Cobham plc

Annual Report and Accounts 2014

COBHAM

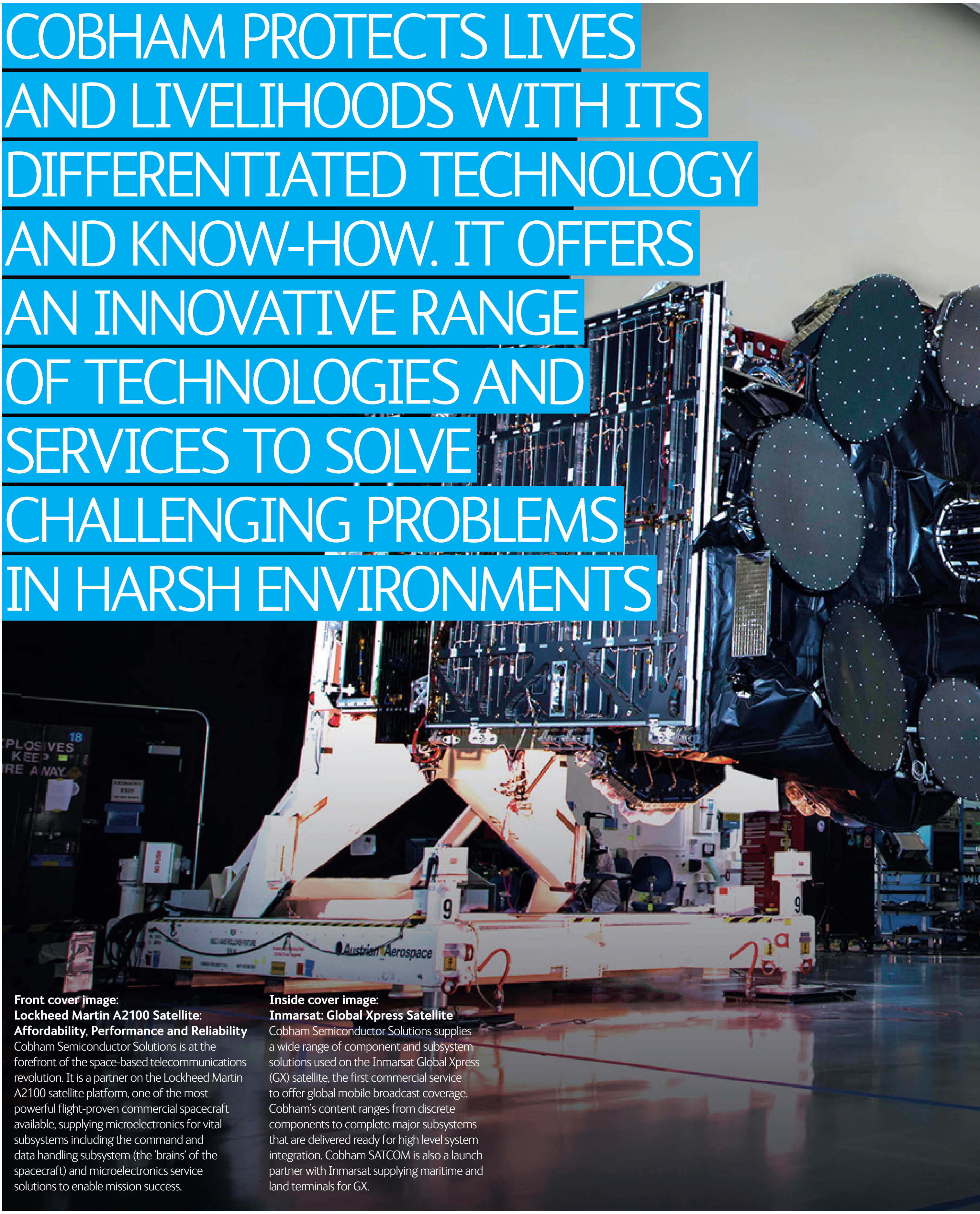
The most important thing we build is trust

TRUST • TALENT • TECHNOLOGY

80 YEARS

COBHAM 1934 - 2014

COBHAM PROTECTS LIVES AND LIVELIHOODS WITH ITS DIFFERENTIATED TECHNOLOGY AND KNOW-HOW. IT OFFERS AN INNOVATIVE RANGE OF TECHNOLOGIES AND SERVICES TO SOLVE CHALLENGING PROBLEMS IN HARSH ENVIRONMENTS

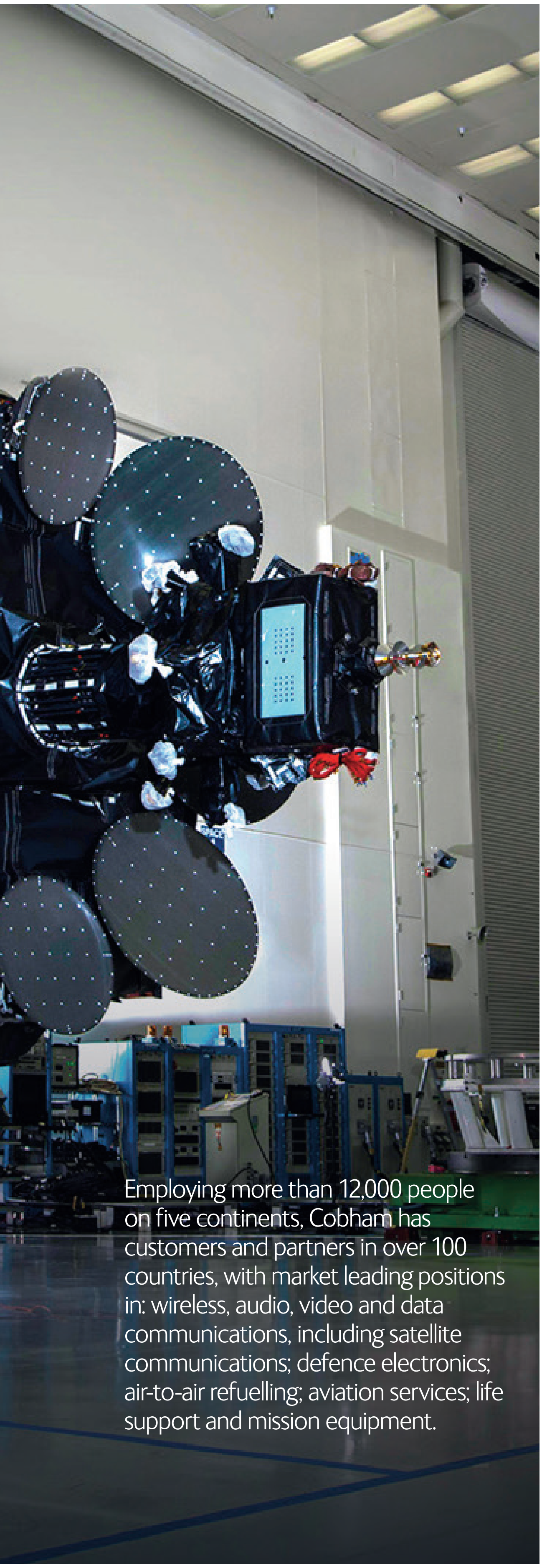


Front cover image:
Lockheed Martin A2100 Satellite: Affordability, Performance and Reliability
Cobham Semiconductor Solutions is at the forefront of the space-based telecommunications revolution. It is a partner on the Lockheed Martin A2100 satellite platform, one of the most powerful flight-proven commercial spacecraft available, supplying microelectronics for vital subsystems including the command and data handling subsystem (the 'brains' of the spacecraft) and microelectronics service solutions to enable mission success.

Inside cover image:
Inmarsat: Global Xpress Satellite
Cobham Semiconductor Solutions supplies a wide range of component and subsystem solutions used on the Inmarsat Global Xpress (GX) satellite, the first commercial service to offer global mobile broadcast coverage. Cobham's content ranges from discrete components to complete major subsystems that are delivered ready for high level system integration. Cobham SATCOM is also a launch partner with Inmarsat supplying maritime and land terminals for GX.

Front cover: Image courtesy of Lockheed Martin Corporation.
Inside front cover: Image courtesy of Boeing.

Highlights of the year



Employing more than 12,000 people on five continents, Cobham has customers and partners in over 100 countries, with market leading positions in: wireless, audio, video and data communications, including satellite communications; defence electronics; air-to-air refuelling; aviation services; life support and mission equipment.

- Significant progress which positions the business to return to organic revenue growth from 2015, despite challenging market conditions
- Order intake up 10% before M&A at constant currency
- Total revenue growth of 3% driven by acquisitions and like-for-like commercial revenue growth of 5%; commercial now the Group's largest end market segment at 39%. Group organic revenue down 2%
- Trading profit impacted by product mix, aerial refuelling development programme performance and unfavourable foreign currency translation
- Initial trading contribution from Aeroflex and integration off to a good start
- Private venture investment increased to 6.7% of revenue (2013: 6.2%)
- Recommended 10% increase in full year dividend; future dividend progression to be broadly aligned with underlying earnings growth

Dividend

10.65p

(2013: 9.68p)

Total revenue

£1,852m

(2013: £1,790m)

Earnings per ordinary share – underlying*

18.5p

(2013: 21.6p)

Earnings per ordinary share – basic**

2.6p

(2013: 10.7p)

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You can also view this Annual Report and Accounts online at
www.cobhaminvestors.com

Contents

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.

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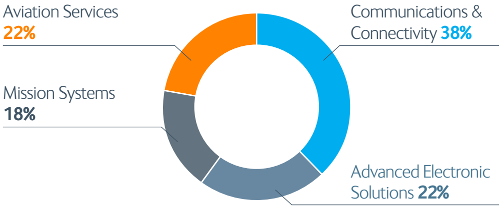
* For definitions, please refer to page 128.
** After M&A related costs which include the acquisition of Aeroflex and amortisation of acquired intangibles, and other non-underlying items; see page 128.

COBHAM'S INTERNATIONAL NETWORK PROVIDES A PRESENCE IN FAST GROWING MARKETS

The Group in 2014

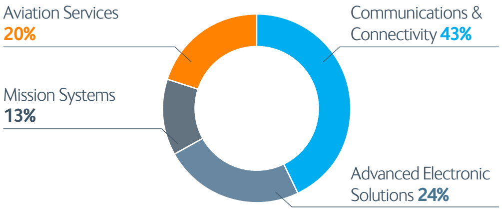
Cobham is a provider of specialist technologies and know-how for components and subsystems, in its four Sectors; Communications and Connectivity, Mission Systems, Advanced Electronic Solutions and Aviation Services. It has three broad end markets which comprise commercial, US defence/security and non-US defence/security.

Revenue by Sector (%)



£1,852m

Trading profit by Sector (%)



£287m

Sectoral percentages for revenue and trading profit exclude non-core activities, head office results and eliminations: see note 3 on page 88.

Our Sectors

The Group has transitioned to a new operational structure in the year, with four realigned Sectors replacing the four Divisions. The former Aerospace and Security Division has been renamed the Communications and Connectivity Sector to reflect the significant amount of revenue it now generates in other markets, including marine and wireless communications. The former Defence Systems Division has been renamed the Advanced Electronic Solutions Sector to reflect the commercial revenue it generates following the Aeroflex acquisition.

Communications and Connectivity

Provides aircraft and in-building communications equipment, law enforcement and national security monitoring solutions, satellite communication equipment for land, sea and air applications, specialist composite products for military and commercial applications, and test and measure instrumentation for radio frequency, cellular communications and wireless networking.

Operating locations

United States, United Kingdom, Denmark, France, South Africa, Finland and Sweden.

Revenue

£697m

(2013: £678m)

Trading profit

£118m

(2013: £115m)

See page 20 for more information.

Mission Systems

Provides safety and survival systems for extreme environments, aerial refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft, and provides remote controlled robots and fully equipped bomb disposal vehicles for military and homeland security.

Operating locations

United Kingdom, United States and Germany.

Revenue

£334m

(2013: £358m)

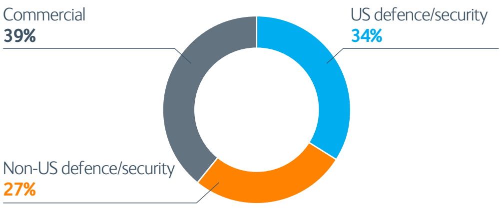
Trading profit

£36m

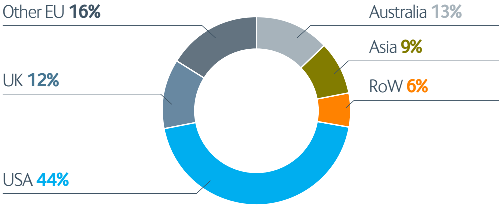
(2013: £74m)

See page 22 for more information.

Markets (% of revenue)



Geography (% of revenue)

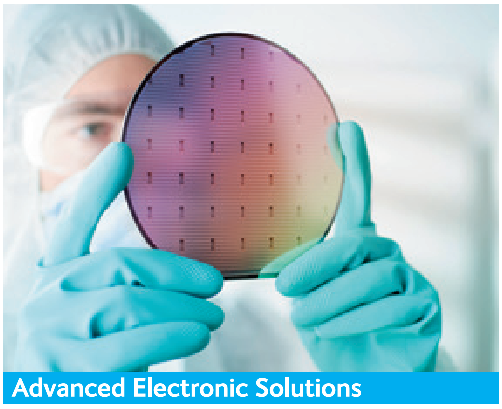


Employees worldwide

12,707*

(2013: 10,265)

*Total permanent headcount at 31 December 2014.



Advanced Electronic Solutions

Provides critical solutions for communication on land, at sea, and in the air and in space, by moving data through off-the-shelf and customised products including radio frequency, microwave, and high reliability microelectronics, antenna subsystems and motion control solutions. Cobham Advanced Electronic Solutions supplies defence, wireless/mobile and fixed broadband, X-ray imaging, medical, industrial, and point of sale markets.

Operating locations

United States and Mexico.

Revenue

£410m

(2013: £372m)

Trading profit

£64m

(2013: £63m)

See page 24 for more information.

Aviation Services

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

Operating locations

Australia and United Kingdom.

Revenue

£412m

(2013: £365m)

Trading profit

£55m

(2013: £48m)

See page 26 for more information.

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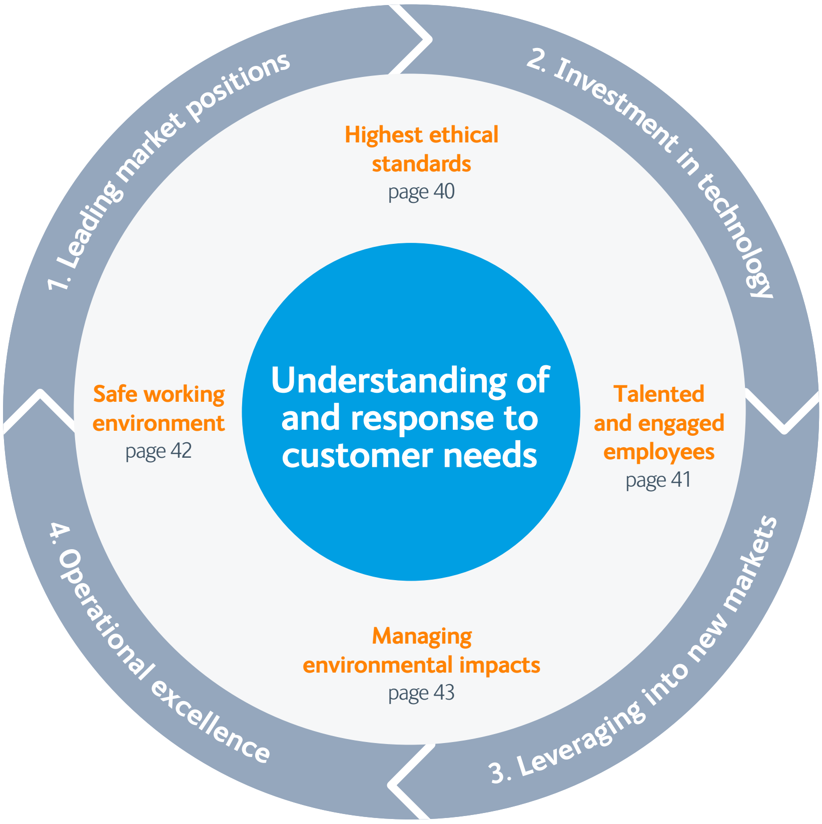
WE HAVE A TECHNOLOGY AND KNOW-HOW BASED BUSINESS MODEL

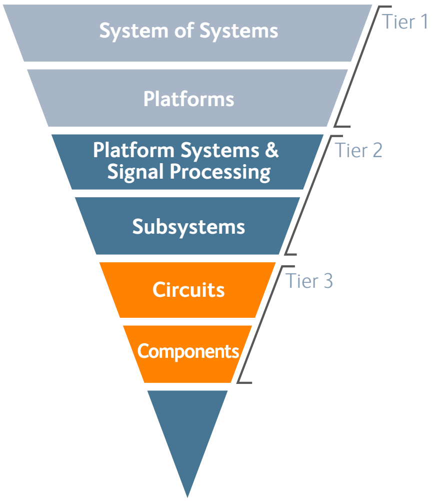


Our business model
Our integrated business model depends on our deep understanding of how to successfully manage a leading edge and specialist technology business on a sustainable basis and on our close customer relationships, which have been built up over many years. This is combined with a focus on safety, ethics and on developing the skills and capabilities of our employees.

1. Leading positions in our markets

Cobham is focused at the tier 2 (subsystems) and tier 3 (components) levels of its markets. It has a good understanding of the characteristics of these markets, where it focuses its technology investment.

The Group's leading market positions increases the returns it can deliver for its shareholders and ensures it can continue to invest in technology and in its employees.



Cobham in action
Cobham is marine and land launch partner with Inmarsat on the new GX satellite constellation, which will offer customers faster download speeds globally. It has developed and brought to market new SATCOM antennas and terminals in the year, with the GX system expected to enter global service early in the second half of 2015.

Investing in skills and expertise

In a technology led business, developing employee skills and capabilities are critical to the delivery of the Group's growth strategy. Cobham has continued to build on the previously increased level of investment in learning and development.

Financial characteristics

The business delivers above average trading margins in its markets. These are due to its differentiated technology and know-how and its leading positions in its specialist markets. The business also has a relatively low capital intensity and, when combined with its margin characteristics, this has resulted over time in good cash generation.

Trading margin

15.5%

(2013: 17.7%)

Free cash flow (after restructuring)

£114m

(2013: £155m)

→ See page 14 for information on our strategy and key performance indicators.

→ See page 34 for information about our risks.

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2. Investment in high value, leading edge technology and know-how

Investment in technology is crucial to Cobham maintaining and building its leading market positions. The Group's strategy of increasing technology investment, positions it well to deliver revenue growth. Cobham further increased its Private Venture (PV) investment to £97m (2013: £88m), representing 6.7% of revenue (2013: 6.2%). This included an initial contribution from Aeroflex.

PV investment

£97m

(2013: £88m)

Total R&D investment

£198m

(2013: £186m)

Total Group R&D investment, including customer funded projects, was £198m (2013: £186m). The increase in customer funded R&D was primarily driven by the Group's ongoing major development activity on aerial refuelling programmes.

Cobham in action

Cobham has successfully developed a suite of complex valves for use on the Space Launch System (SLS), which is NASA's first exploration-class vehicle since the Saturn V took astronauts to the moon 40 years ago. These valves perform critical functions for the main propulsion system on the SLS.

→ See page 10 for more information.

3. Leverage of existing technology products and services into new markets

The Group's technology often has application in different end markets, with emphasis on growing revenue in commercial markets. This should enable the Company to produce sustainable growth through economic cycles, as it shifts its portfolio accordingly. This organic leverage is supplemented by targeted acquisitions, which bring complementary technology with application across adjacent end markets.

Revenue from commercial markets

39%

(2013: 35%)

Cobham in action

Cobham's fuel tank inerting technology, originally a technology used in military applications, is a safety related product that decreases the probability of combustion of flammable material in aircraft fuel tanks. It is gaining increased traction in large aircraft transport markets and is being used on the Boeing 787 wide body aircraft, which is now in full rate production. It has also been chosen for the Japanese Mitsubishi Regional Jet, which is expected to have its first flight in the second quarter of 2015.

→ See page 12 for more information.

4. Programme management and operational excellence

The business has, as anticipated, substantially concluded its successful Excellence in Delivery (EiD) programme. The EiD programme has delivered significant improvements across a range of operational and customer metrics, including productivity, on time delivery, quality and within the supply chain. The Group is seeking to build on the foundation EiD provides by driving a culture of continuous improvement across its operations. The Group's EiD expertise is being leveraged into the Aeroflex integration programme.

Total efficiency savings from EiD

£100m

There has been a focus on enhancing programme and life cycle management capabilities, with a streamlined functional structure put in place, together with a clearly defined career development path. There has been increased training and development activity, as this capability is critical to the future success of the business.

Cobham in action

During the year, Cobham has set up an internal project management training academy (PPM Academy) which has received accreditation from the Association of Project Management Practitioners.

Senior project and programme managers assessed

45

(2013: nil)

→ See pages 11 and 16 for more information.

Employees receiving training

9,840

(2013: 8,898 employees)

Training completed

235,190 hours

(2013: 183,567 hours)

→ See page 41 for more information.

AT THE FOREFRONT OF INNOVATION FOR 80 YEARS

1934

Flight Refuelling Limited formed 29 October.

1934
Sir Alan Cobham completes first aerial refuelled flight to Pakistan.

1948
Cobham provides equipment and personnel to support the Berlin Airlift.

1949
USAF B-50A achieves the first non-stop flight around the world, using Cobham's air-to-air refuelling equipment.

1949
Hose and drogue method of aerial refuelling invented by Cobham.

1961
Since 1961 every US astronaut has used Cobham regulators, including Neil Armstrong, the first man to walk on the moon.

1969
Concorde's first flight completed with 200 separate Cobham assemblies.

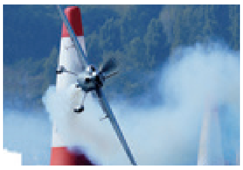
1980s
Cobham's development of the automatic preserver inflation system increased US Navy aircrew survival rates after ejection from 65% to 84%.

1982
Cobham's air-to-air refuelling equipment plays a vital role in the UK's Falklands campaign.

1994
Channel tunnel opened between France and England including Cobham communication antennas.

2008
Cobham's Sentinel contract operates maritime surveillance aircraft which patrol over 25 million square kilometres of Australian waters, flying some 3,000 missions per year.

2003
Cobham's video transmission technology delivers spectacular video from Red Bull Air Race cockpits, even at 12g and 280mph.



2006
The F-35 Joint Strike Fighter's first flight with over 100 Cobham subsystems and components, including at the heart of its radar and threat warning systems.

2009
Two Cobham businesses honoured with the Queen's award for innovation and international trade.

2010
Cobham's surveillance equipment is used to keep the lives of those attending the Oscars safe.

2012
Cobham provided high definition, live action TV transmission from the world's smallest Nano HD transmitter during the 2012 London Olympics.

© Ian Roman/Volvo Ocean Race

2013
Cobham starts its partnership with the Volvo Ocean Race, providing global SATCOM and wireless in-race coverage.

2013
Cobham's cellular and public safety communications architecture has been fitted to the Pentagon, Beijing Subway, Germany's Bundestag, The Shard in London and Burj Khalifa in Dubai.

2014
Cobham has more than 250 components on the International Space Station.

2014

Cobham celebrates its 80th anniversary.

TRUST • TALENT • TECHNOLOGY
80 YEARS
COBHAM 1934 - 2014

MOVING THE BALANCE OF THE PORTFOLIO TOWARDS ATTRACTIVE COMMERCIAL MARKETS

"We have a tremendous track record of providing an increasing dividend to our shareholders."

Full year dividend

10.65p

(2013: 9.68p)

Overview

I am pleased with the progress we have made, implementing the Group's strategy and positioning the business to deliver sustainable growth, despite the challenging market background in the year,

In the US, the defence/security market is continuing through its periodic down-cycle, albeit with the rate of decline expected to moderate. Our other global defence/security markets are mixed, with investment in Europe being held back but we are seeing growth in other parts of the world. Our commercial businesses continue to benefit from good momentum and we expect this to continue.

We are also going through a phase of increased engineering and development activity which, while it creates short term pressures for the business, will ultimately result in a stream of long term revenue from high priority programmes, as they move into production and aftermarket phases.

Over a number of years, we have successfully increased the rate of our investment in technology and this now stands at 6.7% of revenue. We have also continued to invest in the Group's employees, building on the training and development programmes that were initiated in previous years. Cobham has also joined the 5% club, an initiative which commits UK employers to hiring 5% of its intake as apprentices or graduates within five years.

We substantially completed the multi-year EiD programme in 2014, which has improved productivity, as well as delivering a fundamental improvement across a range of operational metrics. It has also delivered significant cost savings. Not only is this programme supporting us in our efforts to grow the business through consistent delivery to our customers, the savings have also given us the opportunity to increase our investment in the business. We are now using the expertise gained during the EiD implementation in the integration of Aeroflex. Building on the progress made over the last few years, we have also further moved the balance of the portfolio towards attractive and growing commercial markets. We have continued to grow our commercial revenue organically often leveraging technology from our defence/security markets into adjacent commercial markets.

Bob Murphy has transitioned the Group to a new operational structure in the year, through the organisational design project. Four realigned Sectors have replaced the four Divisions and it has strengthened the senior management and reporting structure to align it with the drive to deliver sustainable growth.

We have continued to review and align the culture of the business, with the initiation of the Great Place to Work® survey. Included in this, is a Group-wide employee engagement and feedback initiative, which had an initial response rate of over 80% of employees. Work will continue on this initiative through 2015 to build on and sustain engagement with employees. This should ensure the workforce is fully aligned with the Group's growth strategy and other objectives as well as monitoring and building the job satisfaction of our employees.

Of course, acting ethically and in compliance with all applicable laws and regulations is another fundamental cornerstone of sustainable growth and a key foundation of our culture, on which we will not compromise. This principle is enshrined within the Cobham Code of Business Conduct. We have striven to ensure that every single Cobham

See page 28 for more information on our financial performance.

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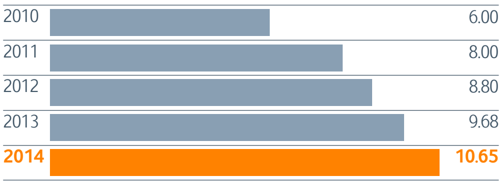
13% CAGR over ten years in dividend (pence)



employee knows what is expected of them and understands the standards to be met. We have been mandating training programmes on the Cobham Code of Business Conduct for a number of years and I am pleased to say that we have achieved 100% employee training in the year. This will continue to receive an appropriate level of senior management focus going forward.

The Board

After nine years service John Patterson, Non-executive Director and Chair of the Remuneration Committee, stood down from the Cobham Board at the conclusion of the Annual General Meeting on 24 April 2014. We are grateful for his significant contribution and support over this period. Alison Wood has taken over as Chair of the Remuneration Committee.

Also on 24 April 2014, we welcomed Birgit Nørgaard to the Board as a Non-executive Director. Birgit is a Danish national and has extensive experience in engineering related markets, including as the former Chief Executive Officer of Grontmij Carl Bro, the Danish engineering consultancy group, as well as the Chief Operating Officer of Grontmij NV, its Dutch parent company. She currently holds a number of non-executive roles in the private and public sector in the UK and overseas. Birgit has also joined Cobham's Remuneration Committee.

We have also welcomed Alan Semple to the Board on 25 February 2015. Alan is currently a Director and Chief Financial Officer at John Wood Group plc, a role which he has announced he will retire from in May 2015, after 15 years service. Alan has also been appointed to the Group's Audit Committee, so that it can benefit from his deep and extensive financial knowledge. At the conclusion of the Annual General Meeting on 23 April 2015, Alan will become Chair of the Audit Committee. He will replace Mike Wareing, who will stand down as Chair on that date but remain a member of the Audit Committee.

Dividend

The Board is recommending a final dividend for 2014 of 7.746p (2013: 7.04p). This, together with the interim dividend of 2.904p (2012: 2.64p), will result in a total dividend per share for 2014 of 10.65p (2013: 9.68p), an increase of 10% on the prior year, in line with the Group's progressive dividend policy.

The Group has a long track record of dividend growth and the Board remains committed to continuing to pay a progressive dividend. As Cobham now enters a new phase of sustainable growth, the Board has considered its future approach to dividends. It has concluded that future dividend increases should be broadly aligned with underlying earnings growth, while rebuilding dividend cover over time. This policy will give it flexibility to drive growth and maximise shareholder returns.

Conclusion

We will now focus the Group on delivering organic revenue growth, integrating Aeroflex, generating strong cash flows from operations and continuing to upgrade our programme management skills and capabilities. We will also continue to make significant investment in the portfolio to further strengthen our leading market positions

Overall, Cobham has excellent prospects based on its close customer relationships, differentiated technology and know-how, market leading positions and an increasingly strong operational foundation, enabling us to drive sustainable growth through economic cycles.

John Devaney
Chairman
4 March 2015

A CLEAR AND UNWAVERING FOCUS ON CREATING SHAREHOLDER VALUE

> "We've made good progress towards delivering our strategic objective of achieving sustainable organic growth."

PV investment

6.7%

(2013: 6.2%)

Commercial revenue

39%

(2013: 35%)

Strategy and progress overview

The Board has a clear and unwavering focus on creating value for Cobham's shareholders through leveraging the Group's innovative technology, know-how and understanding of customer requirements to build and maintain leading positions in the second and third tiers of commercial aerospace, marine, wireless and other land markets and the global defence/security market. We will deliver sustainable top and bottom line growth, relative to the markets in which we operate, while consistently generating good free cash flow.

Our strategy has two major strands. The first is an organic strategy, based on the three pillars of continuously investing in the business, improving execution and increasing customer intimacy. We invest to keep our technology, people and processes at the cutting edge in the markets in which we operate. Maintaining technology differentiation is critical to the future success of the business and it needs to be backed up with flawless execution to meet ever increasing customer expectations. This includes maintaining an efficient, competitive cost base. The combination of these pillars enables us to compete effectively and deliver organic growth.

This organic investment is supplemented by using the healthy cash flows that the business generates and its balance sheet capacity to acquire businesses that operate in the same or closely adjacent markets. This further strengthens our leading market positions and ensures our portfolio is exposed to markets that are growing organically as we move through economic cycles. Potential acquisitions must have similar operating characteristics and leading edge technology or know-how. As two thirds of the Group's portfolio is now exposed to connectivity markets, which is underpinned by strong macro growth trends, this will continue to be a focus for the Group.

Organic strategy and execution

We increased PV investment in the year to £97m (2013: £88m), representing 6.7% of revenue (2013: 6.2%).

We continued to focus this investment on our leading edge technologies where there is most opportunity for profitable growth, investing in a range of exciting new products and technologies, including the following examples:

- Development and launch of the SATCOM SAILOR 100 GX system for the marine market and the EXPLORER 5075 GX system for the land market. Shipments of SATCOM terminals are expected to benefit from the global entry into commercial service of the Inmarsat GX satellite constellation. This is currently anticipated to be early in the second half of 2015, with Inmarsat announcing the successful launch of the second of three satellites in February 2015;
- The Semiconductor Solutions business, formerly part of Aeroflex, has successfully developed and brought to market a 90nm application specific integrated circuit for use in space, delivering size and weight benefits to its customers together with reduced power requirements;
- The Mission Systems Sector has developed its on-board oxygen system (OBOGS), which has been used for military applications for the general and business aviation markets. First revenue is expected in 2015. OBOGS has a number of advantages over alternative technologies including being cheaper to use as well as being lighter. It also has additional safety features;

- Within the Advanced Electronic Solutions Sector, the technology focus within its defence businesses has been on developing smaller and lighter products which use less power, provide enhanced mission effectiveness and which are less costly for customers. These are for priority defence applications including: ship protection, the next generation of radar and contested airspace applications.

Total Group R&D investment, including customer funded projects, was £198m (2013: £186m). The increase in customer funded R&D was primarily driven by ongoing major development activity on aerial refuelling programmes. Total Group R&D investment, including customer funded projects, was £198m (2013: £186m). The increase in customer funded R&D was primarily driven by ongoing major development activity on aerial refuelling programmes which, as they move through this phase, tend to generate lower margins and so dilute the Group's overall margin performance. In February 2015 we also announced we would make a one-off provision of £15m on these programmes, addressing cost escalation. However, these are critical programmes and we are confident that they will lead to significant future streams of production and aftermarket revenue over an extended timeframe.

In addition to our investment in our core technology capabilities we have, as anticipated, substantially concluded the successful multi-year EiD programme. EiD has succeeded in significantly reducing the cost base through a targeted programme of site integrations and rationalisations. These, when combined with business improvements, have enabled us to deliver the anticipated £24m of year-on-year efficiency savings in the year, bringing total annualised benefits to £100m since the programme was launched in 2010. These savings have, in part, been used to significantly increase organic investment, including in technology and in skills and capabilities.

The Group has transitioned to a new operational structure in the year, through its organisational design project, with four realigned Sectors replacing the four Divisions and it has strengthened its senior management and reporting structure to align it with the drive to deliver sustainable growth.

Capital deployment strategy

In the context of maintaining a robust balance sheet, which enables recurring business commitments to be met, including external financing and pension obligations, the key elements of our capital deployment strategy are:

- To prioritise investment in the business for organic growth;
- To maintain a progressive dividend policy; and
- To utilise the balance sheet and strong cash generation to acquire businesses that reinforce our differentiated technology and know-how, in particular where these enable us to leverage our capabilities into adjacent, growing commercial markets.

Acquisition of Aeroflex

In 2014, as well as continuing to meet our strategic objectives in respect of organic investment and dividends, we have increased our exposure towards growing, commercial markets through the acquisition of Aeroflex, for an enterprise value of approximately US$1,460m. In total, some 70% of Aeroflex's revenue is generated from commercial markets. Consistent with Cobham's strategy, Aeroflex's revenue is connectivity focused, further increasing exposure to the growing demand for data, connectivity and bandwidth, so that approximately two thirds of the Group's revenue is now focused in this area. Aeroflex is a leading global provider of radio frequency and microwave subsystems and components for critical and harsh environments. It also operates in high end, technology-led segments of the wireless and communications market, having a leading position in the provision of technology for specialist wireless infrastructure testing applications. Aeroflex has similar revenue growth potential to Cobham, with similar trading margins and cash generation characteristics.

We have been pleased with the trading performance of Aeroflex in the period since completion, which has been in line with the Board's plan. Aeroflex also brings substantial revenue and cost synergy opportunities. Its microelectronics business has been combined with Cobham's Advanced Electronic Solutions Sector, so that they are now being managed together, having considerable complementary technology and customer cross-selling opportunities. There are also opportunities for synergy between Aeroflex's wireless business and existing Cobham businesses, including Axell Wireless. These businesses have also been placed under common management as part of Cobham's Communications and Connectivity Sector.

We remain encouraged by the overall potential scope for realising synergies from combining the companies, targeting some US$85m on an annualised, run rate basis, for a total cost of US$215m. Approximately 60% of the benefits and 70% of the costs are expected to be in the first three years of ownership. The integration of the two businesses has got off to a good start, with good early progress on delivering the underlying synergies identified including a significant reduction in central costs, the commencement of supply chain initiatives and the announcement of the first major physical site integration.

Conclusion

In 2014 we made significant progress on the delivery of Cobham's strategic objectives. Completing the Aeroflex acquisition was a key highlight, increasing the Group's exposure to growing commercial markets, and Aeroflex's post acquisition trading and integration has been in line with the Board's expectations. This progress enhances Cobham's position as a technology company with exciting prospects based on its close customer relationships, differentiated technology and know-how, market leading positions and an increasingly strong operational foundation.

Overall we have made significant progress on the delivery of our strategic objectives in 2014 and, as anticipated, Cobham remains well positioned to deliver mid-single digit organic revenue growth from 2015.

Bob Murphy
Chief Executive Officer
4 March 2015

Strategic Overview

Our strategic priorities allow us to:

Deliver growth
Generate free cash flow
Create shareholder value

The seven strategic priorities that enable us to return to sustainable growth are:

1. Innovation with insight
2. Focus on components and subsystems
3. Leverage our technology
4. Focus on M&A
5. Operational excellence
6. Programme execution
7. Invest in skills and capabilities

➔ See page 14 for more information.

➔ See page 28 for more information on our financial performance

For further information visit us online at **www.cobham.com**

OUR TECHNOLOGY IS USED GLOBALLY IN DEFENCE AND COMMERCIAL MARKETS

Commercial organic growth

5%

(2013: 7%)

Competitive position within our markets

Cobham operates in three broad end markets; commercial, which comprises aviation, marine and wireless and other land markets; US defence/security and non-US defence/security. The proportion of Group revenue attributable to each end market is shown in the charts below.

Commercial markets

Specialist commercial markets now make up the largest of the Group's end markets, with Cobham successfully growing its presence over a number of years. Cobham's primary commercial markets are marine SATCOM, commercial aerospace, including large transport aircraft, regional and business jets, helicopters and smaller aircraft, and wireless and other land markets. Across these markets it specialises in communications, in particular supplying products and services for environments where the communication solution represents a technology challenge. In addition, Cobham has significant and growing positions in specialist aviation services, largely in Australia.

Driving long term demand in Cobham's main commercial markets is the increased need for bandwidth, as the desire to communicate increases, increasingly stringent safety requirements and the demand for smaller and lighter products, which bring operational benefits for customers. In addition, in commercial aerospace markets Cobham benefits from increasing aircraft production. In its specialist aviation services markets, Cobham benefits from the increased outsourcing of airline flying operations and growth in labour demand from the natural resources industry. This is aligned with a reputation for performance, for exceptional safety standards and for the ability to provide differentiated capabilities and know-how.

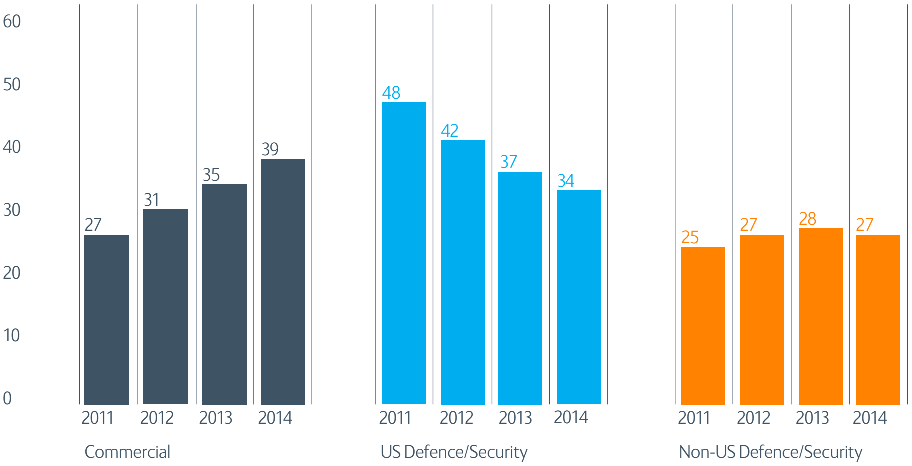
Cobham leverages technology used in defence/security markets into new commercial applications. For example, the Group's fuel tank inerting technology was originally used on military programmes. This safety related product decreases the probability of combustion of flammable material in aircraft fuel tanks. It is gaining increased traction in commercial large aircraft transport markets and is being used on the Boeing 787 wide body aircraft, which is now in full rate production. It has also been chosen for the Mitsubishi Regional Jet, which is expected to have its first flight in the second quarter of 2015 and there are also airline retrofit opportunities beginning to become available.

Defence/security organic growth

(5)%

(2013: (9%))

End markets (% of revenue)



US defence/security market

The US defence/security market is continuing through its periodic down-cycle with continuing pressure on budgets due to high levels of Government indebtedness. The Group believes there are indications that the investment accounts, which comprises spending on procurement and research, development, testing and evaluation, are beginning to stabilise with the adverse impact on Group revenue slowly moderating.

However, there remains residual risk and uncertainty in this market, with the potential for further significant disruption and cuts in 2016 unless timely action is taken by Congress to avoid the mechanism of Sequestration that is currently mandated.

The Group's leading edge technology, strong programme positions on high priority platforms and its strategy of increasing technology investment positions it well to deliver revenue growth once the down-cycle is completed. It is currently involved in the development or low rate initial production phases of a number of attractive long term programmes, including the US Air Force KC-46 aerial refuelling aircraft, the F-35 Joint Strike Fighter and the next generation Air and Missile Defence Radar (AMDR) upgrade programme for the US Navy, among others.

The KC-46 development programme took an important step forward just before the end of 2014 with the completion of its first flight. Subsequent flights are scheduled for 2015, which will include testing of its aerial refuelling capability, and the Group remains on track to participate in this.

Cobham's focused investment in priority areas of technology has continued to deliver results, with the Group increasing its ship set on the F-35 aircraft by US$100,000 in the year, as the customer looks to implement capability enhancements. The increased ship set includes unique integrated microwave assemblies which will be used to upgrade the aircraft's electronic warfare system.

Non-US defence/security markets

The generally subdued economic situation and outlook and the high levels of public indebtedness in many countries, have continued to hold back defence and security investment in Europe, notwithstanding increased internal and external security tensions. However, certain countries, including in Eastern Europe, are starting to increase their defence budgets, in part driven by the current politically uncertain environment.

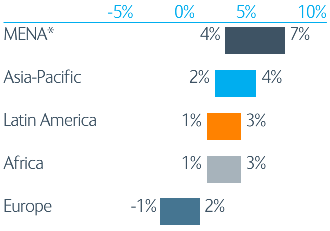
Elsewhere, particularly in Asia, the Middle East, Australia and parts of South America, defence investment has continued to increase. This is driven by local and regional security tensions and underpinned by economic growth.

Cobham's revenue in non-US defence/security markets will be driven in particular by growth in outsourced maintenance and training for fixed and rotary wing aircraft and increased production on non-US aerial refuelling programmes, primarily the Airbus A400M, the Airbus A330 MRTT and the Embraer KC-390 aircraft. Cobham also benefits from export orders, won by larger US and non-US defence companies in accessible markets around the globe, as its critical components and subsystems are used across a wide and diverse range of platforms and programmes.

During the year Cobham demonstrated significant progress in its non-US defence/security market, including the award of a significant new contract with the Australian Maritime Safety Authority for airborne search and rescue, with flying commencing in 2016. This contract has a potential value of AUS$700m over its life, if all options are exercised.

The aerial refuelling market, in which Cobham has a leading position, has also remained active with Qatar, Singapore and France all announcing in 2014 that they have chosen to purchase the Airbus A330 MRTT aircraft. In addition, the Brazilian air force has ordered 28 KC-390 aircraft, with this aircraft successfully undertaking its first flight during February 2015.

