



Air Refuelling and Auxiliary Mission Equipment



Antennas



Avionics and Surveillance



Defence Electronic Systems



Life Support



Services

**Cobham plc**  
Interim Report 2005

## Key highlights

Orders received

£697.4m  
up  
26.2%

Revenue

£516.3m  
up  
12.3%

Trading profit\*

£74.3m  
up  
14.0%

"Cobham has completed a strategic review of its business portfolio and concluded that further focus on leading technology positions will enable it to take greater advantage of opportunities in the aerospace and defence market worldwide. By targeting investment in technology and acquisitions, the Group will continue to deliver excellent returns to shareholders. Strong first half results serve to underline confidence for the full year."  
Gordon Page, CBE, Chairman



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Front cover: 1. Flight Refuelling 900 series pod ordered by Canada, Germany and Australia; 2. Cobham network-centric warfare communications antennas; 3. Chelton Flight System's EFIS installed in a Bell Helicopter model 407; 4. Cobham supplies microwave, communications and life support equipment for the F/A-18 Hornet; 5. Carleton manufactures onboard oxygen generation systems; 6. RAF E-3D Sentry (AWACS) operates with Cobham logistics support.  
Inside front cover: Remec integrated microwave assemblies.

Cobham plc designs and manufactures equipment, specialised systems and components for the aerospace, defence, communications, law enforcement and national security markets and operates, maintains and modifies aircraft particularly in relation to special mission flight operations.

**The Group's results for the first half of 2005 show:**

- Excellent growth in revenue, underlying operating profit and earnings per share
- Group margins maintained; H1 in line with expectations and reflecting the normal trading pattern
- Robust performances in Antennas, Microwave, Avionics and Air Refuelling
- Remec initial performance ahead of company expectations
- Strong order book growth providing excellent visibility – now standing at £1.5bn
- Cash conversion 80.3%
- Four Microwave and Life Support acquisitions completed in the period
- A 10% increase in the interim dividend

**A strategic review** was completed in September with:

- The creation of six business divisions
- The decision to sell Fluid and Air, and Countermeasures companies.

\* For definition of trading profit please see note in Interim statement results section.

## Introduction

Cobham has made good progress in the first half of 2005 with double-digit underlying earnings growth. Robust performances were achieved in the Antennas, Avionics, Microwave and Air Refuelling divisions; and operational improvements, including those in Countermeasures, offset the impact of adverse currency movements.

The Group order book stands at a record £1.5bn, reflecting success in winning new orders and the strong 'book to bill' ratio of the Antennas, Microwave and Avionics divisions. Cobham continued to make acquisitions in faster-growing niche market sectors and completed the acquisitions of Remec and Koch.

A strategic review of the Group businesses has been completed. The Board has concluded that the business portfolio should be more focused on key markets and additional emphasis should be placed on value-added technologies. The Group structure has therefore been streamlined in this direction.

## IFRS

In line with the regulatory requirements for UK listed companies, Cobham has prepared its accounts on the basis of International Financial Reporting Standards (IFRS), as adopted by the European Union, for the accounting period beginning 1 January 2005 and has restated prior-year comparative data wherever appropriate. A press release was issued on 7 June 2005 detailing the transition process and tables showing the financial impact of the transition were attached to the press release for these interim results. These statements remain available on the Cobham website at [www.cobham.com](http://www.cobham.com) or by application to the company.

## Results

To assist with the understanding of earnings trends, trading profit (formerly underlying operating profit) and underlying earnings have been defined to exclude the impact of the amortisation of intangible assets recognised on acquisition and the impact of the marking to market of foreign exchange derivatives not realised in the period. Countermeasures and Cobham Fluid Systems are treated in the results as discontinued businesses. The results on these various bases are shown on the right.

The results for the period based on the Group's operations (including discontinued businesses) on an underlying IFRS basis are as follows:

Revenue for the first half of the year has increased by 12.3% to £516.3m (2004: £459.8m). Group underlying operating margin was maintained when compared with the first half of 2004, with improvements in Chelton being offset by a decline, as anticipated, of underlying margin in the Flight Operations & Services business. Costs associated with share-based payments, as more schemes fall under the scope of IFRS 2, and the adverse effect of conversion of US\$-based transactions in the UK were offset by operational improvements. Underlying profit before tax increased 15.0% to £69.6m (2004: £60.5m). Underlying earnings per share increased 14.5% to 4.41p (2004: 3.85p).

