Cobham plc

Annual Report and Accounts 2012

COBHAM

The most important thing we build is trust

Cobham protects lives and livelihoods with its differentiated technology and know-how, operating with a deep insight to customer needs and agility that differentiates it. The Group offers an innovative range of technologies and services to solve challenging problems across defence, security and commercial markets, from deep space to the depths of the ocean. With market leading positions in air-to-air refuelling; aviation services; audio, video and data communications; defence electronics; life support and mission equipment, the most important thing Cobham builds is trust.

Front cover image
Cobham's SATCOM systems provide technology solutions for complex communications problems, often in extreme environments. Cobham equipment kept millions of fans informed of exciting developments during the around the world Volvo Ocean Race.

Inside front cover image
Cobham aerial refuelling equipment is on every major tanker aircraft including the Airbus Military A330MRTT and A400M, Lockheed Martin C-130, Boeing KC-46 and Embraer KC-390 aircraft.

Image courtesy of Airbus Military.

You can view this Annual Report and Accounts, other results material, including a webcast of the results presentation, and other information for shareholders online at:

www.cobhaminvestors.com

Highlights 2012

– £2.4bn order book, unchanged at constant translation exchange – headline order intake significantly reduced by divestments

– Organic* revenue broadly flat – Group revenue reduced by divestments

– Underlying* EPS up 3.2% at constant translation exchange, supported by ahead of plan Excellence in Delivery benefits and a lower underlying tax rate

– Thrane & Thrane acquisition brings further strength in commercial markets and is ahead of plan, with integration progressing well

– Strong operating cash conversion* of 104% and good free cash flow of £273m, before Excellence in Delivery costs

– Robust balance sheet, with net debt/EBITDA of 0.9 times

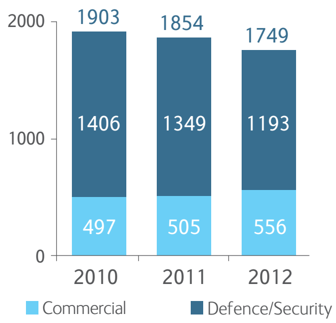
– Recommended full year dividend increase of 10%, in line with long standing progressive policy, to 8.8 pence per share

Dividend

pence

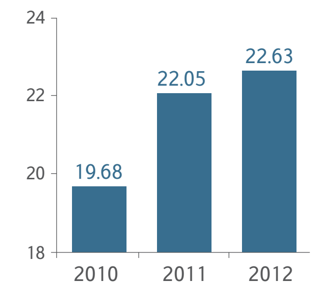
Revenue

£m



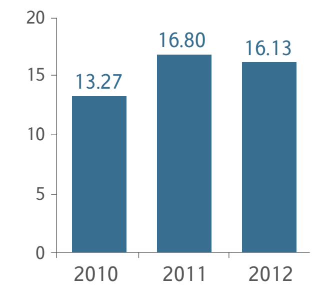
Earnings per Ordinary Share – underlying*

pence



Earnings per Ordinary Share – basic

pence



* For definitions of underlying and other terms please refer to page 129.

Business overview

The Annual Report and Accounts 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 and Accounts should be construed as a profit forecast.

Cobham at a glance

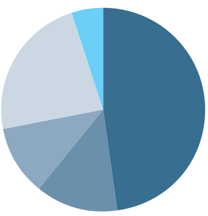
Cobham operates from 14 principal manufacturing locations, with 9 in the USA and 5 in Europe, as well as sales offices across the world that provide a permanent presence in faster growth markets. In addition, Aviation Services operates from airport bases in Australia and in Europe with its fleet of aircraft

Our global reach

With a portfolio of differentiated technologies, a permanent presence in 16 countries and customers in over 100, Cobham has a truly global presence. Our strategy is to leverage our innovative technology, know-how and understanding of customer needs to build and maintain leading positions in the second and third tiers of the global defence/security and commercial aerospace, land and marine markets.

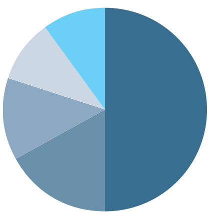
> 10,000 employees worldwide
> Customers in over 100 countries

Employees by geography



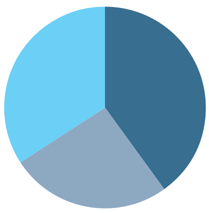
	2012	2011
USA	48%	56%
Other EU countries	13%	10%
Australia	11%	9%
UK	23%	21%
RoW	5%	4%

Group revenue by geography*



	2012	2011
USA	50%	56%
Other EU countries	17%	14%
Australia	13%	12%
UK	10%	9%
RoW	10%	9%

Group revenue by market*



	2012	2011
US Defence/Security	40%	48%
Non US Defence/Security	26%	25%
Commercial	34%	27%

* 2012 is proforma including full year revenue contribution from Thrane & Thrane

For Business Model see pages 4 and 5

2012 in brief

Further awards won on US Air Force KC-46 tanker

Cobham secured an increased presence on the USAF KC-46 tanker aircraft, including contracts with Boeing for body fuel tanks and critical fuel tank inerting systems. These add to contracts received in 2011 for the hose and drogue aerial refuelling system.

Cobham joint venture awarded a new contract for flying training in the UK

Cobham joint venture FB Heliservices was awarded a four year contract with two possible one year extensions worth £193m, to continue to provide helicopter flying training and support services to the UK Ministry of Defence from April 2012.

Non-core emergency locator beacon businesses divested

The planned divestment of the non-core emergency locator beacon businesses was completed for US$73m on a debt and cash free basis.

Thrane & Thrane acquisition doubles Cobham's SATCOM revenue

Cobham's June 2012 acquisition of Thrane & Thrane brought together two world class, highly complementary businesses, giving the combined operation technology advantage and scale. The business has been delivering a Very Small Aperture Terminal (VSAT) SATCOM solution, in cooperation with Ericsson, for A.P. Moller Maersk's fleet of more than 500 container vessels, the largest single maritime VSAT order ever.

Bob Murphy appointed Chief Executive Officer from June 2012

Bob Murphy was appointed Chief Executive Officer from 25 June 2012, bringing more than 25 years of experience in civil, commercial and defence sectors of the aerospace & defence industry.

Flight service contracts awarded in Australia

Cobham grew its fly-in fly-out services for the Australian natural resources industry during the year, including significant contract awards from Minara Resources, Santos and a two year, AUD$65m extension from BHP Billiton.

SATCOM upgrade for 200 US Air Force aircraft

Lockheed Martin selected Cobham acquisition Thrane & Thrane to provide the satellite communications (SATCOM) solution for an upgrade of some 200 USAF C-130J Super Hercules transport aircraft. The value of the award is expected to approach £16m.

Australian aerial maritime surveillance contract extended

Cobham signed a two year contract extension to 2021 with the Australian Customs and Border Protection Service worth £105m. Cobham has been protecting Australia's borders since 1995 under a performance based service contract using 10 highly modified Bombardier Dash 8 maritime patrol aircraft that fly some 2,500 missions and 15,000 hours each year.

Fifth award received on Brazilian KC-390 tanker aircraft

Cobham was awarded a contract to provide the Passenger Address System for the Embraer KC-390 tanker aircraft. This adds to contracts received for wing-mounted aerial refuelling pods, auxiliary fuselage fuel tanks, aerial refuelling probes and nose radomes.

Cobham provides Electronic Warfare antennas for US Navy

Cobham was awarded contracts in April 2012 and January 2013 to provide the integrated antenna/radome and low band transmitter, designed to protect strike aircraft, ships and ground troops by disrupting enemy radar and communications, for the EA-6B and EA-18G electronic warfare aircraft.

What we do

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

Cost of materials
£575m

Employees
10,000

R&D investment
£156m

Market driven PV investment

High level of company funded development (or private venture – PV) work. Partnerships with universities, colleges and consortia for research activities.

High technology content in specialist markets present significant barriers to entry.

Potential to adapt technologies for multiple applications across defence/security and commercial markets.

Investment target 6% of revenue, plus additional customer funding.

Critical focus on cost and price, coupled with continual reductions in size, weight and power consumption.

Smaller

Lighter

More power efficient

Global sales & distribution

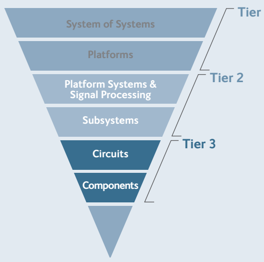
Leveraging a customer base spanning 100 countries to provide a broader range of products and services to each customer.

Positions on a diverse range of air, land and marine platforms reduces risk and increases potential returns on investment.

Long term nature of programmes and Aviation Services contracts foster close customer relationships and forward revenue visibility.

Predominantly Business to Business sales.

Focus is on development of critical components and subsystems, predominantly Tier 3 capabilities with some Tier 2.



Cobham has three Divisions focused on manufacturing and an Aviation Services Division.

Excellence in Delivery (EiD) is improving operational performance and customer delivery in manufacturing operations.

Manufacturing is being consolidated into 14 Principal Locations, reducing costs and streamlining the business.

Cobham products are being utilised in the provision of critical services.

Aftermarket opportunity varies with type and complexity of product and represented some 17% of Group sales in 2012.

Cobham's capabilities also present significant opportunities for technology upgrades.

The Group is able to expand and adapt the scope of service provision as customer needs evolve.

Operational excellence and consolidated production

Global aftermarket support

Technology related services

Service flexibility

Customers in 100 countries

- Original equipment manufacturers
- Prime contractors
- Airlines
- Distributors
- Government agencies

EiD establishing a Cobham way of doing business across 14 Principal Locations covering three elements.

Platforms, particularly aircraft and ships, can be in service for decades.

Chairman's statement

Highlights

- Thrane & Thrane acquisition doubles predominantly commercial SATCOM revenue
- Continued focus on bringing more balance to defence/security and commercial businesses
- Recommended 10% increase in dividend for the year

Full year dividend

8.80p +10%

(2011: 8.00p)

Corporate development

Cobham's strategy is to leverage its innovative technology, know-how and understanding of customer needs to build and maintain leading positions in the second and third tiers of the global defence/security and commercial aerospace, land and marine markets.

We have made good progress in the year, including the acquisition of Thrane & Thrane, which reinforces our position in the predominantly commercial SATCOM market. In addition, we divested the emergency locator beacon businesses, our most significant remaining non-core business.

The programme to re-engineer and streamline operations, EiD, has received considerable focus and is bringing a number of operational, customer and financial benefits.

Looking forward, we will continue to streamline our operations and we will re-invest the majority of the savings made into the business to develop further innovative technology solutions from a closer understanding of customer needs. We will increase investment in learning and development to build the essential skills and capabilities from which to drive future growth.

The Board

Bob Murphy joined the Board as Chief Executive Officer (CEO) on 25 June 2012. Bob brings a successful track record spanning more than 25 years in the industry. He has joined us from BAE Systems where he was an Executive Committee member with global responsibility for the BAE Systems Inc. Product Sectors business.

Bob has taken over from Andy Stevens who took early retirement due to the recurrence of a long term, serious back injury. Andy remained on the Board during the CEO transition, continuing as a Non-executive Director to 1 August 2012. In all, he was a member of the Board for nine years and I would like to thank him for his tremendous contribution over this period.

In April 2012, Warren Tucker, Cobham's Chief Financial Officer, decided to stand down but is staying on until 1 May 2013. We are grateful to Warren for his enormous contribution over 10 years and for providing continuity during a time of change. Simon Nicholls, currently Group Finance Director at Senior plc, will join the Board on 1 May 2013 and brings a successful track record of financial leadership in global aerospace and broader commercial markets.

Marcus Beresford has completed nine years as a Non-executive Director and is the Senior Independent Director. He will also stand down from the Board at the conclusion of the 2013 AGM.

Dividend

Following the rebalancing at the interim stage, the Board is recommending a final dividend for 2012 of 6.40 pence with a total dividend per share for 2012 of 8.80 pence. This is an increase of 10% on the prior year, in line with the Group's long standing, progressive dividend policy.

Cobham has a very long record of delivering dividend growth, increasing the dividend annually for more than 40 years. The dividend payment continues to be underpinned by Cobham's cash generation and dividend cover of 2.6 times.

Outlook

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

The US defence/security market remains highly uncertain and we expect a period of declining, then flat, US Government budgets consistent with previous down cycles. In line with previous guidance, our plans are based on Group revenue declining organically by low-to-mid single digits in 2013, as the decrease in defence/security revenue is only partially offset by growth in commercial markets.

EiD has achieved £48m of savings to the end of 2012. The majority of the savings achieved from additional restructuring of the cost base announced in November will be re-invested to generate incremental organic revenue. On the basis of current market trends, we continue to anticipate a return to modest organic growth from 2014, rising above mid single digit growth thereafter.

The Group has a highly cash generative business model and a robust balance sheet. These allow us to invest in carefully selected acquisitions to bring more balance between our defence/security and commercial businesses, promoting long term revenue growth through the cycles, and underpin the Group's policy of paying a 10% progressive annual dividend increase.

John Devaney
Chairman
6 March 2013

Highlights

- Strategic actions to enable a return to sustainable organic revenue growth, with increased investment in the business
- Considerable progress from Excellence in Delivery, with integration aspects extended to 2015
- Conservatively geared at 0.9 times net debt/EBITDA, after the £275m net cash investment in acquisitions during the year

Total Excellence in Delivery savings

£100m by 2016

The Group is confident that the actions it is taking, in aggregate, should enable it to generate modest organic growth from 2014 and above mid-single digit organic revenue growth thereafter

Strategy

Since becoming CEO in June 2012, I have spent considerable time with our customers, suppliers and employees, with visits to many of our operating sites. I believe our business has many strong positives including innovative and energetic employees, a breadth of discriminating technologies, a global geographical presence giving it access to growing markets across the world and strong operating margins with excellent cash generation.

Cobham's strategy is to leverage its innovative technology, know-how and understanding of customer needs to build and maintain leading positions in the second and third tiers of the global defence/security and commercial aerospace, land and marine markets. This enables us to generate sustainable top and bottom line growth, relative to the markets in which we operate, while consistently generating good free cash flow, thereby creating shareholder value.

Strategy overview and objectives

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

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

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

Technology investment

During the year total R&D investment, including customer funded projects was £155.9m (2011: £134.5m), including significant development work on aerial refuelling programmes. PV was £75.4m (2011: £75.3m) representing 5.3% (2011: 4.9%) of Group revenue. As previously announced, we plan to increase PV investment in 2013 to generate incremental organic revenue and gain market share. The renewed focus on customers will enable us to identify priority investment areas and optimise revenue from the PV programme.

Operational excellence

There has been considerable focus during the year on the Group's programme to re-engineer

Countering the menace of landmines

Cobham has been developing radar and radio frequency technology for many years to counter the menace of landmines and improvised explosive devices. Cobham's MINEHOUND dual sensor mine detector is used in humanitarian mine detection and removal operations in Cambodia, Angola and Bosnia.

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

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

The design phase on the ERP implementation was substantially completed in December 2012, with focus moving on to building and testing the system in 2013. As planned, there were four integrations of manufacturing facilities in 2012. During 2012, as a result of the accelerated achievement of the benefits, the programme exceeded the planned level of savings by £6m, with £14m of year-on-year efficiency savings. This brings the total annualised benefits to £48m since the programme commenced. EiD costs were £38m in the year.

The Group is taking further actions to make significant site and headcount rationalisations due to expected volume declines in the US defence/security market.

The extension of the integration elements of the programme by two years to the end of 2015 will provides additional benefits of £30m per annum on completion, with the majority of these savings being reinvested into the business.

EiD remains on track to deliver a run-rate of £75m of annualised year-on-year efficiency savings by 2013, albeit this declines to £70m over the following one to two years due to US Government contracting rules. Expected total costs over the life of the programme remain £191m, including the additional integration activity.

Investment in management capabilities

To reinforce the Group's understanding of its markets and strengthen the link between customer needs and technology investment, a new Group level position has been established to address business development and technology. Cobham will also focus on further improving its programme management capabilities. A new Group level position has also been established to provide momentum and visibility on this key competency, which is critical to meeting customer expectations and delivering organic growth.

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

Acquisition investment

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

The £275m acquisition of Thrane & Thrane is a significant step towards this, with the June 2012 acquisition doubling Cobham's predominantly commercial SATCOM revenue. Integration has progressed well and the business has continued to perform ahead of plan.

Our focus continues to be on identifying and executing attractive acquisition opportunities within our chosen markets and adjacent areas. We have a strong balance sheet and the ability to successfully execute acquisitions, consistent with our disciplined financial criteria, to create value for our shareholders.

Overview of the year

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

Our order book at £2.4bn was unchanged on the prior year at constant translation exchange rates. Order intake continued to be strong in Australia, with significant contracts secured for fly-in fly-out services to the mining sector and an extension to the Sentinel maritime surveillance contract. In the UK, our joint venture company FB Heliservices received a significant order from the UK Ministry of Defence to provide helicopter flying training. There were also significant awards in the US from Boeing on the Wideband Global Satellite programme and from the US Navy for the ALQ-99 Low Band Transmitter, including for the first foreign military sale customer.

Group organic revenue was broadly flat with growth in commercial and non US defence/security revenue offset by US defence/security, mostly due to reduced revenue in land markets. Although the underlying trading margin decreased slightly to 19.0%, primarily due to anticipated declines in operating margins in Defence Systems and Aviation Services, underlying EPS increased 2.6% to 22.63p (2011: 22.05p), including a lower underlying tax rate and the full year effect of the 2011 share buy-back. At constant translation exchange rates underlying EPS increased 3.2%.

Operating cash conversion was strong at 104% and, at the year end, we were conservatively geared at 0.9 times net debt/EBITDA, after the £275m net cash investment in acquisitions during the year.

Bob Murphy
Chief Executive Officer
6 March 2013

Our strategy

Our strategy is evolving with an extension to the integration aspects of Excellence in Delivery and increasing investment in the business, with a renewed focus on organic revenue growth

Over a number of years, Cobham's strategy has been to focus on its chosen markets, each with significant technology value-add.

The EiD programme commenced in 2010 and is an area of considerable focus, bringing a number of customer and operational benefits, in addition to significant financial benefits. This programme is making the business more integrated and more streamlined.

Cobham has used the significant amount of cash generated by the business to make acquisitions that reinforce its technology and market leading positions, completing 44 discrete acquisitions in the last 10 years. It has also been through periodic and rigorous reviews to identify businesses that no longer fit the strategy, with divestments made, including the non-core emergency locator beacon businesses during 2012.

During June 2012, Bob Murphy became CEO, initiating a review which concluded that while the Group's strategic objectives are a good base on which to build, the strategy needs to evolve in some important ways.

The integration aspects of the EiD programme have been extended to further reduce the fixed cost base to address expected declines in US defence/security revenue, given the overall fiscal pressure the US faces. The majority of savings will be reinvested in business development, in market led technology, in project management and in training to generate incremental organic revenue. This focus on generating organic revenue growth underpins Cobham's commitment to creating sustainable shareholder value.

The Group will continue to use its balance sheet strength on carefully selected acquisitions to bring more balance between its defence/security and commercial businesses, to promote long term revenue growth through the cycles.

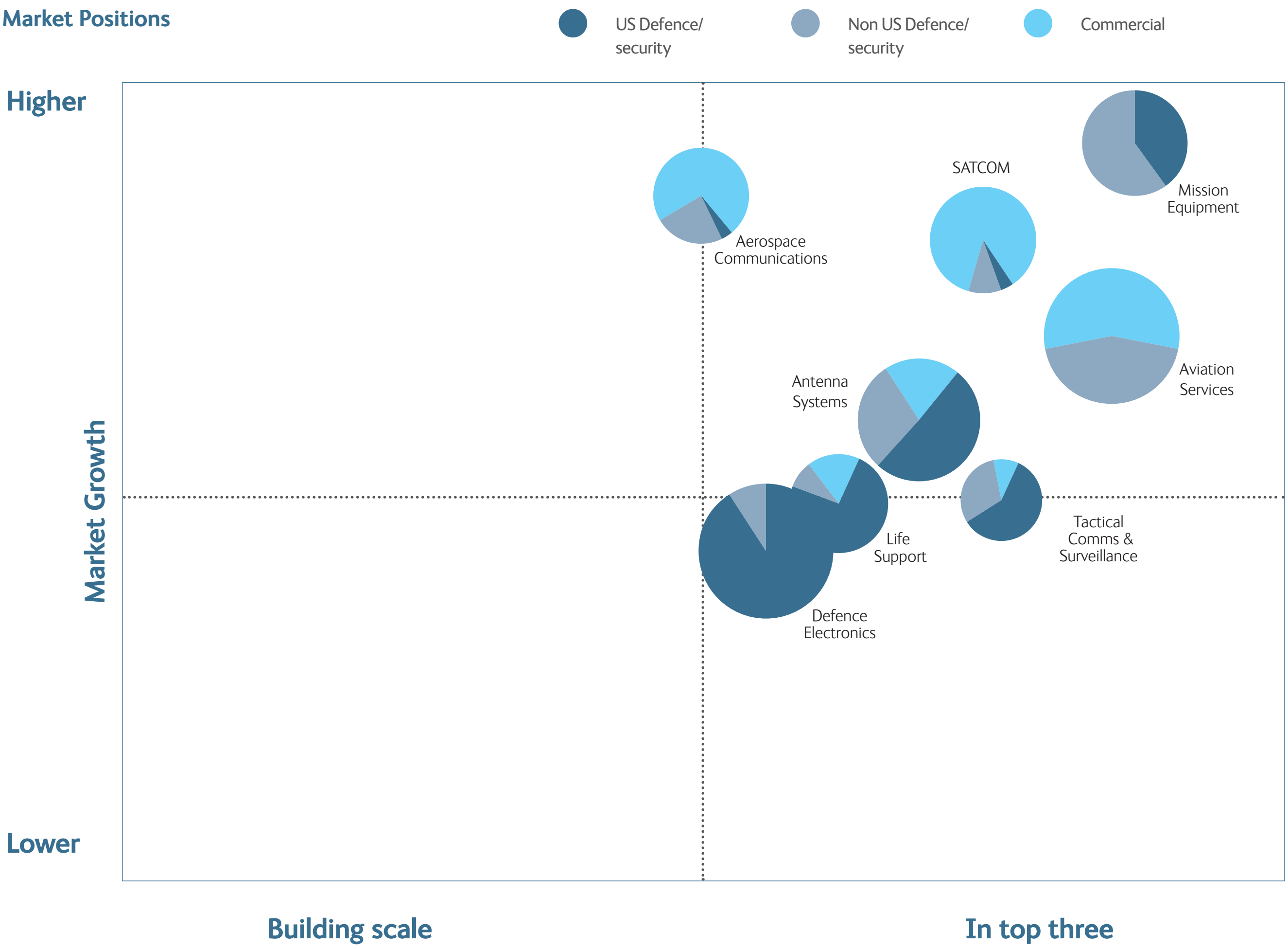
More detail on Cobham's strategy, the importance of each strategic objective and the actions being taken to progress it are set out on the following double page spread.

The table below shows Cobham's positions in each of its markets, demonstrating the progress to date in implementing its strategy.

Each market position shown on the Group table below has been highlighted in the respective Divisional reviews on pages 16 to 23.

The acquisition of Thrane & Thrane has doubled Cobham's SATCOM revenue. SATCOM was previously contained within the Antenna Systems business unit but has now achieved the necessary scale for the Group to create an eighth strategic business unit.

Leading Market Positions



Our strategy continued

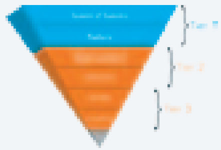
The Group leverages its innovative technology, know-how and understanding of customer needs to build and maintain leading positions in the second and third tiers of the global defence/security and commercial aerospace, land and marine markets

Strategy

1

Improve understanding of our markets and customers' future needs, aligning PV investments with these priorities.

2



Remain focused at the second and third tiers of global defence/security markets and commercial aerospace, land and marine markets.

3

Identify adjacent markets where our existing technology and know-how can be leveraged to meet the needs of new customers.

Why it is important

1

Technology and know-how are our key competitive differentiators.

The close alignment between technology and customers will optimise our ability to ensure the right solutions are available when customers need them, and so maximise revenue potential from technology investment. Investment must be focused on products and services that address the customer needs of today and the future – not the problems of yesterday.

We take an increasingly collaborative approach to growing the number and value of our differentiated products and services on new platforms and programmes, using customer knowledge from across our businesses.

2

Our innovative technology and know-how are concentrated at the tier two (subsystems) and tier three (components) level, where we have market leading positions and technical differentiation with barriers to entry. This differentiation enables us to offer solutions to customers' complex problems.

3

We have an extraordinary breadth of capabilities and a global reach, giving us access to a range of markets and customers.

We need to exploit this breadth and reach to maximise our content on platforms and programmes and to increase the adoption of our differentiated products, services and know-how in adjacent markets.

What we are doing

1

To give greater focus and insight to customer needs and a top-down, market led view of investment priorities, a new Group level position has been established to address Business Development and Technology.

Collaboration across the Group is increasingly delivering tangible results, helping us win larger programme positions which individual business units would not be able to win on their own. Examples include broader content from across Cobham on the KC-390 and KC-46 tanker programmes.

2

Total Group R&D investment, including projects funded by customers, was £156m. As part of this, we invested £75m, or 5.3% of Group revenue, on technology in 2012.

From 2013, we intend to increase the level of market led company funded technology investment to generate incremental organic revenue and gain market share.

3

We have been making progress in adapting our technologies for new markets and new geographies. Our wireless mesh network, NetNodeIS, has been used successfully across defence/security markets and is being increasingly used in commercial environments, including in underground mines, in oil fields and for broadcast applications.

We have won our first significant order for surveillance equipment in Brazil, following the recent opening of an office there.

We will further leverage our technology and global footprint to identify new markets and applications. This process will enable us to secure sustainable, long term positions and deliver additional growth.

4

Drive a culture of continuous improvement and an integrated, streamlined business across the Group through Excellence in Delivery .

Our customers want to work with people who understand their strategic objectives and help them become more competitive. The first step in developing this relationship of trust is to have a world class reputation for delivery and operational excellence across every discipline.

The drive for operational excellence is helping us to reduce our existing manufacturing footprint and improve productivity, enabling us to integrate smaller manufacturing locations. This helps us to reduce our cost base.

We have been focusing on EiD, which has reached the end of its second full year and made considerable progress. Alongside financial benefits, the programme is bringing a number of operational and customer benefits, including improved productivity, shortened manufacturing lead times and improved levels of quality. Four manufacturing facility integrations were undertaken in the year.

We are making further significant site and headcount rationalisations due to expected volume declines in the US defence/security market, with rationalisation announced at five sites to date in 2013. The majority of the savings are to be reinvested in the business for incremental organic revenue.

5

Improve programme execution across customer and PV funded projects to achieve sector leading customer delivery and operational performance.

Project management is a core competency for the Group, with consistent delivery of customer expectations a foundation stone on which revenue growth is built.

The ability to deliver programmes on time and on budget will foster closer relationships with customers, result in repeat orders and in the development of greater levels of collaboration and trust.

We are focusing on further improving this core competency, with a Group level position established to provide momentum and visibility to programme execution.

In addition, there will be increased investment in project management training and development, resulting in enhanced levels of project delivery.

6

Ensure the right capabilities are in place in changing markets, by increasing investment to build essential skills and capabilities.

Delivery of our objectives depends on the right capabilities and organisation structures being in place, to meet the demands of operating in an increasingly global and complex environment. We need to ensure that we attract, retain and develop the skills that will support future growth.

A new Business Development and Technology position has been established to reinforce the Group's understanding of its markets and strengthen the link between the needs of customers and technology investment. A further Group level position has been created to provide momentum and visibility on the development of project and programme management capabilities, which are key to organic growth.

We will continue to ensure we have the right capabilities in place to deliver our objectives in a changing market. This will be underpinned by increased investment in learning and development in line with strategic workforce plans designed to drive functional excellence.

7

Use M&A to shift the emphasis of the portfolio ahead of market movements to ensure that the Group remains exposed to faster growing markets.

We use our significant cash generation and balance sheet strength to reinforce our technology and market positions through carefully selected acquisitions, with focus on bringing more balance to our defence/security and commercial activities, to promote long term revenue growth through the cycles.

The acquisition of Thrane & Thrane is a significant step towards bringing more balance between defence/security and commercial end markets, with the June 2012 acquisition doubling our predominantly commercial SATCOM revenue.

Acquiring and successfully integrating value enhancing companies will continue to be important going forward. To underpin this, the acquisition process is being refined to ensure clear alignment with the strategic priorities supported by superior processes so that acquisitions continue to consistently deliver shareholder value.

Key performance indicators

Key performance indicators are used to monitor progress in implementing the Group's strategic objectives

The Board monitors progress made against the Group's 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 below and each one has been cross-referenced to the relevant strategic objectives on pages 10 and 11 and to a further specified page where performance in the year is described in more detail.

The chosen KPIs are partly financial, recognising revenue, profit growth and cash generation as key drivers of shareholder value creation. They also include company funded investment in PV, with the development and bringing to market of technically differentiated products and innovative services being Cobham's key differentiator.

Finally, the KPIs recognise the importance to Cobham of not only delivering financial performance but also achieving operational excellence through focused and motivated employees, who are working in a safe environment.

The Remuneration Committee has linked total compensation with the achievement of specific and measurable progress against KPIs, both as individually specified financial targets and within personal objectives. This ensures that performance is aligned with the achievement of the Group's strategic objectives and with shareholder expectations. The Directors' remuneration report on pages 44 to 55 sets out Cobham's remuneration policy and its application in more detail.

Additional detail on each KPI is provided below. Definitions of the term 'underlying' and other measures are set out on page 129 of this Annual Report and Accounts together with definitions of the way in which the Group calculates each of the KPIs.