Global defence expenditure growth estimates

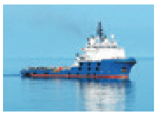


* MENA – Middle East and North Africa
Sources: Cobham analysis, SIPRI, IMF, Strategic Defense Intelligence

Main commercial end markets

Specialist Aviation Services

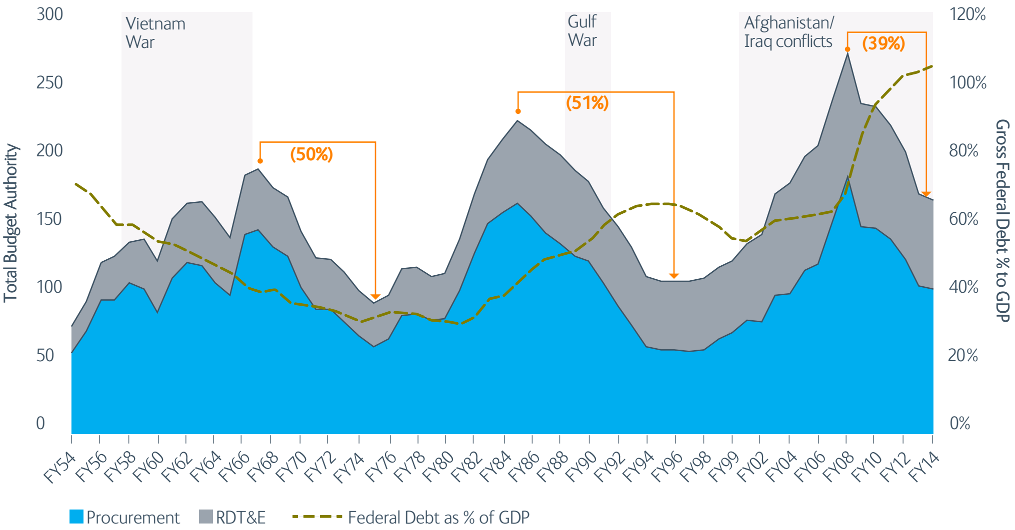
Aerospace



Marine SATCOM

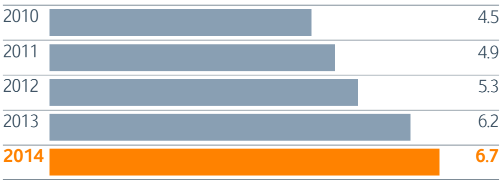
Wireless Communications

US Defence/Security market cycles (US$bn)



Sources: Cobham analysis, DoD FY15 Green Book, DoD, OMB

DELIVERING AGAINST OUR STRATEGIC PRIORITIES …

Strategic priority	**1. Innovation with insight**	**2. Focus on components and subsystems**
Description	Improve understanding of our markets and customers' future needs, aligning private venture investments with these priorities.	Remain focused on the second and third tiers of global defence/security markets, and commercial aerospace, marine and wireless and other land markets.
Importance	Our technology is a key differentiator in our markets, and is intrinsic to the future success of the business. The ability to maintain a close relationship with the customer, so as to understand the customer's needs and develop products and services in line with these needs is equally critical.	Our competitive edge is in the tier 2 (subsystems) and tier 3 (components) segments of our markets, where we make significant investment in technology. This investment, combined with our knowledge of the markets and close customer relationships, give us a competitive edge.
Progress	**Group PV investment** (% of revenue, excluding CAvS) 	**Group revenue** (£m) 
Commentary	**Target:** 6% Following the significant increases in prior years, the rate of technology investment in the existing business has been maintained, in addition to a first time contribution from the former Aeroflex businesses, which has increased the Group's overall rate of investment.	**Target:** mid-single digit organic revenue growth from 2015 Total Group revenue increased 3%, with a good contribution from acquisitions, including a strong initial contribution from Aeroflex, which completed in September 2014. Partially offsetting this was a significant adverse foreign currency translation impact. Organic revenue was 2% lower overall.
	See page 10 for more information.	See page 28 for more information.

See page 34 for more information on our risks.

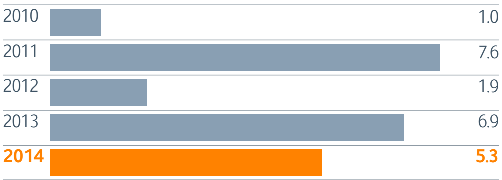
For further information visit us online at **www.cobham.com**

3. Leverage our technology

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

Our technology often has applications across different markets, with the emphasis on growing our commercial revenue, to produce sustainable growth through economic cycles, bringing more balance to the portfolio. This organic rebalancing is supplemented by acquisitions, to bring similar but differentiated technology in adjacent end markets.

Commercial revenue growth (%)



In 2014 commercial revenue growth of 5% was in part driven by a strong performance from the SATCOM business, which delivered good growth in marine and aerospace markets. The Aviation Services Sector also showed good growth during the year in its outsourced aviation services business and in its regional services business, although commercial growth moderated in the second half.

See page 28 for more information.

4. Focus on M&A

Use mergers and acquisitions (M&A) to shift the emphasis of the portfolio ahead of market movements to remain exposed to faster growing markets.

M&A is used as a supplement to our organic technology investment. It brings the potential for technology and revenue synergy as well as efficiency savings. M&A is funded from the Group's cash flows and balance sheet and is subject to the Group's rigorous and disciplined financial investment criteria.

Investment in M&A

£897m

(2013: £152m)

During the year, Cobham invested in the acquisition of Aeroflex, for an enterprise value of approximately US$1,460m. The business has brought access to attractive commercial markets and technology. It is expected to bring significant cost savings and its complementary technology brings good potential for revenue synergies.

See pages 18 and 19 for more information.

Aeroflex acquisition

In 2014 Cobham acquired Aeroflex, a leading provider of high performance subsystems and components.

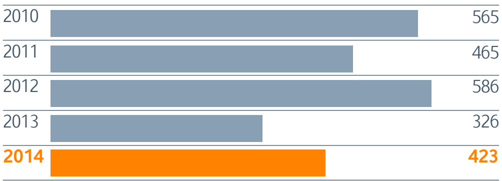
See page 18 for more information.

Key performance indicator used by management.

£ Used as a measure for determining executive remuneration.

For definitions, see page 128.

… DRIVES FREE CASH FLOW AND THE CREATION OF SHAREHOLDER VALUE

Strategic priority	**5. Operational excellence**	**6. Programme execution**
Description	Drive a culture of continuous improvement from an integrated, streamlined business, building on the foundation provided by EiD.	Improve programme execution across customer and PV funded projects to achieve sector leading customer delivery and operational performance.
Importance	The Group's multi-year operational excellence initiative, EiD was substantially completed in the year. It has delivered significant savings and operational and customer benefits which underpin the Group's growth targets. The Group is seeking to build on the foundation it provides by driving a culture of continuous improvement across its operations.	Programme management is a core competency, which supports the Group's growth objective by ensuring that programmes are delivered to customers on time and on budget, in line with quality and performance expectations.
Progress	**Staff safety – major accident incident rate***  Operational excellence is one of a number of tools with which we drive, improve and monitor our health and safety performance.	**Employees trained at Cobham's PPM academy** 185 (2013: nil)
Commentary	**Target:** 400 Cobham had no fatalities in 2014. There was an increase in the major accident incident rate. This represented 45 work place injuries, of which 21 occurred in the Aviation Services Sector. The Group will continue to review its controls to ensure health and safety is being fully addressed.	Significant work has continued to enhance the Group's programme and life cycle management capabilities, with a streamlined functional structure put in place, together with a clearly defined career development path. The increase in programme management training and development demonstrates the Group's commitment to enhancing its capabilities.
	→ See pages 11 and 42 for more information.	→ See page 5 for more information.

* per 100,000 employees

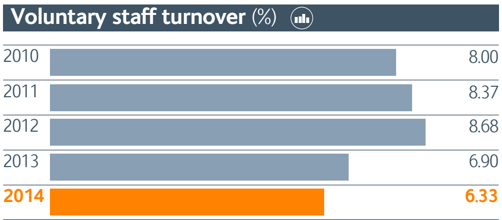
See page 34 for more information on our risks.

For further information visit us online at **www.cobham.com**

7. Invest in skills and capabilities

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

In a technology led business, it is essential that we have the right skills and capabilities in place to deliver future growth. We have continued to invest in learning and development, with particular focus on strategic workforce planning and the development of a high performance culture.



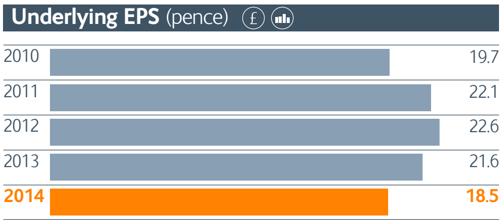
Target: <10% 📊

Voluntary staff turnover data demonstrates how successful we are in retaining essential skills and capabilities in the businesses, in which we invest to enhance our execution and performance.

See page 41 for more information.

The Group is investing in its seven priority areas to drive improvement in its financial metrics

Earnings



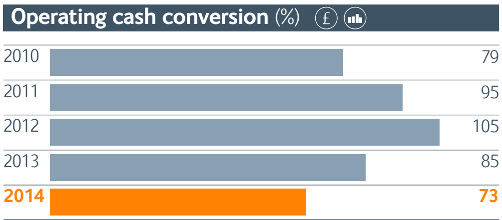
Target: high single digit growth

18.5p

(2013: 21.6p)

Underlying EPS was 14% lower than the prior year, reflecting lower trading profit and a higher share count, following the equity placing in May. Adverse foreign currency translation also impacted EPS by 3% pts.

Cash generation



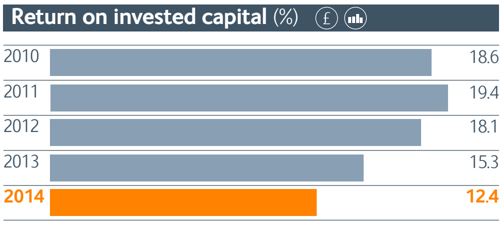
Target: >80%

73%

(2013: 85%)

The Group generated £208m (2013: £269m) of operating cash flow. Cash conversion was lower than the prior year principally due to a cash outflow from working capital, from an increase in receivables and inventory.

Shareholder value



Target: >10%

12.4%

(2013: 15.3%)

Return on invested capital was lower than the prior year due to the Aeroflex acquisition, which is expected to beat the Group's cost of capital in the third year of ownership and also due, in part, to the lower trading profit generated.

📊 Key performance indicator used by management.

£ Used as a measure for determining executive remuneration.

For definitions, see page 128.

AEROFLEX: INCREASING OUR EXPOSURE TO ATTRACTIVE, COMMERCIAL MARKETS

Microelectronic Solutions designs and manufactures high reliability circuits for growing medical markets, for use in scanners and ultrasound.

The acquisition of Aeroflex

Overview

Aeroflex is a leading global provider of high performance subsystems and components. The acquisition builds on Cobham's connectivity strategy, following the 2012 Thrane & Thrane SATCOM acquisition and the 2013 Axell in-building wireless acquisition.

Approximately 60% of Aeroflex revenue is focused on microelectronics technology, typically for demanding and harsh environments including defence, in space, energy and medical applications. The remaining 40% of its revenue is in technology led segments of the wireless and communications market for specialist test applications. This revenue is predominantly generated in commercial end markets. The business has made significant investment in R&D, with the recent launch of a number of new and innovative technologies and it has good potential for future revenue growth.

Why we bought Aeroflex

The acquisition of Aeroflex is consistent with Cobham's strategy of having leading positions in attractive, high technology led commercial segments. Aeroflex and Cobham have complementary products and customers in microelectronics, with good potential to generate revenue synergies. Combining the Cobham and Aeroflex businesses will also generate an estimated US$85m of cost savings, driven by the significant physical overlap in the US.

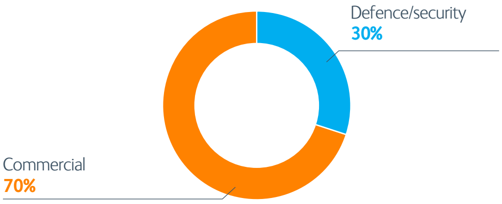
Aeroflex enterprise value

US$1.5bn

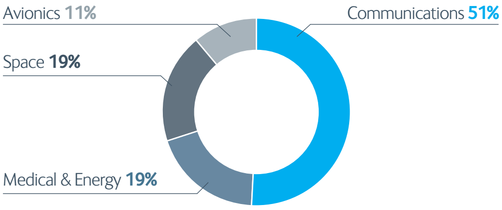
Commercial revenue

70%

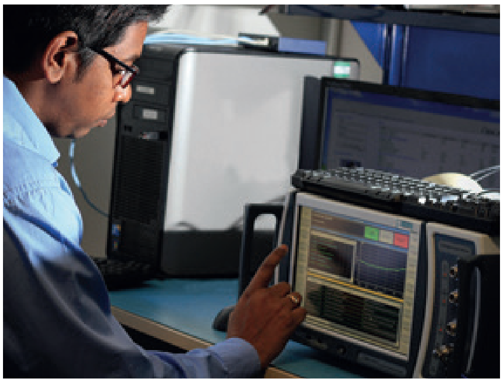
Markets (% of revenue)



Analysis of commercial markets (%)



Company information as of year end 30th June 2013.

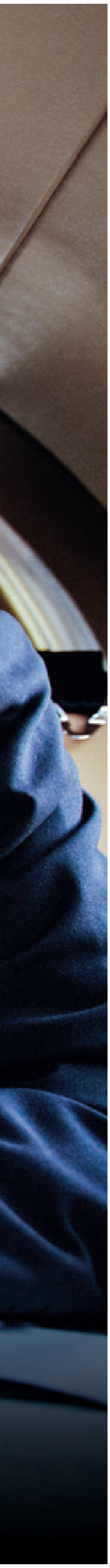


The 7100 digital radio test set is a single box solution for protocol performance and radio frequency testing of 4G high speed data cellular devices and components.

For further information visit us online at **www.cobham.com**

FOCUSED ON THE INCREASING DEMAND FOR DATA, BANDWIDTH AND CONNECTIVITY

From entertainment to safety, reliable SATCOM is vital on any aircraft. Cobham AVIATOR SATCOM systems are easy to install and provide simultaneous high speed data and high quality voice for a range of applications including: email; internet browsing; voice calls; data transmission; smartphone connectivity and streaming video.



Highlights

Provides aircraft and in-building communications equipment, law enforcement and national security monitoring solutions, satellite communication equipment for land, sea and air applications, specialist composite products for military and commercial applications, and test and measure instrumentation for radio frequency, cellular communications and wireless networking.

Revenue

Total revenue increased £19m, due to an initial part year contribution from the former Aeroflex Test Solutions business and the full year contribution from Axell. This was partially offset by a significant adverse impact from foreign currency translation of £26m. There was an organic revenue decline of 6%, driven by lower defence/security revenue.

The Sector saw organic revenue growth from its commercial markets, with a good performance from SATCOM in its marine and aerospace markets. In addition, there was revenue growth from increased volumes of radio management systems and antennas into the large transport and regional jet markets. Within defence/security markets there continued to be weakness in many of its shorter cycle land oriented businesses, particularly for counter-improvised explosive device and surveillance products.

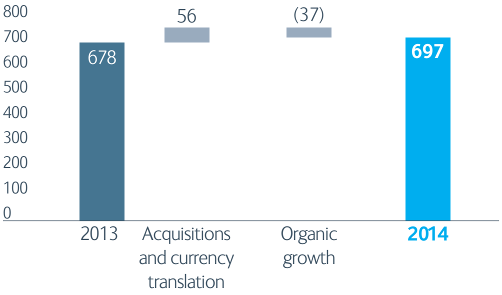
Trading profit

The Sector's trading profit increased by £3m largely due to the contribution from Aeroflex and the incremental contribution from Axell. Trading profit also benefited from increased volumes in commercial markets and from proactive implementation of rationalisation and other cost reduction activities. However, these positive factors were offset by lower volumes in defence/security markets and by the adverse impact from foreign currency translation. The Sector's trading margin was unchanged at 17.0%.

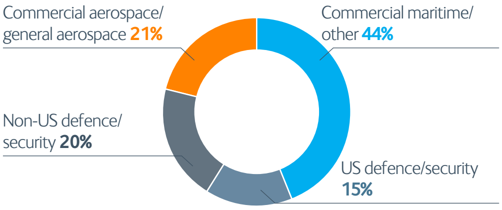
Developments impacting the future

- Delivery of the first Airbus A350 wide body aircraft for which Cobham supplies standard fit content including audio and radio management systems and antennas;
- The TM/E500 secured a market leading position in the 4G Radio Access Network wireless load test market, winning new customers in the US, Australia, France, China and South Korea;
- Launch of the SAILOR 100 GX SATCOM marine system with the land based EXPLORER 5075 GX also completed. This is ahead of the global entry into commercial service of Inmarsat's new, next generation GX satellite constellation, early in the second half of 2015.

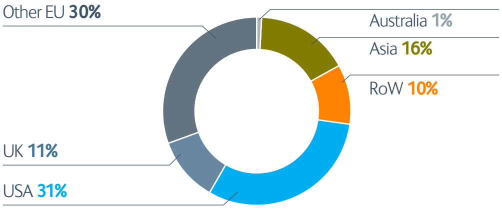
Sector revenue (£m)



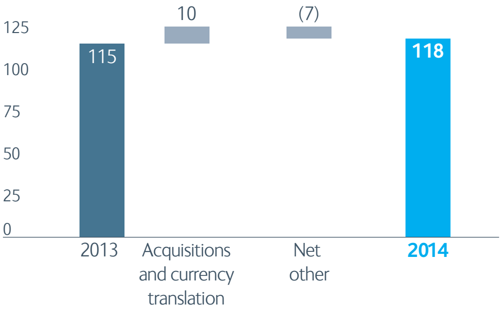
Revenue by market (%)



Revenue by geography (%)



Sector trading profit (£m)



Revenue growth

3%

% of Group revenue

38%

© Amory Ross/TEAM ALVIMEDIC/Volvo Ocean Race

Cobham is an integral part of the Volvo Ocean Race 2014-2015, with both its SATCOM and Surveillance businesses being partner sponsors.

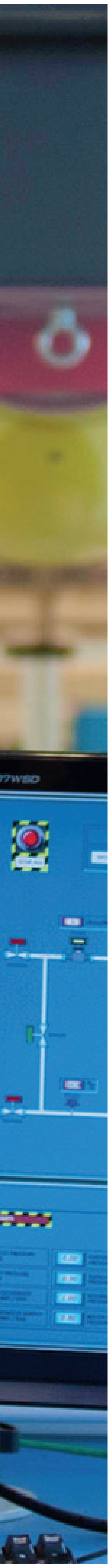
Cobham SATCOM has provided hardware for every boat, including safety and radio systems. Cobham Surveillance is providing the Volvo Ocean Race with broadcast products enabling live feeds from on-board and in the air, including drones fitted with our SOLO7 Nano Transmitter, the smallest HD transmitter in the world, providing unique coverage of the race villages.

www.cobham.com/volvo-ocean-race

For further information visit us online at **www.cobham.com**

LEADING CAPABILITIES IN AERIAL REFUELLING AND SURVIVAL SYSTEMS FOR EXTREME ENVIRONMENTS

State of the art aerial refuelling test facility
Cobham's state of the art aerial refuelling test facility provides the crucial function of testing the performance of Cobham's refuelling pods which are being developed for the latest generation of tanker aircraft. It provides a realistic simulation in which pods can be tested in a in-flight environment with their hoses fully trailed.



Highlights

Provides safety and survival systems for extreme environments, aerial and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft, and provides remote controlled robots and fully equipped bomb disposal vehicles for homeland security and military.

Revenue

Total revenue was lower by £24m, including an adverse foreign currency translation impact of £12m, primarily due to the US dollar, and an organic revenue decline of 4%.

The organic decline was driven by a lull in production of the KC-130 tanker aircraft in the US and lower production and aftermarket activity in support of the UK Future Strategic Tanker Aircraft programme's Airbus A330 MRTT aircraft. This was partially offset by increasing customer funded engineering and development revenue on next generation aerial refuelling programmes, principally the Boeing KC-46 and the Airbus A400M.

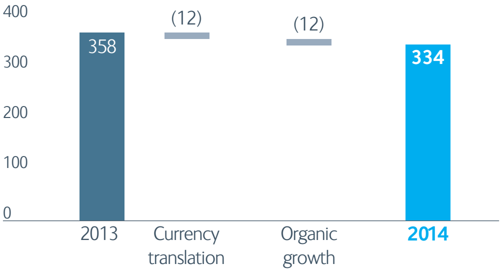
Trading profit

The Sector's trading profit decreased to £36m. This was in part due to an unfavourable mix in the aerial refuelling business driven by lower production and aftermarket revenue, which was partially offset by increased lower margin engineering and development revenue. In addition there was an adverse impact from a provision of £15m on aerial refuelling development programmes. Reflecting the above factors, the trading margin decreased to 10.8%.

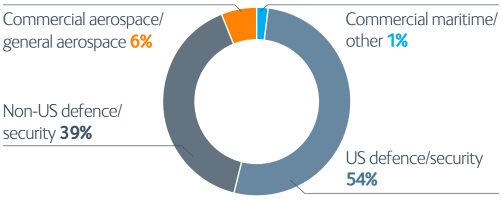
Developments impacting the future

- Following Qatar, Singapore and France announcing they had selected the Airbus A330 MRTT aircraft, additional aerial refuelling production orders are expected;
- The Brazilian Air Force signed a contract for 28 Embraer KC-390 aircraft and a new multi-year order was received from Lockheed Martin for the KC-130 tanker;
- New orders for weapons carriage and release products received for the Eurofighter aircraft and for programmes for the US and for Oman. An order was also booked for a major upgrade programme on the weapons systems of the Indian Air Force Jaguar aircraft;
- Fuel tank inerting system orders and revenue continue to build for commercial aircraft, most notably for the Boeing 787 and the Mitsubishi Regional Jet programmes. This market remains attractive with several further sizeable opportunities to be concluded in 2015, as well as significant airline retrofit opportunities.

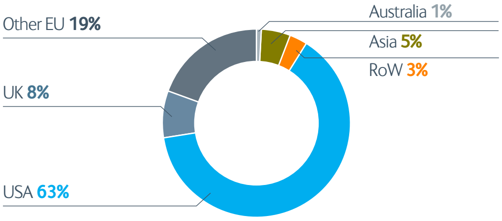
Sector revenue (£m)



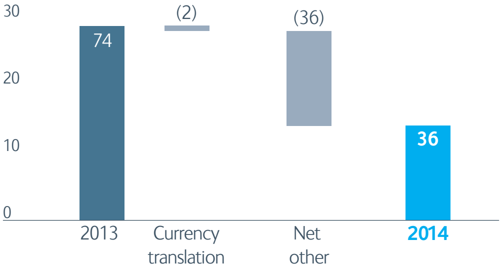
Revenue by market (%)



Revenue by geography (%)



Sector trading profit (£m)



Revenue growth

(7%)

% of Group revenue

18%

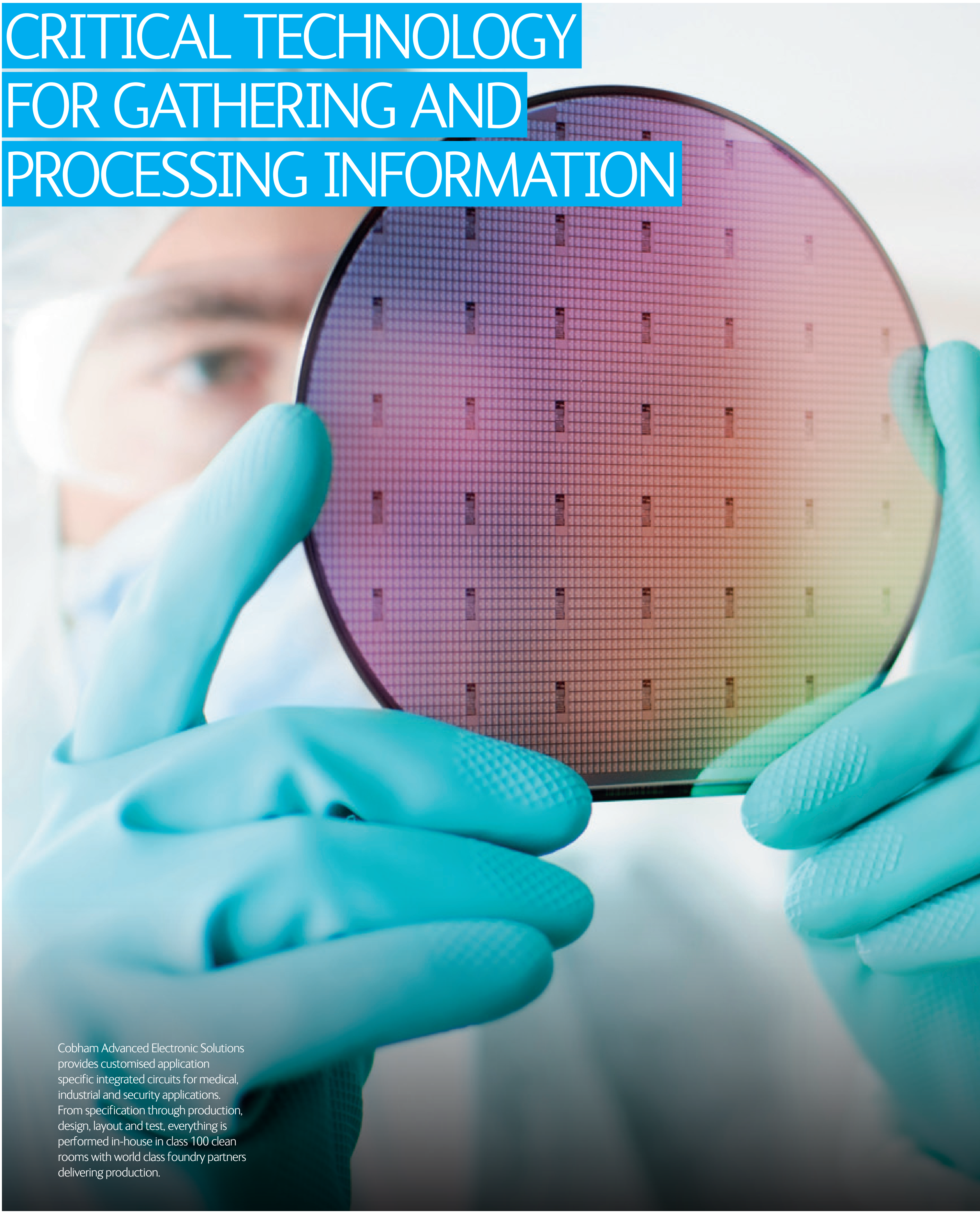
NASA Silver Snoopy Award for Cobham employee

A Silver Snoopy Award was presented by NASA astronaut Mike Foreman to Cobham design engineer Richard Banks to recognise his outstanding contributions to the quality, safety and reliability of Cobham products on NASA's next generation rocket, the Space Launch System, which will be the most powerful rocket ever developed.

Rich's Silver Snoopy pin was flown aboard STS-129 (Atlantis) on 16 November 2009, returning to earth on 27 November 2009.

For further information visit us online at **www.cobham.com**

CRITICAL TECHNOLOGY FOR GATHERING AND PROCESSING INFORMATION



Cobham Advanced Electronic Solutions provides customised application specific integrated circuits for medical, industrial and security applications. From specification through production, design, layout and test, everything is performed in-house in class 100 clean rooms with world class foundry partners delivering production.

Highlights

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

Revenue

Total revenue increased by £38m due to an initial part year contribution from the former Aeroflex Microelectronics Solutions business, which was partially offset by a significant adverse currency translation impact from the US dollar of £19m. Organic revenue was 1% lower, a good performance notwithstanding the ongoing challenging conditions in US defence/security, its primary market.

Organic revenue was impacted by reduced revenue from a number of mature production programmes, including for legacy electronic warfare and space related programmes, and lower revenue from foreign military sales. These were mostly offset by growing revenue from next generation electronic warfare and radar programmes such as the Surface Electronic Warfare Improvement Programme and Joint Strike Fighter.

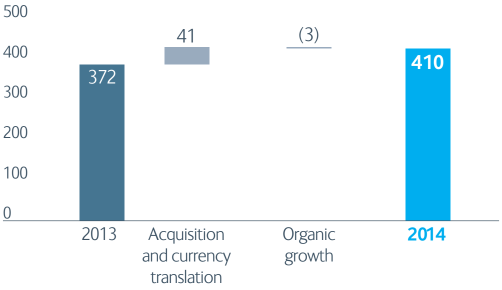
Trading profit

The Sector's trading profit increased by £1m, largely due to the contribution from Aeroflex, although there was also an adverse impact from foreign currency translation. Trading profit was also impacted by the lower volumes from mature production programmes, which tend to offer the Sector some of its highest margins. The margin decreased to 15.6%, also reflecting the factors above.

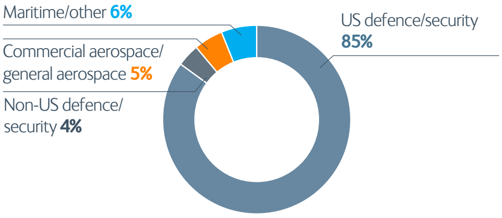
Developments impacting the future

- Cobham was part of the winning Raytheon team on the US Navy AMDR programme, with work already underway. A significant programme in its own right, the win has also opened up opportunities on other programmes, leveraging Cobham's leading edge digital receiver/exciter technology, with at least one significant radar award scheduled for 2015;
- The Motion Control business, formerly part of the Aeroflex Microelectronics Solutions business, has won an award on the Joint Polar Satellite System-2 Advanced Technology Microwave Sounder, a next generation weather forecasting satellite. It has also won awards on the Joint US National Aeronautics and Space Administration/Joint Propulsion Laboratory Mars 2020 programme, which will investigate the habitability of Mars.

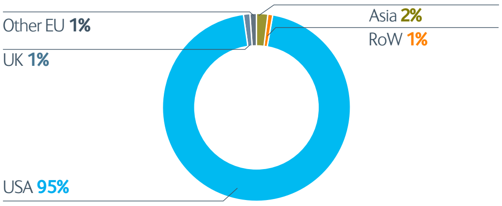
Sector revenue (£m)



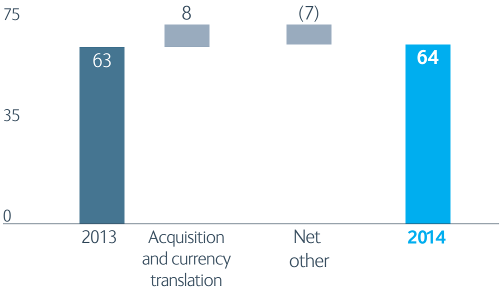
Revenue by market (%)



Revenue by geography (%)



Sector trading profit (£m)



Revenue growth

10%

% of Group revenue

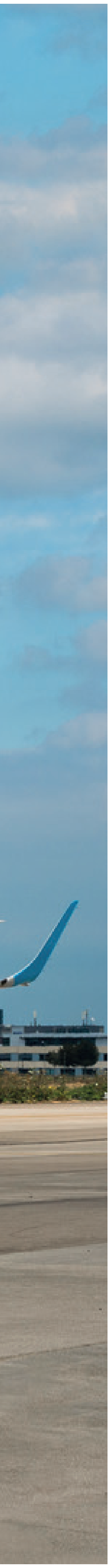
22%

F-35 Lightning II
The Lockheed Martin F-35 Joint Strike Fighter has more than 100 Cobham components, including radar and self-protection modules as well as pilot personal safety equipment.

For further information visit us online at **www.cobham.com**

PROVIDING SPECIALIST AVIATION SERVICES FOR MILITARY AND CIVIL CUSTOMERS

The Embraer 190 is a new generation of fuel efficient aircraft that sets a benchmark for dedicated charter services in Australia. It also reduces time spent in the air and provides a new level of passenger comfort.



Highlights

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

Revenue

Total revenue increased by £47m, due to strong organic growth of 8% and the full year impact of the FBH acquisition. Partially offsetting these was a significant adverse foreign currency translation impact of £27m from the Australian dollar.

There was good organic growth in the commercial business, particularly driven by increased revenue from Qantas, as the expanded contract which commenced in the second half of 2013 became fully operational. In addition, there was increased flight frequency in the Australian natural resources market. This included a short term contract expansion with Chevron to operate a jet shuttle between Karratha and Barrow Island, and a new contract with Goldfields Australia to provide fly-in fly-out (FIFO) services using jet aircraft equipped with Cobham's unique gravel kit capability for unsealed runways.

In defence/security markets, the Sector also showed good organic revenue growth, including a new contract to provide maintenance support to the Qatar Emiri Air Force fleet of AW139 helicopters and an initial deployment undertaken relating to the new operational readiness and training contract with the Royal Saudi Air Force.

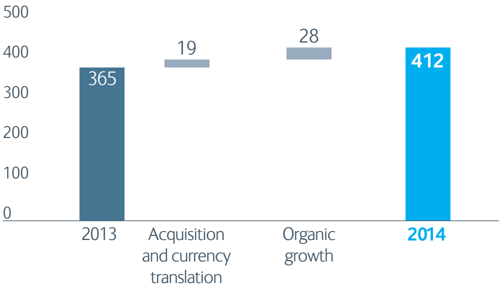
Trading profit

The Sector's trading profit increased by £7m, due to the incremental contribution from FBH and from organic growth. This was partially offset by an adverse impact from foreign currency translation. The trading margin was broadly unchanged at 13.2%.

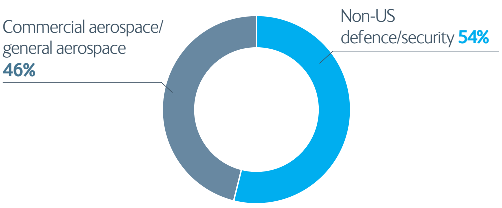
Developments impacting the future

- Cobham has been selected to provide search and rescue services to the Australian government, under a base 12-year AUS$640m contract using long range jet aircraft that will be specially modified for the role at Cobham's Adelaide facility. Flying operations will begin in the second half of 2016;
- The Chevron FIFO contract in Australia was extended until 2020, and will include the introduction of the new Embraer 190 jet aircraft type, the first of its type to be used in this market.

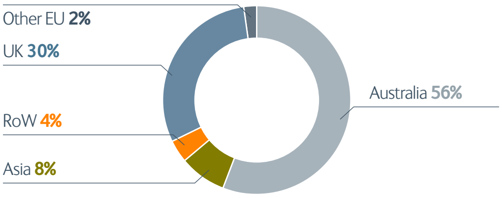
Sector revenue (£m)



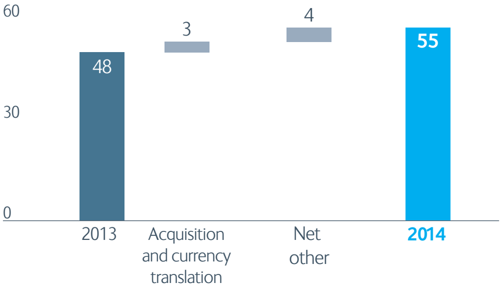
Revenue by market (%)



Revenue by geography (%)



Sector trading profit (£m)



Revenue growth

13%

% of Group revenue

22%

In 2014 Cobham secured the Australian Maritime Safety Authority contract with the Australian government to provide an airborne search and rescue capability for 12 years from 2016, with aircraft modification and mobilisation activity commencing in December 2014.

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ENCOURAGING ORDER INTAKE WITH BOOK-TO-BILL OF 1.03 TIMES

> "The Group's primary focus in 2015 remains the integration of Aeroflex and optimising cash generation."

Group revenue increased by

3%

(2013: 2%)

Total R&D investment

£198m

(2013: £186m)

Summary of underlying results

£m	2014	2013
Revenue	**1,852**	1,790
Trading profit	**287**	318
Trading margin	***15.5%***	*17.7%*
Underlying net finance expense	**(30)**	(30)
Underlying profit before tax	**257**	288
Underlying tax	**(52)**	(57)
Underlying tax rate	***20.3%***	*20.0%*
Underlying profit after tax	**205**	231
Weighted average number of shares (millions)	*1,108*	*1,069*
Underlying EPS (pence)	**18.5**	21.6

Total revenue increased 3% to £1,852m (2013: £1,790m), driven by acquisitions. This was partially offset by an adverse foreign currency translation impact. Organic revenue was down 2%.

The Group's trading profit was £287m (2013: £318m), which included the significant adverse impact from foreign currency translation. In addition, there was the impact from a shift in revenue mix, with lower volumes in some of the more profitable shorter cycle businesses and an increase in lower margin engineering and development revenue. There was also a one-off provision of £15m against aerial refuelling development programmes. The Group's trading margin was 15.5% (2013: 17.7%).

Total R&D investment was £198m (2013: £186m), with higher PV investment which included an initial contribution from the Aeroflex acquisition. There was also higher customer funded R&D investment, primarily driven by ongoing aerial refuelling development programmes.

Underlying EPS was 18.5p (2013: 21.6p), 14%, lower than the prior year, primarily reflecting the Group's lower trading profit and the higher share count following the May 2014 equity placing. At constant translation exchange, underlying EPS was 11% lower.

Operating cash flow was £208m (2013: £269m). Operating cash conversion was 73% (2013: 85%), which was lower principally due to a significant cash outflow from an increase in working capital. This included the impact from strong year end trading, an increase in debtors in Aviation Services due to the timing of receipts from customers on new contracts secured, and an increase associated with the Group's development contracts, including its aerial refuelling programmes.

At the year end, net debt had increased to £1,223m (2013: £453m), principally due to the acquisition of Aeroflex. Net debt/EBITDA was 2.6x.

Orders

The Group's book-to-bill ratio in the year was 1.03x, with all the Sectors having a book-to-bill ratio above 1x, except for the Advanced Electronic Solutions Sector which saw some expected awards slip into 2015. Post acquisition, the Aeroflex business also saw a book-to-bill ratio above 1x.

Order intake in the year was £1,908m (2013: £1,670m), being 20% higher at constant translation exchange. Excluding the impact of acquisitions and divestments, order intake was 10% higher than the prior year at constant currency.

The Group's order book had increased to £2.51bn (2013: £2.27bn) at the year end. Within this was £1.19bn (2013: £1.17bn) relating to the long term Aviation Services business. At constant translation exchange, the order book was 10% higher. Excluding the impact of acquisitions and divestments and at a constant translation exchange, the order book increased 2% in comparison to the prior year end, with a corresponding increase in orders due for delivery in the current year.

Revenue

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

2013	FX translation	Net acquisitions and divestments	Organic growth	2014
£1,790m	(£85m)	£173m	(£26m)	£1,852m

Total Group revenue increased by 3% to £1,852m (2013: £1,790m), including an initial contribution from Aeroflex and the full year contributions from Axell and FBH.

There was a significant adverse foreign currency translation impact of £85m, primarily due to a year-on-year strengthening in the average rate of sterling against each of the Group's principal foreign currencies. The applicable exchange rates for each of these foreign currencies are set out on page 32.

The Group's organic revenue increased by 1% year-on-year in the second half, with full year organic revenue being down 2%. Full year Group organic revenue was underpinned by good growth in commercial markets of 5%. This was driven, in part by a strong performance from the SATCOM business, which delivered good growth in marine and aerospace markets. The Group's Aviation Services business also showed good growth during the year in Australia from its outsourced airline services business and its regional services business, although commercial growth moderated, as anticipated, in the second half.

In US defence/security, there was a significant sequential organic revenue improvement in the second half. In part this was due to increased engineering and development revenue from the KC-46 aerial refuelling programme and also to an increase in revenue from some of the Group's shorter cycle businesses, including its surveillance business. Full year organic revenue in US defence/security fell by 4%, driven by a decline in demand in shorter cycle businesses which are exposed to land related markets. This included lower revenue from counter-improvised explosive device products, antennas, composites and surveillance products. There were also lower volumes from aerial refuelling production in the year.

Demand conditions also improved in the Group's non-US defence/security markets in the second half of the year. This was primarily driven by Aviation Services' rotary wing and Special Mission businesses. These delivered strong second half growth, including from the new contract to provide maintenance support to the Qatar Emiri Air Force fleet of AW139 helicopters and an initial contribution from the new operational readiness and training contract with the Royal Saudi Air Force. In the full year, non-US defence/security organic revenue was 6% lower. In part this was due to lower aerial refuelling aftermarket revenue, although this was partially offset by higher engineering and development revenue from the Airbus A400M and Embraer KC-390 tanker programmes. There was also a reduction in volumes from shorter cycle land related revenue, in particular counter-improvised explosive device and surveillance products.

Technology investment

Consistent with the Group's strategy, Cobham further increased its PV investment in the year to £97m (2013: £88m), representing 6.7% (2013: 6.2%) of revenue. This included an initial contribution from Aeroflex.

Total Group R&D investment, including customer funded projects, was £198m (2013: £186m). The increase in customer funded R&D was primarily driven by the Group's ongoing major development activity on aerial refuelling programmes. The overall level of the Group's development activity on these programmes is anticipated to moderate in 2015, as the KC-46 and A400M programmes transition into low rate initial production. These programmes are underpinned by a significant stream of long term production and aftermarket revenue.

Trading profit

The Group's trading profit of £287m (2013: £318m), included a contribution from acquisitions but also included a significant adverse impact from foreign currency translation of £13m. As the Group's business has evolved there has been a shift in the business mix which has adversely impacted trading profit.

The lower shorter cycle volumes in defence/security, particularly relating to land markets, include businesses which typically offer the Group some of its highest margins. In the aerial refuelling business, the change in revenue was from lower production and aftermarket volume partially offset by lower margin engineering and development revenue. This business also recognised a provision of £15m on its aerial refuelling development programmes. In the Advanced Electronic Solutions Sector there was lower revenue from mature production contracts.

The Group's trading margin was 15.5% (2013: 17.7%) and was adversely impacted by the change in revenue mix and the provision against aerial refuelling development programmes which are outlined above. In addition, there was also an adverse mix impact on the Group's trading margin from some of the businesses which delivered good organic revenue growth in the year, including Aviation Services and SATCOM, as these have lower than average margins for the Group.

Group statutory operating profit was £57m (2013: £159m). The most significant additional items not included in the underlying figure were an unrealised loss of £22m (2013: £2m gain) in non-hedge accounted derivative financial instruments, amortisation expense on intangible assets arising on business combinations of £114m (2013: £104m), other business acquisition and divestment related items of £41m (2013: £nil) and business restructuring relating to EiD of £28m (2013: £56m) and to the Aeroflex integration of £24m (2013: £nil).

Underlying net finance expense and underlying profit before tax

The Group's net underlying finance charge for the year was £30m (2013: £30m). The underlying net interest expense on cash and debt holdings was largely stable at £26m (2013: £27m). This reflected additional interest expense from the Aeroflex acquisition, offset by a favourable impact from foreign currency translation and the full year impact from a change in the mix of fixed and floating rate debt, which was implemented in 2013. As expected, there was a non-cash net finance charge from pension schemes of £4m (2013: £3m). In 2015, the Group's non-cash net finance charge from pension schemes is also expected to be £4m.

Organic revenue growth

Commercial

5%

(2013: 7%)

Defence/security

(5)%

(2013: (9)%)

Group

(2)%

(2013: (4)%)

Reconciliation of underlying measures

£m	2014	2013
Trading profit is calculated as follows:		
Results before joint ventures	57	156
Share of post-tax results of joint ventures and associates	–	3
Operating profit	57	159
Adjusted to exclude:		
Business restructuring – Excellence in Delivery	28	56
Business restructuring – Aeroflex integration	24	–
Movements in non-hedge accounted derivative financial instruments	22	(2)
Amortisation of intangible assets arising on business combinations	114	104
Exceptional legal costs	1	–
Impairment of goodwill	–	63
Revaluation gain arising on equity interests in FBH	–	(62)
Business acquisition and divestment related items	41	–
Total operating reconciling items	230	159
Trading profit	287	318
Underlying profit before tax is calculated as follows:		
Profit before taxation	24	127
Adjusted to exclude:		
Total operating reconciling items as above	230	159
Unwinding of acquisition related discounting	3	2
Underlying profit before taxation	257	288
Taxation charge on underlying profit	(52)	(57)
Underlying profit after taxation	205	231
Underlying EPS (pence)	18.5	21.6

The Group's underlying profit before taxation was £257m (2013: £288m).