The effective tax rate on underlying profit before taxation is 28.4% (2004: 28.3%). Cash generated by operating activities at £75.2m was 2.5% lower than the same period in 2004, which included a receipt of dividends of £5.0m from a joint venture company. Net debt increased from £166.2m at the end of 2004 to £319.8m as at 30 June 2005, primarily driven by the acquisition of Remec.

An interim dividend of 1.01p, representing a 10% increase on the comparable period last year, has been approved by the Board and will be paid on 12 December 2005 to all shareholders on the register as at 11 November 2005.

Total revenue comprises the following:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Revenue from continuing activities	501.8	449.0	952.1
Revenue from discontinued businesses	14.5	10.8	26.9
<b>Total revenue</b>	<b>516.3</b>	<b>459.8</b>	<b>979.0</b>

Total trading profit comprises the following:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Trading profit from continuing activities	72.6	65.2	149.3
Trading profit from discontinued businesses	1.7	0.0	1.5
<b>Trading profit</b>	<b>74.3</b>	<b>65.2</b>	<b>150.8</b>

The underlying profit before tax is as follows:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Profit on continuing operations before taxation	52.5	60.5	141.6
Profit on discontinued operations before taxation	0.4	(0.8)	(0.2)
Amortisation of intangible assets on business combination	2.7	0.8	1.7
Loss on revaluation of derivative financial instruments	14.0	–	–
<b>Underlying profit before taxation</b>	<b>69.6</b>	<b>60.5</b>	<b>143.1</b>

The underlying profit as used in the calculation of underlying EPS is as follows:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Profit after taxation attributable to equity shareholders	37.7	42.4	100.9
Amortisation of intangible assets on business combination	1.9	0.5	1.2
Loss on revaluation of derivative financial instruments	9.8	–	–
<b>Underlying profit after taxation</b>	<b>49.4</b>	<b>42.9</b>	<b>102.1</b>
<b>Underlying earnings per ordinary share</b>	<b>4.41p</b>	<b>3.85p</b>	<b>9.16p</b>

## Chelton

	Note	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	% change
Orders received		£331.4m	£241.1m	+37.5%
Revenue		£236.6m	£196.5m	+20.4%
Margin		17.3%	16.3%	+1.0pts
Trading profit	*	£40.8m	£32.0m	+27.6%

\* A reconciliation of basic operating profit to trading profit is shown in note 4 to the financial statements.

Chelton reported first-half revenue up 20% and underlying operating profit up 28%. Growth is market- and technology-driven and the policy of investment in avionic research and development has brought success with new products offering increased capability. Orders received are up 5% excluding Remec.

**Antennas** made the first deliveries of Chelton's high-speed data SATCOM system for Embraer and Gulfstream. The system provides an office-in-the-sky capability including internet and high-quality voice and data link communications. Systems with increased capability will shortly be delivered for a military application.

Development of the mINCAN® interference cancellation system has led to further sales, including one order for the US Coast Guard communications update (Rescue 21) programme. A derivative is being developed for a US Army programme and wider military interest is now being shown.

Military antenna successes continue with Chelton winning a contract to supply communication antennas for the A400M.

In **Avionics** significant orders have been received from the US Army for tactical communications equipment. Customer evaluation of the new Wulfsberg Fliteline avionics suite has started and is expected to result in orders. Sales of the COSPAS-SARSAT compliant search and rescue beacon products have been strong.

The law enforcement and national security market has seen increasing levels of interest, driven by the continuing threat of terrorism and the war in Iraq. Demand for unmanned ground and airborne vehicle microwave systems has exceeded expectations.

The **Microwave** business saw increased demand as a consequence of new products entering production to support network-centric systems. The war on terrorism and the focus on command, control, communications, computers and intelligence (C<sup>4</sup>) data links have contributed to the urgency for this improved technology.