Key performance indicators	2012 actual	2011 actual	Strategic objectives								For more information
Core businesses' organic revenue growth	**(0.8)%**	0.3%	Faster than our markets	1	2	3	4	5	6	7	See pages 24 and 25
Underlying EPS growth at constant translation exchange rates	**3.2%**	12.6%	High single digit	1	2	3	4	5	6	7	See page 25
Operating cash conversion	**104.2%**	94.8%	>80%				4	5			See page 27
Core businesses' PV investment	**5.1%**	5.2%	6%	1				5			See page 25
Staff safety – major accident incident rate*	**666**	465	zero				4		6		See page 32
Voluntary staff turnover	**8.7%**	8.4%	<10%						6		See page 32

* Per 100,000 employees

Core businesses' organic revenue growth

Organic revenue was broadly flat, with growth in the Aviation Services business being offset by Aerospace and Security and Defence Systems.

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

Underlying EPS growth at constant translation exchange rates

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

Operating cash conversion

Operating cash conversion was strong at 104.2% (2011: 95%) of trading profit, before the Group's share of post-tax results of joint ventures, driven by an improvement in working capital.

Core businesses' PV investment

During the year, PV investment in core businesses was £71.4m (2011: £69.8m) representing 5.1% (2011: 5.2%) of core revenue. The Group plans to increase its PV investment in 2013 to generate incremental organic revenue and gain market share.

Staff safety – major accident incident rate*

Cobham's goal to achieve 'zero harm' requires changes to policies, procedures and practices, particularly as a number of the companies acquired by Cobham over the past decade have been smaller, entrepreneurial businesses. Improvements are showing in terms of enhanced levels of reporting, but not yet in the accident rate. The increase in major accidents is also in part due to increased activity levels on sites being integrated. A strategic review of health and safety was conducted in 2012 and the findings are currently being acted on.

Voluntary staff turnover

The measure of voluntary staff turnover provides insight to retention, with a target that reflects the normal upper range of turnover experienced across the many geographic locations that Cobham operates in, with an appropriate level of churn to refresh the talent base.

Our markets

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

US defence/security market

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

Nevertheless, this market remains important to the Group and will remain the largest defence/security market in the world by some way for the foreseeable future. Further, Cobham's capabilities overlap significantly with areas of priority for the customer such as missile defence and intelligence, surveillance and reconnaissance. The Group has strong positions on programmes with growth potential, including the F-35 Joint Strike Fighter, aerial refuelling platforms, the AEGIS Ballistic Missile Defence system and the US Navy Surface Electronic Warfare Improvement programme (SEWIP). The Group also has significant content on various retrofit programmes as a key subsystem and component supplier.

Non US defence/security markets

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

Cobham benefits not only from direct sales to these markets but also from export sales of platforms such as the Airbus A330 MRTT and Eurofighter Typhoon aircraft. Cobham has won its first significant order in Brazil for surveillance equipment, following the opening of an office there and won further equipment orders on the Brazilian KC-390 aerial refuelling tanker aircraft.

In addition, Cobham has a number of long term technology contracts for critical services. These include electronic warfare training in the UK for the Royal Navy and Royal Air Force, in addition to helicopter flying training for the UK Ministry of Defence through its joint venture company, FB Heliservices. In Australia, the Group operates the Sentinel maritime surveillance contract for the Customs and Border Protection Service. Cobham's long term contracts foster close customer relationships, enabling the Group to manage the scope of service provision as customer needs evolve.

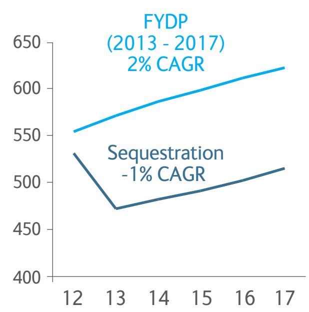
Commercial markets

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

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

US defence market

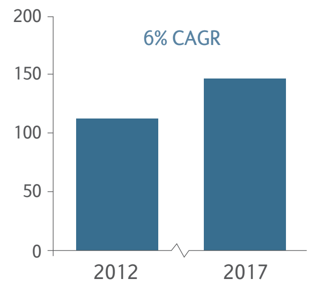
£bn



Source: Citi Research

Faster growing geographic regions – defence procurement and R&D

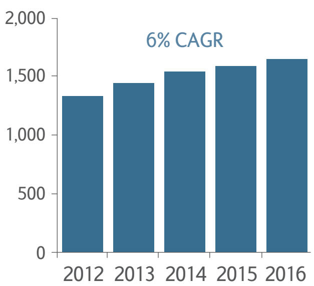
£bn



Source: JP Morgan, including India, Saudi Arabia, Australia, Brazil, Japan, Oman, and Thailand

Commercial transport market

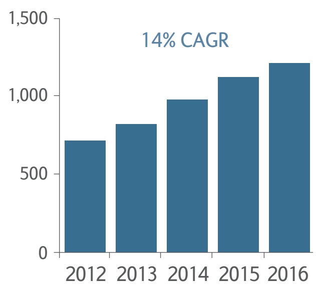
Aircraft deliveries



Source: Bank of America Merrill Lynch

Regional and business jet market

Aircraft deliveries



Source: Bank of America Merrill Lynch

Principal risks

During 2013, the Risk Committee has been strengthened with the membership expanded to include all members of the Group Executive

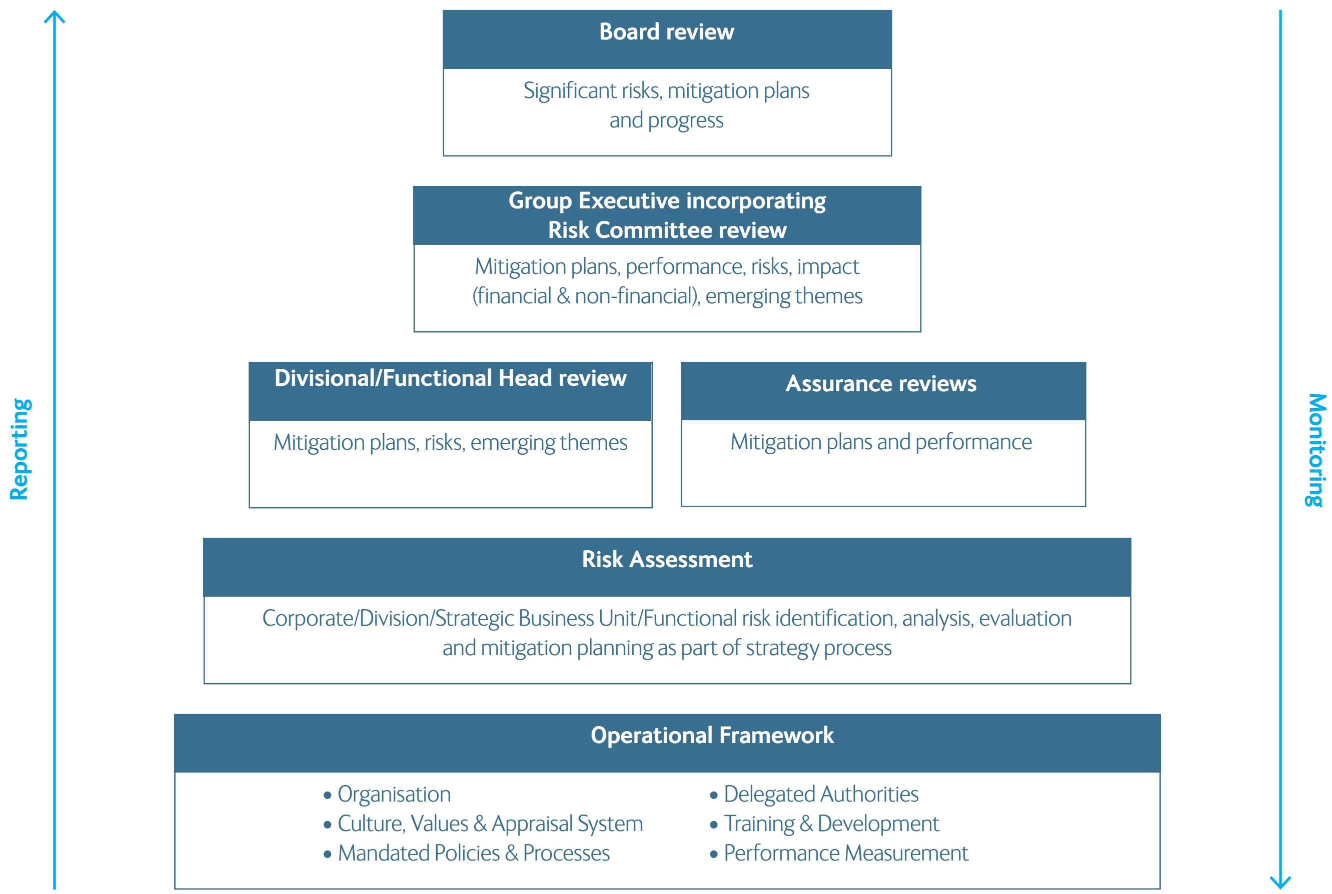
The Board has ultimate accountability for risk management systems and controls, with the Audit Committee having delegated responsibility for monitoring and reviewing the effectiveness of the system. More details on the role of the Audit Committee are set out on pages 42 and 43.

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 and functional 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.

During 2013, the Risk Committee has been strengthened with the membership expanded to include all members of the Group Executive with the objective of placing greater emphasis on the risk identification process and the risk appetite.

A description of the principal risks in the context of Cobham's operations, together with a description of the potential impact on the Group if unaddressed and an outline of the actions taken to mitigate them, are set out 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

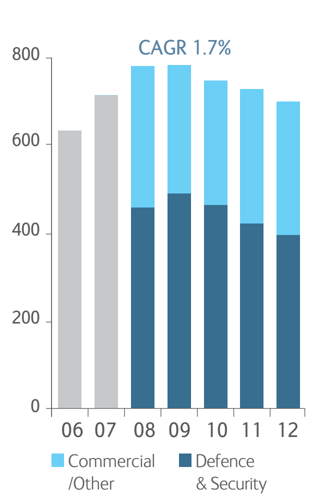
Risk	Description/Context	Impact/Sensitivity	Mitigation/Comment
Deterioration in the macro-economic environment adversely impacting our markets	The Group's revenue is derived from global defence/security and commercial markets. The level and type of spending is dependent on a complex mix of macroeconomic, fiscal and strategic defence and security imperatives.	Changes in government spending or in global growth rates could lead to programme terminations or delays or changes in market growth. A fundamental shift in how customers procure products or services could also have a material adverse effect on the Group's future results.	The successful completion of the EiD programme will enable Cobham to optimise its market positions and transform operating performance. The programme also reduces the Group's costs significantly, so it can remain competitive in the face of volume declines or price pressures. The Group is looking to generate incremental revenue by reinvesting savings in the business. There is increased emphasis on identifying adjacent markets in which proven and transferable technologies can be applied, with success to date in transferring defence/security technologies into commercial markets. The Group is seeking to bring more balance between its defence/security and commercial end markets to enable it to grow through the cycles.
Shortage of appropriate skills due to inability to attract, recruit and retain the best talent	The success of the Group's strategy is dependent on the Group's ability to attract and retain talent and skills.	Without appropriate quality and quantity of skills throughout the organisation it would be increasingly difficult to execute the strategy.	As part of its strategic refresh the Group is reassessing its talent management requirements, including critical skills gaps, and is developing plans to close them. The Group has rigorous talent management plans and an effective appraisal system. It provides competitive compensation packages that incentivise desired behaviours (see pages 58 and 59). A dedicated careers website and team are focused on recruiting people in the UK and USA. The Group is pursuing a 'zero harm' Safety, Health and Environment (SHE) strategy (see pages 31 and 32).
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 the risks of failure to execute the contract or manage it profitably, the supply of a defective or delayed product or other contractual or liability risk.	Failure to execute or deliver a contract gives rise to contract penalties, litigation and other financial liability, reputational risk and increased programme costs.	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 application and monitoring of the Group's Life Cycle Management process to all bids, contracts and development projects, including following Group approval processes in line with delegated authorities. As part of its strategic refresh, the Group has increased its focus on programme management capability and training.
Exposure in long term contracts with respect to inflation, currency and commodity pricing fluctuations	The Group's financial results are dependent on managing macro financial risks, including inflation, currency and commodity.	Failure to manage financial risks can impact operating profit through higher costs or lower revenue and result in the Group failing to meet its forecast financial results.	Currency risks are considered as part of the bid approval process on large contracts. The Group sources and manufactures in local currency whenever practicable. Cobham puts currency or other hedges in place for at least 80% of estimated exposure for a rolling 12 months. Cobham also puts currency or other hedges in place for the majority of exposure for the duration of contracts, where there are contractual obligations from the customer. Inflation and commodity pricing risks are managed through appropriate contractual terms, with suppliers contracted on an equivalent basis to match residual risks where possible. Minimum/maximum supplier prices are contracted where possible to avoid unlimited exposure, when costs inflate ahead of revenue. The Group seeks to avoid fixed price quotes for commodity related costs. Notwithstanding all mitigation actions taken, the level of residual risk is still considered high.
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. These include anti-bribery provisions, import and export controls, government contracting rules and applicable SHE 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, legal claims, suspension or debarment of the Group from future government contracts for a period of time as well as an impact on the Group's reputation. Such sanctions could have an impact on the Group's financial position and future operations.	Cobham continues to drive a culture that ensures that safety, ethics and integrity are embodied in all that it does. Policies and procedures are included in the Group's Corporate Framework which are regularly reviewed and audited, 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.

Aerospace and Security

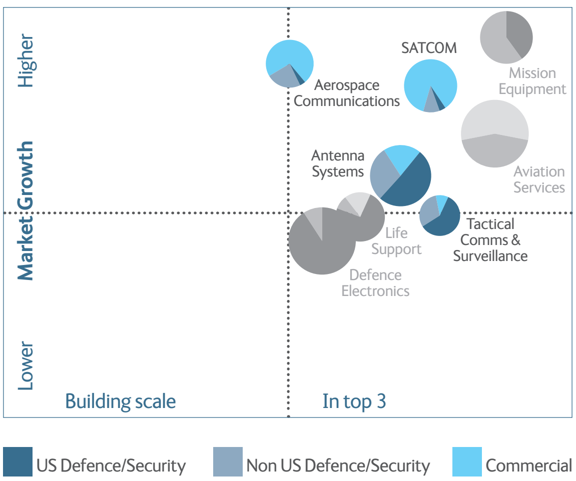
Providing end-to-end avionics and communication equipment, law enforcement and national security solutions, and satellite communication equipment for land, sea and air applications

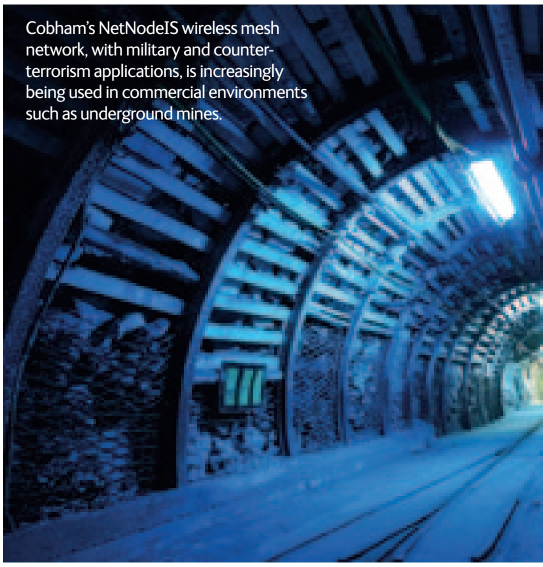
Organic revenue

£m



Market positions





Cobham's NetNodeIS wireless mesh network, with military and counter-terrorism applications, is increasingly being used in commercial environments such as underground mines.

S-61, S-76, and UH-60 helicopters retrofitted by Carson Helicopters feature Cobham displays, audio and radio management systems, and navigation radios.

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

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

Performance highlights

- Demand for reliable, fast and cost-effective aeronautical SATCOM solutions resulted in the delivery of the 1000th HGA-7001 antenna, which enables Inmarsat SwiftBroadband for broadband internet usage in flight
- Strong double digit revenue growth on Airbus platforms, driven by increased production of platforms with higher value shipsets
- Cobham announced as a land based SATCOM terminal launch partner on Inmarsat's Global Xpress network, adding to a 2011 award as marine terminal launch partner
- Orders for surveillance products in Brazil and Australia, and Citywide surveillance infrastructure activity driving growth in the Middle East

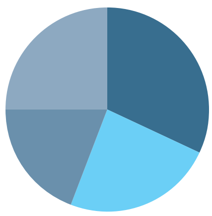
	2011	Acquisitions & currency translation	Organic	2012
Revenue[1] £m	637.0	84.6	(24.3)	**697.3**
Trading profit £m	146.9			**149.1**
Margin	23.1%	(0.5)%	(1.2)%	**21.4%**

[1] Includes inter divisional trading

Enabling renewable energy generation

Cobham's slip rings are used in a number of specialist applications, including in wind power stations to generate renewable energy. Cobham commenced slip ring production at its Prescott, Arizona facility, adding to its two existing production sites in France.

Revenue by market



US Defence/Security	32%
Non US Defence/Security	24%
Commercial Aerospace/GA	19%
Maritime/Other	25%

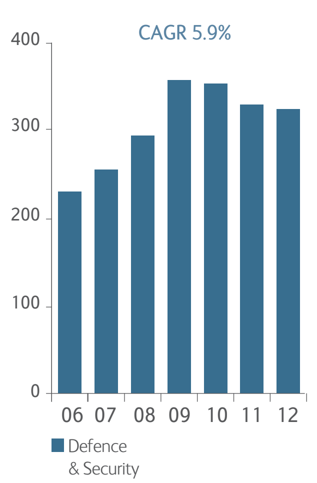
For more information on Cobham Aerospace and Security
www.cobham.com/about-cobham/aerospace-and-security

Defence Systems

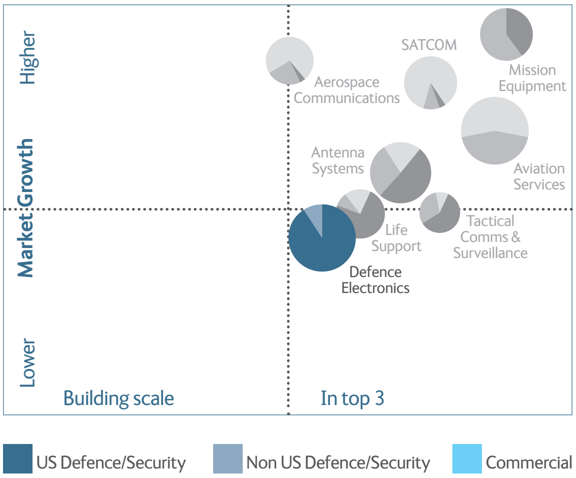
Providing critical technology for network centric and intelligence operations, moving information around the digital battlefield with customised and off-the-shelf solutions for people and systems to communicate on land, sea and air

Organic revenue

£m



Market positions



Cobham's communications antennas, radar components and subsystems play important roles in modern UAVs, including the General Atomics Predator family of drones.
Image courtesy of General Atomics

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

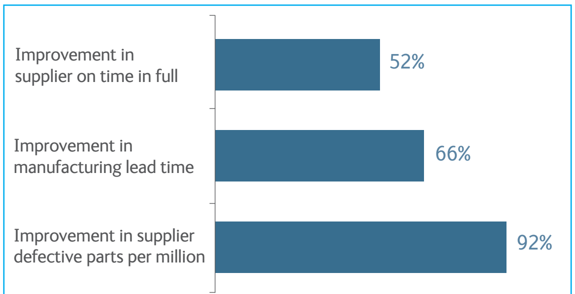
As anticipated, the margin decreased to 13.9% (2011: 16.9%), in part due to favourable margins in the first half of 2011 on completion of the then current phases of certain production contracts. There was also accelerated programme investment in contracts in development during the year, which offset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

Performance highlights

- Completion of deliveries on Flight 7 of the Wideband Global Satellite with deliveries on Flight 8 commenced. Revenue will continue over the next few years with deliveries on Flights 8, 9 and 10 and potential for foreign sales
- The F-15 fighter Digital Electronic Warfare System upgrade programme moved from development into production, with revenue expected to increase from continued export shipments
- Award of the ALQ-99 Low Band Transmitter Full Rate Production Lot 6, for the EA-18G electronic warfare aircraft, which includes orders from the first foreign military sale customer, Australia. This award builds on a previous US Navy award in the first half of 2012
- Award of the low rate initial production contract for the SEWIP Block II programme, with deliveries commencing in 2014

	2011	Currency translation	Organic	2012
Revenue[1] £m	323.9	3.9	(4.9)	**322.9**
Trading profit £m	54.7			**44.9**
Margin	16.9%		(3.0)%	**13.9%**

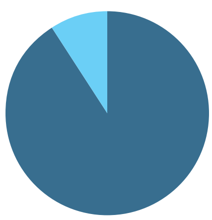
[1] Includes inter divisional trading



Improving operations and customer delivery

There has been considerable focus on Excellence in Delivery, the Group's programme to re-engineer and streamline operations, which has made considerable progress. The programme is bringing a number of operational and customer benefits, including improved productivity, shortened manufacturing lead times and improved levels of quality. At the Defence Systems facility in Lansdale, Pennsylvania, significant improvements have been seen, including those shown above.

Revenue by market



US Defence/Security	91%
Non US Defence/Security	9%

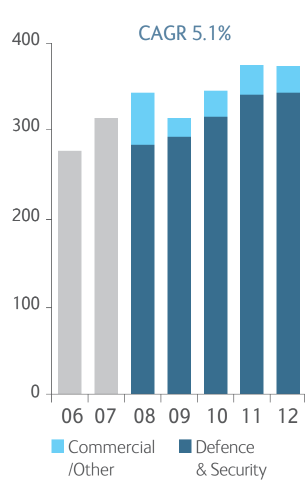
For more information on Cobham Defence Systems
www.cobham.com/about-cobham/defence-systems

Mission Systems

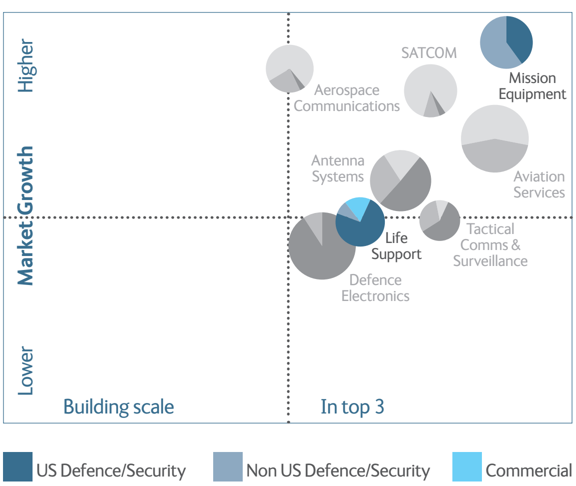
Providing safety and survival systems for extreme environments, nose-to-tail refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft, and remote controlled robots and fully equipped bomb disposal vehicles for homeland security and military applications

Organic revenue

£m



Market positions



The revolutionary Boeing 787 is the first commercial airliner to incorporate Cobham's fuel tank inerting system, which was originally designed for military applications.

Cobham Mission Systems provides the refuelling probe and onboard oxygen and inert gas generating systems on the V-22, an aircraft with revolutionary design and versatility, in use with the US Navy, Air Force, and Marine Corps.
Image courtesy of defenseimagery.mil

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

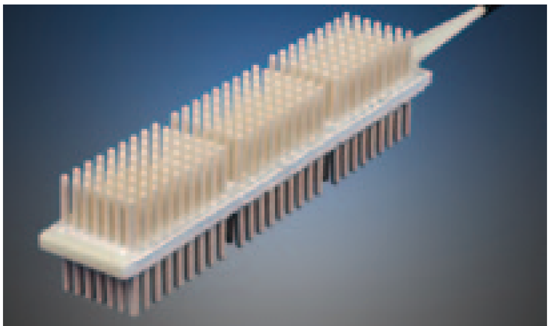
The margin decreased to 21.8% (2011: 22.6%), due to the volume decline in land products, partially offset by the profit contribution from the recognition of the entry into service milestone on FSTA and EiD benefits.

Performance highlights

- Continuing increases in aerial refuelling aftermarket revenue from both US and international customers, including on legacy US Air Force KC-135 and KC-10 aircraft and initial delivery of spares for the new Airbus A330MRTT aircraft
- Increased shipments of aerial refuelling pods for C-130 aircraft to US and international customers, with demand expected to remain strong
- Increasing demand from original equipment manufacturers and aftermarket customers for oxygen and escape slide systems for commercial applications, with continued supply of the fuel tank inerting system on the Boeing 787 commercial aircraft programme
- Contract awards to provide body fuel tanks and On-Board Inert Gas Generating System (OBIGGS) Air Separation Module for the USAF KC-46 tanker programme, with engineering activity underway and initial OBIGGS qualification hardware deliveries expected in 2013

	2011	Currency translation	Organic	2012
Revenue[1] £m	371.8	1.0	(0.2)	**372.6**
Trading profit £m	84.2			**81.3**
Margin	22.6%	–	(0.8)%	**21.8%**

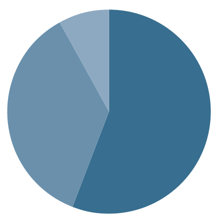
[1] Includes inter divisional trading



Producing medical grade oxygen

Cobham's Ceramic Oxygen Generating System (COGS) uses a unique ceramic membrane technology to produce medical grade oxygen where it is needed. COGS has found medical applications in both field hospitals and air ambulance medical evacuation helicopters, where it eliminates the significant costs and dangers associated with transporting liquid and gaseous oxygen tanks.

Revenue by market



US Defence/Security	56%
Non US Defence/Security	36%
Commercial Aerospace/GA	8%

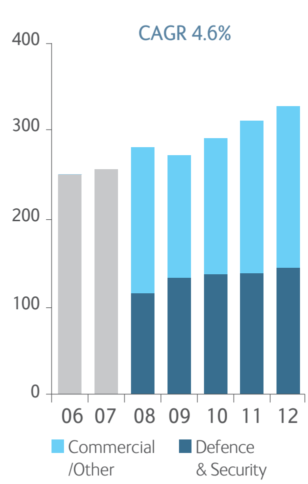
For more information on Cobham Mission Systems
www.cobham.com/about-cobham/mission-systems

Aviation Services

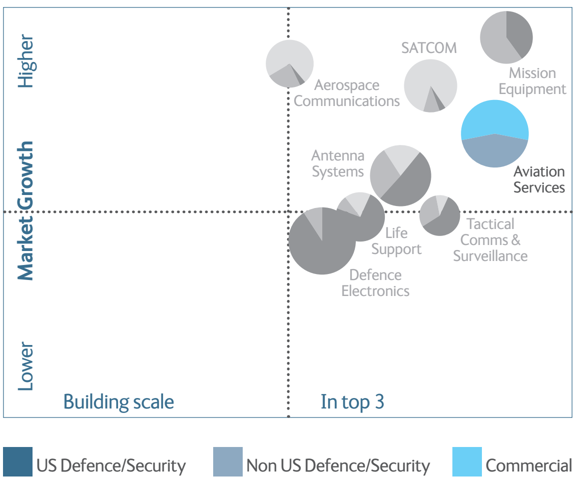
Delivering outsourced aviation services for military and civil customers worldwide through military training, special mission flight operations, outsourced commercial aviation and aircraft engineering

Organic revenue

£m



Market positions



Cobham's fleet of BAe 146 aircraft carry half a million passengers per year and can operate using unsealed runways, a unique feature in the Australian jet market.

The Australian Customs and Border Protection Service has entrusted border surveillance to Cobham for more than a decade under a performance based contract, which was recently extended to 2021.

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

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

Performance highlights

- Boeing 717 activities in Australia were expanded with two additional aircraft joining the QantasLink fleet during 2012
- Cobham's joint venture company FB Heliservices extended its Helicopter Flying School contract with the UK Ministry of Defence for four years until 2016 and new contracts have been secured with Albania and Qatar for flying training and support services
- A contract was awarded to fit air operable doors to half of the Australian Sentinel fleet. This enables Cobham to provide search and rescue services, with additional revenue potential from this capability
- Cobham was awarded a two year contract extension to 2021 on the Sentinel contract for surveillance services for the Australian Customs and Border Protection Service

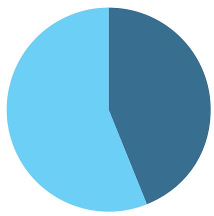
	2011	Currency translation	Organic	2012
Revenue[1] £m	308.1	2.5	16.0	**326.6**
Trading profit £m	41.5			**38.0**
Margin including Joint Ventures	13.5%	–	(1.9)	**11.6%**
Margin excluding Joint Ventures	10.4%	–	(0.9)%	**9.5%**

[1] Includes inter divisional trading

Detecting oil spills

Cobham was awarded an eight year contract by Oil Spill Response Ltd (OSRL) to operate a dedicated, specially-modified maritime surveillance Dornier 228 aircraft, providing rapid response to OSRL clients around the UK. This aircraft is used for detecting and monitoring spills and enabling compliance with legislation from the Department of Energy and Climate Change.

Revenue by market



Non US Defence/Security	44%
Commercial Aerospace/GA	56%

For more information on Cobham Aviation Services
www.cobham.com/about-cobham/mission-systems/about-us/aviation-services

Financial review

Strong operating cash conversion of 104%, driven by an improvement in working capital

Group order book

£2.4bn
(2011: £2.5bn)

Operating cash conversion

104%
(2011: 95%)

Summary of underlying results

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

£m	2012	2011
Revenue	**1,749.4**	1,854.4
Trading profit	**333.1**	364.9
Underlying net finance expense	**(30.9)**	(37.0)
Underlying profit before tax	**302.2**	327.9
Underlying tax	**(58.9)**	(81.2)
Underlying tax rate	***20.0%***	*25.5%*
Non-controlling interests	**(0.1)**	(0.1)
Underlying profit after tax	**243.2**	246.6
Weighted average number of shares (millions)	***1,074.7***	*1,118.4*
Underlying EPS (pence)	**22.63**	22.05

A reconciliation of underlying profit to statutory profit numbers is set out on page 26.

