fair value which is considered to be the discounted maximum payable under the agreement.

The results of these businesses since the date of acquisition are as follows:

£m	Telerob	Corp Ten	Trivec	Total
Third party revenue	33.2	5.0	3.2	41.4
Operating profit	6.2	1.5	1.4	9.1

If these acquisitions had taken effect on 1 January 2011, it is estimated that Group total revenues would have been £1,872.5m and profit after tax £197.6m. This information is not necessarily indicative of the results had the operations been acquired at the start of the period, nor of future results of the combined operations.

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

£m	Telerob	Corp Ten	Trivec	Total
Non-current assets	43.9	10.7	40.7	95.3
Current assets	15.0	2.4	6.3	23.7
Current liabilities	(17.5)	(0.5)	(0.6)	(18.6)
Non-current liabilities	(12.7)	(4.3)	–	(17.0)
Net assets acquired	28.7	8.3	46.4	83.4
Goodwill	31.0	6.2	41.2	78.4
Total consideration	59.7	14.5	87.6	161.8

All intangible assets were recognised at their respective fair values. The residual excess of the total cost over the fair value of the net assets acquired is recognised as goodwill in the financial statements. Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised. Goodwill of £41.2m is anticipated to be deductible for tax purposes.

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

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

£m	
Cash consideration paid for the business combinations completed in the current year, net of cash acquired	146.6
Consideration relating to business combinations completed in prior periods	1.2
	147.8

M&A related costs recognised within administrative expenses during the year includes £1.5m relating to the above acquisitions.

In the Group consolidated financial statements for the year to 31 December 2010, the fair values of assets and liabilities acquired for RVision were marked as provisional. Following the agreement of the working capital position, the consideration has been adjusted by £0.4m. Goodwill has therefore been increased accordingly.

30. Business divestments and similar income

£m	Note	2011	2010
Net profit on business divestments before tax		25.0	–
Earn-out on divestment of M/A-COM Technology Solutions Inc		9.1	1.5
Goodwill adjustment on business held for sale	10	(7.0)	–
		27.1	1.5

Divestments during the year to 31 December 2011 were as follows:

On 19 October 2011 the divestment of the Group's Analytic Solutions business was announced, for consideration of $351.1m on a debt-free, cash-free basis. The divestment was completed on 16 November 2011. The results of Analytic Solutions have been reported within continuing operations as the business sold does not form a separate line of business for the Group and does not qualify for disclosure as a discontinued operation.

The divestment of the Engineering Consultancy Group (ECG), part of Cobham Technical Services (within Aerospace and Security) was completed on 17 February 2011. Consideration comprised £13.5m on a debt-free cash-free basis, realising a net profit on divestment of £4.9m.

In addition, the sale of Cobham MAL Limited (MAL) was completed on 19 December 2011, realising a loss on divestment before tax of £6.4m. MAL formed part of the non-core Commercial Systems business.

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

£m	Analytic Solutions	ECG and MAL	Total
Gross consideration	222.0	14.5	236.5
Net assets at date of divestment	(187.8)	(16.5)	(204.3)
Expenses of sale	(7.2)	(0.9)	(8.1)
Pension liability curtailment gain	–	1.4	1.4
Foreign exchange adjustments	(0.5)	–	(0.5)
Net profit/(loss) on divestments before tax	26.5	(1.5)	25.0
Tax charge on net profit/(loss) on divestments	–	(0.4)	(0.4)
Net profit/(loss) on divestments after tax	26.5	(1.9)	24.6

Following the sale of the Analytic Solutions business, US$350.0m of borrowings were repaid as shown in note 19. These funds were initially raised to finance the acquisition of the business. The make-whole payments on the early repayment of the debt and the cost of cancelling the associated interest rate swaps, amounting to £15.4m, have been disclosed separately in note 4. The net profit on divestment of Analytic Solutions, after excluding these costs and related tax impacts, amounts to £15.2m.

The net cash impact of the divestments is as follows:

£m	Analytic Solutions	ECG and MAL	Total
Cash consideration	220.8	15.0	235.8
Expenses of sale	(4.3)	(1.1)	(5.4)
	216.5	13.9	230.4

The net assets of the Analytic Solutions business divested during the year were as follows:

£m	At date of divestment	At 31 December 2010
Attributable goodwill	128.8	130.2
Other intangible assets	72.9	89.2
Property, plant and equipment	4.5	4.5
Trade and other receivables	38.7	42.2
Trade and other payables including provisions	(30.4)	(34.9)
Deferred tax liability	(26.7)	(32.2)
Net assets	187.8	199.0

31. Operating lease arrangements

At the balance sheet date the Group had outstanding commitments for minimum lease payments due under non-cancellable operating leases as follows:

£m	2011	2010
Within one year	27.7	31.1
Between one and two years	24.2	29.1
Between two and three years	21.8	28.1
Between three and four years	19.0	24.9
Between four and five years	15.9	21.8
After five years	97.3	126.0
	205.9	261.0

Operating lease payments represent rentals payable by the Group for certain of its office and operational properties, and operational aircraft used in its service businesses.

32. Contingent liabilities and commitments

At 31 December 2011, 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 consolidated financial statements.

As the conditions of these guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made at the year end.

The Company has also committed, in connection with the Future Strategic Tanker Aircraft project, to invest £6.0m in the equity share capital of three companies and to provide additional funding of £18.1m in the form of redeemable loan notes by March 2013 at the latest. In addition, a number of performance guarantees and letters of credit have been provided to secure the funding of this project. No provision was made at 31 December 2011 or 2010 in connection with these guarantees.

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. In 2010, the Group identified one, more significant, contractual breach dating back some years. The contract was in respect of goods provided into a geographic market which represents only a small amount of revenue for the Group. The circumstances surrounding this remain under review and the outcome still cannot be estimated. Resolution may take some time. No further information is disclosed as it could be prejudicial.

