



Aerospace Systems, Avionics, Flight Operations & Services



Interim Results

14 September 2004



Summary Profit and Loss Account

Year to 31/12/03 £m		Unaudited Half Year to 30/6/03 (Restated) £m	Unaudited Half Year to 30/6/04 £m	Growth
925.0	Orders Received	392.3	528.3	34.7 %
832.6	Revenue	385.9	461.5	19.6 %
248.1	Gross Profit	109.2	125.9	15.3 %
29.8 %	Margin	28.3 %	27.3%	(1.0)pts
147.7	Operating Profit	60.7	68.2	12.4 %
17.7 %	Margin	15.7 %	14.8%	(1.0)pts
135.3	Profit before Taxation	53.5	62.3	16.4 %

All excluding goodwill amortisation. Full year 2003 is also adjusted for integration costs associated with Racal acquisition (£0.8m) and exceptional loss on Westwind disposal
Half year to 30/6/03 restated to an FRS 17 basis

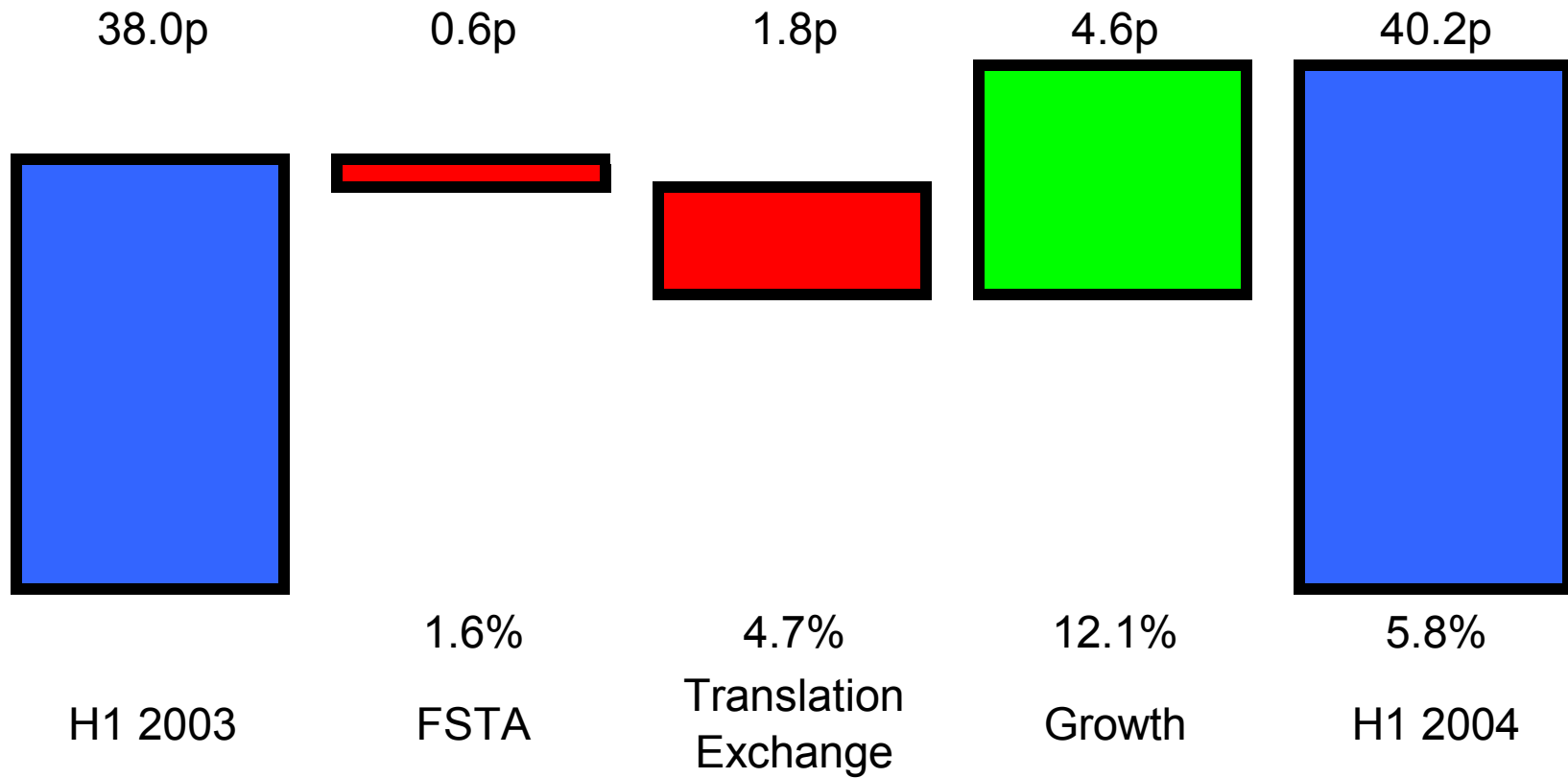
Shareholders' Returns

Year to 31/12/03		Unaudited Half Year to 30/6/03 (Restated)	Unaudited Half Year to 30/6/04	Growth
26.6 %	Tax Rate *	27.5 %	27.9 %	
	Earnings per Share			
93.5 p	Underlying *	38.0 p	40.2 p	5.8 %
17.2 p	Basic	31.2 p	30.8 p	(1.3)%
17.1 p	Fully Diluted	31.0 p	30.6 p	(1.3)%
28.16 p	Dividend per Share	8.36 p	9.20 p	10.0 %

Half year to 30/6/03 restated to an FRS 17 basis

* Based on PBT before goodwill amortisation costs. Full year 2003 is also adjusted for integration costs associated with Racal acquisition (£0.8m) and exceptional loss on Westwind disposal

Earnings Per Share



Cash Flow

Year to 31/12/03 £m		Unaudited Half Year to 30/6/03 (Restated) £m	Unaudited Half Year to 30/6/04 £m	Growth
144.1	Underlying operating profit (ex. JV)	58.5	65.3	11.6 %
(25.5)	Movements in working capital	(12.9)	(6.5)	
29.2	Depreciation and other movements	13.0	17.8	
(39.2)	Capital expenditure	(16.2)	(22.1)	
108.6	Operating cash flow	42.4	54.5	28.5 %
75.4 %	Operating cash flow/operating profit	72.5 %	83.5 %	
(11.0)	Interest	(5.5)	(6.2)	
(27.6)	Dividends	-	4.8	
(20.3)	Tax	(8.2)	(13.2)	
49.7	Net cash flow from business	28.7	39.9	
(127.2)	Acquisitions	(34.0)	(36.5)	
111.9	Movements in Funding	0.2	(9.0)	
34.4	Dec./(inc.) in net borrowings	(5.1)	(5.6)	

Net Debt Ratios

Year to 31/12/03		Unaudited Half Year to 30/6/03 (Restated)	Unaudited Half Year to 30/6/04	Growth
154.4	Net Debt (£m)	193.9	160.0	(17.5)%
455.8	Shareholders Funds (£m)	323.4	482.7	49.1 %
33.9 %	Gearing	60.0 %	33.1 %	
0.9 times	Net debt/ebitda (12m trailing)	1.2 times	0.8 times	

Half year to 30/6/03 restated to an FRS 17 basis

Revenue and Profit by Division

£ millions	Revenue			Operating Profit		
	H1 2003	H1 2004	Growth	H1 2003	H1 2004	Growth
Aerospace Systems	138.2	171.3	24.0 %	22.6	25.1	11.1 %
Chelton	150.0	196.5	31.0 %	29.5	32.6	10.5 %
Flight Operations & Services	89.5	93.7	4.7 %	10.5	11.8	12.4 %
Operating Divisions	377.7	461.5	22.2 %	62.6	69.5	11.0 %
AirTanker Project Costs	-	-		(0.4)	(1.3)	
Westwind (Now Sold)	8.2	-		(1.5)	-	
Cobham Group	385.9	461.5	19.6 %	60.7	68.2	12.4 %

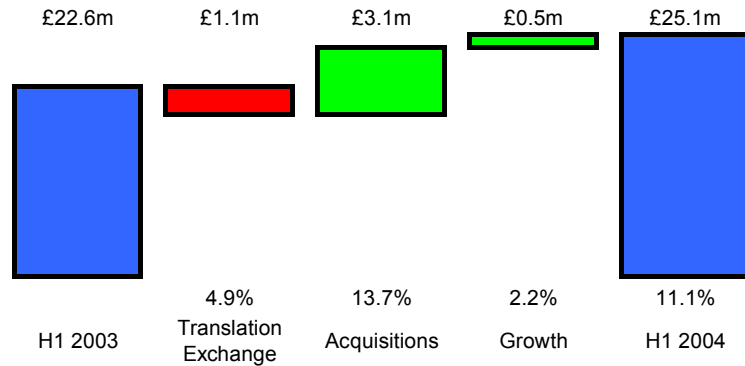
Aerospace Systems includes group headquarters

All excluding goodwill amortisation.

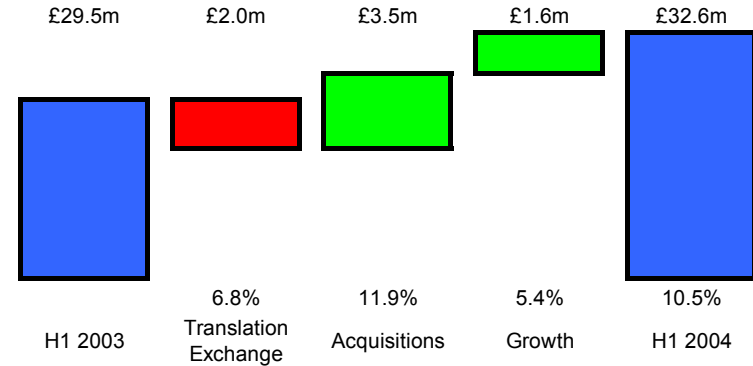
Half year to 30/6/03 restated to an FRS 17 basis