Analysis of Group revenue

Changes to Group revenue in the year were as follows:

2011	FX Translation	Acquisitions/ Disposals	Organic Growth	2012
£1,854.4m	£7.9m	(£102.5m)	(£10.4m)	**£1,749.4m**

Highlights

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

Results

Orders

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

Group order intake was £1,656.4m (2011: £2,045.7m). Order intake was lower due to divestments, primarily the 2011 divestment of Analytic Solutions, and lower intake in the Mission Equipment and Aviation Services businesses, with these businesses having received large multi year orders in 2011.

The Group book-to-bill ratio was 0.95 times. Excluding Aviation Services and Mission Equipment, book-to-bill was solid at 1.0 times.

The Group's share of orders received by its joint ventures is also excluded from order intake. These included a £193m order received in the first half to provide helicopter flying training to the UK Ministry of Defence.

Revenue

Revenue decreased to £1,749.4m (2011: £1,854.4m), primarily due to net divestments, with the additional revenue from the acquisition of Thrane & Thrane and the full year impact of the Trivec-Avant acquisition being more than offset by lower revenue due to the divestment of the non-core emergency locator beacon businesses and the full year impact of the non-core Analytic Solutions divestment.

Organic revenue was broadly flat, with growth in the Aviation Services business being offset by Aerospace and Security and Defence Systems.

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

Technology investment

During the year total R&D investment, including customer funded projects, was £155.9m (2011: £134.5m), including significant development work on aerial refuelling programmes. PV was £75.4m (2011: £75.3m), representing 5.3% (2011: 4.9%) of Group revenue.

Trading profit

Group trading profit decreased to £333.1m (2011: £364.9m), with trading profit in the core businesses decreasing to £328.2m (2011: £342.4m), primarily due to the anticipated decline in operating margins in Defence Systems and Aviation Services. Trading profit in the non-core businesses declined to £4.9m (2011: £22.5m), due to the divestment of Analytic Solutions and the emergency locator beacon businesses.

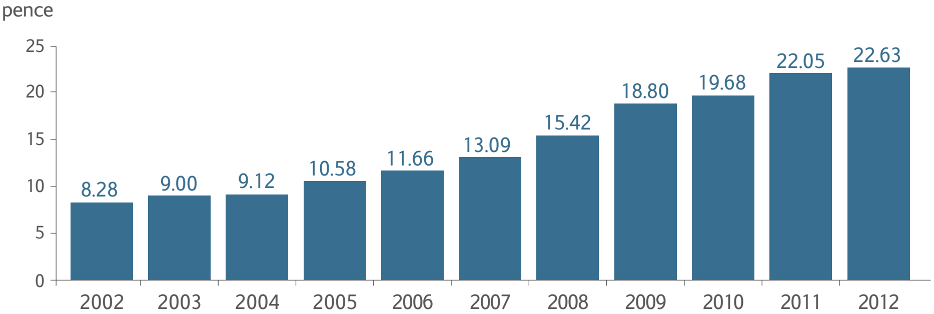
The Group's underlying trading margin decreased slightly to 19.0% (2011: 19.7%).

Underlying net finance expense

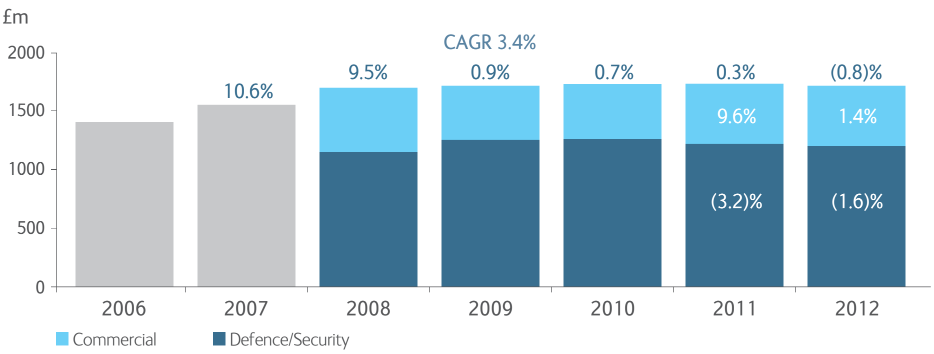
The underlying net finance expense was £30.9m (2011: £37.0m). The net interest expense on cash and debt holdings reduced to £28.9m (2011: £38.2m). The fall in the net interest expense benefited from the maturation of certain debt, partially offset by increased borrowings relating to the acquisition of Thrane & Thrane. As anticipated, there was a non-cash, net finance charge of £2.0m (2011: £1.2m income) from pension schemes.

Underlying earnings per share

10.6% CAGR over last ten years



Core businesses' organic revenue growth



In 2013, an amendment to International Accounting Standard (IAS) 19 will be implemented, requiring Cobham to restate its comparative 2012 numbers upon implementation. The net impact of the change is that the 2012 net finance charge and operating costs will both increase by £1m, resulting in restated 2012 underlying EPS being 0.15p lower at 22.48p.

Including the impact of this IAS19 change, the Group's non-cash net finance charge from pension schemes is expected to be an expense of £2.9m in 2013.

Underlying profit before tax

The Group's underlying profit before tax decreased by 8% to £302.2m (2011: £327.9m).

Taxation

As anticipated, the Group's effective tax rate decreased to 20.0% (2011: 25.5%) on an underlying basis. This was largely due to changes to the UK corporation tax rate and the taxation of the financing of overseas subsidiaries, which have beneficial effects on both past liabilities and future effective rates. The effective tax rate is calculated by dividing the Group's underlying tax charge of £58.9m (2011: £81.2m) by its underlying profit before tax of £294.8m (2011: £318.5m), which is stated after excluding the £7.4m (2011: £9.4m) share of post-tax results of joint ventures.

Earnings per share (EPS)

Underlying EPS increased 2.6% to 22.63p (2011: 22.05p). The increase in underlying EPS includes the lower underlying tax rate and the full year effect of the 2011 share buy-back. At constant translation exchange rates underlying EPS increased 3.2%.

In addition to the above, basic EPS was lower at 16.13p (2011: 16.80p). Notwithstanding the increase in underlying EPS, basic EPS fell as expenditure on business restructuring, primarily EiD, increased by £6m with a 2011 profit on the divestment of Analytic Solutions not repeating, partially offset by changes in the non-cash mark-to-market of movements on foreign exchange hedging contracts.

A full reconciliation of the profit before tax items used in the calculation of underlying EPS is set out on page 26.

Reconciliation of underlying profit

Trading profit is calculated as follows:

£m	2012	2011
Result before joint ventures	228.3	252.1
Share of post-tax results of joint ventures	7.4	9.4
Operating profit	235.7	261.5
Adjusted to exclude:		
Business restructuring – primarily Excellence in Delivery	37.9	31.9
Movements in non-hedge accounted derivative financial instruments	(11.1)	5.4
Amortisation of intangible assets arising on business combinations	68.9	68.0
Insurance proceeds related to settlement of commercial dispute	–	(6.0)
M&A related adjustments	1.7	4.1
Trading profit	333.1	364.9

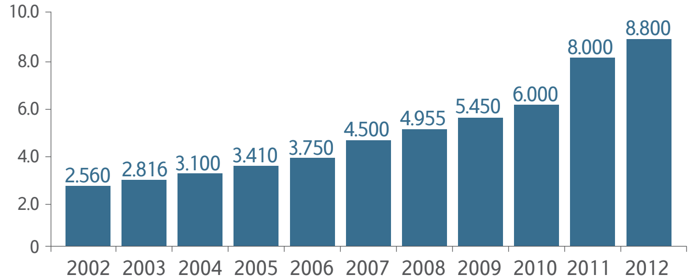
Underlying profit before tax is calculated as follows:

£m	2012	2011
Profit before taxation	206.0	234.3
Adjusted to exclude:		
Business restructuring – primarily Excellence in Delivery	37.9	31.9
Movements in non-hedge accounted derivative financial instruments	(11.1)	5.4
Amortisation of intangible assets arising on business combinations	68.9	68.0
Insurance proceeds related to settlement of commercial dispute	–	(6.0)
M&A related adjustments	1.7	4.1
Business divestments and similar income	(2.9)	(27.1)
Debt and interest rate swap cancellation costs	–	15.4
Unwinding of acquisition related discounting	1.7	1.9
Underlying profit before taxation	302.2	327.9
Taxation charge on underlying profit	(58.9)	(81.2)
Non-controlling interests	(0.1)	(0.1)
Underlying profit after taxation	243.2	246.6
Underlying earnings per ordinary share (pence)	22.63	22.05

Dividend per ordinary share

Double digit dividend growth

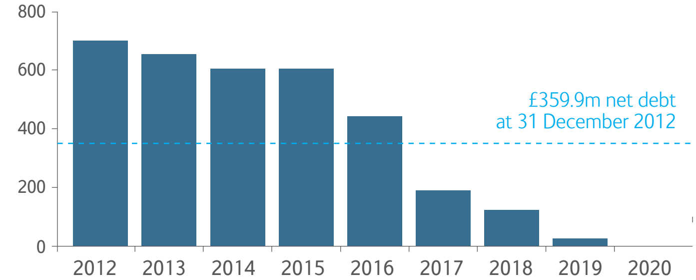
pence



Maturity profile of the Group's outstanding debt facilities

The Group has significant debt facility headroom

£m



Dividends

Following the rebalancing at the interim stage, the Board is recommending a final dividend for 2012 of 6.40 pence (2011: 6.20 pence). This, together with the interim dividend of 2.40 pence (2011: 1.80 pence), will result in a total dividend per share for 2012 of 8.80 pence (2011: 8.00 pence), an increase of 10% on the prior year, in line with the Group's long standing, progressive dividend policy.

The shares will be traded ex dividend on 1 May 2013. The dividend will be payable on 31 May 2013 to all holders on the register at 3 May 2013, subject to shareholder approval.

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

Acquisitions and divestments

In June 2012, the quoted Danish company Thrane & Thrane was acquired for £275m in cash, doubling Cobham's SATCOM revenue and giving the combined operation scale in marine, land and airborne SATCOM systems. Integration activity has progressed well and the business has continued to perform ahead of plan. Pre-tax cost savings of at least £4m will be realised in 2013 and 2014, with savings already achieved from a reduction in corporate costs and the streamlining of significant areas of engineering overlap.

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

Thrane & Thrane acquired for

£275m

Cash flow and net debt

Operating cash flow, which is stated after capital expenditure but before interest and tax payments, was £339.3m (2011: £337.1m). Operating cash conversion was strong at 104% (2011: 95%) of trading profit, before the Group's share of post-tax results of joint ventures, driven by an improvement in working capital. Pension payments were £15m (2011: £49m) in excess of the service cost.

The Group included the £31.8m (2011: £37.0m) of payments relating to EiD within free cash flow. After this, net interest payments of £28.7m (2011: £33.0m), higher tax payments of £45.2m (2011: £24.3m) and the receipt of dividends from joint ventures, the Group generated free cash flow of £241.1m (2011: £250.9m). Out of this, it paid dividends of £92.5m (2011: £69.4m) and £18.8m (2011: £159.5m) on share purchases, of which £150m in 2011 related to a share buy-back programme.

In addition, the Group paid a net £274.6m (2011: £77.1m inflow) primarily relating to the acquisition of Thrane & Thrane and a loan investment in a Group joint venture in connection with the financing of helicopters. This was partially offset by the proceeds from the divestment of the emergency locator beacon businesses.

The table on page 28 sets out the Group's cash flows over the period.

Treasury

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

Debt and financing

At the year end, after funding and exchange movements, net debt which comprises short term cash balances and fixed term borrowings increased to £359.9m (2011: £232.5m). Included in this were exchange movements of £17.4m which decreased net debt, as it is the Group's policy to hold a significant proportion of its borrowings in foreign currency, principally US dollars, as a natural hedge against assets and earnings denominated in those currencies.

At 31 December 2012, the Group was conservatively geared at 0.9 times net debt/EBITDA, after the £275m net outflow during the year relating to acquisitions. Net interest cover during the year was healthy at 12 times (2011: 10 times).

Included within net debt are sterling and US dollar cash deposits, as well as borrowings which are primarily denominated in US dollars and which are held for the reasons described in the section on foreign exchange below. At 31 December 2012 the Group held total cash and short term bank deposits, all with an original maturity of three months or less, of £264.2m (31 December 2011: £345.6m).

The Group's principal borrowings include:

- A US$360m multi-currency credit agreement which became available during 2012, of which US$90m expires October 2016 and US$270m expires October 2017. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin, of which US$347.9m had been drawn down under this agreement at the year end;
- A EUR70m multi-currency credit agreement was signed during 2012 and expires in June 2017. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin, of which DKK121m had been drawn down under this agreement at the year end;
- A DKK525m multi-currency credit agreement was signed during 2012 and expires in October 2016. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin, of which DKK174m had been drawn down under this agreement at the year end;
- US$359m of senior notes maturing in tranches in 2014, 2016, 2019 and 2020 with an average coupon of 6.25%; and
- US$155m of senior notes maturing in 2017 and 2018, with an interest rate at the applicable LIBOR rate plus margin.

Cash flow

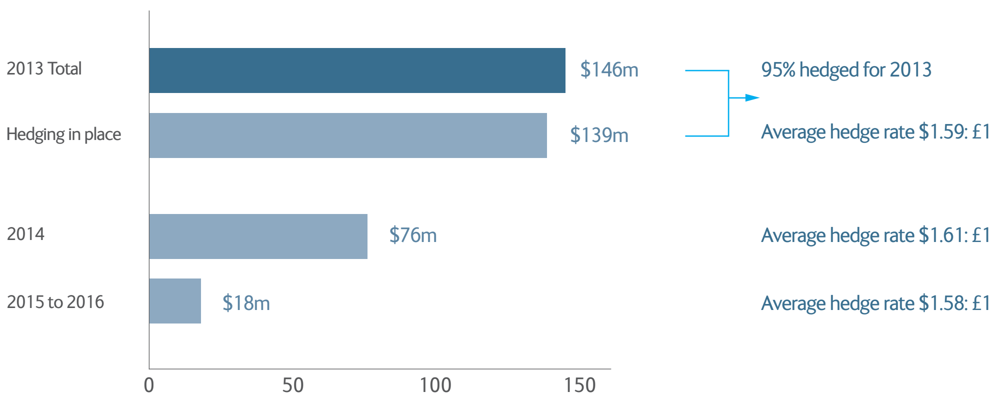
£m	2012	2011
Trading profit (excluding joint ventures)	**325.7**	355.5
Depreciation and other movements	**67.7**	69.2
Pension contributions in excess of service cost	**(15.4)**	(48.8)
Decrease in working capital and provisions	**23.7**	11.0
Net capital expenditure	**(62.4)**	(49.8)
Operating cash flow	**339.3**	337.1
Operating cash/trading profit (excl. joint ventures)	**104%**	95%
Net interest paid	**(28.7)**	(33.0)
Taxation paid	**(45.2)**	(24.3)
Dividends received from joint ventures	**7.5**	8.1
Restructuring costs	**(31.8)**	(37.0)
Free cash flow	**241.1**	250.9
Dividends paid	**(92.5)**	(69.4)
Acquisition payments less divestment proceeds, other related costs and loans to JVs	**(274.6)**	71.1
Settlement of commercial dispute	**–**	6.0
Net purchase of treasury shares	**(18.8)**	(159.5)
Exchange movements	**17.4**	(5.5)
(Increase)/Decrease in net debt	**(127.4)**	93.6

Foreign exchange transaction exposure

95% hedged for 2013

Historic average effective rate

2009 $1.70 : £1
2010 $1.58 : £1
2011 $1.56 : £1
2012 $1.59 : £1



The EUR70m and DKK525m multi-currency credit agreements set out on page 27 were put in place due to the acquisition of Thrane & Thrane.

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

Further details on the Group's borrowings are given in note 18 to the Group financial statements.

Foreign exchange

The Group's aim is to reduce, or eliminate whenever practical, transaction foreign exchange risk, of which the pound sterling/US dollar exchange rate is the most important. This is primarily 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$/£	2012	2011
Average rate	1.58	1.60
Year end rate	1.63	1.55

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 22 and 24 of the Notes to the Group financial statements. Some 95% of the Group's anticipated exposure to the pound sterling/US dollar exchange rate movements is hedged for 2013 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. For 2012, the Group's exposure to floating rates of interest on its borrowings was largely converted to fixed rate exposure through the use of interest rate swaps.

Note 24 of the Group financial statements 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 2012, the estimated deficit for accounting purposes between the value of the defined benefit schemes' assets and the present value of the future liabilities was £73.4m before deferred tax (2011: £71.2m).

The biggest movements related to:
- An actuarial loss of £15.7m, of which some £48m related to the fall in bond yields, partially offset by an increase in the value of scheme assets as part of the detailed triennial review
- Employer contributions made in excess of the service cost (net employer funding) of £15.4m.

The principal movements in the deficit before tax during the year were as follows:

	£m
Pension deficit at 1 January 2012	(71.2)
Interest charge	(2.0)
Actuarial loss	(15.7)
Net employer funding	15.4
Exchange differences	0.1
Pension deficit at 31 December 2012	(73.4)

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

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

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 are given in note 23 to the Group financial statements.

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 16 to 23 and the principal risks on pages 14 and 15. In addition, notes 22 and 24 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.

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.

Corporate responsibility and sustainability

Corporate responsibility and sustainability is fundamental to the achievement of the Group's strategy through the implementation of the strategic objectives and by underpinning Cobham's values

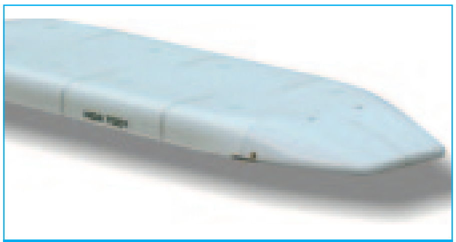
Corporate responsibility and sustainability (CR&S) is fundamental to the achievement of Cobham's strategy through the implementation of the Group's strategic objectives, shown on pages 10 and 11, and by underpinning Cobham's values. The following section explains how CR&S forms an integral part of Cobham's business model and future success in terms of: what is made, how it is made, how progress is sustained, performance management and next steps.

What is made

Cobham manufactures products and delivers services that protect lives and livelihoods and generate a number of environmental benefits. Examples include slip rings used in wind turbines, 3D electromagnetic design software to improve wind turbine design and composite flywheel energy storage devices.

The size, weight and power consumption (SWaP) of Cobham's products are fundamental to the competitiveness of the Group because customers and end users want to maximise the equipment that expensive platforms (such as aircraft, satellites and unmanned aerial vehicles) can carry.

Customers and end users demand reduced installation and operating costs, particularly fuel burn, for systems that are likely to be in service for decades. This is increasingly important as Cobham shifts its portfolio towards commercial markets where environmental issues are given even more prominence.



Reducing fuel burn

Reductions in size and weight lead to lower material usage and significant reductions in costs, such as fuel burn for aircraft, due to lower aerodynamic drag and weight. One manufacturer reported that Cobham's lower profile, lighter SATCOM antenna would save more than $20,000 per aircraft every year compared to another product.

Providing faster and more comfortable flights

Cobham's Aviation Services business has introduced the use of kits for its BAe146 aircraft in Australia to enable its jet aircraft to operate out of unsealed and gravel airstrips. The gravel kit modification improves fuel efficiency from increased point to point flying, with faster flights in safe, quiet jets for mining workers, creating a happier and more productive workforce.

How it is made

Smaller, lighter products require less factory space, less packaging and are cheaper to transport to customers. As products become more modular, installation time is reduced and savings on material costs and reduced weight are also realised.

However, products that embody SWaP goals can still be made inefficiently, generating unnecessary waste, energy consumption, manufacturing and assembly space. As such, Cobham endeavours to not only design products that reduce SWaP, but also to engage the entire value chain, including R&D, supply chain management, assembly, distribution, operation, and end-of-life to ensure that processes are efficient by design.

In 2010, Cobham embarked on its EiD programme to transform how the Group operates across 14 principal manufacturing locations, representing approximately 80% of Group revenue. EiD is comprised of three key elements. Firstly, it implements a set of standardised, world class processes in engineering and project management, supply chain and production systems that are leading to higher production yields, less waste, shorter lead times, smaller production areas and less energy consumption during production.

Secondly, EiD is introducing a new Enterprise Resource Planning IT system to lock in these world class processes and provide the information needed to run the business more effectively and facilitate continuous improvement.

Thirdly, as additional manufacturing space becomes available in the principal manufacturing locations, opportunities are created to consolidate Cobham's geographic footprint, reducing the number of smaller production facilities and associated operating costs.

While EiD is focused on meeting the needs of Cobham's customers though improved quality, cost, delivery and responsiveness, it also provides the additional benefits of reducing environmental impacts and increasing workforce capabilities through significant levels of training, while providing a range of career development opportunities.

Cobham is also taking the opportunity to integrate standardised, world class responsible business practices such as design for environment in R&D, sustainable procurement in supply chain management and SHE (safety, health and environment) in production and integration activity.

Cobham recognised for carbon disclosure

Cobham featured in the CDP Carbon Disclosure Leadership index for the first time, putting it in the top 10% of the FTSE 350. Cobham's submission can be viewed at www.cdproject.net.

CARBON DISCLOSURE PROJECT

In response to the increasing global legislation surrounding the use of hazardous chemicals, Cobham's policy is to eliminate or substitute hazardous chemicals for less harmful substitutes where they do not adversely impact product performance or reliability.

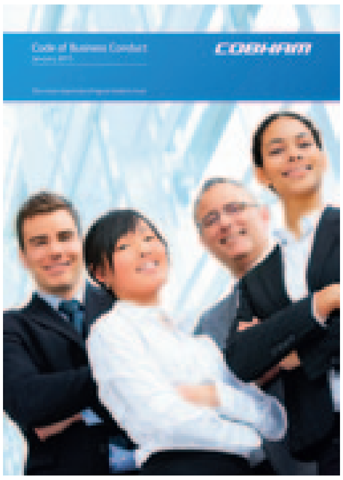
Cobham's Aviation Services business works to optimise the use of aircraft it owns and those it operates on behalf of its customers, as well as its operating bases through its operations and maintenance programmes and by increasing the use of synthetics in its training programmes. These activities ensure Cobham delivers a safe, reliable and efficient service that minimises wastage.

How progress is sustained

Cobham proudly states that 'The most important thing we build is trust', which requires that all we do be underpinned by a foundation of ethical behaviour, with employees empowered to always 'do the right thing'. The Corporate Framework and Code of Business Conduct (Code) govern the way Cobham personnel conduct business and their relationships with others. Specific policies and programmes address material issues, such as anti-bribery and anti-corruption (ABAC), international trade compliance and US government contracting and can be found on Cobham's CR&S website at **www.cobhamsustainability.com.**

Cobham must continue to retain and attract talent to provide a sustainable skill base for products that stay in service for decades. Without this talent, continual improvements to what is made and how it is made are not sustainable.

Managing bribery and corruption risks



Cobham's policy of zero tolerance towards bribery and corruption is a fundamental part of the Code. The Group also recognises the potential bribery and corruption risks posed by the markets in which it operates and, in particular, the potential bribery and corruption risks posed by the use of third party intermediaries. Accordingly, Cobham's ABAC policy requires each third party intermediary to undergo a comprehensive, robust due diligence and approval process before it is engaged. The process requires scrutiny and approval from an independent body, the Advisor Approval Board chaired by the Legal Function and, in certain circumstances, from the Executive Directors. Proper assessment and management of ABAC risks is also an integral part of Cobham's M&A activity, both pre- and post-acquisition, including a review of the markets in which a target operates, its use of intermediaries, and the prompt subsequent implementation of Cobham ABAC policies.

Cobham operates in a dynamic global marketplace, therefore strategic workforce planning is vital to ensure that future business needs are identified, competency gaps identified and plans established.

Having the right technical and management talent is important, but Cobham also wants its people to work in accordance with the Group's values of excellence, integrity, commitment, innovation, cooperation and accountability. Cobham's goal for safety, health and environment is 'zero harm' and 'zero regrets'. The Group aspires to have no work-related injuries or illnesses and to minimise environmental impacts where practicable. The Group's SIHIE policy, which is available on the CR&S website, and standardised management approach covers its own operations and those of its supply chain.

Recognising outstanding contributions

In 2009 the biennial Sir Alan Cobham Awards were introduced to help recognise the outstanding contributions that are being made every day by Cobham employees in five different categories. Across the Group 500 employees were recognised in 2009, increasing to 620 in 2011.

Corporate responsibility and sustainability continued

Cobham contributes to the wider community through the course of its business by creating employment, offering apprenticeship opportunities to young people and by investing in good causes that are relevant to the business. Cobham's policy is to support science, technology, engineering and maths education, armed forces and ex-services personnel charities, disaster relief, and other employee based causes in the communities around our sites.

Cobham also encourages employees to get involved in activities, not only to help the community but also to foster a team spirit and a positive working culture. Employees get involved in fundraising activities and by donating time and expertise to help good causes.

Data verification

Cobham collects data annually on CR&S KPIs from its wholly-owned operational subsidiaries. This excludes Cobham's joint ventures which are not under operational control, sites with less than five 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. 100% of Cobham's wholly-owned operations by turnover have been reviewed internally to identify omissions and significant variations (i.e. 5%) from the prior year.

Donating time and effort for charity

Cobham Antenna Systems employees donated their time and efforts in support of Help for Heroes. Cobham employees successfully completed challenging navigational tasks and raised over £12,500 for charity.

IN SUPPORT OF HELP for HEROES

Cobham has commissioned an external assurance provider, KPMG, to provide limited assurance of its 2012 carbon data. The assurance statement will be made available on the CR&S section of Cobham's website.

Performance management and next steps

Two of Cobham's six KPIs are about people: voluntary staff turnover and staff safety. To have a sustainable business, Cobham must attract, develop and retain superior talent and manage it across the business. The measure of voluntary staff turnover provides insight to retention, with a target turnover of less than 10%. This level reflects the normal upper range of turnover experienced across the many geographic locations that Cobham operates in, with an appropriate level of churn to refresh the talent base.

Cobham wants its employees to work in a safe, healthy environment, with a goal of no major accidents.

Group KPIs	Target	2012 actual	2011 actual
Voluntary staff turnover	<10%	**8.7%**	8.4%
Major accident incidence rate*	0	**666**	465

Voluntary staff turnover

The measure of voluntary staff turnover provides insight to retention, with a target that reflects the normal upper range of turnover experienced across the many geographic locations that Cobham operates in, with an appropriate level of churn to refresh the talent base.

Key next steps

A certain degree of voluntary turnover is inevitable in a time of change in markets and in the Company's organisation. Regular employee feedback channels are being developed to ensure that Cobham understands the reasons for voluntary turnover so that it can retain its key talent.

Major accident incidence rate*

Cobham's goal to achieve zero harm, i.e. no major accidents, was introduced in 2009. It requires changes to policies, procedures and practices, particularly as a number of the companies acquired by Cobham over the past decade have been smaller, entrepreneurial businesses. Improvements are showing through in terms of enhanced levels of reporting, but not yet in the accident rate. The increase in major accidents is also in part due to increased activity levels on sites being integrated. A strategic review of health and safety was conducted in 2012 and the findings are currently being acted on as set out below.

Key next steps

Cobham has set out a new strategy to support the achievement of its zero harm goal. This includes the establishment of an Executive led steering committee, integrating health and safety into the strategic planning process, conducting additional training of line management and building an efficient and effective practitioner base.

* per 100,000 employees

Key focus areas and performance indicators (KPIs)	Target	2012 actual	2011 actual
Ethics			
Code of Business Conduct training	100%	**99%**	99%

Cobham continues to push for the highest levels of awareness in relation to the conduct of its business activities, targeting 100% training completion on an annual basis.

Key next steps

Cobham's process for capturing training activity regarding people joining and leaving the company is being improved to help ensure that the reported training completion levels are accurate. In addition, businesses and people that have not completed the training will be named when the Group Executive reviews the KPI on a monthly basis.

Employee development	Target	2012 actual	2011 actual
Number of senior appointments sourced internally	30%	**>30%**	>30%

Cobham continues to develop and recruit talent from within wherever possible. The EiD programme has given a number of development opportunities and is looking to reabsorb this talent back into the business when the programme ends. Expansion of the Graduate Development Programme into the US has proven successful with 18 US graduates now on the scheme. A new learning management system was launched in late 2012 linked to the Group's 24 competencies and has already been used by employees on a self-service basis to develop themselves in accordance with their performance development objectives.

Key next steps

Cobham is considering expanding its Graduate Development Programme into Australia, developing an accredited Cobham Management Programme, further expanding its learning management system and improving the accuracy of its strategic workforce planning activity.

Energy and climate change	Target	2012 actual	2011 actual
Total energy consumption (MWh/£m turnover)[1]	900	**1,064**	945[2]
Total greenhouse gas emissions (tCO_2/£m)	N/A	**289.5**	260.7

Cobham's energy consumption and greenhouse gas emissions are mainly driven by the Group's use of aviation fuel in the Aviation Services business, which accounts for 91%. As Aviation Services successfully grows, by operating more aircraft or achieving higher levels of utilisation, energy consumption increases, which largely accounts for the increase from 2011 to 2012. Increased levels of activity associated with integrating and closing manufacturing sites have also contributed to this figure, which is a temporary feature.