Taxation

The Group's underlying tax rate increased to 20.3% (2013: 20.0%), from an underlying tax charge of £52m (2013: £57m). The rate is calculated by taking the underlying tax charge and dividing it by the underlying profit of £257m (2013: £288m), excluding the share of post-tax results of joint ventures of £nil (2013: £3m).

The Group's underlying tax rate increased due to the impact of the Aeroflex transaction. For 2015, it is estimated that the full year impact of Aeroflex will result in the Group's underlying tax rate increasing to 21.0%-21.5%.

Earnings per share (EPS)

Underlying EPS was 18.5p (2013: 21.6p), 14%, lower than the prior year, primarily reflecting the Group's lower trading profit and the higher share count in the year following the issuance of new shares in the May 2014 equity placing. At constant translation exchange, underlying EPS was 11% lower.

Basic EPS was 2.6p (2013: 10.7p), principally due to the impact of the items set out in the paragraphs on trading profit, statutory operating profit and underlying EPS above.

Cash flow and net debt

Operating cash flow

£208m

(2013: £269m)

Operating cash flow, which is stated after net capital expenditure but before interest and tax payments, was £208m (2013: £269m). Operating cash conversion was 73% (2013: 85%).

The Group's operating cash conversion was lower than the prior year principally due to a cash outflow of £71m (2013: £32m) from working capital, driven by an increase in debtors and inventory. The working capital outflow included an impact from strong year end trading, an increase in debtors in Aviation Services due to the timing of receipts from customers on new contracts secured, and an increase associated with the Group's development contracts, including its aerial refuelling programmes.

In addition, net capital expenditure increased to £74m (2013: £61m) largely due to Aviation Services, where there has been increased investment. This has been primarily in the aircraft fleet as a result of its recent success in winning multi-year contract awards.

Free cash flow was £114m (2013: £155m), which is stated after £32m (2013: £51m – EiD only) of EiD restructuring and Aeroflex integration costs, underlying net interest payments of £25m (2013: £29m) and tax payments of £37m (2013: £38m). Following the Group taking full control of the FBH joint venture in 2013, there were £nil (2013: £4m) dividends received from joint ventures.

Out of free cash flow the Group paid a dividend of £108m (2013: £97m). The higher dividend payment reflects the Group's progressive dividend policy and the impact of the additional 60 million shares issued in the placing, with these additional shares issued qualifying for the Group's November interim dividend payment.

Acquisition payments of £897m principally reflected the acquisition of Aeroflex, together with smaller contingent payments relating to acquisitions completed in prior years. The prior year cash outflow of £152m principally related to the acquisition of Axell and FBH and an investment in the FSTA consortium.

Cash flow

£m	2014	2013 (as restated)
Trading profit	**287**	318
Less: Share of post-tax results of joint ventures	–	(3)
Trading profit (excluding joint ventures)	**287**	315
Depreciation, amortisation and other items	**83**	61
Pension contributions in excess of service cost and administration cost	**(17)**	(14)
Increase in working capital	**(71)**	(32)
Net capital expenditure	**(74)**	(61)
Operating cash flow	**208**	269
Operating cash/trading profit (excluding joint ventures)	***73%***	*85%*
Underlying net interest paid	**(25)**	(29)
Taxation paid	**(37)**	(38)
Dividends received from joint ventures	–	4
Free cash flow before restructuring costs	**146**	206
Restructuring costs – EiD and Aeroflex integration	**(32)**	(51)
Free cash flow	**114**	155
Dividends paid	**(108)**	(97)
Acquisition payments less divestment proceeds and other related costs	**(897)**	(152)
Placing and net settlement of treasury shares	**180**	(2)
Exchange movements	**(59)**	3
Increase in net debt	**(770)**	(93)
Opening net debt	**(453)**	(360)
Closing net debt	**(1,223)**	(453)

Cash conversion

73%

(2013: 85%)

In addition, the Group received £180m (2013: paid £2m), principally related to the issuance of 60 million new Cobham shares, which in part funded the Aeroflex acquisition.

Dividends

The Board is recommending a final dividend for 2014 of 7.746p (2013: 7.04p). This, together with the interim dividend of 2.904p (2013: 2.64p), will result in a total dividend per share for 2014 of 10.65p (2013: 9.68p), an increase of 10%, in line with the Group's progressive dividend policy.

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 for financial risk management purposes only.

Debt and financing

At the year end, the Group's net debt had increased to £1,223m (2013: £453m). The increase in net debt was principally due to the acquisition of Aeroflex. There were also adverse exchange movements of £59m (2013: £3m favourable), which were in large part driven by the strengthening US dollar. It is the Group's policy to hold a significant proportion of its borrowings in foreign currency, as a natural hedge against assets and earnings denominated in that currency. At the year end, net debt/EBITDA was 2.6x.

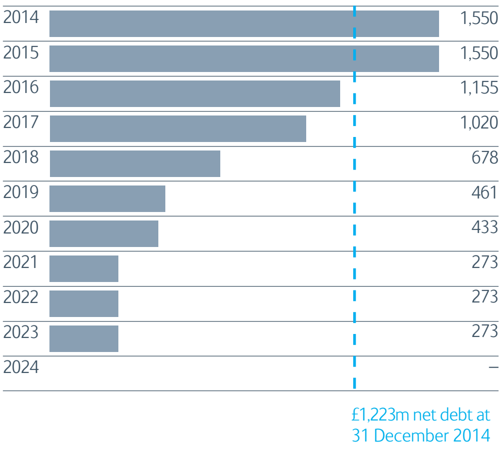
Included within net debt are cash deposits, which are primarily denominated in UK pounds and US dollars, as well as borrowings. At 31 December 2014, the Group held total cash and short term bank deposits, all with an original maturity of three months or less, of £225m (31 December 2013: £201m).

Under the terms of its borrowing facilities, the Group is required to maintain its ratio of net debt/EBITDA at or below 3.5 times and its interest cover ratio at or above 3.0 times. For covenant purposes, net debt is typically expressed at average foreign currency translation rates. EBITA, EBITDA and net interest numbers include proforma adjustments related to joint venture interests, acquisitions and divestments and restructuring.

Debt covenants

	Dec 2014	Dec 2013
Net debt (£m) – balance sheet	**(1,223)**	(453)
Net debt (£m) – average rate	**(1,159)**	(480)
Adjusted EBITDA (£m)	**440**	395
Net debt to EBITDA (not to exceed 3.5 times)	**2.6**	1.2
Adjusted EBITA (£m)	**298**	322
Net interest (£m)	**28**	27
Interest cover (not less than 3.0 times)	**10.5**	11.9

Maturity profile of Group's outstanding debt facilities (£m)



In May 2014 the Group agreed a US$1,300m acquisition finance facility to partially finance the acquisition of Aeroflex.

The Group subsequently successfully refinanced the bulk of this bridge loan facility, securing long term funding facilities for its core debt in October 2014 from the proceeds of a US$930m senior note issue. The amount and maturity of the senior notes raised are as follows:

Senior notes raised

US$930m

New private placement amount and maturity

Duration (years)	Amount (US$m)
3	**75**
5	**180**
7	**250**
10	**425**
Total	**930**

At the year end, a summary of the Group's other principal borrowings included the following:

- A US$360m multi-currency credit agreement, of which US$90m expires in October 2016 and US$270m expires in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. US$286m had been utilised at the year end;
- A EUR70m multi-currency credit agreement expiring in June 2017. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. EUR67m had been utilised at the year end;
- A DKK525m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. DKK174m had been utilised at the year end;
- An AUS$90m multi-currency credit agreement expiring in October 2018. Interest is payable at the applicable benchmark rate of the drawn currencies plus margin. AUS$59m had been utilised at the year end;
- A US$370m acquisition finance facility expiring in May 2016. Interest is payable at the applicable benchmark rate plus margin. The facility was fully drawn at the year end;
- US$1,213m of senior notes maturing in tranches in 2016, 2017, 2019, 2020, 2021 and 2024, with an average coupon of 4.4%;
- US$155m of senior notes maturing in 2017 and 2018, with an interest rate at the applicable LIBOR rate plus margin; and
- A US$75m fixed rate agreement which expires in 2031 and under which the lender has a series of put options exercisable every three years from December 2016.

In addition, the Group also undertook an equity placing in the year, raising gross proceeds of £180m from the issuance of 60 million ordinary shares of 2.5p each at a price of 300p per share. The shares issued represented approximately 5.6% of Cobham's issued ordinary share capital prior to the placing.

Foreign currency translation

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

	2014	2013
Income statement – average rate		
US$/£	**1.65**	1.57
AUS$/£	**1.83**	1.62
EUR/£	**1.24**	1.18
DKK/£	**9.25**	8.79
Balance sheet – closing rate		
US$/£	**1.56**	1.66
AUS$/£	**1.91**	1.85
EUR/£	**1.29**	1.20
DKK/£	**9.60**	8.97

Foreign exchange translation exposure arises on the earnings of operating companies largely based in the US, Europe and Australia. These are partially offset by foreign currency denominated interest costs due to the Group's policy, set out above, of generally funding acquisitions with borrowings denominated in the same currency. This provides a partial hedging of currency denominated profits for the Group.

After taking into account the partial hedging of the Group's foreign exchange translation exposure within the income statement, a combined 1 cent movement against the pound sterling in the average rate over one year for those currencies above would have a £0.9m impact on Group profit before tax in 2014. The Group estimates that the US dollar would account for approximately half of this movement. Including a proforma full year contribution from Aeroflex, a 1 cent movement in the average rate over one year for all these currencies would have an estimated £1.2m impact on Group profit before tax. The change is principally related to Aeroflex's US dollar denominated earnings.

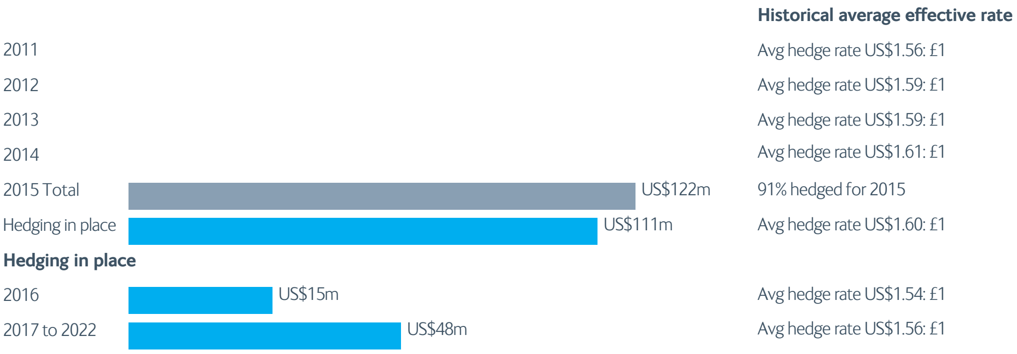
Foreign currency transaction

The Group's aim is to reduce, or eliminate whenever practical, foreign exchange transaction risk, of which the pound sterling/US dollar exchange rate is the most significant.

The chart following summarises the Group's foreign currency transaction exposure and the hedging in place to mitigate it.

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

Foreign exchange transaction exposure



2015 US$ transaction exposure hedged

91%

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 91% of the Group's anticipated transaction exposure to the pound sterling/US dollar exchange rate is hedged for 2015 at an average rate of US$1.60, with additional hedging in place to partially cover anticipated exposure in subsequent years.

Interest rates

The Group has various long and short term borrowings at both fixed and floating rates of interest. The Group monitors its exposure to movements in interest rates to bring greater stability and certainty to borrowing cost, with the policy being to assess the proportion of borrowings that are fixed and floating in the context of prevailing market conditions.

Retirement obligations

The Group operates a number of defined benefit pension schemes, with the largest being the Cobham Pension Plan in the UK. At the year end, the estimated deficit for accounting purposes, which is the difference between the value of the schemes' assets and the present value of the future liabilities was £102m before deferred tax (2013: £87m).

	£m
Pension deficit at 1 January 2014	(87)
Interest charge	(4)
Net employer funding	17
Actuarial losses	(28)
Pension deficit at 31 December 2014	**(102)**

Significant movements within the actuarial losses of £28m were:

- Higher discount rate assumptions, driven by a decrease in corporate bond rates, resulting in increased pension liabilities; and
- Partially offset by investment returns on scheme assets in excess of expectations.

The £17m reduction in the deficit from net employer funding relates to employer contributions made in the year in excess of scheme service costs and administration expenses.

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 legacy defined benefit pension schemes within the Group and continues to work with the trustees of those schemes to ensure that net deficit issues are managed appropriately. This has included the undertaking of a significant buy-in transaction in 2013 which eliminated the Group's exposure to interest rate, inflation and longevity risks associated with the pension population at the time of the transaction and in 2014 there was an investment in liability driven investments to provide further cover against interest and inflation volatility.

Further details on the Group's retirement benefit schemes in the year, including the primary assumptions, the amounts recognised in operating profit and the changes in value of defined benefit schemes are given in note 23 of the notes 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 1 to 27 and the principal risks on pages 34 to 39. In addition, notes 1, 15, 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.

Simon Nicholls
Chief Financial Officer
4 March 2015

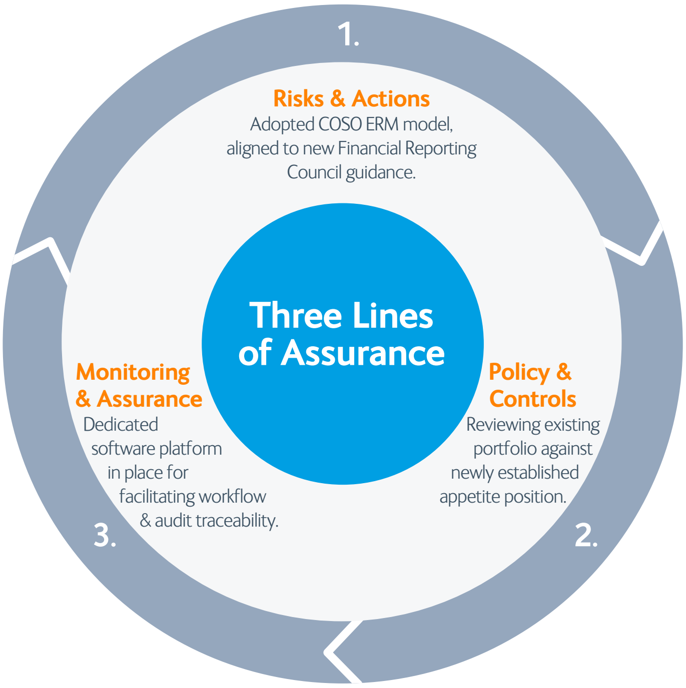
BEST PRACTICE ENTERPRISE RISK MANAGEMENT HAS FURTHER ENHANCED OUR PROCESSES

The Board sets the policy for managing risk in the business. It recognises the importance of having effective processes and procedures for identifying, actively monitoring, mitigating and managing the financial and non-financial risks facing the Group. By regularly reviewing the risk appetite of the business within the COSO ERM framework (see glossary on page 126 for full definition), and satisfying itself that the Group's principal risks are managed within this appetite, the Board ensures that the Group's risk exposure remains appropriate and links into effective delivery of its strategic objectives. The Board has ultimate accountability for the execution of risk management systems and controls, with the Risk Committee, composed of members of the Group Executive, responsible for overseeing execution of risk management throughout the Group. The Board has delegated responsibility for monitoring and reviewing the effectiveness of the Group's internal control and risk managements systems to the Audit Committee. See pages 52 to 55 for more information.

The process for monitoring and controlling risk, illustrated below, emphasises continuous evaluation and monitoring by the Group's management teams at each appropriate entity level; business unit, Sector, specialist function or Group level. The Group's ERM framework is structured to ensure that risks are identified promptly by management teams, to support the achievement of their strategic objectives and ensure that they are mitigated and managed appropriately to support the delivery of the Group's strategic plan.

The Group manages risk by operating a 'three lines of assurance' risk and control model. The first line consists of operational management implementing and maintaining effective internal controls and risk management procedures. They are supported by a number of horizontally and vertically integrated Group functions which, together with their performance management procedures, form the second line. Internal Audit serves as the third line, entrusted with reviewing certain controls and risk management processes and procedures, identifying areas for improvement and reporting to senior management and the Audit Committee due to its independence and objectivity. In addition, the Audit Committee takes account of the views of the external auditors.

Under the sponsorship of the Chief Financial Officer, a project was commenced during 2014 to further enhance the Group's Governance, Risk and Assurance Framework. The objective of the project is to update this in line with



industry best practice ERM principles, and embed these into day-to-day operational decision making. An additional objective is to assist the Group's compliance with the updated Financial Reporting Council guidance on risk management, internal control and related financial and business reporting.

Building on the 'three lines of assurance' model, the Group has drawn on the COSO ERM Framework to set a rigorous baseline which has revised the Group's risk appetite. This will facilitate effective risk management with appropriate controls and assurance measures.

Each of the Group's business units, as well as each Sector and Group function, has undertaken a review of their respective Principal Risks using the updated risk management framework. This exercise has been performed in the context of the Group's strategic objectives. The risks identified during this process have been captured in a system that is used to track, monitor and document ownership and management. Data from this system has been aggregated and themed, reviewed under the Governance structure outlined above and has been used as the basis for the Group Principal Risk disclosures on pages 36 to 39.

The next phase of the project will build on the work completed to date to review the control and assurance measures in place to ensure that they are aligned in the most efficient manner with the Group's risk appetite.

How we manage risk

The Board		
Define strategic objectives Oversight of the corporate risk register	Agree Group's risk appetite	Define delegation of authority Approve corporate framework
Risk Committee	**Oversight**	**Audit Committee**
Monitor performance and changes of key risks facing the business and provide regular reports to the Board Oversight of key risks and ensure that they are appropriately managed Agree key actions to manage risks	Monitor policies and controls against the Group's risk appetite Provide strategic management, policy and procedure setting, and functional oversight	Monitor assurance and risk management systems of control Drive improvement Align results
Business Units and Sectors	**Functions Vertical and Horizontal**	**Internal Audit** **External Audit**
Identify key risks against strategic objectives Design and execute action plans to mitigate threats and enhance opportunities in the business Report on progress Implement Group policies Report on progress Provide management assurance	Design controls to mitigate risk Set entity level controls Set direction and tone Design policies Introduce best practice Monitor and ensure compliance Provide assurance oversight Monitor representation letters and self-assessment process	Provide independent challenge and assurance Audit of key controls Audit of 'assurance providers' Oversight of entity level controls
Risk and Actions	**Policy and Control**	**Monitoring and Assurance**

1. Deterioration in the macroeconomic environment adversely impacting our markets

Risk

The Group's revenue is derived from global defence/security and commercial markets. The level and type of customer spending is dependent on a complex mix of macroeconomic, fiscal and strategic defence and security imperatives.

Changes in government/customer spending or other external factors could lead to programme/contract terminations or delays, or changes in market growth.

Impact

Deterioration in demand affecting shorter cycle businesses or a fundamental shift in how customers procure products or services could have an adverse effect on the Group's future results leading to:

- Missed growth targets
- Reduced earnings
- Failure to win new business, leading to adverse results against strategic plan

Mitigation

A review of near and long term market trends is conducted as part of the Group's annual strategic planning process to ensure that actual and anticipated impacts from macroeconomic environment risks are minimised and managed effectively.

Regular review of externally sourced market demand data, with the re-forecasting and adjusting of internal planning in line with market demand.

Increased emphasis is being placed on identifying adjacent markets in which the Group's proven and transferable technologies can be applied.

The Group is creating more balance in its portfolio towards commercial markets, with the aim to grow through all economic cycles.

A culture of continuous improvement will enable Cobham to have market leading operating performance, while reducing costs. This will enable Cobham to grow market share and also remain competitive in the face of volume declines or price pressures and retain flexibility to adjust the cost base appropriately to changing market conditions.

Link to KPIs

- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk status indicator ⊖

Global macroeconomic conditions remain uncertain.

2. Failure to execute strategy for a return to organic growth, supported by effective value creating M&A activity

Risk

The Group's ability to generate profitable organic growth consistently is a key driver of value creation. Insightful, complementary and well executed M&A activity in line with the Group's strategic objectives will supplement this value creation.

Failure to define and execute the Group's growth strategy will lead to impaired business performance.

Impact

Failure to grow leads to an impaired competitive position, reduced trading margins and a declining return on invested capital.

The Group will experience an impact on employee recruitment and retention, potential reputational damage and a reduced ability to invest for future growth.

Mitigation

Carry out effective strategic planning – maintain robust and dynamic strategic thinking processes to ensure the Group is exposed to growth markets through the business cycles.

A continued focus on and investment in programme management to ensure customer expectations are met, which underpins the Group's ability to grow.

Continued appropriate investment in future technologies with alignment to identified market growth areas.

The implementation of rigorous M&A disciplines (both pre- and post-transaction), aligned with the Group's strategic planning process, improves the ability to successfully execute and deliver value from transactions.

Link to KPIs

- Group PV investment
- Voluntary staff turnover
- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk status indicator ⊖

The Group anticipates organic revenue growth from 2015. The Aeroflex acquisition was completed in the year, with integration in its early stages.

⊖ Unchanged ⇧ Increasing Risk ⇩ Decreasing Risk ➔ Emerging New Risk

3. Failure to comply with laws and regulations

Risk

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 health and safety.

A lack of understanding of legal and regulatory restrictions in force in the jurisdictions that we operate in could lead to us being in contravention of a particular law or regulation.

Impact

Sanctions for failure by the Group, its sales intermediaries, or others acting on its behalf to comply with 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 having an impact on the Group's reputation. Such sanctions could have an impact on the Group's financial position and future operations.

Mitigation

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 is regularly reviewed and audited, including procedures related to the use of sales and marketing representatives, anti-bribery and anti-corruption, gifts and hospitality, whistleblowing and investigation of ethics and compliance concerns, along with Cobham's Code of Business Conduct.

Mandatory training is undertaken by all employees on a variety of compliance related subjects including US government contracting, anti-bribery and corruption.

See the Corporate Responsibility and Sustainability section on page 40 to 43 for information on health and safety actions.

Link to KPIs

- Staff safety
- Underlying EPS growth
- Return on invested capital

Risk status indicator ⊖

The regulatory landscape remains broadly unchanged.

4. Failure to embed organisational design within an effective Governance Framework, with appropriate skills and talented employees recruited/retained

Risk

Key to the execution of the Group's strategic plan is the effective implementation and embedding of the organisation design (OD) project within an enhanced governance framework.

Failure to deliver the OD project, resulting in an appropriately skilled workforce and management team will see the Group's ability to deliver against its strategic plan to return to growth impaired.

Impact

This will lead to sub-optimal financial performance, loss of investor confidence and a failure to deliver shareholder value.

Mitigation

The OD project is on track to deliver the desired 'operating company' construct for the Group, with a key focus being to ensure that key talent is recruited and retained.

The CFO led project, to enhance the Governance, Risk and Assurance Framework in accordance with best practice enterprise risk management, is on course to deliver an appropriate yet flexible level of control across the business, This will allow appropriate risk taking within the Group's stated appetite, drive improvements in performance through application of effective governance and best practice principles

Link to KPIs

- Voluntary staff turnover
- Return on invested capital
- Cash conversion
- Underlying EPS growth

Risk status indicator ➡

The OD project has been implemented and the governance, risk and assurance initiative commenced to support the execution of the Group's strategies.

5. Contract risk and effective project and programme execution

Risk

The Group designs, develops and delivers products and services that are often customised, utilising complex technologies, under fixed price contracts that are sometimes long term in nature. This gives rise to the risks of failure to execute contracts profitably, the supply of defective or delayed product, the occurrence of other contractually related liabilities, or damages to reputation and commercial relationships.

Impact

Failure by Cobham to execute or deliver a project or programme gives rise to the risk of increased programme costs, contract penalties, litigation and other financial liabilities, reduced future profitability and reputational risk.

Poor operational performance could also lead to customers withholding new and existing business from the Group.

Mitigation

Through the new business win process, a thorough review of the business case and terms and conditions and subsequent variations, prior to signing, ensures contract provisions and risks are fairly allocated between parties, while still customer focused.

Life cycle management (LCM) and programme management procedures are intended to ensure that the Group's key contract and programme management policies and procedures are applied consistently and appropriately across all areas of the business. These procedures also provide increased focus on improvements to its LCM and programme management capabilities.

There is monthly reporting of progress against agreed LCM improvement actions to the Group Executive, and semi-annually to the Audit Committee.

Link to KPIs

- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk status indicator ⬆

The company is currently in a significant phase of engineering and development activity on various new programmes and platforms.

6. Failure to deliver shareholder value from the Aeroflex acquisition

Risk

Failure to deliver the planned synergies and growth from the Aeroflex acquisition will have a detrimental impact on the Group's financial performance.

Impact

The Aeroflex transaction is important to the achievement of the Group's strategic plan.

Failure to deliver the business case will lead to poor financial results and will adversely impact the Group's reputation.

Mitigation

A comprehensive due diligence process was undertaken throughout the pre-acquisition process.

Post-acquisition, detailed assessments have been undertaken against the due diligence findings and comprehensive integration plans established.

Aeroflex performance is monitored continuously against the due diligence plan with regular oversight from the Group's M&A Committee.

Retention plans are in place for key individuals and the integration programme is subject to the comprehensive LCM review process.

Link to KPIs

- Voluntary staff turnover
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk status indicator ➡

The Aeroflex acquisition was completed in the year, with the multi-year integration programme in its early stages.

⊖ Unchanged ⬆ Increasing Risk ⬇ Decreasing Risk ➡ Emerging New Risk

7. Significant business interruption risk

Risk

The Group's business could be impacted by natural disasters or fire events affecting its operational locations or suppliers, by other significant events in the supply chain or by IT systems failures (including from cyber attack), rendering critical systems or manufacturing locations unable to function.

Impact

Unscheduled interruption to business activities would result in reduced profits, loss of customer satisfaction, potential cost outlays, and reputational impact.

Mitigation

The Group maintains major incident/IT failure business continuity plans. Employees are trained in relevant procedures, as appropriate.

IT security and capability are continually monitored and strengthened when needed.

The Group works closely with insurers and other third party experts to ensure operating infrastructure and processes include robust risk improvement activities.

See the CR&S section on pages 40 to 43 for further details on mitigating actions against this risk

Link to KPIs

- Staff safety
- Organic revenue growth
- Underlying EPS growth

Risk status indicator ⬆

IT security threats continue to escalate. The Group has increased exposure to site IT risks through adding Aeroflex sites.

8. Failure to successfully execute continuous improvement (CI) programmes, including the implementation of the IT enterprise resource planning (ERP) system, across the portfolio

Risk

Failure to deliver sustainable growth and efficient, reliable and sustainable improvements in operational performance.

Linked to this is the effective deployment of an enterprise resource planning system across the Group, which underpins the Group's CI initiatives.

Impact

Project, programme, production and service delivery will be adversely affected increasing costs and reducing customer satisfaction.

Mitigation

CI benefits are built into budgets with progress monitored at quarterly business review meetings across the Group.

Sustainability training has been delivered to business management teams.

Assessment and accreditation processes have been developed to assess sites with respect to CI and to identify areas for improvement.

Robust management of plans to ensure site readiness and planning of implementation resources into site budgets for ERP implementation.

Detailed application test planning and ERP execution, including stress and load tests, application performance, network and security tests.

Link to KPIs

- Organic revenue growth
- Underlying EPS growth
- Cash conversion
- Return on invested capital

Risk status indicator ➡

CI professionals have been embedded in the Business Unit management teams. The ERP roll-out has already been completed at one site.

WE AIM TO ENGENDER TRUST WITH OUR STAKEHOLDERS AND ENSURE THE COMPANY THRIVES

Code of Business Conduct training

100%

Target:100%
(2013: 100%)

Approach

Corporate responsibility and sustainability (CR&S) strategy is developed and implemented through the CR&S function which is overseen by the CR&S Committee chaired by the CEO. The role of the function is to engage key stakeholders to identify current and emerging social and environmental threats and opportunities to the Group's business objectives and strategic plans, monitor and measure CR&S performance to drive continuous improvement and ensure compliance with applicable laws and regulations as well as voluntary requirements (e.g. codes of conduct).

Material environmental, social and governance risks and opportunities are included in the CEO's papers to the Board as well as through various executive committees such as the Business Ethics and Compliance Committee and the Safety, Health and Environment Committee.

Cobham's CR&S Strategy is designed to align with the Group's business model, through four key areas of focus:

- Striving for the highest ethical standards through our business ethics and compliance programmes;
- Attracting, retaining and developing highly talented and engaged employees;
- Providing a safe and healthy working environment; and
- Managing environmental impacts.

Highest ethical standards

Cobham complies with relevant laws and regulatory requirements while also acting ethically and with integrity. This approach is enshrined in the Cobham Code of Business Conduct (COBC), on which all employees receive training. Cobham sees acting ethically as a source of potential competitive advantage. It is a key contributor to a high performance culture, helps meet key stakeholder expectations, protects the Group's reputation and supports its financial performance.

In addition, Cobham is in the process of adopting best practice in managing its supply chain responsibly on a risk prioritised basis. It prefers those suppliers that support responsible and sustainable business practices, including human rights (e.g. through the potential for conflict minerals usage in purchased parts and components, preventing child labour and preventing discrimination). Cobham's approach is set out in its Responsible Supply Chain Management Policy (RSCM) which is contained within the COBC.

Further details on Cobham's approach to human rights can also be found in the COBC, and the RSCM can be found at **www.cobhamsustainability.com/at-a-glance/downloads.aspx.**

Training all employees on the COBC is considered to be an effective leading measure which ensures that employees understand the Group's expectations and requirements. The incidence of material compliance breaches is considered to be a measure of the effectiveness of the Group's approach.

Captured in our Principal Risks

Risk 3 – Failure to comply with laws and regulations (see page 37)

Risk 4 – Failure to embed organisational design within an effective governance framework, with appropriate skills and talented employees recruited/retained (see page 37)

2014 performance

The Company achieved its target of 100% employee training on the COBC.

In February 2014 the Group voluntarily contacted the United States Department of Justice (DoJ) to inform it that Cobham had undertaken an initial internal investigation into potentially irregular sales practices concerning sales to Asia of certain commercial, non-classified products manufactured by TracStar Systems Inc., a US-based operating location. The matter has been fully investigated and concluded with the DoJ during the year, with no material cost or sanction for the Group.

As part of the integration of the Aeroflex acquisition, Cobham is undertaking an exercise to ensure that the best of the Aeroflex and Cobham ethics and compliance programmes are adopted across the Group.

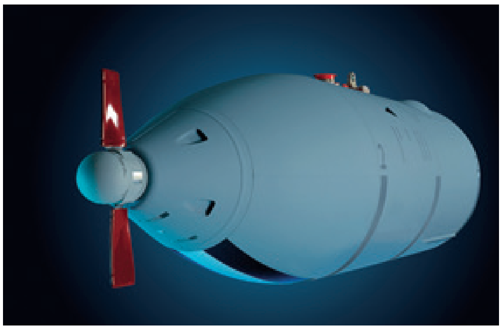
The use of agents, distributors and value added resellers continued to be subject to due diligence and approvals, subject to well defined criteria and including appropriate legal review.

Cobham has voluntarily engaged with Transparency International (TI), an international movement dedicated to working with government and business, to put in place measures to tackle corruption. This will enable the Group to benchmark its policies and practices against the TI Defence Companies Anti-Corruption Index, which is due to be published in 2015.

Training on the Company's RSCM policy was also rolled out across its principal locations during 2014. An initial review has identified the categories of hazardous materials, conflict minerals, resource efficiency and environmental protection as the most significant risk areas in the supply chain.

Cobham in action

Cobham has transitioned the manufacture of make-to-print refuelling pod structures from a UK provider to a provider in India. The Cobham Mission Systems Sector (CMS) utilised the RSCM policy and approach to identify key risks for supplier selection, and included mitigation actions within sourcing documents, business agreements and management governance protocols. All vendors were researched and audited prior to the bid process. The selected supplier is required to comply with Cobham's RSCM policy and CMS retains full audit rights to ensure the supplier's obligations are being fulfilled. CMS continues to actively manage the supplier through quarterly business reviews and audits to ensure compliance requirements are met.



The Airbus A330 MRTT features two Cobham wing mounted 905E aerial refuelling pods, with the manufacture of pod structures now outsourced to India.

Looking forward

The Group will continue training on the implementation of the COBC and will complete the roll out of the Group's Corporate Framework to integrate it with existing governance policies and procedures in the former Aeroflex business.

Talented and engaged employees

Having talented and engaged employees supports Cobham's ability to execute and deliver on key programmes and on its growth objectives. Cobham's approach is to attract and retain employees with the right skills and capabilities through strategic workforce planning, competitive reward practices, diversity and inclusion and development of a high performance culture. It is now utilising a streamlined management and reporting structure, aligned with the Group's growth objectives.

Cobham sees voluntary staff turnover as a key metric for determining the effectiveness of its talent management and employee engagement approach.

Captured in our Principal Risks

Risk 3 – Failure to comply with laws and regulations (see page 37)

Risk 4 – Failure to embed organisational design within an effective governance framework, with appropriate skills and talented employees recruited/retained (see page 37)

2014 Performance

Cobham's voluntary employee turnover has remained below its target of 10% or less. However, the Group intends to further improve this performance by regularly measuring its employee engagement, commencing with a Group wide employee engagement project designed to enhance performance and support for the Group's integrated operating company model. The initial steps have involved an employee survey from Great Place to Work®, which was completed in the second half of the year. For further details see 'Cobham in action' below.

Cobham also believes that embracing diversity brings business benefits as it deepens the Group's talent pool for skills and capabilities and broadens its perspectives. Cobham's overall gender diversity profile increased from 27% female in 2013 to 28% female in 2014. Using the statutory definition, which is Directors of a legal entity, female senior managers increased from 13% (2013) to 16% (2014). Under the Cobham definition, which is employees of Vice President grade and above, female Senior Managers increased from 9% (2013) to 15% (2014). Female representation on the Board increased from 11% (2013) to 22% (2014).

The Group has focused on the implementation of its new organisational design with the strengthening of its senior management and reporting structure, and with certain key support functions now reporting into the centre. Some 70% of the leadership roles created through the organisational design programme were sourced internally from alumni of Cobham's senior management development programme.

Cobham has continued to build on its development programmes with further expansion of the Cobham high potential, graduate and apprenticeship programmes. Cobham also signed up to the 5% club, a UK initiative which commits employers to hiring 5% of their intake as graduates or apprentices within five years.

In addition, Cobham has also developed and piloted its Institute of Leadership & Management accredited programme which is designed to enhance the Group's management skills and capabilities.

Cobham in action

Cobham has partnered with the Great Place to Work® Institute to train over 300 Executives and Senior Managers in building the key components of high trust and high performance teams; to assess the Group's human resources policies and practices and to conduct a Group wide employee survey. Over 80% of Cobham employees responded to the survey and the results were reported back to all employees. Work will continue on this initiative through 2015 to build on and sustain engagement with employees.

GREAT PLACE TO WORK®

Over 80% of Cobham employees participated in the Great Place to Work® employee engagement scheme.

Voluntary staff turnover

6.3%

Target: <10%
(2013: 6.9%)

Looking forward

Cobham will focus on embedding its approach to strategic workforce planning to ensure it has the right skills and capabilities in place. Looking further ahead, the Group is aiming to drive functional excellence further through development of competency frameworks, established career path development and the building of strong partnerships with academia and subject matter experts. Over time, the Company will identify its changing requirements for core capabilities and build a pipeline of talent able to respond to current and future needs. Cobham will also continue to invest in its development programmes, providing all of its line managers with the opportunity to participate in an accredited, in-house certificate in management.

Initially the Group intends to focus its diversity and inclusion approach on establishing geographic councils, setting policies and associated metrics.

Major accident incident rate*

423

Target: 400
Aspiration: zero
(2013: 326)
*per 100,000 employees

Safe working environment

Cobham strives to provide a safe working environment for employees, contractors, and visitors. Cobham recognises that a good health and safety record drives an enhanced production performance and excellence in other areas of its operations.

The Group's approach is to promote a safety culture that strives to minimise injuries and illnesses in the workplace and to promote employee wellbeing. The Group consistently applies a set of ten Safety, Health and Environment (SHE) management standards that are mapped directly to OHSAS18001, an international health and safety standard, and to ISO14001, an international environmental standard, and a set of 12 technical standards that address common SHE management processes and risks.

Aviation safety is Cobham's most significant safety risk. In terms of workplace risks, manual handling, repetitive strain and slip and trip injuries are the most common safety risks.

Cobham captures numerous leading and lagging workplace safety indicators to measure its safety performance. Management is focused on driving the correct behaviours through its lagging indicators while safety performance such as fatalities and the major accident incidence rate (the number of cases with three or more lost work days per 100,000 full time employee equivalents) demonstrate the effectiveness of the Group's approach.

Further details on Cobham's Group Safety, Health and Environment Policy can be found at **www.cobhamsustainability.com/at-a-glance/downloads.aspx.**

Captured in our Principal Risks

Risk 3 – Failure to comply with laws and regulations (see page 37)
Risk 4 – Failure to implement organisational design within an effective governance framework, with appropriate skills and talented employees recruited/retained (see page 37)
Risk 7 – Significant business interruption risk (see page 39)

2014 performance

Cobham had no fatalities during 2014. However, there has been an increase in the major accident incident rate in 2014 to 423 per 100,000 employee equivalents, representing a total of 45 work place injuries and illnesses. Of these, 21 occurred in the Aviation Services Sector, which represents a higher work place safety risk environment than the other Sectors. The Group will continue to review the controls in place and to ensure that health and safety issues are being fully addressed.

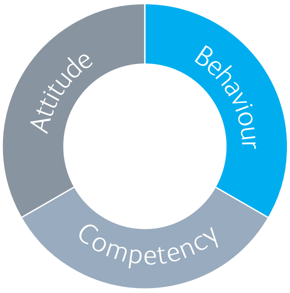
33 of 38 of the Group's business units achieved the internal SHE management standard targets set for them and the remainder are expected to achieve these in 2015, with management systems at all principal locations expected to be of an equivalent standard to OHSAS18001 by the end of 2015. This excludes the recently acquired Aeroflex sites, where work is commencing to assess and improve their SHE performance.

An organisational design project was undertaken for the SHE function across the Group. As part of this, SHE professionals have commenced being assessed and development plans initiated to close gaps identified.

Cobham in action

Several principal sites have undertaken live emergency response simulations to ensure that their response standards are in line with best practice in business continuity. Exercises have been undertaken in conjunction with local fire authorities with positive results and good feedback. There are also live simulations planned for 2015.

SHE best practice is more generally being shared across the Group, with health and safety events held in North America, Europe and Australia. These have involved over 100 SHE practitioners from across the Group.



Cobham strives for excellence in safety, health and environment

Looking forward

The objective for 2015 is to close all gaps in meeting 2014 SHE management standard targets.

Over the medium to longer term, the Group's intention is for all its principal and aviation locations to mature their safety management systems and certify them to the OHSAS 18001 international standard.

Managing environmental impacts

Cobham recognises that its operations, activities, products and services have an impact on the environment and that the environment also impacts the business. The Group promotes an environmentally responsible culture, to comply with increasing environmental legislation and customer requirements, to reduce operating costs and to minimise business interruption in its operations and those of its critical suppliers.

In addition to aviation fuel use, energy consumption and greenhouse gas emissions are Cobham's most significant environmental impacts. The Group seeks to manage its environmental impact by using a series of measures including:

- Transitioning to fuel efficient aircraft where it is appropriate to do so. For example, the Aviation Services business in Australia has introduced the Embraer 190, a next generation aircraft, and the first of its type to be engaged in the closed charter fly-in, fly-out market there;
- Investing in technology to reduce the size, weight and power consumption of products e.g. satellite ASICs. For further details see the CEO's Statement on page 10;
- Reducing facility level greenhouse gas emissions through energy efficiency measures, including: lighting, heating, ventilation and air conditioning upgrades, sensor lighting and destratification fan installations at various sites across the world;
- Building business continuity and effective emergency response planning, to be prepared for adverse weather events and natural disasters.

The Group measures a number of environmental metrics (further information can be found at **http://www.cobhamsustainability.com/environment.aspx**). However, the Group's most significant environmental impacts stem from its greenhouse gas emissions in operating contract aviation services and in its manufacturing operations. The Group measures its aviation and non-aviation greenhouse gas emissions and obtains third party limited assurance on this data.

Captured in our Principal Risks

Risk 3 – Failure to comply with laws and regulations (see page 37)

Risk 4 – Failure to implement organisational design within an effective governance framework, with appropriate skills and talented employees recruited/retained (see page 37)

Risk 7 – Significant business interruption risk (see page 39)

2014 performance

Cobham's overall energy and carbon footprint grew in 2014 due to Aviation Services' success in winning new contracts, leading to additional flying activity over which Cobham may have no direct control to influence aircraft type or flight plans e.g. QantasLink. The Aeroflex acquisition has also increased the size of the Group and so added to its footprint. Overall, the energy intensity of the Group's facilities increased by 1%. However, it decreased by 8% if Aeroflex sites are excluded, slightly short of the annual energy intensity (Mwh/£m) reduction target, which the Group set for itself, at 10%. Further details on the Group's emissions and energy usage are provided in the Directors' Report (see pages 66 and 67).

Management systems at most principal locations, but excluding the recently acquired Aeroflex sites, are now of an equivalent standard to ISO14001. All principal manufacturing locations have maintained the highly protected risk status through compliance with insurers' standards, which enables Cobham to mitigate risks associated with extreme weather events such as flooding.

Cobham in action

Cobham participates in the CDP climate change survey. CDP is backed by over 800 institutional investors representing in excess of US$95 trillion in assets, giving investors access to a global source of year-on-year information that supports long term objective analysis, evidence and insight into companies' greenhouse gas emissions and strategies for managing climate change risks. This survey ranks companies in relation to both their disclosure and performance in carbon management. Cobham has steadily improved its rating since 2009. In 2014 it was placed in the top 10% of nearly 2,000 participating companies worldwide.

CDP™
CLIMATE
PERFORMANCE
LEADER 2014

Cobham achieved the title of CDP Climate Performance Leader in 2014

Looking forward

Cobham is focused on its foundation of operational excellence by driving a continuous improvement culture. It will also be making operational efficiency improvements at former Aeroflex locations, with a number of integrations also planned. These actions should contribute to a decreasing energy intensity from its facilities over the coming years.

Facility energy intensity reduction

1%

Target: (10%)
(2013: (1%))

Board of Directors

Chairman

1. John Devaney

Non-executive Chairman

BEng, CEng, FIMechE, FIEE
Age 68

Appointed: Director February 2010, Chairman May 2010

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), Chairman of Marconi plc, later renamed Telent, and Chairman of National Express Group plc. 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 Hanson. John retired from his role as Non-executive Chairman of NATS (National Air Traffic Services) in August 2014.

External appointments: None.

Committee membership: Chair of the Nomination Committee.

Executive Directors

2. Robert (Bob) Murphy

Chief Executive Officer, Executive Director

Age 57

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 and 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. Previously, Bob has served on the 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.

External appointments: None.

Committee membership: Chair of the Executive Directors Committee.