At 31 December 2011, the Group had commitments for the acquisition of property, plant and equipment of £3.9m (2010: £5.4m).

33. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

£m	2011	2010
Transactions between Group entities and joint ventures during the year		
Sales of goods	1.2	0.8
Dividends received	(8.1)	(6.0)
Loan to joint venture	8.0	–
Amounts owed by joint ventures at the year end	8.4	0.1

Sales of goods to related parties were made at the Group's usual list prices for sales to non-related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given to or received from related parties. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

£m	2011	2010
Remuneration	6.3	5.0
Post-employment benefits	0.4	0.6
Share-based payments	3.0	3.7
	9.7	9.3

The remuneration of Directors and key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

The Directors of Cobham plc had no material transactions with the Company during the year, other than as a result of service agreements. Details of Directors' remuneration are disclosed in the Directors' remuneration report on pages 44 to 53.

34. Subsidiaries

All subsidiary undertakings have been included in the Group consolidation. The undertakings held at 31 December 2011 which, in the opinion of the Directors, principally affected the results for the year or the net assets of the Group were:

Name of undertaking	Place of incorporation (or registration) and operation
Air Précision SAS	France
Carleton Life Support Systems, Inc	USA
Carleton Technologies, Inc	USA
Chelton Avionics, Inc	USA
Chelton Limited	England
Chelton, Inc	USA
Cobham Advanced Composites Limited	England
Cobham CTS Limited (formerly ERA Technology Limited)	England
Cobham Defence Communications Limited	England
Cobham Defense Electronic Systems Inc (formerly Cobham Defense Electronic Systems – M/A-COM, Inc)	USA
Cobham Holdings, Inc	USA
Cobham TCS Limited (formerly Micromill Electronics Limited)	England
Conax Florida Corporation	USA
Continental Microwave & Tool Co, Inc	USA
DTC Communications, Inc	USA
Flight Refuelling Limited *	England
FR Aviation Limited	England
Jet Systems Pty Limited	Australia
Kevlin Corporation	USA
National Jet Express Pty Limited	Australia
National Jet Systems Pty Limited	Australia
REMEC Defense & Space, Inc	USA
Sea Tel, Inc	USA
Sensor & Antenna Systems, Lansdale, Inc	USA
Surveillance Australia Pty Limited	Australia
TEAM SA	France
Telerob Gesellschaft fur Fernhantierungstechnik mbH	Germany
Trivec-Avant Corporation	USA

All subsidiaries are 100% owned with the exception of TEAM SA (98.7% owned).

In the case of the companies marked *, issued shares are held by, or by a nominee for, Cobham plc. Otherwise shares are held by, or by a nominee for, a subsidiary of Cobham plc.

GROUP FINANCIAL RECORD

£m	2007	2008	2009	2010	2011
Revenue	1,061.1	1,466.5	1,880.4	1,902.6	1,854.4
Underlying profit before taxation	206.5	243.8	295.3	306.1	327.9
Profit on continuing operations before taxation	173.5	120.7	244.9	189.3	234.3
Tax on continuing operations	(47.3)	(28.1)	(59.0)	(36.5)	(46.3)
Profit on continuing operations after taxation	126.2	92.6	185.9	152.8	188.0
Profit after taxation from discontinued operations	5.8	2.9	–	–	–
Profit after taxation for the year	132.0	95.5	185.9	152.8	188.0
Net assets employed					
Intangible assets	476.1	1,211.8	1,063.0	1,048.4	917.6
Property, plant and equipment (including investment properties)	211.0	304.1	329.5	350.9	329.8
Investments	18.8	16.9	17.4	17.2	16.1
Other non-current assets	26.0	31.9	69.0	31.2	36.3
Current assets	858.9	994.9	963.2	1,123.2	983.7
	1,590.8	2,559.6	2,442.1	2,570.9	2,283.5
Current liabilities	(560.7)	(1,342.7)	(903.7)	(827.8)	(749.0)
Non-current liabilities excluding retirement benefit obligations	(188.8)	(316.9)	(474.9)	(584.9)	(444.2)
Net assets excluding retirement benefit obligations	841.3	900.0	1,063.5	1,158.2	1,090.3
Retirement benefit obligations	(37.2)	(51.2)	(115.2)	(82.0)	(71.2)
Net assets	804.1	848.8	948.3	1,076.2	1,019.1
Financed by					
Ordinary share capital	28.4	28.5	28.6	28.9	28.9
Reserves	775.3	819.7	919.4	1,046.9	989.7
Shareholders' funds	803.7	848.2	948.0	1,075.8	1,018.6
Non-controlling interests	0.4	0.6	0.3	0.4	0.5
Net assets	804.1	848.8	948.3	1,076.2	1,019.1
Net (debt)/cash	77.9	(641.3)	(412.6)	(326.1)	(232.5)
pence					
Dividend paid per Ordinary Share	3.86	4.63	5.09	5.60	6.17
Earnings per Ordinary Share – underlying	13.09	15.42	18.80	19.68	22.05
Earnings per Ordinary Share – basic (continuing)	11.10	8.13	16.26	13.27	16.80
Earnings per Ordinary Share – diluted (continuing)	11.04	8.08	16.17	13.20	16.76
Net assets per Ordinary Share	70.8	74.5	82.7	93.2	88.3
£m					
Market capitalisation	2,373	2,343	2,883	2,349	2,117

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COBHAM PLC

We have audited the parent company financial statements of Cobham plc for the year ended 31 December 2011 which comprise the parent company balance sheet, the reconciliation of movements in shareholders' funds, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 58, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Cobham plc for the year ended 31 December 2011.