Key next steps

Cobham is continuing to integrate smaller business units into its principal manufacturing locations, which will reduce its facility energy and greenhouse emissions footprint still further. In addition, the Group is including environmental performance within its strategic planning process, which will provide greater visibility and monitoring of the initiatives being undertaken at the site level.

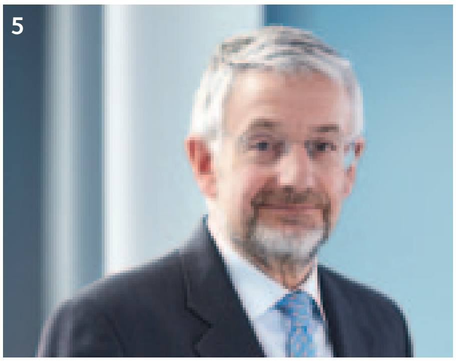
[1] Total energy consumption includes electricity, natural gas, heating oil and all aviation fuel

[2] Reduced from reported 998 MWh/£m turnover in 2011 due to incorrect conversion factor being used

Further detail on Cobham's policies, performance and actions can be found on the CR&S website at
www.cobhamsustainability.com

Board of Directors

Independent Directors



Board meeting attendance for 2012

Number held	11
Number attended	
J Devaney	11
R Murphy[1]	6
A Stevens[2]	5
W Tucker	11
M Beresford	11
J Patterson	11
M Wareing	11
M Ronald	10
M Hagee	11
A Wood	11

[1] R Murphy appointed on 25 June 2012
[2] A Stevens retired from the Board on 1 August 2012

1. J Devaney
Non-executive Chairman
BEng, CEng, FIMechE, FIEE
Age 65

Appointed: Director February 2010, Chairman May 2010 and Executive Chairman November 2011. John reverted to Non-executive Chairman June 2012
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 Asset Management (between 2007 and 2010) 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. John retired from his role as Non-executive Chairman of National Express Group plc on 31 January 2013.
External Appointments: Non-executive Chairman of NATS, the National Air Traffic Services
Committee Membership: Chairman of the Nomination Committee and member of the Remuneration Committee

2. R Murphy
Chief Executive Officer, Executive Director
Age 55

Appointed: June 2012
Skills and Experience: Bob was with BAE Systems for 13 years from 1999, serving as a member of the Executive Committee of BAE Systems plc as Executive Vice President for the global operations of the Product Sectors business for BAE Systems, Inc. including Electronic Systems, Land & Armaments and Platform Solutions sector. He has also held a number of other senior operational and financial roles with BAE Systems. Prior to this, Bob spent 18 years with General Electric Company (GE) where he held numerous financial leadership positions, culminating in his role as CFO of the military engines operation of the GE Aircraft Engines Group.
External Appointments: Board of Trustees for the US National Defense Industrial Association and the Board of Visitors for the Clark School of Engineering at the University of Maryland
Committee Membership: Executive Directors Committee

3. W Tucker
Chief Financial Officer, Executive Director
BSc, ACA, MBA
Age 50

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. Warren will stand down as Chief Financial Officer after the Company's 2013 Annual General Meeting.
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 70

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 2006. He was an Executive Director of GKN plc from 1992 to 2002 and Chief Executive from 2001 to 2002. Marcus will stand down as Non-executive Director and Senior Independent Director after the Company's 2013 Annual General Meeting.
External Appointments: Non-executive Director of Melplash Agricultural Society Limited
Committee Membership: Member of the Nomination and Audit Committees. Member of the Remuneration Committee until December 2012

5. J Patterson
Independent Non-executive Director
CBE, MBChB, FRCP, Fmed Sci
Age 65

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
Committee Membership: Chairman of the Remuneration Committee and a member of the Nomination Committee. Member of the Audit Committee until December 2012

6. M Wareing
Independent Non-executive Director
CMG, FCA, FCCA, MCSI
Age 58

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, 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 71

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 68

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., Outside Director on the Government Security Committee of the Special Security Agreement of TE SubCom, a TE Connectivity Limited company
Committee Membership: Member of the Audit and Nomination Committees. Member of the Remuneration Committee until December 2012

9. A Wood
Independent Non-executive Director
MA, MBA
Age 49

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 three Non-executive Directorships; BTG plc from 2004 to 2008, THUS plc from 2007 to 2008 and GCHQ from 2009 to 2011.
External Appointments: Chairman of Aerospace, Aviation and Defence Knowledge Transfer Network
Committee Membership: Member of the Nomination Committee. Joined the Remuneration Committee from December 2012

10. A Stevens
Former Chief Executive Officer, Executive Director
BSc, CEng, FIET, FRAeS
Age 55

Appointed: November 2003, appointed Chief Executive Officer January 2010
Retired as CEO June 2012
Retired as Director August 2012
Notice period expired 1 January 2013
Skills and Experience: Andy resigned from his role as Chief Executive Officer due to a recurring long-term serious back injury. 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: De La Rue plc (with effect from 2 January 2013)
Committee Membership: Executive Directors Committee (until June 2012)

Corporate governance

This part of the Annual Report, together with the Directors' remuneration report set out on pages 44 to 55, 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 published by the Financial Reporting Council and is available from its website (www.frc.org.uk).

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 2012 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 56.

The Board composition

The Board comprises a Non-executive Chairman (John Devaney), a Chief Executive Officer (Bob Murphy), 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 Bob Murphy, who joined the Board on 25 June 2012. Andy Stevens, the former Chief Executive Officer, retired for medical reasons from this role on 24 June 2012. He continued on the Board, in a non-executive capacity, until 1 August 2012 and provided support to the incoming Chief Executive Officer, Bob Murphy, until the end of his notice period on 1 January 2013. Marcus Beresford has completed nine years as a Non-executive Director and will stand down from the Board and as Senior Independent Director at the conclusion of the Annual General Meeting (AGM) on 25 April 2013. Warren Tucker will stand down as Chief Financial Officer and Executive Director following the AGM. Simon Nicholls, currently Group Finance Director of Senior plc, has been appointed as Warren Tucker's successor and will commence in role and join the Board on 1 May 2013.

Biographies of the Directors, giving details of their experience and other significant commitments, are set out on page 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 have sufficient time to meet what is expected of them. 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 FTSE350 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, Bob Murphy, who was appointed to the Board on 25 June 2012, is seeking election by shareholders at the 2013 AGM for the first time. The Board has set out in the circular a resolution to elect Bob Murphy as an Executive Director and explains why it believes he should be elected. The Chairman confirms to shareholders when proposing 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 also focuses 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. The Chairman performed an executive role during the first half of the year whilst the search for the new Chief Executive Officer was underway but reverted to his Non-executive role on the appointment of Bob Murphy.

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.

As noted above, Marcus Beresford will stand down as Non-executive Director and Senior Independent Director at the conclusion of the AGM. The role of Senior Independent Director will be assumed by Michael Wareing following Marcus' retirement. The search process for a new Non-executive Director has been started and Korn/Ferry Whitehead Mann have been appointed to provide details of suitable candidates for the role. Korn/Ferry have signed up to the Voluntary Code for executive search firms and provide no other services to us other than recruitment consultants. We will ensure that Korn/Ferry supply a suitable number of candidates from diverse backgrounds to complement the Board's existing skills and experience.

The Board and its proceedings

Comments from the Chairman

"A key focus during 2012 has been search, selection and induction into the business of a new Chief Executive Officer. The US defence/security market remains highly uncertain and we are planning for a period of declining, then flat budgets, consistent with previous down cycles. Therefore, it was important the Group found the right successor to Andy Stevens to continue the strategic journey and to bring strength and leadership for the future."

J Devaney

Role and focus

The Board's main duties are to:

- Lead the Group with a view to the creation of strong, sustainable financial performance and long-term shareholder value.
- Review and agree Group strategy.
- Ensure that the necessary resources are in place.
- Monitor management performance.
- Supervise the conduct of the Group's activities within a framework of prudent and effective internal controls.

Highlights of 2012

- The Board and senior management participated in two separate meetings devoted to the consideration and development of the Group's strategy.
- Acquisition of the Thrane & Thrane group of companies.
- Overseen the negotiation of new banking facilities.
- Overseen the search and appointment of a new Chief Executive Officer.
- Evaluated and approved seven large bid submissions above authority limits delegated to the Executive Directors.
- Completed externally facilitated Board Evaluation.

Priorities for 2013

- Review performance against agreed strategic enablers.
- Continued focus on market evaluation and strategic development.
- Continued rebalance of the portfolio towards the commercial market.

Board meetings, scheduled in accordance with the annual timetable, take place six 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. 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.

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 2012.

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 2012, the Board and its committees undertook an external evaluation, conducted by Institute of Chartered Secretaries and Administrators consultants. The evaluation included the circulation of a questionnaire to stimulate thinking prior to an interview with the external assessors. The performance of individual Board members was evaluated as part of this process. The Board considered the output and has approved an action plan to address issues arising.

A table of actions instigated by this and the previous performance evaluation is included below.

Board and Committees performance evaluation

Evaluation Year	Observations	Actions Taken
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 was 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. Bob Murphy joined the Group on 25 June 2012.
	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 and 2013. Various actions in relation to talent and succession planning are underway. The people section of the Directors' report at page 58 contains further details.
	Increase the frequency of discussions at the Board on market positioning, on technology assets, and on implementation of the Group Strategic Plan.	The Board implemented new reporting and quarterly strategic updates during 2012.
2012	The risk management process needs to be strengthened with clear delineation between the work of the Risk and Audit Committees and the Board.	The Risk Committee will be strengthened during 2013 with the membership expanded to include the Group Executive. Greater focus will be placed on the risk identification process and the risk appetite.
	More rigour should be placed around paper compilation and submission.	The substance of reports will be improved and a standard reporting format adopted, introducing a more timely and efficient process.
	Senior management objectives need to be visible to the Board to support talent and succession planning.	• Objectives for the Group Executive will be presented to the Board for review. • Opportunities for the Board to meet the members of the Cobham high potential programme will be pursued.

Financial reporting
In the Directors' view, the Annual Report and Accounts for 2012, 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 page 29.

Shareholder relations
A full programme of engagement with investors and analysts, both in the United Kingdom and overseas, is undertaken each year by the Chief Executive Officer, Chief Financial Officer and Director of Investor Relations, including presentations, roadshows and site visits. Site visits are hosted by senior members of management within the business units and are intended to give investors detailed insight and access to the business' operations.

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, while acting in an executive capacity, the Chief Executive Officer and the Chief Financial Officer held regular meetings with shareholders to discuss information made public by the Group. A wide range of business and corporate governance topics were discussed with institutional investors during the year as part of the investor relations programme. These included Cobham's overall performance, the Group's markets, progress on the Group's Excellence in Delivery programme, changes in senior management and cash deployment including dividends, share buy-backs and mergers and acquisitions.

The Non-executive Chairman and the Senior Independent Director are available to meet with major shareholders. The Chairman of the Remuneration Committee has consulted with major shareholders twice during the year with regards to executive remuneration arrangements.

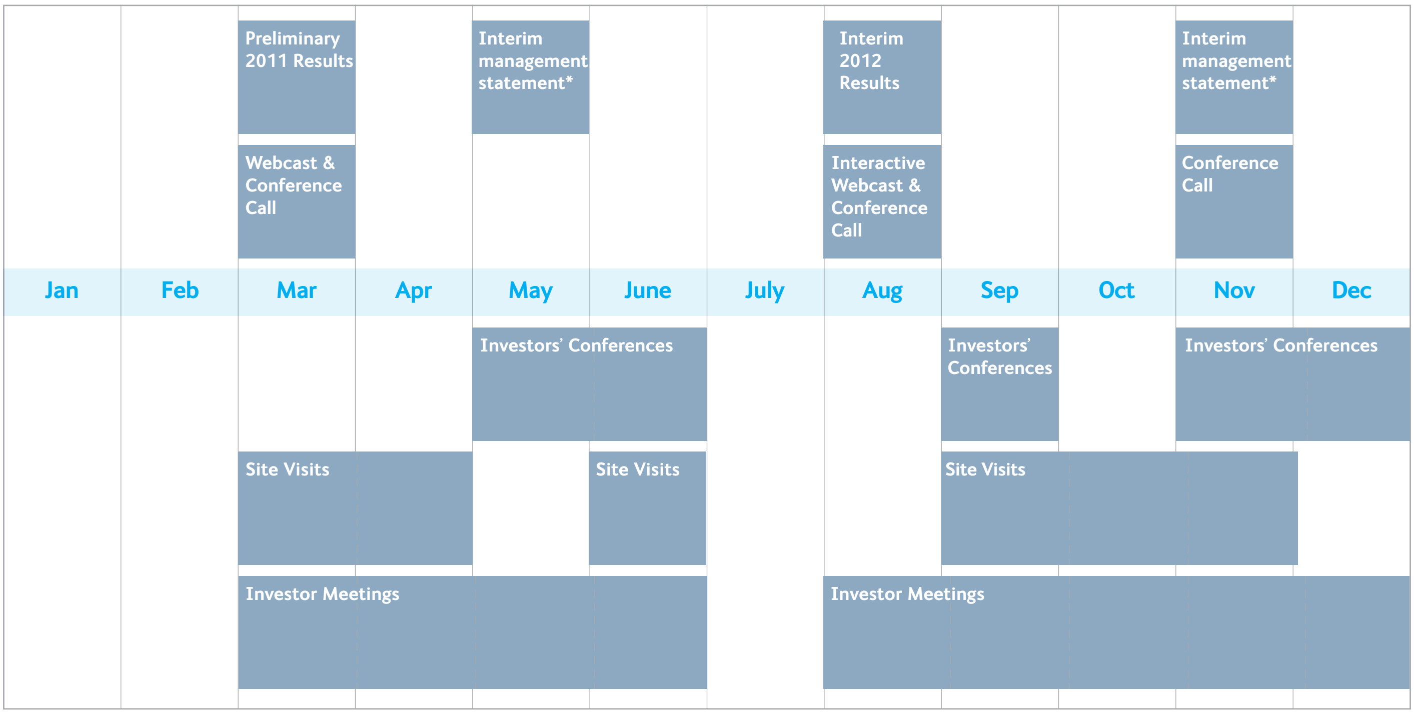
Presentations were given on the day of the announcement of the interim and preliminary results. The presentations are accompanied by a live webcast for shareholders unable to attend in person. Copies of the associated presentation materials, together with webcasts, can be accessed at **www.cobhaminvestors.com**. Presentations are conducted in accordance with the FSA's Disclosure Rules on the dissemination of inside information.

The Board receives a report from the Chief Financial Officer at each of its meetings on investor relations generally, including significant changes to shareholdings, meetings with and feedback from shareholders and research published on the Group. A formal presentation to the Board is given once per year by the Director of Investor Relations, including an overview of shareholder sentiment.

Communication with shareholders also takes place via RNS announcements, the Group'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 question the Board on its stewardship of the Group and to meet the Directors informally. The results of the votes on the resolutions proposed at the AGM are published on the Group's website at **www.cobhaminvestors.com**.

Responsibility statements
Statements relating to the responsibilities of the Directors are on page 60 and those relating to the auditors are on pages 61 and 113.

Summary of 2012 Investor Relations activity



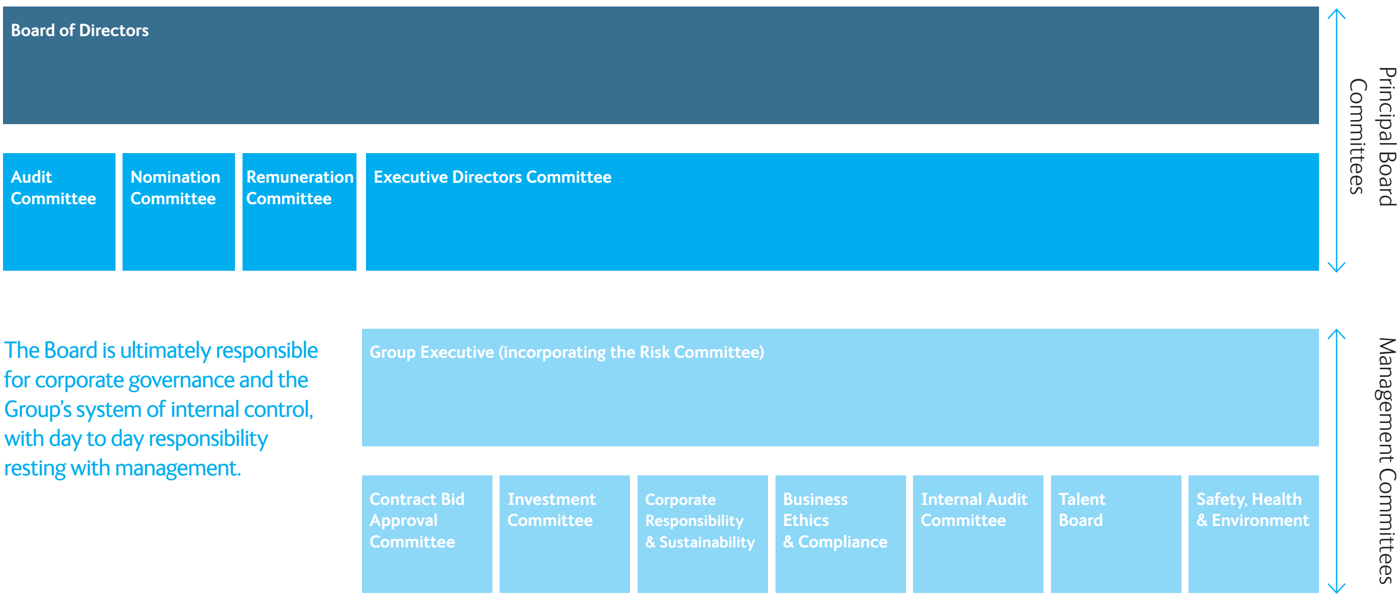
* Interim management statement is a short quarterly update on the Group's trading, significant events and financial position.

Board committees

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 55. 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 24 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 below.



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

Nomination Committee

Comments from the Chairman

"A key focus during 2012 has been the appointment of a new Chief Executive Officer and the search and recruitment of a new Chief Financial Officer. Both of these appointments were 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 for the Chief Executive Officer role who were interviewed by myself and separately by Mike Wareing, John Patterson and Marcus Beresford before meeting the current Executive Directors and being offered the Chief Executive Officer role.

The same process was followed for the recruitment later in the year of the Chief Financial Officer, except that the new Chief Executive Officer was also very involved in the process. Simon Nicholls will take over the role of Chief Financial Officer on 1 May 2013.

Following an extensive review of the Group's strategic direction, a fresh look at talent and succession further down the management chain is currently underway."

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	2

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.

Highlights of 2012

- 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 Chief Executive Officer and Chief Financial Officer.
- Conducted an effectiveness review.

Priorities for 2013

- Non-executive Director search and recruitment process underway to replace Marcus Beresford and John Patterson. John plans to retire at the conclusion of the 2014 AGM.

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. Measurable targets have been set around:

- Ensuring a proportion of female applicants are included in the candidate pool for Non-executive Director positions.
- The next Non-executive Director appointed should have a more diverse geographical background and commercial market experience, if possible.

Elsewhere in the business, the objective is to appoint the 'best person for the job' taking into account not only gender but nationality, age and experience.

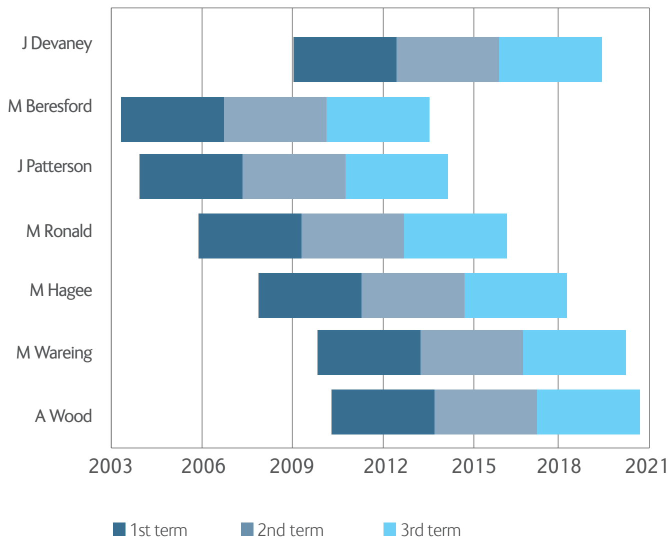
The current Board composition, in relation to the Non-executive Directors, as of 31 December 2012, is set out in the table below identifying the skills and experience of the Board members.

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, briefing from specific consultants 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 advisers and by means of regular updates from the Company Secretary and the legal team.

Board succession planning



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 2012, in terms of length of service and current term is shown diagrammatically above.

	Independence	Years with Cobham	Skills			Experience						
			Leadership	Strategy	UK Corporate Governance	Corporate	Engineering	Defence	Finance	US market	UK listings	HR
John Devaney		2	*	*	*	*	*	*	*		*	
Bob Murphy		0	*	*	*	*		*	*	*		*
Warren Tucker		10	*	*	*	*		*	*		*	*
Marcus Beresford	✓	9	*	*	*	*	*	*		*	*	
John Patterson	✓	7	*	*	*	*					*	*
Michael Wareing	✓	2	*		*	*		*	*		*	
Mark Ronald	✓	6	*	*		*	*	*		*	*	
Mike Hagee	✓	4	*	*				*		*		
Alison Wood	✓	1	*	*	*	*		*		*	*	*

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[1]	2
M Hagee	3

[1] John Patterson, Chairman of the Remuneration Committee, left the Audit Committee on 1 December 2012 on the introduction of parallel running of Board committee meetings.

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 control systems.
- Consider the effectiveness of the Group's risk management procedures.
- 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.

Highlights of 2012

- 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.
- Reviewed internal controls operating within the Group and specifically controls in relation to the Excellence in Delivery programme and IT.
- 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.
- Monitored and contributed to the debate on external audit tendering/rotation led by the UK Financial Reporting Council (FRC) and the European Union (EU). Considered the impact on the Group.
- Reviewed financial reporting controls and significant accounting judgements.

Priorities for 2013

- Consider how to adapt procedures to provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides all information necessary to a shareholder to assess the Group's performance, business model and strategy.
- Continued oversight of the impact of the economic downturn on the financial position of the Group.
- Prepare for the implementation of the final requirements arising for the tendering of the external audit.

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, other experienced internal teams, external experts and 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 14 and 15.

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 Group'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 misstatement or loss.

The Audit Committee reviews the risk management procedures annually and 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 Internal Control, Guidance for Directors on the Combined Code issued by the Financial Reporting Council.

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 2012. The review covered all material controls, including financial, operational and compliance controls and risk management systems.

Financial reporting and significant financial judgements

The Committee reviews whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and also seeks support from the external auditors to assess them.

The Committee reviewed the following main issues below for the year ended 31 December 2012:

- The provisions held and settlements made relating to litigation disputes and potential significant contract liability and considered the judgements made by management. The Committee was satisfied that these were reasonable and appropriate, and that the disclosures made were appropriate.
- The accounting for acquisitions made during the year, the carrying value of businesses held for sale and certain tax provisions. The Committee was satisfied these were reasonable and appropriate.
- The accounting for longer term contracts. The Committee considered that the accounting was reasonable and appropriate.
- The Committee considered the carrying value of intangible assets and potential impairments and was satisfied that no provisions were required and that disclosures were reasonable and appropriate.

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.

As noted above, the Committee has monitored and contributed to the current FRC and EU proposals and have reviewed and updated the Committee's terms of reference in order to reflect certain of them in advance of them becoming mandatory.

The external auditors follow regulatory requirements, which stipulate in relation to the senior engagement auditor, a five year rotation policy. 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 include tax compliance and advisory services and are set out in note 2 to the Group financial statements.

Directors' remuneration report

Remuneration Committee

Comments from the Chairman

"In a very busy year for the Committee, we have agreed an exit package for the outgoing Chief Executive Officer, supplemental compensation for the Chairman during the period he acted as Executive Chairman and a package for the incoming Chief Executive Officer and Chief Financial Officer.

We also undertook a review of our current remuneration package to simplify arrangements, rebalance the performance metrics in line with current strategy and to provide clearer line of sight against targets for those participants in the incentive plans.

As part of these processes, we informed and consulted our major shareholders on several occasions."

Dr J Patterson

Membership and attendance

Number held	5
Number attended	
J Patterson (Chairman)	5
M Beresford[1]	4
J Devaney	5
M Hagee[1]	4
M Ronald	5
A Wood[1]	1

[1] During the year, the Committee membership was revised to ensure Remuneration and Audit Committee meetings could be run concurrently. Accordingly, Messrs Beresford and Hagee retired from this Committee as of 1 December 2012. Alison Wood joined the Committee as of this date.

Other attendees (by invitation)

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

Note: No individual is present in meetings relating to decisions around his/her own remuneration.

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.

Highlights of 2012

- Reviewed all remuneration plans including annual base salary, annual incentives, long-term incentives, and pension schemes.
- Agreed the remuneration framework for the new Chief Executive Officer and Chief Financial Officer. Reviewed and approved remuneration for members of the Group Executive and the Company Secretary.
- Reviewed advice from the external adviser on remuneration strategy and policy, incentive design and market data relevant to the size and activities of the Company.
- Overseen 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.

Priorities for 2013

- Continued focus on ensuring compensation packages align with Group strategy and external expectations.
- Prepare for the implementation of the binding vote on remuneration policy and other reporting requirements to be introduced from the next reporting period.

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 Company 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 advice regarding take-on controls, tax and IT audits. 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 Committee and ratified 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 and separately to the performance of the individual employee.

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

At the end of 2012, a review of the current remuneration package was undertaken to simplify arrangements, rebalance the performance metrics in line with current strategy and to provide clearer line of sight against targets for those participants in the incentive plans. An exercise to consult our major shareholders and representative bodies was undertaken following this review and received supportive responses.

The primary elements of the 2012 remuneration package focus on supporting different objectives, as illustrated in the table on the following page, which also shows the opportunity for 2012 and revised 2013 executive remuneration performance measures following the remuneration review.

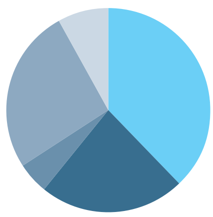
In defining the Group's remuneration policy, the Committee takes into account best practice guidelines set by institutional investor bodies such as the Association of British Insurers. The Chairman of the Company also ensures the Company, through the Committee and its Chairman, maintains contact with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

CEO pay mix, FY2013



Base salary	38%
Annual Bonus	23%
Bonus Co-investment Plan (BCP)	5%
Performance Share Plan (PSP)	26%
Pension	8%

Total compensation statement for Executive Directors

Element	Purpose	Opportunity 2012	Opportunity 2013	Performance measures and vesting schedule
Annual base salary	• Provide competitive fixed remuneration reflecting the value of the individual, their skills, experience and performance	Outgoing CEO – £600,000 (pro-rata) Incoming CEO – £656,320 (US$1,040,000)(pro-rata) CFO – £443,400	Incoming CEO £676,007 (US$1,071,200) Incoming CFO – £400,000 (pro-rata)	• 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
Annual incentive	• Motivate achievement of key annual objectives consistent with the Group Strategic Plan	Max 100% of salary (50% of salary for on target performance)	CEO – Max 120% (60% for on target performance) CFO – Max 100% (50% for on target performance)	• For 2012, financial measures consisted of underlying Earnings per Share (EPS) growth (70% weighting) and cash (30%) • Personal objectives are set annually and are linked to the Group Strategic Plan. They are used as a multiplier in the range of 0-150% • For 2012, the underlying EPS growth threshold was 2.5%, the target was 5% and the maximum target was 10%. The cash generation threshold/target was £225m and the maximum target was £250m • 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 • For 2013, this will include a return on capital employed measure for the CEO and incoming CFO • For 2013, the performance measures will be based on Operating Profit (70%) and cash (30%)
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	Outgoing CEO/CFO 50% of net bonus may be invested and matched on up to a two for one basis subject to EP targets being met	For 2013, CEO and incoming CFO, 25% of bonus earned compulsorily deferred for three years and up to a further 25% voluntarily deferred. Any bonus deferred may receive up to a one for one match subject to EP targets being met	• 2009 matching awards vesting in 2012 were subject to three year Economic Profit (EP) growth with threshold of RPI+ 6% and maximum of RPI+15% • EP targets for the 2010, 2011 and 2012 matching awards vesting in 2013, 2014 and 2015 respectively are commercially sensitive and are not disclosed
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	Normal grants up to 150% of salary with vesting split equally between TSR, EPS and cash conversion	• Total Shareholder Return (TSR) measure – 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 +3% per annum and full vesting requiring +11% per annum • From 2013, 33% based on three year underlying EPS growth measured as above, except full vesting is at +10% per annum, 33% TSR relative comparator group and 33% subject to three year cash conversion with 16.7% vesting at 90% cash conversion and full vesting on achieving cash conversion of 100%
Pension	• Provide competitive post-retirement compensation and benefits consistent with the market	Defined benefit arrangements	Outgoing CEO and CFO – Defined benefit arrangements Incoming CEO and CFO – Defined contribution arrangements equivalent to 20% of base annual salary	Not applicable

Amount achieved in 2012
• Outgoing CEO – full annual salary • Incoming CEO – annual salary pro-rated from date of appointment • CFO – full annual salary
• Outgoing CEO Award – 45% of base salary • Incoming CEO Award – 58% of base salary • CFO Award – 43% of base salary • Outcomes were earned as a result of achieving actual Group free cash flow of £273m and underlying EPS growth of 3.2% • The balance of the Executive Directors' 2012 annual incentive was linked to the achievement of personal objectives such as the strategic review and the Excellence in Delivery programme
• The BCP award in 2009 vested at 26.7% on 1 June 2012 based on the achievement of annualised EP growth of 6.2%
• The PSP award in 2009 vested at 30% on 11 March 2012, based on a TSR achievement of index minus 10.6% per annum giving a 0% vest for the TSR element and an EPS achievement of RPI+8.7% per annum growth against a target of RPI+10% per annum (giving a 59.9% vest for the EPS element)
Not applicable

Base salary

Bob Murphy was appointed to the position of Chief Executive Officer on 25 June 2012 on an annual salary of £656,320 (US$1,040,000). His salary was positioned at the market median and was reviewed for 2013 and increased to £676,007 (US$1,071,200) with effect from 1 March 2013. Warren Tucker, the Chief Financial Officer, received an annual salary of £443,400 in 2012. Simon Nicholls, the incoming Chief Financial Officer, will be appointed on a salary of £400,000 with effect from 1 May 2013.