3. Simon Nicholls

Chief Financial Officer, Executive Director

BSc (Hons), ACA
Age 50

Appointed: May 2013

Skills and experience: Simon was CFO of Senior plc, the FTSE 250 international manufacturing group providing engineered products for aerospace, defence and commercial industrial applications, a position he held from 2008. Previously Simon was CFO of Hanson North America and prior to that he was Financial Controller for Hanson plc for three years. Simon spent nine years with Price Waterhouse, now PwC, in the UK and Canada, and four years working in senior financial positions. Simon served as a Non-executive Director of AIM listed Hamworthy plc from September 2011 until its takeover in February 2012. Simon is a Chartered Accountant, holding a Bachelor of Science degree in Mathematics, Operational Research, Statistics and Economics from the University of Warwick.

External appointments: None.

Committee membership: Executive Directors Committee.

Non-executive Directors

4. Mike Wareing

Senior Independent Non-executive Director

CMG, FCA, FCCA, MCSI
Age 61

Appointed: December 2010

Skills and experience: Mike 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. Mike retired from his role as Non-executive Director and Chairman of the Audit Committee of Wolseley plc in November 2014.

External appointments: 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: Chair of the Audit Committee and member of the Nomination Committee.

5. Alison Wood

Independent Non-executive Director

MA, MBA
Age 51

Appointed: July 2011

Skills and experience: Alison is engaged with a mix of not for profit, investment and non-executive activities in the UK and New Zealand. She was formerly Global Director Corporate Development and Strategy for National Grid plc. Previously, she was 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 previous Non-executive Directorships; BTG plc from 2004 to 2008, THUS plc from 2007 to 2008 and GCHQ from 2009 to 2011.

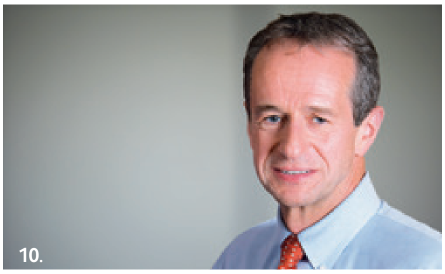
External appointments: Non-executive Director and Senior Independent Director of e2v technologies plc. Non-executive Director and Chairman of the Remuneration Committee of Costain Group plc. Non-executive Director for British Standards Institution, a Royal Charter company, from September 2014.

Committee membership: Chair of the Remuneration Committee and member of the Nomination Committee.

Non-executive Directors


6.


8.


10.


7.


9.

6. Mark Ronald

Independent Non-executive Director
CBE, BA, BScEE, MScEE
Age 73

Appointed: January 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 ATK Inc. Mark was also a Non-executive Director of Aeroflex Holdings Inc. until the acquisition of the Group by Cobham plc in September 2014.
External appointments: Senior adviser of Veritas Capital LLC and a management consultant.
Committee membership: Member of the Remuneration and Nomination Committees.

7. Mike Hagee

Independent Non-executive Director
Age 70

Appointed: December 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, US, Co-Chairman of the Commission on Energy and Geopolitics, Non-executive Director of SGI Corp., DynCorp International Inc. and Remington Outdoor Company Inc., and Outside Manager 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.

8. David (Jonathan) Flint

Independent Non-executive Director
CBE, MBA, BSc, FREng, FInstP
Age 54

Appointed: May 2013
Skills and experience: Jonathan is currently Chief Executive of Oxford Instruments plc, a leading provider of high technology tools and systems for research and industry, a position he has held since 2005. Prior to this he was the UK Managing Director of Vislink plc and has also held management positions with BAE Systems and GEC Marconi Avionics. A physics graduate from Imperial College London, Jonathan was made a CBE in 2012.
External appointments: Chief Executive of Oxford Instruments plc.
Committee membership: Member of the Audit and Nomination Committees.

9. Birgit Nørgaard

Independent Non-executive Director
MA, MBA
Age 56

Appointed: April 2014
Skills and experience: Birgit, a Danish national, currently holds a number of non-executive roles in the private and public sectors in the UK and overseas. Birgit's last executive role was as both the Chief Executive Officer of Grontmij Carl Bro, the Danish engineering consultancy group as well as the Chief Operating Officer of Grontmij NV, the Dutch parent company. An economics graduate from Copenhagen Business School, Birgit has an MBA from INSEAD.
External appointments: Non-executive Director of IMI plc. Birgit is a Non-executive Director at WSP Global Inc, a global consulting engineering company listed in Canada, DSV A/S an international transportation company listed on the Copenhagen stock exchange and Kvaerner ASA, an engineering, procurement and construction company listed in Norway. She also holds board positions in private companies and public sector positions.
Committee membership: Member of the Remuneration and Nomination Committees.

10. Alan Semple

Independent Non-executive Director
BA, CA
Age 55

Appointed: February 2015
Skills and experience: Alan is currently Director and Chief Financial Officer at John Wood Group plc, a role he has held since 2000 and will retire from during 2015. Prior to this, he held a number of senior finance roles in the Group from 1996. Alan previously served as the Group Finance Director of GRT Bus Group plc from 1994 to 1995, one of two companies which merged to form FirstGroup plc. Between 1987 and 1994, he was Finance Director at Seaforth Maritime Group Limited.
External appointments: Chief Financial Officer of John Wood Group plc.
Committee membership: Member of the Audit and Nomination Committees.

CREATING A MORE SIMPLIFIED, STREAMLINED ORGANISATION – REBALANCED TOWARDS COMMERCIAL MARKETS

> “We made real progress on our strategic objectives, in particular, the key objective to position the Company to return to sustainable organic growth in 2015.”

Dear Shareholder

During the past 12 months we have made real progress on our strategic objectives, in particular, the key objective to position the Company to return to sustainable organic growth in 2015.

The Group has been restructured, creating a more simplified and streamlined organisation. We have completed our largest ever acquisition: we welcome the employees of Aeroflex into the Cobham family. We have made great progress integrating the two companies together and it is already having a positive impact. The combination broadens our footprint in the exciting and growing connectivity space, and is helping us to make considerable headway in rebalancing the portfolio away from defence and towards the commercial markets.

We launched the Great Place to Work process, so that all of our employees can work together to achieve Cobham’s full potential and truly become, a great place to work.

The Board has overseen the appointment of two new Non-executive Directors: Birgit Nørgaard, who brings with her experience of the Continental European markets, along with extensive commercial and business expertise; and Alan Semple, whose appointment, with his financial and engineering experience, strengthens the depth of knowledge on the Audit Committee.

Our markets in 2015 will continue to challenge and we will continue to work hard to respond to those challenges. I trust we can rely on your continued support for the foreseeable future.

Statement of compliance with the provisions of the 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 2014 and at the date of this Annual Report, it was compliant with the provisions of the Code.

Corporate Governance Index

This part of the Annual Report describes how the Company has applied, and complied with the UK Corporate Governance Code published in 2012 (Code). The Code is published by the Financial Reporting Council and is available from its website **www.frc.org.uk**.

Responsibility statements

Statements relating to the responsibilities of the Directors are on page 68 and those relating to the auditors are on pages 70 and 118.

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 65.

Financial reporting

In the Directors’ view, the Annual Report and Accounts for 2014, together with the interim management statements, the interim report and other reports made during the year, present a fair, 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 33.

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; and
- Supervise the conduct of the Group's activities within a framework of prudent and effective internal controls.

Highlights of 2014

- The Board, in conjunction with senior management, devoted additional time to the further development of the Group's strategy and specifically agreed a new connectivity strategy;
- The acquisition of Aeroflex, a significant transaction for both groups, including the completion of a placing and bank financing. This acquisition was borne out of the new connectivity strategy;
- Structural redesign for the business, creating a more simplified and streamlined organisation;
- The reconstitution of the senior management team has been completed and new team members are now in post and already contributing to the achievement of our Strategic Plan;
- Oversight of the restructuring of the portfolio with planned disposals of businesses which no longer fit our strategy;
- Oversight of the search and appointment of two new Non-executive Directors, Birgit Nørgaard and Alan Semple; and
- Evaluated and approved two large bid submissions above authority limits delegated to the Executive Directors outside of the regular Board meeting agenda.

Priorities for 2015

- Oversight of the return to growth agenda;
- Continue to review performance against agreed strategic enablers;
- Oversight of the Aeroflex integration, including delivery of targeted synergies;
- Continue to focus on market evaluation and strategic development; and
- Continue to rebalance the portfolio in line with strategy and towards our commercial markets.

Board meeting attendance for 2014

Nine Board meetings were held during the year, attended as follows:

John Devaney	●●●●●●●●●
Bob Murphy	●●●●●●●●●
Simon Nicholls	●●●●●●●●●
Jonathan Flint	●●●●●●●●●
Mike Hagee	●●●●●●●●●
Birgit Nørgaard[1]	●●●●●
John Patterson[2]	●●●●
Mark Ronald[3]	○○●●●●●●●
Mike Wareing[4]	○●●●●●●●●
Alison Wood	●●●●●●●●●

○ Unable to Attend ● Attended

The Board composition

The Board comprises a Non-executive Chairman (John Devaney), a CEO (Bob Murphy), a CFO (Simon Nicholls) and seven other Non-executive Directors of whom Mike Wareing 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 Birgit Nørgaard and Alan Semple, who joined the Board on 24 April 2014 and 25 February 2015 respectively. John Patterson stood down from the Board, having completed nine years as a Non-executive Director and Chair of the Remuneration Committee, at the conclusion of the 2014 AGM.

Biographies of the Directors, giving details of their experience and other significant commitments, are set out on pages 44 and 45. The wide ranging experience and backgrounds of the Non-executive Directors enable them to support, 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 is set out across the page and attendance at principal Board Committee meetings as members of such committees during the year is set out in the reports from each committee on pages 50, 53 and 57.

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 the Non-executive Directors have confirmed that they have sufficient time to meet their time commitments to the Group. Copies of their appointment letters are available on request to the Company Secretary and will be available for inspection at the AGM.

In accordance with the 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, Birgit Nørgaard, and Alan Semple, are seeking election by shareholders at the 2015 AGM for the first time. The Board has set out in the circular, a resolution to elect Birgit Nørgaard and Alan Semple as Non-executive Directors and explains why it believes they should be elected. The Chairman confirms to shareholders when proposing 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 CEO'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 CEO should be performed by different people.

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, CEO or CFO has failed to resolve, or where these contacts are inappropriate.

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[1] Birgit Nørgaard joined the Board on 24 April 2014.

[2] John Patterson retired from the Board on 24 April 2014.

[3] Mark Ronald was recused from attending all meetings between May and September 2014 due to the acquisition of Aeroflex, for whom he was also a Non-executive Director.

[4] Mike Wareing missed one Board meeting due to ill-health.

Board proceedings

Board meetings, scheduled in accordance with the annual timetable, took place seven times during the year on a face to face basis and twice by telephone. There is contact between meetings to progress the Group's business as required. Meetings are held in London and at an international operational location. In 2014, the site visited was Lyngby, in Denmark. 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 also held meetings with the Non-executives in the absence of the Executive Directors.

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 2014.

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.

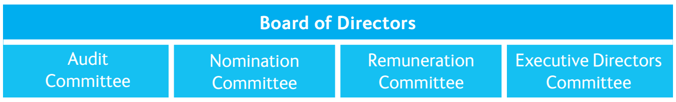
Performance evaluation

The Board conducts an evaluation of its activities on an annual basis. During 2014, the Board and its committees undertook an internal evaluation. The evaluation included the circulation of a questionnaire, with a focus on governance around the Aeroflex transaction and the Board site visit. The Board considered the output at their December meeting 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. In 2015, the Board is planning to undertake an external evaluation.

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 chairs provide oral reports on the work undertaken by their committees at the following Board meeting. Information relating to the activities of each committee may be found on the pages that follow. 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 CEO. The purpose is to assist the CEO in the performance of his duties and its terms of reference include: establishing and implementing internal policies, systems and controls, to ensure that potential inside information is communicated to it, considered, verified and released to the market where required; the discharge of obligations arising under the Company's share plans; the determination of the remuneration of the Non-executive Directors; the approval of banking facilities; and the approval of bids and contracts. This Committee met on 17 occasions during the year and, in addition, as required to respond to business needs and market conditions.



Board of Directors

Audit Committee

Nomination Committee

Remuneration Committee

Executive Directors Committee

Management committees

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

All of the below is in addition to quarterly business reviews, business development reviews and function reviews, supporting the new organisational design.

Group Executive (incorporating the Risk Committee)

Vertical Leadership teams and Horizontal Council Meetings

Merger & Acquisitions Committee

Corporate Responsibility & Sustainability Committee

Business Ethics & Compliance Committee

Safety, Health & Environment Committee

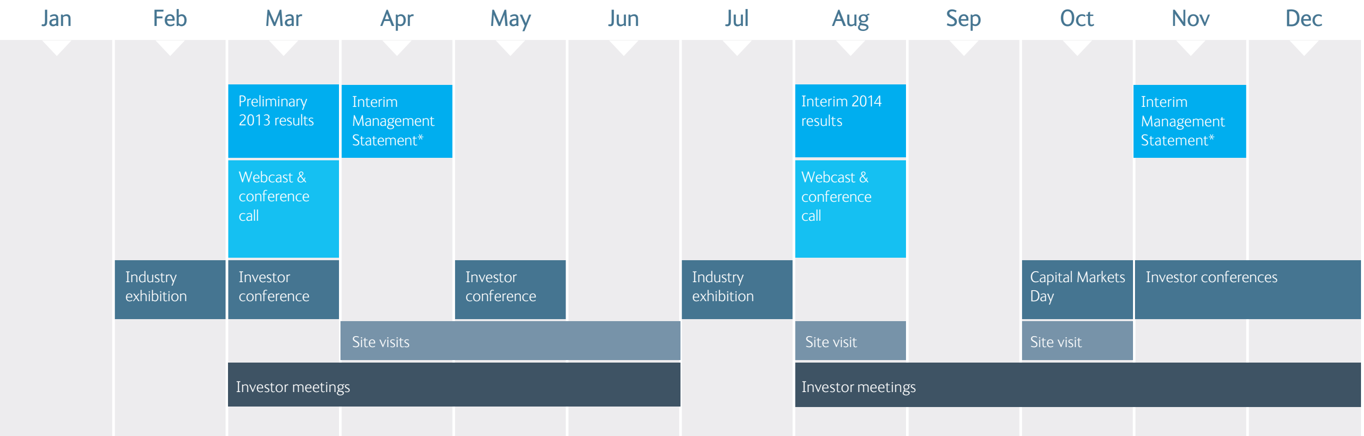
Internal Audit Sub-committee

Talent Board

Board and committees performance evaluation

Evaluation year	Observations	Actions taken
2013	Members of the Group Executive should be provided with opportunities to present to the Board on their areas of the business to provide more exposure to the Board members.	Presentations from the Group Executive were built in to the Board Work Plan for 2014 (and going forward). Various opportunities have also been taken for the Board to meet members of the senior management team both professionally and socially.
	Continued development of the strategic planning process.	The connectivity strategy was agreed during the first part of the year during a scheduled Board meeting, following which the Aeroflex transaction was identified. A Board meeting dedicated to strategic discussion was held during late 2014. Although this was delayed by the acquisition of the Aeroflex Group, the Board felt there had been a big improvement in strategic materials and subsequent Board discussions. Ongoing strategic updates form part of the rolling Board agenda.
2014	PV investment.	The continued investment in the products of the business to ensure currency of technology is recognised as key and more emphasis should be placed on pursuing (and monitoring) strategic opportunities through such investment.
	Continued development of the strategic planning process.	The Board identified a number of additional pieces of work they would like to see as part of the 2015 Strategic Review. These have now been scheduled into the work cycle for the Strategic team and the business, where appropriate, for delivery during 2015 Board strategy discussions.

Summary of 2014 investor relations activity



Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
		Preliminary 2013 results	Interim Management Statement*				Interim 2014 results			Interim Management Statement*	
		Webcast & conference call					Webcast & conference call				
	Industry exhibition	Investor conference		Investor conference		Industry exhibition			Capital Markets Day	Investor conferences	
			Site visits				Site visit		Site visit		
		Investor meetings					Investor meetings				

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

Shareholder relations

The Board recognises the importance of maintaining an effective two-way communication programme with shareholders and potential shareholders. This assists investors' understanding of the Group's strategy, business model and remuneration structure and allows the Board to understand shareholder views when formulating its strategy and policies, ensuring the interests of the Company and investors are aligned. Cobham's programme of shareholder interaction is intended to meet these aims.

During the year presentations were given to investors on the morning of the announcement of the interim and preliminary results. The presentations were accompanied by a live webcast and conference call for investors unable to attend in person. Copies of the associated presentation materials, together with webcasts, can be accessed on Cobham's website. The Group also hosted a presentation, which was also webcast, for shareholders on the day of the announcement of the Aeroflex acquisition in May 2014.

Cobham's AGM is attended by all Board Directors and shareholders have the opportunity to question the Board on its stewardship of the Group and to meet the Directors informally.

In addition, a full programme of engagement with investors and analysts, both in the UK and overseas, was undertaken through the year, which is led by the CEO and CFO. In total there were some 194 meetings in the year with 185 investors. A summary of the timing of this activity is set out in the table above.

This engagement included one-to-one and group meetings with shareholders, participation in investor conferences, investor participation in industry exhibitions and shareholder visits to Cobham operating locations. Site visits and industry exhibitions are hosted by senior members of management within the business units and are intended to give investors detailed insight and access to the business' products and operations.

There is also a section of the main Cobham website that is maintained specifically for investors. This is updated regularly and contains a variety of information including company summaries and overviews, background information and company history, news and events, reports and presentations, financial tools and charts and corporate governance information. During the year, a major project was undertaken to further develop the look and feel of the investor website and increase the amount of information available to shareholders.

The Board receives a report from the CFO at each of its meetings on investor relations, including significant changes to shareholdings, meetings with and feedback from shareholders and research recently published on the Group.

I write to major shareholders annually, informing them that I am available to meet them if they have concerns.

John Devaney
Chairman
4 March 2015

CONTINUED FOCUS ON THE KNOWLEDGE, EXPERTISE AND DIVERSITY IN OUR BOARD ROOM

> "Appointed two new Non-executive Directors to further strengthen the experience on our Board, and to support the Group to achieve its' Strategic Plan."

Dear Shareholder

A key focus for the year has been the appointment of two Non-executive Directors. 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 these roles. The shortlisted candidates were interviewed by myself and separately by other Board members, including the Executive Directors. It was pleasing to note that we had a number of female candidates for our NED roles and that we were able to secure another female NED who had all the right attributes to add to and complement our Board expertise.

Role and focus

The Nomination Committee's main duties are to:

- Review the structure, size and composition of the Board; and
- Consider succession planning for Directors and other senior executives.

Highlights of 2014

- Continued to refresh and renew non-executive tenure and skill set to ensure an appropriate balance of skills, knowledge and experience of the Board;
- Conducted a thorough and comprehensive search for two new Non-executive Directors;
- Completed the appointment of two Non-executive Directors. Birgit has extensive experience of the Danish market in which Thrane & Thrane operates, a company we acquired in 2012, and Alan has extensive financial experience;
- Considered external appointments to the boards of our subsidiaries; and
- Oversight of the new organisation design exercise.

Priorities for 2015

- Continue to review succession plans for the Board members and key roles across the business; and
- Continue to review Board composition to ensure competencies remain aligned to the Strategic Plan and that the Board continues to be appropriately balanced.

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

Membership and attendance

Three Nomination Committee meetings were held during the year, attended as follows:

John Devaney (Chair)	●	●	●
Jonathan Flint	●	●	●
Mike Hagee	●	●	●
Birgit Nørgaard[1]			●
John Patterson[2]		●	●
Mark Ronald	●	●	●
Mike Wareing	●	●	●
Alison Wood [3]	○	●	●

○ Unable to Attend ● Attended

[1] Birgit joined the Nomination Committee on joining the Board on 24 April 2014.

[2] John retired from the Board (and hence the Nomination Committee) on 24 April 2014.

[3] Alison missed one meeting due to a personal commitment.

Other attendees

CEO, by invitation.

Skills and experience

The table below identifies the skills and experience of the Board members.

	Independence	Years with Cobham	Skills			Experience						
			Leadership	Strategy and Risk	UK Corporate Governance	Corporate	Engineering	Defence	Finance	US Market	UK Listings	HR
John Devaney		4	●	●	●	●	●	●	●	●	●	
Bob Murphy		2	●	●	●	●		●	●	●	●	●
Simon Nicholls		1	●	●	●	●		●	●	●	●	
Jonathan Flint	●	1	●	●	●	●	●	●	●	●	●	
Mike Hagee	●	6	●	●				●		●		
Birgit Nørgaard	●	0	●	●	●	●	●		●			●
Mark Ronald	●	8	●	●		●	●	●		●	●	
Alan Semple	●	0	●	●	●	●	●		●	●	●	●
Mike Wareing	●	4	●	●	●	●		●	●	●	●	●
Alison Wood	●	3	●	●	●	●		●		●	●	●

Diversity and inclusion

The Committee is cognisant of the need for diversity when considering the composition of the Board. In recruiting for Board roles, targets have been set around ensuring a proportion of female applicants are included in the candidate pool for Non-executive Director positions. The representation of women on the Board increased from 11% in 2013, to 22% in 2014. For recent recruitment, the profile has also included the requirement for a diverse geographical background and commercial market experience.

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;
– Their duties, responsibilities and obligations as Directors of a listed public limited company; and
– Specific duties as a member of one of the Board committees.

This is supplemented by visits to key locations and meetings with, and presentations by, members of the senior management team.

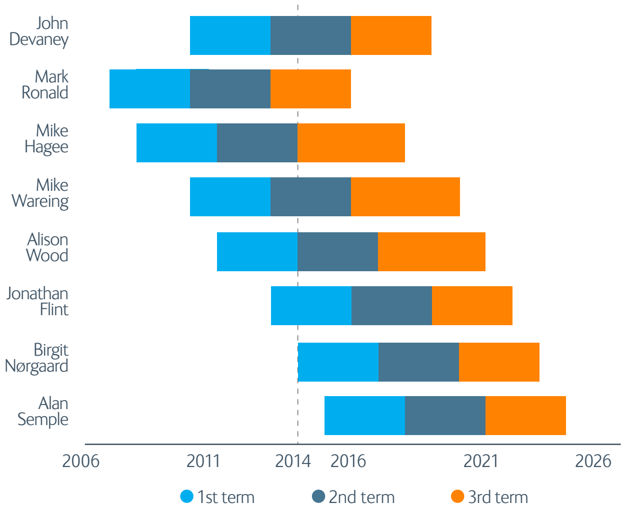
Development for Directors is available as required and is provided mainly by means of internal briefing from senior management or advisers and external courses. In addition, Directors' knowledge of the legal and regulatory environment is updated through the provision of information by the Group's advisers and by means of regular updates from the Company Secretary and the legal team.

Site visits are considered critical to ensure that the Directors remain close to the business of the Group. These visits are arranged informally for each Board member, as necessary, and supplemented by one formal site visit per year which is attended by all members of the Board.

Succession planning

Succession planning takes place 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 them 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 in terms of length of service and current term is shown diagrammatically above.

John Devaney
Nomination Committee Chair
4 March 2015

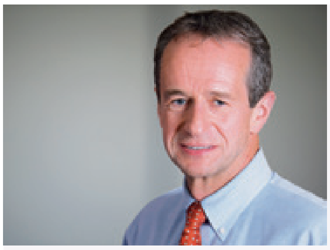
CONTINUOUS MONITORING OF FINANCIAL REPORTING AND DISCLOSURE PROCESSES

> "The key focus for 2014 has been expanding oversight of the Group's governance, risk and assurance system, developing audit tender plans, and ensuring the controls in relation to the Aeroflex acquisition were fit for purpose."

Dear Shareholder

I am pleased to present the report of the Audit Committee for 2014. At the conclusion of the 2015 AGM, I will be stepping down as Chair of the Committee, and handing over the responsibilities of my role as Chair to Alan Semple. I will, however, remain a member of the Audit Committee. Alan has been CFO, and a Director, of John Wood Group plc since 2000. Alan's wealth of financial experience complements the substantial knowledge already provided by existing Committee members and further strengthens the level of financial expertise of the Committee.

2014 has been a busy year for the Audit Committee: we have developed our future plans for the external audit tender, and continued to carefully assess the Company's relationship with the current external auditor; we have provided vital oversight of the controls in relation to Cobham's acquisition of Aeroflex; and we have extensively reviewed programme management, and assisted in the evolution of the Group's governance, risk and assurance system.



Alan Semple

"I am delighted to be taking on the Audit Committee Chair role in 2015, and look forward to working with Mike, other members of the Committee, and management."

Alan joined the Board in February 2015, and will assume the role of Audit Committee Chair in April 2015. He is a member of the Institute of Chartered Accountants of Scotland, and has been the Chief Financial Officer of John Wood Group plc since 2000. Alan brings with him a wealth of financial and commercial experience in an engineering environment, which will be an invaluable asset to the work of the Committee.

At the 2015 AGM, both Alan and I will be available to respond to any questions shareholders may raise on this report or the Committee's activities.

Highlights of 2014

- Oversight of controls in relation to the Aeroflex acquisition;
- Developed the audit tender plans for 2015;
- Strengthened review of the policy on the provision of non-audit services for the external auditors;
- Greater scrutiny given to programme management;
- Enhanced review of Safety, Health and Compliance (SHE) compliance and controls;
- Increased analysis of the Group's governance framework, including Life Cycle Management (LCM), Continuous Improvement, and IT controls (including cyber security); and
- Supported the development and initial implementation of the new governance, risk and assurance initiative.

Priorities for 2015

- Monitoring of the integration of the Aeroflex business into the Group;
- Implementation of the audit tender plans;
- Continued oversight of the CFO led governance, risk and assurance initiative;
- Ensuring the Group is compliant with the revised UK Corporate Governance Code and the updated FRC guidance on risk management; and
- Continued focus on the Group's governance framework including LCM and IT controls.

Responsibilities

The Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code. The terms of reference, which were reviewed in December, are available on Cobham's website or on application to the Company Secretary.

The Audit Committee's main responsibilities 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;
- Oversee the Group's risk management procedures, and internal control systems;
- Monitor and review the effectiveness of the Group's internal audit function;
- Make recommendations as to the appointment, remuneration and terms of engagement of the external auditors;
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;
- Develop and implement a policy on the engagement of the external auditor to supply non-audit services; and
- Monitor and review the Group's policies and practices concerning business conduct and ethics, including whistleblowing arrangements.

Membership and attendance

Five Audit Committee meetings were held during the year, attended as follows:

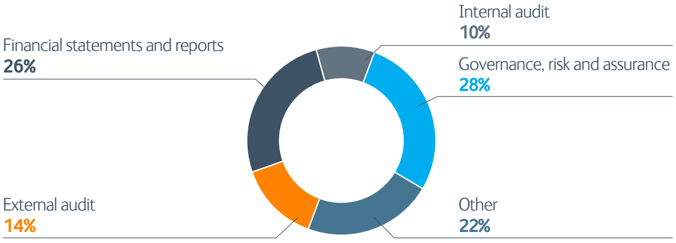
Mike Wareing (Chair)	●	●	●	●	●
Jonathan Flint	●	●	●	●	●
Mike Hagee	●	●	●	●	●

○ Unable to Attend ● Attended

Other attendees

Meetings of the Committee were attended by the Chairman of the Board, CEO, CFO, Group Director of Financial Control, Head of Internal Audit, and the Company Secretary or her representative, none of whom do so as of right. Other senior executives attend as required to provide information on matters being discussed which fall into their area of responsibility. The external auditors, PricewaterhouseCoopers LLP (PwC), also attend each meeting.

Allocation of time (%)



Key issues and activities

Set out in the table below is a summary of matters considered by the Committee during 2014.

	Feb	Apr	Jul	Nov	Dec
■ Financial statements and reports					
Full year results	●				
Half year results			●		
Fair, balanced and understandable assessment	●				
■ External audit					
Independence, objectivity and effectiveness of the external auditor	●				
Appointment recommendation to the Board	●				
Policy on the provision of non-audit services	●				
Approval of non-audit fees	●		●		
External audit scope and fees			●	●	
External auditors' full year report	●				●
External auditors' half year report			●		
Audit tender plans		●			●
■ Internal audit					
Effectiveness review of internal audit	●				
Internal audit report	●		●		
Annual internal audit plan					●
■ Governance, risk and assurance					
Global Helpline Investigations report	●		●		
Governance, risk and assurance report	●		●		
Governance, risk and assurance framework	●	●			●
Internal controls	●				●
IT controls			●	●	
SHE compliance and controls				●	
Use of intermediaries					●
■ Other					
Updates on accounting and corporate governance developments					●
Terms of reference					●
Effectiveness of the Committee					●
LCM		●		●	

Governance

The Audit Committee was in place throughout the financial year, with Mike Wareing as the Chair. All three members are independent Non-executive Directors. Mike Wareing was the International Chief Executive of KPMG until September 2009. During 2014, Mike was also Audit Committee Chair of Wolseley plc and Intertek Group plc.This provides the Board with assurance that the Audit Committee meets the Code requirements that at least one member of the Committee has significant, recent and relevant financial experience.

The Committee periodically meets separately with the Head of Internal Audit and the external auditors without the presence of executive management, and also separately with the CFO.

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 significant issues in 2014:

Issue	Committee action	Conclusion (with reasoning)
Revenue and profit recognition on contracts.	Debated accounting policies, judgements on material contracts and external audit reviews.	Satisfied that accounting and judgements were reasonable and appropriate.
Goodwill and intangible assets impairment assessment.	Challenged internal papers covering the basis and quantum of valuation.	Satisfied that these were reasonable and appropriate, and that the disclosures made were appropriate.
Accounting for the Aeroflex acquisition.	Discussed accounting policies, management reports, detailed contract appraisals, legal advice, and internal/external audit reviews.	Considered that accounting and provisions were appropriate.
Inventory provisions.	Challenged internal papers covering the basis and quantum of provisions.	Considered that accounting and provisions were appropriate.
Accounting for uncertain tax positions.	Discussed internal papers covering the basis and quantum of provisions.	Satisfied that these were reasonable and appropriate, and that the disclosures made were appropriate.
Business change restructuring costs.	Debated accounting policies, and reviewed management reports and other internal papers.	Satisfied that accounting was reasonable and appropriate.

Fair, balanced and understandable report and accounts

At the request of the Board, the Committee considered whether the 2014 Annual Report and Accounts was fair, balanced and understandable, to enable shareholders to assess the Group's performance, business model and strategy. It was satisfied that, taken as a whole, the 2014 Annual Report and Accounts is fair, balanced and understandable. This assessment was underpinned by the following:

- The Committee's own knowledge of the Group, its strategy and performance in the year;
- Comprehensive guidance issued to contributors at operational level;
- Thorough internal verification of the factual content;
- Comprehensive reviews undertaken at different levels of the Group to ensure consistency and overall balance;
- Comprehensive review by the senior management team; and
- Comprehensive review by the independent external auditors.

External audit processes

During the year, PwC undertook external audit and certain non-audit work. The lead audit partner, Pauline Campbell, attended each Audit Committee meeting, and the 2014 AGM. PwC provided the Committee with information and advice as well as relevant reports on the financial statements and controls.

In July and November 2014, the Committee reviewed and approved the terms, areas of responsibility and scope of the December 2014 year-end audit as set out in the external auditors' engagement letter. During the year, PwC provided audit related services such as regulatory and statutory reporting. PwC is expected to report to the Committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. None were found or reported in 2014. The Independent Auditors' report to the members of the Company can be found on pages 70 and 118.

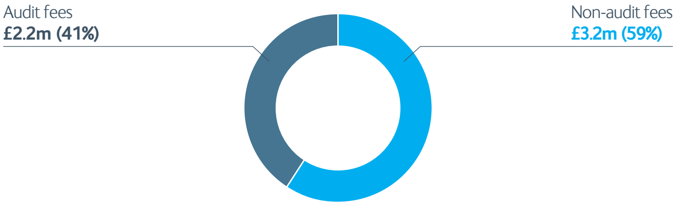
External auditor independence and objectivity

The Committee and the external auditors have safeguards to avoid the possible compromise of the auditors' objectivity and independence. These include a policy regarding the supply of audit and non-audit services and 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 and the cost does not exceed the overall limit set out in the policy. Prohibited services include: actuarial services; legal services provided in the resolution of a dispute; and appraisal or valuation services. All PwC's fees for non-audit work were approved in accordance with the Group's policy covering non-audit services.

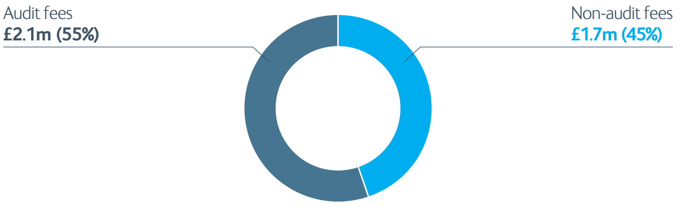
In conjunction with the CFO, the Committee Chair, in accordance with the policy regarding the supply of audit and non-audit services, approved the services of PwC to undertake and support management's due diligence work for the acquisition of Aeroflex. As a result the level of non-audit fees awarded was greater than the level of audit fees awarded to PwC in 2014. The decision to appoint PwC to undertake this work was considered by the Committee to be in the best interests of shareholders. PwC has a deep understanding of Cobham, placing them at a distinct advantage to support the Board in this regard. The Committee does not believe that PwC's independence has been compromised because of this additional work on behalf of the Company.

The total fees paid to PwC in the year ended 31 December 2014 equal £5.4m, with non-audit fees of £3.2m representing 59% of the total. The chart below details the fees paid in 2014, together with a comparison to fees paid in the year ended 31 December 2013. Further disclosure of the type of work undertaken, and the amount of the non-audit fees paid during the year can be found in note 4 to the Group Financial Statements.

Total fees paid to the external auditors (2014)



Total fees paid to the external auditors (2013)



PwC also provides specific assurance to the Committee on the arrangements and safeguards it has in place to maintain its independence and objectivity, including an internal process to pre-approve provision of non-audit services and the use of separate teams where non-audit services are being provided to the Group.

The external auditors follow regulatory requirements to maintain the objectivity of the audit process, which stipulate in relation to the senior engagement auditor, a five year rotation policy. Pauline Campbell replaced Stuart Watson as lead audit partner in 2014.

The Committee is satisfied that the external auditors remain independent.

External auditor effectiveness and reappointment

The Committee conducts an annual review of the performance of the external auditors, including feedback from the finance teams at each of the operating companies. The 2014 review was conducted in February 2015 and overall, the feedback was positive. Having undertaken its review, in the opinion of the Committee, the relationship with the external auditors works well, and the Committee remains satisfied with their effectiveness.

The Committee has recommended that a resolution be proposed at the AGM to re-appoint the external auditors and to allow the Audit Committee to set their remuneration. There are no contractual obligations restricting the Company's choice of external auditor.

External auditor tendering

PwC have been the auditors of Cobham plc for many years. Following regulatory clarity, during 2014 the Committee discussed and developed its plans for the tender of the Group's external audit. The Committee has decided to conduct a tender exercise in 2015, for the 2016 year end. Following a rigorous tender process, the Committee shall provide the Board with their recommendation, before putting the appointment of the external auditors to a shareholder vote at the 2016 AGM.

Internal audit

The Head of Internal Audit formally reports to the Committee Chair, and was present in each of the five scheduled Committee meetings. The findings of each internal audit review are summarised and the Committee focuses its discussions on unsatisfactory findings and on the action plans in place to address them. Particular areas of focus during 2014 included IT security and the amalgamation of the acquired Aeroflex sites.

The Committee approved the Internal Audit Work Plan for 2015, including the proposed audit approach, coverage and allocation of resources. The Committee also received updates against the 2014 internal audit programme throughout the year.

In February 2015, the Committee conducted an annual review of the effectiveness of the Group's internal audit function, taking into account the views of Directors and senior management on matters such as independence, proficiency, resourcing, and audit strategy, planning and methodology. The review confirmed that the internal audit function was independent and objective and remained an effective element of the Group's corporate governance framework.

Risk management and internal controls

The Board is responsible for the oversight and application of the Group's risk management and internal control systems, 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 Board receives reports on a regular basis from the Audit Committee in relation to the effectiveness of the Group's internal controls. The Committee's review covered all material controls, including financial, operational and compliance controls and risk management systems and is designed to give assurance that the day to day risk management and internal control policies and procedures, which are embedded in the business, have operated effectively in the review period. The principal elements, the three lines of assurance, are outlined in the diagram shown on page 35. 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.

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

In 2014, a significant project was commenced to further enhance the Group's governance, risk and assurance framework. The Committee provided oversight throughout the project's development, and has been greatly encouraged by progress to date. The Committee will continue to monitor the initiative throughout 2015.

The Principal Risks and the enhanced risk management process are highlighted on pages 34 to 39.

The Group operates under a system of internal controls which have 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 the Strategic 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 a 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 Committee believes that the current arrangements consisting of the half yearly risk assessment process, 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 CEO and CFO 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.

Cobham Code of Business Conduct violations and fraud

Details of the Cobham Code of Business Conduct and the mechanisms, including those maintained by independent third parties, by which suspected violations of the Code are raised and independently investigated, are provided in the CR&S section of this report, on pages 40 to 43. The Committee regularly received reports providing details of these cases, their outcome, and the corrective actions taken. In addition, the Committee received reports providing details of any fraud losses.

Mike Wareing
Audit Committee Chair
4 March 2015

ALIGNING REMUNERATION TO THE DELIVERY OF STRATEGIC GOALS

> "Evolving remuneration strategy to support the execution of the Group's strategy in challenging market conditions remains a key priority."

Dear Shareholder
I am pleased to deliver my first report as Chair of the Remuneration Committee and would like to thank John Patterson for his Chairmanship of the Committee over the last nine years.

There are no proposed changes to the Remuneration Policy so no binding vote will be put forward at the 2015 AGM. The current policy, as approved by shareholders at the 2014 AGM, can be accessed on Cobham's website.

Remuneration philosophy underpinning decisions

- The overall remuneration philosophy is linked to the long term success of the Company. This is achieved by aiming to be market competitive to attract and retain executives of the quality required to deliver the Group's strategy, whilst taking into account an individual's experience and personal contribution to the Group's Strategic Plan.
- Paying for performance is the guiding principle of Cobham's Total Compensation Philosophy. Compensation decisions are closely linked to Cobham's performance development system.
- Cobham's intent is to deliver premium actual total compensation comparable to the upper quartile of our aerospace and defence peer competitors if sustained upper quartile performance is achieved. For strong performance, actual total compensation delivered is targeted at the market median.

How company performance during the year is reflected in the remuneration outcome

- The Company has been operating in a challenging market environment over the last 12 months. We operate a diverse portfolio of businesses and while some of the businesses performed well, those exposed to defence in general and the US defence market in particular, had another difficult year.
- Despite the challenges, the Company has made good strategic progress during the course of 2014, shifting the balance of the business away from defence and towards commercial end markets and customers.
- This included the acquisition of Aeroflex, which was widely regarded as an appropriate and astute move by investors, and other recent acquisitions, such as Axell Wireless, have been successfully integrated into the business.
- With a book to bill ratio of 1.03x and order intake 10% higher before M&A the Group is now positioned to return to growth from 2015 as anticipated.
- 2014 has seen excellent returns to shareholders with TSR increasing 22% over the period in comparison to FTSE250 growth of 4%.
- Despite the good progress outlined above, the financial targets set at the start of the year upon which the remuneration arrangements are based have not been met. Both operating profit and cash flow targets under the annual bonus have not been met resulting in zero pay out under the Annual Incentive Plan (AIP). In addition, the threshold level of EPS was not met and TSR performance was below median over the three year performance period for the 2012 Performance Share Plan (PSP), resulting in awards lapsing.

The key challenges and issues that the Remuneration Committee addressed during the year

- First year of implementing the new Remuneration Policy which was approved by over 98% of shareholders at the 2014 AGM.
- 2014 was a year of organisational change for the Group: First full year for the new CFO; and stable Executive Director population but Group Executive and the business radically changed due to organisation redesign.
- During the year, the AIP has been redesigned, in line with the policy, to simplify the short term bonus arrangements and to further align with the developing strategy. The AIP for 2015 will adopt an additive rather than a multiplicative approach.
- Reviewed mechanisms to target retention of key staff including future potential leaders.
- Aligned remuneration to support retention of key staff as part of the Aeroflex integration.

The intended remuneration arrangements for the current year and the key future issues to be addressed by the Remuneration Committee

- Remuneration arrangements for 2015 have been developed in line with the Remuneration Policy.
- Base salary increases for the CEO and CFO, to be effective from 1 March 2015, have been set at 5.0% and 6.8% respectively. These salary increases are above the average increase provided to the wider workforce of c.3.0% but are considered to be appropriate in the context of: the successful acquisition of Aeroflex, which has resulted in an increase to the size and complexity of the Group, and subsequently the scope of the two executive's roles; the strategic progress during the course of 2014; and the performance and contribution of the two Executive Directors in driving the business forward.
- From 2015 onwards, the Bonus Co-investment Plan (BCP) is to be removed from the CEO's remuneration package in order to simplify the overall remuneration package and align the CEO's remuneration structure with the rest of the senior management team. The CEO will therefore no longer be entitled to receive a matching award on any bonus deferred. However, he will still be required to defer 25% of any bonus earned into shares for a period of three years. This will reduce the maximum opportunity of the CEO's remuneration package by 60% of salary.
- In recognition of the changes outlined above, the maximum annual bonus opportunity for the CEO is to be increased from 120% of salary to 150% of salary which remains within the Remuneration Policy approved by shareholders at the 2014 AGM. This provides partial compensation for the loss of opportunity under the BCP and also recognises the increase in the size and complexity of the business following the largest acquisition in the Company's history. The annual bonus opportunity for the CFO is to be increased from 100% of salary to 120% of salary to reflect the increase in the size and complexity of the Group. The changes to the annual bonus opportunities also reflect the continued contribution of the Executive Directors to the business and the Board's confidence in the executive's ability to build on the solid progress made during 2014 and deliver further growth, strong financial performance and value to shareholders in 2015 and beyond.
- We have noted changes to the Code (e.g. on malus and clawback), which are already in place in all incentive plans.
- We are proposing to do a review of our LTI arrangements during 2015 for awards to be made in 2016.

A summary of any discretion applied by the Remuneration Committee during the year

- There has been no discretion applied during the year.

Comment on any stakeholder engagement conducted during the year

- No material consultation has been undertaken during the year but we do consider shareholder views and feedback to be important and will consult on any proposed changes to the LTI strategy during the year.

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 and ensure alignment to the Group's Strategic Plan; and
- Determine, on the Board's behalf, the specific remuneration packages of the Chairman, Executive Directors, Group Executive and Company Secretary.

Membership and attendance

Seven Remuneration Committee meetings were held during the year, attended as follows:

John Patterson[1] (Chair)	● ●
Alison Wood[2] (Chair)	● ● ● ● ● ● ●
Birgit Nørgaard[3]	● ● ● ● ●
Mark Ronald[4]	○ ○ ● ● ● ● ●

○ Unable to Attend ● Attended

[1] John retired as Chair of the Committee at the conclusion of the 2014 AGM.
[2] Alison was appointed Chair to replace John as Chair of the Committee on 24 April 2014.
[3] Birgit was appointed as an additional member of the Remuneration Committee on 24 April 2014.
[4] Mark was recused between 24 April 2014 and 12 September 2014 from all business of the Group during the consideration of and up to the conclusion of the Aeroflex transaction.

Other attendees

Executive Vice President HR, Vice President Compensation and Benefits, Deloitte LLP, and Company Secretary. The CEO and the Chairman of the Board attend by invitation.