The acquisition of Remec has resulted in increased presence in this area and the company has secured, for instance, key wins on F-35 (where the Cobham ship set value has increased from US\$270K to US\$470K), F-18 Growler, DDX Multi-Mission Surface Combatant ship, Common Data Link, Aerial Common Sensor, and the US Coastguard Deepwater programme. Remec's performance in the first two months has exceeded expectation in orders, revenue and profit.

Although not in the reporting period, selected assets of the Microwave Development Company were acquired on 1 August for US\$13.6m and will be absorbed into the existing microwave business in New Hampshire, US, further strengthening the Group's passive microwave capability.

## Aerospace Systems

	Note	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	% change
Orders received		£244.7m	£198.8m	+23.1%
Revenue		£180.6m	£169.6m	+6.5%
Margin		14.4%	14.4%	
Trading profit	*	£26.0m	£24.5m	+6.3%

\* A reconciliation of basic operating profit to trading profit is shown in note 4 to the financial statements.

Aerospace Systems showed strong performance for the first half of the year with revenue and operating profit up by 6%. Order intake was up significantly at 23% in the period demonstrating long-term growth prospects.

**Life Support** has been strengthened with the completion of the acquisition of Koch in June 2005. Koch will be managed by Conax, Florida, US, and has products complementary to the personal survival equipment produced by this division. In addition, Carleton won a US\$200m order for passenger service units for the Boeing 787 in July 2005.

### In Air Refuelling (AR) and Auxiliary Mission

**Equipment** good progress has been made in delivering AR Pods to the Air Force Special Operations Command programme and to Lockheed Martin for the US Marine Corps C-130J. The order book has improved with Typhoon tranche two orders for weapons carriage and release products totalling over £90m for deliveries over the next five years. The first weapons carriage and release hardware has been delivered to Boeing to support the small diameter bomb programme.

**In Fluid and Air** Cobham continues to provide fluid delivery components for a range of military and commercial programmes. The successful first flight of the Airbus A380 was a major milestone and achievement for Cobham as the aircraft fuel pumps provider. The first Boeing 787 fuel pumps were shipped in August 2005.

## Flight Operations & Services

	Note	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	% change
Orders received		£121.3m	£112.6m	+7.8%
Revenue		£99.1m	£93.7m	+5.8%
Margin		8.9%	10.7%	-1.8pts
Trading profit	*	£8.8m	£10.0m	-12.0%

\* A reconciliation of basic operating profit to trading profit is shown in note 4 to the financial statements.

Flight Operations & Services' orders grew by 8%. First-half revenue is up 6%. Underlying operating profit was down by £1.2m reflecting increased bid activity in the UK and Australia, and a greater bias towards H2 in 2005.

The announcement of a new twelve-year Coastwatch contract for the Australian customs service, expected to be signed in June 2005, has been delayed until later

this year. The current contract runs until June 2007. A twenty-year £50m contract has been won with Northrop Grumman and BAE SYSTEMS to provide logistic support at RAF Waddington for the E-3D Sentry (AWACS) aircraft. A contract, initially worth approximately AUS\$100m, to operate and maintain a fleet of eight Boeing 717s for up to three years on behalf of Qantas in Australia has also been agreed.

## Strategic review

During the last six months the Group has carried out an in-depth strategic review and determined that maximum shareholder value can be achieved by focusing the future direction of the Group in five divisions aligned to key technology sectors and one in a service sector. The **Cobham Services** division will include electronic warfare and flying training, navigation aid calibration, special mission operations and aircraft operation, modification and maintenance of military aircraft.

The five technology divisions will be:

- **Cobham Antennas**
- **Cobham Defence Electronic Systems**
- **Cobham Air Refuelling and Auxiliary Mission Equipment**
- **Cobham Life Support**
- **Cobham Avionics and Surveillance**

The key objectives of this strategy are to:

- consolidate and enhance market leadership;
- radically increase collaboration across the Group and within divisions;
- increase investment in technology and focus in R&D expenditure;
- exit businesses that do not align with the focused portfolio;
- achieve significant efficiency improvements which will allow further re-investment in technologies;
- introduce a flatter, simplified, management structure, which will improve customer focus, business transparency, and drive improvements in working capital, lean manufacturing, and procurement;
- strengthen the Group's upper quartile aerospace and defence margins; and
- enhance organic profit growth throughout the market cycles.