Operating Profit Growth

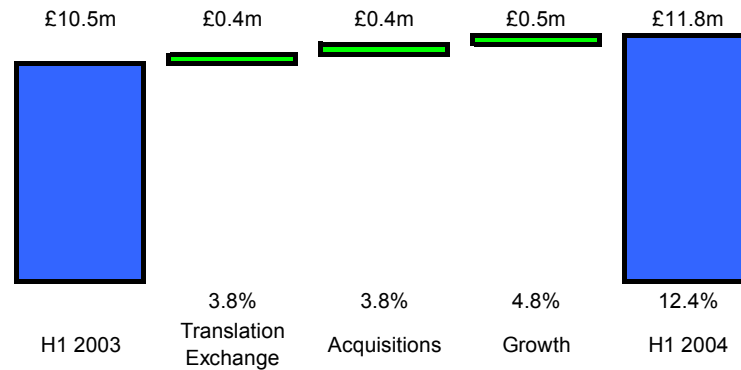
Aerospace Systems Operating Profit



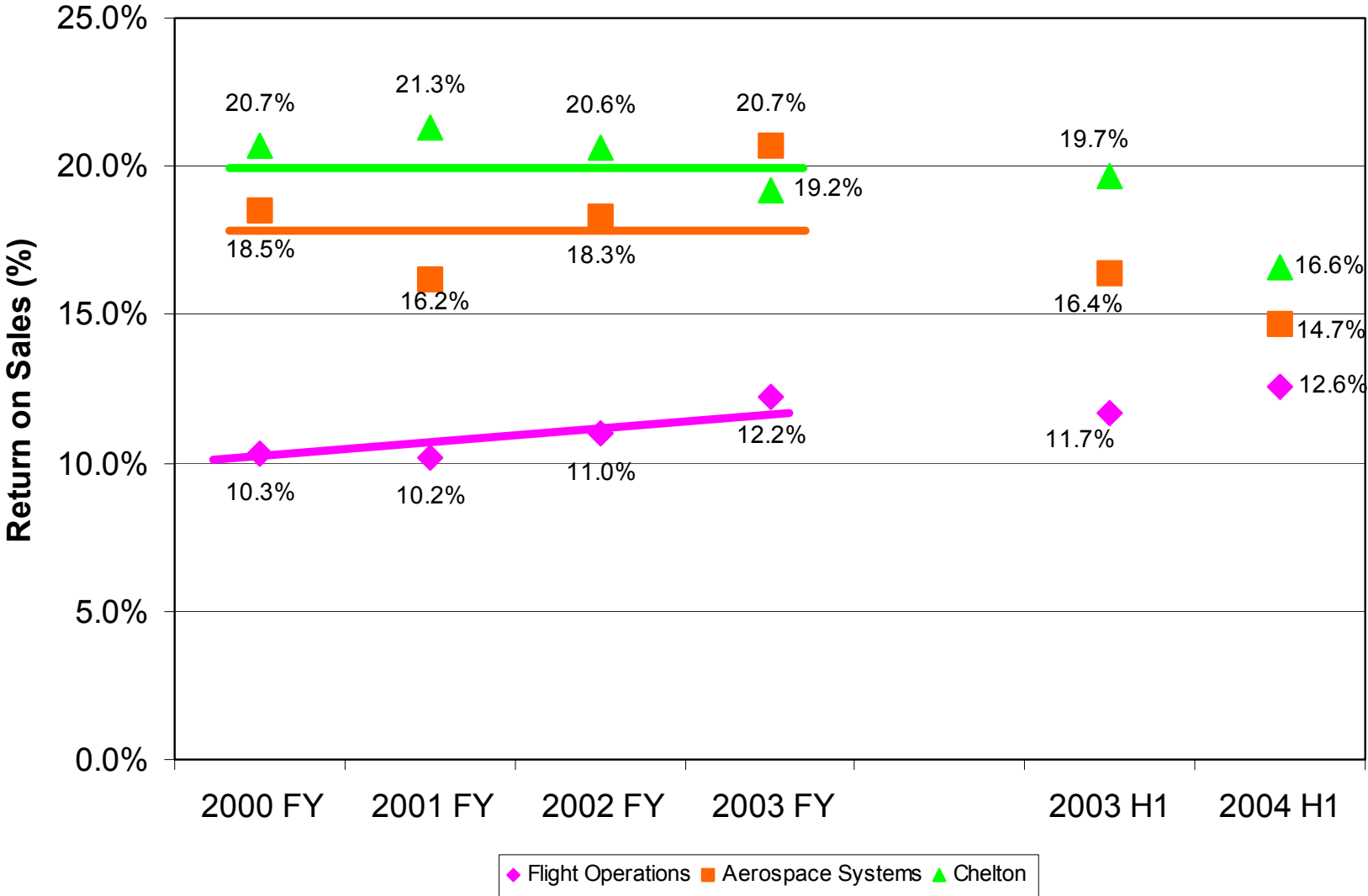
Chelton Operating Profit



Flight Operations & Services Operating Profit



Return on Revenue Trend



US\$ Transaction Exposure and Hedging

12 months from 1 July 2004 to 30 June 2005:

Exposure:	£ Chelton	\$62m	
	£ ASG	\$96m	
	£ Flight Ops	-\$24m	
	Total £	\$134m	
	Total Euro	\$25m	
Hedging in place:			
	£ Next 12 months	\$124m (93% of forecast exposure)	Average rate \$1.64 : £1
	£ Total (to 2013)	\$193m	Average rate \$1.62 : £1
	Euro	\$25m	Average rate \$1.23

Acquisition Criteria and Process

- **Existing and/or adjacent market**
- **Product or technology extension**
- **Minimum 9% post-tax ROIC**
- **Avoid turnaround situations**
- **Growth businesses**
- **Synergies are upside; not used to justify price**
- **Rapidly leverage towards average ROIC**

Acquisition Detail

<u>Company</u>	<u>Division</u>	<u>Activity</u>	<u>Location</u>	<u>Acquisition cost (£m)</u>
Precision Antennas (Feb)	Chelton	Antennas and Microwave devices	UK	3
Assets of Pentar Communications (April)	Chelton	Advanced Airborne File Serves	USA	1
DTC Communications (April)	Chelton	Homeland Security	USA	27
NEC Aero (April)	Chelton	Aircraft Display Units	France	2
				33