No individual is present in meetings relating to decisions around their own remuneration. The Committee's terms of reference are available on the Company's website or on application to the Company Secretary.

Key issues and activities

Set out in the table below is a summary of matters considered by the Committee during 2014:

	Feb	Apr	Jul	Sep	Oct	Nov	Dec
Committee only sessions with advisers	●	●	●				●
Compensations awards – previous year	●						
Compensation awards – current year	●		●				
Retention awards	●	●					
LTI performance dashboards	●		●				
Chairman remuneration			●				
Group Executive objectives	●						●
Aeroflex remuneration							
Transition plans			●				
Retention strategy			●	●			
Remuneration strategy							
AIP review	●	●	●	●	●	●	●
LTI review							●
Other							
Updates on corporate governance developments			●			●	
Terms of reference							●
Effectiveness of the Committee							●
Remuneration Policy and Annual Report review	●						●
Approval of Executive Share Option Scheme, Conditional Share Plan and Sharesave – new rules	●		●				
Committee work planning			●			●	●

Alison Wood
Remuneration Committee Chair
4 March 2015

Introduction

Our remuneration structure

The Directors' Remuneration Policy (the Policy) set out in our 2013 Annual Report and Accounts was approved by over 98% of our shareholders at our AGM held on 24 April 2014. The full Policy is available on the Company's website. As context for the rest of this report, the main elements of the Policy, as well as how the policy was implemented during the year, are summarised below:

	Key elements	Key features	How it was implemented in 2014
	Base salary	Reviewed annually with changes typically effective from 1 March. Maximum salary increases typically in line with the outcomes of the annual review and typically in line with the average increase for the wider workforce.	Increases awarded on 1 March 2014: CEO – 3% CFO – 3%
The Annual Incentive Plan (AIP) is designed to drive and reward annual performance against financial and operational KPIs as well as individual objectives, which are directly linked to the Group's strategic plan.	Cash bonus	Maximum opportunity under the Policy is 150% of salary. For target performance, 50% of maximum bonus opportunity will be received. Measured over a one year performance period based on a combination of financial and individual metrics. Malus and clawback provisions are in place.	2014 awards: CEO – 120% of base pay opportunity CFO – 100% of base pay opportunity No payment has been made in relation to the 2014 award as performance targets were not met.
	Deferred bonus	75% paid in cash and up to 25% mandatorily deferred into company shares for a period. Malus and clawback provisions are in place.	Deferred 2014 AIP (payable early 2015): Not applicable
LTI – The Performance Share Plans (PSP) and The Bonus Co-Investment Plan (BCP) are designed to drive sustainable profitable growth and align Executive Directors with shareholders' interests.	LTI – PSP	PSP allows for conditional share awards or nil-cost options up to 150% of base salary may be granted annually. Threshold level of vesting is 16.7% of maximum award. As with matching shares, performance assessed over more than one year, usually three years against key financial metrics. Malus and clawback provisions are in place.	Awards of 150% of salary were made in 2014 with performance conditions as set out on page 61.
	Matching shares – BCP	Up to an additional 25% of the annual bonus can be voluntarily deferred into BCP. Matching awards on up to 50% of bonus: Maximum 1:1 Threshold 0.5:1 Performance assessed over more than one year, usually three years against key financial metrics. Malus and clawback provisions are in place.	**The BCP is awarded to the CEO only**. There has been no previously deferred bonus under the BCP plan which vested during the year.
	Share Ownership Guidelines	There is a requirement to retain a percentage of salary in shares, which must be built up from shares vesting from executive incentive plans.	The CEO is required to retain 200% of annual salary, and the CFO, 100%.

Aligning remuneration with strategy

We continue to take a disciplined approach to ensure that our remuneration strategy supports the seven strategic priorities which are set out on pages 14 to 17. Our incentive framework is designed to underpin the delivery of sustainable growth in earnings and shareholder value together with the generation of free cash flow.

The 2014 AIP framework supports our priorities of driving continuous improvement in operational excellence and programme execution with inclusion of operational KPIs and by directly targeting growth in trading profit and free cash flow. In addition, individual objectives were set as part of the 2014 AIP to specifically address the strategic development of the Group's portfolio, particularly seeking to promote M&A and leveraging our technology across the Group to access more commercial end markets.

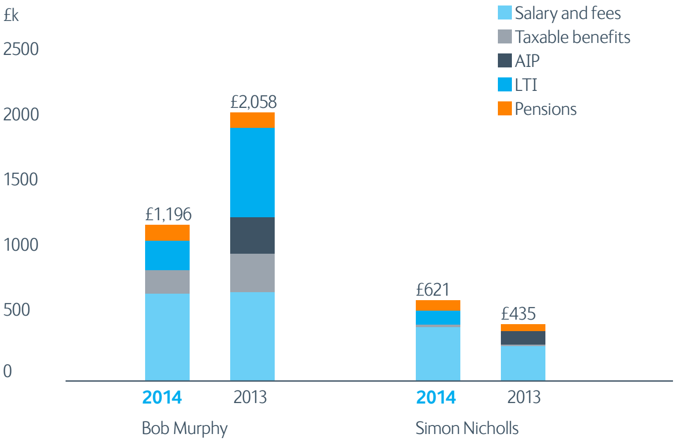
In 2015, the AIP will continue to focus on delivering superior operational performance. As described on page 56, we have redesigned and simplified the AIP framework and have increased the weighting given to achieving key strategic execution measures whilst retaining the discipline of aligning with Group and Sector operating financial metrics.

The LTI plans are designed to encourage the necessary actions and leadership behaviours to promote investment in innovation, development of required technical skills and leadership capabilities and accelerating the adoption of our technologies to underpin the delivery of long term sustainable growth in shareholder value.

The annual report on remuneration

Single total figure of remuneration for each Executive Director (audited information)

The single figure table below is completed for each person who served as an Executive Director of the Company at any time during the financial year, together with comparatives.



Single total figure table

£k	■ Salary and fees	■ Taxable benefits	■ AIP	■ LTI	■ Pensions	Total
Bob Murphy						
2014	**669**	**174**	**–**	**228**	**125**	**1,196**
2013	680	294	280	687	117	2,058
Simon Nicholls						
2014	**410**	**20**	**–**	**108**	**83**	**621**
2013	267	11	104	–	53	435

Notes:
1. Simon Nicholls was appointed 1 May 2013.

Additional disclosures in respect of the single total figure of remuneration (audited information)

The Company has obtained written confirmation from each Director that they have disclosed all other items in the nature of remuneration.

■ Salary and fees

Bob Murphy's employment terms and conditions are based on US law and his salary payments are made in US dollars and have been converted to UK pounds for tax purposes and these are the figures used in the above table. Bob's 2014 salary, effective from 1 March 2014, was US$1,103,400. Bob's salary in UK pounds was lower during 2014 as opposed to 2013 due to changes in the exchange rate.

Simon Nicholls' 2014 salary, effective from 1 March 2014, was £412,000 per annum.

■ Taxable benefits

The taxable benefit figures are as follows:

Benefit	Bob Murphy £k	Simon Nicholls £k
Car and private petrol allowance	19	18
Private medical insurance, disability cover and life insurance	15	2
Expatriation allowance	122	–
Allowance to cover financial/tax advice	18	–
Total	**174**	**20**

Notes:
1. Bob Murphy's employment terms and conditions allow for annual expatriation allowance.

■ Annual Incentive Plan

The 2014 AIP is designed to drive and reward annual performance against financial and operational KPIs as well as individual objectives, which are directly linked to the Group's strategic plan. In setting the performance levels for the 2014 AIP, the Committee considered the budget/forecast approved by the Board for the relevant year, and set threshold and maximum targets at appropriately stretching levels either side of the budget.

Details of the AIP measures, weightings and targets as well as performance against each of the targets is provided in the table below:

Metric	Weighting	Performance	Full year £m	Actual £m
Trading profit	70%	Threshold	310	
		Target	320	The threshold level of performance was not met under either metric and so the bonus payment was zero
		Maximum	330	
Free cash flow (before restructuring)	30%	Threshold	256	
		Target	288	
		Maximum	320	

Trading profit and cash flow metrics are adjusted for the impact of acquisitions and disposals during the year. Performance conditions are set at fixed translation exchange rates. The actual results are normalised to these rates for assessment purposes. Trading profit and free cash flow are discussed in more detail at note 2 to the Group Financial Statements and in the KPI definitions on page 17.

For 2014, the AIP adopted a multiplicative formula whereby performance against the financial metrics is converted into a Business Performance Factor (BPF), which is then multiplied by an Individual Performance Factor (IPF) based on an assessment of an individual's achievement against personal objectives to provide an overall bonus outcome.

As the threshold financial performance targets were not met, this resulted in a zero BPF. As the bonus is multiplicative this results in a zero bonus payment overall regardless of an individual's performance against their personal objectives.

As mentioned earlier, the structure of the bonus for 2015 has been redesigned and further details are provided on page 64.

Long term incentives

The PSP is designed to drive sustainable profitable growth in shareholder value and align executive directors with shareholders' interests.

PSP awards vesting in 2014

The performance targets for the PSP awarded in 2012 are set out below:

Metric	Weighting	Performance	Award vesting at that level %	Result
TSR	50%	Threshold (Index)	16.7%	Performance targets for the TSR have not been met
		Maximum (Index +10%)	100%	
EPS	50%	Threshold (3% per annum)	16.7%	Performance targets for the EPS have not been met
		Maximum (11% per annum)	100%	

Notes:

1. EPS is defined in the KPI definitions on page 17.

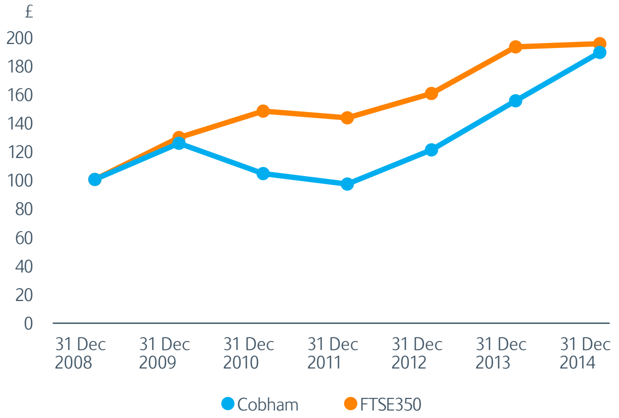
TSR Peer Group

The companies in the TSR comparator group for awards granted in 2014 are:

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

There has been no change in the composition of the TSR Peer Group during the year.

TSR performance Cobham vs FTSE350



Source: Kepler Associates

The graph above illustrates the TSR performance (share price growth plus dividends) of Cobham against the FTSE350 Index over the past six years. The graph shows the value of £100 invested over the six year period ending 31 December 2014. The FTSE350 Index was chosen as it is a recognised broad equity market index of which Cobham was a member during 2014 and is currently, as at 4 March 2015, ranked at 103rd.

The performance targets for the PSP were not met for the three performance years ended on 31 December 2014 therefore no awards made in 2012 will result in any payout and will lapse.

The LTI plans are an important element of our remuneration strategy with their focus on driving the longer term strategic priorities and underpinning the sustainable growth of the Group's portfolio. We will be reviewing the design of the LTI plans in 2015, seeking opportunities to both simplify the arrangements and to ensure these continue to be effective in both driving shareholder value and enabling Cobham to attract, retain and develop the leadership talent essential to its future success.

Buy-out Awards vesting in 2014

Bob Murphy's long term incentives figure covers the vesting of one award made to him as a buy-out award to compensate for forfeited equity from his previous employer as a result of leaving to join Cobham. This award, which was disclosed in full in the 2012 Annual Report and Accounts, is set out below:

Awards vesting	Date of vest	Valuation (pence per share)	Amount vested (£k)
72,305	18 December 2014	314.8	228

Simon Nicholls' long term incentives figure covers the vesting of one award made to him as a buy-out award to compensate for forfeited equity from his previous employer as a result of leaving to join Cobham. This award, which was disclosed in full in the 2013 Annual Report and Accounts, is set out below:

Awards vesting	Date of vest	Valuation (pence per share)	Amount vested (£k)
34,025	29 May 2014	316.0	108

All buy-out shares included above have been valued at market price achieved on the date of vesting.

The resulting shares, after settlement of statutory deductions, have been retained against the relevant Director's share ownership guidelines.

Long-term incentives awarded during the financial year (audited information)

The following table sets out the awards made under the LTI plans to Executive Directors during the year.

	Type of award	Basis of which award is made	Date of award	Face value of award (No. of shares awarded)	Performance period	Performance conditions
Bob Murphy	PSP (performance share award)	150% of base salary	27 May 2014	£979,347 (319,912)	1 January 2014 to 31 December 2016	Equal split between TSR, EPS and Cash Conversion; see note below giving details of the performance conditions.
	BCP (performance share award)	Mandatory retained, earned AIP	27 May 2014	£44,530 (14,546)	1 January 2014 to 31 December 2016	Economic Profit measure is considered to be price sensitive and is not disclosed until the year of vesting.
Simon Nicholls	PSP, nil-cost options (performance share award)	150% of base salary	27 May 2014	£618,000 (201,875)	1 January 2014 to 31 December 2016	Equal split between TSR, EPS and Cash Conversion; see note below giving details of the performance conditions.

Notes:

1. All awards have been made in accordance with the relevant scheme rules.
2. The face value has been calculated by multiplying the number of shares awarded by the MMQ price of those shares for the three trading days immediately preceding the date of the award.

Performance Conditions for the PSP awarded in 2014 are set out in the table below:

Metric	Weighting	Performance	Award vesting at that level %
TSR	33.3%	Threshold (Index)	16.7%
		Maximum (Index +10%)	100%
EPS	33.3%	Threshold (3% per annum)	16.7%
		Maximum (10% per annum)	100%
Cash conversion	33.3%	Threshold (over 90% per annum)	16.7%
		Maximum (100% per annum)	100%

Notes:

1. EPS and Cash Conversion are defined in the KPI definitions on page 17.
2. The TSR Peer Group remains unchanged for the 2014 awards, see page 60.

■ Pensions

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 noted below and the contributions to each are shown in the table:

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

£k	2014	2013
Contributions to 401k plan	**15**	10
Contributions to executive retirement plan	**110**	107
Total	**125**	117

Simon Nicholls' pension figure is a combined amount of £40,000 to an executive defined contribution plan and £42,500 paid as a cash allowance in lieu of additional defined contribution arrangements. Together these payments represent a rate of 20% of his base salary.

Non-executive Directors (audited information)

The 2014 remuneration and current fees of the Non-executive Directors, including the Chairman, are stated below:

	Full year additional fees			Actuals payable	
£k	Base fee	Committee fee	Senior Independent Director	2014	2013
John Devaney (Chairman)	**270**	–	–	**270**	270
Mike Wareing	**55**	**10**	**10**	**75**	72
Jonathan Flint	**55**	**2.5**	–	**58**	38
Mike Hagee	**55**	**5**	–	**65**	65
Birgit Nørgaard (from April 2014)	**55**	**2.5**	–	**39**	–
Mark Ronald	**55**	**2.5**	–	**62**	63
Alison Wood	**55**	**10**	–	**63**	58
Marcus Beresford (to April 2013)	–	–	–	–	23
John Patterson (to April 2014)	–	–	–	**22**	68
Total				**654**	657

Notes:
1. Non-executive Directors only receive fees under their service agreement and do not have any other taxable benefits, annual or long term incentives or pension arrangements provided by the Company .
2. Non-executive Directors do not have a permanent place of work specified in their service contract, all reasonable and properly incurred expenses incurred in performance of duties as Board members are reimbursed by the Company.
3. Difference between full year fee and actual is explained by an individual commencing or retiring during the year or prior year or by the payment of a fee of £5k per annum in respect of travelling time for the two Directors based in the US.
4. All of the above Directors are members of the Nomination Committee but do not receive any additional fees.

No increase in Non-executive Director fees was awarded in 2014.

Total aggregate Directors' fees for the year, including the Executive Director fees as per the single figure table on page 59, amount to £2,471,000 (2013: £3,944,000).

Statement of Directors' shareholding and share interests (audited information)

The interests of the Non-executive Directors and their families in ordinary shares were:

	31.12.14	1.1.14
John Devaney	**30,000**	30,000
Mike Wareing	**20,000**	20,000
Jonathan Flint	**5,000**	5,000
Mike Hagee	**5,000**	5,000
Birgit Nørgaard	**5,000**	N/A
John Patterson	**N/A**	5,000
Mark Ronald	**5,000**	5,000
Alison Wood	**5,000**	5,000

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

Executive Directors' share interests

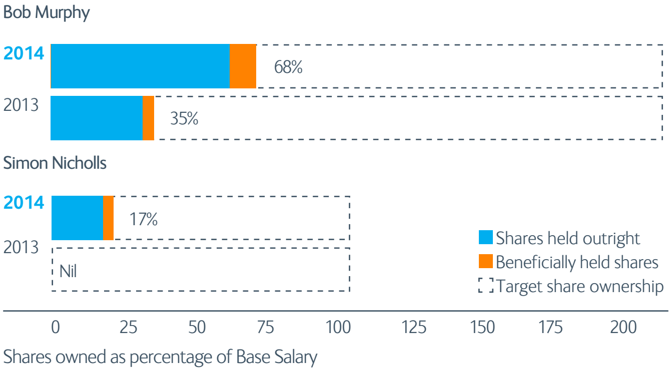
The interests of the Executive Directors in share awards or share options are shown below (note: there are no options which have vested but not yet been exercised):

	Award	Share awards subject to performance conditions	Share awards subject to continued employment	Unvested options subject to performance awards
Bob Murphy	PSP 2012	451,917	–	–
	PSP 2013	453,924	–	–
	BCP 2013	7,564	–	–
	PSP 2014	**319,912**	–	–
	BCP 2014	**14,546**	–	–
	Total	**1,247,863**	–	–
Simon Nicholls	Buy-out award 2013	–	52,417	–
	PSP 2013	–	–	204,151
	PSP 2014	–	–	**201,875**
	Deferred AIP 2014	–	**3,822**	–
	Total	–	**56,239**	**406,026**

Share ownership requirements

Ownership guidelines require the Executive Directors to maintain ordinary shares. These guidelines state that the CEO retain the value of at least two years' salary, and the CFO retain the value of at least one year's salary. In addition, the CEO and CFO are to retain a minimum of 50% of net vested PSP and BCP matching shares until the relevant shareholding level is met. There is no time frame over which the guidelines are required to be met and there is no requirement for directors to hold these shares after leaving the Company. Both Directors have retained the required shares resulting from LTI vests and have complied with the guidelines in this respect, but have yet to meet their targets due to the length of their tenure.

Shares held by Executive Directors as at 31 December 2014 against share ownership



Interests at 4 March 2015, 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 2014.

The market price of the ordinary shares as at 31 December 2014 was 323.9 pence per share and the closing price range during the year was 263.7 pence to 327.8 pence.

Dilution

The Company's share schemes are currently funded through shares purchased in the market and have been since November 2010, prior to which they were funded through new issue shares. Funding of awards through new issue shares is subject to an overall dilution limit of 10% of issued share capital in any ten year period. Of this, 5% may be used in connection with the Company's discretionary share schemes. As of 31 December 2014, 7.8m (0.69%) and 5.8m (0.51%) 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 the calculations.

Payments to past Directors (audited information)

There were no payments made to past Directors during the year.

Payments for loss of office (audited information)

There were no payments made for loss of office during the year.

Historic CEO total remuneration

The table below shows historic CEO total remuneration, calculated on the same basis as that used in the single figure table on page 59.

Year	CEO	CEO Single figure of total remuneration (£k)	Annual bonus payout against maximum opportunity % (£k)	Long term incentive vesting rates against maximum opportunity % (£k)
2014	**CEO3 Bob Murphy**	**1,196**	**0.0% (Nil)**	**N/A**
2013	CEO3 Bob Murphy	2,058	34.3% (280)	N/A
2012	CEO3 Bob Murphy	753	48.5% (182)	N/A
	CEO2 Andy Stevens	1,283	45.0% (267)	58.0% (202)
2011	CEO2 Andy Stevens	1,916	92.5% (555)	85.0% (546)
2010	CEO2 Andy Stevens	1,478	33.5% (201)	87.0% (471)
2009	CEO1 Allan Cook	1,496	93.0% (567)	100.0% (238)

Percentage change in remuneration of CEO

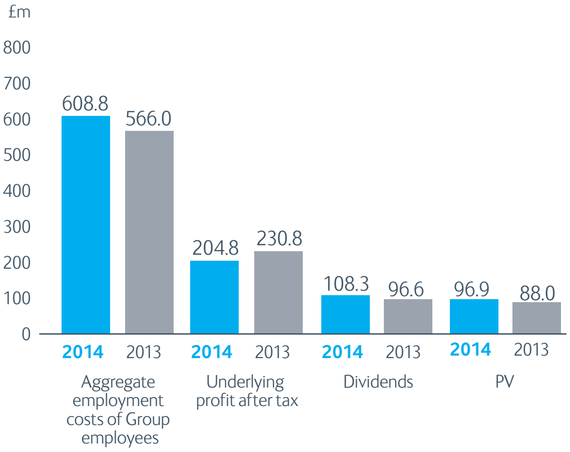
The following table shows the year on year change in respect of the three remuneration elements shown in table for the CEO as compared to that of UK employees generally:

Remuneration element	CEO	Average employee per capita figure
Salary	3.0%	2.7%
Benefits	(41%)	(22%)
AIP	(100%)	(78%)

The UK payroll has been chosen for comparison as this is the location of the head office.

Relative importance of spend on pay

The chart below displays the relative expenditure of the Company on various matters, as required (in the case of Group employees' pay and shareholder distributions) by the relevant remuneration regulations:



The aggregate employment cost of Group employees is detailed at note 4 to the Group Financial Statements and includes employer social security payments. Group underlying profit after tax is shown above as this is profit attributable to the owners of the Group, refer to note 2. Dividends are shown at note 7. PV relates to the amount of profit the Group spends on research and development, refer to note 4.

Statement of implementation of remuneration policy in the current financial year

Set out below is an explanation of the way the approved policy will be implemented in the current year.

Element of Directors' Remuneration Policy	Change	Rationale for any change
Base Pay	Current salaries for the CEO and the CFO, effective from 1 March 2015, are £742,665 (US$1,158,600) and £440,000 respectively.	These represent a 5% increase for the CEO and a 6.8% increase for the CFO. These above average increases are in recognition of the increase in the size and complexity of the Group, and subsequently the increase in scope of the two executive's roles and their continued strategic progress of the business.
Other benefits/ retirement benefits	No change.	Not applicable.
AIP	The maximum opportunity for the CEO has increased from 120% of salary to 150% of salary. The maximum opportunity for the CFO has increased from 100% of salary to 120% of salary. The structure of the plan has also been redesigned and will be operated on an additive basis. Awards will be assessed against the following metrics, each with a 25% weighting: – Group Revenue – Underlying Operating Profit – Group Cash Conversion – Key strategic measures linked to personal objectives As in 2014, 25% of any bonus earned will be required to be deferred into shares for a period of three years.	The maximum bonus opportunity for the CEO has been increased to partially compensate him for the removal of the BCP (see below). The increase for the CEO and CFO also recognises the increase in the size and complexity of the Group following the acquisition of Aeroflex and the impact this has had on the two executive roles. In addition, the increases reflect the Board's confidence in the executive's ability to build on the progress made during 2014 and deliver further growth, strong financial performance and value to shareholders in 2015 and beyond.
BCP	Removed from the remuneration structure.	The BCP has been removed for the CEO to simplify remuneration arrangements and align his remuneration structure with the rest of the executive team.
PSP	No change. Awards to the value of 150% of salary will be made in March 2015. Performance will be equally weighted between EPS growth, relative TSR against a comparator group, see page 60, and cash conversion.	Not applicable.

Non-executive Director fees are reviewed annually. There has been no change to Non-executive Director fees during the year.

Advisers to the Remuneration Committee

The Committee received advice during the year from Deloitte LLP. The Committee is satisfied that the advice they have received has been objective and independent due to Deloitte's compliance with the Code of Conduct of the Remuneration Consultants Group and the external experience of Committee members. Deloitte's performance is considered by the Committee as part of their performance evaluation. Total fees for advice provided to the Committee during the year amounted to £96,050 and were provided on a time/cost basis.

Adviser	Appointed by	Services Provided to the Committee	Other services provided to the Company
Deloitte LLP	Remuneration Committee in November 2009	Remuneration strategy Incentive design Market data	Tax and consultancy on the governance, risk and assurance initiative

Additional advice was received from the Executive Vice President Human Resources, Vice President Compensation and Benefits and the Company Secretary.

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.

2014 voting at the Annual General Meeting

At the AGM held on 24 April 2014, shareholders approved the Directors' Remuneration Policy and voted on the Directors' Remuneration Report for the year ended 31 December 2013. Below are the results in respect of those resolutions, which required a simple majority (i.e. 50%) of the votes cast to be in favour in order for the resolution to be passed. The votes 'for' include discretionary votes given to the Chairman of the Board.

Directors' Remuneration Policy

Votes for	%	Votes against	%
21,552,175	98.36	359,215	1.64

Votes withheld 59,533

Directors' Remuneration Report

Votes for	%	Votes against	%
20,659,173	97.05	622,446	2.95

Votes withheld 689,305

Alison Wood
Remuneration Committee Chair
4 March 2015

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 2014. The Company is registered in England and Wales under company number 30470. The Company's registered office is Brook Road, Wimborne, Dorset, BH21 2BJ, UK.

Dividends

An interim dividend of 2.904 pence per ordinary share of 2.50 pence each in the capital of the Company (ordinary shares) (2013: 2.64 pence) was paid in November 2014. The Directors are recommending a final dividend of 7.746 pence per ordinary share (2013: 7.04 pence) payable on 29 May 2015 to ordinary shareholders on the register as at 1 May 2015, making a total ordinary dividend for the year of 10.65 pence (2013: 9.68 pence). Details of the total dividend paid out is covered in note 7.

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 are or were 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 page 62.

Share capital

The Company has one class of ordinary shares which carry no right to fixed income, representing 99.9% of the total issued share capital.

In addition, 19,700 non-redeemable 6% second cumulative preference shares have been issued which represent 0.1% of total issued share capital.

At the AGM held on 24 April 2014, the Company was authorised to purchase up to 107,857,590 ordinary shares. This authority will expire at the conclusion of the 2015 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 Directors have been authorised to allot and issue ordinary shares. These powers are exercised under authority of resolutions passed at the Company's AGM. On 20 May 2014, 60,000,000 ordinary shares of the Company were created as the result of a private placing.

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.

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.

Voting rights and restrictions on transfer of shares

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.

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; and
- 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 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 aircraft 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 under the LTI arrangements appears within the remuneration policy table available on the Company's website.

Employee share schemes – rights of control

If required to do so by the Company, the trustee of the Cobham Share Incentive Plan (SIP) will, on receipt of notice from the Company of any offer, compromise arrangement or scheme which affects shares held in the SIP, 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.

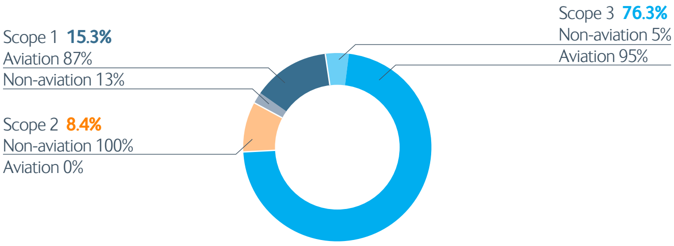
The trustee will not vote in respect of any shares held in the SIP in respect of which it has received no directions nor will the trustee vote in respect of any shares which are unallocated under the SIP.

The trustees of the Employee Benefit Trust (which, as at 31 December 2014, hold 6,279,557 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.

Greenhouse gas emissions

The majority of Cobham's total greenhouse gas (GHG) emissions (86%) come from its aviation activity (figure 1), primarily being from the aviation services business. Growth in this business inflates Cobham's scope 1 and 3 emissions which yields an increase in Cobham's absolute emissions (figure 1) and emissions intensity (figure 2).

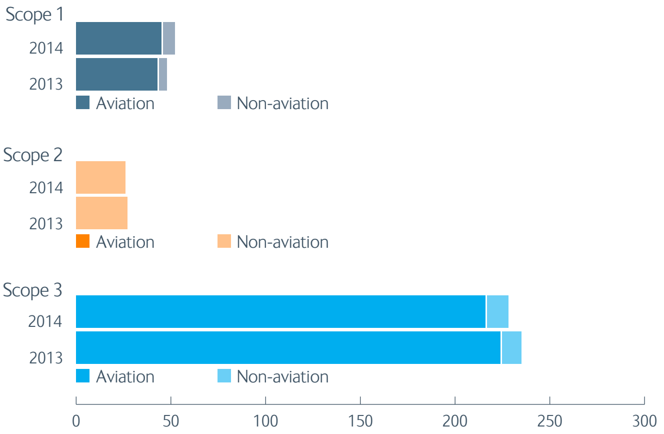
Figure 1 – 2014 GHG emissions (tCO_2e %)



	Year	Aviation		Non-aviation		Total
		tCO_2e	%	tCO_2e	%	tCO_2e
Scope 1	**2014***	**81,165**	**87**	**12,167**	**13**	93,332
	2013	77,066	84	14,277	16	
Scope 2	**2014***	**–**	**–**	**51,532**	**100**	51,532
	2013	–	–	48,276	100	
Scope 3	**2014**	**443,689**	**95**	**22,161**	**5**	465,850
	2013	384,860	95	21,640	5	
Total		**524,854**	**86**	**85,860**	**14**	**610,714**

* Included in the scope of external assurance.

Figure 2 – Emissions intensity ($tCO_2e/£m$)

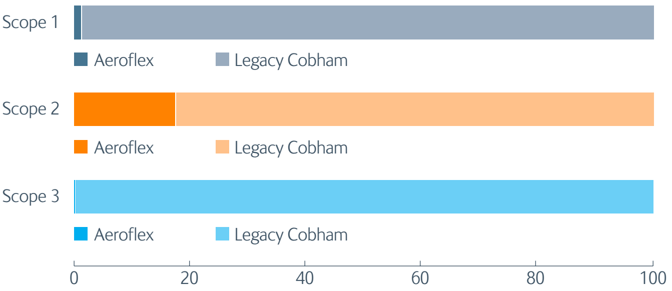


	Year	Aviation	Non-aviation	% Total Change
Scope 1	**2014**	**44**	**7**	5
	2013	43	5	
Scope 2	**2014**	**–**	**28**	3
	2013	–	27	
Scope 3	**2014**	**240**	**12**	10
	2013	216	12	

Cobham's scope 2 emissions, generated from electricity consumption, increased by 4% despite implemented energy efficiency measures rolled out during 2014. The increase relates to the recent acquisition of Aeroflex whose Q4 scope 2 emissions accounted for 17% of the Group's scope 2 emissions for the year (figure 3). This is expected as the nature of the Aeroflex business is energy intensive.

Excluding Aeroflex, total electricity consumption decreased by 13%. Cobham's target of reducing its energy consumption per £m by 10% year on year was narrowly missed with a reduction of 8%. 2015 will therefore become a new baseline for energy targets.

Figure 3 – GHG emissions: Aeroflex vs. Legacy Cobham (tCO_2e %)



	Aeroflex		Legacy Cobham (incl. Aviation)	
	tCO_2e	%	tCO_2e	%
Scope 1*	1,114	1.2	92,218	98.8
Scope 2*	9,002	17.5	42,530	82.5
Scope 3	320	0.1	465,530	99.9
Total	**10,436**	**1.7**	**600,278**	**98.3**

* Included in the scope of external assurance.

Definitions

Scope 1 comprises direct emissions from Cobham owned and controlled plant and equipment, including: aviation fuel, natural gas, heating oil, non-automotive diesel, fugitive emissions, solvent emissions and automotive fuel.

Scope 2 comprises indirect emissions from purchased renewable and non-renewable electricity.

Scope 3 comprises indirect emissions from non-Cobham owned and controlled plant and equipment, including aviation fuel and business travel (train, air and car).

Methodology and data verification

Cobham collects data annually, as per our financial year, on greenhouse gas emissions from its wholly-owned operational subsidiaries. Cobham uses the World Business Council for Sustainable Development, World Resources Institute Greenhouse Gas Protocol method as of 31 December 2014 and the Carbon Disclosure Standards Board to report its greenhouse gas emissions and defines its emissions boundary as those under its direct operational control.

Reported data excludes joint ventures not under Cobham's 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. Further information is provided at **www.cobhamsustainability.com**.

100% of Cobham's wholly-owned operations have been reviewed internally to identify omissions and significant variations from the prior year.

Data assurance

As per last year, we engaged KPMG LLP to undertake a limited assurance engagement, reporting to Cobham plc, using the assurance standards ISAE 3000 and ISAE 3410 over selected information included in The Cobham Performance Summary 2014 report for the year ended 31 December 2014, available at **www.cobhamsustainability.com/at-a-glance/downloads.aspx**. Some of that selected information has been included in this report, identified with "*". KPMG LLP's full assurance statement (as well as their 2013 assurance statement) is available at **www.cobhamsustainability.com/at-a-glance/downloads.aspx**, and they have provided an unqualified opinion on the selected information within their scope of work. The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance engagement. In order to reach their opinion they performed a range of procedures which included interviews with management, examination of reporting systems, four site visits to our operations in the UK, Australia, and US, as well as specific data testing at Head Office. A summary of the work they performed is included within their assurance opinion.

Non-financial performance information, greenhouse gas quantification in particular, is subject to more inherent limitations than financial information. It is important to read the selected information in the context of KPMG LLP's full limited assurance statement and the reporting criteria as set out in the Cobham reporting guidelines available at **www.cobhamsustainability.com/at-a-glance/downloads.aspx**.

Further detail on Cobham's CR&S approach, objectives and performance is also available on page 43.

Major interests in shares

As at 31 December 2014, 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
Schroders plc	47,347,952	4.159
Aberdeen Asset Managers Limited	75,769,343	7.020
Massachusetts Financial Services Company	114,757,138	10.079

Since the year end and up to 4 March 2015, being a date not more than a month prior to the date of the AGM Notice, the Company had received no notices of interests in the ordinary shares in accordance with DTR 5.

Financial instruments

Notes 15, 22 and 24 to the Group Financial Statements and note 10 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.

People

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 age, race, gender, sexual preference, religion or disability. With regard to employees who become disabled, the policy is to take all reasonable steps, including retraining, to ensure that they remain in employment, wherever practicable.

Research and development

The Group continues to invest in the important area of research and development, further details can be found on page 29. During the year the Group expended £96.9m (2013 £88.0m) on non-customer funded research and development.

Events after the balance sheet date

There are no significant post balance sheet events to report.

Political donations and expenditure

No contributions were made to political organisations during the current or prior year.

Annual General Meeting

The Company's AGM will be held at 10 a.m. on Thursday, 23 April 2015 at the offices of Allen & Overy LLP, One Bishops Square, London, E1 6AD, UK.

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

Compliance with Listing Rule 9.8.4 R

The table below gives the location of information required to be included in the Annual Report and Accounts.

Listing Rule	Information	Response
LR 9.8.4 (1)	Amount of interest capitalised and amount and treatment of tax relief.	Not applicable: no interest capitalised.
LR 9.8.4 (2)	Information required by Listing Rule 9.2.18 regarding the prior publication of unaudited financial information.	Not applicable.
LR 9.8.4 (3)	Rule deleted.	Not applicable.
LR 9.8.4 (4)	Long-term incentive schemes where only participant is a director or prospective director of the company and the arrangement is established specifically to facilitate the recruitment of retention of the director.	Not applicable: no such arrangement was entered into during the reporting period.
LR 9.8.4 (5)	Arrangements under which a director has waived or agreed to waive emoluments from the company or any subsidiary undertaking.	Not applicable: no such arrangement exists.
LR 9.8.4 (6)	Agreements with a director to waive future emoluments.	Not applicable: no such agreement exists.
LR 9.8.4 (7)	Details of shares allotted during the period under review which have been allotted to existing shareholders in proportion to their shareholdings and which have not been specifically authorised by the company's shareholders.	On 20 May 2014, 60,000,000 ordinary shares of the Company were created as the result of a private placing.
LR 9.8.4 (8)	Shares allotted in major subsidiary undertakings during the period under review which have not been allotted to existing shareholders in proportion to their shareholdings.	Not applicable: no individual subsidiary is a major subsidiary undertaking as defined by the Listing Rules.
LR 9.8.4 (9)	Details of any parent undertaking's participation in any placing during the period under review.	Not applicable: Cobham does not have a parent undertaking.
LR 9.8.4 (10)	Details of any contract of significance (as defined by the Listing Rules) existing between Cobham, or any of its subsidiaries, in which either a director is materially interested or one of the parties is a controlling shareholder of Cobham.	Not applicable: no such contract of significance exists.
LR 9.8.4 (11)	Details of any contract for the provision of services to Cobham, or any of its subsidiaries, by a controlling shareholder.	Not applicable: Cobham does not have a controlling shareholder.
LR 9.8.4 (12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	The trustees of the employee benefit trust have elected to waive dividends, except in circumstances where they may be holding shares beneficially owned by participants.
LR 9.8.4 (13)	Details of any arrangement under which a shareholder has agreed to waive future dividends.	As noted above.
LR 9.8.4 (14)	Agreements with any controlling shareholder.	Not applicable: Cobham does not have a controlling shareholder.

By order of the Board

Lyn Colloff
Company Secretary
4 March 2015

Statement of Directors' Responsibility

The Directors are responsible for preparing the Annual Report and Accounts, 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 EU, and the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing those financial statements, the Directors are required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRS, as adopted by the 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. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Directors' Responsibility Statement

Each of the Directors, whose names and functions are listed on pages 44 and 45, 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 Strategic Report 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:
- So far as the Director is aware, there is no relevant audit information of which the Group's auditors were unaware; and
- He or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or 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 4 March 2015 and signed on its behalf by:

Bob Murphy
Chief Executive Officer
4 March 2015

Simon Nicholls
Chief Financial Officer
4 March 2015

Compliance with the UK Corporate Governance Code

A. Leadership

A1. The Board's role

In 2014, the Board met nine times, in order to review the Company's performance and strategy against set objectives. 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, to approve the Group's Strategic Plan and to monitor management performance against plan. The Board also sets the Group's risk appetite, and monitors the Company's risk management processes. The Board has adopted a clear schedule of matters reserved for its specific approval, including a framework for those decisions which can be delegated to committees or otherwise. Further details can be found in the Corporate Governance Report on page 48.

A2. A clear division of responsibilities

The Board's policy is that the roles of Chairman and CEO should be performed by different people. The division of responsibilities is documented and clearly understood. The Chairman is responsible for the leadership and effectiveness of the Board, and the CEO is responsible for leading the day-to-day management of the Company within the strategy set by the Board.

A3. Role of the Chairman

The Chairman sets the agendas for meetings, manages the meeting timetable and facilitates open and constructive dialogue during the meetings.

A4. Role of the Non-executive Directors

The Board has appointed a Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors where necessary. The Senior Independent Director is available to shareholders, should they have concerns which contact through the normal channels of communication has failed to resolve.

The Chairman has held regular meetings with the Non-executives in the absence of Executive Directors, providing an opportunity for any concerns to be discussed.

B. Effectiveness

B1. The Board's composition

The Board currently consists of ten individuals, the Chairman, two Executive Directors, and seven independent Non-executive Directors. The composition of the Board is reviewed regularly by the Nomination Committee to ensure that there is an appropriate mix of skills, and a range of diverse experience. Board members' biographies are provided on pages 44 and 45 and identify the experience each Director brings to the Board. A table identifying the skills and experience of the Board members may also be found on page 51. The Board determines, through the Nomination Committee, the independence of its members. Conflicts of interest are also monitored and updated at least annually and more frequently as and when required.

B2. Board appointments

The appointment of new directors to the Board is led by the Nomination Committee. The Nomination Committee's Terms of Reference, as published on the Company website, document their responsibility regarding Board appointments. The Committee consists of all the Non-executive Directors and the Chairman. Further details of the appointments undertaken during the year and succession planning, including the Board's policy on diversity, including gender, can be found on page 51.

B3. Time commitments

The time commitments of Non-executive Directors are defined on appointment and regularly evaluated. The Chairman gives consideration to new directorships which may impact existing time commitments.

B4. Training and development

On appointment, Directors undertake a structured induction programme, which is supplemented by visits to key locations and meetings with senior executives. Further training for Directors is offered when taking a new role on a Committee and is otherwise available as required and may be provided through tailored programmes. Further details can be found in the Directors' professional development section on page 51.

B5. Provision of information and support

The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information. All the Directors have access to independent professional advice, at the Company's expense, where the Directors judge it necessary to discharge their responsibilities.

B6. Board and Committee performance evaluation

The Board and the Board Committees undertook an internal evaluation in 2014. Details of the process undertaken, and a table of actions instigated by this evaluation are included on page 48. The Senior Independent Director also held a meeting with the Non-executives in the absence of the Chairman to appraise the Chairman's performance.

B7. Directors re-election

All directors were subject to shareholder election or re-election, as appropriate, at the AGM.

C. Accountability

C1. Financial and business reporting

The statement of the Director's responsibilities is set out on page 68, and the independent auditor's report is on page 70. The Company's business model is explained on pages 4 and 5.

C2. Risk management and internal control systems

The Board sets the Company's risk appetite and conducts a robust assessment of the principal risks, along with an annual review of the effectiveness of the Company's risk management, and internal control systems. The activities of both the Audit and Risk Committee, which assist the Board with its responsibilities in relation to risk management, reporting and assurance, are set out on pages 34 and 35.

C3. Role and responsibilities of the Audit Committee

Details of the composition of the Audit Committee and how the Committee has discharged its responsibilities during the year is provided in the Audit Committee Report on pages 52 to 55. The Terms of Reference for the Audit Committee are reviewed annually and are available on the Company website.

D. Remuneration

D1. Levels and components of remuneration

The Board believes that the Group's remuneration policy is appropriately designed to promote the long-term success of the Company, while enabling the Group to attract, retain and motivate the executive talent required for the delivery of its business strategy. For further information, see the Directors' Remuneration Report, and summarised Remuneration Policy, on pages 56 to 64.

D2. Development of remuneration policy and packages

The membership of the Remuneration Committee is made up of Non-executive Directors only. The Terms of Reference for the Remuneration Committee are reviewed annually and are available on the Company website. The Remuneration Committee has delegated authority for setting the remuneration of Executive Directors and the Chairman. The fees payable to the Non-executive Directors are determined by the Board, on recommendation from the Executive Directors Committee.

E. Relations with shareholders

E1. Shareholder engagement and dialogue

Effective communication and engagement with investors is of paramount importance to the continued success of the Company. The Company maintains a relationship with shareholders through a series of road shows completed through the year, which are usually attended by the Chief Executive Officer and the Chief Financial Officer. In 2014, the Chairman also invited the largest of the Company's shareholders to meet with him independently. Further details can be found in the Corporate Governance Report on page 49.

E2 Constructive use of general meetings

The Board values all general meetings as an important opportunity to engage with investors. Attendees at general meetings have the opportunity to ask questions to the Board and to speak to individual Directors following the formal business of the meeting.

Independent Auditors' report to the members of Cobham plc

Report on the Group Financial Statements

Our opinion

In our opinion, Cobham plc's Group Financial Statements (the financial statements):

- Give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards (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.