Together, achievement of these objectives will enhance return on invested capital, a key metric for shareholders.

In line with this strategy Cobham announced that the process of selling Countermeasures (FR Countermeasures and Wallop Defence Systems) was under way. Cobham also announced on 13 September 2005 the sale of FR-HiTEMP and the Stanley Aviation group of companies. This follows the earlier sale, completed on 29 July 2005, of the trade and assets of the Products Division of Cobham Fluid Systems. Countermeasures and this part of Cobham Fluid Systems have been identified as discontinued businesses on the face of the income statement and comparative data has been restated to match this treatment.

The portfolio will continue to be reviewed to confirm that remaining businesses have the market position and technology to deliver superior profitable growth.

Reflecting these developments a flatter organisational structure will be introduced to bring a more unified approach to the Group and to capture further market opportunities and business performance improvements. Five divisional managing directors/presidents of the technology divisions will be appointed and will report to the Chief Executive. The divisions will continue to be wholly responsible for their growth and operating performance.

In order to support business activity and processes Group functions for human resources, strategic development, internal audit, mergers and acquisitions, and legal are being further strengthened.

## People

Alex Hannam was appointed Group Managing Director of the Cobham Services Division which includes Flight Operations & Services. Andy Stevens, currently Group Managing Director, Aerospace Systems Group, has been appointed as the new Chief Operating Officer.

In June 2005 Geoff Cooper, CBE, resigned from the Board. The Board wishes to record its thanks to Geoff for his valuable contribution to Chelton and the Cobham Group over the last fifteen years.

Mike Smith, having served nine years, retired at the June 2005 annual general meeting. Mike has had a major influence on Cobham and the Board is grateful for his counsel and guidance during this time.

Dr. John Patterson, Executive Director Development, AstraZeneca plc, has accepted the position of non-executive director with effect from 1 November 2005. He will succeed Mike Smith as chairman of the remuneration committee.

Marcus Beresford, CBE, has accepted the position of senior independent director.

## Outlook

Excellent first-half results have been achieved and the second half is expected to be stronger than the first in line with the pattern of previous years. Cobham looks forward to reporting continued progress at the end of the financial year.

The development of Cobham's strategy, organisational structure and operational effectiveness as set out in this statement marks an important evolutionary step in the development of the Group and reflects the fact that it has trebled revenue between 1997 and this year.

With key enabling technologies and products the Group is well positioned to target growing markets within aerospace and defence. These include: air refuelling with proven probe and drogue technology; network-centric capability where it has a strong presence in helicopter, fixed-wing aircraft and ground-based vehicle communications and data links; and, life support with airborne gas generation and aircrew equipment. The focus on technology-based divisions will enhance Group performance.