Half year to 30/06/03 £34m

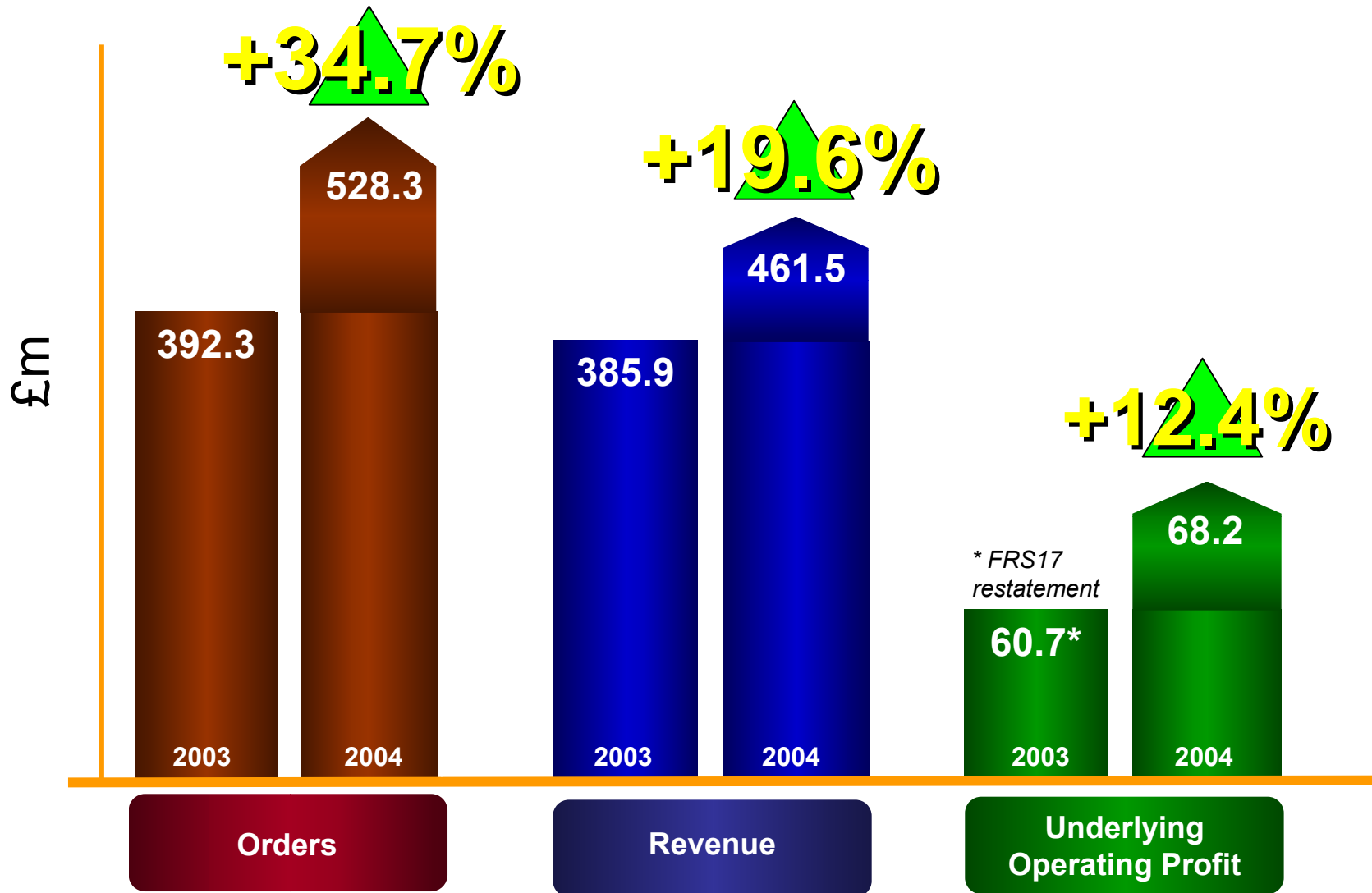
Performance

Profitable Growth

Innovation

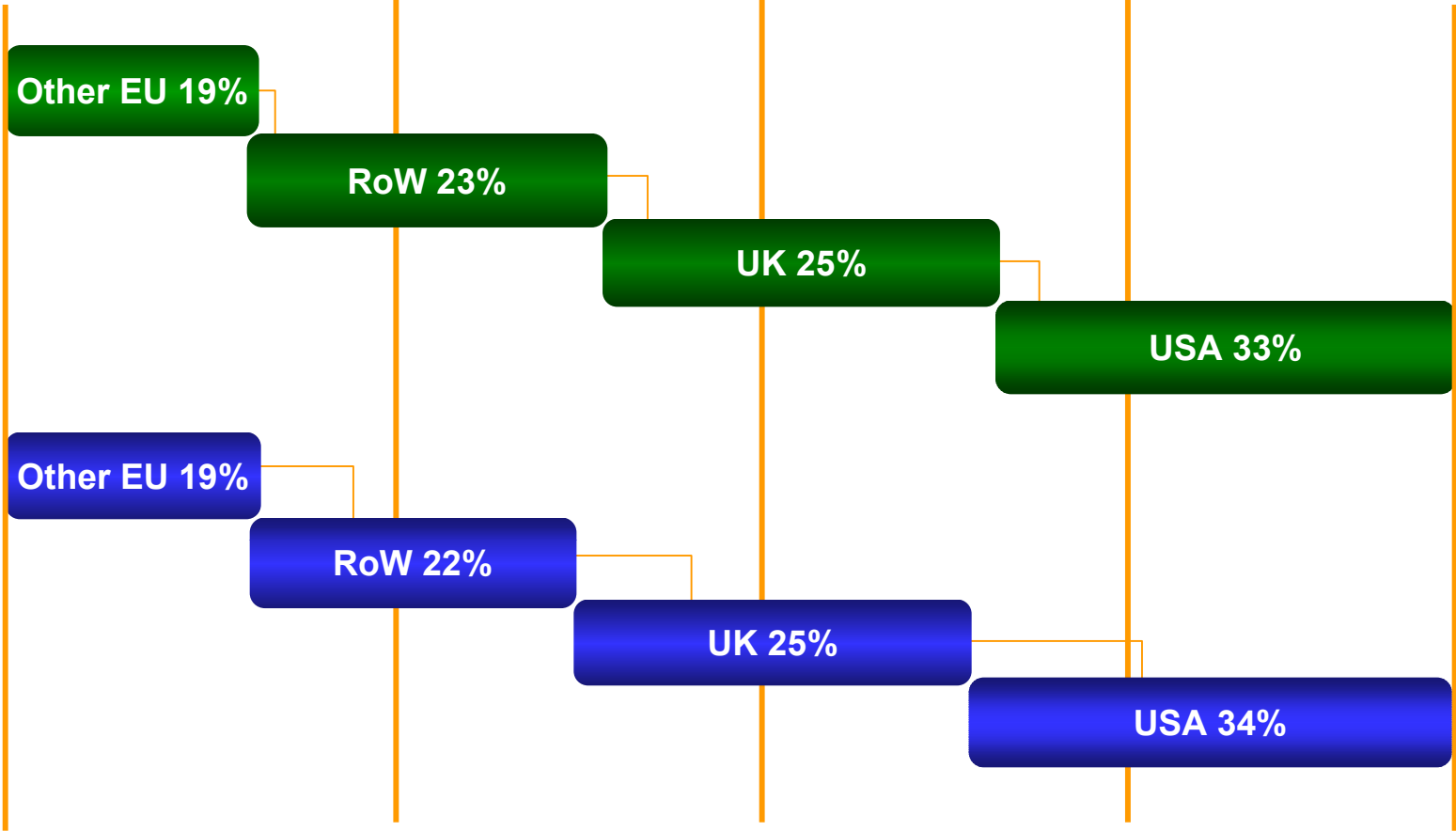
- **Record new orders**
- **Revenue growth 19.6% year on year**
- **Operating profits increased by 12.4%**
- **Operating cash flow £54.5m**
- **Acquisitions performing above expectations**
- **Indications that commercial aerospace market is recovering**
- **US military market buoyant**

Results for first half 2004



Revenue by Destination

2003 Half Year - £385.9m

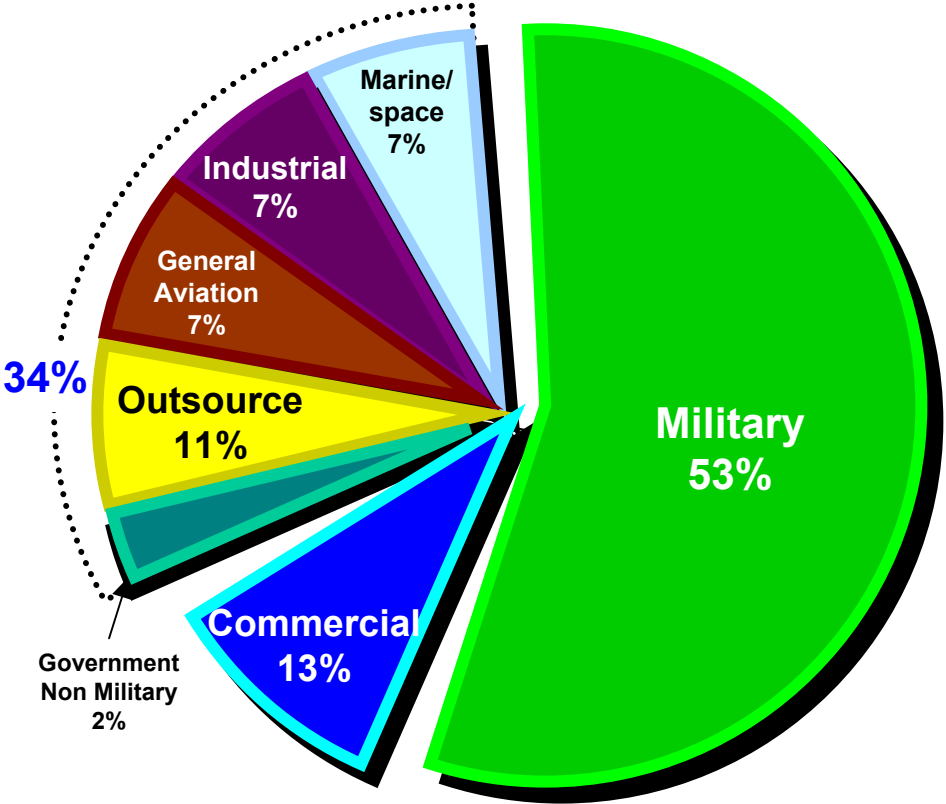
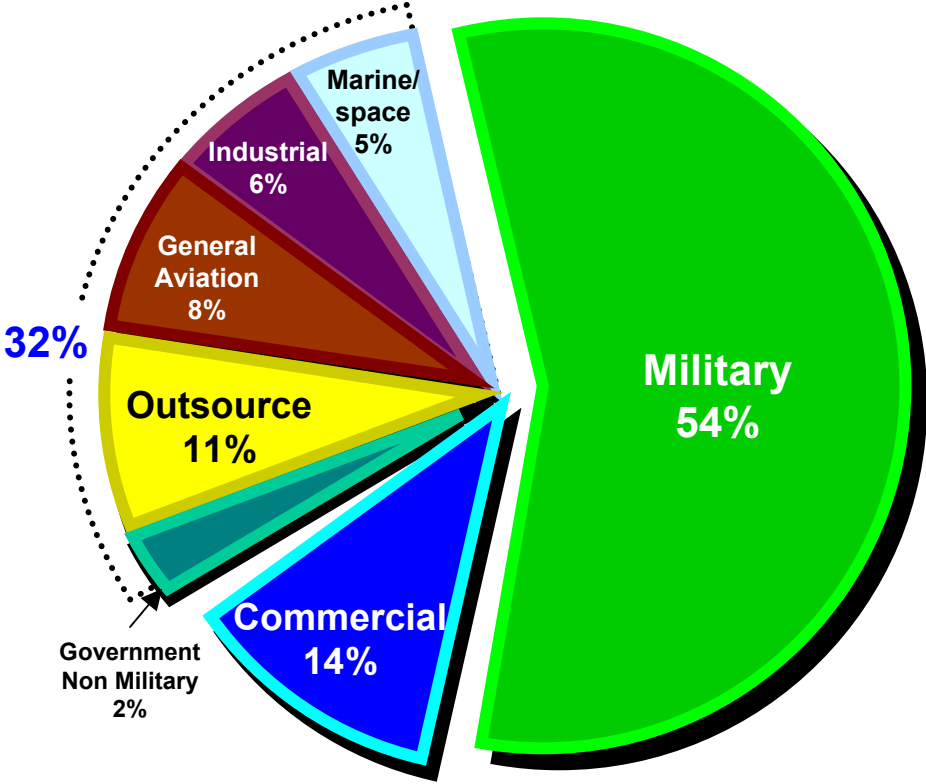