What we have audited

Cobham plc's financial statements comprise:

- The Consolidated Balance Sheet as at 31 December 2014;
- The Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- The Consolidated Cash Flow Statement for the year then ended;
- The Consolidated Statement of Changes in Equity for the year then ended; and
- The Notes to the Group Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the Annual Report), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Materiality:

- Overall Group materiality: £13m which represents 5% of underlying profit before taxation.

Audit scope:

- We conducted audit work in five countries covering 36 reporting units. We paid particular attention to the material Aeroflex acquisition which took place in the year;
- Taken together, the reporting units where we performed our audit work accounted for 76% of Group revenues and 73% of Group underlying profit before taxation.

Areas of focus:

- Revenue and profit recognition on contracts;
- Goodwill and intangible assets impairment assessment;
- Accounting for the Aeroflex acquisition;
- Inventory obsolescence provisions;
- Accounting for uncertain tax positions; and
- Business restructuring costs.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as areas of focus in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Revenue and profit recognition on contracts *Refer to page 54 (Audit Committee Report) and page 81 (note 1, Accounting policies, management judgement and estimation uncertainty – contract risk and programme execution).* For revenue from the sale of goods, we focused on cut-off around the year end because material revenue transactions can occur close to that date. The Group also has a number of significant contracts which span more than one accounting period. In particular, we focused on complex development and production contracts on aerial refuelling aircraft (including KC-46, KC-390, A400M and A330MRTT). The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain. Costs incurred can significantly exceed amounts estimated at inception as a result of material enhancements to the specifications originally assumed under the contracts. For these contracts, we focused on: – The recognition of significant revenue milestones which often involve judgement surrounding the achievement of those milestones; – The amount of revenue assumed as recoverable from customer claims which are subject to commercial negotiation; – Whether contracts with the same customer should be accounted for as separate or linked; – Whether the profit recognised on revenue in the year is appropriate; and – Whether associated assets held on the balance sheet (work in progress and accrued income) are recoverable or whether a contract loss provision should be recorded.	We tested the recognition of revenue transactions close to the period end to establish whether they were recorded in the correct period. This included agreement to signed goods despatch notes or authorised milestone documentation, with customer acceptance where appropriate. No material misstatements were identified. We assessed the basis of profit recognition on the Group's significant contracts, together with whether it is appropriate to account for them as separate or linked contracts. We evaluated the accounting in the context of the Group accounting policies and contract terms. We found the accounting, in all material respects, to be in accordance with the policies and contract terms. We examined the assumptions behind estimated costs to complete, challenging the reasonableness of these in light of supporting evidence such as purchase orders for material or subcontractor costs and engineering estimates for labour hours. We found the assumptions to be supported by the evidence we examined. We agreed total contracted revenue to the original signed customer contracts and approved change orders. We evaluated the reasonableness of estimated revenue for customer claims submitted to recover additional costs incurred, including considering correspondence with the customer and legal advice received where appropriate. We assessed the contract loss provisions recorded through a combination of the procedures above in respect of the overall margin anticipated on the contract and validating that fixed overheads had been appropriately excluded. No material misstatements were identified.
Goodwill and intangible assets impairment assessments *Refer to page 54 (Audit Committee Report), page 81 (note 1, Accounting policies, management judgement and estimation uncertainty – impairment of goodwill) and pages 93 to 94 (note 10, Intangible assets).* Management conduct an annual impairment test of goodwill balances and intangibles are reviewed whenever there is an indicator that an asset may be impaired. The Group has goodwill of £1,220m and intangibles of £777m on its Balance Sheet. Of this, the majority relates to businesses that have substantial headroom through a combination of growth since acquisition and the amortisation of intangibles acquired which has reduced the carrying value being considered for impairment. The risk that we focused on in the audit was whether the remaining businesses that have less substantial headroom could be impaired. In particular, following the goodwill impairment charge recognised in 2013, we focused on the estimated values in use of the Tactical Communications and Surveillance (TCS) businesses to assess whether the remaining goodwill balance of £45m is recoverable. As TCS was written down to its recoverable value in 2013, there is now minimal headroom such that any reduction in the future estimated cash flows could result in further impairment.	We evaluated the Directors' future cash flow forecasts and tested the underlying value in use calculations. We compared the Directors' forecast to the latest Board approved five year strategic plan and no inconsistencies were noted. We challenged: – The Directors' key assumptions for long term growth rates in the forecasts by comparing them to economic forecasts; and – The discount rate by assessing the cost of capital for the Company and comparable organisations. No material inconsistencies were identified between these specific assumptions and external data examined. We performed sensitivity analysis around the key assumptions above to ascertain the extent of change in those assumptions that either individually or collectively would be required for goodwill or intangibles to be impaired. In particular this focused on the growth rates assumed in the first five years of the cash flow forecasts and included a comparison between the 2015 forecast cash flow and 2014 actual results. No material misstatements were identified. For TCS, the key assumption we focused on was the anticipated recovery of sales to the US market (the speed at which it would return to the pre-recession levels). We also considered the movement between the 2014 actual results and the forecast 2015 cash flows and we obtained explanations for the movements and agreed to supporting documentation, such as the closing order book. No material issues were identified in this respect.

Area of focus	How our audit addressed the area of focus
Accounting for the Aeroflex acquisition *Refer to page 54 (Audit Committee Report), page 81 (note 1, Accounting policies, management judgement and estimation uncertainty – business combinations) and pages 113 to 114 (note 28, Business combinations).* The Group completed the acquisition of Aeroflex in September 2014 at a cost of £573m. The cost of the acquisition is accounted for by determining the fair value of assets and liabilities acquired, including intangible assets, with the balance being allocated to goodwill. This acquisition resulted in the recognition of goodwill of £387m and intangible assets of £517m in the Balance Sheet. The fair values of net assets acquired are provisional and subject to potential adjustment The Directors determined that there were five separate business streams acquired, valuing each separately and then allocating the purchase price between them. The process of determining the value of intangible assets requires the use of multiple estimates. The risk we focused on during the audit is whether the valuation of the intangible assets was misstated. In particular, we focused on: – The allocation of the purchase price between the five business streams acquired; – The opening balance sheet, considering fair value adjustments recognised; – The identification of intangibles; – The cash flow forecasts and discount rate used in the intangibles' valuation process; and – The useful economic lives used in amortising intangibles.	We tested the methodology and mechanics of the underlying models used to calculate the acquisition related balances, including intangible assets and other fair value adjustments to assets and liabilities acquired. This included a comparison of the forecasts used in these calculations to the projections used by the Board before approving the acquisition. No material inconsistencies were identified. We have utilised our industry knowledge to compare the intangibles assets identified by management and consider whether there were any other types of intangibles we would expect to see. We did not identify any material omissions. We examined the key assumptions used in the calculation of the value allocated to intangible assets including cash flow forecasts and discount rates, challenging the reasonableness of these in light of supporting evidence. The main assumptions challenged were: – Discount rate – we calculated our own independent rate using both internal rate of return and Capital Asset Pricing Model (CAPM) methodologies and found that management's rate was within an acceptable range; – Technology rates – we assessed management's rate against independent expectations based on the margins in each business and the relevant PV spend with no material differences identified; and – Customer retention and technology decay rates – we have determined that assumptions within the model were reasonable through discussions with operational staff within the businesses. We assessed the useful economic lives determined by management through comparison to the life cycle of the asset under consideration and benchmarking against similar acquisitions. No material inconsistencies were identified. We visited the three largest sites acquired to perform year end audit procedures, focusing in particular on inventory existence and valuation. No material misstatements were identified. We inspected the predecessor auditor working papers for the five largest components of the acquired group and examined the reconciliation from US GAAP to IFRSs performed by management to provide support for the opening balance sheet. Based on the information available to date, no material misstatements were identified.
Inventory obsolescence provisions *Refer to page 54 (Audit Committee Report), page 81 (note 1, Accounting policies, management judgement and estimation uncertainty – inventory provisions) and page 96 (note 14, Inventories).* The nature of much of the Group's business means that the products developed can become technically obsolete. It is also necessary to hold additional spare parts in order to support key customers and programmes should the products require replacement or servicing. The Group had gross inventory of £480m and provisions for obsolescence of £48m on its Balance Sheet. We focused on this area because inventory provisions include subjective estimates and are influenced by assumptions concerning future revenue. In addition, the methods used for this estimate vary between reporting units depending on the nature of the business and inventory.	We assessed the process, methods and assumptions used to develop the provision for slow moving, excess or obsolete items. This included comparing management's calculations for consistency against those used in the prior year and considering whether there was any indication of management bias such as manual overrides to the established methodology. Manual overrides are typically in respect of spares held for the servicing of products on aircraft which have a long service life. Where overrides were material, we considered the appropriateness of management's judgement based on historical usage and future usage expectations. We tested the reliability of the underlying data used by management to calculate the inventory obsolescence provisions, typically an aged inventory analysis showing last movements, by re-performing the ageing calculation driven by the system. We also tested the accuracy of the resultant calculation by assessing the calculation criteria and recalculating the provision for a sample of products. No material misstatements were identified.

Area of focus	How our audit addressed the area of focus
Accounting for uncertain tax positions *Refer to page 54 (Audit Committee Report), page 81 (note 1, Accounting policies, management judgement and estimation uncertainty – taxation).* The Group has a wide geographic footprint and is subject to tax laws in a number of jurisdictions. The Group has a number of open tax enquiries and has recognised provisions against uncertain tax positions, the valuation of which is a highly judgemental area. Where tax positions are not settled with the tax authorities, the Directors take into account precedent and the advice of experts.	We discussed with management the known uncertain tax positions and, where appropriate, read communications from taxation authorities on open tax enquiries. We assessed the adequacy of the Directors' taxation provisions by considering factors such as the risk profile of each matter and whether the provision addresses possible penalties and interest. We met with senior management and challenged the judgements and evaluated the appropriateness of the provisions made. We formed our own views on the key judgements with respect to open tax positions and found the judgements made by management were reasonable.
Business restructuring costs *Refer to page 54 (Audit Committee Report), page 87 (note 2, Underlying measures).* The financial statements include business restructuring costs of £52m which are disclosed as non-underlying and are excluded from underlying operating profit. We focused on this area because IFRSs do not define which items may be excluded from underlying operating profit and it therefore requires judgement around the justification for such exclusion. Consistency in identifying and disclosing items to be excluded from underlying operating profit is important to maintain comparability of the results year on year. In addition, for reporting units where closure and integration had been announced by the year end, such as the closure of Lowell (within Cobham Advanced Electronic Solutions), we focused on the provisions and asset write downs recognised to ensure that they were complete and not misstated.	We tested the presentation of the business restructuring costs as non-underlying by assessing whether the classification was in line with the Group's accounting policy on such items on page 82 of the financial statements. This included testing the costs incurred to supporting evidence such as external purchase invoices and redundancy agreements. We also assessed the appropriateness of this policy and no material issues were identified. For reporting units which were in the process of integrating at the year end, we tested the associated closure costs to supporting evidence. Redundancy provisions were assessed against communications with employees and payroll data. Onerous lease provisions were compared to rentals payable under the original lease agreements. No material misstatements were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along four reported Sectors, being Advanced Electronic Solutions, Aviation Services, Communications and Connectivity, and Mission Systems. The Group Financial Statements are a consolidation of 75 reporting units within these Sectors, comprising the Group's operating businesses and centralised functions. Accordingly, of the Group's 75 reporting units, we identified 17 which, in our view, required an audit of their complete financial information, either due to their size, their risk characteristics or because some are covered on a rotational basis over a two or three year cycle. Specific audit procedures on certain balances and transactions (typically including at least revenue and inventory) were performed at a further 19 reporting units. Audit procedures were performed at all principal manufacturing locations, all significant Aviation Services reporting units and at the three largest components of the Aeroflex acquisition in the year.

The reporting units in scope covered 73% of the Group's underlying profit before taxation and 76% of the Group's revenue. This, together with additional procedures performed at Group level, gave us the evidence we needed for our opinion on the financial statements as a whole. For reporting units which were not in scope, we performed a high level risk analytic on each to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or subsidiary audit teams from other PwC network firms operating under our instruction. Where the work was performed by subsidiary audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate evidence had been obtained as a basis for our opinion on the financial statements as a whole. This included attending the audit close meetings at which the outcome of each subsidiary audit was discussed and visiting a number of larger subsidiary audit teams during their fieldwork including the two key reporting units with the aerial refuelling development and production contracts.

Where subsidiary audit teams performed work at the reporting unit level on behalf of the Group team, this work was performed to lower materiality levels appropriate to the individual units. These materiality levels ranged from £0.7m to £5m.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£13m (2013: £14m).
How we determined it	5% of underlying profit before taxation.
Rationale for benchmark applied	Underlying profit before taxation is defined in the Annual Report on page 82. We believe that underlying profit before taxation represents an appropriate metric for assessing the performance of the Group and provides us with a consistent year on year basis for determining materiality. It is the amount reported by management both internally and externally to the market. We also considered our overall Group materiality in the context of the Group's revenue, noting that it represents less than 0.8%.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5m (2013: £0.5m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 33, in relation to going concern. We have nothing to report having performed our review. As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 46 to 55 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK and Ireland) reporting

Under ISAs (UK and Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is: – Materially inconsistent with the information in the audited financial statements; or – Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – Otherwise misleading.	We have no exceptions to report arising from this responsibility.
The statement given by the Directors on page 46, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
The section of the Annual Report on page 53, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 68, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (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 Parent 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.

What an audit of financial statements involves

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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Parent Company Financial Statements of Cobham plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

Pauline Campbell

Pauline Campbell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2015

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Consolidated Income Statement

For the year ended 31 December 2014

£m	Note	2014	2013
Revenue	3	1,851.7	1,789.7
Cost of sales		(1,290.1)	(1,220.9)
Gross profit		561.6	568.8
Selling and distribution costs		(100.3)	(84.7)
Administrative expenses		(403.9)	(328.4)
Share of post-tax results of joint ventures and associates		0.2	3.1
Operating profit		57.6	158.8
Finance income	5	6.4	5.3
Finance costs	5	(39.7)	(37.5)
Profit before taxation		24.3	126.6
Taxation	6	4.7	(12.1)
Profit after taxation for the year		29.0	114.5
Attributable to:			
Owners of the parent		28.8	114.3
Non-controlling interests		0.2	0.2
		29.0	114.5
Earnings per ordinary share	8		
Basic		2.60p	10.70p
Diluted		2.58p	10.65p

Trading profit is calculated as follows:

£m	Note	2014	2013
Operating profit		57.6	158.8
Adjusted to exclude:			
Business restructuring		52.2	56.1
Movements in non-hedge accounted derivative financial instruments		21.8	(2.2)
Amortisation of intangible assets arising on business combinations		113.6	103.9
Impairment of goodwill		–	63.0
Revaluation gain arising on equity interests in FBH		–	(62.1)
Exceptional legal costs		0.8	–
Other business acquisition and divestment related items		40.7	0.1
Trading profit	2	286.7	317.6
Underlying EPS		18.48p	21.60p

The definitions of trading profit and underlying EPS are shown in note 1.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

£m	Note	2014	2013
Profit after taxation for the year		**29.0**	114.5
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit retirement benefit obligations	23	**(27.7)**	(25.6)
Actuarial loss on other retirement benefit obligations	23	**(0.7)**	–
Tax effects	6	**5.0**	4.1
		(23.4)	(21.5)
Items that may subsequently be reclassified to profit or loss			
Net translation differences on investments in overseas subsidiaries	26	**(18.7)**	(11.1)
Reclassification of cash flow hedge fair values	26	**1.3**	4.5
Movements in hedge accounted derivative financial instruments	26	**1.6**	0.6
Tax effects	6	**(0.9)**	(1.2)
		(16.7)	(7.2)
Total other comprehensive expense for the year		**(40.1)**	(28.7)
Total comprehensive (expense)/income for the year		**(11.1)**	85.8
Attributable to:			
Owners of the parent		**(11.3)**	85.6
Non-controlling interests		**0.2**	0.2
		(11.1)	85.8

Consolidated Balance Sheet

As at 31 December 2014

£m	Note	2014	2013
Assets			
Non-current assets			
Intangible assets	10	**1,997.2**	1,162.2
Property, plant and equipment	11	**390.0**	350.8
Investment properties	12	**10.4**	9.9
Investments in joint ventures and associates	13	**3.1**	3.1
Trade and other receivables	16	**53.3**	22.2
Other financial assets	15	**6.1**	6.1
Deferred tax	21	**10.5**	9.9
Derivative financial instruments	22	**7.6**	5.1
		2,478.2	1,569.3
Current assets			
Inventories	14	**431.4**	315.9
Trade and other receivables	16	**436.6**	317.7
Current tax receivables		**0.4**	0.8
Derivative financial instruments	22	**8.7**	6.6
Cash and cash equivalents	9	**225.6**	200.7
Assets classified as held for sale	17	**2.1**	8.2
		1,104.8	849.9
Liabilities			
Current liabilities			
Borrowings	18	**(1.5)**	(48.1)
Trade and other payables	19	**(503.6)**	(370.3)
Provisions	20	**(54.1)**	(34.4)
Current tax liabilities		**(119.2)**	(112.2)
Derivative financial instruments	22	**(20.7)**	(4.6)
Liabilities associated with assets classified as held for sale	17	**–**	(5.2)
		(699.1)	(574.8)
Non-current liabilities			
Borrowings	18	**(1,446.8)**	(606.0)
Trade and other payables	19	**(36.2)**	(38.0)
Provisions	20	**(13.3)**	(8.6)
Deferred tax	21	**(157.8)**	(52.9)
Derivative financial instruments	22	**(15.5)**	(7.4)
Retirement benefit obligations	23	**(102.0)**	(87.3)
		(1,771.6)	(800.2)
Net assets		**1,112.3**	1,044.2
Equity			
Share capital	25	**30.4**	28.9
Share premium account		**301.9**	126.6
Other reserves	26	**42.7**	55.2
Retained earnings		**736.4**	832.7
Total equity attributable to the owners of the parent		**1,111.4**	1,043.4
Non-controlling interests in equity		**0.9**	0.8
Total equity		**1,112.3**	1,044.2

The financial statements on pages 76 to 117 were approved by a duly appointed and authorised committee of the Board on 4 March 2015 and signed on its behalf by:

Bob Murphy
Directors

Simon Nicholls

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

£m	Share capital	Share premium account	Other reserves (note 26)	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2013	28.9	126.6	64.2	834.1	1,053.8	0.6	1,054.4
Profit for the year	–	–	–	114.3	114.3	0.2	114.5
Items that will not be reclassified subsequently to profit or loss	–	–	–	(21.5)	(21.5)	–	(21.5)
Items that may subsequently be reclassified to profit or loss	–	–	(7.2)	–	(7.2)	–	(7.2)
Total comprehensive income for the year	–	–	(7.2)	92.8	85.6	0.2	85.8
Net purchase of treasury shares	–	–	–	(1.8)	(1.8)	–	(1.8)
Dividends (note 7)	–	–	–	(96.6)	(96.6)	–	(96.6)
Share based payments (note 27)	–	–	(1.7)	–	(1.7)	–	(1.7)
Release of hedge reserve	–	–	1.5	–	1.5	–	1.5
Transfers of other reserves to retained earnings	–	–	(4.2)	4.2	–	–	–
Tax effects (note 6)	–	–	2.6	–	2.6	–	2.6
Total equity at 31 December 2013	28.9	126.6	55.2	832.7	1,043.4	0.8	1,044.2
Profit for the year	–	–	–	**28.8**	**28.8**	**0.2**	**29.0**
Items that will not be reclassified subsequently to profit or loss	–	–	–	**(23.4)**	**(23.4)**	–	**(23.4)**
Items that may subsequently be reclassified to profit or loss	–	–	**(16.7)**	–	**(16.7)**	–	**(16.7)**
Total comprehensive expense for the year	–	–	**(16.7)**	**5.4**	**(11.3)**	**0.2**	**(11.1)**
Issue of shares (note 25)	**1.5**	**175.3**	–	–	**176.8**	–	**176.8**
Net proceeds from treasury shares	–	–	–	**3.3**	**3.3**	–	**3.3**
Dividends (note 7)	–	–	–	**(108.3)**	**(108.3)**	–	**(108.3)**
Share based payments (note 27)	–	–	**6.1**	–	**6.1**	–	**6.1**
Transfers of other reserves to retained earnings	–	–	**(3.3)**	**3.3**	–	–	–
Tax effects (note 6)	–	–	**1.5**	–	**1.5**	–	**1.5**
Foreign exchange adjustments	–	–	**(0.1)**	–	**(0.1)**	**(0.1)**	**(0.2)**
Total equity at 31 December 2014	**30.4**	**301.9**	**42.7**	**736.4**	**1,111.4**	**0.9**	**1,112.3**

Consolidated Cash Flow Statement

For the year ended 31 December 2014

£m	Note	2014	2013
Operating profit		**57.6**	158.8
Non-cash items:			
Share of post-tax profits of joint ventures and associates		**(0.2)**	(3.1)
Revaluation gain arising on equity interests in FBH		–	(62.1)
Depreciation and amortisation including impairment		**190.8**	235.1
Profit on sale of property, plant and equipment		**(0.3)**	(1.1)
Business acquisition and divestment related items		**23.8**	(1.6)
Movements in non-hedge accounted derivative financial instruments	22	**21.8**	(2.2)
Pension contributions in excess of pension charges	23	**(16.9)**	(14.5)
Share based payments	27	**6.1**	(1.7)
Operating cash movements:			
Increase in inventories		**(11.9)**	(0.3)
Increase in trade and other receivables		**(68.3)**	(26.2)
Increase/(decrease) in trade and other payables		**17.3**	(0.3)
Increase/(decrease) in provisions		**12.9**	(3.9)
Tax paid		**(37.0)**	(37.6)
Interest paid		**(31.5)**	(33.7)
Interest received		**3.7**	5.0
Net cash from operating activities		**167.9**	210.6
Cash flows from investing activities			
Dividends received from joint ventures	31	–	3.7
Purchase of property, plant and equipment		**(63.7)**	(58.0)
Purchase of intangible assets		**(12.4)**	(11.7)
Proceeds on disposal of property, plant and equipment		**2.3**	8.0
Investment in other financial assets		–	(6.1)
Loans repaid by joint ventures		–	2.1
Investment in loan notes		**(9.0)**	(18.3)
Acquisition of subsidiaries net of cash or debt acquired	28	**(846.1)**	(126.0)
Contingent consideration paid		**(28.5)**	(2.5)
Proceeds of business divestments		**6.6**	0.5
Net cash used in investing activities		**(950.8)**	(208.3)
Cash flows from financing activities			
Issue of share capital		**176.8**	–
Dividends paid	7	**(108.3)**	(96.6)
Purchase of treasury shares		**(5.5)**	(15.3)
Proceeds on allocation of treasury shares		**8.8**	13.5
New borrowings	9	**1,467.5**	67.0
Repayment of borrowings	9	**(699.9)**	(7.7)
Net cash from/(used in) financing activities		**839.4**	(39.1)
Net increase/(decrease) in cash and cash equivalents		**56.5**	(36.8)
Exchange movements		**(31.2)**	(14.4)
Cash and cash equivalents at start of year		**199.0**	250.2
Cash and cash equivalents at end of year		**224.3**	199.0

A reconciliation of cash and cash equivalents to the Balance Sheet and movement in net debt is detailed in note 9.

Notes to the Group Financial Statements

1. 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).

Basis of preparation

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

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

Principal accounting policies

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

Accounting developments

New standards and amendments to standards which have been adopted with effect from 1 January 2014 are:

- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosures of Interests in other Entities;
- IAS 27 (revised 2011), Separate Financial Statements;
- IAS 28 (revised 2011), Associates and Joint Ventures;
- Amendments to IFRS 10, IFRS 11 and IFRS 12: transition guidance;
- Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities;
- Amendment to IAS 32, Financial instruments: Presentation on offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 36, Recoverable amount disclosures for Non-financial Assets;
- Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting ; and
- IFRIC 21, Levies.

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

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, revenue 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 Board considers that the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which 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:

Contract risk and programme execution

Where appropriate, the consolidated financial statements include provisions for the estimated outcome of commercial disputes and other claims, including those with long term contract partners. In addition, the nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain and could materially impact the Group's future reported earnings.

Failure by Cobham to execute or deliver a project or programme gives rise to the risk of increased programme costs, contract penalties, litigation and other financial liabilities, reduced future profitability and reputational risk. Judgement is therefore required as regards the final costs of technical solutions, the outcome of negotiations with customers, the amounts recoverable under these contracts and any provisions required.

The Directors take account of the advice of experts in quantifying the expected costs of future adverse outcomes. Due to the inherent uncertainty associated with such matters, the timing and determination of the total costs or amount of any payments under any claims could differ from the amounts provided.

Intangible assets recognised on acquisition (note 28)

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 (note 10)

A review of the carrying value of goodwill is completed at least once a year to ensure that it is not impaired. 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.

Inventory provisions (note 14)

The nature of much of the Group's business means that inventory held can become technically obsolete. It is also necessary to hold additional spare parts in order to support key customers and programmes. Judgement is required in assessing the level of provision required for obsolete, slow moving and defective items of inventory, reflecting assumptions concerning future orders and revenue streams.

Taxation (notes 6 and 21)

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 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 and deferred tax provisions and the income statement in the period in which such determination is made.

Retirement benefits (note 23)

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 and mortality rates. The Group uses published indices and independent actuarial advice to select the values of critical assumptions.

Definitions

Underlying measures (note 2)

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. These are considered by the Board to be the most meaningful measures under which to assess the true operating performance of the Group.

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

Trading profit (note 2)

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

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

Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. These relate to the integration of the Aeroflex businesses acquired in 2014 and the EiD programme. The EiD programme, to be completed by the end of 2015, relates to the design and implementation of Standard Operating Frameworks within the principal locations, development costs of a new ERP computer system, together with site consolidation, consequential asset write downs and workforce reduction costs.

Underlying earnings (note 2)

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

Net debt (note 9)

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

Free cash flow (note 2)

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

Operating segments (note 3)

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. Details of the composition and purpose of the Board can be found on pages 44 to 49.

The Group reports four operating segments whose revenue and results are reported to the Board. These are Communications and Connectivity, Mission Systems, Advanced Electronic Solutions and Aviation Services. All operating segments meet the definition of reportable segments as defined in IFRS 8. The principal activities of these segments are described on pages 20 to 27.

The Board assesses the trading performance of operating segments based on revenue and trading profit as defined above. Finance income, finance costs and taxation are not segmented and are reviewed by the Board on a consolidated basis.

Segment net assets are disclosed voluntarily in note 3 and include intangible assets, property, plant and equipment, investment properties, inventory, trade and other receivables, trade and other payables and provisions. They do not include tax, net debt, derivative financial instruments, contingent consideration payable or retirement benefit obligations.

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 (OCI) 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 OCI are reclassified to profit or loss.

Joint ventures are entities where the parties that have joint control have rights to the net assets of the arrangement. Associates are entities where the Group has significant influence. 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 Consolidated 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 OCI and the translation reserve.

Business combinations (note 28)

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 value of the assets transferred (typically cash), the liabilities assumed and any equity interests issued by the Group, including contingent or deferred amounts. Amounts denominated in foreign currencies are translated at the exchange rates at the date of business combination.

Where a business combination is completed in stages, any previously held interests are remeasured to fair value at the date at which control is achieved. Any resulting gain or loss is recognised in the Consolidated 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 includes amounts which may become payable in connection with completed acquisitions, based upon future operating results of the businesses acquired. It is accounted for as a financial liability measured at fair value on a recurring basis and changes in the fair value are accounted for as gains or losses recognised through profit or loss and excluded from trading profit and underlying earnings.

Revenue recognition

Revenue is measured at the fair value of the right to consideration, net of returns and other 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 intercompany sales, value added tax and other sales taxes.

Taxation including deferred taxation (note 6 and 21)

The tax expense is 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 (note 7)

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

Intangible assets (note 10)

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.

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 below and internally developed software where asset recognition criteria are met.

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

Customer relationships	5 to 15 years
Technology based assets	5 to 15 years
Development costs	2 to 10 years
Order book and trade names	6 months to 10 years
Software and other intangible assets	2 to 10 years

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

Research and development

Development costs are capitalised when it can be demonstrated that the conditions for capitalisation as described in IAS 38, Intangible Assets are met, paying particular attention to the requirements for the product to be technically feasible and capable of generating a financial return. At that point, further costs are capitalised as an intangible asset until the intangible asset is readily available for use and is then amortised as described above. All development costs not capitalised are written off as incurred together with all research costs.

Property, plant and equipment (note 11)

Freehold and leasehold land and 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 and assets under construction 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	Period to next break clause
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. Freehold land is not depreciated, but is reviewed for impairment at least annually.

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.

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

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

Aircraft overhaul expenditure

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

Investment properties (note 12)

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.

Impairments

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 of disposal 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 is identified 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 (notes 11 and 29)

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 (note 14)

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 (note 17)

Non-current assets and disposal groups classified as held for sale are stated at the lower of carrying amount and fair value less costs of disposal. 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.

Fair values

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date. Fair value measurements are used on a recurring basis except where used in the measurement of net assets classified as held for sale, where accounting standards require the use of fair values only in certain circumstances. Non-recurring fair values are also used in the valuation of assets and liabilities in a business combination.

The fair values of derivative financial instruments 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.

The fair value of contingent consideration is determined based on the estimated payment, discounted to present value and using the entity's own data and unobservable inputs such as the anticipated rate of annual revenue growth, profit margins and discount rates. The estimated payment is calculated using the income approach, considering different scenarios of the relevant measure (commonly EBITDA).

For financial assets and liabilities which are not held at fair value in the balance sheet, the carrying values of these items are assumed to approximate to fair value due to their short term nature.

Non-financial assets and liabilities measured at fair value include net assets classified as held for sale. Fair values are also used in assessing the assets and liabilities acquired in a business combination. These fair value measurements are based on observable market prices or rates. For non-financial assets, the fair value takes into account the highest and best use of the asset.

There have been no changes to the valuation techniques used during the period. The Group's policy is to recognise transfers in and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer, although there have been no such transfers during the current or comparative periods.

Financial instruments (note 15)

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 and liabilities are initially recognised at fair value at trade date.

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.

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.

Available for sale financial assets are those non-derivative financial assets either designated by management as available for sale or not falling into any other category. Financial assets so categorised include equity instruments which do not have a quoted price in an active market and hence are measured at cost.

None of the Group's material financial assets fall into the held to maturity category, which is defined as non-derivative financial assets with fixed maturity dates that the Group intends to hold to maturity.

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.

Financial assets and liabilities are presented on an offset basis when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

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 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 and a limited number of specific foreign exchange contracts. 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 generally 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 remeasured 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 and foreign exchange contracts are designated and qualify as cash flow hedges, the effective portion of changes in fair value is recognised in OCI through the hedge 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 or 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 hedge 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 hedge 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 (note 20)

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 and where the amount can be reliably measured. No provision is recognised where the existence of an obligation is possible but will only be confirmed by uncertain future events.

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 (note 23)

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

For defined benefit schemes, current service costs and costs related to the administration of the schemes are charged to operating profit. 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. The interest on net assets or liabilities is shown within finance income and costs. Actuarial remeasurements 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 (note 25)

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 (note 25)

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 (note 27)

For grants made under the Group's equity settled share based payment schemes, amounts which reflect the fair value of awards as at the time of grant are charged to the income statement over the relevant vesting periods, taking into account the Directors' best estimate of the number of awards expected to vest. The Group reviews and updates the vesting estimate, which includes progress against non-market related performance conditions, at each balance sheet date.

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.

Future accounting developments

A number of new standards, amendments to existing standards and interpretations have been published that are mandatory for future accounting periods. Those endorsed by the EU for use from 1 January 2015 are as follows:

- Amendment to IAS 19, Defined Benefit Plans;
- Annual Improvements 2012;
- Annual Improvements 2013.

None of these have been adopted early by the Group and none 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 including Annual Improvements which, once endorsed by the EU, will be effective from 1 January 2016 or later years. These include:

- IFRS 15, Revenue from Contracts with Customers;
- IFRS 9, Financial Instruments.

Based on an initial review, IFRS 9 is not expected to have a material impact on the results of the Group. IFRS 15 is under review to determine the potential impact on the Group.

2. Underlying measures

Underlying measures, defined in note 1 on page 82, are derived from operating profit as set out below:

£m	Note	2014	2013
Operating profit		**57.6**	158.8
Business restructuring – Excellence in Delivery		**28.1**	56.1
Business restructuring – Aeroflex integration		**24.1**	–
Movements in non-hedge accounted derivative financial instruments		**21.8**	(2.2)
Amortisation of intangible assets arising on business combinations		**113.6**	103.9
Impairment of goodwill	10	**–**	63.0
Revaluation gain arising on equity interests in FBH		**–**	(62.1)
Exceptional legal costs		**0.8**	–
Other business acquisition and divestment related items			
Acquisition related costs		**21.4**	1.7
Pre-acquisition profit element of inventory written off		**19.6**	4.1
Release of contingent consideration		**–**	(11.9)
Divestment and adjustments to businesses held for sale		**(0.3)**	6.2
Trading profit		**286.7**	317.6
Net underlying finance costs		**(29.7)**	(29.6)
Underlying profit before taxation		**257.0**	288.0
Taxation charge on underlying profit (effective rate 20.25%)		**(52.0)**	(57.0)
Non-controlling interests		**(0.2)**	(0.2)
Underlying profit after tax attributable to owners of the parent		**204.8**	230.8
Underlying basic EPS		**18.48p**	21.60p
Underlying diluted EPS		**18.38p**	21.51p

Underlying administrative expenses, which exclude the reconciling items in the table above, amounted to £174.8m (2013: £169.6m), representing 9.4% (2013: 9.5%) of revenue.

Business restructuring costs relate to the restructuring of the Group's portfolio, under its EiD and Aeroflex integration programmes, which are incremental to normal operations. The EiD programme relates exclusively to the design and implementation of Standard Operating Frameworks within the principal locations, initial development costs of a new ERP computer system, together with site consolidation, consequential asset write downs and workforce reduction costs arising from additional streamlining under the two year extension of the programme, which continues into 2015. Costs in respect of the Aeroflex integration are consequential to the acquisition of the Aeroflex group in September 2014 and are in line with the Company's plans announced in the shareholder circular of 16 June 2014, which set out the synergies and cost savings expected to be derived by the integration of Aeroflex with the existing Cobham businesses.

On 15 July 2013 an agreement was reached to acquire the 50% shareholding that the Group did not already own in FBH. The proceeds of the deemed disposal of the 50% interest previously held were valued at £74.2m which generated the revaluation gain arising on equity interests in FBH of £62.1m.

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

£m	2014	2013
Net cash from operating activities per Cash Flow Statement	**167.9**	210.6
Dividends received from joint ventures	**–**	3.7
Purchase of property, plant and equipment	**(63.7)**	(58.0)
Purchase of intangible assets	**(12.4)**	(11.0)
Proceeds on disposal of property, plant and equipment	**2.3**	8.0
Acquisition related costs paid	**20.3**	1.7
Free cash flow	**114.4**	155.0

3. Revenue and segmental information

Revenue

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

£m	2014	2013 (as re-presented)
Revenue from sale of goods	**1,368.2**	1,376.7
Revenue from services	**483.5**	413.0
	1,851.7	1,789.7

Revenue from services includes service contracts in the Aviation Services Sector together with logistics support, maintenance and repairs in other Sectors; comparatives have been re-presented to reflect this allocation.

Operating segments

	Revenue		Trading profit		Segment net assets	
£m	2014	2013 (as re-presented)	2014	2013 (as re-presented)	2014	2013 (as re-presented)
Communications and Connectivity	**697.1**	678.1	**118.3**	115.3	**1,071.5**	739.9
Mission Systems	**333.5**	357.7	**35.9**	73.9	**303.0**	274.2
Advanced Electronic Solutions	**410.1**	371.9	**64.0**	63.4	**1,085.9**	389.8
Aviation Services	**412.2**	365.2	**54.5**	48.0	**284.0**	322.8
Head office, other activities and elimination of inter-segment items	**(5.2)**	(4.1)	**14.1**	14.5	**(24.5)**	42.5
Core Group	**1,847.7**	1,768.8	**286.8**	315.1	**2,719.9**	1,769.2
Non-core businesses	**4.0**	20.9	**(0.1)**	2.5	**–**	(3.1)
Total Group	**1,851.7**	1,789.7	**286.7**	317.6	**2,719.9**	1,766.1
Interests in joint ventures and associates					**3.1**	3.1
Unallocated liabilities					**(1,610.7)**	(725.0)
Total net assets					**1,112.3**	1,044.2

The Group reports four segments whose revenue and results are reported to the Board. During the year the Aerospace and Security segment was renamed Communications and Connectivity, and the Defence Systems segment became Advanced Electronic Solutions. The comparative segmental analysis of revenue and trading profit shown above has been re-presented on a basis consistent with the Sectors as reported during 2014, which includes the transfer of the Exeter, New Hampshire business from Communications and Connectivity to Advanced Electronic Solutions. The remaining non-core businesses were divested during the year.

Trading profit is reconciled to profit before taxation as follows:

£m	Note	2014	2013
Trading profit		**286.7**	317.6
Business restructuring	2	**(52.2)**	(56.1)
Movements in non-hedge accounted derivative financial instruments	22	**(21.8)**	2.2
Amortisation of intangible assets arising on business combinations		**(113.6)**	(103.9)
Impairment of goodwill	10	**–**	(63.0)
Revaluation gain arising on equity interests in FBH	28	**–**	62.1
Exceptional legal costs		**(0.8)**	–
Other business acquisition and divestment related items		**(40.7)**	(0.1)
Net finance costs	5	**(33.3)**	(32.2)
Profit before taxation		**24.3**	126.6

Depreciation of property, plant and equipment, investment properties and amortisation of internally generated intangibles are included in the calculation of trading profit and can be analysed by segment as follows:

£m	2014	2013 (as re-presented)
Communications and Connectivity	**18.9**	16.1
Mission Systems	**5.0**	5.7
Advanced Electronic Solutions	**12.5**	14.0
Aviation Services	**38.8**	30.6
Head office, other activities and elimination of inter-segment items	**2.0**	1.4
Core Group	**77.2**	67.8
Non-core businesses	**–**	0.4
Total Group	**77.2**	68.2

Details of employees analysed by operating segment can be found in note 4.

Geographical information

Revenue

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

£m	UK	USA	Australia	Other EU countries	Asia	Rest of the world	Total
Year to 31 December 2014	**228.3**	**814.4**	**247.2**	**286.5**	**169.9**	**105.4**	**1,851.7**
Year to 31 December 2013	235.2	812.5	249.8	277.4	132.8	82.0	1,789.7

Non-current assets

Non-current assets are analysed by the physical location of the assets and exclude financial instruments and deferred tax assets.

£m	UK	USA	Denmark	Other EU countries	Australia	Rest of the world	Total
At 31 December 2014	**509.6**	**1,419.7**	**229.9**	**87.1**	**87.6**	**66.8**	**2,400.7**
At 31 December 2013	402.4	588.9	272.6	101.2	90.5	70.4	1,526.0

4. Operating costs

Cost of sales in the Income Statement includes £628.8m (2013: £592.7m) for the cost of materials.

Company funded research and development

£m	2014	2013
Company funded research and development	**96.9**	88.0

Employment costs

The aggregate employment costs of Group employees are as follows:

£m	Note	2014	2013
Wages and salaries		**519.9**	497.0
Social security costs		**43.8**	41.1
Pension costs	23	**31.0**	29.6
Share based payments	27	**6.1**	(1.7)
		600.8	566.0

The average number of employees during the year, analysed by segment and including the proportional impact of Aeroflex employees, is as follows:

	2014	2013 (as re-presented)
Communications and Connectivity	**3,841**	3,735
Mission Systems	**1,465**	1,424
Advanced Electronic Solutions	**2,802**	2,512
Aviation Services	**2,405**	1,931
Head office and other activities	**393**	359
Core Group	**10,906**	9,961
Non-core businesses	**35**	129
Total Group	**10,941**	10,090

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

£m	2014	2013
Salaries and other employee benefits	**5.8**	6.2
Post-employment benefits	**0.4**	0.7
Share based payments	**1.6**	(0.5)
	7.8	6.4

Audit fees

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

£m	2014	2013
Annual audit of the Parent Company and Group Financial Statements	**1.0**	1.0
Audit of the Company's subsidiaries	**1.2**	1.1
Fees payable for audit services	**2.2**	2.1
Tax compliance services	**0.3**	0.3
Other tax advisory services	**1.3**	1.2
Other audit related assurance services	**0.1**	0.2
Services relating to corporate finance transactions	**1.5**	–
Fees payable for other services	**3.2**	1.7
Total fees payable to the auditors	**5.4**	3.8

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 52 to 55 and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by the auditors.

5. Finance income and costs

£m	Note	2014	2013
Bank interest		**4.5**	3.3
Other finance income		**1.9**	2.0
Total finance income		**6.4**	5.3
Interest on bank overdrafts and loans		**(30.9)**	(29.6)
Interest on net pension scheme liabilities	23	**(3.6)**	(2.8)
Other finance expense		**(5.2)**	(5.1)
Total finance costs		**(39.7)**	(37.5)
Net finance costs excluding pension schemes		**(29.7)**	(29.4)
Net finance costs arising from pension schemes		**(3.6)**	(2.8)
Net finance costs		**(33.3)**	(32.2)

Other finance expense above includes £2.6m of arrangement fees for the Aeroflex acquisition finance facility and unwinding of acquisition related discounting of £1.0m (2013: £2.6m). These costs are excluded from underlying profit in note 2.

6. Taxation

£m	Note	2014	2013
Charge for the year		46.6	44.1
Adjustments to tax charge in respect of prior years		(14.3)	(14.7)
Current tax		32.3	29.4
Credit for the year		(41.9)	(16.5)
Adjustments to tax charge in respect of prior years		5.6	0.2
Impact of change in tax rates		(0.7)	(1.0)
Deferred tax	21	(37.0)	(17.3)
Total tax (credit)/charge for the year		(4.7)	12.1

Income tax is calculated on the estimated assessable profit for the year at the rates prevailing in the relevant tax jurisdiction. The total tax (credit)/charge for the year includes a credit of £5.5m (2013: £7.7m charge) for the UK.

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

£m	2014	2013
Profit before tax	24.3	126.6
Tax thereon at the UK income tax rate of 21.5% (2013: 23.25%)	5.2	29.4
Tax effect of share of results of joint ventures and associates	–	(0.7)
Effect of differences in overseas taxation rates	(2.9)	1.0
Expenditure qualifying for additional R&D tax relief	(2.1)	(3.7)
Revaluation gain on FBH	–	(14.4)
Goodwill impairment	–	14.6
Adjustments to tax charge in respect of prior years	(8.7)	(14.5)
Impact of other items	3.8	0.4
Total tax (credit)/charge for the year	(4.7)	12.1

In addition the following charges/(credits) have been included in OCI and equity:

Included in OCI

£m	2014	2013
Items that will not be reclassified subsequently to profit or loss		
Actuarial loss on retirement benefit obligations	(4.7)	(4.1)
Actuarial loss on other retirement benefit obligations	(0.3)	–
	(5.0)	(4.1)
Items that may subsequently be reclassified to profit or loss		
Movements in hedge accounted derivative financial instruments	0.9	1.2

Included in equity

£m	2014	2013
Share based payments	(1.5)	(2.6)

The rate of UK corporation tax will reduce from 21% to 20% from 1 April 2015.