### J.M. Pope

Secretary  
Brook Road  
Wimborne  
Dorset BH21 2BJ

13 September 2005

# Consolidated IFRS income statement

For the half year ended 30 June 2005

£m	Note	Unaudited Half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
<b>Continuing operations</b>				
Revenue		501.8	449.0	952.1
Cost of sales		(367.6)	(326.3)	(693.4)
<b>Gross profit</b>		<b>134.2</b>	<b>122.7</b>	<b>258.7</b>
Selling and distribution costs		(28.5)	(25.2)	(52.8)
Administrative expenses		(48.0)	(34.2)	(60.9)
<b>Group operating profit</b>		<b>57.7</b>	<b>63.3</b>	<b>145.0</b>
Share of post-tax results of joint ventures and associates		1.6	1.1	2.6
		<b>59.3</b>	<b>64.4</b>	<b>147.6</b>
Comprises				
Trading profit from continuing operations	3	72.6	65.2	149.3
Realised exchange gains in the period	#	(10.6)	–	–
Amortisation of intangible assets arising on acquisition		(2.7)	(0.8)	(1.7)
		<b>59.3</b>	<b>64.4</b>	<b>147.6</b>
Finance income	*	5.0	2.6	23.4
Finance expense	*	(8.4)	(6.5)	(29.4)
Realised exchange gains in the period	#	10.6	–	–
Loss on revaluation of currency instruments	# 5	(14.0)	–	–
<b>Profit on continuing operations before taxation</b>		<b>52.5</b>	<b>60.5</b>	<b>141.6</b>
Tax on continuing operations		(14.7)	(17.4)	(40.5)
<b>Profit on continuing operations after taxation</b>		<b>37.8</b>	<b>43.1</b>	<b>101.1</b>
<b>Discontinued operations</b>				
Profit/(loss) after taxation from discontinued operations	8	0.4	(0.5)	0.1
<b>Profit after taxation for the period</b>		<b>38.2</b>	<b>42.6</b>	<b>101.2</b>
Profit attributable to equity shareholders		37.7	42.4	100.9
Profit attributable to minority interests		0.5	0.2	0.3
<b>Profit after taxation for the period</b>		<b>38.2</b>	<b>42.6</b>	<b>101.2</b>
<b>Earnings per ordinary share</b>				
– basic	†	3.37p	3.81p	9.05p
– fully diluted		3.34p	3.78p	8.99p
<b>Earnings per ordinary share from continuing operations</b>				
– basic		3.33p	3.85p	9.04p
– fully diluted		3.31p	3.83p	8.98p
<b>Dividend per ordinary share (as restated under IFRS)</b>		<b>2.18p</b>	<b>1.98p</b>	<b>2.90p</b>

# Exchange gains and losses in comparative periods have not been restated as allowed under transitional arrangements of IAS39 and remain within administrative expenses for these periods. Similarly currency instruments have not been recognised at fair values in the comparative periods.

\* Net interest expense for the whole business for the half year to 30 June 2005 was £4.7m (half year to 30 June 2004 £4.7m and year to 31 December 2004 £7.7m), comprising net interest expense on continuing operations of £3.4m (half year to 30 June 2004 £3.9m and year to 31 December 2004 £6.0m) and net interest expense in discontinued businesses of £1.3m (half year to 30 June 2004 £0.8m and year to 31 December 2004 £1.7m)

† Earnings per share have been calculated using 1,119,363,050 (30 June 2004: 1,113,093,890, 31 December 2004: 1,114,482,710) ordinary shares, being the weighted average number in issue during the six months to 30 June 2005, adjusted for the share split described in note 6, excluding those held by the qualifying employees share ownership trust (QUEST). Details of underlying earnings per ordinary share are shown in note 3.

This report is being sent to shareholders and will be available to members of the public at the company's registered office at Brook Road, Wimborne, Dorset BH21 2BJ, UK.

The interim report and the comparative figures for the year ended 31 December 2004 do not constitute full accounts within the meaning of the Companies Act 1985. Full accounts for that year, which include an unqualified audit report and no statements under sections 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

Of the total tax charge, £5.1m (30 June 2004: 5.3m) relates to tax on UK operating activities, the remainder relates to overseas locations.

# Consolidated IFRS balance sheet

As at 30 June 2005

£m	Note	Unaudited as at 30.6.05	Unaudited restated as at 30.6.04	Unaudited restated as at 31.12.04
<b>Non-current assets</b>				
Intangible assets		589.8	377.1	397.9
Property, plant and equipment		227.1	239.8	237.8
Investment properties		4.1	4.1	4.1
Investments in joint ventures and associates		15.0	8.8	14.2
Other debtors		8.3	2.5	7.3
Deferred taxation assets		26.1	20.4	20.4
		<b>870.4</b>	<b>652.7</b>	<b>681.7</b>
<b>Current assets</b>				
Inventories		207.3	200.9	183.9
Trade and other receivables		225.5	194.5	226.4
Derivative financial instruments	5	5.6	–	–
Cash and cash equivalents		98.8	65.2	101.3
Assets classified as held for sale	8	28.9	–	–
		<b>566.1</b>	<b>460.6</b>	<b>511.6</b>
<b>Current liabilities</b>				
Loans and overdrafts		(265.0)	(58.3)	(116.2)
Trade and other payables		(219.7)	(235.1)	(209.7)
Corporation tax		(52.5)	(45.6)	(48.4)
Liabilities classified as held for sale	8	(14.8)	–	–
		<b>(552.0)</b>	<b>(339.0)</b>	<b>(374.3)</b>
<b>Non-current liabilities</b>				
Borrowings		(156.8)	(167.0)	(151.3)
Other creditors		(4.7)	(18.1)	(11.4)
Derivative financial instruments	5	(2.1)	–	–
Deferred taxation liabilities		(60.4)	(16.8)	(28.1)
Provisions for liabilities and charges		(27.2)	(11.1)	(17.9)
Retirement benefit obligation		(69.2)	(69.1)	(69.1)
		<b>(320.4)</b>	<b>(282.1)</b>	<b>(277.8)</b>
<b>Net assets</b>				
		<b>564.1</b>	<b>492.2</b>	<b>541.2</b>
<b>Total shareholders' equity</b>				
Minority interest in equity		1.8	1.1	1.3
<b>Total equity</b>		<b>564.1</b>	<b>492.2</b>	<b>541.2</b>
Net debt		(319.8)	(160.1)	(166.2)
Gearing		56.7%	32.5%	30.7%