Half Year 2004 - £461.5m

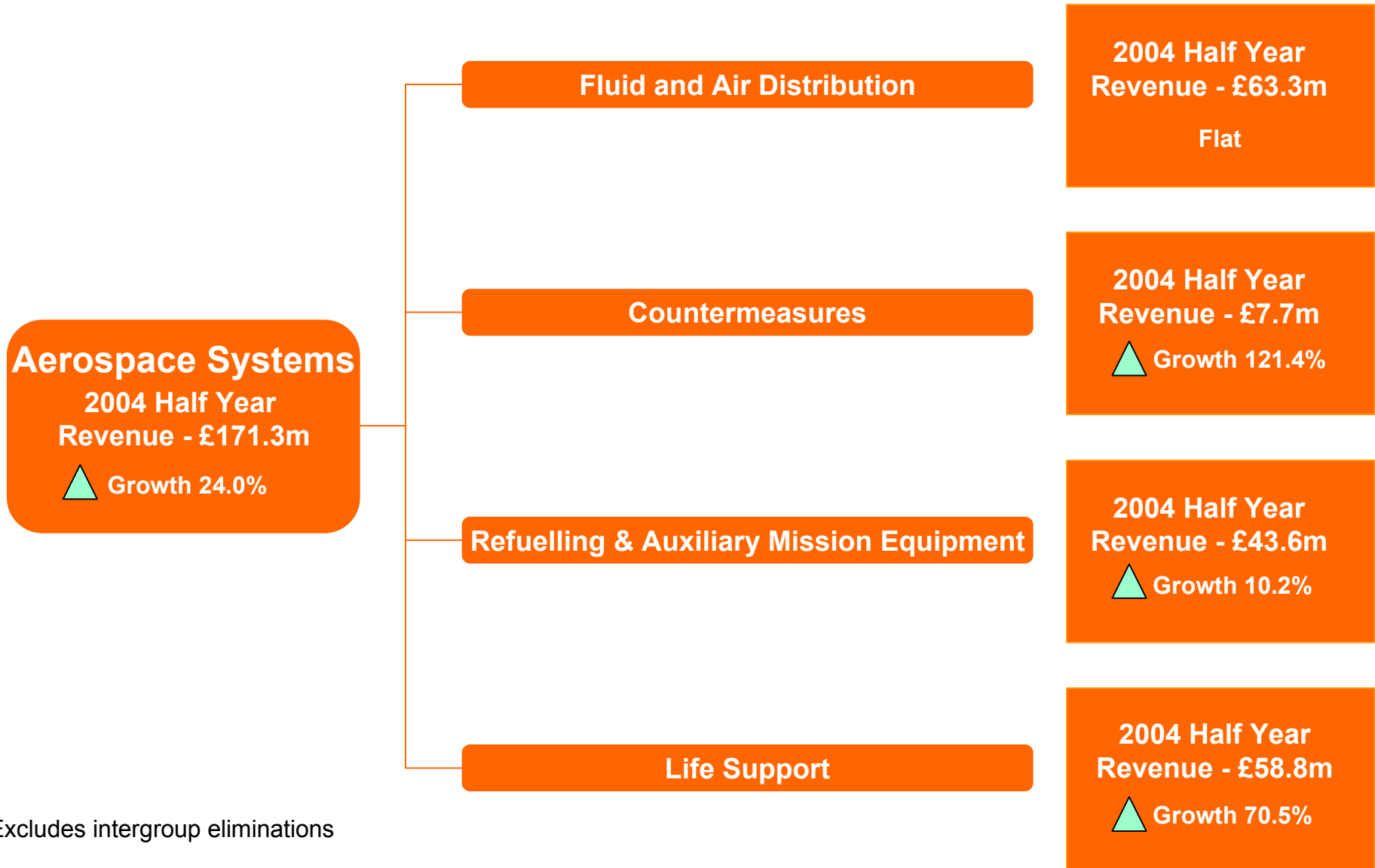
Revenue Analysis

2004 Half Year - £461.5m

2003 Half Year - £385.9m



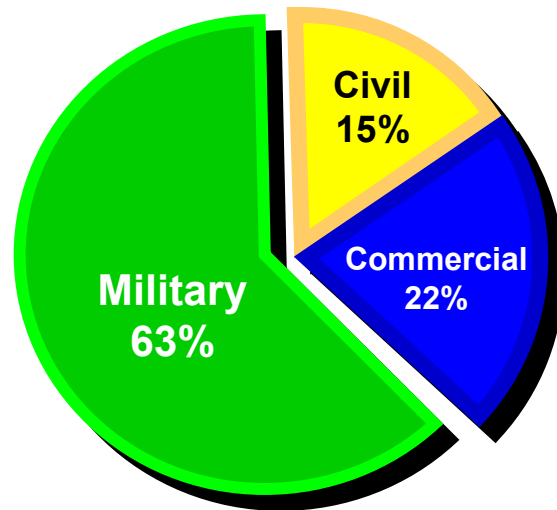
Aerospace Systems



Aerospace Systems

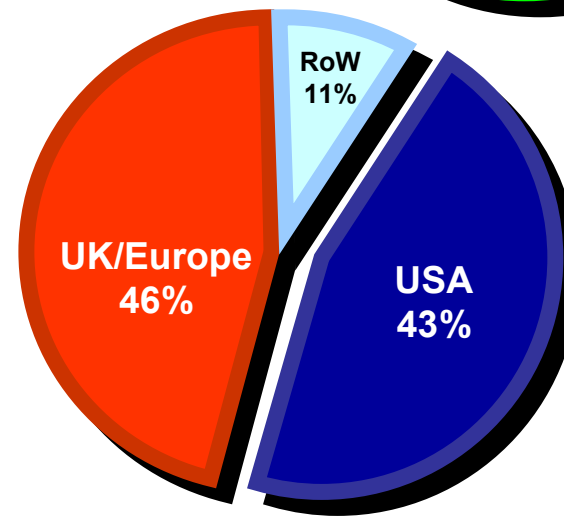
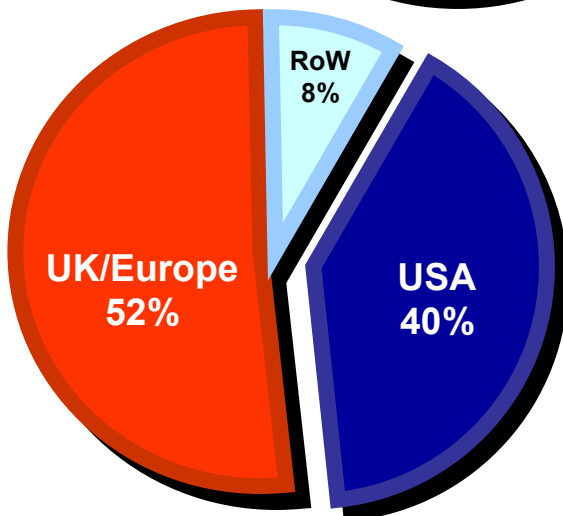
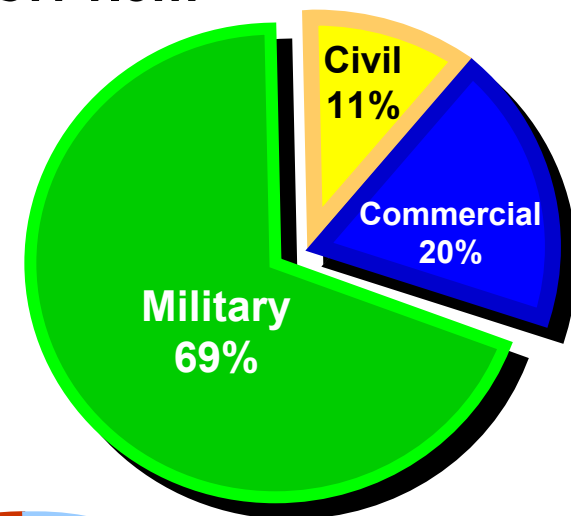
Half Year 2003

Revenue £138.2

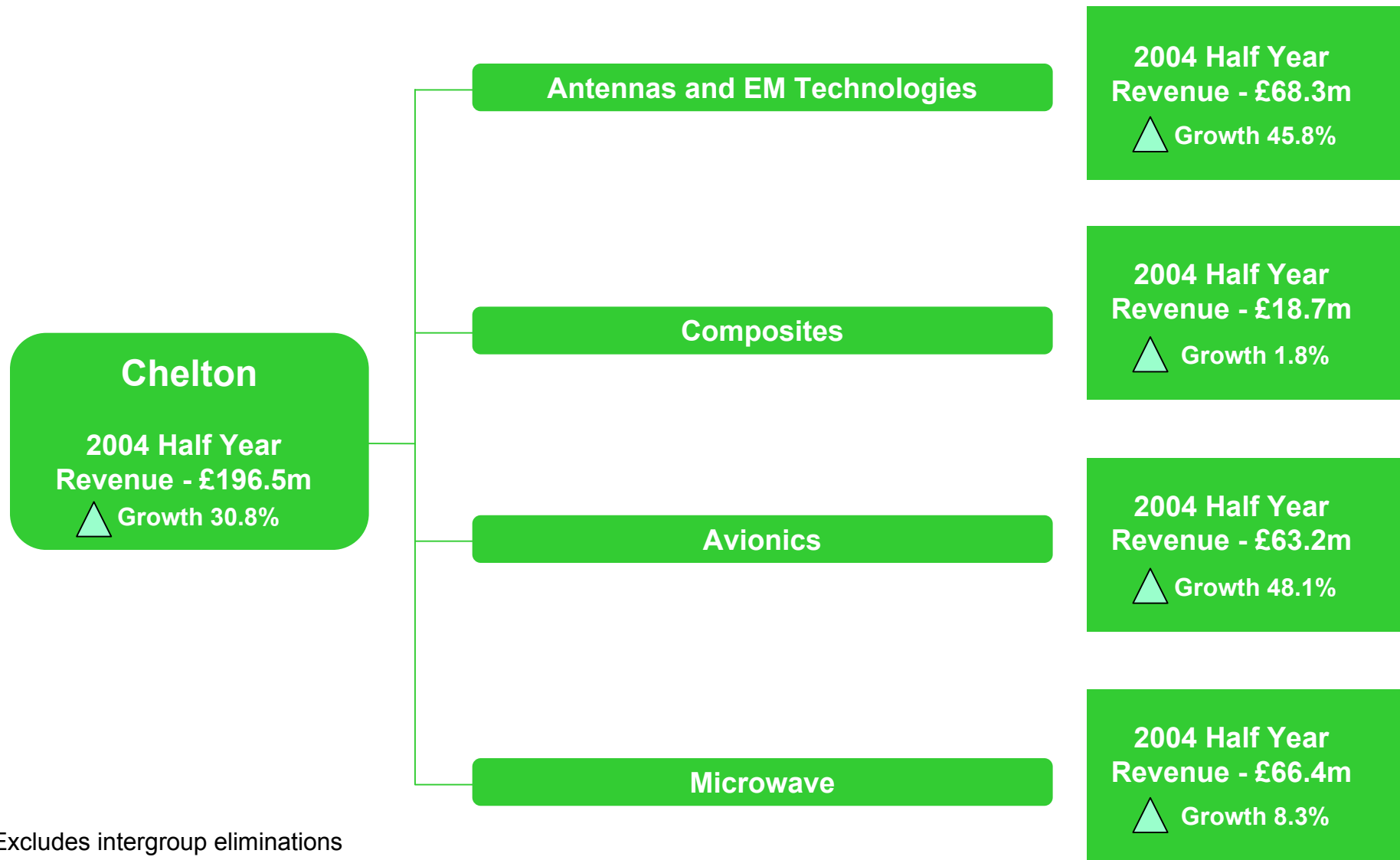


Half Year 2004

Revenue £171.3m



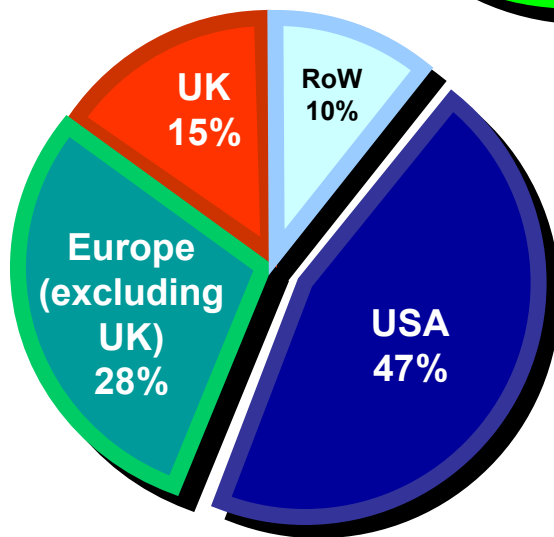
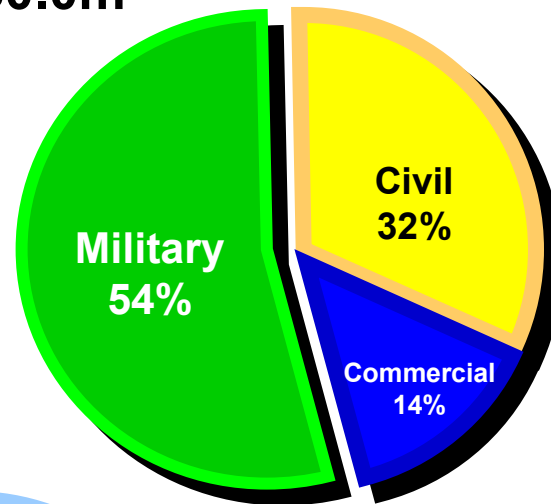
- **Major wins on Boeing 7E7**
 - Fuel and valve systems
 - Nitrogen Generating
- **Major progress in life support systems**
- **FR-HiTEMP restructuring in progress**
- **FR Countermeasures in limited production at Milan**
- **Excellent progress on AR at SFI and FRL**
- **All US businesses performing above expectations**
- **Eurofighter delays will continue to impact 2004 results**