Stuart Watson
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2012

PARENT COMPANY ACCOUNTING POLICIES

Accounting convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative contracts which are held at fair value, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom (UK GAAP).

The principal accounting policies, which have been consistently applied, are as set out below.

Dividends
Dividends payable are recognised as a liability in the period in which they are fully authorised. Dividend income is recognised when the shareholders' right to receive payment has been established.

Pensions
The Company operates and contributes to a multi-employer defined benefit pension scheme. Contributions and pension costs are apportioned across the scheme as a whole and assessed in accordance with the advice of qualified actuaries. The scheme is closed to new members and has a high proportion of deferred and pensioner members from businesses that no longer participate in the scheme. The Company is therefore not able to identify its share of underlying assets and liabilities of the scheme on a reasonable and consistent basis and in accordance with the multi-employer exemption contained in FRS 17 Retirement Benefits, the scheme has been accounted for as if it was a defined contribution scheme. The charge to the profit and loss account therefore reflects payments for the year.

Contributions to defined contribution schemes are charged to the profit and loss account in the period the contributions are payable.

The Company also makes contributions for certain employees to individual personal pension and stakeholder schemes. Contributions are charged to the profit and loss account in the year to which they relate.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax has not been discounted.

Intangible assets
Intangible assets, comprising software, are stated at cost less accumulated amortisation and impairment losses. They are amortised on a straight-line basis over their estimated useful lives which range from three to five years.

Tangible fixed assets
Fixed assets are initially recognised at cost and depreciated on a straight-line basis to their estimated residual values over their estimated useful lives which range from three to six years.

Investments in Group and other undertakings
Investments in subsidiary undertakings are stated at cost less any provision for impairment in value and include the fair value at the date of grant of share options awarded to employees of subsidiary undertakings, net of amounts recovered as management charges.

Other investments are stated at cost less any provision for impairment in value.

Provisions
A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

Share capital
Ordinary share capital is classified as equity. Financial liabilities and equity instruments are classified according to the substance of the contractual agreements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the preference shareholders or if dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the profit and loss account as interest expense.

Treasury shares
When ordinary share capital recognised as equity is acquired by the Company, the shares are held as treasury shares. The consideration paid, including commissions and taxes, is deducted from retained earnings and total shareholders' equity.

Foreign currencies
The functional currency of the Company is sterling. Transactions in currencies other than the local currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date.

All exchange differences arising are taken to the profit and loss account.

In order to manage the Group's exposure to certain foreign exchange risks, the Company enters into forward contracts and options which are accounted for as derivative financial instruments.

Derivative financial instruments and hedge accounting
The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange contracts and interest rate swap contracts to reduce these exposures and does not use derivative financial instruments for speculative purposes. Other derivative financial instruments may be used from time to time to hedge other exposures such as inflation risks.

The Group has documented its risk management objectives and strategy for undertaking various hedge transactions and utilises hedge accounting principles in relation to interest rate swaps. These are designated as cash flow hedges which mitigate the Group's exposure to changes in interest rates arising on floating rate debt. Foreign exchange contracts entered into to mitigate foreign exchange impacts of trading in non-functional currencies and inflation swaps entered into to mitigate inflation risks are not accounted for using hedge accounting.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so the nature of the item being hedged.

Where hedge accounting is applied, the relationship between hedging instruments and hedged items is documented at the inception of the transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows (or fair values if appropriate) of hedged items.

Where interest rate swaps are designated and qualify as cash flow hedges, the effective portion of changes in fair values of derivatives that are designated and qualify as cash flow hedges are recognised in reserves. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in reserves are recycled to the profit and loss account in the periods when the hedged item affects profit or loss.

When a cash flow hedging derivative expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in reserves at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in reserves is immediately transferred to the profit and loss account in that period.

The fair value of a hedging derivative is classified as a current asset or liability except when the remaining maturity of the hedged item is more than 12 months.

Where hedge accounting is not applied, the movements in fair value of the derivative instruments are included in the profit and loss account. The fair value of such derivatives is classified as a current or non-current asset or liability dependent upon the maturity of the contracts.

Other financial instruments

Amounts receivable from and owed to subsidiaries are recognised at their nominal value. Receivables are reduced by appropriate allowances for estimated irrecoverable amounts.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis in the profit and loss account using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Share-based payments

For grants made to employees of Cobham plc under the Group's share-based payment schemes, amounts which reflect the fair value of options awarded as at the time of grant are charged to the profit and loss account over the vesting period. The fair value of options awarded to employees of subsidiary undertakings, net of amounts recovered as management charges, is recognised as a capital contribution and recorded in investments.

The valuation of the options utilises a methodology based on the Black-Scholes model, modified where required to allow for the impact of market related performance criteria and taking into account all non-vesting conditions.

PARENT COMPANY BALANCE SHEET (UNDER UK GAAP)

As at 31 December 2011

£m	Note	2011	2010
Fixed assets			
Investments in Group and other undertakings	4	777.5	777.0
Intangible assets	5	0.3	0.3
Tangible assets	6	0.3	0.3
Financial assets: Derivative financial instruments	11	14.4	7.8
		792.5	785.4
Current assets			
Financial assets: Derivative financial instruments	11	5.3	2.5
Debtors	7	1,065.9	1,098.6
Cash at bank and in hand		72.8	298.2
		1,144.0	1,399.3
Creditors: Amounts falling due within one year	8	(610.4)	(687.4)
Net current assets		533.6	711.9
Total assets less current liabilities		1,326.1	1,497.3
Creditors: Amounts falling due after more than one year	9	(773.9)	(914.7)
Provisions for liabilities	10	(6.6)	(6.6)
Net assets		545.6	576.0
Capital and reserves			
Called up share capital	12	28.9	28.9
Share premium account	13	126.6	126.6
Special reserve	13	43.6	43.6
Other reserves	13	13.6	(0.2)
Profit and loss account	13	332.9	377.1
Equity shareholders' funds		545.6	576.0