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. The average base salary increase for all staff for the year commencing 1 March 2013 was 3%.

Annual incentive

The Company operates an annual cash incentive scheme for its Executive Directors. Annual incentives were awarded by the Committee in respect of 2012 having regard to the performance of the Group and personal performance objectives for the year. Details of the annual cash incentive scheme and the amount achieved against targets for 2012 can be found in the table on these pages.

Long-term incentives

Executive Directors are eligible to participate in the Cobham Bonus Co-Investment Plan (BCP) as well as in the schemes below. Senior executives and certain other staff are eligible to participate in the following incentive schemes (Executive Directors do not currently participate in the ESOS):

- The Cobham Performance Share Plan (PSP).
- The Cobham Executive Share Option Scheme (ESOS) in relation to 'time only' awards (for US participants) and performance awards (for rest of the world participants).

For 2012, 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).

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 2011 (paid in Spring 2012) 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-rated to target achievement and the two for one 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.

From 2013, only the Executive Directors will participate in the BCP, for details of the participation terms refer to the remuneration policy table on page 46, under the BCP section.

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 2012, awards were made to employees in the UK, and certain employees outside the UK.

For 2012 and prior years, vesting of PSP awards has been 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. For 2012 targets and vesting levels, refer to the remuneration policy table on pages 46 and 47, under the PSP section. Below are the companies in the TSR comparator group for awards granted in 2012 and previous years:

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

* Delisted

In order to reflect a comparator group that is more aligned with Cobham from an industry and company size perspective, the Company has reviewed the comparator group as part of the remuneration review and has determined the following comparator group for awards to be granted in 2013:

BAE Systems	L-3 Communications	Smiths Group
Esterline	Meggitt	Teledyne Technologies
Finnmeccanica	Northrop Grumman	Thales
Flir Systems	QinetiQ Group	Ultra Electronics
Harris	Raytheon	
ITT Industries	Rockwell Collins	

In addition, for the 2013 awards, a cash conversion measure has been included, so that performance is assessed against TSR, EPS and cash conversion, with each measure having equal weighting. For 2013 targets and vesting levels, refer to the table on page 46, under the PSP section.

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 or 2012. ESOS awards continue for overseas participants on both a 'time only' and performance basis. The vesting of options granted to overseas-based participants on a 'time only' basis 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.

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.

Changes to the 2013 awards are identified in the table on the right.

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 54.

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. Executive Directors, whose salary is paid through a UK payroll, are permitted to participate in the scheme and details of their participation are included in the footnote to Table 4 on page 53.

The incoming Chief Executive Officer does not participate in either of the above schemes.

Dilution

The Company's share schemes are funded through shares purchased in the market.

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 2012, 18.6m (1.73%) and 11.4m (1.05%) 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 forfeit, are excluded from calculations.

Long-term incentives for 2013

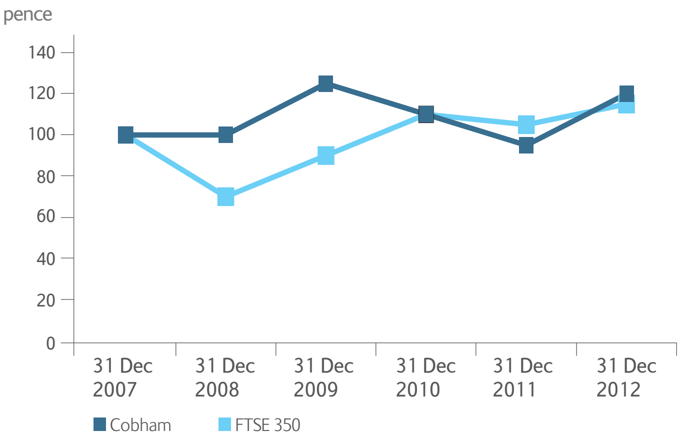
Remuneration element	Specific element	Current approach	Change	Reason for change
BCP	**Overall operation**	• Up to 50% of any bonus may be deferred and receive up to a two for one matching award	• Removed for all except CEO and CFO • Mandatory deferral of 25% of annual incentive for three years (deferral of up to an additional 25% is voluntary) • Matching opportunity reduced to one for one match	• Simplify remuneration arrangements • EP remains as a formal return on capital metric
PSP	**Performance metrics**	• 50% subject to TSR • 50% subject to EPS	• 33% subject to EPS • 33% subject to TSR • 33% subject to Cash conversion • Reviewed TSR comparator group to reflect better the split in business operations of the Company and Cobham's financial size as indicated above (TSR groupings are shown on page 48)	• Targets linked to areas of strategic importance to the business • Challenges in compiling an appropriate TSR comparator group • EPS remains fundamental to the business • Cash conversion is considered to be a key long-term metric for the business
PSP	**Performance targets**	• EPS maximum 11% EPS growth per annum	• EPS maximum 10% EPS growth per annum	• To align with shareholder Dividend Policy
ESOS RoW (excluding US)	**Form of award**	• Awards made in the form of options	• Removed and awards made under the PSP, subject to the same performance metrics as the PSP	• Simplify remuneration arrangements

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 2012 and is currently, as at 6 March 2013, ranked at 121st.

Five year TSR performance – Cobham vs FTSE350

Value of £100 invested over the five year period ending 31 December 2012



Source: Kepler Associates

Directors' pensions

The former Chief Executive Officer and the current Chief Financial Officer participate in the Cobham Executives Pension Plan (the Pension Plan). The Pension Plan provides benefits on final salary 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. The former Chief Executive Officer, Andy Stevens, retired from the business on 1 January 2013 and a special employers' contribution of £310,000 was made to the Pension Plan on that date in order for a non-reduced pension to be paid.

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 Plan underwent a buy in (purchase of a bulk annuity) during December 2011.

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 52.

The policy in respect of newly appointed Directors, such as the incoming Chief Executive Officer and Chief Financial Officer, 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 20% of annual basic salary.

Details of Directors' pension benefits as required by the Regulations are set out in Table 3 on page 53.

Service contracts

The Board's policy on notice periods for new Executive Directors is that these should not normally exceed one year. 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 which expires on 1 January 2013. Warren Tucker's service contract dated 1 January 2004 is terminable on one year's notice by, and six months' notice to, the Company.

Bob Murphy's service contract is terminable on twelve months' notice by either party and can be terminated for cause which is defined in his contract. Simon Nicholls' service contract is terminable on twelve months' notice by either party and can be terminated for cause which is defined in his contact.

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 incoming Chief Executive Officer is required to maintain Ordinary Shares to the value of two years' salary.

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: Bob Murphy 0%, Andy Stevens 158% and Warren Tucker 102% and as at 6 March 2013 were: Bob Murphy 0% and Warren Tucker 107%.

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.

2012 Senior management/Board changes

The Company announced on 18 November 2011 that Andy Stevens was unable to continue as Cobham's Chief Executive Officer due to the recurrence of a long-term serious back injury and had therefore decided to take early retirement. Andy Stevens remained on the Board for a period of time to assist with the management of the Company until a new Chief Executive Officer could be appointed and the Chairman, John Devaney, temporarily assumed the position of Executive Chairman while a search was conducted for Andy Stevens' successor.

After an extensive search and selection process, Bob Murphy joined the Company on 25 June 2012 and assumed the role of Chief Executive Officer, at which point Andy Stevens relinquished his responsibilities as an executive director, remaining on the Board in a non-executive capacity, and John Devaney reverted to the role of Non-executive Chairman. Andy Stevens retired from the Board on 1 August 2012 and remained available to assist Bob Murphy in the transition, for the rest of his contractual notice period. The exit package for the outgoing Chief Executive Officer was agreed to ensure that contractual obligations to Andy Stevens have been fulfilled and, within reason, his excellent contribution to the Company over nine years service duly recognised.

The Board acknowledged that Andy Stevens could have simply taken sick leave but with his decision to resign, taken quickly, and without a lengthy absence, removed the requirement for a protracted period of uncertainty and enabled prompt action to be taken to commence a search for a successor.

Accordingly, the Board took the following actions:

1. Accepted Andy Stevens' resignation and agreed a notice period end date of 1 January 2013.
2. Granted 'good leaver' status on his long-term incentives, using the discretion of the Remuneration Committee, in accordance with the respective scheme rules, in recognition of his service and the circumstances of his departure. On this basis his long-term incentive awards will continue to their original vesting date and vest subject to performance at that point in time.
3. Andy Stevens was a member of the Cobham Executives Pension Plan (CEPP). This is a final salary 1/30th accrual scheme. In common with market practice for schemes of this kind, there is no ill health/disability retirement provision contained within the CEPP, and the nature of his resignation without any prior period of extended absence, did not allow him to qualify for cover under the Group Income Protection Insurance scheme. The Board therefore decided to augment Andy's pension by making an exceptional, additional contribution of £310,000 to his fund. This will deliver an annual pension of £42,000 available to him with effect from his departure in January 2013.

The Remuneration Committee agreed to award supplemental compensation to the Chairman, John Devaney, for the additional workload undertaken during the period in which he acted as Executive Chairman, between December 2011 and June 2012. John Devaney has received an additional pre-tax payment of £200,000 in recognition of his contribution during this time. This was calculated pro-rata on the difference between the Chief Executive Officer base salary and the Chairman remuneration. He has since reverted to the role of Non-executive Chairman on the pre-existing terms of his engagement.

The Board identified early on in the search process that Andy Stevens' successor would need to be an executive, having experience of both defence and non-defence markets, with a successful track record within a global organisation which had grown both organically and through merger and acquisition activity. Bob Murphy has a track record spanning more than 25 years working in the civil, commercial and defence sectors of the industry.

To attract a US candidate of Bob's calibre it was necessary to configure his reward structure appropriately. Accordingly, the Committee agreed the following remuneration package and terms:

Base salary	Annual base US$1,040,000 per annum, reviewable annually. Employed through a US subsidiary and seconded under a service agreement to act as Chief Executive Officer of the Group.
Annual bonus	Target award of 60% of salary, maximum award of 120% of salary. 2012 bonus to be pro-rated for time served and subject to the achievement of performance targets as for other participants.
Deferred bonus	25% of any bonus mandatorily deferred for three years. A further 25% of bonus received may be voluntarily deferred for three years. Any bonus deferred may receive up to a one for one match based subject to the achievement of EP targets. The mandatory deferral component is new and was not part of the former Chief Executive Officer's compensation package and the maximum share match has been reduced from two for one.
Performance Share Plan	Initial award with a face value of 150% of salary. A 2012 grant was made on the date of appointment and is subject to the same performance targets as for all other participants based on EPS and TSR.
Buy-out awards	As part of the recruitment of the Chief Executive Officer it was agreed to reasonably compensate on an expected value basis for forfeited equity from his previous employer as a result of leaving. He received a £515,000 award over Cobham shares which will vest in three equal tranches on 15 April 2013, 15 December 2013 and 15 December 2014, subject to continued employment. He also received a £301,000 share award to compensate him for loss of his pro-rated on-target bonus opportunity at his previous employer. This award will vest on 15 April 2013.
Expatriation	US$30,000 gross allowance per annum for tax/financial planning. US$200,000 annual gross expatriate allowance to take account of differentiation in cost of living, housing and home leave.
Relocation	Expenses incurred in moving to the UK reimbursable up to a maximum of (60% of salary), repayable within two years if voluntary resignation or contract terminated for cause.
Retirement benefits	20% of base to be contributed by the Company into a combination of qualified and non-qualified retirement plans sponsored by the Company.
Other benefits	Company car and fuel provision. Legal fees associated with taking up the post of up to US$50,000 as a one time payment. Travel accident insurance. Medical, dental and vision coverage. Disability and life insurance.
Share ownership	Required to hold two times salary; this is increased from one times salary that was included in the former Chief Executive Officer's compensation package.

Auditable part

The auditable part of this Directors' remuneration report is set out on pages 52 to 55, with the exception of Table 4 which is not subject to audit.

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 2012 and no increase has been proposed for 2013. The Chairman was awarded supplemental compensation for the additional work undertaken as Executive Chairman. See above for further detail.

The 2012 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:

			Full year additional fees*			Actual payable	
£k	Commencement date	Expiry date	Base fee	Committee fee	Senior Independent Director	2012	2011
J Devaney (Chairman)	1 February 2010	25 April 2013	270	–	–	470	270
M Beresford	1 March 2004	25 April 2013	55	5	10	70	70
J Patterson	1 November 2005	31 October 2014	55	12.5	–	68	68
M Ronald	8 January 2007	9 May 2013	55	2.5	–	63	63
P Hooley	12 June 2002	6 May 2011	55	12.5	–	–	24
M Hagee	3 December 2008	2 December 2014	55	5	–	65	65
M Wareing	1 December 2010	30 November 2013	55	10	–	65	66
A Wood	1 July 2011	1 July 2014	55	2.5	–	55	28
Total Non-executive Director remuneration						**856**	654

* 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. In relation to the Chairman, his additional fee is explained in the penultimate paragraph on page 50.

Table 2: Executive Directors' emoluments

The 2012 remuneration of the Executive Directors, including the highest paid Director, was as follows:

£k	Executive Directors' base salaries		Fees and other payments		Bonus		Benefits excluding pension		Total excluding pension	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
R Murphy	313	–	–	–	182	–	195	–	690	–
A Stevens[1]	600	600	144	144	267	555	28	35	1,039	1,334
W Tucker[2]	441	428	106	103	191	396	18	26	756	953
Total Executive Director remuneration	**1,354**	1,028	**250**	247	**640**	951	**241**	61	**2,485**	2,287

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 2012 include – under fees and other payments – the sum of £144,000 (2011: £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 2012 include – under fees and other payments – the sum of £105,516 (2011: £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 £100,000 (2011: £85,000) per annum. He was not required to waive or return this fee to the Company.

Total 2012 remuneration of all Directors was £3,341,000 (2011: £2,941,000), excluding pension.

Table 3: Directors' pensions

Defined benefit schemes

	Accrued pension at 31.12.12	Increase in accrued pension from previous year end (with no adjustment for inflation)	Additional pension earned in excess of inflation during 2012	Transfer value of pension accrued in excess of inflation and members' contributions during 2012	Transfer value of accrued pension at 31.12.11	Transfer value of accrued pension at 31.12.12	Additional transfer value in excess of inflation and members' contributions during 2012
	£p.a.	£p.a.	£p.a.	£	£	£	£
A Stevens	**41,979**	5,604	3,712	**79,153**	893,817	**1,128,747**	214,270
W Tucker	**44,675**	5,675	3,647	**74,056**	812,041	**1,025,405**	203,723

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

	Rate	Total (£)
A Stevens	15%	20,660
W Tucker	7%	9,641

Member contributions are paid through salary sacrifice for Andy Stevens and Warren Tucker. Employer contributions for the year relating to the above Executive Directors were £200,265 (2011: £188,190).

The inflation figure used for 2012 is 5.2%, being the statutory revaluation rate for deferred pensioners for 2011–12 for a member not retiring in 2012 after one year's service.

Defined contribution schemes

The Company contributes to Bob Murphy's retirement plan at the rate of 20% of his base salary. This is comprised of participation in two plans:

- a qualified 401(k) plan which has limits on the level of contribution which can be made to it; and
- an executive retirement plan, non-qualifying.

During 2012, Bob Murphy had reached the contribution level in the 401(k) plan by contributions made by his previous employer. Therefore, his pro-rated contributions of £62,686 (US$99,333) were paid in full to the executive retirement plan.

£k	2012	2011
R Murphy		
Contributions to 401(k) plan	–	–
Contributions to executive retirement plan	**63**	–
Total	**63**	–

Table 4: Directors' share interests

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

		At 1.1.12	At 31.12.12
R Murphy		–	–
A Stevens	Includes BCP shares held in trust with Capita Offshore Trustees of 35,394	393,364	**427,684**
W Tucker	Includes BCP shares held in trust with Capita Offshore Trustees of 14,404	181,821	**198,483**
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	**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 5,418 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 2013, 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 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 01.01.12	Exercised	Lapsed	At 31.12.12	Exercise price – pence	Date from which exercisable	Expiry date
R Murphy		Note: Bob Murphy holds no Sharesave, ESOS or PSP nil cost options						
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	–	30,901[1]	**186,702**	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	–	30,901	**1,740,481**			
	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	609,995	–	–	**609,995**			
	Sharesave	5,369	–	–	**5,369**	169.0	01.02.13	01.08.13
Total		2,386,746	–	30,901	**2,355,845**			
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	–	29,165[1]	**176,214**	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	–	29,165	**1,277,060**			
	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	435,536	–	–	**435,536**			
	Sharesave	16,610	16,610[2]	–	–	107.6	01.02.12	01.08.12
		10,287	–	–	**10,287**	148.0	01.02.17	01.08.17
	Subtotal Sharesave	26,897	16,610	–	**10,287**			
Total		1,768,658	16,610	29,165	**1,722,883**			

[1] The 2009 ESOS vested 11 March 2012 at 85.8% of target based on a real EPS growth of RPI+8.7% per annum. Targets set were threshold vesting of 25% at RPI+3% and maximum of 100% at RPI+10%. The market price of the Ordinary Shares on 11 March 2012 was 210.5 pence per share.
[2] Warren Tucker exercised his 2005 Sharesave on 1 February 2012 when the market price of the Ordinary Shares was 186.7 pence per share.

The market price of the Ordinary Shares as at 31 December 2012 was 220.8 pence per share and the closing price range during the year was 179.7 pence to 239.5 pence.

During the year, no options under the ESOS or the PSP nil cost were exercised by the Directors and accordingly no gains were made by Directors on the exercise of these share options.

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

	Option Scheme	Allocation at 01.01.12	Awarded	Forfeit during the year	Vested during year	**Allocation at 31.12.12**	Expiry date[1]
R Murphy	PSP Buy-out award	–	126,779	–	–	**126,779**	15.04.13
	PSP Buy-out award	–	216,915	–	–	**216,915**	15.12.14
	PSP Conditional share	–	451,917	–	–	**451,917**	16.08.15
Total		–	795,611	–	–	**795,611**	
A Stevens	PSP Conditional share	241,891	–	169,324	72,567[2]	**–**	11.03.12
		313,370	–	–	–	**313,370**	31.03.13
	Subtotal PSP	555,261	–	169,324	72,567	**313,370**	
	BCP	82,783	–	–	–	**82,783**	10.03.13
		43,101	–	–	–	**43,101**	10.03.14
	Subtotal BCP	125,884	–	–	–	**125,884**	
Total		681,145	–	169,324	72,567	**439,254**	
W Tucker	PSP Conditional share	228,302	–	159,812	68,490[2]	**–**	11.03.12
		216,234	–	–	–	**216,234**	31.03.13
	Subtotal PSP	444,536	–	159,812	68,490	**216,234**	
	BCP	207,800	–	152,317	55,483[3]	**–**	01.06.12
		58,793	–	–	–	**58,793**	10.03.14
	Subtotal BCP	266,593	–	152,317	55,483	**58,793**	
Total		711,129	–	312,129	123,973	**275,027**	

[1] 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.
[2] The 2009 PSP vested on 11 March 2012 at 30% of target. The market price of the Ordinary Shares on 11 March 2012 was 210.5 pence per share. A dividend equivalent payment was made on the vested shares at 16.86 pence per Ordinary Share.
[3] The 2009 BCP vested on 1 June 2012 at 26.7% of target. The market price of the Ordinary Shares on 1 June 2012 was 219.6 pence per share. A dividend equivalent payment was made on the vested shares at 19.45 pence per Ordinary Share.

Allocations at 6 March 2013, 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 2012.

By order of the Board
Dr J Patterson
Chairman of the Remuneration Committee
6 March 2013

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 2012. 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 and Accounts together with the Chief Executive Officer's review on pages 7 and 8, the Principal risks section on pages 14 and 15, the Business overview on pages 16 to 23, the Financial review on pages 24 to 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

Cobham plc, a public limited company listed on the London Stock Exchange, offers an innovative range of technologies and services to solve challenging problems across commercial, defence and security markets, from deep space to the depths of the ocean. It is the parent company of a Group whose principal activities in the year related to the protection of lives and livelihoods with its differentiated technology and know-how, operating with a deep insight to customer needs and agility. The Group has market leading positions in air-to-air refuelling; aviation services; audio, video and data communications, including satellite communication; defence electronics; life support, and mission equipment.

For further details on the Group's principal activities, refer to pages 16 to 23.

Dividends

An interim dividend of 2.40 pence per Ordinary Share of 2.50 pence each in the capital of the Company (Ordinary Shares) (2011: 1.80 pence) was paid in November 2012. The Directors are recommending a final dividend of 6.40 pence per Ordinary Share (2011: 6.20 pence) payable on 31 May 2013 to ordinary shareholders on the register as at 3 May 2013, making a total ordinary dividend for the year of 8.80 pence (2011: 8.00 pence).

Details of the total dividend paid is covered in note 6.

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 55.

Corporate governance

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

Share capital

Details of the share capital of the Company are given in note 25 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 26 April 2012, the Company was authorised to purchase up to 115,452,762 Ordinary Shares. This authority will expire at the conclusion of the 2013 AGM. 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 25.

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 Report and Accounts. 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

Individual operating companies in the Group have contractual arrangements with third parties in support of the Group's business activities which may take effect, alter or terminate upon a change of control of the Company following a takeover bid. Such contractual arrangements include supply of equipment, goods and services to third parties, including research, design and production. Such contracts and arrangements may be deemed to be essential to one or more of the operating companies but there are no contracts or arrangements considered to be essential to the operation of the business of the Group as a whole, apart from the following:

- 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 18 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 (which as at 31 December 2012, hold 11,747,681 2.50 pence Ordinary Shares to be used for settlement of option and share awards under the Company's long-term incentive schemes and all employee share option schemes) waive all rights to vote in respect of any shares they hold within the Trust.

Financial instruments

Notes 14, 22 and 24 to the Group financial statements and note 11 to the parent company financial statements contain disclosures relating to the use of financial instruments. The Group uses derivative financial instruments in its management of financial risks and does not trade in financial instruments or use complex financial instruments.

Major interests in shares

As at 31 December 2012, 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	53,890,036	5.02
Sprucegrove Investment Management	54,196,231	5.02
Legal & General Group plc	43,127,190	3.99

Since the year end and up to 6 March 2013, 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
Prudential plc	54,277,614	5.03%	28 February 2013

People

Cobham takes a strategic approach to talent.

The talent pool within the Group comprises all full and part time employees located across five continents, with major population centres in Europe, 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 actively 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.

Each of the seven talent development programmes, described below, 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.

The Cobham Graduate Development Programme (GDP) and Apprenticeship Programme (AP) are well regarded, with the former having Royal Aeronautical Society Accreditation in the UK. In 2012, 20 graduates joined the GDP while the 2010 intake are now moving into their permanent roles. Engineering continues as the largest discipline with 37% of graduates. In the UK 13 apprentices were recruited in 2012 against a backdrop of increased Government interest and resurgence in the popularity of apprenticeships.

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*	Total Managers**	Total Female	Total Male	% Female	% Female Managers
9,898	1,264	2,670	7,228	27%	15%

* Including full and part time employees but excluding temporary staff and contractors.
** Defined as senior management and managers.

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

Cobham's Development Programmes

Executive Development Programme (EDP)	Programme designed to focus on the continuing development of the Executive tier individually and as a collective team.
Senior Development Programme Plus (SDP+)	For SDP graduates who have demonstrated the potential to progress within the business, SDP+ verifies the potential of these individuals for Executive succession.
Senior Development Programme (SDP)	For high performing individuals who have demonstrated the potential for further progression, the SDP builds on their leadership competence to optimise their current and future performance.
Cobham High Potential Programme (CHP)	Ensures the leadership and functional pipeline in Cobham is full by providing a consistent means of assessing and developing talent through a number of interventions including partnership with respected business schools.
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. Development of this programme and the approach continues.

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 or five 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, and Cobham's Centre for Learning & Development. An outcome of this integrated process is to create an atmosphere where employees understand that there is a direct link between learning, 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.

Research and development

The Group continues to invest in the important area of research and development. During the year the Group expended £75.4m (2011: 75.3m) 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 25.

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 2012 represents 29 days' (2011: 16 days') worth as a proportion of the total amount invoiced by suppliers during the year ended on that date.

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:

£	2012	2011
UK charities		
Armed services	23,000	30,000
Disaster relief	12,000	1,000
Business enterprise	3,000	8,000
Local interest	4,000	3,000
Other	5,000	5,000
Total UK charities	47,000	47,000
Non UK charities	108,000	126,000
Total	155,000	173,000

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 11 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.

Annual General Meeting

The Company's AGM will be held at 12 noon on Thursday, 25 April 2013 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 2013

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 these 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 parent 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 and 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 2013 and signed on its behalf by:

R Murphy
Chief Executive Officer

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 2012 which comprise the accounting policies, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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 60, 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 and Accounts 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 2012 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs 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 60 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 2012 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 2013

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 2012. No changes to previously published accounting policies or other adjustments were required on their adoption.

- Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Assets.
- Amendments to IFRS 1 First time adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters.

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. Factors considered include trading data, the value and duration of contracts acquired and the strength, duration and degree of exclusivity of relationships with customers. Valuation estimates are also used, including 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 9.

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 23.

Provisions
The consolidated financial statements include appropriate provisions for the estimated outcome of commercial disputes. No such provision is included for contingent liabilities. The Directors take account of the advice of experts in quantifying the expected costs of future adverse judgements. Due to the inherent uncertainty associated with such claims and legal proceedings, the timing and amount of the actual claims could differ from the amount provided.

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 changes in the marking to market of non-hedge accounted derivative financial instruments, 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 costs, which excludes the unwinding of acquisition related discounting, and after deducting taxation and non-controlling interests.

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

Business restructuring costs comprise exceptional items associated with the restructuring of the Group's portfolio. It also includes the costs of re-engineering operations as part of Excellence in Delivery including the costs of integrating sites into principal locations and the additional streamlining under the two year extension of the EiD programme to the end of 2015.

All underlying measures include the revenue and operational results of all operations including those 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. Associates are entities where the Group has significant influence but do not meet the definition of a subsidiary or joint venture. Joint ventures and associates 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 post-tax profit or loss of jointly controlled entities and associates from the date that joint control or significant influence 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. Where a business combination is completed in stages, any previously held interests are re-measured to fair value at the date at which control is achieved. Any resulting gain or loss is recognised in the income statement. 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 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 forms the basis of the Group's segmental reporting and the segments are disclosed 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 37 and 38.

The Board assesses the performance of operating segments based on revenue, trading profit as defined above and operating cash generation. Finance income, finance costs 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. Internally developed software is included within other intangible assets.

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 based assets	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 machinery, and fixtures, fittings, tools 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 machinery	3 to 15 years
Fixtures, fittings, tools 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.

Assets under construction are held at cost and transferred to the appropriate category of property, plant and equipment once construction is complete and they enter into service. They are depreciated from this point in accordance with the policies described above.

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 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 should be available for immediate sale in its present condition and 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. These are classified as current or non-current assets dependent upon maturity and included within trade and other receivables. Loans and receivables also includes cash and cash equivalents. 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 held for trading under IAS 39 and are held at fair value through profit or loss, or other liabilities, which are held at amortised cost. All financial liabilities 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 24, 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. Foreign currency borrowings are used to hedge the effects of changes in the Group's net investment in foreign operations. These borrowings either provide a natural economic hedge through the use of intercompany debt or are designated as fair value hedges of the foreign currency risk attributable to the foreign equity investment and are treated as net investment hedges.

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 finance costs 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.

Where net investment hedging applies, the exchange differences arising on the borrowings designated as fair value hedges are recognised in OCI and through profit and loss on disposal of the foreign operation.

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, based on past experience and industry averages for defective products.

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 and are credited to the provision. The provision is then utilised by absorbing the actual costs incurred in carrying out the maintenance activity. Maintenance carried out on a cycle of 12 months or less is charged to the income statement as incurred.

Provisions also arise in connection with leased aircraft, where contracts 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. The provision is utilised on actual return of the aircraft or on incurring the expenditure required to return the aircraft to the state of maintenance required by the lease before return of the aircraft to the lessor.

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 finance costs. 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 costs.

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 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 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 new standards, amendments to existing standards and interpretations have been published that are mandatory for future accounting periods, subject to EU endorsement. From 1 January 2013 these are as follows:

- IFRS 13 Fair Value Measurement
- Amendment to IAS 12 Deferred tax: Recovery of Underlying Assets
- Amendment to IAS 19 Employee Benefits
- Amendment to IAS 1 Financial Statement Presentation
- Amendment to IFRS 7 Financial Instruments: Disclosures – offsetting Financial Assets and Financial Liabilities
- Amendment to IFRS 1 First time adoption – Government loans
- Annual Improvements 2011
- IFRIC 20 Stripping Costs in the Production Phase on a Surface Mine
- IAS 27 (revised 2011) Separate financial statements
- IAS 28 (revised 2011) Associates and joint ventures
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

None of these have been adopted early by the Group.