Excludes intergroup eliminations

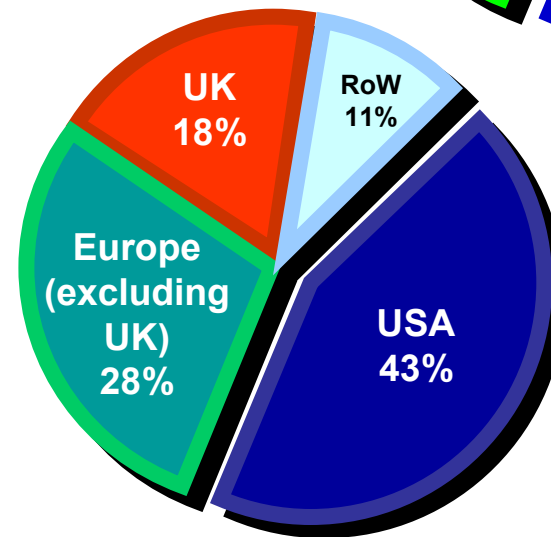
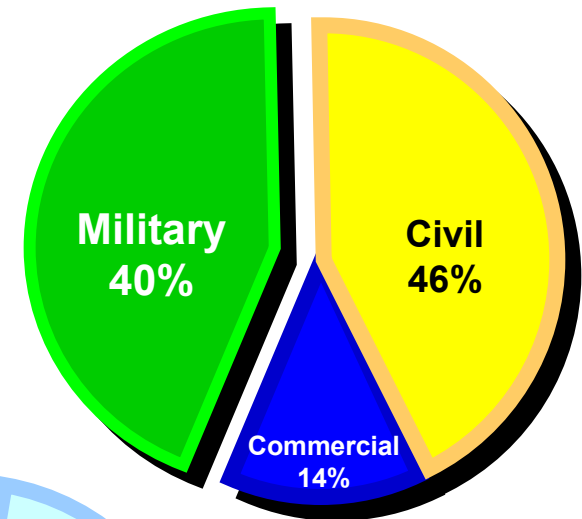
Half Year 2003

Revenue £150.0m



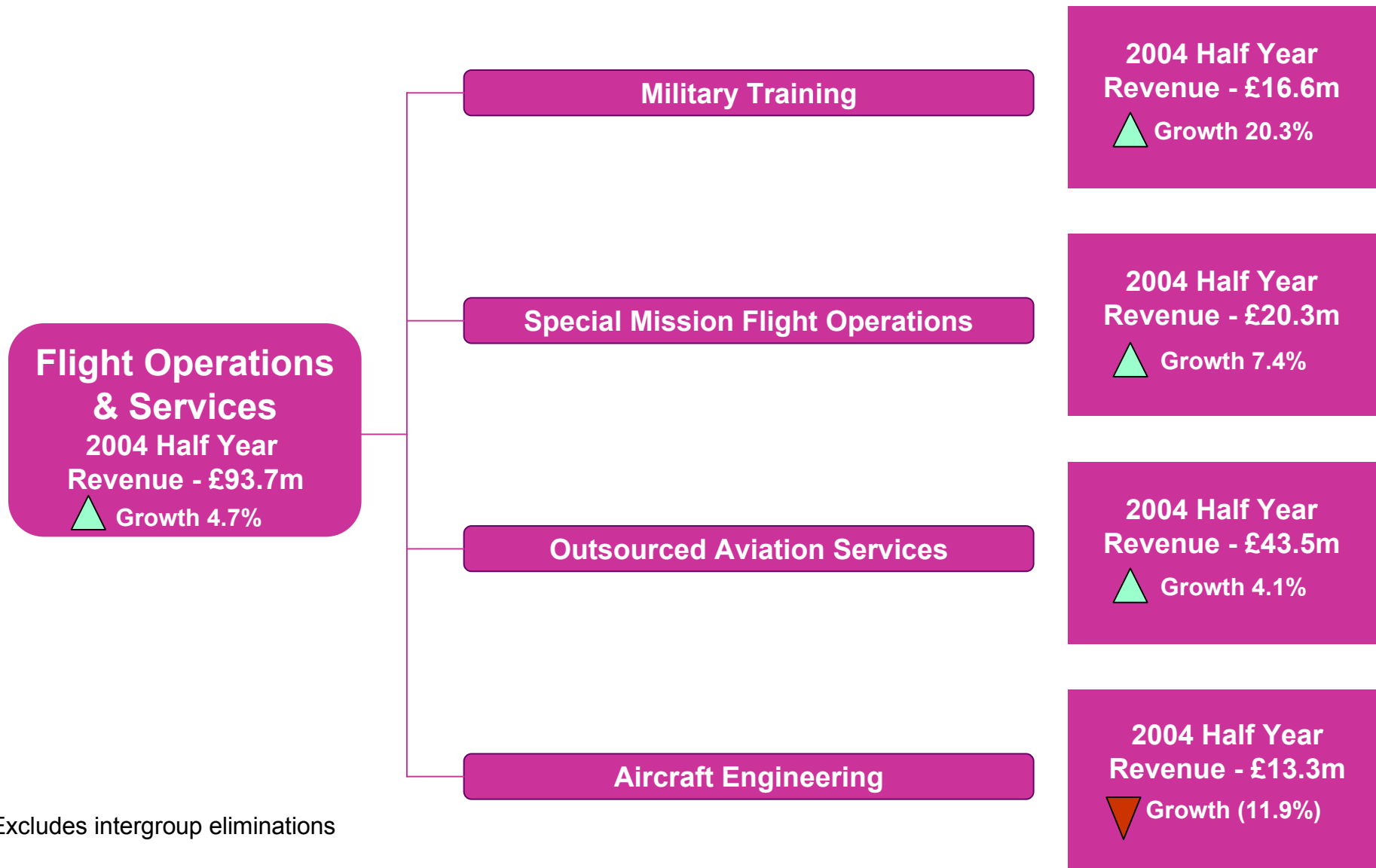
Half Year 2004

Revenue £196.5m



- **Record orders**
- **Organic Revenue growth exceeding expectations**
- **Acquisition of DTC strengthens position in US homeland security**
- **Continued, self funded investment in technology**
 - **EFIS**
 - **SAR**
 - **Audio Management**
 - **Network Enabling Capabilities**