Approved by a duly appointed and authorised committee of the Board on 6 March 2012 and signed on its behalf by:

J Devaney **W Tucker**

Directors

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2011

£m	Note	2011	2010
Profit for the financial year		179.9	89.9
Dividends	1	(69.4)	(64.6)
Retained profit for the financial year		110.5	25.3
Issue of shares	12	–	0.2
Premium on issue of shares	13	–	14.1
Treasury shares	13	(159.5)	(4.6)
Movements in hedging reserve	13	12.7	(3.4)
Dividend equivalents paid on vesting of PSP and BCP awards	13	(0.2)	–
Credit in respect of share-based payments	13	6.1	4.6
Net (reduction in)/addition to shareholders' funds		(30.4)	36.2
Shareholders' funds at 1 January		576.0	539.8
Shareholders' funds at 31 December		545.6	576.0

Profit for the financial year

In accordance with the concession granted under Section 408 of the Companies Act 2006, the profit and loss account of Cobham plc has not been separately presented in these financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. Dividends

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

£m	2011	2010
Final dividend of 4.372 pence per share for 2010 (2009: 3.971 pence)	49.8	45.8
Interim dividend of 1.800 pence per share for 2011 (2010: 1.628 pence)	19.6	18.8
	69.4	64.6

In addition to the above, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2011 of 6.2 pence per share which will absorb an estimated £66.8m of shareholders' funds. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If authorised, it will be paid on 1 June 2012 to shareholders who are on the register of members as at 4 May 2012. The total dividend in respect of the financial year ended 31 December 2011 will therefore be 8.0 pence per share (2010: 6.0 pence). The total amount payable in respect of 2011 will be £86.4m.

2. Directors' emoluments and pension costs

Disclosures in respect of Directors' emoluments can be found in the Directors' remuneration report on pages 44 to 53 of the Group financial statements.

Defined benefit pension schemes

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The pension schemes are of the defined benefit type and assets are held in separate trustee administered funds. The funds are valued every three years by a professionally qualified independent actuary and the rates of contribution payable are determined by the actuary. The latest effective dates of the actuarial assessment of the CPP and CEPP were 1 April 2009 and 1 April 2010 respectively. The assessments were updated to 31 December 2011 at which date the total net liabilities of the schemes were assessed to be £29.0m. The Directors of the companies involved in the Group schemes will continue to monitor the pension deficits and take advice from independent actuaries as appropriate.

As part of the Group's risk management strategy for defined benefit obligations, certain liabilities relating to past service of pensioner and deferred members of the CEPP were subject to a buy-in arrangement on 14 December 2011. Under the terms of this arrangement, assets were transferred to an insurance company in return for a qualifying insurance policy which provides annuity payments equal to the liabilities covered by the arrangement as they fall due. This eliminates exposure to the interest, inflation and longevity risks associated with these liabilities and is a meaningful, but not yet significant, first step of a project to review the exposure to risks associated with pension obligations.

The schemes have been accounted for as if they were defined contribution schemes and the charge to the profit and loss account therefore reflects payments for the year.

Contributions to the Group schemes for 2011 amounted to £0.3m (2010: £0.3m) of normal funding and an additional contribution of £17.5m related to the buy-in arrangement (2010: £7.9m connected to a prior year business divestment). No contributions were outstanding at the end of 2011 or 2010.

Defined contribution pension schemes

The Company also operates and participates in the Cobham plc money purchase pension arrangements. The assets of the schemes are held separately from those of the Company in independently administered funds. The pension costs charged represents contributions payable by the Company to the funds and amounted to £0.6m (2010: £0.6m). No contributions were outstanding at the end of 2011 or 2010.

3. Share-based payments

Employees of Cobham plc participate in the following equity settled share-based payment schemes which are operated by the Group for certain senior executives:

- The Cobham Performance Share Plan (PSP).
- The Cobham Executive Share Option Scheme (ESOS).
- The Cobham Bonus Co-investment Plan (BCP).

Employees also participate in the Cobham Savings Related Share Option Scheme (ShareSave) operated by the Group which is open to all employees of participating subsidiaries.

The Company recognised total expenses of £3.0m (2010: £3.8m) related to equity settled share-based payment transactions during the year (including national insurance). As shown in note 4, investments in Group and other undertakings have been adjusted to reflect the value of options granted to employees of the Company's subsidiaries, less amounts recharged to date.

Further details of these schemes can be found in the Directors' remuneration report on pages 47 and 48 and in the Group financial statements on pages 99 to 102.

Details of the awards held by the Company's employees are as follows:

Number of share options	PSP	BCP	ESOS	ShareSave
At 1 January 2010	3,676,067	789,470	7,295,967	310,773
Awards granted	783,259	153,764	1,311,926	73,259
Awards forfeited	(221,029)	–	–	(8,562)
Exercised	(629,097)	–	(1,634,196)	(63,658)
Employees transferred (to)/from other Group companies	(51,004)	–	(351,949)	14,153
At 1 January 2011	3,558,196	943,234	6,621,748	325,965
Awards granted	1,489,038	77,918	15,192	134,499
Awards forfeited	(546,075)	(52,968)	(176,662)	(29,543)
Exercised	(559,467)	(415,764)	(75,734)	(43,757)
Employees transferred (to)/from other Group companies	–	–	(118,843)	11,587
At 31 December 2011	3,941,692	552,420	6,265,701	398,751
Exercisable at 31 December 2011	–	–	3,134,925	1,726
Exercisable at 31 December 2010	–	–	1,947,183	9,201

The weighted average remaining contractual life in years of awards is as follows:

Outstanding at 31 December 2011	1.16	0.90	6.31	2.63
Outstanding at 31 December 2010	1.26	1.05	7.34	2.64

The number of BCP awards shown in the table above reflects matching shares granted against the net bonus invested and will be grossed up for tax at the time of vesting. The rules of the BCP scheme allow for a matched award based on the gross amount of the bonus, dependent upon satisfaction of the performance conditions. The exact amount of the entitlement will be ascertained upon vesting of the awards. For the award vesting in 2011, the operation of the gross up mechanism resulted in an additional 277,172 shares being awarded to the holders of the 415,764 matched awards exercised in the year.