The implementation of IFRS 13 will require some amendments to disclosures on financial instruments but is not anticipated to affect the fair value measurements used. The amendment to IAS 19 will change the basis of calculating the expected return on assets held in pension schemes from a market yield basis to a government bond yield basis. Administrative costs and finance costs in the income statement will increase by approximately £1m each and the comparative results will be re-presented in the financial statements for the year ended 31 December 2013. The amendment to IAS 1 will impact the presentation of items within OCI, grouping items on the basis of whether they can, or cannot, be subsequently reclassified to profit or loss.

None of the other amendments or interpretations 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 2014 and 2015. These include IFRS 9, 10, 11 and 12. Management continue to assess the impact of these changes on the future reporting of the Group's operations.

Consolidated income statement

For the year ended 31 December 2012

£m	Note	2012	2011
Revenue	1,2	**1,749.4**	1,854.4
Cost of sales		**(1,173.3)**	(1,271.1)
Gross profit		**576.1**	583.3
Selling and distribution costs		**(81.1)**	(81.0)
Administrative expenses		**(266.7)**	(250.2)
Share of post-tax results of joint ventures and associates		**7.4**	9.4
Operating profit	2	**235.7**	261.5
Finance income	4	**33.4**	43.8
Finance costs excluding swap cancellation costs		**(66.0)**	(82.7)
Debt and interest rate swap cancellation costs		**–**	(15.4)
Finance costs	4	**(66.0)**	(98.1)
Business divestments and similar income	29	**2.9**	27.1
Profit before taxation	1	**206.0**	234.3
Taxation	5	**(32.6)**	(46.3)
Profit after taxation for the year		**173.4**	188.0
Attributable to:			
Owners of the parent		**173.3**	187.9
Non-controlling interests		**0.1**	0.1
		173.4	188.0
Earnings per Ordinary Share	7		
Basic		**16.13p**	16.80p
Diluted		**16.08p**	16.76p

Consolidated statement of comprehensive income

For the year ended 31 December 2012

£m	Note	2012	2011
Profit after taxation for the year		173.4	188.0
Net translation differences on investments in overseas subsidiaries	26	(24.0)	(2.4)
Actuarial loss on pensions	23	(15.7)	(40.6)
Actuarial loss on other retirement obligations	23	(0.5)	–
Reclassification of cash flow hedge fair values	22	7.2	20.4
Movements in hedge accounted derivative financial instruments	22	(3.1)	(8.1)
Tax effects	5	(0.8)	7.0
Other comprehensive expense for the year		(36.9)	(23.7)
Total comprehensive income for the year		136.5	164.3
Attributable to:			
Owners of the parent		136.4	164.2
Non-controlling interests		0.1	0.1
		136.5	164.3

Trading profit is calculated as follows:

£m	Note	2012	2011
Operating profit		235.7	261.5
Adjusted to exclude:			
Business restructuring – primarily Excellence in Delivery		37.9	31.9
Movements in non-hedge accounted derivative financial instruments		(11.1)	5.4
Amortisation of intangible assets arising on business combinations		68.9	68.0
Insurance proceeds related to settlement of commercial dispute		–	(6.0)
M&A related adjustments		1.7	4.1
Trading profit	8	333.1	364.9

Consolidated balance sheet

As at 31 December 2012

£m	Note	2012	2011
Assets			
Non-current assets			
Intangible assets	9	1,102.1	917.6
Property, plant and equipment	10	304.8	318.6
Investment properties	11	10.7	11.2
Investments in joint ventures and associates	12	15.8	16.1
Trade and other receivables	15	47.1	16.9
Deferred tax	21	9.8	18.3
Derivative financial instruments	22	3.4	1.1
		1,493.7	1,299.8
Current assets			
Inventories	13	306.4	304.6
Trade and other receivables	15	281.0	300.6
Current tax receivables		7.5	1.2
Derivative financial instruments	22	3.7	1.4
Cash and cash equivalents	16	264.2	345.6
Assets classified as held for sale	17	15.1	30.3
		877.9	983.7
Liabilities			
Current liabilities			
Borrowings	18	(307.3)	(225.7)
Trade and other payables	19	(349.9)	(336.6)
Provisions	20	(36.3)	(37.1)
Current tax liabilities		(119.2)	(129.3)
Derivative financial instruments	22	(6.6)	(13.4)
Liabilities classified as held for sale	17	(3.2)	(6.9)
		(822.5)	(749.0)
Non-current liabilities			
Borrowings	18	(316.8)	(352.4)
Trade and other payables	19	(39.1)	(50.7)
Provisions	20	(10.9)	(8.0)
Deferred tax	21	(44.2)	(15.5)
Derivative financial instruments	22	(10.3)	(17.6)
Retirement benefit obligations	23	(73.4)	(71.2)
		(494.7)	(515.4)
Net assets		1,054.4	1,019.1
Equity			
Share capital	25	28.9	28.9
Share premium account		126.6	126.6
Other reserves	26	64.2	83.8
Retained earnings		834.1	779.3
Total equity attributable to the owners of the parent		1,053.8	1,018.6
Non-controlling interests in equity		0.6	0.5
Total equity		1,054.4	1,019.1
Net debt	16	(359.9)	(232.5)

The financial statements on pages 62 to 112 were approved by a duly appointed and authorised committee of the Board on 6 March 2013 and signed on its behalf by:

R Murphy **W Tucker**
Directors

Consolidated statement of changes in equity

For the year ended 31 December 2012

£m	Share capital	Share premium account	Other reserves (note 26)	Retained earnings	Total equity attributable to owners of the parent	Non–controlling interests in equity	Total equity
Total equity at 1 January 2011	28.9	126.6	69.8	850.5	1,075.8	0.4	1,076.2
Profit for the year	–	–	–	187.9	187.9	0.1	188.0
Net translation differences on investments in overseas subsidiaries	–	–	(2.4)	–	(2.4)	–	(2.4)
Actuarial loss on pensions	–	–	–	(40.6)	(40.6)	–	(40.6)
Reclassification of cash flow hedge fair values (note 22)	–	–	20.4	–	20.4	–	20.4
Movements in hedge accounted derivative financial instruments (note 22)	–	–	(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
Net purchase of treasury shares	–	–	–	(159.5)	(159.5)	–	(159.5)
Dividends authorised (note 6)	–	–	–	(69.4)	(69.4)	–	(69.4)
Share-based payments (note 27)	–	–	6.1	–	6.1	–	6.1
Dividend equivalents paid on vesting of PSP and BCP awards	–	–	(0.2)	–	(0.2)	–	(0.2)
Release of hedge reserve	–	–	3.6	–	3.6	–	3.6
Transfers of other reserves to retained earnings	–	–	(1.1)	1.1	–	–	–
Tax effects (note 5)	–	–	(2.0)	–	(2.0)	–	(2.0)
Total equity at 31 December 2011	**28.9**	**126.6**	**83.8**	**779.3**	**1,018.6**	**0.5**	**1,019.1**
Profit for the year	**–**	**–**	**–**	**173.3**	**173.3**	**0.1**	**173.4**
Net translation differences on investments in overseas subsidiaries	**–**	**–**	**(24.0)**	**–**	**(24.0)**	**–**	**(24.0)**
Actuarial loss on pensions	**–**	**–**	**–**	**(15.7)**	**(15.7)**	**–**	**(15.7)**
Actuarial loss on other retirement obligations	**–**	**–**	**–**	**(0.5)**	**(0.5)**	**–**	**(0.5)**
Reclassification of cash flow hedge fair values (note 22)	**–**	**–**	**7.2**	**–**	**7.2**	**–**	**7.2**
Movements in hedge accounted derivative financial instruments (note 22)	**–**	**–**	**(3.1)**	**–**	**(3.1)**	**–**	**(3.1)**
Tax effects (note 5)	**–**	**–**	**(3.2)**	**2.4**	**(0.8)**	**–**	**(0.8)**
Total comprehensive income for the year	**–**	**–**	**(23.1)**	**159.5**	**136.4**	**0.1**	**136.5**
Net purchase of treasury shares	**–**	**–**	**–**	**(18.7)**	**(18.7)**	**–**	**(18.7)**
Dividends authorised (note 6)	**–**	**–**	**–**	**(92.5)**	**(92.5)**	**–**	**(92.5)**
Share-based payments (note 27)	**–**	**–**	**6.8**	**–**	**6.8**	**–**	**6.8**
Dividend equivalents paid on vesting of PSP and BCP awards	**–**	**–**	**(0.1)**	**–**	**(0.1)**	**–**	**(0.1)**
Release of hedge reserve	**–**	**–**	**2.8**	**–**	**2.8**	**–**	**2.8**
Transfers of other reserves to retained earnings	**–**	**–**	**(6.5)**	**6.5**	**–**	**–**	**–**
Tax effects (note 5)	**–**	**–**	**0.5**	**–**	**0.5**	**–**	**0.5**
Total equity at 31 December 2012	**28.9**	**126.6**	**64.2**	**834.1**	**1,053.8**	**0.6**	**1,054.4**

Consolidated cash flow statement

For the year ended 31 December 2012

£m	Note	2012	2011
Operating profit		**235.7**	261.5
Share of post-tax profits of joint ventures and associates		**(7.4)**	(9.4)
Depreciation and amortisation		**129.2**	129.4
Loss on sale of property, plant and equipment		**0.6**	1.7
M&A related adjustments		**(4.7)**	4.1
Movements in non-hedge accounted derivative financial instruments	22	**(11.1)**	5.4
Pension contributions in excess of service cost	23	**(15.4)**	(48.8)
Share-based payments	27	**6.8**	6.1
Decrease in provisions		**(1.4)**	(0.5)
Increase in inventories		**(3.6)**	(13.7)
Decrease in trade and other receivables		**34.4**	8.6
(Decrease)/increase in trade and other payables		**(1.0)**	9.1
Tax paid		**(45.2)**	(24.3)
Interest paid		**(35.3)**	(42.4)
Debt and interest rate swap cancellation costs		**–**	(15.4)
Interest received		**6.6**	9.4
Net cash from operating activities		**288.2**	280.8
Cash flows from investing activities			
Dividends received from joint ventures	32	**7.5**	8.1
Purchase of property, plant and equipment		**(48.2)**	(48.6)
Purchase of intangible assets		**(13.8)**	(2.0)
Capitalised expenditure on intangible assets	9	**(1.4)**	(0.2)
Proceeds on disposal of property, plant and equipment		**1.0**	1.0
Provision of loan to joint ventures net of repayments		**(36.9)**	(8.0)
Acquisition of subsidiaries net of cash or overdraft acquired	28	**(282.7)**	(147.8)
Deferred and contingent consideration paid		**(3.0)**	(2.6)
Proceeds from vesting of warrants in acquired business	28	**8.4**	–
Proceeds of business divestments	29	**43.9**	230.4
Proceeds on disposal of assets previously held for sale		**3.5**	16.9
Net cash (used in)/from investing activities		**(321.7)**	47.2
Cash flows from financing activities			
Dividends paid	6	**(92.5)**	(69.4)
Purchase of treasury shares		**(26.3)**	(165.7)
Proceeds on allocation of treasury shares		**7.5**	6.2
New borrowings		**184.5**	7.3
Repayment of borrowings		**(113.1)**	(246.7)
Net cash used in financing activities		**(39.9)**	(468.3)
Exchange movements		**(8.3)**	1.5
Net decrease in cash and cash equivalents		**(81.7)**	(138.8)
Cash and cash equivalents at 1 January		**331.9**	470.7
Cash and cash equivalents at 31 December	16	**250.2**	331.9

A reconciliation of cash and cash equivalents to the balance sheet and movement in net debt is detailed in note 16.

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

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

		Revenue		Profit before taxation	
£m	Note	2012	2011	2012	2011 (as restated)
Aerospace and Security		697.3	637.0	149.1	146.9
Defence Systems		322.9	323.9	44.9	54.7
Mission Systems		372.6	371.8	81.3	84.2
Aviation Services		326.6	308.1	38.0	41.5
Head office, other activities and elimination of inter-segment items		(6.5)	(7.2)	14.9	15.1
Core Group		1,712.9	1,633.6	328.2	342.4
Non-core businesses		36.5	220.8	4.9	22.5
Total Group		1,749.4	1,854.4	333.1	364.9
Business restructuring – primarily Excellence in Delivery	8			(37.9)	(31.9)
Movements in non-hedge accounted derivative financial instruments	22			11.1	(5.4)
Amortisation of intangible assets arising on business combinations	8			(68.9)	(68.0)
Insurance proceeds related to settlement of commercial dispute	8			–	6.0
M&A related adjustments	8			(1.7)	(4.1)
Net finance costs	4			(32.6)	(54.3)
Business divestments and similar income	29			2.9	27.1
Profit before taxation				206.0	234.3

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

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

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

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

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. Non-current assets exclude derivative financial instruments and deferred tax assets.

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

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	2012	2011
Revenue from sale of goods	**1,423.1**	1,355.2
Revenue from services	**326.3**	499.2
	1,749.4	1,854.4

Major customers

Revenue of £162.9m (2011: £287.2m) is attributable to US Government departments and agencies, although this is widely spread across different agencies and customers. This accounts for 9.3% of total revenue (2011: 15.5% including the Analytic Solutions business divested during 2011) and originates in all segments other than Cobham Aviation Services.

Notes to the Group financial statements continued

Operating profit for the year

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

£m	Note	2012	2011
Staff costs	3	**538.7**	571.8
Materials cost of goods sold		**575.4**	608.2
Company funded research and development		**75.4**	75.3
Property rental income	11	**(1.8)**	(1.7)
Royalty income		**(1.3)**	(2.3)
Insurance proceeds related to settlement of commercial dispute		**–**	(6.0)
Depreciation of property, plant and equipment	10	**55.2**	57.1
Amortisation of intangible assets	9		
Intangible assets recognised on business combinations		**68.9**	68.0
Other intangible assets		**4.8**	4.0
Loss on disposal of property, plant and equipment		**0.6**	3.4
Operating lease rentals			
Aircraft		**8.4**	9.3
Other including plant & machinery and property		**22.7**	27.7
Net foreign exchange losses		**3.6**	0.4

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	2012	2011
Annual audit of the parent company and Group financial statements	**1.1**	1.1
Audit of the Company's subsidiaries	**0.9**	0.8
Total fees payable for audit and assurance services	**2.0**	1.9
Fees payable for other services:		
Tax compliance services	**0.2**	0.2
Other tax advisory services	**0.8**	1.1
Other assurance services	**0.1**	0.2
Total fees payable for other services	**1.1**	1.5
Total fees payable to the auditors	**3.1**	3.4

In addition to the amounts shown above, the auditors received fees of £45,750 (2011: £31,500) 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 to 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:

	2012	2011
Aerospace and Security	**4,019**	3,753
Defence Systems	**2,329**	2,475
Mission Systems	**1,473**	1,419
Aviation Services	**1,815**	1,664
Head office and other activities	**131**	118
Core Group	**9,767**	9,429
Non-core businesses	**225**	1,267
Total Group	**9,992**	10,696

The aggregate employment costs of Group employees are as follows:

£m	Note	2012	2011
Wages and salaries		**467.2**	494.4
Social security costs		**39.0**	43.3
Pension costs			
Defined benefit	23	**4.6**	4.2
Defined contribution	23	**21.1**	24.0
Share-based payments	27	**6.8**	5.9
		538.7	571.8

4. Finance income and costs

£m	Note	2012	2011
Finance income:			
Bank interest		**4.0**	8.6
Expected return on pension scheme assets	23	**26.6**	32.7
Other finance income		**2.8**	2.5
Total finance income		**33.4**	43.8
Finance costs:			
Interest on bank overdrafts and loans		**(32.1)**	(40.3)
Interest on pension scheme liabilities	23	**(28.6)**	(31.5)
Debt and interest rate swap cancellation costs		**–**	(15.4)
Other finance expense		**(5.3)**	(10.9)
Total finance costs		**(66.0)**	(98.1)
Net finance costs excluding pension schemes		**(30.6)**	(40.1)
Debt and interest rate swap cancellation costs		**–**	(15.4)
Net finance (cost)/income on pension schemes		**(2.0)**	1.2
Net finance costs		**(32.6)**	(54.3)

Other finance expense above includes £2.8m (2011: £3.1m) in relation to interest rate swaps (previously designated as cash flow hedges) which were terminated during 2009 and are being amortised over the life of the original contracts. It also includes £1.7m (2011: £1.9m) relating to the unwinding of acquisition related discounting, excluded from underlying profit in note 8.

Debt and interest rate swap cancellation costs of £15.4m were incurred in 2011 relating to the original financing of the Analytic Solutions business which was divested during that year. These costs are excluded from underlying profit as shown in note 8.

5. Income tax expense

£m	Note	2012	2011
Current tax:			
Charge for the year		**50.0**	59.5
Adjustments to tax charge in respect of prior years		**(2.6)**	(7.8)
Current tax		**47.4**	51.7
Deferred tax:			
Charge for the year		**(0.1)**	(4.7)
Adjustments to tax charge in respect of prior years		**(14.7)**	(0.7)
Deferred tax	21	**(14.8)**	(5.4)
Total tax charge for the year		**32.6**	46.3

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

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

£m	2012	2011
Profit before tax	**206.0**	234.3
Tax at the UK income tax rate of 24.5% (2011: 26.5%)	**50.5**	62.1
Tax effect of share of results of joint ventures and associates	**(1.8)**	(2.5)
Effect of differences in overseas taxation rates	**6.7**	1.7
Expenditure qualifying for additional R&D tax relief	**(5.7)**	(6.2)
Adjustments to tax charge in respect of prior years	**(17.3)**	(8.5)
Impact of other items	**0.2**	(0.3)
Total tax charge for the year	**32.6**	46.3

In addition to the tax expense charged to the income statement, the following charges/(credits) have been included in OCI and equity:

£m	2012	2011
Included in OCI		
Actuarial loss on retirement benefit obligations	**(2.2)**	(9.3)
Actuarial loss on other retirement benefit obligations	**(0.2)**	–
Movements in hedge accounted derivative financial instruments	**3.2**	2.3
	0.8	(7.0)
Included in equity		
Share-based payments	**0.5**	(1.0)
Deferred tax impact of cancelled interest rate swaps	**–**	(1.0)
	0.5	(2.0)

The main rate of UK corporation tax will reduce from 24% to 23% from 1 April 2013, with further reductions proposed to reduce the rate to 21% by 1 April 2014.

6. Dividends

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

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

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

7. Earnings per Ordinary Share

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

8. Underlying measures

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 pages 62 and 63.

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

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

Underlying profit excludes the profit on business divestments and similar income (see note 29).

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

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

Underlying administrative expenses for 2012 include integration costs, primarily related to the Thrane & Thrane business, of £5.1m. In addition there was a credit of £12.5m in 2011 related to past service pension costs.

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

£m	2012	2011
Net cash from operating activities per cash flow statement	288.2	280.8
Dividends received from joint ventures	7.5	8.1
Purchase of property, plant and equipment	(48.2)	(48.6)
Purchase of intangible assets	(13.8)	(2.0)
Capitalised expenditure on intangible assets	(1.4)	(0.2)
Proceeds on disposal of property, plant and equipment	1.0	1.0
M&A related adjustments	7.8	2.4
Debt and interest rate swap cancellation costs	–	15.4
Insurance proceeds related to settlement of commercial dispute	–	(6.0)
Free cash flow	241.1	250.9
Free cash flow before Excellence in Delivery restructuring costs	272.9	287.9

9. Intangible assets

£m	Goodwill	Customer relationships	Technology based assets	Development costs	Other	Total
Cost						
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 1 January 2012	**678.5**	**237.8**	**138.1**	**3.4**	**52.9**	**1,110.7**
Additions – purchased	–	–	–	–	**13.8**	**13.8**
Additions – internally generated	–	–	–	**1.4**	–	**1.4**
Recognised on business combinations	**150.5**	**81.9**	**55.3**	–	**3.3**	**291.0**
Business divestments	**(22.5)**	–	**(0.4)**	–	**(0.2)**	**(23.1)**
Disposals and derecognitions	–	**(7.6)**	**(15.3)**	–	**(23.3)**	**(46.2)**
Foreign exchange adjustments	**(17.4)**	**(9.8)**	**(4.5)**	**(0.1)**	**(1.7)**	**(33.5)**
Reclassifications	–	–	–	–	**0.7**	**0.7**
At 31 December 2012	**789.1**	**302.3**	**173.2**	**4.7**	**45.5**	**1,314.8**
Accumulated amortisation						
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 1 January 2012	–	**92.1**	**61.4**	**2.1**	**37.5**	**193.1**
Charge for the year	–	**36.0**	**27.9**	**0.5**	**9.3**	**73.7**
Eliminated on business divestments	–	–	**(0.2)**	–	**(0.2)**	**(0.4)**
Disposals and derecognitions	–	**(7.6)**	**(15.3)**	–	**(23.1)**	**(46.0)**
Foreign exchange adjustments	–	**(4.3)**	**(2.1)**	**(0.1)**	**(1.2)**	**(7.7)**
At 31 December 2012	–	**116.2**	**71.7**	**2.5**	**22.3**	**212.7**
Carrying amount						
At 31 December 2012	**789.1**	**186.1**	**101.5**	**2.2**	**23.2**	**1,102.1**
At 31 December 2011	678.5	145.7	76.7	1.3	15.4	917.6
At 1 January 2011	745.4	201.3	72.8	2.1	26.8	1,048.4

During the year the Group acquired Thrane & Thrane A/S and this now forms part of the SATCOM strategic business unit (SBU). Further details can be found in note 28. In 2011 Telerob Holdings GmbH (Mission Equipment), Trivec-Avant Corporation (Antenna Systems) and Corp Ten International Inc. (Tactical Communications and Surveillance) were acquired.

Reclassifications in 2011 include the transfer of assets held for sale.

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.

Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised, such as the value of the workforce, and is the only indefinite life intangible asset held by the Group. It is allocated to the lowest level within the Group at which the goodwill is monitored for internal management purposes and is measured as the residual excess of the total consideration paid to acquire a business over the fair value of the recognisable net assets acquired.

The Group reviews goodwill for potential impairment of each cash generating unit (CGU) annually, or more frequently if there are indications that goodwill might be impaired. As a result of the site integrations and other Excellence in Delivery activity CGUs are typically considered to be SBUs.

The recoverable amounts of the CGUs are determined from value in use calculations unless specific conditions at a CGU dictate otherwise. No such specific conditions existed at 31 December 2012 except for businesses held for sale which were assessed for impairment using expected net proceeds of divestment. Following detailed review, no impairment provisions have been recognised in the period. In 2011 £7.0m of goodwill was written down in respect of a business held for sale.

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 CGU level and these are approved by management. These forecasts take into account the current and expected economic environment including factors such as the softening of the US defence market in the near term. 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.

The pre-tax rates used to discount the forecast cash flows are within the range 8.8% to 10.9% (2011: 9.0% to 10.8%), having considered the country and currency risks in the principal territories in which the Group operates.

If the goodwill allocated to a CGU represents more than 10% of the Group's total goodwill carrying value then the CGU is considered to be individually significant. These CGUs are as follows:

	Goodwill carrying value £m	Headroom £m	Pre-tax discount rate
Defence Electronics (previously Sensor Systems)	219	167	9.7%
SATCOM	200	263	9.1%
Antenna Systems	90	887	9.5%
Tactical Communications and Surveillance	107	125	9.3%
Life Support	84	455	9.7%

Sensitivity analysis has been performed on these CGUs 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.

10. 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 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 1 January 2012	**84.9**	**36.4**	**10.2**	**565.9**	**79.6**	**8.8**	**785.8**
Additions	**0.1**	**1.9**	**0.5**	**23.5**	**5.3**	**16.3**	**47.6**
Acquired with business combinations	**2.9**	–	–	**2.6**	**0.9**	–	**6.4**
Business divestments	**(1.4)**	–	–	**(3.1)**	**(0.5)**	–	**(5.0)**
Disposals	**(0.7)**	**(0.5)**	**(0.3)**	**(14.9)**	**(1.2)**	–	**(17.6)**
Foreign exchange adjustments	**(2.3)**	**(0.6)**	**(0.4)**	**(13.5)**	**(2.3)**	**(0.3)**	**(19.4)**
Reclassifications	**7.7**	**(0.2)**	–	**2.2**	**4.7**	**(13.8)**	**0.6**
At 31 December 2012	**91.2**	**37.0**	**10.0**	**562.7**	**86.5**	**11.0**	**798.4**
Accumulated depreciation							
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 1 January 2012	**25.5**	**13.8**	**6.2**	**364.9**	**56.8**	–	**467.2**
Depreciation charge for the year	**3.7**	**2.6**	**1.2**	**40.2**	**7.5**	–	**55.2**
Eliminated on business divestments	**(0.4)**	–	–	**(2.6)**	**(0.4)**	–	**(3.4)**
Eliminated on disposals	**(0.6)**	–	**(0.2)**	**(13.3)**	**(0.9)**	–	**(15.0)**
Foreign exchange adjustments	**(0.8)**	**(0.5)**	**(0.2)**	**(7.8)**	**(1.7)**	–	**(11.0)**
Reclassifications	–	**(0.2)**	–	–	**0.8**	–	**0.6**
At 31 December 2012	**27.4**	**15.7**	**7.0**	**381.4**	**62.1**	–	**493.6**
Carrying amount							
At 31 December 2012	**63.8**	**21.3**	**3.0**	**181.3**	**24.4**	**11.0**	**304.8**
At 31 December 2011	59.4	22.6	4.0	201.0	22.8	8.8	318.6
At 1 January 2011	63.6	22.2	6.6	210.1	24.8	12.4	339.7

11. Investment properties

£m	
Cost	
At 1 January 2011	12.7
Reclassifications	0.3
Foreign exchange adjustments	0.1
At 1 January 2012	**13.1**
Foreign exchange adjustments	**(0.3)**
At 31 December 2012	**12.8**
Accumulated depreciation	
At 1 January 2011	1.5
Depreciation charge for the year	0.3
Foreign exchange adjustments	0.1
At 1 January 2012	**1.9**
Depreciation charge for the year	**0.3**
Foreign exchange adjustments	**(0.1)**
At 31 December 2012	**2.1**
Carrying amount	
At 31 December 2012	**10.7**
At 31 December 2011	11.2
At 1 January 2011	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 £1.8m (2011: £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. A forward starting lease has been agreed for one property extending that lease term to 2022.

The fair value of the Group's investment properties has been assessed to be £18.0m (2011: £18.4m). These values are based on Directors' estimates using current market data.

12. Investments in joint ventures and associates

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 and Wales.
- 50% of the voting share capital in FBS Limited, a company incorporated in England and Wales.
- 50% of the voting share capital in FB Leasing Limited, a company incorporated in England and Wales.

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 Group also holds 30% of the voting share capital in Philtech Co., Ltd, a company operating and incorporated in South Korea. This is held within the Cobham Aerospace and Security segment and is accounted for as an associate undertaking. The assets and results of the associated undertaking are not separately disclosed on the basis of materiality.

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

£m	2012	2011
Current assets	13.1	17.1
Non-current assets	44.4	45.3
Current liabilities	(13.5)	(16.9)
Non-current liabilities	(28.2)	(29.4)
Net assets	15.8	16.1
Income	49.6	51.7
Expenses	(39.6)	(39.4)

During the current and prior year loans were made to FB Leasing Limited and FB Heliservices Limited on commercial terms, utilising surplus cash.

13. Inventories

£m	2012	2011
Raw materials and consumables	128.1	132.2
Work in progress	185.8	183.6
Finished goods and goods for resale	34.2	29.9
Allowance for obsolescence	(41.7)	(41.1)
	306.4	304.6

During the year £14.0m (2011: £13.1m) was provided, £5.0m (2011: £6.2m) was utilised and £9.4m (2011: £6.4m) 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 significant inventory was written off directly to the income statement (2011: £nil).

Inventory will be realised within the normal operating cycle of the businesses. Within the Mission Systems segment, inventory relating to long term contracts expected to be realised after more than 12 months amounts to £34.6m (2011: £37.9m).

14. 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	15	225.2	–	–	–	225.2
Other receivables	15	82.3	–	–	–	82.3
Cash and cash equivalents	16	264.2	–	–	–	264.2
Derivative contracts (not hedge accounted)	22	–	7.1	–	–	7.1
Financial liabilities						
Borrowings	18	–	–	(624.1)	–	(624.1)
Trade payables	19	–	–	(105.1)	–	(105.1)
Other liabilities	19	–	–	(159.1)	–	(159.1)
Derivative contracts (not hedge accounted)	22	–	(8.6)	–	–	(8.6)
Hedging instruments						
Liabilities	22	–	–	–	(8.3)	(8.3)
Net financial liabilities at 31 December 2012						(326.4)

£m	Note	Loans and receivables	Fair value through profit or loss	Amortised cost	Derivatives used for hedging	Total carrying amount
Financial assets						
Trade receivables	15	239.6	–	–	–	239.6
Other receivables	15	58.5	–	–	–	58.5
Cash and cash equivalents	16	345.6	–	–	–	345.6
Derivative contracts (not hedge accounted)	22	–	2.5	–	–	2.5
Financial liabilities						
Borrowings	18	–	–	(578.1)	–	(578.1)
Trade payables	19	–	–	(102.9)	–	(102.9)
Other liabilities	19	–	–	(140.5)	–	(140.5)
Derivative contracts (not hedge accounted)	22	–	(18.6)	–	–	(18.6)
Hedging instruments						
Liabilities	22	–	–	–	(12.4)	(12.4)
Net financial liabilities at 31 December 2011						(206.3)

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.

At 31 December 2012, the fair value of the fixed rate senior notes, included in borrowings at £220.9m (2011: £313.0m) is £272.2m (2011: £370.4m).

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 fair value of the Group's net financial liabilities at 31 December 2012 is £377.7m (2011: £263.7m).