Flight Operations & Services

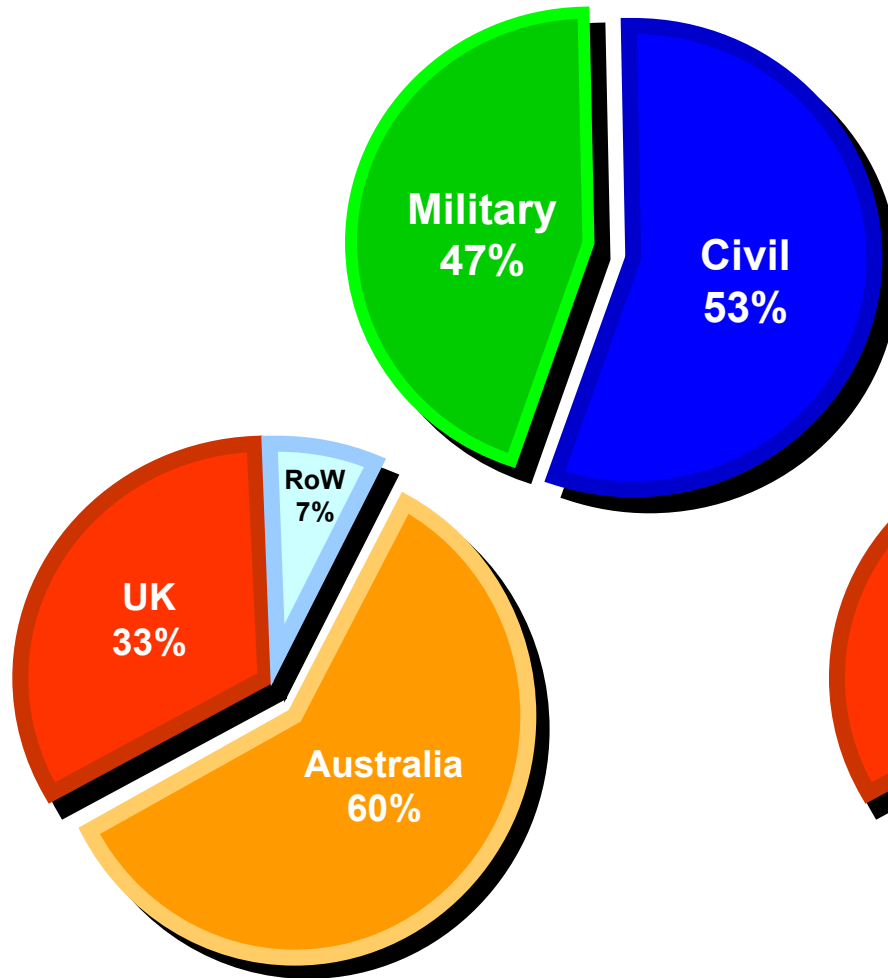


Excludes intergroup eliminations

Flight Operations & Services

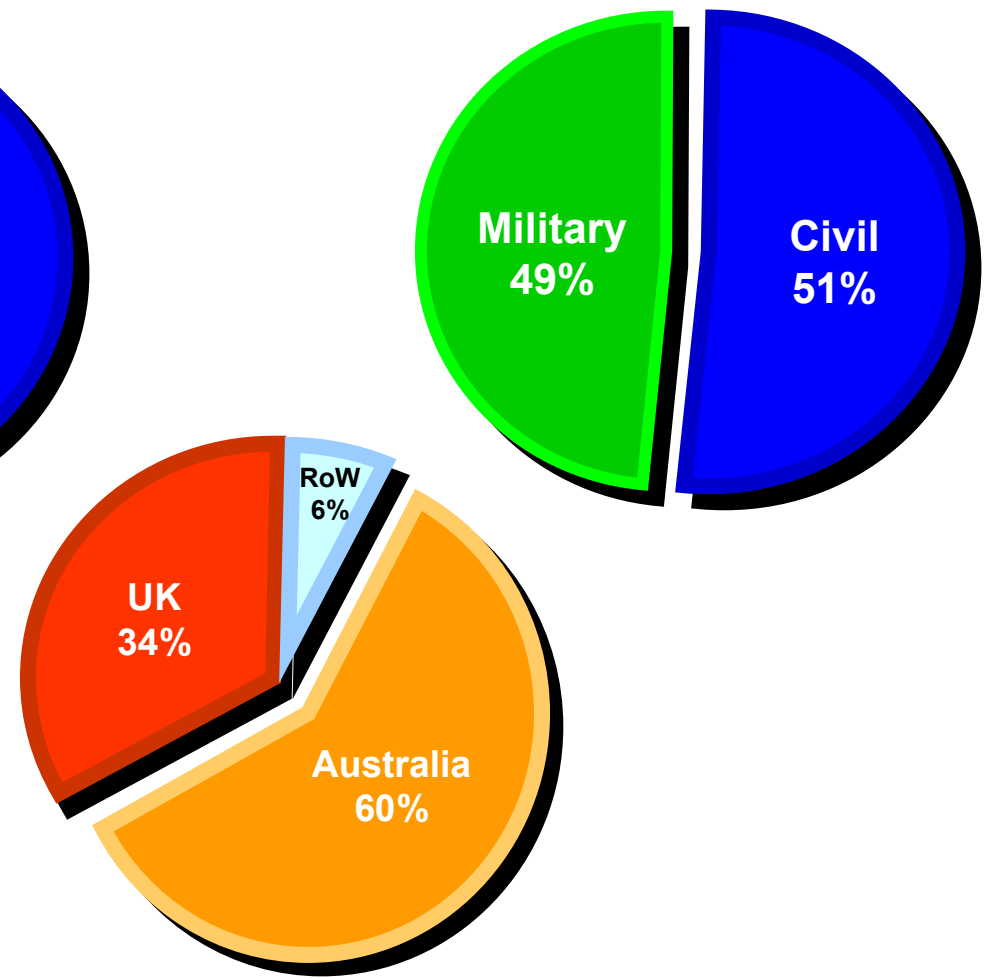
Half Year 2003

Revenue £89.5m



Half Year 2004

Revenue £93.7m



- **Order intake 59% higher than 2003**
- **Major wins on:**
 - **Sentry**
 - **Australian resource contracts**
 - **Coastwatch**
- **Strategic agreement signed with BAE SYSTEMS**
- **Bid submitted for revised UK EW training contract (up to 2014)**
- **BASCO shareholding reduced to 19% (from 40%)**
- **FSTA**



Growth opportunities for the future

- **Increased footprint in the USA**
 - Organic growth of existing companies
 - Further value adding acquisitions
- **Homeland Security**
 - US market growing from \$35bn to \$41bn
 - Growth opportunities in both Chelton and Flight Operations
 - Embryonic
- **Opportunities in outsourcing contracts worldwide**
- **Network Enabled Capability**
 - Communication links between space, air, sea and land
 - C⁴ISR (Command, control, communications, computer; Intelligence, Surveillance and Reconnaissance)
 - JTRS, Bowman and microwave applications
- **Further consolidation of supply chain**
- **UAV (Unmanned Aerial Vehicle)/UCAV (Combat)**
 - Air Refuelling
 - Fuel Systems
 - Communications
 - Weapons carriage

- **Order book is growing – we are winning and retaining some important contracts**
- **Execution of our acquisition strategy continues to be successful**
- **Confident that group can continue strong growth in 2004**

Appendix

Market Characteristics

- **Over 34% of revenue generated in largest global market - USA**
- **Over 53% of revenue from military**
- **Niche supplier in some important markets**
 - **Military platforms and programmes**
 - **Commercial and General Aerospace**
 - **Communications**
 - **Homeland security/search and rescue**
 - **Space**

Lead Indicators

- **Global defence spend**
- **Return to growth in commercial aerospace**

Competitive Advantages

- **Technology – 5-6% PV spend in ASG and Avionics**
- **Leading positions in core competencies**
 - **Antennas/communication**
 - **Air Refuelling**
 - **Oxygen**
 - **UK military training etc**
- **Cost effective**
- **Flexible and responsive**
- **Excellent customer relations**

- **Overall global geo-political trends and heightened terrorist concerns have led to growth in defence spending**
- **Defence electronics should benefit from increased defence spending as military seeks new technological capabilities**
 - **Network enabled capabilities; missile defence and logistics, precision guided munitions and UAV/UCAV's**
- **Key drivers indicate continued mid single digit growth in defence spending**
 - **US defence revenue growth to slow from 13% in 2004 to 7% and 3% in 2005 and 2006 respectively**
 - **European defence spending will be flat through 2006**
 - **Shorter replacement cycles should lead to higher spend in certain areas**
 - **Aging military assets will require sustained replacement/modernisation over next 20 years**
- **Risk to defence spending**
 - **Increased interest rates and US budget deficit**
 - **Potential administration change in USA**
 - **Re-allocation of funds**
 - **European fragmentation**

Commercial Aerospace

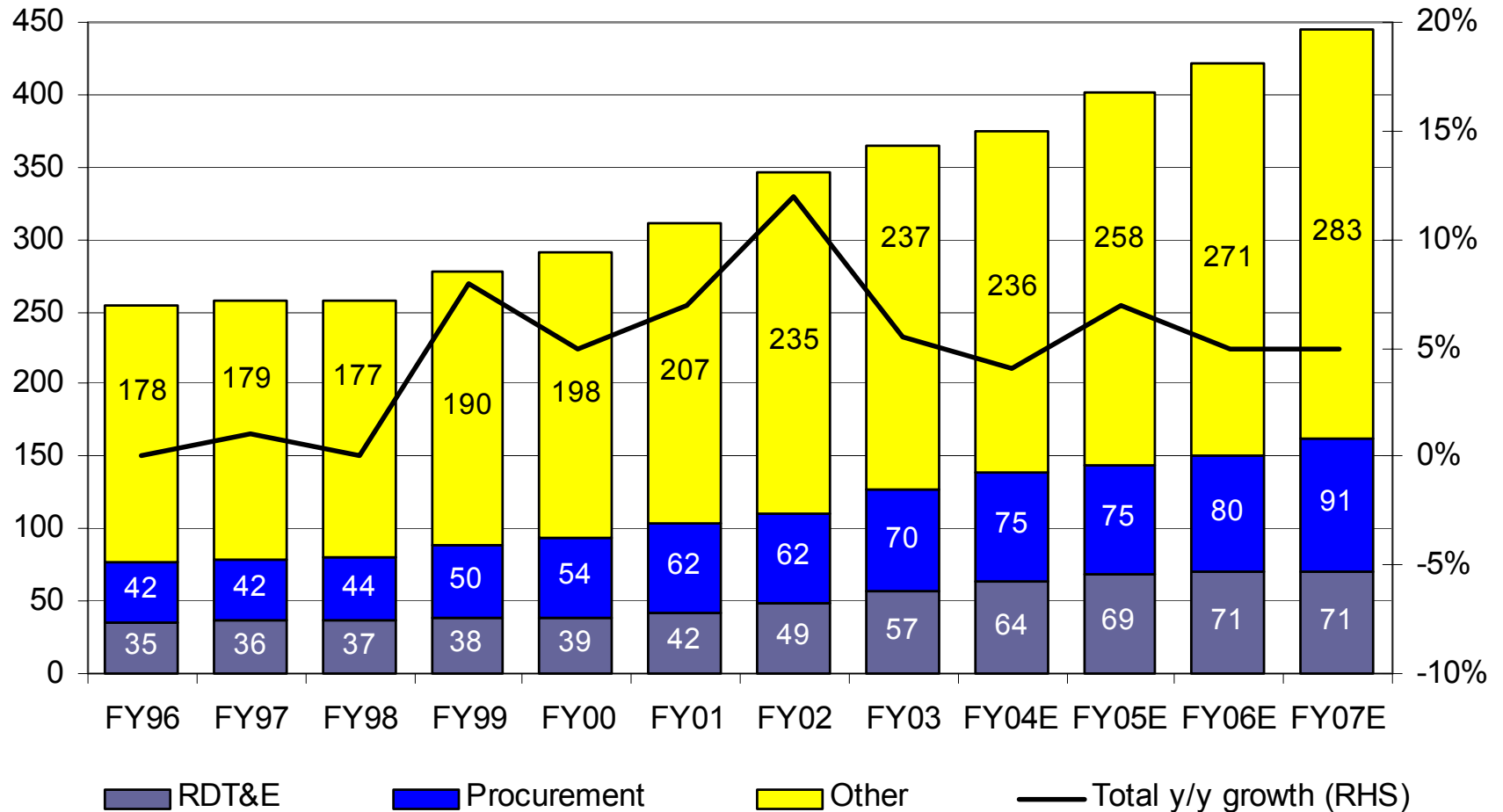
- **Commercial aerospace has been slow to recover from the effects of 9/11, Iraq and SARS**
 - Air traffic volumes and revenue miles are now approaching 2000 levels
 - Aircraft in storage have declined, but still account for 12% of world fleet
 - General aviation has stabilised
 - 2004 deliveries expected to rise to 499 compared to 489 in 2003

- **Still some critical issues remain:**
 - Continued terrorist threat
 - Fragile economic status of world airlines
 - Consolidation and reduced legacy carriers could depress demand for new aircraft
 - LCC [low cost carriers] continue to drive growth in sector
 - Oil price in low \$40 per barrel range is a “two edged” sword. Higher costs but increased demand for fuel efficient aircraft

- **Outlook**
 - Anticipated 5% to 6% near term growth in air traffic
 - Increased reliance on regional jets supports new orders of smaller aircraft – 11% increase in 2004
 - Airbus continue to win higher level of business at the expense of Boeing