7. Dividends

£m	2014	2013
Final dividend of 7.04 pence per share for 2013 (2012: 6.4 pence)	**75.5**	68.5
Interim dividend of 2.904 pence per share for 2014 (2013: 2.64 pence)	**32.8**	28.1
Total dividend authorised and paid during the year	**108.3**	96.6

In addition to the above, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2014 of 7.746 pence per share at an estimated total cost of £87.7m. 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 29 May 2015 to shareholders who are on the register of members as at 1 May 2015. The total dividend in respect of the financial year ended 31 December 2014 will therefore be 10.65 pence per share (2013: 9.68 pence). The total amount payable in respect of 2014 will be £120.5m.

8. Earnings per ordinary share

	2014			2013		
	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	**28.8**	**1,108.0**	**2.60**	114.3	1,068.7	10.70
Effect of potentially dilutive securities		**6.4**			4.3	
Diluted EPS	**28.8**	**1,114.4**	**2.58**	114.3	1,073.0	10.65

Potentially dilutive securities are unvested awards under the Group's share based payment schemes described in note 27.

9. Cash and cash equivalents and net debt

Reconciliation of cash and cash equivalents and net debt

£m	Note	2014	2013 (as re-presented)
Cash and cash equivalents per Cash Flow Statement		**224.3**	199.0
Bank overdrafts		**1.3**	1.7
Cash and cash equivalents per Balance Sheet		**225.6**	200.7
Borrowings – current liabilities	18	**(1.5)**	(48.1)
Borrowings – non-current liabilities	18	**(1,446.8)**	(606.0)
Net debt at 31 December		**(1,222.7)**	(453.4)

Details of the offsetting of overdrafts with cash and cash equivalents and other financial instruments can be found in note 15.

Reconciliation of movements in net debt

£m	2014	2013
Net debt at 1 January	**(453.4)**	(359.9)
Increase/(decrease) in cash and cash equivalents in the year per Cash Flow Statement	**56.5**	(36.8)
New borrowings	**(1,467.5)**	(67.0)
Repayment of borrowings	**699.9**	7.7
Exchange movements	**(58.2)**	2.6
Net debt at 31 December	**(1,222.7)**	(453.4)

New borrowings include US$1,300m drawn under an acquisition finance facility and US$930m fixed rate senior notes. Repayment of borrowings includes US$930m of the acquisition finance facility which was repaid following the issue of the senior notes. Further details are provided in note 18.

10. Intangible assets

		Arising on business combinations					
£m	Goodwill	Customer relationships	Technology based assets	Order book and trade names	Development costs	Software and other	Total
Cost							
At 1 January 2013	789.1	302.3	173.2	3.1	4.7	42.4	1,314.8
Additions	–	–	–	–	–	11.0	11.0
Recognised on business combinations	86.9	59.2	25.4	46.1	–	–	217.6
Disposals and derecognitions	–	(60.9)	(34.3)	(3.5)	(2.7)	(2.4)	(103.8)
Foreign exchange adjustments	(1.5)	2.3	2.3	0.1	0.1	(0.5)	2.8
Reclassifications	–	–	–	–	–	1.0	1.0
At 1 January 2014	**874.5**	**302.9**	**166.6**	**45.8**	**2.1**	**51.5**	**1,443.4**
Additions	–	–	–	–	–	**12.9**	**12.9**
Recognised on business combinations	**385.4**	**307.7**	**189.8**	**16.4**	–	**3.5**	**902.8**
Disposals and derecognitions	–	**(20.4)**	–	–	–	**(1.8)**	**(22.2)**
Foreign exchange adjustments	**22.8**	**12.6**	**2.2**	**0.8**	**(0.1)**	**0.8**	**39.1**
Reclassifications	–	–	–	–	–	**3.4**	**3.4**
At 31 December 2014	**1,282.7**	**602.8**	**358.6**	**63.0**	**2.0**	**70.3**	**2,379.4**
Accumulated amortisation and impairment							
At 1 January 2013	–	116.2	71.7	1.6	2.5	20.7	212.7
Amortisation charge for the year	–	53.0	39.9	10.4	1.2	4.4	108.9
Impairment provision	63.0	–	–	–	–	–	63.0
Disposals and derecognitions	–	(60.9)	(34.3)	(3.5)	(2.7)	(2.4)	(103.8)
Foreign exchange adjustments	–	(0.1)	0.4	–	0.1	(0.5)	(0.1)
Reclassifications	–	–	–	–	–	0.5	0.5
At 1 January 2014	**63.0**	**108.2**	**77.7**	**8.5**	**1.1**	**22.7**	**281.2**
Amortisation charge for the year	–	**50.3**	**47.5**	**15.8**	**0.6**	**4.2**	**118.4**
Disposals and derecognitions	–	**(20.4)**	–	–	–	**(1.7)**	**(22.1)**
Foreign exchange adjustments	–	**3.5**	**(1.2)**	–	–	**0.6**	**2.9**
Reclassifications	–	–	–	–	–	**1.8**	**1.8**
At 31 December 2014	**63.0**	**141.6**	**124.0**	**24.3**	**1.7**	**27.6**	**382.2**
Carrying amount							
At 31 December 2014	**1,219.7**	**461.2**	**234.6**	**38.7**	**0.3**	**42.7**	**1,997.2**
At 31 December 2013	811.5	194.7	88.9	37.3	1.0	28.8	1,162.2
At 1 January 2013	789.1	186.1	101.5	1.5	2.2	21.7	1,102.1

Amortisation charged during the year relating to intangible assets recognised on business combinations was £113.6m (2013: £103.9m). This has been excluded from underlying profit in note 2. All amortisation charges are included within administrative expenses in the Income Statement.

Business combinations during the year represent the acquisition of Aeroflex Corp. which is organised into five business units. Further details can be found in note 28. Business combinations in 2013 related to Axell Wireless and the 50% of the shares of FB Heliservices Limited, FB Leasing Limited and FBS Limited (together FBH) not already owned by Cobham.

Customer relationships represents customer lists, customer contracts and the associated benefits of customer relationships recognised on acquisition. Technology based assets represent trade secrets and processes, patented and unpatented technology, and know-how recognised on acquisition. Other intangible assets represent purchased patents, licences and trademarks. Intangible assets recognised on business combinations are derecognised when they have been fully amortised.

Goodwill and annual impairment review

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.

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 EiD activity, CGUs are typically considered to be Business Units.

The recoverable amounts of the CGUs are determined from value in use calculations unless specific conditions at a CGU dictate otherwise. Businesses held for sale are assessed for impairment using expected net proceeds of divestment. In 2013 an impairment loss of £63.0m was recognised in respect of the Cobham Tactical Communications and Surveillance business.

The calculation of recoverable value for CGUs based on value in use includes the following key assumptions:

- Cash flow forecasts for the following five years prepared as part of the annual strategic planning process and 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 rates (which range from -1% to 10% and at a Group level are consistent with mid-single digit revenue growth) assume that demand for the Group's products in the US and in the UK remains broadly in line with the underlying economic environment. Taking into account the expectation of future market conditions, management believe that the evolution of selling prices and direct costs will reflect past practices;
- Growth rates assumed after this five year period are based on long-term GDP projections of the primary market for the CGU. The long term projections used are in the range 1.5% to 2.0% (2013: 2.0% to 2.5%);
- Cash flows are discounted using the Group's WACC, adjusted for country and currency risks in the principal territories in which the Group operates. These pre-tax discount rates are within the range 8.3% to 10.5% (2013: 8.1% to 10.7%);
- Cash flows include the impact of working capital requirements, typically assuming a 90% cash conversion rate; and
- Cash flows include management charges which allocate central overheads to the CGUs.

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:

CGU	Operating segment	Goodwill carrying value £m	Headroom £m	Pre-tax discount rate	Projected 5 year growth rate	Projected GDP growth rate
SATCOM	Communications and Connectivity	197	322	8.5%	4.4%	1.5%
Integrated Electronic Solutions	Advanced Electronic Solutions	147	273	8.9%	1.0%	2.0%

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.

The allocation of goodwill arising on the acquisition of Aeroflex is disclosed as provisional and subject to potential adjustment. A detailed impairment review of the carrying value of this goodwill will be performed in the year ended 31 December 2015 and sensitivity disclosures will be made for individually significant CGUs.

11. Property, plant and equipment

	Land and buildings			Plant and machinery (including aircraft and vehicles)	Fixtures, fittings, tools and equipment	Payments on account and assets under construction	
£m	Freehold	Long leases	Short leases				Total
Cost							
At 1 January 2013	91.2	37.0	10.0	562.7	86.5	11.0	798.4
Additions	2.7	2.0	0.1	33.4	4.4	18.0	60.6
Acquired with business combinations	–	–	–	74.8	2.4	1.6	78.8
Reclassified as held for sale	(2.1)	–	–	–	–	–	(2.1)
Disposals	(2.8)	(7.4)	(3.7)	(31.3)	(6.6)	–	(51.8)
Foreign exchange adjustments	(2.9)	(0.2)	–	(36.3)	(3.2)	(0.3)	(42.9)
Reclassifications	2.3	0.7	0.2	2.5	4.2	(10.9)	(1.0)
At 1 January 2014	**88.4**	**32.1**	**6.6**	**605.8**	**87.7**	**19.4**	**840.0**
Additions	**0.7**	**0.7**	**1.6**	**37.1**	**8.4**	**15.1**	**63.6**
Acquired with business combinations	**11.3**	**3.0**	**0.5**	**29.7**	**2.9**	**1.2**	**48.6**
Disposals	**(0.8)**	**(2.1)**	**(0.4)**	**(16.0)**	**(6.0)**	–	**(25.3)**
Foreign exchange adjustments	**1.9**	**0.9**	**0.4**	**(0.2)**	**0.7**	**0.6**	**4.3**
Reclassifications	**3.6**	**0.8**	**(0.2)**	**5.5**	**0.1**	**(13.2)**	**(3.4)**
At 31 December 2014	**105.1**	**35.4**	**8.5**	**661.9**	**93.8**	**23.1**	**927.8**
Accumulated depreciation							
At 1 January 2013	27.4	15.7	7.0	381.4	62.1	–	493.6
Depreciation charge for the year	4.5	2.5	1.2	45.8	8.8	–	62.8
Eliminated on disposals	(1.3)	(3.6)	(2.9)	(27.0)	(5.8)	–	(40.6)
Reclassified as held for sale	(1.5)	–	–	–	–	–	(1.5)
Foreign exchange adjustments	(1.1)	(0.1)	(0.1)	(20.9)	(2.4)	–	(24.6)
Reclassifications	–	–	0.1	(1.8)	1.2	–	(0.5)
At 1 January 2014	**28.0**	**14.5**	**5.3**	**377.5**	**63.9**	–	**489.2**
Depreciation charge for the year	**3.4**	**4.5**	**1.0**	**52.0**	**11.2**	–	**72.1**
Eliminated on disposals	**(0.4)**	**(1.9)**	**(0.4)**	**(14.9)**	**(5.8)**	–	**(23.4)**
Foreign exchange adjustments	**0.5**	**0.5**	**0.4**	–	**0.3**	–	**1.7**
Reclassifications	–	**0.3**	**(0.1)**	**(0.1)**	**(1.9)**	–	**(1.8)**
At 31 December 2014	**31.5**	**17.9**	**6.2**	**414.5**	**67.7**	–	**537.8**
Carrying amount							
At 31 December 2014	**73.6**	**17.5**	**2.3**	**247.4**	**26.1**	**23.1**	**390.0**
At 31 December 2013	60.4	17.6	1.3	228.3	23.8	19.4	350.8
At 1 January 2013	63.8	21.3	3.0	181.3	24.4	11.0	304.8

At 31 December 2014, the Group had commitments for the acquisition of property, plant and equipment of £48.5m (2013: £13.6m).

12. Investment properties

£m	2014	2013
Carrying amount at 1 January	9.9	10.7
Acquired with business combinations	0.8	–
Disposals	(0.3)	(0.3)
Depreciation	(0.3)	(0.4)
Foreign exchange adjustments	0.3	(0.1)
Carrying amount at 31 December	10.4	9.9

The total fair value of the Group's investment properties has been assessed to be £13.9m (2013: £14.2m). For 2014, these values are based on Directors' estimates using observable market data, taking into account current lease terms. In 2013 estimated market prices for UK properties were provided by external valuers and the fair value of the US property was a Directors' estimate; both were based on observable market data.

Property rental income earned by the Group from its investment properties amounted to £1.4m (2013: £1.9m), which is net of all direct costs associated with the leasing of the properties except depreciation. The buildings are leased to commercial users on operating leases with terms of between 5 and 25 years, commencing between 1998 and 2013.

13. Investments in joint ventures and associates

The Group has the following interests in joint ventures and associates:

Name	Percentage shareholding	Nature of relationship	Reporting segment	Country of incorporation or registration
Aviation Défense Service SA	45%	Joint venture	Aviation Services	France
Northrop Grumman Cobham Intercoms LLC	50%	Joint venture	Communications and Connectivity	USA
Philtech Co., Ltd	30%	Associate	Communications and Connectivity	South Korea

The Company's joint ventures and associates all have share capital consisting solely of ordinary shares, which are indirectly held, and the country of incorporation or registration is also their principal place of operation.

The 45% investment in Aviation Défense Service SA is treated as a joint venture because the governance structure means that the Group has joint control with its partner.

The assets and results of the associated undertaking are not separately disclosed on the basis of materiality. The address of the principal place of business of Philtech Co., Ltd is Sujeong-gu, Seongnam-si, Gyeonggi-do, South Korea.

14. Inventories

£m	2014	2013
Raw materials and consumables	191.8	139.0
Work in progress	221.4	187.0
Finished goods and goods for resale	66.4	36.8
Allowance for obsolescence	(48.2)	(46.9)
	431.4	315.9

Work in progress includes £59.9m (2013: £72.2m) which relates to customer funded engineering development contracts.

During the year £17.4m (2013: £15.2m) was provided, £9.3m (2013: £6.1m) was utilised and £8.1m (2013: £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 the reversal of amounts previously provided.

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 £18.1m (2013: £39.0m).

15. Financial instruments

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

£m	Note	Loans and receivables	Fair value through profit or loss	Amortised cost	Derivatives used for hedging	Total carrying amount	Fair value
Financial assets							
Trade receivables	16	331.4	–	–	–	331.4	331.4
Other receivables	16	120.9	–	–	–	120.9	120.9
Cash and cash equivalents	9	225.6	–	–	–	225.6	225.6
Derivative contracts (not hedge accounted)	22	–	13.6	–	–	13.6	13.6
Other financial assets		–	–	6.1	–	6.1	6.1
Financial liabilities							
Borrowings	18	–	–	(1,448.3)	–	(1,448.3)	(1,549.1)
Trade payables	19	–	–	(145.0)	–	(145.0)	(145.0)
Accruals		–	–	(133.3)	–	(133.3)	(133.3)
Other financial liabilities	19	–	–	(103.8)	–	(103.8)	(103.8)
Derivative contracts (not hedge accounted)	22	–	(32.9)	–	–	(32.9)	(32.9)
Hedging instruments							
Assets	22	–	–	–	2.7	2.7	2.7
Liabilities	22	–	–	–	(3.3)	(3.3)	(3.3)
Net financial liabilities at 31 December 2014						(1,166.3)	(1,267.1)
Financial assets							
Trade receivables	16	238.3	–	–	–	238.3	238.3
Other receivables	16	76.9	–	–	–	76.9	76.9
Cash and cash equivalents	9	200.7	–	–	–	200.7	200.7
Derivative contracts (not hedge accounted)	22	–	11.7	–	–	11.7	11.7
Other financial assets		–	–	6.1	–	6.1	6.1
Financial liabilities							
Borrowings	18	–	–	(654.1)	–	(654.1)	(687.5)
Trade payables	19	–	–	(117.1)	–	(117.1)	(117.1)
Accruals		–	–	(99.6)	–	(99.6)	(99.6)
Contingent consideration	19	–	(27.4)	–	–	(27.4)	(27.4)
Other financial liabilities	19	–	–	(47.8)	–	(47.8)	(47.8)
Derivative contracts (not hedge accounted)	22	–	(8.8)	–	–	(8.8)	(8.8)
Hedging instruments							
Liabilities	22	–	–	–	(3.2)	(3.2)	(3.2)
Net financial liabilities at 31 December 2013						(424.3)	(457.7)

Borrowings are held at amortised cost which equates to fair value except for the Group's fixed rate borrowings. At 31 December 2014 the fair value of those borrowings was £926.5m (2013: £299.8m) compared to their book value of £825.7m (2013: £262.0m). The fair value of the fixed rate borrowings and derivative financial instruments have been determined by reference to observable market prices and rates.

Cash and cash equivalents include term deposits in Australia equivalent to £6.2m (2013: £6.4m) which are held to provide security over the residual value of leased assets under an agreement which expires in 2020.

Other financial assets relate to Cobham plc's investments in connection with the Voyager (FSTA) project which are held at cost, totalling £6.1m (2013: £6.1m).

Gains and losses on financial assets and liabilities held at fair value through profit or loss are shown in notes 19 and 22. 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 5.

Offsetting financial assets and liabilities

Cash and cash equivalents as shown in the Balance Sheet include overdraft balances on currency cash pooling accounts which have been offset as the accounts will be settled on a net basis as described in note 24. Master netting agreements also cover all bank balances and derivative balances with the same counterparty. These do not meet the criteria for offsetting because the right to offset is only enforceable on the occurrence of future events such as a default and amounts presented in the Balance Sheet are therefore presented on a gross basis.

If full offsetting by counterparty were to be applied, the resulting net amounts would be as follows:

£m	Gross amounts before set off	Amounts set off in the Balance Sheet	Amounts as presented in the Balance Sheet	Amounts not set off in the Balance Sheet	Net amount
Financial assets					
Cash and cash equivalents	**250.6**	**(25.0)**	**225.6**	**(3.3)**	**222.3**
Derivative financial assets	**16.3**	–	**16.3**	**(14.6)**	**1.7**
Financial liabilities					
Bank overdrafts	**(26.3)**	**25.0**	**(1.3)**	**1.3**	–
Derivative financial liabilities	**(36.2)**	–	**(36.2)**	**16.6**	**(19.6)**
At 31 December 2014	**204.4**	–	**204.4**	–	**204.4**
Financial assets					
Cash and cash equivalents	343.9	(143.2)	200.7	(1.4)	199.3
Derivative financial assets	11.7	–	11.7	(5.9)	5.8
Financial liabilities					
Bank overdrafts	(144.9)	143.2	(1.7)	1.7	–
Derivative financial liabilities	(12.0)	–	(12.0)	5.6	(6.4)
At 31 December 2013	198.7	–	198.7	–	198.7

16. Trade and other receivables

Current

£m	2014	2013
Trade receivables (net of provision for impairment)	331.4	238.3
Accrued income	47.7	38.2
Loans and other receivables	19.9	16.5
Prepayments	37.6	24.7
	436.6	317.7

Non-current

£m	2014	2013
Accrued income	20.4	–
Loans and other receivables	32.9	22.2
	53.3	22.2

Impairment of trade receivables

£m	2014	2013
Trade receivables	334.1	239.9
Provision for impairment of trade receivables	(2.7)	(1.6)
Net trade receivables	331.4	238.3

A significant proportion of the Group's business is directly with government agencies or in respect of large government funded military programmes, where credit risk is considered to remain low. Information concerning management of credit risk is shown in note 24. Movements in the provision for impairment of trade receivables during the current and prior year were not individually significant.

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

£m	2014	2013
Amounts not yet due and not impaired	258.8	186.0
Amounts past due but not impaired	71.3	51.1
Amounts for which full or partial impairment provision has been made	4.0	2.8
At 31 December	334.1	239.9

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

£m	2014	2013
Less than 1 month overdue	44.1	34.3
1 month overdue	12.1	10.1
2 months overdue	5.6	2.8
3 or more months overdue	9.5	3.9
	71.3	51.1

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

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

£m	2014	2013
Property, plant and equipment	2.1	1.9
Inventories	–	2.8
Trade and other receivables	–	3.5
Total assets classified as held for sale	2.1	8.2
Trade and other payables	–	(4.7)
Tax and other liabilities	–	(0.5)
Total liabilities associated with assets classified as held for sale	–	(5.2)
Total non-current assets and disposal groups held for sale	2.1	3.0

Non-current assets and disposal groups held for sale include businesses and vacant properties which are being actively marketed and are expected to be disposed of within 12 months of the balance sheet date.

These assets are measured on a non-recurring basis at fair value, based on an estimated sales price less costs to sell.

18. Borrowings

£m	2014	2013 (as re-presented)
Bank overdrafts	1.3	1.7
Senior notes	–	46.2
Finance leases	0.2	0.2
Total current borrowings	1.5	48.1
Bank loans	569.8	341.7
Senior notes	877.0	264.1
Finance leases	–	0.2
Total non-current borrowings	1,446.8	606.0
Total borrowings	1,448.3	654.1

Amounts drawn under revolving multi-currency credit agreements have been re-presented as non-current liabilities in accordance with the maturity dates of the relevant agreements. These had previously been reported as current liabilities as the drawdowns are for periods not exceeding three months.

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. Bank loans comprise the following:

			Amount drawn		Undrawn facilities	
£m	Agreement date	Maturity date	2014	2013	2014	2013
Fixed rates						
US$75m credit agreement	December 2008	December 2016	48.1	45.3	–	–
Floating rates						
US$360m multi-currency revolving credit agreement comprising:	October 2011					
US$90m		October 2016	45.8	51.7	11.9	2.6
US$270m		October 2018	137.5	155.2	35.7	7.9
EUR70m multi-currency revolving facility	June 2012	June 2017	52.2	36.8	2.1	21.4
DKK525m multi-currency revolving facility	June 2012	October 2018	18.1	52.7	36.6	5.8
AUS$90m multi-currency revolving facility	February 2014	October 2018	30.8	–	16.4	–
Acquisition finance facility	May 2014	May 2016	237.3	–	–	–
			569.8	341.7	102.7	37.7

Floating rate bank loans accrue interest at LIBOR plus margin.

In September 2014, US$1,300m was drawn under an acquisition finance facility agreed in May 2014 and US$930m of this was repaid in October 2014 following the issue of US$930m fixed rate senior notes.

Under the US$75m agreement, which expires in 2031, the lender has a series of put options exercisable every three years from December 2016.

Senior notes with a total principal value of US$1,367.5m (2013: US$514.0m) are outstanding as set out below:

£m	Issue date	Maturity date	2014	2013
US$76.5m fixed rate	March 2009	March 2014	-	46.2
US$81m fixed rate	March 2009	March 2016	51.9	48.9
US$50m floating rate	May 2010	May 2017	32.1	30.2
US$105m floating rate	January 2010	February/ March 2018	67.3	63.4
US$157.5m fixed rate	March 2009	March 2019	101.0	95.0
US$44m fixed rate	October 2012	October 2020	28.3	26.6
US$930m fixed rate comprising:	October 2014			
US$75m		October 2017	48.1	–
US$180m		October 2019	115.4	–
US$250m		October 2021	160.3	–
US$425m		October 2024	272.6	–
			877.0	310.3

The 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 and are shown on page 31. There have been no breaches of the terms of agreements or defaults during the current or comparative periods.

19. Trade and other payables

Current liabilities

£m	2014	2013
Payments received on account	82.2	72.3
Trade payables	145.0	116.4
Other taxes and social security	31.7	19.2
Accruals and deferred income	149.6	104.4
Contingent consideration	–	15.2
Amounts outstanding on purchase of shares of Aeroflex Holding Corp.	51.3	–
Other liabilities	43.8	42.8
	503.6	370.3

Non-current liabilities

£m	2014	2013
Payments received on account	8.6	9.4
Trade payables	–	0.7
Accruals and deferred income	18.7	10.7
Contingent consideration	–	12.2
Other liabilities	8.9	5.0
	36.2	38.0

Movements in the fair value of contingent consideration during the year are as follows:

£m	
At 1 January 2014	**27.4**
Amounts paid	**(28.5)**
Gains or losses recognised in profit or loss:	
Unrealised change in fair value – discounting included in finance costs	**1.0**
Foreign exchange adjustments	**0.1**
At 31 December 2014	–

Contingent consideration paid during the year includes early settlement of the final amounts payable in respect of the acquisition of Axell Wireless which was included as a non-current liability in the comparatives above.

20. Provisions

£m	2014	2013
Current liabilities	**54.1**	34.4
Non-current liabilities	**13.3**	8.6
	67.4	43.0

Movements in provisions during the year are as follows:

£m	Provisions related to businesses divested	Restructuring provisions	Warranty claims	Contract loss provisions	Aircraft maintenance provisions	Other	Total
At 1 January 2014	**10.8**	**6.6**	**10.5**	**4.4**	**3.4**	**7.3**	**43.0**
Additional provisions in the year	–	**12.4**	**3.9**	**13.3**	**2.1**	**1.4**	**33.1**
Acquired with business combinations	–	–	**2.2**	–	–	**8.2**	**10.4**
Utilisation of provisions	–	**(1.6)**	**(2.9)**	**(4.9)**	**(2.3)**	**(1.4)**	**(13.1)**
Unused amounts reversed in the year	–	**(3.1)**	**(1.3)**	**(1.0)**	**(0.2)**	**(1.3)**	**(6.9)**
Reclassifications	–	–	**(0.1)**	–	**0.3**	–	**0.2**
Foreign exchange adjustments	–	**0.8**	**(0.2)**	–	**(0.1)**	**0.2**	**0.7**
At 31 December 2014	**10.8**	**15.1**	**12.1**	**11.8**	**3.2**	**14.4**	**67.4**

Provisions related to businesses divested relate to 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.

Restructuring provisions relate to announced business restructuring in connection with EiD and the integration of Aeroflex into the Cobham Group. These are generally expected to be utilised within one year.

Provisions for warranty claims and contract losses are generally expected to be utilised 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. While there is uncertainty over the future level of flying hours, aircraft maintenance provisions are anticipated to crystallise in the next seven years.

Other provisions include amounts provided in respect of legal claims and environmental obligations and are mostly expected to be settled within one year.

21. Deferred tax

£m	2014	2013
Deferred tax assets	(10.5)	(9.9)
Deferred tax liabilities	157.8	52.9
	147.3	43.0

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 2013	18.4	(17.0)	65.4	(32.4)	34.4
(Credit)/charge to income statement	2.3	2.7	(20.1)	(2.2)	(17.3)
(Credit)/charge to other comprehensive income	–	(4.1)	–	1.2	(2.9)
Credit to reserves	–	–	–	(2.1)	(2.1)
Business combinations	(1.6)	–	27.4	2.6	28.4
Foreign exchange adjustments	(0.8)	–	1.2	2.5	2.9
Reclassifications	–	–	(0.4)	–	(0.4)
At 1 January 2014	18.3	(18.4)	73.5	(30.4)	43.0
(Credit)/charge to income statement	4.3	2.6	(19.1)	(24.8)	(37.0)
(Credit)/charge to other comprehensive income	–	(4.7)	–	0.6	(4.1)
Credit to reserves	–	–	–	(0.9)	(0.9)
Business combinations	0.1	–	164.1	(20.3)	143.9
Business divestments	–	–	(0.7)	–	(0.7)
Foreign exchange adjustments	0.9	–	5.6	(3.4)	3.1
At 31 December 2014	23.6	(20.5)	223.4	(79.2)	147.3

Other deferred tax assets and liabilities shown above include balances arising from temporary differences in relation to provisions, accruals, deferred compensation, share based payments 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	2014	2013
Deferred tax liabilities fall due:		
Within one year	8.0	17.6
After one year	149.8	35.3
	157.8	52.9
Deferred tax assets are recoverable:		
Within one year	(7.1)	(5.7)
After one year	(3.4)	(4.2)
	(10.5)	(9.9)

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	(1.5)	(20.5)	–	(89.2)	(111.2)
Deferred tax liabilities	25.1	–	223.4	10.0	258.5
At 31 December 2014	23.6	(20.5)	223.4	(79.2)	147.3
Deferred tax assets	–	(18.4)	–	(44.8)	(63.2)
Deferred tax liabilities	18.3	–	73.5	14.4	106.2
At 31 December 2013	18.3	(18.4)	73.5	(30.4)	43.0

At the balance sheet date, the Group has unused capital losses of £66.0m (2013: £65.7m) 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 £301.7m (2013: £369.2m).

22. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
Non-current assets	–	**7.6**	–	**7.6**
Current assets	–	**8.7**	–	**8.7**
Current liabilities	**(0.7)**	**(19.2)**	**(0.8)**	**(20.7)**
Non-current liabilities	**(2.6)**	**(10.7)**	**(2.2)**	**(15.5)**
Fair value at 31 December 2014	**(3.3)**	**(13.6)**	**(3.0)**	**(19.9)**
Non-current assets	–	5.1	–	5.1
Current assets	–	6.6	–	6.6
Current liabilities	(0.5)	(3.6)	(0.5)	(4.6)
Non-current liabilities	(2.7)	(1.8)	(2.9)	(7.4)
Fair value at 31 December 2013	(3.2)	6.3	(3.4)	(0.3)

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

£m	Note	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
At 1 January 2013		(8.3)	1.8	(3.3)	(9.8)
Gain/(loss) through income statement – not hedged		–	2.9	(0.7)	2.2
Gain through income statement – other		–	1.5	–	1.5
Gain reclassified to income statement	26	4.5	–	–	4.5
Foreign exchange adjustments	26	0.6	0.1	0.6	1.3
At 1 January 2014		**(3.2)**	**6.3**	**(3.4)**	**(0.3)**
(Loss)/gain through income statement – not hedged		–	**(22.1)**	**0.3**	**(21.8)**
Loss through income statement – other		–	**(0.5)**	–	**(0.5)**
Gain reclassified to income statement	26	**1.3**	–	–	**1.3**
(Loss)/gain through OCI – hedged items	26	**(1.4)**	**2.9**	–	**1.5**
Foreign exchange adjustments	26	–	**(0.2)**	**0.1**	**(0.1)**
At 31 December 2014		**(3.3)**	**(13.6)**	**(3.0)**	**(19.9)**

Interest rate swaps and a small number of specific foreign exchange derivatives with a fair value at 31 December 2014 of £2.7m (2013: £nil) 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.

The majority of 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. Where currency swaps offset movements in currency balances held, the movement in the fair value of these swaps is set against the income statement exchange movements arising on those balances.

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the accounting policies in note 1 and in note 24, financial risk management.

23. Retirement benefit schemes

Retirement benefit obligations per the Balance Sheet consist of:

£m	2014	2013
Defined benefit scheme assets	670.6	577.6
Defined benefit obligations	(772.6)	(664.9)
	(102.0)	(87.3)

Pension expense included in employment costs in note 4 are as follows:

£m	2014	2013
Defined benefit schemes	5.5	5.2
Defined contribution schemes	25.5	24.4
	31.0	29.6

The Group operates a number of funded defined benefit schemes (where benefits are based on employees' length of service and average final salary), 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. The Group also manages a number of defined contribution pension arrangements, where the Group's contribution is fixed at a set percentage of employees' pay.

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 2014. In the UK, within 15 months of each triennial valuation, the employer and the trustees are required to agree a schedule of contributions to ensure that the Plan is fully funded over time on a suitably prudent basis. The Group expects to contribute £23.5m to its defined benefit pension schemes in 2015 and £23.1m in 2016. This includes £18.4m (2016: £17.6m) related to deficit funding.

On 1 July 2013 the liabilities related to past service of pensioners of the CPP on that date were subject to a buy-in arrangement. Under the terms of this arrangement, the CPP transferred assets to an insurance company in return for a qualifying insurance policy which provides an income stream to the Plan equivalent to the Plan's obligations to pensioners covered by the arrangement. This eliminated the Group's exposure to the interest, inflation and longevity risks associated with these liabilities. The liabilities covered by this buy-in amounted to £242m, which had the impact of generating an actuarial loss of £39m. This follows similar buy-in arrangements completed in 2011 related to past service of pensioner and deferred members of some of the smaller defined benefit schemes. The insurance contract assets are measured at a value equal to the related liabilities. In 2014 the CPP has made liability driven investments to provide further cover against interest and inflation volatility.

There were no significant contributions outstanding at the end of 2014 or 2013 for the defined benefit schemes. £1.3m (2013: £1.2m) was outstanding in respect of defined contribution schemes but not due for payment at 31 December 2014.

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

	2014		2013	
	UK schemes	USA scheme	UK schemes	USA scheme
Rate of increase in salary costs	3.45%	3.45%	3.80%	3.80%
Rate of increase in pensions in payment unless overridden by specific scheme rules	3.20%	3.20%	3.55%	3.55%
Rate of increase in deferred pensions	2.20%	3.20%	2.55%	3.55%
Discount rate	3.50%	3.50%	4.50%	4.50%
Inflation assumption	3.20%	3.20%	3.55%	3.55%

The mortality assumptions used for the CPP are based upon actuarial tables which reflect actual recent mortality experience and also allow for future mortality improvements. The mortality tables used to estimate life expectancy are known as 'SAPS CMI 13'. In practical terms, this is demonstrated in the table below:

	Year of birth	Year age 65	Further life expectancy
Male	1949	2014	22.6 years
Female	1949	2014	24.9 years
Male	1980	2045	25.5 years
Female	1980	2045	27.9 years

At 31 December 2014 it has been assumed that members will commute on average 20% (2013: 20%) of their pension for cash at retirement. This implies a full take-up of the permitted 25% (2013: 25%) commutation by approximately 80% (2013: 80%) of eligible members on retirement.

The sensitivity of scheme liabilities to changes in certain key assumptions, after adjusting for liabilities covered by insurance contracts, is provided below:

	Change in assumption	Change in liabilities
Discount rate	Increase by 0.5%	-4%
Inflation rate	Increase by 0.5%	+3%
Life expectancy	Increase by 1 year	+2%

The impact of increases and decreases in assumptions are approximately symmetrical.

A summary of the movements in the net liability and the amounts recognised in the Income Statement and OCI are as follows:

	2014			2013		
£m	**Scheme assets**	**Defined benefit obligations**	**Total**	Scheme assets	Defined benefit obligations	Total
Current service cost included in administrative expenses	–	(5.5)	(5.5)	–	(5.2)	(5.2)
Scheme administration expenses	(0.6)	–	(0.6)	(1.4)	–	(1.4)
Amounts recognised in operating profit	(0.6)	(5.5)	(6.1)	(1.4)	(5.2)	(6.6)
Net interest	26.0	(29.6)	(3.6)	25.2	(28.0)	(2.8)
Amounts credited/(charged) to other finance expense	26.0	(29.6)	(3.6)	25.2	(28.0)	(2.8)
Actual return less interest income on pension scheme assets	65.2	–	65.2	22.8	–	22.8
Actuarial loss arising on buy-in transaction	–	–	–	(39.0)	–	(39.0)
Experience gains arising on scheme liabilities	–	0.1	0.1	–	–	–
Actuarial gains and losses arising from changes in financial assumptions	–	(96.3)	(96.3)	–	(18.1)	(18.1)
Actuarial gains and losses arising from changes in demographic assumptions	–	3.3	3.3	–	8.7	8.7
Amounts recognised in OCI	65.2	(92.9)	(27.7)	(16.2)	(9.4)	(25.6)
Employer contributions	23.0	–	23.0	21.1	–	21.1
Member contributions	2.6	(2.6)	–	2.7	(2.7)	–
Benefits paid	(24.2)	24.2	–	(25.9)	25.9	–
Amounts included in Cash Flow Statement	1.4	21.6	23.0	(2.1)	23.2	21.1
Exchange differences	1.0	(1.3)	(0.3)	(0.3)	0.3	–
Net movement in the year	93.0	(107.7)	(14.7)	5.2	(19.1)	(13.9)
Net liability at start of year	577.6	(664.9)	(87.3)	572.4	(645.8)	(73.4)
Net liability at end of year	670.6	(772.6)	(102.0)	577.6	(664.9)	(87.3)

Total employer contributions exceeded current service cost, past service cost and scheme administration expenses by £16.9m (2013: £14.5m).

The present value of funded obligations relating to the US scheme is US$42.7m (2013: US$35.5m) and the fair value of scheme assets relating to the US scheme is US$27.0m (2013: US$26.2m).

The cumulative amount of actuarial losses recognised in the OCI since transition to IFRS is £235.8m (2013: £208.1m). Of the actuarial losses recognised in the year, the changes in financial assumptions are primarily driven by the movements in the discount rate and inflation assumption.

The actual return on scheme assets was £91.1m (2013: £48.0m before accounting for the actuarial loss of £39.0m generated on the buy-in transaction). The weighted average duration of the scheme liabilities is estimated to be 19 years.

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

	2014		2013	
	£m	%	£m	%
UK equity instruments	56.7	8.5%	74.7	12.9%
Overseas equities	27.6	4.1%	43.0	7.4%
Emerging markets equities	18.4	2.7%	20.0	3.5%
Liability driven investments	108.4	16.2%	–	–
Corporate bonds	4.8	0.7%	28.8	5.0%
Diversified growth funds	153.1	22.8%	127.4	22.1%
Insurance contracts	299.5	44.7%	280.7	48.6%
Other assets	2.1	0.3%	3.0	0.5%
	670.6	100.0%	577.6	100.0%

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.

Other retirement benefit schemes

The assets and liabilities of other immaterial retirement benefit schemes are as follows:

	2014		2013	
£m	Assets	Liabilities	Assets	Liabilities
French indemnity schemes	–	(4.2)	–	(3.6)
German based schemes	3.5	(3.7)	2.6	(2.6)
US based schemes	1.9	(5.8)	–	–
	5.4	(13.7)	2.6	(6.2)

The actuarial loss for these schemes in the year to 31 December 2014, recognised in OCI, was £0.7m (2013: nil). The net liabilities are included in other liabilities in note 19. The German based schemes are substantially covered by insurance policies.

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, interest rates, liquidity risk and credit risk. 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 manage 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.

Foreign currency risk

The Group is based in the UK, reports in sterling and has significant investment in overseas operations in the USA, 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 practical, both structural and transactional foreign exchange risk and, consequently, the net foreign exchange gains and losses included in the Income Statement amounted to a gain of £5.8m (2013: £3.2m loss). All currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Cobham plc management.

The Group has the following exposure to foreign currency denominated monetary assets and monetary liabilities in the Balance Sheet, translated into sterling at the relevant year-end exchange rates:

	2014		2013	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
US dollars	353.6	(1,555.3)	188.8	(584.9)
Euros	109.4	(82.8)	86.8	(109.3)
Australian dollars	47.4	(45.8)	56.2	(54.2)
Danish kroner	16.1	(77.7)	18.1	(90.7)
Other currencies	45.5	(11.7)	24.5	(8.3)
	572.0	(1,773.3)	374.4	(847.4)
Sterling denominated monetary assets and liabilities	143.5	(128.8)	166.2	(117.9)
	715.5	(1,902.1)	540.6	(965.3)

Foreign currency borrowings are used to mitigate the impact of foreign currency exchange differences arising from the Group's overseas net assets. The Group typically borrows in the currency of the acquisition and uses intercompany debt to create a natural economic hedge. Monetary liabilities in the table above include US dollar borrowings of £1,305.4m (2013: £482.4m) and Danish krone borrowings of £71.0m (2013: £75.9m) which match exposures arising from currency denominated net assets. Foreign currency contracts are also used to manage exposure to currency risks.

On consolidation, the net assets of overseas subsidiaries (which include the monetary assets and liabilities shown in the tables above) are translated at closing exchange rates and exchange differences arising are accounted for in OCI and in the translation reserve (note 26).

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.

During 2014 forward contracts have been placed to sell US dollars for Danish kroner to mitigate the impact of US dollar sales now being made by the Group's Danish subsidiaries.

The sterling/US dollar and Danish kroner/US dollar exchange rates are the most important for the Group. The Group has the following forward foreign currency contracts outstanding for net sales of US dollars for sterling and Danish kroner:

	US$m amount		Average US$: £ exchange rate	
	2014	2013	**2014**	2013
Expiring within one year	**110.9**	124.1	**1.60**	1.59
Expiring within one to two years	**14.7**	38.0	**1.54**	1.58
Expiring after two years	**47.6**	71.6	**1.56**	1.56
US$/sterling contracts outstanding at 31 December	**173.2**	233.7	**1.58**	1.58

	US$m amount		Average US$: DKK exchange rate	
	2014	2013	**2014**	2013
Expiring within one year	**138.1**	9.6	**5.53**	5.55
Expiring within one to two years	**125.1**	–	**5.47**	–
Expiring after two years	**28.3**	–	**5.34**	–
US$/DKK contracts outstanding at 31 December	**291.5**	9.6	**5.49**	5.55

The latest expiry date of forward foreign currency contracts for sales of US dollars is July 2022 and it is the Group's current belief that the net dollar receipts by its subsidiaries will exceed the level of the outstanding commitments.

The following table details the Group's sensitivity to a weakening in sterling against the respective foreign currencies, with a negative number indicating a reduction in profit after taxation or total equity. The sensitivities below represent management's assessment of the possible changes in foreign exchange rates, based on experience over the previous five years.

	2014			2013		
£m	**Sensitivity**	**Profit or loss**	**Total equity**	Sensitivity	Profit or loss	Total equity
US dollars to sterling	**9%**	**(8.0)**	**(8.0)**	11%	(13.8)	(13.8)
US dollars to Danish kroner	**12%**	**(18.4)**	**(18.4)**	14%	(1.4)	(1.4)
Euros to sterling	**8%**	**(4.2)**	**(4.2)**	9%	(3.3)	(3.3)

This sensitivity analysis has been based on the assumption that the change is effective throughout the financial year and that all other variables, including interest rates, remain constant. It includes the effect of derivative financial instruments.

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:

	2014			2013		
£m	**Sensitivity**	**Profit or loss**	**Total equity**	Sensitivity	Profit or loss	Total equity
US dollars to sterling	**10%**	**(9.1)**	**(9.1)**	10%	(12.4)	(12.4)
US dollars to Danish kroner	**10%**	**(15.0)**	**(15.0)**	10%	(0.9)	(0.9)
Euros to sterling	**10%**	**(5.4)**	**(5.4)**	10%	(3.7)	(3.7)

Interest rate risk

The Group has long and short term borrowings at both fixed and floating rates of interest. In managing its borrowing costs, the Group monitors its exposure to movements in interest rates, having regard to prevailing market conditions and, where necessary, uses interest rate swaps to manage the interest rate risk.

£m	2014	2013
Senior notes	**777.6**	216.7
Bank loans at fixed rate	**48.1**	45.3
Bank loans swapped to fixed rate	**30.8**	37.1
Fixed rate borrowings	**856.5**	299.1
Bank loans and overdrafts	**492.2**	261.0
Senior notes	**99.4**	93.6
Finance leases	**0.2**	0.4
Floating rate borrowings	**591.8**	355.0
Total borrowings	**1,448.3**	654.1

All floating rate borrowings have regular repricing dates.

Floating to fixed interest rate swaps, designated as cash flow hedges, have been used to mitigate the interest rate exposure arising on selected floating rate debt. Interest rate swaps outstanding at the year end are as follows:

		Period of swap contract		2014		2013	
Hedged item	Fixed rate	from	to	**Currency value**	**£m**	Currency value	£m
Australian dollar loans	6.30%	May 2006	January 2020	**AUS$49.7m**	**26.1**	AUS$58.0m	31.3
	6.40%	January 2007	January 2020	**AUS$9.0m**	**4.7**	AUS$10.8m	5.8
					30.8		37.1

The Group does not currently hold any fair value hedging instruments such as fixed to floating interest rate swaps.

Surplus funds are placed on short-term fixed rate deposit and as such also give rise to interest rate exposure. There was no material sensitivity to changes in interest rates at the year end.