The Group's investment in the Future Strategic Tanker Aircraft companies as described in note 15d 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.

15. Trade and other receivables

15a. Current

£m	2012	2011
Trade receivables (net of provision for impairment)	**225.2**	239.6
Accrued income	**15.2**	15.1
Other receivables	**20.0**	26.5
Prepayments	**20.6**	19.4
	281.0	300.6

15b. Non-current

£m	2012	2011
Other receivables	**47.1**	16.9

15c. Impairment of trade receivables

£m	2012	2011
Trade receivables	227.9	241.6
Provision for impairment of trade receivables	(2.7)	(2.0)
Net trade receivables	225.2	239.6

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 24.

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

£m	2012	2011
Amounts currently or not yet due and not impaired	186.4	192.6
Amounts past due but not impaired	37.5	46.0
Amounts for which full or partial impairment provision has been made	4.0	3.0
At 31 December	227.9	241.6

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

£m	2012	2011
Due at 31 December	26.4	33.1
1 month overdue	4.5	7.1
2 months overdue	2.4	3.3
3 or more months overdue	4.2	2.5
	37.5	46.0

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

£m	2012	2011
Due at 31 December	0.5	0.2
1 month overdue	0.1	–
2 months overdue	–	0.1
3 or more months overdue	3.4	2.7
	4.0	3.0

£2.7m (2011: £2.0m) 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	2012	2011
At 1 January	2.0	2.4
Additional provisions	2.5	3.9
Utilised	(1.0)	(1.2)
Unused amounts reversed	(0.6)	(0.5)
Business divestments	(0.1)	(2.6)
Foreign exchange movements	(0.1)	–
At 31 December	2.7	2.0

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

15d. 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 31.

16. Cash and cash equivalents and net debt

£m	Note	2012	2011
Cash and cash equivalents per balance sheet		**264.2**	345.6
Bank overdrafts	18	**(14.0)**	(13.7)
Cash and cash equivalents as shown in cash flow statement		**250.2**	331.9

Cash and cash equivalents include term deposits in Australia equivalent to £7.5m in total (2011: £12.5m). 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 FSTA 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 2012 or 2011 or at the year end dates.

Analysis of net debt

£m	Note	2012	2011
Cash and cash equivalents per balance sheet		**264.2**	345.6
Borrowings – current liabilities	18	**(307.3)**	(225.7)
Borrowings – non-current liabilities	18	**(316.8)**	(352.4)
		(359.9)	(232.5)

Reconciliation of net cash flow to movement in net debt

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

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

£m	2012	2011
Intangible assets	**1.1**	17.2
Property, plant and equipment	**3.1**	3.4
Inventories	**6.1**	6.8
Trade and other receivables	**4.8**	2.9
Total assets classified as held for sale	**15.1**	30.3
Trade and other payables	**(2.5)**	(2.5)
Tax and other liabilities	**(0.7)**	(4.4)
Total liabilities associated with assets classified as held for sale	**(3.2)**	(6.9)
Total net assets of disposal groups and non-current assets held for sale	**11.9**	23.4

Non-current assets and disposal groups held for sale at 31 December 2012 includes the remaining Commercial Systems business yet to be sold. This business has been treated as non-core for segmental reporting as shown in note 1. 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.

18. Borrowings

£m	2012	2011
Current:		
Bank overdrafts	14.0	13.7
Bank loans	292.3	100.4
Loan notes	0.4	1.0
Senior notes	–	110.3
Other borrowings	0.3	0.1
Finance leases	0.3	0.2
	307.3	225.7
Non-current:		
Bank loans	–	48.3
Loan notes	–	0.5
Senior notes	316.2	302.5
Other borrowings	–	0.4
Finance leases	0.6	0.7
	316.8	352.4
Total borrowings	624.1	578.1

The Group's principal borrowings include bank overdrafts, bank loans and senior notes. Bank overdrafts are repayable on demand and accrue interest at floating rates. Interest is payable on all bank loans at LIBOR plus margin and the loans comprise the following:

			Amount drawn		Undrawn facilities	
			2012	2011	2012	2011
Principal	Agreement date	Maturity date	£m	£m	£m	£m
£300m multi-currency revolving credit agreement	July 2005	July 2012	–	100.4	–	199.6
US$75m credit agreement	December 2008	December 2013	46.2	48.3	–	–
DKK525m multi-currency revolving facility	June 2012	October 2016	18.9	–	38.2	–
US$360m multi-currency revolving credit agreement comprising:	October 2011					
US$90m		October 2016	53.5	–	1.9	–
US$270m		October 2017	160.5	–	5.6	–
EUR70m multi-currency revolving facility	June 2012	June 2017	13.2	–	43.6	–
			292.3	148.7	89.3	199.6

Under the US$75m agreement, which expires in 2031, the lender has a series of put options exercisable every three years from December 2013. The US$360m agreement contains lender's options to extend for up to two years and during 2012, the first extension of one year has been confirmed by the lenders of US$270m. The DKK525m facility contains lender's options that could extend the agreement by up to two years.

The drawdowns under the revolving multi-currency credit agreements are for periods not exceeding three months and hence the balance is reported within current borrowings.

Senior notes outstanding are as set out below:

			2012	2011	2012	2011
Principal	Issue date	Maturity date	US$m	US$m	£m	£m
US$170m fixed rate	October 2002	October 2012	–	170.0	–	110.3
US$85m fixed rate	March 2009	March 2014	76.5	76.5	47.1	49.2
US$90m fixed rate	March 2009	March 2016	81.0	81.0	49.8	52.1
US$50m floating rate	May 2010	May 2017	50.0	50.0	30.8	32.2
US$105m floating rate	January 2010	February/March 2018	105.0	105.0	64.5	67.6
US$175m fixed rate	March 2009	March 2019	157.5	157.5	96.9	101.4
US$44m fixed rate	October 2012	October 2020	44.0	–	27.1	–
			514.0	640.0	316.2	412.8

The various loan and note subscription agreements include both financial and non-financial covenants but do not contain any provisions for charges over Group assets. The terms of the financial covenants are based on adjusted IFRS results. There have been no breaches of the terms of the agreements or defaults during the current or comparative periods.

19. Trade and other payables

19a. Current liabilities

£m	2012	2011
Payments received on account	68.6	48.2
Trade payables	104.8	102.6
Other taxes and social security	20.6	15.2
Accruals and deferred income	116.6	133.5
Contingent and deferred consideration	2.5	8.1
Other liabilities	36.8	29.0
	349.9	336.6

19b. Non-current liabilities

£m	2012	2011
Payments received on account	11.3	14.9
Trade payables	0.3	0.3
Accruals and deferred income	8.2	10.4
Contingent and deferred consideration	14.3	19.9
Other liabilities	5.0	5.2
	39.1	50.7

20. Provisions

£m	2012	2011
Current liabilities	36.3	37.1
Non-current liabilities	10.9	8.0
	47.2	45.1

Movements in provisions during the year are as follows:

£m	Provisions related to businesses divested	Warranty claims	Contract loss provisions	Aircraft maintenance provisions	Other	Total
At 1 January 2012	15.3	7.7	3.9	4.5	13.7	45.1
Additional provisions in the year	–	4.5	6.1	2.4	5.0	18.0
Acquired on business combinations	–	4.5	–	–	0.5	5.0
Utilisation of provisions	(0.6)	(4.4)	(2.9)	(2.0)	(1.3)	(11.2)
Unused amounts reversed in the year	(1.8)	(2.0)	(1.6)	(1.7)	(2.1)	(9.2)
Reclassifications	–	0.2	–	0.3	–	0.5
Foreign exchange adjustments	(0.1)	(0.2)	(0.1)	(0.1)	(0.5)	(1.0)
At 31 December 2012	12.8	10.3	5.4	3.4	15.3	47.2

Provisions related to businesses divested relate to divestments in prior years and include amounts provided in respect of the divestment of MTS in 2009 and longer term warranties given on divestments completed in 2005. Due to uncertainties surrounding the timing of settlement of these items, they have been disclosed as current liabilities.

Provisions for warranty claims and contract losses are generally expected to be crystallised within one year.

Aircraft maintenance provisions relate to significant periodic maintenance costs as well as return conditions for leased aircraft. These conditions may relate to the number of operational hours to be available before a major maintenance check, the physical configuration of the aircraft or direct costs to be incurred by the lessee in the physical return of the aircraft to the lessor. Whilst there is uncertainty over the future level of flying hours, aircraft maintenance provisions are anticipated to crystallised in the next nine years.

Other provisions include amounts provided in respect of announced business restructuring and legal claims and are expected to be settled within one year.

21. Deferred tax

£m	2012	2011
Deferred tax assets	**(9.8)**	(18.3)
Deferred tax liabilities	**44.2**	15.5
	34.4	(2.8)

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 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 1 January 2012	**10.8**	**(17.8)**	**24.1**	**(19.9)**	**(2.8)**
(Credit)/charge to income statement	**7.3**	**3.0**	**3.8**	**(28.9)**	**(14.8)**
Charge/(credit) to other comprehensive income	**–**	**(2.2)**	**–**	**16.9**	**14.7**
Credits to reserves	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Acquired with business combinations	**0.6**	**–**	**37.4**	**(2.6)**	**35.4**
Business divestments	**–**	**–**	**–**	**1.3**	**1.3**
Foreign exchange adjustments	**(0.3)**	**–**	**(1.2)**	**1.3**	**(0.2)**
Reclassifications	**–**	**–**	**1.3**	**–**	**1.3**
At 31 December 2012	**18.4**	**(17.0)**	**65.4**	**(32.4)**	**34.4**

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	2012	2011
Deferred tax liabilities fall due as follows:		
Within one year	**7.2**	5.0
After one year	**37.0**	10.5
	44.2	15.5
Deferred tax assets are recoverable as follows:		
Within one year	**(2.8)**	(13.9)
After one year	**(7.0)**	(4.4)
	(9.8)	(18.3)

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	**(0.8)**	**(17.0)**	**–**	**(42.2)**	**(60.0)**
Deferred tax liabilities	**19.2**	**–**	**65.4**	**9.8**	**90.4**
At 31 December 2012	**18.4**	**(17.0)**	**65.4**	**(32.4)**	**34.4**
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)

At the balance sheet date, the Group has unused capital losses of £65.7m (2011: £64.9m) 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 £431.1m (2011: £511.2m).

The main rate of UK corporation tax will reduce from 24% to 23% from 1 April 2013, with further reductions proposed to reduce the rate to 21% by 1 April 2014.

The Group's share of the tax on temporary differences arising in connection with interests in joint ventures and associates (included within the Group's share of assets and liabilities as shown in note 12) was £1.3m (2011: £3.9m).

22. 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	**–**	**3.4**	**–**	**3.4**
Current assets	**–**	**3.7**	**–**	**3.7**
Current liabilities	**(3.5)**	**(2.6)**	**(0.5)**	**(6.6)**
Non-current liabilities	**(4.8)**	**(2.7)**	**(2.8)**	**(10.3)**
Fair value at 31 December 2012	**(8.3)**	**1.8**	**(3.3)**	**(9.8)**
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)

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

£m	Note	Interest rate swaps – cash flow hedges	Foreign exchange derivatives	Inflation swap	Total
At 1 January 2011		(24.7)	(10.3)	–	(35.0)
Loss through income statement – not hedged		–	(3.7)	(1.7)	(5.4)
Loss through income statement – other		–	(0.4)	–	(0.4)
Cancellation of cash flow hedge		9.0	–	–	9.0
Gain reclassified to income statement		11.4	–	–	11.4
Loss through OCI – hedged items	26	(8.3)	–	–	(8.3)
Foreign exchange adjustments	26	0.2	–	–	0.2
At 1 January 2012		**(12.4)**	**(14.4)**	**(1.7)**	**(28.5)**
Gain/(loss) through income statement – not hedged		–	**12.8**	**(1.7)**	**11.1**
Gain through income statement – other		–	**3.4**	–	**3.4**
Gain reclassified to income statement	26	**7.2**	–	–	**7.2**
Loss through OCI – hedged items	26	**(3.5)**	–	–	**(3.5)**
Foreign exchange adjustments	26	**0.4**	–	**0.1**	**0.5**
At 31 December 2012		**(8.3)**	**1.8**	**(3.3)**	**(9.8)**

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 24.

In 2011, following the divestment of the Analytic Solutions business and repayment of a portion of floating rate debt, 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 was reclassified to the income statement.

A number of interest rate swaps were also cancelled in 2009. As these were originally designated as cash flow hedges, the related hedge reserve is being amortised over the life of the original forecast issuance (the hedge item). In 2012, £2.8m (2011: £3.6m) was reclassified from the hedge reserve to the income statement and reflected in finance costs.

23. 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 £21.1m (2011: £24.0m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. £0.6m (2011: £0.8m) was outstanding in respect of defined contribution schemes but not due for payment at 31 December 2012.

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 2012. 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 2012.

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

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

There were no significant contributions outstanding at the end of 2012 or 2011 for the defined benefit schemes.

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

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

		2012		2011
	UK Schemes	**USA Scheme**	UK Schemes	USA Scheme
Rate of increase in salary costs	**3.47%**	**3.47%**	3.62%	3.62%
Rate of increase in pensions in payment unless overridden by specific scheme rules	**2.97%**	**2.97%**	3.12%	3.12%
Rate of increase in deferred pensions	**2.17%**	**2.97%**	2.12%	3.12%
Discount rate	**4.40%**	**4.40%**	4.85%	4.85%
Inflation assumption	**2.97%**	**2.97%**	3.12%	3.12%
Expected return on scheme assets	**4.84%**	**4.40%**	5.12%	5.46%

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 tables used to estimate life expectancy are known as 'SAPS CMI 09'. In practical terms this is demonstrated in the table below:

	Year of birth	Year age 65	Further life expectancy
Male	1947	2012	22.6 years
Female	1947	2012	24.7 years
Male	1980	2045	25.8 years
Female	1980	2045	27.9 years

At 31 December 2012 it has been assumed that members will commute on average 20% (2011: 20%) of their pension for cash at retirement. This implies a full take-up of the permitted 25% (2011: 25%) commutation by approximately 80% (2011: 80%) of eligible members on retirement.

Notes to the Group financial statements continued

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

£m	Scheme assets 2012	Defined benefit obligations 2012	Total 2012	Scheme assets 2011	Defined benefit obligations 2011	Total 2011
Net liability at start of year	528.7	(599.9)	(71.2)	510.8	(592.8)	(82.0)
Amounts recognised in operating profit						
Current service cost included in administrative expenses	–	(4.3)	(4.3)	–	(4.2)	(4.2)
Past service (cost)/credit included in administrative expenses	–	(0.3)	(0.3)	–	12.5	12.5
Gain on curtailment included in profit on divestment	–	–	–	–	1.4	1.4
Amounts credited/(charged) to other finance income/costs						
Expected return on pension scheme assets	26.6	–	26.6	32.7	–	32.7
Interest on pension scheme liabilities	–	(28.6)	(28.6)	–	(31.5)	(31.5)
Amounts recognised in other comprehensive income						
Actual return less expected return on pension scheme assets	12.8	–	12.8	(40.3)	–	(40.3)
Experience gains arising on scheme liabilities	–	12.8	12.8	–	1.8	1.8
Changes in assumptions underlying present value of scheme liabilities	–	(41.3)	(41.3)	–	(2.1)	(2.1)
Amounts included in cash flow statement						
Employer contributions	20.0	–	20.0	20.9	–	20.9
Employer contributions related to buy-in arrangement	–	–	–	19.6	–	19.6
Member contributions	2.8	(2.8)	–	3.2	(3.2)	–
NI rebates	0.6	(0.6)	–	0.5	(0.5)	–
Benefits paid	(18.4)	18.4	–	(18.9)	18.9	–
Other changes						
Exchange differences	(0.7)	0.8	0.1	0.2	(0.2)	–
Net liability at end of year	572.4	(645.8)	(73.4)	528.7	(599.9)	(71.2)

Total employer contributions exceeded current service cost and past service cost or credit by £15.4m (2011: £48.8m).

The present value of funded obligations relating to the US scheme is US$34.5m (2011: US$30.1m) and the fair value of scheme assets relating to the US scheme is US$21.3m (2011: US$18.4m).

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 £10.7m.
- Increasing the inflation rate by 0.1% would increase scheme liabilities by £6.6m.
- If each scheme member was expected to live for an additional year then scheme liabilities would increase by £15.5m.

The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income since transition to IFRS is £182.5m loss (2011: £166.8m loss). Of the actuarial losses recognised in the year for changes in assumptions underlying the present value of scheme liabilities, approximately £48m relates to the decrease in the discount rate mitigated by approximately £7m relating to the inflation assumptions.

The actual return on scheme assets was £39.4m (2011: loss £7.6m). The Group expects to contribute £20.3m to its defined benefit pension schemes in 2013.

The fair value of major categories of scheme assets, and as a percentage of total scheme assets, are as follows:

	2012		2011	
	£m	%	£m	%
Equity instruments	**217.5**	**38.0%**	176.2	33.3%
Debt instruments	**262.0**	**45.7%**	259.6	49.1%
Property	**42.7**	**7.5%**	43.3	8.2%
Insurance contracts	**40.1**	**7.0%**	36.9	7.0%
Other assets	**10.1**	**1.8%**	12.7	2.4%
	572.4	**100.0%**	528.7	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 portfolios.

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	2012	2011	2010	2009	2008
Present value of defined benefit obligations	**(645.8)**	(599.9)	(592.8)	(561.3)	(458.4)
Fair value of scheme assets	**572.4**	528.7	510.8	446.1	407.2
Net liability	**(73.4)**	(71.2)	(82.0)	(115.2)	(51.2)
Experience adjustments on scheme liabilities	**12.8**	1.8	1.3	1.8	(5.5)
Experience adjustments on scheme assets	**12.8**	(40.3)	24.1	13.8	(49.2)

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 2012 at EUR4.3m and are recorded in these financial statements at £3.5m (2011: £3.2m). These liabilities are included in other liabilities in note 19. Some retirement obligations relating to a subsidiary based in Germany have gross obligations of EUR2.2m (2011: EUR2.2m). These obligations are covered by an insurance policy and therefore there is no net liability.

The actuarial loss for these schemes in the year to 31 December 2012, recognised in OCI, was £0.5m (2011: £nil).

24. Financial risk management

The Group's multinational 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 into sterling at the relevant year-end exchange rates, are as follows:

	2012		2011	
£m	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
US dollars	**214.2**	**(624.3)**	235.5	(647.3)
Euros	**87.8**	**(49.7)**	100.9	(49.4)
Australian dollars	**65.9**	**(72.8)**	107.8	(98.8)
Danish kroner	**14.0**	**(92.6)**	1.3	(3.6)

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	2012	2011
US dollar borrowings	**484.2**	460.1
US dollar foreign exchange contracts	**93.8**	193.0

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 in the translation reserve (note 26).

During 2012, the Group has Danish kroner borrowings and commitments under foreign exchange contracts which are used to fund the Danish kroner investment in Thrane & Thrane and net investment hedging has been applied.

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	
	2012	2011	2012	2011
Expiring within one year	**138.7**	138.5	**1.59**	1.59
Expiring within one to two years	**76.0**	63.8	**1.61**	1.59
Expiring after two years	**17.9**	46.2	**1.58**	1.61
	232.6	248.5	**1.60**	1.59

The latest expiry date of forward foreign currency contracts for sales of US dollars is December 2015.

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.

	2012			2011		
£m	Sensitivity	Profit or loss	Total equity	Sensitivity	Profit or loss	Total equity
US dollars	**16%**	**(21.0)**	**(21.0)**	20%	(28.6)	(28.6)
Euros	**13%**	**(10.3)**	**(10.3)**	16%	(18.0)	(18.0)

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:

			2012			2011
£m	**Sensitivity**	**Profit or loss**	**Total equity**	Sensitivity	Profit or loss	Total equity
US dollars	**10%**	**(12.2)**	**(12.2)**	10%	(12.7)	(12.7)
Euros	**10%**	**(7.7)**	**(7.7)**	10%	(10.5)	(10.5)

Interest rate risk

The Group has various long and short-term borrowings, principally in US dollars, Australian dollars and Danish kroner 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	**2012**	2011
Fixed rates		
Senior notes	**220.9**	313.0
Floating rates		
Bank loans and overdrafts	**306.3**	162.4
Senior notes	**95.3**	99.8
Loan notes	**0.4**	1.5
Other borrowings and finance leases	**1.2**	1.4
	403.2	265.1
Total borrowings	**624.1**	578.1

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:

		Period of swap			2012		2011
Hedged item	Fixed rate	from	to	**Currency value**	**£m**	Currency value	£m
US dollar loans	3.22%	June 2010	June 2013	**US$65.0m**	**40.0**	US$65.0m	41.8
	3.49%	March 2008	March 2013	**US$80.0m**	**49.2**	US$80.0m	51.5
	3.61%	August 2008	August 2013	**US$150.0m**	**92.3**	US$150.0m	96.5
Australian dollar loans	6.30%	May 2006	January 2020	**AUS$66.2m**	**42.3**	AUS$74.4m	49.1
	6.40%	January 2007	January 2020	**AUS$12.5m**	**8.0**	AUS$14.3m	9.4
					231.8		248.3

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. However, as a result of the Group's policy to manage interest rate risk, there was no material sensitivity to changes in interest rates at the year end.

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.

		2012		2011
£m	**Profit or loss**	**Total equity**	Profit or loss	Total equity
Sterling	**0.6**	**–**	0.8	–
US dollars	**0.4**	**0.6**	0.2	2.5
Euros	**0.2**	**–**	0.3	–

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. The difference between the contractual cash flows and the carrying amount of these liabilities reflects the effects of interest not included in the carrying amount and discounting applied in assessing fair value.

£m	Within one year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Non-derivative financial liabilities							
At 31 December 2012							
Trade and other payables							
Payments received on account	**68.6**	**3.6**	**4.7**	**2.7**	**0.1**	**0.2**	**79.9**
Trade payables	**104.8**	**0.2**	**0.1**	–	–	–	**105.1**
Other taxes and social security	**20.6**	–	–	–	–	–	**20.6**
Contingent and deferred consideration	**2.5**	**14.3**	–	–	–	–	**16.8**
Other liabilities	**36.8**	**0.5**	**1.2**	**0.7**	**0.7**	**1.9**	**41.8**
	233.3	**18.6**	**6.0**	**3.4**	**0.8**	**2.1**	**264.2**
Borrowings							
Bank loans and overdrafts	**306.7**	–	–	–	–	–	**306.7**
Senior notes	**4.1**	**47.1**	–	**49.8**	**30.8**	**188.5**	**320.3**
Other borrowings	**1.0**	**0.5**	**0.1**	–	–	–	**1.6**
	311.8	**47.6**	**0.1**	**49.8**	**30.8**	**188.5**	**628.6**
Less interest							**(4.5)**
Less discounting of finance leases							–
							624.1
At 31 December 2011							
Trade and other payables							
Payments received on account	48.2	6.5	4.0	2.6	1.6	0.2	63.1
Trade payables	102.6	0.2	0.1	–	–	–	102.9
Other taxes and social security	15.2	–	–	–	–	–	15.2
Contingent and deferred consideration	8.1	6.3	13.6	–	–	–	28.0
Other liabilities	29.0	0.6	1.2	0.5	0.7	2.2	34.2
	203.1	13.6	18.9	3.1	2.3	2.4	243.4
Borrowings							
Bank loans and overdrafts	114.5	48.3	–	–	–	–	162.8
Senior notes	116.0	–	49.2	–	52.1	201.2	418.5
Other borrowings	1.4	0.8	0.6	0.1	–	0.1	3.0
	231.9	49.1	49.8	0.1	52.1	201.3	584.3
Less interest							(6.1)
Less discounting of finance leases							(0.1)
							578.1

£m	Within one year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Derivative contracts							
At 31 December 2012							
Interest rate swaps							
Gross cash outflows	**(4.3)**	**(1.4)**	**(1.0)**	**(0.8)**	**(0.5)**	**(0.5)**	**(8.5)**
Gross cash inflows	**–**	**–**	**–**	**–**	**–**	**–**	**–**
							(8.5)
Foreign exchange derivatives							
Gross cash outflows	**(120.2)**	**(25.4)**	**(15.4)**	**–**	**–**	**–**	**(161.0)**
Gross cash inflows	**117.9**	**24.2**	**14.2**	**–**	**–**	**–**	**156.3**
							(4.7)
Other derivatives and adjustment to fair value							**3.4**
							(9.8)
At 31 December 2011							
Interest rate swaps							
Gross cash outflows	(5.9)	(4.0)	(0.8)	(0.7)	(0.5)	(0.7)	(12.6)
Gross cash inflows	–	–	–	–	–	–	–
							(12.6)
Foreign exchange derivatives							
Gross cash outflows	(214.7)	(57.9)	(42.7)	(15.5)	–	–	(330.8)
Gross cash inflows	206.6	54.5	40.3	13.8	–	–	315.2
							(15.6)
Other derivatives and adjustment to fair value							(0.3)
							(28.5)

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. As shown in note 18, £89.3m was available to the Group at 31 December 2012 (2011: £199.6m).

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 2012, 6.4% (2011: 6.5%) of gross trade receivables were overdue by one month or more.

The maximum exposure to credit risk at 31 December 2012 is the fair value of each class of receivable as disclosed in note 15. 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 around £3.0m of receivables.

Bank term balances totalling £7.5m (2011: £12.5m) have been pledged against the residual value of leased assets as detailed in note 16. Finance leases totalling £0.9m (2011: £0.9m) are secured against the items of property, plant and equipment that the leases are financing. Group assets have not been pledged in respect 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. A swap contract was entered into during 2011 to manage the inherent inflation risk in one specific operational contract.

Capital risk management

Group policy is to maintain a strong capital base, defined as total equity, excluding non-controlling interests, totalling £1,053.8m at 31 December 2012 (2011: £1,018.6m), 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.

Typically the Group will hold deposits in sterling and borrowings in foreign currencies to fund overseas operations. During the year, additional funding has been secured from commercial lenders and through private placements; new borrowings include amounts in euro, US dollars and Danish kroner. There have been no breaches of the terms of the Group banking arrangements which have been met with significant headroom and there have been no defaults during the current or prior year.

During 2011, as part of the Group's overall capital management policy as described above, £150.0m of capital was returned to shareholders through a share buy-back programme using proceeds from business divestments.

25. Share capital

£m	Number of shares	2012	2011
Authorised			
Ordinary Shares of par value 2.5 pence	1,479,200,000	**37.0**	37.0
6% second cumulative Preference Shares of £1	20,000	**–**	–
Issued and fully paid			
Ordinary Shares of par value 2.5 pence	1,154,527,625	**28.9**	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. No new shares have been issued during the current or prior year.

At 31 December 2012, 87,699,405 (2011: 79,979,615) Ordinary Shares were held in treasury. This includes 75,951,724 shares purchased during 2011 under a share buy-back plan at a total cost of £151.0m and 11,747,681 (2011: 4,027,891) shares held in the Cobham Employee Benefit Trust. At 31 December 2012, the market value of treasury shares was £193.6m (2011: £146.7m), including shares with a market value of £25.9m (2011: £7.4m) held by the Cobham Employee Benefit Trust.

During the year ended 31 December 2012, treasury shares were used to satisfy awards and options under the Group's PSP, BCP, ESOS and ShareSave schemes. The net cost of treasury shares after receipts from option exercises is deducted from retained earnings and total equity.

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.

26. Other reserves

£m	Note	Translation reserve	Hedging reserve	Share options reserve	Total other reserves
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	22	0.2	(8.3)	–	(8.1)
Reclassification of fair value of cash flow hedges to income statement	22	–	11.4	–	11.4
Reclassification to income statement on cancellation of cash flow hedge		–	9.0	–	9.0
Release of hedge reserve	22	–	3.6	–	3.6
Transfer of translation reserve on settlement of cash flow hedge contracts		3.7	–	–	3.7
Transfer of share options reserve on exercise		–	–	(4.8)	(4.8)
Share-based payments recognised in reserves	27	–	–	6.1	6.1
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 1 January 2012		**65.1**	**(5.7)**	**24.4**	**83.8**
Foreign exchange differences on translation of overseas operations		**(19.2)**	–	–	**(19.2)**
Reclassification of foreign exchange on divestment of overseas operation	29	**(4.8)**	–	–	**(4.8)**
Movements on cash flow hedges	22	**0.4**	**(3.5)**	–	**(3.1)**
Reclassification of fair value of cash flow hedges to income statement	22	–	**7.2**	–	**7.2**
Release of hedge reserve		–	**2.8**	–	**2.8**
Transfer of hedge reserve to retained earnings		–	**(3.7)**	–	**(3.7)**
Transfer of translation reserve on settlement of cash flow hedge contracts		**0.3**	**(0.3)**	–	–
Transfer of share options reserve on exercise		–	–	**(2.8)**	**(2.8)**
Share-based payments recognised in reserves	27	–	–	**6.8**	**6.8**
Dividend equivalents paid on vesting of PSP and BCP awards		–	–	**(0.1)**	**(0.1)**
Tax effects		**(0.1)**	**(3.1)**	**0.5**	**(2.7)**
At 31 December 2012		**41.7**	**(6.3)**	**28.8**	**64.2**

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 hedge reserve reflects movements in fair values on cash flow hedging derivatives as detailed in notes 22 and 24.

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. The appropriate proportion of the share options reserve is transferred to retained earnings following option exercise.

27. Share-based payments

The total expense for share-based payments is as follows:

£m	2012	2011
Equity settled share-based payment schemes	6.8	6.1
Cash settled share-based payment schemes	–	(0.2)
Total share-based payment expense	6.8	5.9

Equity settled share-based payment schemes

The Group operates a number of incentive schemes for certain senior executives, further details of which can be found in the Directors' remuneration report on pages 46 and 49:

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

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. This scheme includes buy-out awards granted during the year to the Group's Chief Executive Officer.