Defence budgets

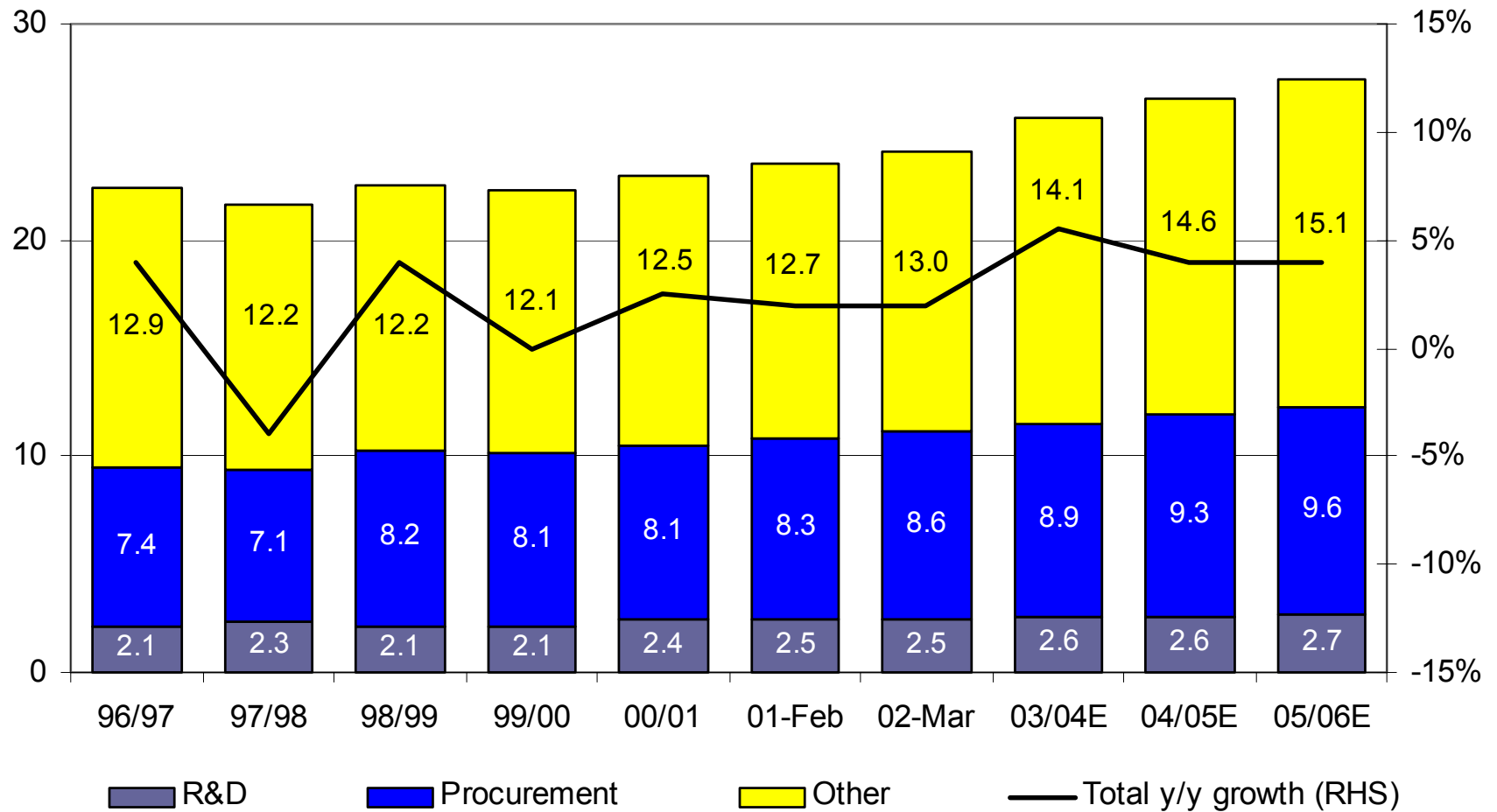
US defence budget authority (US\$ billion), 1996-2007E



Source: US CBL; UBS estimated (Note: years are fiscal)

Defence budgets cont...

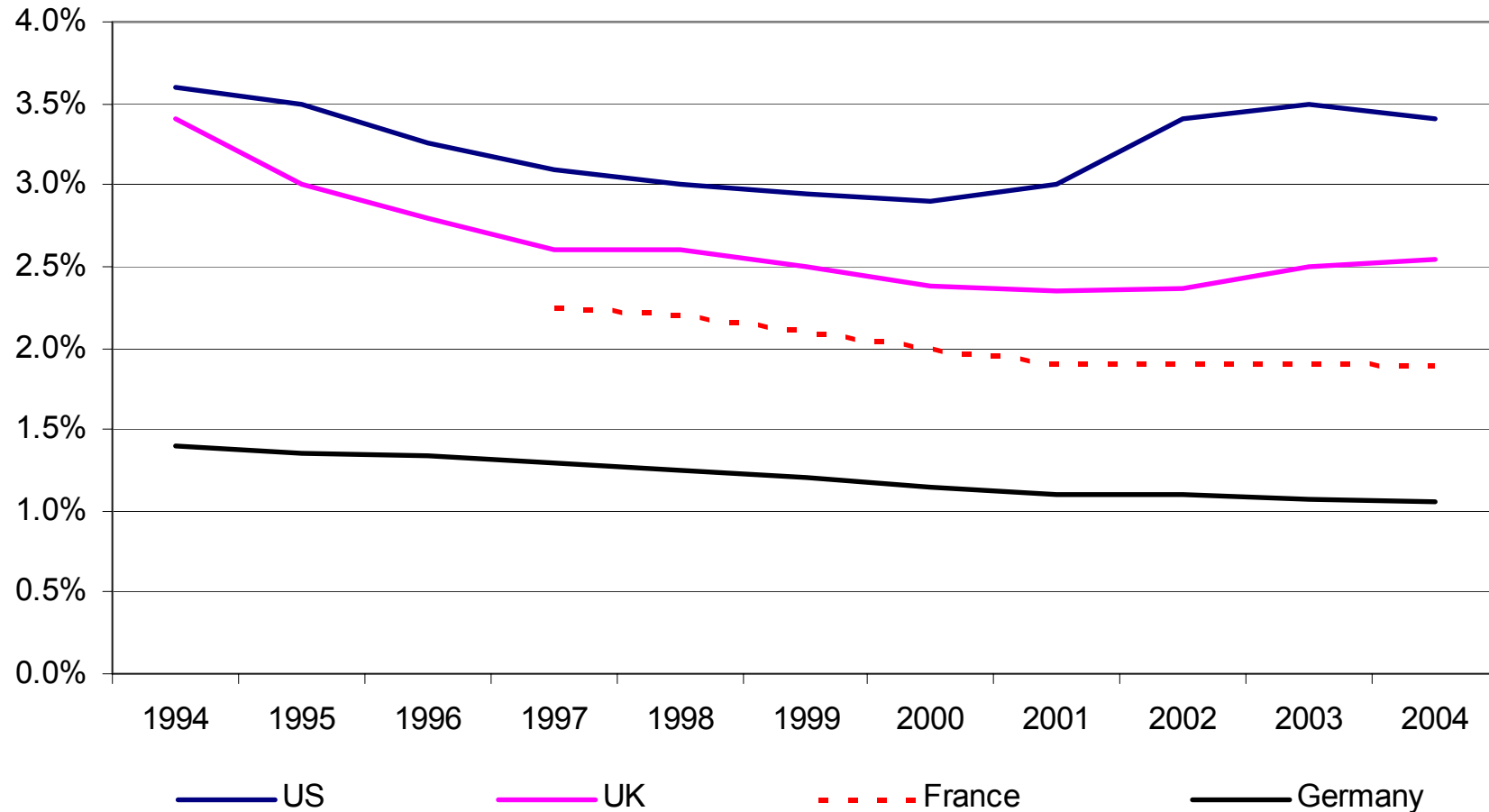
UK defence budget (£billion), 1997-2006E



Source: UK Government and UBS estimates

Defence budgets cont...

Total defence budget as a percentage of GDP, 1994-2004E



Source: Government data and UBS economic research

Aerospace Systems

Aerospace Systems

2004 Half Year
Revenue - £171m

▲ Growth 23.7%

Fluid and Air Distribution

- Aircraft
 - Fuel systems
 - Fuel pumps
 - Ground equipment
 - Actuation
- Tube assemblies
- Ducting

2004 Half Year
Revenue - £63.3m

Flat

Countermeasures

- Airborne
 - IR Countermeasures
 - Expendable decoys
- LT spectral flares
- Pyrotechnics
- ASM/ASW Countermeasures

2004 Half Year
Revenue - £7.7m

▲ Growth 121.4%

Refuelling & Auxiliary Mission Equipment

- Air refuelling
- SCR (Stores Carriage & Release)
- DAS (Defensive Aids Suite)
- Aircraft external fuel tanks
- RPVs - surveillance
- Filtration and liquid separation

2004 Half Year
Revenue - £43.6m

▲ Growth 10.2%

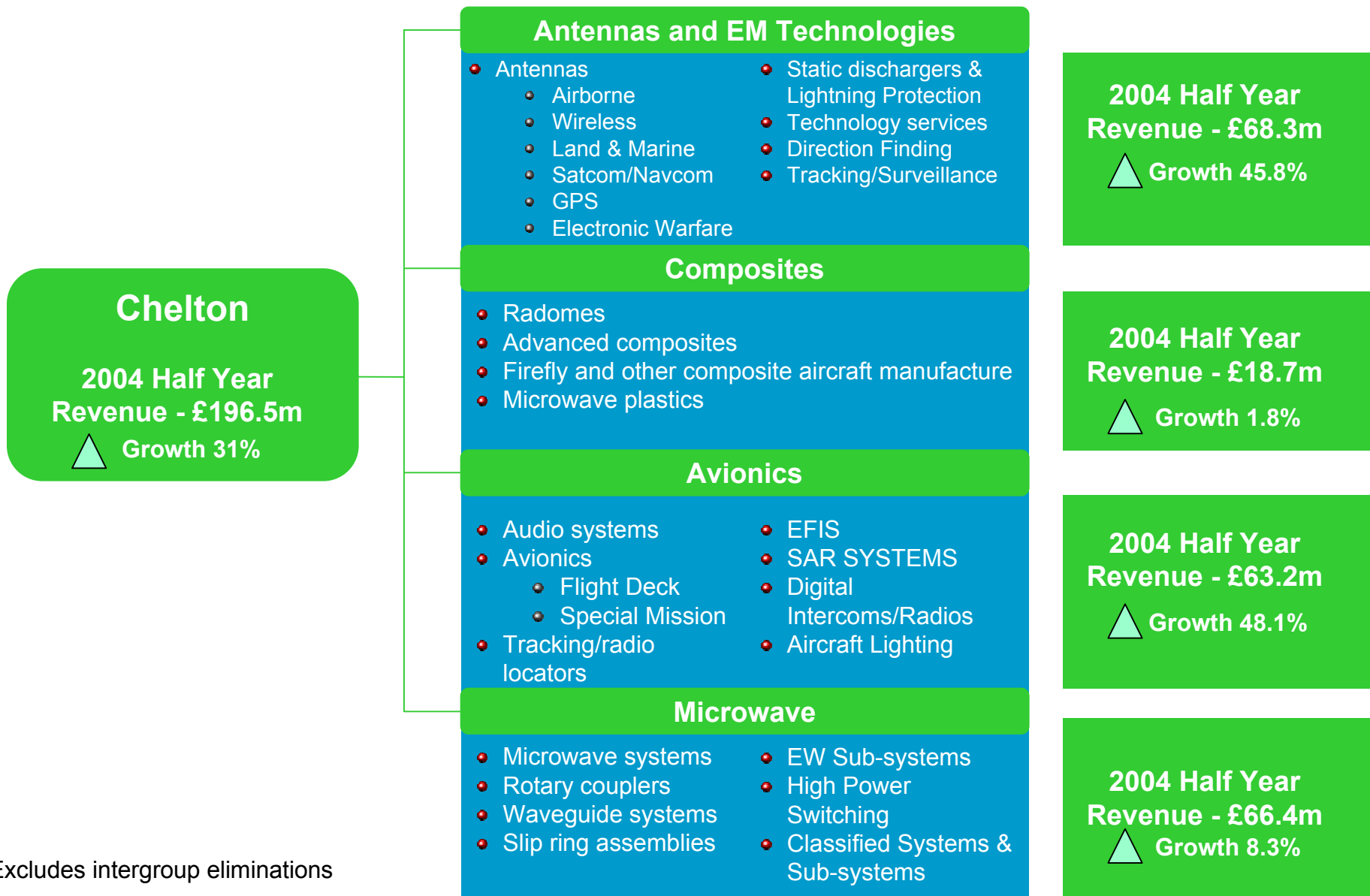
Life Support

- Aircraft systems
 - Oxygen
 - Cooling
 - Escape
- Pressure vessels
- Protection systems
- Space sub-systems