Under the ESOS and ShareSave schemes, exercises were made at various times throughout the year. The average share price in that period was £2.024 (2010: £2.330).

All awards under the PSP and BCP schemes have a nil exercise price. The weighted average exercise prices of awards under the ESOS and ShareSave schemes are as follows:

£	ESOS	ShareSave
At 1 January 2010	1.815	1.405
Awards granted	2.473	1.790
Awards forfeited	–	1.669
Exercised	1.730	1.289
Employees transferred (to)/from other Group companies	1.641	1.436
At 1 January 2011	1.975	1.650
Awards granted	2.332	1.480
Awards forfeited	2.114	1.729
Exercised	2.015	1.561
Employees transferred (to)/from other Group companies	2.050	1.780
At 31 December 2011	1.970	1.600
Exercisable at 31 December 2011	1.845	1.790
Exercisable at 31 December 2010	1.740	1.690

The range of exercise prices for ESOS and ShareSave awards are as follows:

£	ESOS	ShareSave
Outstanding at 31 December 2011		
Lowest exercise price	1.337	1.076
Highest exercise price	2.473	1.790
Outstanding at 31 December 2010		
Lowest exercise price	1.337	1.076
Highest exercise price	2.473	1.790

Details of awards granted or commencing during the current and comparative year are as follows:

	PSP	BCP	ESOS	ShareSave
During 2011:				
Effective date of grant or commencement date	14 March, 11 August and 31 December	10 March	17 March	1 February
Average fair value at date of grant or scheme commencement (£)	1.655	1.470	0.361	0.658
During 2010:				
Effective date of grant or commencement date	15 March and 13 April	5 March	15 and 26 March	1 February
Average fair value at date of grant or scheme commencement (£)	2.005	0.895	0.586	0.508

Details, including methods and assumptions used in the calculation of fair values, of the awards granted during the current and comparative year are as shown in note 28 to the Group financial statements.

4. Investments in Group and other undertakings

£m	Shares	Options	Total
Cost and net book amount			
At 1 January 2011	764.7	12.3	777.0
Options granted to employees of subsidiary undertakings net of recoveries	–	0.5	0.5
At 31 December 2011	764.7	12.8	777.5

The Company has minority shareholdings in three companies in connection with the Future Strategic Tanker Aircraft project. The total amount invested in 2008 was £44,000 and this is held as a trade investment. The Company has committed to making further investments as detailed in note 14.

A list of significant subsidiaries is provided in note 34 to the Group financial statements. The market capitalisation of the Group as a whole is given in the Group financial record on page 108.

5. Intangible assets

£m	Software
Cost	
At 1 January 2011	0.7
Additions	0.1
At 31 December 2011	0.8
Accumulated amortisation	
At 1 January 2011	0.4
Charge for the year	0.1
At 31 December 2011	0.5
Net book amount	
At 31 December 2011	0.3
At 31 December 2010	0.3

6. Tangible fixed assets

£m	Plant, machinery, fixtures and fittings
Cost	
At 1 January 2011	1.0
Additions	0.2
At 31 December 2011	1.2
Accumulated depreciation	
At 1 January 2011	0.7
Charge for the year	0.2
At 31 December 2011	0.9
Net book amount	
At 31 December 2011	0.3
At 31 December 2010	0.3

7. Debtors

£m	2011	2010
Amounts owed by subsidiary undertakings	1,036.8	1,074.0
Prepayments and accrued income	3.3	1.9
Deferred tax	25.8	22.7
	1,065.9	1,098.6

Interest is charged on amounts owed by subsidiary undertakings at rates varying between 6% and 9%. These amounts are unsecured and are repayable on demand.

The net deferred tax asset can be analysed as follows:

£m	2011	2010
Derivative financial instruments	14.4	16.5
Share-based payments	7.6	6.2
Other timing differences	3.8	–
	25.8	22.7

Movements in the net deferred tax asset are as follows:

£m	Total
At 1 January 2011	22.7
Credit to reserves	0.6
Credit to profit and loss account	2.5
At 31 December 2011	25.8

The deferred tax asset is considered recoverable on the basis that sufficient taxable profits will be available to utilise any tax losses that may arise.

8. Creditors: Amounts falling due within one year

£m	Note	2011	2010
Bank overdrafts		230.2	173.0
Bank loans repayable on demand		100.3	307.3
Senior notes		110.3	1.1
Total borrowings		440.8	481.4
Trade creditors		0.5	6.2
Amounts owed to subsidiary undertakings		99.6	104.4
Derivative financial instruments	11	14.5	17.6
Corporation tax payable		21.2	50.8
Other taxes and social security		1.8	2.7
Accruals and deferred income		32.0	24.3
		610.4	687.4

Details of the Company's principal borrowing facilities are disclosed in note 19 to the Group financial statements.

All bank overdrafts are repayable on demand.

Interest is payable on amounts owed to subsidiary undertakings at a rate of 8%. These amounts are unsecured and are repayable on demand.