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.

The Cobham Savings Related Share Option Scheme (ShareSave) is an HMRC approved savings related share option plan which is open to all UK employees. Employees contribute to a monthly savings plan and after an agreed period of at least three years, employees have the option to use these savings plus interest to purchase the Group's shares at 80% of the market price on the date of grant.

Details of the awards are as follows:

Number of awards (thousands of shares)	PSP	BCP	ESOS	ShareSave
At 1 January 2011	5,693	1,082	21,212	7,513
Awards granted	3,414	88	2,388	2,153
Awards forfeited or cancelled by employee	(1,386)	(53)	(2,052)	(544)
Exercised	(883)	(541)	(1,428)	(1,597)
Expired	–	–	(152)	(233)
At 1 January 2012	6,838	576	19,969	7,292
Awards granted	3,076	122	2,738	1,263
Awards forfeited or cancelled by employee	(1,629)	(255)	(1,984)	(395)
Exercised	(490)	(93)	(2,828)	(1,404)
Expired	(1)	–	(197)	(258)
At 31 December 2012	7,794	350	17,698	6,498
Exercisable at 31 December 2012	212	–	9,992	145
Exercisable at 31 December 2011	2	–	8,779	64

The weighted average remaining contractual life in years of awards is as follows:

	PSP	BCP	ESOS	ShareSave
Outstanding at 31 December 2012	1.28	1.16	6.25	2.45
Outstanding at 31 December 2011	2.00	0.80	6.80	2.58

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 2012, the operation of the gross up mechanism resulted in an additional 62,023 (2011: 348,267) matching shares being awarded to the holders of the 93,025 (2011: 541,452) invested shares exercised in the year.

Under the ESOS and ShareSave schemes, exercises were made at various times throughout the year. The weighted average share price in that period was £2.165 (2011: £2.024).

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 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 1 January 2012	**2.040**	**1.606**
Awards granted	**2.184**	**1.750**
Awards forfeited or cancelled by employee	**2.092**	**1.627**
Exercised	**1.901**	**1.545**
Expired	**2.219**	**1.662**
At 31 December 2012	**2.077**	**1.644**
Exercisable at 31 December 2012	**1.899**	**1.628**
Exercisable at 31 December 2011	1.897	1.619

The range of exercise prices for ESOS and ShareSave awards are as follows:

Outstanding at 31 December 2012		
Lowest exercise price	**1.186**	**1.076**
Highest exercise price	**2.473**	**1.790**
Outstanding at 31 December 2011		
Lowest exercise price	0.912	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 2012:				
Effective date of grant or commencement date	26 March, 14 September	12 March	26 March	1 February
Average fair value at date of grant	**1.735**	**0.994**	**0.347**	**0.361**
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	1.655	1.470	0.361	0.658

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
2012 awards:				
Weighted average share price	**£2.250**	**£2.206**	**£2.245**	**£1.737**
Weighted average exercise price	**nil**	**nil**	**£2.184**	**£1.480**
Expected volatility	**31%**	**n/a**	**29%**	**28%-30%**
Expected life	**2.8 years**	**3 years**	**3.8 years**	**3-7 years**
Expected employee cancellation rate	**2.2%**	**nil**	**7.1%**	**3.6%**
Risk free rate	**1.3%**	**n/a**	**0.9%**	**3.0%**
Expected dividend yield	**n/a**	**n/a**	**3.6%**	**3.8%**
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%	n/a	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%	n/a	2.0%	2.5%
Expected dividend yield	n/a	n/a	2.6%	2.4%

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, with a small number expiring in February 2012.

Details of the awards are as follows:

Number of awards (thousands of shares)	2012	2011
At 1 January	**5**	223
Exercised during the year	–	(43)
Expired	**(5)**	(175)
At 31 December	–	5
Exercisable at 31 December	–	5
Fair value of each outstanding award	–	£0.133
Weighted average remaining contractual life of outstanding awards (in years)	–	0.10

28. Business combinations

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

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

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

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

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

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

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

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

The results since the date of acquisition are as follows:

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

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

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

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

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

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

29. Business divestments and similar income

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

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

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

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

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

The net cash impact of the divestments is as follows:

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

The net assets divested during the year were as follows:

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

30. 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	2012	2011
Within one year	26.1	27.7
Between one and two years	23.1	24.2
Between two and three years	21.6	21.8
Between three and four years	18.7	19.0
Between four and five years	17.3	15.9
After five years	88.0	97.3
	194.8	205.9

Operating lease payments include rentals payable by the Group for certain of its office and operational properties, and operational aircraft used in its service businesses.

31. Contingent liabilities and commitments

At 31 December 2012, 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.

A number of performance guarantees and letters of credit have been provided in connection with the FSTA project. No provision was made at 31 December 2012 or 2011 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. The Group has previously 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. Although there have been no developments during the year, 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 2012, the Group had commitments for the acquisition of property, plant and equipment of £17.2m (2011: £3.9m). The Company has also committed, in connection with the FSTA project, to invest £6.1m in equity share capital and to provide additional funding of £18.2m in the form of redeemable loan notes in March 2013.

32. Related party transactions

Details of transactions between the Group and other related parties are disclosed below:

£m	2012	2011
Transactions between Group entities and joint ventures during the year		
Sales of goods	0.3	1.2
Purchases of goods	0.4	–
Dividends received	(7.5)	(8.1)
Loans to joint ventures	40.0	8.5
Loan repayments and interest received from joint ventures	(3.1)	(0.5)
Amounts owed by joint ventures at the year end	45.4	8.4

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	2012	2011
Remuneration	5.8	6.3
Post-employment benefits	0.6	0.4
Share-based payments	3.8	3.0
	10.2	9.7

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 55.

33. Events after the balance sheet date

There are no adjusting post balance sheet events.

As detailed on pages 9 and 11 and as previously announced, as part of the Excellence in Delivery programme the Group is taking further actions to make significant site and headcount rationalisations in 2013 to 2015 due to the expected volume decline mostly in the US defence/security market.

34. Subsidiaries

All subsidiary undertakings have been included in the Group consolidation. The undertakings held at 31 December 2012 which, in the opinion of the Directors, principally affected the results for the year or the net assets of the Group were:

Operating segment	Strategic Business Unit and principal activities	Name of undertaking	Place of incorporation (or registration) and operation
Cobham Aerospace and Security	**Cobham Aerospace Communications**		
	Design and manufacture of navigation, communication and airborne networking products and systems for commercial, business and military aircraft	Air Précision SAS	France
		Chelton Avionics, Inc	USA
		TEAM SA	France
	Cobham Antenna Systems		
	Design and manufacture of communication systems and antennas	Chelton Limited	England
		Chelton, Inc	USA
		Cobham Advanced Composites Limited	England
		Cobham Composite Products Inc	USA
		Cobham CTS Limited	England
		Continental Microwave & Tool Co, Inc	USA
		Trivec-Avant Corporation	USA
	Cobham Satcom		
	Development, manufacture and support of satellite and radio communication terminals and earth stations for land, marine and airborne applications	Sea Tel, Inc	USA
		Thrane & Thrane A/S	Denmark
	Cobham Tactical Communications and Surveillance		
	Provision of specialist communications, security and surveillance products including integrated systems and solutions	Cobham Defence Communications Limited	England
		Cobham TCS Limited	England
		DTC Communications, Inc	USA
		Spectronic Denmark A/S	Denmark
Cobham Defence Systems	**Cobham Defence Electronics**		
	Design and manufacture of active microwave components, assemblies and subsystems for the aerospace and defence industries	Cobham Electronic Systems Inc	USA
		Sensor & Antenna Systems, Lansdale, Inc	USA
		REMEC Defense & Space, Inc	USA
Cobham Mission Systems	**Cobham Life Support**		
	Life support and personal survival equipment systems including oxygen systems for aviators and astronauts, crew restraints, flotation gear and crew and cargo release mechanisms	Carleton Life Support Systems, Inc*	USA
		Carleton Technologies, Inc*	USA
		Conax Florida Corporation	USA
	Cobham Mission Equipment		
	Provision of air-to-air refuelling systems, wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft, and remote controlled robots and fully equipped bomb disposal vehicles for homeland security and military applications	Carleton Life Support Systems, Inc*	USA
		Carleton Technologies, Inc*	USA
		Flight Refuelling Limited**	England
		telerob Gesellschaft für Fernhantierungstechnik mbH	Germany

Operating segment	Strategic Business Unit and principal activities	Name of undertaking	Place of incorporation (or registration) and operation
Cobham Aviation Services	Cobham Aviation Services		
	Provision of specialist aviation solutions to defence, government and major commercial customers under long term performance based contracts	Asia Pacific Airlines (PNG) Pty Limited	Papua New Guinea
		FR Aviation Limited	England
		Jet Systems Pty Limited	Australia
		National Jet Express Pty Limited	Australia
		National Jet Systems Pty Limited	Australia
		Surveillance Australia Pty Limited	Australia

The Group owns 100% of the share capital of all subsidiaries with the exception of TEAM SA (98.7% owned).

* Carleton Life Support Systems, Inc and Carleton Technologies, Inc both operate across the Cobham Life Support and the Cobham Mission Equipment SBUs.

** Issued shares in Flight Refuelling Limited are held by Cobham plc. Otherwise shares are held by, or by a nominee for, a subsidiary of Cobham plc.

A full list of subsidiary companies is annexed to the Company's annual return to the Registrar of Companies.

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 2012 which comprise the parent company accounting policies, the parent company balance sheet, the reconciliation of movements in shareholders' funds 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 60, 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 and Accounts 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 2012;
- 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 2012.

Stuart Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2013

Parent company accounting policies

Accounting convention
These financial statements have been prepared on the going concern basis, under the historical cost convention as modified by the revaluation of derivative contracts which are held at fair value, and 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. Investments in subsidiary undertakings denominated in foreign currencies which are financed by foreign currency borrowings are translated at the year end exchange rate. Investments denominated in foreign currencies not financed by foreign currency borrowings are translated at the rate of exchange ruling at the date of the original transaction.

All exchange differences arising are taken to the profit and loss account.

In order to manage the Company'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 Company 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 Company'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 amortised cost using the effective interest method and 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 and subsequently held at amortised cost. Interest is accounted for on an accruals basis in the profit and loss account using the effective interest rate method and is added to the carrying amount of the instrument to the extent that the expenses 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 2012

£m	Note	2012	2011
Fixed assets			
Intangible assets	5	**0.2**	0.3
Tangible assets	6	**0.2**	0.3
Investments in Group and other undertakings	4	**779.1**	777.5
Financial assets: Derivative financial instruments	11	**14.2**	14.4
		793.7	792.5
Current assets			
Financial assets: Derivative financial instruments	11	**5.8**	5.3
Debtors	7	**1,107.2**	1,065.9
Cash at bank and in hand		**7.1**	72.8
		1,120.1	1,144.0
Creditors: Amounts falling due within one year	8	**(567.3)**	(610.4)
Net current assets		**552.8**	533.6
Total assets less current liabilities		**1,346.5**	1,326.1
Creditors: Amounts falling due after more than one year	9	**(731.3)**	(773.9)
Provisions for liabilities	10	**(6.6)**	(6.6)
Net assets		**608.6**	545.6
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	**16.9**	13.6
Profit and loss account	13	**392.6**	332.9
Equity shareholders' funds		**608.6**	545.6

The financial statements on pages 114 to 124 were approved by a duly appointed and authorised committee of the Board on 6 March 2013 and signed on its behalf by:

R Murphy **W Tucker**

Directors

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2012

£m	Note	2012	2011
Profit for the financial year		164.3	179.9
Dividends	1	(92.5)	(69.4)
Retained profit for the financial year		71.8	110.5
Treasury shares	13	(18.7)	(159.5)
Movements in hedging reserve	13	(0.6)	12.7
Reclassification of hedge reserve	13	3.8	–
Credit in respect of share-based payments	13	6.8	6.1
Dividend equivalents paid on vesting of PSP and BCP awards	13	(0.1)	(0.2)
Net addition to/(reduction in) shareholders' funds		63.0	(30.4)
Shareholders' funds at 1 January		545.6	576.0
Shareholders' funds at 31 December		608.6	545.6

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

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

2. Directors' emoluments and pension costs

Disclosures in respect of Directors' emoluments can be found in the Directors' remuneration report on pages 44 to 55 of the Group financial statements.

Defined benefit pension schemes

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executives 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 2012 and 1 April 2010 respectively. The assessments were updated to 31 December 2012 at which date the total net liabilities of the schemes were assessed to be £65.4m. 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.

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 2012 amounted to £0.3m (2011: £0.3m) of normal funding and an additional contribution of £nil (2011: £17.5m) related to buy-in arrangements. No contributions were outstanding at the end of 2012 or 2011.

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 £0.7m (2011: £0.6m). No contributions were outstanding at the end of 2012 or 2011.

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 UK employees.

The Company recognised total expenses of £2.9m (2011: £3.0m) related to equity settled share-based payment transactions during the year (excluding 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 to 49 and in the Group financial statements on pages 104 to 106.

Details of the awards held by the Company's employees are as follows:

Number of share options	PSP	BCP	ESOS	ShareSave
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
Exercised	(559,467)	(415,764)	(75,734)	(43,757)
Awards forfeited	(546,075)	(52,968)	(176,662)	(29,543)
Employees transferred (to)/from other Group companies	–	–	(118,843)	11,587
At 1 January 2012	**3,941,692**	**552,420**	**6,265,701**	**398,751**
Awards granted	**1,549,762**	**53,740**	**16,807**	**57,959**
Exercised	**(287,153)**	**(93,025)**	**(350,281)**	**(76,579)**
Awards forfeited	**(890,960)**	**(255,393)**	**(498,154)**	**(12,789)**
Expired awards	–	–	–	**(6,272)**
Employees transferred (to)/from other Group companies	**(48,487)**	–	**32,577**	**(46,866)**
At 31 December 2012	**4,264,854**	**257,742**	**5,466,650**	**314,204**
Exercisable at 31 December 2012	**70,796**	–	**3,939,867**	–
Exercisable at 31 December 2011	–	–	3,134,925	1,726

The weighted average remaining contractual life in years of awards is as follows:

	PSP	BCP	ESOS	ShareSave
Outstanding at 31 December 2012	1.30	1.80	5.19	2.57
Outstanding at 31 December 2011	1.16	0.90	6.31	2.63

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 2012, the operation of the gross up mechanism resulted in an additional 62,023 (2011: 277,172) matching shares being awarded to the holders of the 93,025 (2011: 415,764) invested shares exercised in the year.

Under the ESOS and ShareSave schemes, exercises were made at various times throughout the year. The weighted average share price in that period was £2.165 (2011: £2.024).

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 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 1 January 2012	**1.970**	**1.600**
Awards granted	**2.184**	**1.750**
Exercised	**1.841**	**1.512**
Awards forfeited	**1.938**	**1.691**
Expired awards	–	**1.743**
Employees transferred (to)/from other Group companies	**1.006**	**1.700**
At 31 December 2012	**1.976**	**1.628**
Exercisable at 31 December 2012	**1.829**	–
Exercisable at 31 December 2011	1.845	1.790

The range of exercise prices for ESOS and ShareSave awards are as follows:

£	ESOS	ShareSave
Outstanding at 31 December 2012		
Lowest exercise price	**1.186**	**1.076**
Highest exercise price	**2.473**	**1.790**
Outstanding at 31 December 2011		
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 2012:				
Effective date of grant or commencement date	**26 March**	**12 March**	**26 March**	**1 February**
Average fair value at date of grant	**1.642**	**0.994**	**0.399**	**0.361**
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	1.655	1.470	0.361	0.658

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 27 to the Group financial statements.

4. Investments in Group and other undertakings

£m	Shares	Options	Total
Cost and net book amount			
At 1 January 2012	**764.7**	**12.8**	**777.5**
Options granted to employees of Group undertakings net of recoveries	**–**	**1.6**	**1.6**
At 31 December 2012	**764.7**	**14.4**	**779.1**

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.

In the opinion of the directors the value of investments in subsidiary undertakings is not less than the aggregate amount at which they are shown above.

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 125.

5. Intangible assets

£m	Software
Cost	
At 1 January and 31 December 2012	**0.8**
Accumulated amortisation	
At 1 January 2012	**0.5**
Charge for the year	**0.1**
At 31 December 2012	**0.6**
Net book amount	
At 31 December 2012	**0.2**
At 31 December 2011	0.3

6. Tangible fixed assets

£m	Plant, machinery, fixtures and fittings
Cost	
At 1 January 2012	**1.2**
Disposals	**(0.2)**
At 31 December 2012	**1.0**
Accumulated depreciation	
At 1 January 2012	**0.9**
Charge for the year	**0.1**
Disposals	**(0.2)**
At 31 December 2012	**0.8**
Net book amount	
At 31 December 2012	**0.2**
At 31 December 2011	0.3

7. Debtors

£m	2012	2011
Amounts owed by Group undertakings	**1,089.6**	1,036.8
Corporation tax receivable	**4.4**	–
Deferred tax	**5.4**	25.8
Prepayments and accrued income	**7.8**	3.3
	1,107.2	1,065.9

Interest is charged on amounts owed by Group undertakings at rates varying between 2.6% and 9%. These amounts are unsecured and are repayable on demand.

The net deferred tax asset can be analysed as follows:

£m	2012	2011
Derivative financial instruments	**2.2**	14.4
Share-based payments	**1.9**	7.6
Other timing differences	**1.3**	3.8
	5.4	25.8

Movements in the net deferred tax asset are as follows:

£m	Total
At 1 January 2012	25.8
Charge to reserves	(17.2)
Charge to profit and loss account	(3.2)
At 31 December 2012	5.4

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	2012	2011
Bank overdrafts		116.6	230.2
Bank loans		292.3	100.3
Senior notes		–	110.3
Total borrowings		408.9	440.8
Trade creditors		3.2	0.5
Amounts owed to Group undertakings		115.5	99.6
Derivative financial instruments	11	10.0	14.5
Corporation tax payable		–	21.2
Other taxes and social security		1.3	1.8
Accruals and deferred income		28.4	32.0
		567.3	610.4

Details of the Company's principal borrowing facilities are disclosed in note 18 to the Group financial statements.

Interest is charged on amounts owed to Group undertakings at rates varying between 0.31% and 8%. These amounts are unsecured and are repayable on demand.

9. Creditors: Amounts falling due after more than one year

£m	Note	2012	2011
Bank loans		–	48.3
Senior notes		316.2	302.5
Amounts owed to Group undertakings		403.5	406.3
Derivative financial instruments	11	11.6	16.8
		731.3	773.9

Amounts owed to Group undertakings consist of frozen loans which are unsecured, interest free and not repayable within one year.

Senior notes falling due after more than one year mature as follows:

£m	2012	2011
Between one and two years	47.1	–
Between two and five years	80.6	101.4
After five years	188.5	201.1
	316.2	302.5

Amounts due after five years mature in 2018, 2019 and 2020.

10. Provisions for liabilities

Other provisions of £6.6m (2011: £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 and the timing of any claims is uncertain.

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	–	**11.4**	**2.8**	**14.2**
Current assets	–	**5.3**	**0.5**	**5.8**
Creditors: amounts falling due within one year	**(3.5)**	**(6.0)**	**(0.5)**	**(10.0)**
Creditors: amounts falling due after more than one year	**(4.8)**	**(4.0)**	**(2.8)**	**(11.6)**
At 31 December 2012	**(8.3)**	**6.7**	–	**(1.6)**
Fixed assets	–	12.7	1.7	14.4
Current assets	–	5.3	–	5.3
Creditors: amounts falling due within one year	(5.8)	(8.7)	–	(14.5)
Creditors: amounts falling due after more than one year	(6.6)	(8.5)	(1.7)	(16.8)
At 31 December 2011	(12.4)	0.8	–	(11.6)

12. Called up share capital

£m	2012	2011
Allotted, issued and fully paid		
Equity		
1,154,527,625 (2011: 1,154,527,625) 2.5 pence Ordinary Shares	**28.9**	28.9
Non-equity		
19,700 (2011: 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 2012.

As at 31 December 2012, 87,699,405 (2011: 79,979,615) Ordinary Shares were held in treasury. This includes 75,951,724 shares purchased during 2011 under a share buy-back plan at a total cost of £151.0m and 11,747,681 (2011: 4,027,891) shares held in the Cobham Employee Benefit Trust. At 31 December 2012, the market value of treasury shares was £193.6m (2011: £146.7m), including shares with a market value of £25.9m (2011: £7.4m) held by the Cobham Employee Benefit Trust.

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 creditors 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 2012	126.6	43.6	(5.7)	19.3	332.9
Profit for the financial year	–	–	–	–	164.3
Dividends	–	–	–	–	(92.5)
Purchase of treasury shares	–	–	–	–	(18.7)
Movement in fair value of hedge accounted derivatives	–	–	(3.5)	–	–
Reclassifications to profit and loss account	–	–	6.0	–	3.8
Tax effect of hedging reserve movements	–	–	(3.1)	–	–
Share-based payments recognised in reserves	–	–	–	6.8	–
Dividend equivalents paid on vesting of PSP and BCP awards	–	–	–	(0.1)	–
Transfer of share options reserve on exercise	–	–	–	(2.8)	2.8
At 31 December 2012	126.6	43.6	(6.3)	23.2	392.6

The impact of foreign exchange movement to the profit for the financial year is a £0.4m loss (2011: £0.4m loss).

The profit and loss account includes the purchase of Ordinary Shares by the Cobham Employee Benefit Trust in connection with the PSP, BCP, ESOS and ShareSave plans described in note 3, and the allocation of shares upon vesting of share awards and the exercise of options. Unallocated shares are held as treasury shares as described in note 12. During the year, 12,598,162 (2011: 5,767,010) shares were purchased and 4,878,372 (2011: 4,796,286) shares were allocated to employees. £26.3m (2011: £14.3m) was paid for these shares during the year and £7.5m (2011: £6.2m) was received following the exercise of share options.

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 FSTA project, to invest £6.1m in equity share capital and to provide additional funding of £18.2m in the form of redeemable loan notes in March 2013. 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 2012 or 2011 in connection with these guarantees.

The Company had no capital commitments at 31 December 2012 (2011: £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 32 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 and brand charges totalling £0.6m (2011: £0.6m) from TEAM SA which is 98.7% owned. No amounts were outstanding at the current or prior year end.

Group financial record

£m	2008	2009	2010	2011	2012
Revenue	1,466.5	1,880.4	1,902.6	1,854.4	**1,749.4**
Underlying profit before taxation	243.8	295.3	306.1	327.9	**302.2**
Profit on continuing operations before taxation	120.7	244.9	189.3	234.3	**206.0**
Tax on continuing operations	(28.1)	(59.0)	(36.5)	(46.3)	**(32.6)**
Profit on continuing operations after taxation	92.6	185.9	152.8	188.0	**173.4**
Profit after taxation from discontinued operations	2.9	–	–	–	**–**
Profit after taxation for the year	95.5	185.9	152.8	188.0	**173.4**
Net assets employed					
Intangible assets	1,211.8	1,063.0	1,048.4	917.6	**1,102.1**
Property, plant and equipment (including investment properties)	304.1	329.5	350.9	329.8	**315.5**
Investments	16.9	17.4	17.2	16.1	**15.8**
Other non-current assets	31.9	69.0	31.2	36.3	**60.3**
Current assets	994.9	963.2	1,123.2	983.7	**877.9**
	2,559.6	2,442.1	2,570.9	2,283.5	**2,371.6**
Current liabilities	(1,342.7)	(903.7)	(827.8)	(749.0)	**(822.5)**
Non-current liabilities excluding retirement benefit obligations	(316.9)	(474.9)	(584.9)	(444.2)	**(421.3)**
Net assets excluding retirement benefit obligations	900.0	1,063.5	1,158.2	1,090.3	**1,127.8**
Retirement benefit obligations	(51.2)	(115.2)	(82.0)	(71.2)	**(73.4)**
Net assets including retirement benefit obligations	848.8	948.3	1,076.2	1,019.1	**1,054.4**
Financed by					
Ordinary share capital	28.5	28.6	28.9	28.9	**28.9**
Reserves	819.7	919.4	1,046.9	989.7	**1,024.9**
Total equity attributable to the owners of the parent	848.2	948.0	1,075.8	1,018.6	**1,053.8**
Non-controlling interests in equity	0.6	0.3	0.4	0.5	**0.6**
Total equity	848.8	948.3	1,076.2	1,019.1	**1,054.4**
Net debt	(641.3)	(412.6)	(326.1)	(232.5)	**(359.9)**
Operating cash flow	260.5	293.2	271.4	337.1	**339.3**
Operating cash conversion	106%	89%	79%	95%	**104%**

pence					
Dividend paid per Ordinary Share	4.63	5.09	5.60	6.17	**8.60**
Earnings per Ordinary Share – underlying	15.42	18.80	19.68	22.05	**22.63**
Earnings per Ordinary Share – basic	8.13	16.26	13.27	16.80	**16.13**
Earnings per Ordinary Share – diluted	8.08	16.17	13.20	16.76	**16.08**
Net assets per Ordinary Share	74.5	82.7	93.2	88.3	**91.3**

£m					
Market capitalisation as at 31 December	2,343	2,883	2,349	2,117	**2,549**

Shareholder information

Analysis of shareholders

Analysis of ordinary shareholders on the register at 31 December 2012:

Size of holding	Number of registered holders	Percentage of registered holders	Number of Ordinary Shares held	Percentage of Ordinary Shares
Up to 1,000	1,651	29.38	822,338	0.08
1,001–10,000	2,799	49.80	10,090,456	0.93
10,001–50,000	676	12.03	14,095,740	1.31
50,001–250,000	226	4.02	24,971,719	2.31
250,001–1,000,000	136	2.42	72,679,713	6.74
1,000,001 and above	132	2.35	955,915,935	88.63
Total	5,620	100.00	1,078,575,901	100.00

Source: Equiniti Limited

At 31 December 2012, there were 5,620 ordinary shareholders on the register compared with 5,941 at 31 December 2011.

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	25 April 2013
Final dividend – x-div date	1 May 2013
Final dividend – record date	3 May 2013
Final dividend	31 May 2013
Interim results	8 August 2013
Interim dividend – x-div date	9 October 2013
Interim dividend – record date	11 October 2013
Interim dividend	8 November 2013

Registered Office

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Registered Number in England: 30470

* Calls to these numbers cost 8 pence per minute, plus network charges. 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.
AEGIS BMD	Aegis Ballistic Missile Defence	The sea-based component of the US Missile Defense Agency's system for missile defence.
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 twelve armed forces around the world, including the US Army.
C-130	Lockheed Martin C-130 Hercules	A multi-role aircraft with air-to-air refuelling, cargo transport, and special mission capabilities.
CH-47	Boeing CH-47 Chinook	A multi-mission, heavy-lift transport helicopter.
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-#	USAF designated fighter aircraft	Designation given by the US Air Force to aircraft designed for air-to-air combat or for multiple roles, including ground support missions.
FSTA	Future Strategic Tanker Aircraft	A UK Private Finance Initiative funded project to replace the UK's air-to-air refuelling (AAR) Fleets, and elements of the Air Transport work currently undertaken by RAF VC10 and TriStar fleets.
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.
Hawk	BAE Systems Hawk advanced jet trainer	A versatile jet trainer aircraft with a fully integrated training system.
IED	Improvised Explosive Device	Homemade bombs thought to be the weapon of choice for terrorists due to their availability and destructiveness.
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.
KC-46	Boeing KC-46 Refuelling Tanker	A refuelling tanker, currently being developed for the US Air Force to replace its ageing fleet of KC-135 Stratotankers. The KC-46, with initial flights scheduled for 2014, offers improved cargo and passenger capability.
Patriot	Patriot anti-air missile system	A surface-to-air missile system used for aircraft and ballistic missile defence.
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.
SEWIP	Surface Electronic Warfare Improvement Programme	An upgrade programme to a family of passive and active shipboard electronic warfare systems.
SM-#	Raytheon Standard Missile Family	An air and ballistic missile defence family of missiles.
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 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.

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Definitions

KPI Definitions

Core businesses' organic revenue growth	Revenue growth in core businesses stated at constant translation exchange rates, excluding the incremental effect of acquisitions and disposals.
Underlying EPS growth at constant translation exchange rates	The year on year increase of the underlying profit after taxation stated at constant translation exchange rates divided by the average number of Ordinary Shares.
Operating cash conversion	Operating cash flow as a percentage of trading profit, excluding profit from joint ventures.
Core businesses' PV investment	Private Venture or company funded Research and Development (R&D) excluding Aviation Services, where there is no R&D activity.
Staff safety – major accident incident rate	The number of accidents resulting in more than 3 days absence per 100,000 employees.
Voluntary staff turnover	The number of voluntary leavers divided by the average number of employees over the period, excluding employees who became redundant, were dismissed, or retired.

Further financial 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 was substantially divested in July 2012.

To assist with the understanding of earnings trends, the Group has included within its published statements trading profit and underlying earnings results.

Trading profit has been defined as operating profit from continuing operations excluding the impacts of certain M&A related costs and business restructuring costs as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments, impairments of intangible assets and items deemed by the Directors to be of an exceptional nature.

Underlying earnings are defined as trading profit less net underlying finance costs, which excludes the unwinding of acquisition related discounting, and after deducting taxation and non-controlling interests.

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

Business restructuring costs comprise exceptional items associated with the restructuring of the Group's portfolio. It also includes the costs of re-engineering operations as part of EiD including the costs of integrating sites into principal locations and the additional streamlining under the two year extension of the EiD programme to the end of 2015.

A reconciliation of operating profit and profit before taxation to the respective underlying numbers is shown on page 26.

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. Free cash flow is operating cash flow after net interest, taxation, dividends received from joint ventures and the cash cost of business restructuring.

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

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

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