2004 Half Year
Revenue - £58.5m

▲ Growth 69.6%

Excludes intergroup eliminations



Antennas and EM Technologies

- Antennas
 - Airborne
 - Wireless
 - Land & Marine
 - Satcom/Navcom
 - GPS
 - Electronic Warfare
- Static dischargers & Lightning Protection
- Technology services
- Direction Finding
- Tracking/Surveillance

2004 Half Year Revenue - £68.3m
 ▲ Growth 45.8%

Composites

- Radomes
- Advanced composites
- Firefly and other composite aircraft manufacture
- Microwave plastics

2004 Half Year Revenue - £18.7m
 ▲ Growth 1.8%

Avionics

- Audio systems
- Avionics
 - Flight Deck
 - Special Mission
- Tracking/radio locators
- EFIS
- SAR SYSTEMS
- Digital Intercoms/Radios
- Aircraft Lighting

2004 Half Year Revenue - £63.2m
 ▲ Growth 48.1%

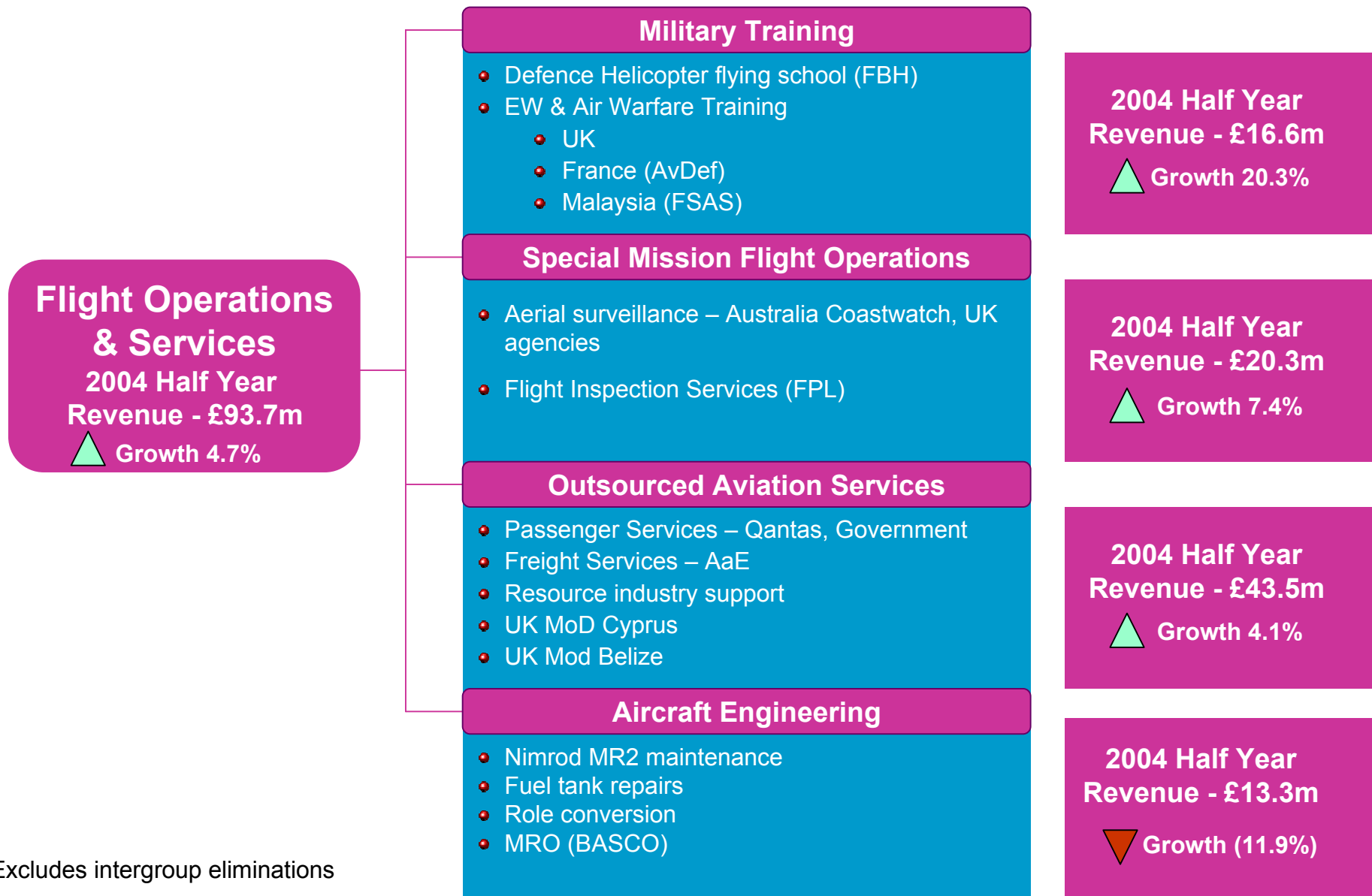
Microwave

- Microwave systems
- Rotary couplers
- Waveguide systems
- Slip ring assemblies
- EW Sub-systems
- High Power Switching
- Classified Systems & Sub-systems

2004 Half Year Revenue - £66.4m
 ▲ Growth 8.3%

Excludes intergroup eliminations

Flight Operations & Services



Excludes intergroup eliminations

Future Major Programmes

Programme/Platform	Group	2004	2005	2010	2015	2020	Ship set Value	Contract Value
Eurofighter Typhoon	Chelton + ASG	→					£800k	
Airbus single aisle	Chelton + ASG	→					\$70k	
Airbus A330/A340	Chelton + ASG	→					\$640k	
A380	Chelton + ASG		→				\$825k	
Boeing 7E7	ASG			→			\$185k	
A400M	Chelton + ASG			→			TBA	
Naval EH101	Chelton	→					£500k	
NH90 Helicopters	Chelton	→					£50K	
F22	Chelton	→					\$270k	
F35	Chelton + ASG			→			\$270k	
Gripen	Chelton + ASG	→					£280k	
Hawk	Chelton + ASG	→					£250k	
AFSOC	ASG	→		→				\$100m
900 series AR	ASG	→			→		N/A	
JTRS	Chelton	→					TBA	

Future Major Programmes cont...

Programme/Platform	Group	2004	2005	2010	2015	2020	Ship set Value	Contract Value	
Javelin	ASG	→						\$5.5k	
Paveway	ASG		→					\$3.7k	
SDB	ASG	→					\$110k		
B767 GTTA	Chelton + ASG	→						HELD	
020 Flying	Flight Ops	→						£155m	
DHFS	Flight Ops	→						£187m	
NIMROD MR2	Flight Ops	→						£15m	
Qantas Link	Flight Ops	→						A\$205m	
AaE	Flight Ops	→						A\$250m	
Coastwatch	Flight Ops	→						A\$250m	
Resources	Flight Ops	→						A\$125m	
Sentry E3D	Flight Ops		→						£50m
FSTA	Flight Ops + ASG		→						£160m
C17	Chelton, ASG, Flight Ops		→						\$470k

Programme Updates

- AIRBUS** 330 aircraft to be delivered in 2004. Production to increase 40% by 2007 while reducing cost base by 15%. A380 due into service second quarter 2005. Current orders 139. A350 (modified A330) postulated as Boeing 7E7 rival due to be launched by 2006 at the latest.
- TYPHOON** Tranche 2 discussions continue. One firm export commitment (16) for Austria. Singapore has down selected.
- HAWK** The RAF have selected the Hawk AJT to meet the MFTS requirement. Entry into service will be 2008. Total quantity up to 44. India have signed MOU for 66 Hawk AJT.
- F35** LM currently to supply 22 development aircraft. Programme covers potential 3000+ aircraft over 40 years. Cobham shipset value US\$270k. Stanley Aviation bidding for fuel system simulator - decision by end of this year.
- C130J** Sargent Fletcher AR equipment being supplied for USMC also to be supplied to Italy.
- HELICOPTERS** 448 Apache Longbow on order or planned in US as new or rebuild to Longbow standard, also 260 Blackhawks. 399 variants of NH90 on order including new order for Australia. AgustaWestland with 38 firm orders is bidding US101 in the USA. Market 200.
- COASTWATCH** A NAS contract with the Australian Government. This has now been extended to 2007. NAS is bidding for AUS\$1bn 14 year follow-on contract due to be signed in June 2005.
- FSTA** See separate slide.

Programme Updates cont...

BOEING 7E7

The initial version will have a seating capacity 250 with a range up to 8,500 miles. Advanced technology reduces fuel burn by 20% and offers airlines higher revenues at a lower operating cost. Entry into service will be 2008. Cobham companies have secured fuel and NGS packages. Down selected for the Joint Definition phase of the oxygen/Passenger Service Unit and Fuel and Hydraulic FDS. Opportunities exist in tubing, oxygen and communication systems either directly through Boeing or teamed with other suppliers. Potential value \$500m, with a possible shipset value of \$500k.

BOEING 747/737

FR-HiTEMP replacement fuel pumps are now fully certified by FAA and retrofit orders have been received and more expected. Orders also received directly from Boeing for new aircraft deliveries. Of the 50 ship sets delivered to date approximately 35 have been fitted to aircraft and are successfully in service.

PAVEWAY

Precision guided bomb. Carlton have supplied in excess of 39,000 systems for a value of US\$60m. On current track for a further 21,000 systems. After 2006 demand will stabilise at around 6,000 per year. DOD contracts awarded to date are valued at US\$216m.

JAVELIN

In addition to the USA requirement (\$130m in 2004) export orders have been achieved in Norway, Ireland, New Zealand, Australia and Israel. Orders are also expected from Oman, Kuwait, UAE, Saudi Arabia and Canada. There is a high probability that the UK will order a further 1,300 in September 2004

SDB

In August 2003, the USAF awarded Boeing a contract for small winged ordinance carried on a single, four place Carriage System Assembly (CSA). Boeing contracted SFI to develop and produce 2000 CSA over the life of the programme. SFI have a \$13m SDD contract. The first production run is scheduled for 2006. Total contract value is up to \$160m.

UAV/UCAV

Aerospace Systems Group, under leadership of SFI, is leading the USA in development of autonomous aerial refuelling equipment for class 3 unmanned air vehicles. Flight demonstrations expected 2007.



COBHAM