9. Creditors: Amounts falling due after more than one year

£m	Note	2011	2010
Bank loans		48.3	47.9
Senior notes		302.5	432.1
Amounts owed to subsidiary undertakings		406.3	407.0
Derivative financial instruments	11	16.8	27.7
		773.9	914.7

Amounts owed to subsidiary undertakings consist of frozen loans which are unsecured, interest free and not repayable within one year.

Bank loans due after more than one year expire in December 2031 although the lender has a series of put options exercisable every three years from December 2013. Senior notes falling due after more than one year mature as follows:

£m	2011	2010
Between one and two years	–	109.5
Between two and five years	101.4	54.3
After five years	201.1	268.3
	302.5	432.1

Amounts due after five years mature in 2017, 2018 and 2019.

10. Provisions for liabilities

Other provisions of £6.6m (2010: £6.6m) relate to warranties given on the disposal of the Fluid and Air group in 2005. All amounts have been determined based on the Directors' current estimates of likely outcomes.

11. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

£m	Interest rate swaps – cash flow hedges	Foreign exchange derivatives	Inflation swap	Total
Fixed assets	–	12.7	1.7	14.4
Current assets	–	5.3	–	5.3
Creditors due within one year	(5.8)	(8.7)	–	(14.5)
Creditors due after more than one year	(6.6)	(8.5)	(1.7)	(16.8)
At 31 December 2011	(12.4)	0.8	–	(11.6)
Fixed assets	–	7.8	–	7.8
Current assets	–	2.5	–	2.5
Creditors due within one year	(9.6)	(8.0)	–	(17.6)
Creditors due after more than one year	(15.1)	(12.6)	–	(27.7)
At 31 December 2010	(24.7)	(10.3)	–	(35.0)

12. Share capital

£m	2011	2010
Authorised		
Equity		
1,479,200,000 (2010: 1,479,200,000) Ordinary Shares of par value 2.5 pence	37.0	37.0
Non-equity		
20,000 (2010: 20,000) 6% second cumulative Preference Shares of £1	–	–
Allotted, issued and fully paid		
Equity		
1,154,527,625 (2010: 1,154,527,625) 2.5 pence Ordinary Shares	28.9	28.9
Non-equity		
19,700 (2010: 19,700) 6% second cumulative Preference Shares of £1	–	–

The Company has one class of Ordinary Shares which carry no right to fixed income, representing 99.9% of the total issued share capital. On a show of hands every member holding Ordinary Shares who is present in person or by a duly authorised representative has one vote and on a poll every member who is present in person or by proxy has one vote for every £1 in nominal value of the shares of which the member is the holder.

No Ordinary Shares were issued during the year to 31 December 2011. During 2010, 8,193,468 Ordinary Shares were issued in connection with share schemes. The nominal value of shares issued in 2010 was £0.2m and the cash consideration received net of costs was £11.7m.

75,951,724 shares were acquired by the Company in the year to 31 December 2011 under the share buy-back plan announced on 3 March 2011 and these are held as treasury shares. The total cost of these shares is £150.0m plus £1.0m of commissions and taxes which have been deducted from retained profits and equity shareholders' funds.

Additional treasury shares have also been purchased by the Cobham Employee Benefit Trust in connection with a number of the Group's share incentive schemes, and shares have been transferred from the trust to employees upon vesting of BCP, PSP and ESOS awards during the period as explained in note 13.

19,700 issued 6% second cumulative Preference Shares represent 0.1% of total issued share capital. These are non-redeemable and are classified as borrowings with a value of £19,700.

The shareholders of the 6% second cumulative Preference Shares are entitled to receive a fixed cumulative preference dividend at the rate of 6% per annum in priority to the payment of dividends on the Ordinary Shares. In addition, on a return of assets on the liquidation or otherwise of the Company, the assets available for distribution are to be applied first in repaying to the holders of the 6% second cumulative Preference Shares the amounts paid up on their shares.

On a show of hands, every member holding 6% second cumulative Preference Shares who is present in person has one vote and on a poll, every member has one vote for every £1 in nominal amount of the shares of which the member is the holder.

13. Reserves

£m	Share premium account	Special reserve	Other reserves: Hedging reserve	Other reserves: Share options reserve	Profit and loss account
At 1 January 2011	126.6	43.6	(18.4)	18.2	377.1
Profit for the financial year	–	–	–	–	179.9
Dividends	–	–	–	–	(69.4)
Purchase of treasury shares	–	–	–	–	(159.5)
Movement in fair value of hedge accounted derivatives	–	–	(8.3)	–	–
Reclassifications to profit and loss account	–	–	24.0	–	–
Tax effect of hedging reserve movements	–	–	(3.0)	–	–
Share-based payments recognised in reserves	–	–	–	6.1	–
Dividend equivalents paid on vesting of PSP and BCP awards	–	–	–	(0.2)	–
Transfer of share options reserve on exercise	–	–	–	(4.8)	4.8
At 31 December 2011	126.6	43.6	(5.7)	19.3	332.9

The impact of foreign exchange movement to the profit for the financial year is a £0.4m loss (2010: £0.4m loss).

Reserves are wholly attributable to equity interests.

224,670 (2010: 172,978) Ordinary Shares were purchased during the year in connection with the Cobham Bonus Co-investment Plan and are held in treasury. Distributable reserves have been reduced by £0.4m (2010: £0.6m), being the consideration paid for these shares.

The profit and loss account also includes the purchase of Ordinary Shares by the Cobham Employee Benefit Trust in connection with the Cobham Bonus Co-investment Plan, the Cobham Executive Share Option Scheme and the Cobham Savings Related Share Option Scheme, and the allocation of the shares upon the exercise of options. Unallocated shares are held as treasury shares. The consideration paid for shares during the year was £14.3m (2010: £4.1m) and £6.2m (2010: £0.1m) was received as a result of the allocation of these shares to employees upon the exercise of options. At 31 December 2011, the trust held 2,828,612 (2010: 1,959,353) Ordinary Shares with a market value of £5.2m (2010: £4.0m).