Liquidity risk

The Group's policy on managing liquidity risk throughout the year has been to maintain a mix of short, medium and long-term borrowings with lenders. Overdraft and revolving credit facilities provide short term flexibility whilst the revolving credit facilities provide longer term committed funding.

As shown in note 18, at 31 December 2014 undrawn committed borrowing facilities of £102.7m (2013: £37.7m) were available to the Group in various currencies.

At an operating level, the Group has a positive cash flow from operating activities and where practical the funds generated by business units are managed on a regional basis. In the UK and US, most business units utilise local bank facilities within a UK or US group arrangement. This allows a balance to be maintained between continuity of funding, security and flexibility.

The table below summarises the remaining contractual maturity for the Group's borrowings and other financial liabilities, including derivative 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	2-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Borrowings	**48.5**	**418.7**	**688.2**	**529.3**	**1,684.7**
Trade and other payables	**359.8**	**3.4**	**5.5**	**4.6**	**373.3**
At 31 December 2014	**408.3**	**422.1**	**693.7**	**533.9**	**2,058.0**
Derivative liabilities					
Interest rate swaps	**1.1**	**0.9**	**1.3**	**–**	**3.3**
Foreign exchange derivatives					
Gross cash outflows	**464.2**	**100.1**	**22.7**	**–**	**587.0**
Gross cash inflows	**(446.1)**	**(90.8)**	**(20.2)**	**–**	**(557.1)**
Inflation swap	**0.8**	**1.1**	**1.1**	**–**	**3.0**
At 31 December 2014	**20.0**	**11.3**	**4.9**	**–**	**36.2**

£m	Within one year	1-2 years	2-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Borrowings	63.1	14.5	512.3	124.5	714.4
Trade and other payables	271.4	14.2	3.5	2.8	291.9
At 31 December 2013	334.5	28.7	515.8	127.3	1,006.3
Derivative liabilities					
Interest rate swaps	1.3	0.8	1.2	0.1	3.4
Foreign exchange derivatives					
Gross cash outflows	120.9	16.8	0.2	7.5	145.4
Gross cash inflows	(118.1)	(15.1)	(0.2)	(8.0)	(141.4)
Inflation swap	0.5	0.9	2.0	–	3.4
At 31 December 2013	4.6	3.4	3.2	(0.4)	10.8

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables and there are no significant concentrations of credit risk.

The Group has a conservative policy towards the credit risk related to liquid funds and derivative financial instruments with balances currently spread across a range of reputable financial institutions. The levels of credit risk are monitored through the Group's ongoing risk management processes, which include a regular review of the banks' credit ratings. Risk in this area is limited further by setting a maximum level for term 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 shown in note 16.

Group management monitor the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 31 December 2014, 9.2% (2013: 8.2%) of gross trade receivables were overdue by one month or more.

The maximum exposure to credit risk at 31 December 2014 is the fair value of each class of receivable as disclosed in note 17. 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 £5.8m of receivables.

Bank term balances totalling £6.2m (2013: £6.4m) have been pledged against the residual value of leased assets as described in note 15.

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 Balance Sheet as shown in note 15. In the event of an automatic enforcement event, the bank balances are automatically set off against each other to achieve a net position.

Derivatives can also be offset by counterparties in the event of a default; net amounts that result on this basis are shown in note 15.

Inflation risk

The Group's exposure to inflation is considered to be a general business risk which is mitigated through normal commercial activity. The Group has one swap contract which was designed to manage the inherent inflation risk in a specific operational contract. The fair value of this swap contract is included in derivative financial instruments shown in note 22.

Capital risk management

Group policy is to maintain a strong capital base so as to maintain stakeholder confidence and to sustain future development of the business. Capital is defined as total equity excluding non-controlling interests and amounted to £1,111.4m at 31 December 2014 (2013: £1,043.4m). Within this overall policy, the Group seeks to maintain an appropriate finance structure through 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 as outlined on page 31. 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.

25. Share capital

	Number of shares	2014 £m	Number of shares	2013 £m
Authorised				
Ordinary shares of par value 2.5 pence	1,479,200,000	37.0	1,479,200,000	37.0
6% second cumulative preference shares of £1	20,000	–	20,000	–
Issued and fully paid				
Ordinary shares of par value 2.5 pence	1,214,527,625	30.4	1,154,527,625	28.9

60,000,000 ordinary shares of 2.5 pence each, with an aggregate nominal value of £1.5m, were issued on 23 May 2014 following a stock exchange placing. The gross proceeds realised were £180.0m, resulting in an increase in share premium of £175.3m after expenses as shown in the Statement of Changes in Equity.

As at 31 December 2014, 82,231,281 (2013: 85,680,533) ordinary shares were held in treasury including 6,279,557 (2013: 9,728,809) shares held in the Cobham Employee Benefit Trust. At 31 December 2014, the market value of treasury shares was £266.3m (2013: £235.2m), including shares with a market value of £20.3m (2013: £26.7m) held by the Cobham Employee Benefit Trust.

During the year ended 31 December 2014, treasury shares were used to satisfy awards and options under the Group's share based payment schemes. The net cost of treasury shares after receipts from option exercises is deducted from retained earnings and total equity.

Further details of the share capital of Cobham plc can be found in the Directors' Report on page 65.

26. Other reserves

£m	Note	Translation reserve	Hedge reserve	Share based payment reserve	Total other reserves
At 1 January 2013		41.7	(6.3)	28.8	64.2
Foreign exchange differences on translation of overseas operations		(11.1)	–	–	(11.1)
Movements on cash flow hedges	22	0.6	–	–	0.6
Reclassification of fair value of cash flow hedges to income statement		–	4.5	–	4.5
Release of hedge reserve		–	1.5	–	1.5
Transfer of translation reserve on settlement of cash flow hedge contracts		1.5	(1.5)	–	–
Transfer of share based payment reserve on exercise		–	–	(4.2)	(4.2)
Share based payments recognised in reserves	27	–	–	(1.7)	(1.7)
Tax effects		(0.5)	(0.7)	2.6	1.4
At 1 January 2014		32.2	(2.5)	25.5	55.2
Foreign exchange differences on translation of overseas operations		(16.8)	–	–	(16.8)
Reclassification of foreign exchange on divestment of overseas operation		(1.9)	–	–	(1.9)
Movements on cash flow hedges – interest rate swaps	22	0.1	(1.4)	–	(1.3)
Movements on cash flow hedges – foreign exchange contracts		–	2.9	–	2.9
Reclassification of fair value of cash flow hedges to income statement		–	1.3	–	1.3
Transfer of share based payment reserve on exercise		–	–	(3.3)	(3.3)
Share based payments recognised in reserves	27	–	–	6.1	6.1
Tax effects		–	(0.9)	1.5	0.6
Foreign exchange adjustments		–	(0.1)	–	(0.1)
At 31 December 2014		13.6	(0.7)	29.8	42.7

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 based payment reserve includes the cost of share awards as assessed under IFRS 2 and detailed in note 27, together with deferred tax provided under IAS 12. The appropriate proportion of the share options reserve is transferred to retained earnings following vesting or exercise.

27. Share based payments

The total amount included in the Income Statement arising from the Group's equity settled share based payment schemes is as follows:

£m	2014	2013
PSP	6.8	4.7
Other schemes	1.4	1.2
Release of amounts charged in previous years	(2.1)	(7.6)
	6.1	(1.7)

During the year ended 31 December 2014, £2.1m (2013: £7.6m) charged to the Income Statement in previous years has been released, reflecting actual vesting experience and a reassessment of the expected future vesting of outstanding awards, based on non-market related performance conditions.

The PSP scheme is offered to senior executives across the Group and allows for annual grants of conditional shares with vesting conditions based on the Group's financial performance, taking into account both market based conditions such as TSR growth and non-market based measures such as EPS growth or cash conversion respectively. The scheme includes buy-out awards granted in 2013 and 2014 to the Group's CEO and CFO.

The PSP scheme also includes retention awards granted during 2014 which mainly vest in equal amounts after two or three years, conditional only upon continued employment within the Group.

Other schemes include ESOS, RSP, BCP and ShareSave elements. In previous years, share options were awarded to senior executives under the ESOS scheme, with exercise conditional upon the Group's underlying EPS growth over a three year period. This scheme included a 'time-only' section for US employees whereby options were granted with 25% vesting on each annual anniversary, conditional only on continued employment within the Group. No new awards have been made under this scheme since 2013. Restricted Share Plan awards (RSPs) have been granted for the first time during 2014. This scheme gives the rights to acquire shares for nil consideration over a four year period, with 25% vesting on each annual anniversary, conditional only upon continued employment within the Group. The Bonus Co-investment Plan (BCP) is offered to a small number of senior executives and provides matching shares where bonus awards are invested in shares. Finally, the Group operates a ShareSave scheme which is open to all UK employees.

Further details of all the schemes can be found in the Directors' Remuneration Report on pages 56 to 64.

The number of awards outstanding at 31 December are as follows:

Number of awards (thousands of shares)	2014	2013
PSP	10,380	8,544
ESOS	5,914	10,161
RSP	543	–
BCP	118	190
ShareSave	5,908	5,447
At 31 December	22,863	24,342

Details of movements in the awards under the PSP scheme are as follows:

Number of awards (thousands of shares)	2014	2013
At 1 January	8,544	7,794
Awards granted	5,171	3,531
Awards forfeited or cancelled	(2,491)	(2,315)
Exercised	(802)	(466)
Expired	(42)	–
At 31 December	10,380	8,544
Weighted average remaining contractual life of PSP awards outstanding	1.46 years	1.38 years
Number of PSP awards exercisable at 31 December (thousands)	40	669

Awards under the PSP schemes have been granted at various dates throughout the year, with main tranches in March, May and September 2014. The average fair value of PSP awards granted during 2014 was £2.833 (2013 awards: £2.223), calculated using the Black-Scholes option pricing model modified by a Monte Carlo simulation to determine the likely impact of market related performance conditions. The weighted average inputs into the models were as follows:

	2014	2013
Weighted average share price	£3.065	£2.472
Expected life	2.82 years	2.96 years
Expected employee cancellation rate	4.1%	1.8%
Risk free rate	0.9%	0.3%

The expected lives used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability and behavioural considerations. The expected employee cancellation rates are based on assessments of historic rates of voluntary cancellations of contracts by employees. Most participants of the PSP schemes receive the benefit of dividend payments and therefore dividend yields are not taken into consideration in the valuation models.

The fair values of ESOS and ShareSave awards are significantly lower than for PSP, RSP and BCP awards due to the effect of the exercise price which is set based upon the market value of the Company's ordinary shares around the date of grant.

28. Business combinations

Businesses acquired during the year

On 12 September 2014 Aeroflex Holding Corp. (Aeroflex) was acquired following a public offer and the purchase of 92% of the share capital. The remaining shares have been purchased in 2015.

Approximately 70% of Aeroflex's revenue is focused on commercial markets with exposure to wireless, space, microelectronics, industrial, energy and other sectors, increasing the proportion of Cobham's commercial revenue and building on Cobham's focus on connectivity capabilities, customers and characteristics. Aeroflex operations are being integrated into Cobham's Advanced Electronic Solutions and Communications and Connectivity Sectors. The scale and complementary nature of this acquisition is expected to enable Cobham to unlock significant synergy benefits, generating increased shareholder value, whilst supporting customers more effectively. Further details can be found on pages 18 and 19.

Fair value information

The fair value of the business combination can be analysed as follows:

£m	Total
Cash consideration paid	523.5
Cash consideration to be paid for remaining shares	49.3
	572.8

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

£m	Total
Intangible assets	517.4
Property, plant and equipment	48.6
Investment properties	0.8
Trade and other receivables	12.8
Non-current assets	579.6
Inventories	118.4
Trade and other receivables	55.9
Cash and cash equivalents	39.4
Current assets	213.7
Borrowings	(362.3)
Trade and other payables	(70.5)
Provisions	(7.8)
Current tax liabilities	(13.1)
Current liabilities	(453.7)
Trade and other payables	(6.4)
Provisions	(2.6)
Deferred tax	(144.3)
Non-current liabilities	(153.3)
Net assets acquired	186.3
Goodwill	386.5
	572.8

The fair values of net assets acquired are provisional and subject to potential adjustment.

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. Synergies are expected to arise from cross-selling revenue benefits, site consolidation, supply chain efficiency, implementation of the Cobham Standard Operating Framework and elimination of duplicate corporate overheads. Goodwill is not anticipated to be deductible for tax purposes.

The gross value of acquired trade and other receivables is £73.9m. These are included in the table above at their fair value of £68.7m. Contingent liabilities recognised as provisions and included in the table above include amounts relating to outstanding legal settlements and environmental remediation provisions in respect of a number of Aeroflex's sites. The majority of these are expected to be settled within one year although some are longer term provisions.

Results of business combinations

Third party revenue of Aeroflex, since the date of acquisition, was £123.7m. The post-acquisition loss after tax was £5.7m including the impacts of amortisation of the intangible assets which are recognised as a result of the business combination and writing off the pre-acquisition profit element of inventory written up on acquisition. Trading profit was £24.5m.

If this business combination had taken effect on 1 January 2014, it is estimated that Group total revenues would have been £2,110.0m and profit after tax £31.5m. This information is not necessarily indicative of the results had the operations been acquired at the start of the year, nor of future results of the combined operations.

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

£m	Total
Cash consideration paid – Aeroflex and Axell	**523.2**
Net debt acquired	**322.9**
	846.1

Costs of £21.4m were incurred in relation to business combinations. These costs are recognised within administrative expenses in the Income Statement and included within other acquisition related costs excluded from underlying profit as shown in note 2.

In the Group consolidated financial statements for the year to 31 December 2013, the fair values of assets and liabilities acquired for FBH were marked as provisional. Following further review the opening balance sheet has been amended to reflect an increase in trade and other payables of £1.8m, a decrease in current tax liabilities of £2.5m and an increase in deferred tax assets of £0.4m. Goodwill has therefore been adjusted accordingly.

29. 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	2014	2013
Within one year	**41.8**	26.0
Between one and two years	**24.0**	23.4
Between two and three years	**23.3**	21.0
Between three and four years	**20.1**	18.8
Between four and five years	**16.2**	16.3
After five years	**53.6**	63.4
	179.0	168.9

Operating lease payments during the year totalled £27.3m (2013: £30.4m) including rental costs of £6.9m (2013: £7.1m) relating to operational aircraft used in the Group's service businesses; the remainder primarily relates to the rental of office and operating facilities.

Operating lease commitments include £12.0m related to onerous leases which have been provided for at the balance sheet date.

30. Contingent liabilities

At 31 December 2014, 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.

The Company and various of its subsidiaries are, from time to time, parties to various legal proceedings and claims. Management do not anticipate that the outcome of these, either individually or in aggregate, would have a material adverse effect upon the Group's financial position as at 31 December 2014.

As notified in prior years, 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. The circumstances surrounding this remain under review and neither the outcome nor timing of resolution can be estimated. No further information is disclosed as it could be prejudicial.

The nature of much of the contracting work done by the Group means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, whose resolution is uncertain and could materially impact the Group's future reported earnings. In particular, on fixed price development contracts, costs incurred and anticipated can significantly exceed amounts estimated at inception as a result of material enhancements to the specifications originally agreed under the contracts. Judgement is therefore required as regards the final costs of technical solutions, the outcome of negotiations with customers and the amounts recoverable under these contracts. . The Directors take account of the advice of experts in making these judgements and believe that the outcome of negotiations will result in an appropriate recovery of costs incurred in excess of original baselines.

On 24 February 2014 the Group voluntarily contacted the United States Department of Justice (DoJ) to inform it that Cobham had undertaken an initial internal investigation into potentially irregular sales practices concerning sales to Asia of certain commercial, non-classified products manufactured by TracStar Systems Inc.. This matter was satisfactorily concluded with the DoJ during the year with no material cost to the Group.

31. Related party transactions

Sales of goods to related parties were made on an arms length basis. No guarantees have been given to, or received from, related parties. No expense has been recognised for bad or doubtful debts in respect of the amounts owed by related parties. Transactions between Group entities and joint ventures and associates during the year were as follows:

£m	2014	2013
Sales of goods	–	0.4
Purchases of goods	1.0	0.3
Dividends received from joint ventures	–	(3.7)
Loan repayments and interest received from joint ventures	–	(3.0)

Compensation of key management personnel

Details of the compensation of key management personnel can be found in note 4.

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 56 to 64.

32. Subsidiaries

All subsidiary undertakings have been included in the Group consolidation. The undertakings held at 31 December 2014 which, in the opinion of the Directors, principally affected the results for the year or the net assets of the Group were:

Business Unit and principal activities	Name of undertaking	Place of incorporation (or registration) and operation
Cobham Communications and Connectivity		
Aerospace Communications		
Design and manufacture of high technology avionics, connectivity, motion control and microwave solutions for commercial, security and defence platforms, with world leading positions for aircraft audio management systems and slip rings.	Air Précision SAS	France
	Chelton Avionics, Inc	USA
	Chelton Telecom and Microwave SAS	France
	TEAM SA	France
Antenna Systems		
Advanced antenna technology for satellite communications, avionics, radar and surveillance applications which connects military and commercial aircraft, naval vessels, vehicles and mobile teams with the world through high-speed data, voice and video.	Chelton Limited	England
	Chelton, Inc	USA
	Cobham CTS Limited	England
	Trivec-Avant Corporation	USA
SATCOM		
Development, manufacture, sales and support of satellite and radio communication terminals and earth stations for land, maritime and airborne applications.	Sea Tel, Inc	USA
	Thrane & Thrane A/S	Denmark
Tactical Communications and Surveillance		
Leading edge surveillance and communication technologies for successful operations in demanding environments.	Cobham Defence Communications Limited	England
	Cobham TCS Limited	England
	DTC Communications, Inc	USA
Composites		
Design, development, manufacture, test and repair of high performance composite components for both civil and military aerospace applications.	Cobham Advanced Composites Limited	England
	Cobham Composite Products, Inc	USA
AvComm		
Development, manufacture, sales and support of high performance development, test, monitoring and control solutions for commercial, government and military applications.	Aeroflex Wichita, Inc	USA
Wireless		
Advanced network solutions and applications, delivering class leading, cost effective solutions that address the increasing demand for data connectivity, capacity and quality.	Aeroflex Limited	England
	Axell Wireless Limited	England
Cobham Mission Systems		
Aerial refuelling, actuation and control, and advanced restraint systems for space, aerospace and land including remote controlled unmanned systems and 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

Business Unit and principal activities	Name of undertaking	Place of incorporation (or registration) and operation
Cobham Advanced Electronic Solutions		
Microelectronic Solutions		
RF microelectronic technologies that enable mission critical performance for electronic warfare, missiles, communications, and radar applications. Monolithic Microwave Integrated Circuit (MMIC) technology, industry leading phase noise performance, and high packaging density which enable innovative solutions to challenging mission requirements.	Cobham Advanced Electronic Solutions, Inc *	USA
Integrated Electronic Solutions		
Mission critical RF technology solutions serving defence, commercial aerospace and space customers.	Cobham Advanced Electronic Solutions, Inc *	USA
	Continental Microwave and Tool Co, Inc	USA
Semiconductor Solutions		
Standard HiRel ICs including memory, microprocessor, interconnect and power, and ASICs (application specific integrated circuits) for space, commercial, medical and industrial markets along with electronic manufacturing services including circuit card assembly, radiation testing, component upscreening and packaging.	Aeroflex Plainview, Inc *	USA
	Aeroflex Colorado Springs, Inc	USA
RFMW Solutions		
Microwave and RF devices, components, modules and subsystems including signal attenuation products, microwave diodes, integrated microwave assemblies, military discretes, synthesizers and interconnect subsystems.	Aeroflex Control Components, Inc	USA
	Aeroflex Plainview, Inc *	USA
Motion Control Solutions		
High reliability motion control products including slip rings, twist capsules, actuators, DC motors and controllers for space, military, avionics and strategic industrial customers.	Aeroflex Plainview, Inc *	USA
Cobham Aviation Services		
Special Mission		
Aerial surveillance services, operational readiness training, mission rehearsal and flight inspection services.	FR Aviation Limited	England
	Surveillance Australia Pty Limited	Australia
Helicopter Services		
Helicopter pilot training, search and rescue, logistics and emergency medical services for government clients globally.	FB Heliservices Limited	England
Airline Services		
Operation of a fleet of 18 Boeing 717 aircraft for QantasLink, the regional airline of Qantas. Providers of flight crew and management of high capacity airline services to regional ports and state capitals across Australia.	National Jet Systems Pty Limited	Australia
Regional Services		
Customised passenger and freight flights in support of the resource industry in remote areas of Australia and Papua New Guinea.	National Jet Express Pty Limited	Australia

* Cobham Advanced Electronic Solutions, Inc and Aeroflex Plainview, Inc operate across a number of sites within more than one Business Unit.
** 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.

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

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

Report on the Parent Company Financial Statements

Our opinion

In our opinion, Cobham plc's Parent Company Financial Statements (the financial statements):

- Give a true and fair view of the state of the Parent Company's affairs as at 31 December 2014;
- 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.

What we have audited

Cobham plc's financial statements comprise:

- The Parent Company Balance Sheet as at 31 December 2014;
- The Reconciliation of Movements in Shareholders' Funds for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the Annual Report), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK and Ireland) reporting

Under International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)) we are required to report to you if, in our opinion, information in the Annual Report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- Otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- We have not received all the information and explanations we require for our audit; or
- 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 financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 68, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (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 Parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group Financial Statements of Cobham plc for the year ended 31 December 2014.

Pauline Campbell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2015

Parent Company Balance Sheet (under UK GAAP)

As at 31 December 2014

£m	Note	2014	2013
Fixed assets			
Tangible assets		–	0.1
Investments in Group and other undertakings	5	776.4	776.8
Other investments	5	6.1	6.1
Financial assets: derivative financial instruments	10	14.3	18.1
		796.8	801.1
Current assets			
Financial assets: derivative financial instruments	10	15.7	8.3
Debtors	6	1,988.4	1,118.9
Cash at bank and in hand		420.2	74.1
		2,424.3	1,201.3
Creditors: amounts falling due within one year	7	(155.5)	(355.3)
Net current assets		2,268.8	846.0
Total assets less current liabilities		3,065.6	1,647.1
Creditors: amounts falling due after more than one year	8	(1,855.4)	(1,020.1)
Provisions for liabilities	9	(6.6)	(6.6)
Net assets		1,203.6	620.4
Capital and reserves			
Called up share capital	11	30.4	28.9
Share premium account	12	301.9	126.6
Special reserve	12	43.6	43.6
Other reserves	12	17.5	14.8
Profit and loss account	12	810.2	406.5
Equity shareholders' funds		1,203.6	620.4

The financial statements on pages 119 to 123 were approved by a duly appointed and authorised committee of the Board on 4 March 2015 and signed on its behalf by:

Bob Murphy **Simon Nicholls**
Directors

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2014

£m	Note	2014	2013
Profit for the financial year		505.4	108.1
Dividends	2	(108.3)	(96.6)
Retained profit for the financial year		397.1	11.5
Issue of shares	11, 12	176.8	–
Treasury shares	12	3.3	(1.8)
Movements in hedge reserve	12	(0.1)	3.8
Share based payments	12	6.1	(1.7)
Net addition to shareholders' funds		583.2	11.8
Shareholders' funds at 1 January		620.4	608.6
Shareholders' funds at 31 December		1,203.6	620.4

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.

1. 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 multi-employer defined benefit pension schemes. Contributions and pension costs are apportioned across the schemes as a whole and assessed in accordance with the advice of qualified actuaries. The schemes are closed to new members and have a high proportion of deferred and pensioner members from businesses that no longer participate in the schemes. The Company is therefore not able to identify its share of underlying assets and liabilities of the schemes on a reasonable and consistent basis and in accordance with the multi-employer exemption contained in FRS 17 Retirement Benefits, the schemes have been accounted for as if they were defined contribution schemes. 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.

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 based payment awards for 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 sterling 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 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 awards as at the time of grant are charged to the profit and loss account over the vesting period. The vesting estimates are reviewed and updated at each balance sheet date; this includes progress against non-market related performance conditions. The fair value of share based payments 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 awards 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.

2. Dividends

£m	2014	2013
Final dividend of 7.04 pence per share for 2013 (2012: 6.4 pence)	75.5	68.5
Interim dividend of 2.904 pence per share for 2014 (2013: 2.64 pence)	32.8	28.1
Total dividend authorised and paid during the year	108.3	96.6

Further details of the proposed final dividend of 7.746 pence per share are shown in respect of the financial year ended 31 December 2014 in note 7 to the Group Financial Statements.

3. Directors' emoluments and pension costs

Disclosures in respect of Directors' emoluments can be found in the Directors' Remuneration Report on pages 56 to 64 of the Annual Report and Accounts.

Defined benefit pension schemes

The Company operates and participates in the Cobham Pension Plan (CPP) and the Cobham Executive Pension Plan (CEPP). The pension schemes are of the defined benefit type and assets are held in separate trustee administered funds. The funds are valued every three years by a professionally qualified independent actuary and the rates of contribution payable are determined by the actuary. The latest effective dates of the actuarial assessments of the CPP and CEPP were 1 April 2012 and 1 April 2013 respectively. The assessments were updated to 31 December 2014, at which date the total net liabilities of the schemes were assessed to be £92.3m. The Directors 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 2014 were £0.2m (2013: £0.3m) of normal funding and £9.1m (2013: £9.4m) of deficit funding. No contributions were outstanding at the end of 2014 or 2013.

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 cost charged represents contributions payable by the Company to the funds and amounted to £0.9m (2013: £1.0m). No contributions were outstanding at the end of 2014 or 2013.

4. 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 Restricted Share Plan (RSP);
- the Cobham Executive Share Option Scheme (ESOS); and
- 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 a total charge of £1.5m (2013: £2.2m credit) related to equity settled share based payment transactions during the year (excluding national insurance). This includes charges of £2.4m less a reversal of £0.9m of amounts charged in previous years due to the reassessment of assumptions during the year (2013: £2.3m less £4.5m reversal). As shown in note 5, investments in Group and other undertakings have been adjusted by £0.4m, comprising £4.6m for awards granted to employees of the Company's subsidiaries less £5.0m recharged during the year.

At 31 December, the following awards were outstanding under each of the schemes:

Number of awards (thousands of shares)	2014	2013
PSP	3,695	3,821
RSP	23	–
ESOS	519	817
BCP	114	111
ShareSave	283	269
	4,634	5,018

Further details of these schemes can be found in the Directors' Remuneration Report on pages 56 to 64 and in note 27 to the Group Financial Statements on pages 112 and 113.

5. Investments in Group and other undertakings

£m	Shares	Share based payments	Total
Cost and net book amount			
At 1 January 2014	**764.7**	**12.1**	**776.8**
Share based payment awards granted to employees of Group undertakings net of recoveries	–	**(0.4)**	**(0.4)**
At 31 December 2014	**764.7**	**11.7**	**776.4**

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 32 to the Group Financial Statements. The market capitalisation of the Group as a whole is given in the Group Financial Record on page 124.

The Company has minority shareholdings in two companies in connection with the Voyager (FSTA) programme. The total amount invested is £6.1m (2013: £6.1m) and this is held as a trade investment.

6. Debtors

£m	2014	2013
Amounts owed by Group undertakings	**1,959.9**	1,093.5
Deferred tax	**2.8**	2.8
Loan notes	**18.3**	18.3
Prepayments and accrued income	**7.4**	4.3
	1,988.4	1,118.9

Amounts owed by Group undertakings are unsecured and repayable on demand. All such balances, excluding trading balances, are interest bearing. Loan notes relate to the FSTA programme, these are interest bearing and due for repayment in 2035.

The net deferred tax asset can be analysed as follows:

£m	2014	2013
Derivative financial instruments	**2.0**	1.3
Share based payments	**0.7**	1.0
Accelerated capital allowances and other timing differences	**0.1**	0.5
	2.8	2.8

There were no movements in the net deferred tax asset during the year. 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.

7. Creditors: amounts falling due within one year

£m	Note	2014	2013 (as re-presented)
Bank overdrafts		**26.3**	143.2
Senior notes		–	46.2
Total borrowings		**26.3**	189.4
Trade creditors		**3.7**	1.9
Amounts owed to Group undertakings		**75.3**	125.8
Derivative financial instruments	10	**23.3**	8.8
Corporation tax payable		**6.8**	7.4
Other tax and social security		**2.2**	1.9
Accruals and deferred income		**17.9**	20.1
		155.5	355.3

Bank loans reported as current liabilities as at 31 December 2013 have been re-presented as non-current liabilities in accordance with the maturity dates of the relevant agreements. Further 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 0.25% and 9.0%. These amounts are unsecured and are repayable on demand.

8. Creditors: amounts falling due after more than one year

£m	Note	2014	2013 (as re-presented)
Bank loans		**569.8**	341.7
Senior notes		**877.0**	264.1
Amounts owed to Group undertakings		**390.6**	403.5
Derivative financial instruments	10	**18.0**	10.8
		1,855.4	1,020.1

The loans falling due after more than one year are due for repayment as follows:

£m	2014	2013 (as re-presented)
Between one and two years	**331.1**	–
Between two and three years	**52.2**	97.0
Between three and four years	**186.5**	89.5
Between four and five years	–	155.2
	569.8	341.7

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

£m	2014	2013
Between one and two years	**51.9**	–
Between two and five years	**363.9**	142.5
After five years, maturing between 2020 and 2024	**461.2**	121.6
	877.0	264.1

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

9. Provisions for liabilities

Other provisions of £6.6m (2013: £6.6m) relate to longer term warranties given on divestments completed in 2005. All amounts have been determined based on the Directors' current estimates of likely outcomes and the timing of any claims is uncertain.

10. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

£m	Interest rate swaps	Foreign exchange derivatives	Inflation swap	Total
Fixed assets	–	**12.1**	**2.2**	**14.3**
Current assets	–	**14.9**	**0.8**	**15.7**
Creditors: amounts falling due within one year	**(0.7)**	**(21.8)**	**(0.8)**	**(23.3)**
Creditors: amounts falling due after more than one year	**(2.6)**	**(13.2)**	**(2.2)**	**(18.0)**
At 31 December 2014	**(3.3)**	**(8.0)**	–	**(11.3)**
Fixed assets	–	15.2	2.9	18.1
Current assets	–	7.8	0.5	8.3
Creditors: amounts falling due within one year	(0.5)	(7.8)	(0.5)	(8.8)
Creditors: amounts falling due after more than one year	(2.7)	(5.2)	(2.9)	(10.8)
At 31 December 2013	(3.2)	10.0	–	6.8

11. Called up share capital

£m	2014	2013
Allotted, issued and fully paid		
Equity		
1,214,527,625 (2013: 1,154,527,625) 2.5 pence ordinary shares	**30.4**	28.9
Non-equity		
19,700 (2013: 19,700) 6% second cumulative preference shares of £1	–	–

Preference shares with a value of £19,700 are classified as borrowings.

Further details of the share capital of Cobham plc, including shares issued during the year and changes resulting from treasury shares, can be found in the Directors' Report on page 65 and in note 25 to the Group Financial Statements.

12. Reserves

			Other reserves		
£m	Share premium account	Special reserve	Hedge reserve	Share based payment reserve	Profit and loss account
At 1 January 2014	**126.6**	**43.6**	**(2.5)**	**17.3**	**406.5**
Profit for the financial year	–	–	–	–	**505.4**
Dividends	–	–	–	–	**(108.3)**
Purchase of treasury shares	–	–	–	–	**3.3**
Premium on issue of shares	**175.3**	–	–	–	–
Movement in fair value of hedge accounted derivatives	–	–	**(1.4)**	–	–
Reclassifications to profit and loss account	–	–	**1.3**	–	–
Share based payments recognised in reserves	–	–	–	**6.1**	–
Transfer of share based payment reserve	–	–	–	**(3.3)**	**3.3**
At 31 December 2014	**301.9**	**43.6**	**(2.6)**	**20.1**	**810.2**

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 based payment reserve relates to provisions made in accordance with FRS 20 for awards made to the Company's employees under the Group's share based payment schemes. Where awards which gave rise to charges under FRS 20 have vested or been exercised, the appropriate proportion of the reserve is transferred to the profit and loss account in equity.

The audit fee in respect of the Parent Company Financial Statements was £46,000 (2013: £45,000).

13. 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 provision has been made at the year end.

The Company had no capital commitments at 31 December 2014 (2013: £nil).

14. 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. Details of the Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 56 to 64.

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 £1.2m (2013: £1.1m) from TEAM SA which is 98.7% owned. No amounts were outstanding at the current or prior year end.

Group Financial Record

£m	2010	2011	2012	2013	**2014**
Revenue	1,902.6	1,854.4	1,749.4	1,789.7	**1,851.7**
Underlying profit before taxation	306.1	327.9	300.2	288.0	**257.0**
Profit before taxation	189.3	234.3	204.0	126.6	**24.3**
Taxation	(36.5)	(46.3)	(32.2)	(12.1)	**4.7**
Profit after taxation for the year	152.8	188.0	171.8	114.5	**29.0**
Net assets employed					
Intangible assets	1,048.4	917.6	1,102.1	1,162.2	**1,997.2**
Property, plant and equipment (including investment properties)	350.9	329.8	315.5	360.7	**400.4**
Investments	17.2	16.1	15.8	3.1	**3.1**
Other non-current assets	31.2	36.3	60.3	43.3	**77.5**
Current assets	1,123.2	983.7	877.9	849.9	**1,104.8**
	2,570.9	2,283.5	2,371.6	2,419.2	**3,583.0**
Current liabilities	(520.5)	(749.0)	(576.4)	(574.8)	**(699.1)**
Non-current liabilities excluding retirement benefit obligations	(892.2)	(444.2)	(667.4)	(712.9)	**(1,669.6)**
Net assets excluding retirement benefit obligations	1,158.2	1,090.3	1,127.8	1,131.5	**1,214.3**
Retirement benefit obligations	(82.0)	(71.2)	(73.4)	(87.3)	**(102.0)**
Net assets including retirement benefit obligations	1,076.2	1,019.1	1,054.4	1,044.2	**1,112.3**
Financed by					
Ordinary share capital	28.9	28.9	28.9	28.9	**30.4**
Reserves	1,046.9	989.7	1,024.9	1,014.5	**1,081.0**
Total equity attributable to the owners of the parent	1,075.8	1,018.6	1,053.8	1,043.4	**1,111.4**
Non-controlling interests in equity	0.4	0.5	0.6	0.8	**0.9**
Total equity	1,076.2	1,019.1	1,054.4	1,044.2	**1,112.3**
Net debt	(326.1)	(232.5)	(359.9)	(453.4)	**(1,222.7)**
Operating cash flow	271.4	337.1	339.3	268.5	**207.9**
Operating cash conversion	79%	95%	104%	85%	**73%**
pence					
Dividend paid per ordinary share	5.60	6.17	8.60	9.04	**9.94**
Earnings per ordinary share – underlying	19.68	22.05	22.48	21.60	**18.48**
Earnings per ordinary share – basic	13.27	16.80	15.98	10.70	**2.60**
Earnings per ordinary share – diluted	13.20	16.76	15.93	10.65	**2.58**
Net assets per ordinary share	93.2	88.3	91.3	90.4	**91.6**
£m					
Market capitalisation as at 31 December	2,349	2,117	2,549	3,169	**3,934**

Current and non-current liabilities for 2010-2013 shown above have been reclassified in accordance with the maturity dates of borrowings as detailed in note 18.

Shareholder Information

Analysis of shareholders

Analysis of ordinary shareholders on the register at 31 December 2014:

Size of holding	Number of registered holders	Percentage of registered holders	Number of ordinary shares held	Percentage of ordinary shares
Up to 1,000	1,592	30.37	783,930	0.07
1,001–10,000	2,529	48.25	9,115,633	0.80
10,001–50,000	626	11.94	13,100,164	1.15
50,001–250,000	233	4.44	25,741,314	2.26
250,001–1,000,000	119	2.27	62,256,496	5.47
1,000,001 and above	143	2.73	1,027,578,364	90.25
Total	5,242	100.00	1,138,575,901	100.00

Source: Equiniti Limited

At 31 December 2014, there were 5,242 ordinary shareholders on the register, compared with 5,262 at 31 December 2013.

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 outside the UK). 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 8:00am and 4:30pm, Monday to Friday. 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 outside the UK).

You should bear in mind that investments, both 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.

ShareGift

Do you have a small shareholding which is uneconomical to sell? You may want to consider donating it to ShareGift (registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting **www.sharegift.org** or calling +44 (0)207 930 3737.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting **www.fca.org.uk**. You can also call the FCA Consumer Helpline on 0800 111 6768 (or +44 (0)20 7066 1000 if calling from outside the UK).

Financial calendar

AGM	23 April 2015
Final dividend – x-div date	30 April 2015
Final dividend – record date	1 May 2015
Final dividend	29 May 2015
Interim results	5 August 2015
Interim dividend – x-div date	8 October 2015
Interim dividend – record date	9 October 2015
Interim dividend	6 November 2015

Registered Office

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Tel: +44 (0)1202 882020
Fax: +44 (0)1202 840523
Internet: **www.cobham.com**
Registered number in England: 30470

* Calls to this number 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
A330MRTT	Airbus A330 MRTT	A military derivative of the A330, designed as a multi role air-to-air refuelling and transport aircraft.
A350	Airbus A350 XWB	A twin engine extra wide body jet aircraft for commercial use. The aircraft entered service in 2014.
A400M	Airbus A400M	A versatile large military aircraft that performs three differing duties within challenging operating conditions: short-medium range flights; long range flights; and the ability to provide aerial refuelling capabilities.
AMDR	Air and Missile Defense Radar	An advanced radar suite for US Navy destroyers currently in development. It provides protection against advanced anti-ship and ballistic missile threats.
AMRAAM	Advanced Medium Range Air-to-Air Missile	A new generation of air-to-air missile with an all-weather, beyond-visual-range capability.
B787	Boeing 787 Dreamliner	A family of efficient airplanes with new passenger pleasing features that bring the economics of large jet transports to the mid-size aircraft market.
COSO ERM	Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management	An integrated framework which helps businesses assess and enhance their internal control systems. The framework is used to control activities and to better achieve established objectives.
DAS	Distributed Antenna Systems	Communication systems for infrastructure such as buildings, tunnels and metros. Covering a wide range of frequencies, it encompasses both public safety and cellular bands, providing wireless coverage for network operators, transportation and public safety authorities.
DREX	Digital Receiver/Exciter	An electronic subsystem which enables military platforms to simultaneously operate its own radar systems, while also jamming hostile radar systems.
ERP	Enterprise Resource Planning	An IT system which integrates all business processes, including manufacturing, finance and accounting, human resources, sales and marketing, purchasing, distribution, and inventory into one central cohesive repository. It allows businesses to run more efficiently, with real time access to data across many business functions.
E190	Embraer 190	A next generation narrow body, twin engine jet airliner.
Eurofighter	Eurofighter Typhoon	A multi-role combat aircraft covering a full spectrum of air operations, from air policing, to peace support, through to high intensity conflict.
Explorer 5075 GX	Explorer 5075 Global Xpress	An auto-deploy flyaway SATCOM system that is lightweight, rugged and highly portable. It is a land based system that is configured specifically for operation on the GX network.
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.

Acronym	Full name	Description
FSTA	Future Strategic Tanker Aircraft	A UK Private Finance Initiative funded project to replace the UK's air-to-air refuelling fleets, and elements of the air transport work previously undertaken by the RAF VC10 and TriStar fleets. FSTA uses the A330 MRTT.
GX	Inmarsat Global Xpress	A satellite service, with global coverage expected at the start of the second half of 2015, 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.
IED	Improvised Explosive Device	Homemade bombs which have been the weapons of choice for terrorists due to their availability and destructiveness.
Jaguar	SEPECAT Jaguar	A supersonic low-level strike fighter created by a joint venture between Britain and France.
KC-46	Boeing KC-46	An aerial refuelling tanker, currently being developed for the US Air Force to replace its ageing fleet of KC-135 Stratotankers. The KC-46, which had its first flight at the end of 2014, offers improved cargo and passenger capability.
KC-390	Embraer KC-390	A medium-lift military transport and aerial refuelling tanker aircraft currently being developed by Embraer. Production is scheduled to commence in 2016.
MRJ	Mitsubishi Regional Jet	A next generation regional jet which will give class leading operational economy and outstanding cabin comfort.
NASA	The National Aeronautics and Space Administration	A US government agency responsible for a civilian space programme as well as aeronautics and aerospace research.
Sailor 100 GX	Sailor 100 Global Xpress	An advanced 3-axis stabilized Ka-band antenna system designed for the Inmarsat GX satellite network.
SATCOM	Satellite Communication	Enables voice and data communications such as telephone calls, television or internet connections, using an orbiting satellite to transfer data around the earth.
SEWIP	Surface Electronic Warfare Improvement Program	An evolutionary series of enhancements to the US Navy's AN/ SLQ-32 electronic warfare system for surface ships.
TeraVM	TeraVM	A comprehensive internal protocol network and application performance test and measurement solution.
TM500	TM500	A family of offload test platforms that enable networks including 4G and LTE to offload to Wifi connectivity.

Definitions

KPI definitions

Group organic revenue growth

Revenue growth stated at constant translation exchange rates, excluding the incremental effect of acquisitions and divestments.

Underlying EPS growth at constant translation exchange rates

The year-on-year increase in underlying profit after taxation, stated at constant translation exchange rates, divided by the weighted average number of ordinary shares.

Operating cash conversion

Operating cash flow as a percentage of trading profit, excluding profit from joint ventures.

Return on invested capital

Trading profit as a percentage of the average invested capital during the year.

Invested capital comprises net assets adjusted to exclude net debt, retirement benefit obligations, derivative financial instruments, current and deferred tax, provisions and other financial assets. Intangible assets recognised on business combinations are grossed up to their original cost before amortisation and an adjustment is also made to reinstate the historic goodwill previously written off directly to reserves.

PV investment

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

Staff safety – major accident incident rate

The number of accidents resulting in more than three 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:

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 business acquisition and divestment related activity and business restructuring costs as detailed below. Also excluded are changes in the marking to market of non-hedge accounted derivative financial instruments, impairments of intangible assets, and items deemed by the Directors to be of an exceptional nature.

Business acquisition and divestment related items excluded from trading profit and underlying earnings include the amortisation of intangible assets recognised on acquisition, revaluation gains and losses arising on the original equity interests on stepped acquisitions, adjustments to businesses held for sale, the writing off of the pre-acquisition profit element of inventory written up on acquisition, other direct costs associated with business combinations and terminated divestments and adjustments to contingent consideration related to previously acquired businesses. Business restructuring costs relate to the restructuring of the Group's portfolio which are incremental to normal operations. These relate to the integration of the Aeroflex businesses acquired in 2014 and the EiD programme.

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

Operating cash flow is defined as net cash from operating activities before payment of tax, interest, restructuring costs and M&A related costs but after cash flows from the purchase or disposal of property, plant, equipment and intangible assets. Operating cash conversion is defined as operating cash flow as a percentage of trading profit, excluding profit from joint ventures.

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

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

When providing sectoral analysis by geography, US revenue includes revenue to US based customers on programmes that could be designated as export and is therefore non-US defence/security from a market analysis perspective.

Find more online

Our website provides further information including shareholder services and governance, details of our products and services, corporate responsibility and sustainability and more at:

www.cobham.com

Corporate responsibility and sustainability
www.cobhamsustainability.com

Investor information and share price performance
www.cobhaminvestors.com

Products and service offerings
www.cobham.com/products-and-services

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The most important thing we build is trust

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