The special reserve was created in 1996, with the sanction of the High Court, against which goodwill arising on subsequent acquisitions may be charged.

The share options reserve relates to provisions made in accordance with FRS 20 for shares allocated to the Company's employees under the Group's share option schemes. Where share options which gave rise to charges under FRS 20 have been exercised, the appropriate proportion of the share options reserve is transferred to the profit and loss account in equity.

14. Contingent liabilities and commitments

The Company has contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business entered into, for, or on behalf of, certain Group undertakings.

As the conditions of the above guarantees are currently being met, no obligating event is foreseeable and therefore no contingent liability provision has been made at the year end.

The Company has committed, in connection with the Future Strategic Tanker Aircraft project, to invest £6.0m in the equity share capital of three companies and to provide additional funding of £18.1m in the form of redeemable loan notes by March 2013 at the latest. In addition, a number of performance guarantees and letters of credit have been provided to secure the funding of this project. No provision was made at 31 December 2011 or 2010 in connection with these guarantees.

The Company had no capital commitments at 31 December 2011 (2010: £nil).

15. Related party transactions

The Directors of Cobham plc had no material transactions with the Company during the year, other than as a result of service agreements as disclosed in note 33 to the Group financial statements. Details of the Directors' remuneration are disclosed in the Directors' remuneration report.

Exemption has been taken under FRS 8 (revised) from disclosing related party transactions with wholly owned group companies. The only transactions with non-wholly owned subsidiaries relate to the receipt of management charges totalling £0.1m (2010: £0.6m). No amounts were outstanding at the current or prior year end.

SHAREHOLDER INFORMATION

Analysis of shareholders

(a) At 31 December 2011, 5,941 ordinary shareholders were on the register compared with 5,987 at 31 December 2010.
(b) Analysis of ordinary shareholders on the register at 31 December 2011:

Size of holding	Number of registered holders	Percentage registered holders	Number of Ordinary Shares held	Percentage of Ordinary Shares
Up to 1,000	1,736	29.22	869,056	0.08
1,001–10,000	3,009	50.65	10,710,031	0.99
10,001–50,000	699	11.76	14,583,605	1.35
50,001–250,000	219	3.69	24,905,145	2.31
250,001–1,000,000	129	2.17	68,856,012	6.39
1,000,001 and above	149	2.51	958,652,052	88.88
Total	5,941	100.00	1,078,575,901	100.00

Source: Equiniti Limited

Registrars

Enquiries concerning shareholdings or dividends should, in the first instance, be addressed to the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone: 0871 384 2163* or +44 (0)121 415 7047 if calling from overseas). Shareholders should promptly notify the registrars of any change of address or other particulars.

The registrars provide a range of shareholders' services online. The portfolio service provides access to information on investments including balance movements, indicative share prices and information on recent dividends and also enables address and mandate details to be amended online. For further information and practical help on transferring shares or updating your details, please visit **www.shareview.co.uk**. The share dealing service enables shares to be sold by UK shareholders by telephone, post or over the internet. For telephone sales please call 0845 603 7037 between 8:30am and 4:30pm. For postal sales please send your completed documentation to the address above. For internet sales please visit **www.shareview.co.uk/dealing**.

Individual Savings Accounts (ISAs)

The registrars also offer an ISA for Cobham shareholders. Further information may be obtained by visiting **www.shareview.co.uk**, or telephone 0845 300 0430* (or +44 (0)121 415 0105 if calling from overseas).

You should bear in mind that investments, their value and the income they provide can go down as well as up and you might not get back what you originally invested.

Capital gains tax

For the information of shareholders who held Cobham plc Ordinary Shares on 31 March 1982, the market value, adjusted for capitalisation and rights issues, of the Company's Ordinary Shares on that date for capital gains tax purposes, unadjusted for the share sub-division of July 2005, was 86.02 pence.

Financial calendar

AGM	26 April 2012
Final dividend – x-div date	2 May 2012
Final dividend – record date	4 May 2012
Final dividend	1 June 2012
Interim results	8 August 2012
Interim dividend – x-div date	10 October 2012
Interim dividend – record date	12 October 2012
Interim dividend	9 November 2012

Registered Office

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Internet: **www.cobham.com**
Registered Number in England: 30470

* Calls to these numbers cost 8 pence per minute from a BT landline, other providers' costs may vary. Lines are open from 8:30am to 5:30pm, Monday to Friday.

GLOSSARY

Acronym	Full Name	Description
A330 MRTT	Airbus A330 Multi-Role Tanker Transport	A multi-role aircraft with air-to-air refuelling and passenger or cargo transport capabilities.
AARGM	Advanced Anti-Radiation Guided Missile	A supersonic, medium-range, air-launched tactical missile compatible with US and allied strike aircraft and designed to home in on electronic transmissions from radar installations.
AESA radar	Active Electronically Scanned Array radar	An advanced radar system with air, ground and marine applications that provides significant capability and reliability improvements over existing radar technologies.
AMRAAM	Advanced Medium-Range Air-to-Air Missile	A new generation of air-to-air missile with an all-weather, beyond-visual-range capability.
Apache	Boeing AH-64 Apache	An advanced multi-role combat/attack helicopter with over 1,800 delivered to 12 armed forces around the world, including the US Army.
CH-53K	Sikorsky CH-53K	A heavy-lift helicopter, currently being developed for the US Marine Corps to replace the current CH-53E.
COGS	Ceramic Oxygen Generation System	A system that produces medical grade oxygen for use in remote locations with applications including military field hospitals and the industrial gas market.
EC175	Eurocopter EC175	A commercial helicopter with applications for the oil & gas industry, search and rescue operations, executive transport, emergency medical and law enforcement. The first EC175 deliveries are expected in 2012.
ERP	Enterprise Resource Planning	A software system which integrates all business processes including, manufacturing, finance and accounting, human resources, sales and marketing, purchasing and distribution, and inventory and warehouse into one central cohesive repository. It allows businesses to run more efficiently, with real time access to data across many business functions.
F-16	Lockheed Martin F-16	A single engine, multi-role fighter aircraft. With over 4,500 produced, the F-16 has been selected by 26 nations around the world, including the US Air Force.
F-18	Boeing F-18	A carrier-based, twin engine, multi-role fighter aircraft. The F-18 is currently serving the armed services of eight nations, including the US Navy.
F-35 (JSF)	Lockheed Martin F-35 Joint Strike Fighter	A next generation strike aircraft for the US Navy, Air Force, Marine Corps and US allies. F-35 development is being principally funded by the United States, with the United Kingdom and other partner governments providing additional funding.
FSTA	Future Strategic Tanker Aircraft	A UK Private Finance Initiative funded project to replace the UK's air-to-air refuelling Fleets, and elements of the Air Transport work currently undertaken by RAF VC-10 and TriStar fleets.
GA	General Aviation	A category of aviation that encompasses all operations not performed by airlines, charter operators or the military. It consists of business, sightseeing, search and rescue, training, recreational, survey and aerial ambulance, ranging in size from a small two-seat trainer to large airline-size aircraft.
Global Xpress	Inmarsat Global Xpress	A satellite service, scheduled to begin in 2013, which will be the world's first to offer global mobile broadband coverage. Global Xpress will provide increased data speeds and bandwidth to customers in the government, maritime and aeronautical sectors.
HGA 7001	High Gain Antenna 7001	An antenna that enables the use of Inmarsat SwiftBroadband aboard an aircraft. The HGA 7001 is currently selected by 40 airline and other customers.
Ka-band	Ka-band Frequency	A frequency band that enables faster download speeds, with greater bandwidth than those currently available.
KC-390	Embraer KC-390 Refuelling Tanker	A medium-lift military transport and tanker aircraft currently being developed by Embraer. Production is scheduled to commence in 2015.

GLOSSARY
CONTINUED

Acronym	Full Name	Description
KC-46A	Boeing KC-46A Refuelling Tanker	A refuelling tanker, currently being developed for the US Air Force to replace its ageing fleet of KC-135 Stratotankers. The KC-46A, with initial flights scheduled for 2014, offers improved cargo and passenger capability.
MCU	Microclimate Cooling Unit	A system consisting primarily of a cooled vest, which prevents a soldier's body temperature from rising in extreme heat environments, increasing safe mission duration by more than 350%.
NH90	NHI Industries NH90	A multi-mission helicopter manufactured by NHI Industries, which is wholly owned by Eurocopter, AgustaWestland, and Fokker Aerostructures.
Predator/Reaper unmanned aerial systems	General Atomics MQ-1 Predator/ MQ-9 Reaper	Unmanned aerial systems equipped with advanced radars, avionics, sensors and data links. Based on the same platform, both aircraft serve as intelligence gathering, reconnaissance aircraft with strike capability against ground targets.
RAIMS	Radio Audio Integration Management System	Enables control of all aircraft communications and cabin audio systems through a single system, bringing considerable benefits in weight, space and reliability.
SATCOM	Satellite Communication	Enables voice and data communications such as telephone calls, TV pictures or internet connections, using an orbiting satellite to transfer data around the earth.
SwiftBroadband	Inmarsat SwiftBroadband	A service that provides voice and high-speed data simultaneously on-board an aircraft for key cockpit and cabin applications. These include in-flight telephony, Voice over IP, text messaging, email and internet.
UAV/UAS	Unmanned Aerial Vehicle/ Unmanned Aerial System	Unmanned aircraft that generally carry cameras, sensors, communications equipment or other payloads. They are currently used in a reconnaissance and intelligence gathering roles with more challenging roles envisioned, including combat missions.
V-22	Bell/Boeing V-22	A multi-mission tiltrotor, vertical takeoff and landing aircraft manufactured by Bell Boeing, a team of Bell Helicopter and Boeing, that is currently in service with the US Marines and the US Air Force Special Operations Command.
WGS	Wideband Global Satellite	A constellation of satellites providing worldwide communication coverage. The WGS system is expected to consist of ten satellites, eight US funded, and two funded via international partnerships.

DEFINITIONS

The following notes apply throughout the Annual Report and Accounts:

All numbers referring to 'core businesses' exclude Analytic Solutions, which was divested in November 2011 and Commercial Systems, which the Group plans to divest.

To assist with the understanding of earnings trends, the Group has included within its published statements trading profit and underlying earnings results. Trading profit has been defined as operating profit from continuing operations excluding the impacts of certain transaction related costs and business restructuring costs as detailed below. Also excluded are the marking to market of non-hedge accounted derivative financial instruments not realised in the period and items deemed by the Directors to be of an exceptional nature. Underlying earnings are defined as trading profit less net underlying finance expense, which excludes the unwinding of acquisition related discounting, and after deducting taxation and non-controlling interests.

Transaction related costs excluded from trading profit and underlying earnings include the amortisation of intangible assets recognised on acquisition, the writing off of the pre-acquisition profit element of inventory written up on acquisition and other direct costs associated with business combinations and divestments.

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

A reconciliation of operating profit, profit before taxation and profit after taxation attributable to equity shareholders to the respective underlying numbers is shown on page 24.

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

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

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

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

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COBHAM

We are technically diverse, innovative and agile by design

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