# Consolidated IFRS cash flow statement

For the half year ended 30 June 2005

£m	Note	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
<b>Cash flows from operating activities</b>				
Cash generated from operations	2	75.2	77.1	163.9
Corporation taxes paid		(11.2)	(13.2)	(22.9)
Interest paid		(8.7)	(6.9)	(11.6)
<b>Net cash from operating activities</b>		<b>55.3</b>	<b>57.0</b>	<b>129.4</b>
<b>Net cash used in investing activities</b>				
	2	(191.0)	(53.2)	(105.0)
<b>Cash flows from financing activities</b>				
Issue of share capital		5.0	4.9	4.9
Dividends paid		–	–	(32.3)
Dividends paid to minority interests		(0.8)	(0.2)	(0.3)
Increase in borrowings		163.9	(47.8)	6.7
Repayment of obligations under finance leases		(11.8)	–	(4.4)
<b>Net cash from financing activities</b>		<b>156.3</b>	<b>(43.1)</b>	<b>(25.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>20.6</b>	<b>(39.3)</b>	<b>(1.0)</b>
<b>Cash and cash equivalents at start of period</b>		<b>101.3</b>	<b>106.1</b>	<b>106.1</b>
<b>Initial application of IFRS accounting for financial instruments</b>		<b>(5.2)</b>	<b>–</b>	<b>–</b>
<b>Cash and cash equivalents at start of period as restated</b>		<b>96.1</b>	<b>106.1</b>	<b>106.1</b>
<b>Exchange movements</b>		<b>(14.6)</b>	<b>(1.6)</b>	<b>(3.8)</b>
<b>Cash and cash equivalents at end of period</b>	†	<b>102.1</b>	<b>65.2</b>	<b>101.3</b>

† Cash and cash equivalents include £3.3m cash held in discontinued businesses as detailed in note 8.

## Reconciliation of net cash flow to movement in net debt

For the half year ended 30 June 2005

£m	Note	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Increase/(decrease) in cash in the period		20.6	(39.3)	(1.0)
(Increase)/decrease in debt and lease financing	*	(153.0)	35.4	(6.8)
Exchange movements		(16.0)	(1.6)	(3.8)
<b>Movement in net debt in the period</b>		<b>(148.4)</b>	<b>(5.5)</b>	<b>(11.6)</b>
<b>Net debt at beginning of period</b>		<b>(166.2)</b>	<b>(154.6)</b>	<b>(154.6)</b>
<b>Initial application of IFRS accounting for financial instruments</b>		<b>(5.2)</b>	<b>–</b>	<b>–</b>
<b>Net debt at beginning of period as restated</b>		<b>(171.4)</b>	<b>(154.6)</b>	<b>(154.6)</b>
<b>Net debt at end of period</b>	**	<b>(319.8)</b>	<b>(160.1)</b>	<b>(166.2)</b>

\* Includes conversion of aircraft operating lease to finance lease of £14.9m in half year to 30 June 2004 and year to 31 December 2004.

\*\* Net debt includes £3.2m net cash held in discontinued businesses as detailed in note 8.

# Statement of recognised income and expenses

For the half year ended 30 June 2005

£m	Note	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
<b>Profit for the period</b>		<b>38.2</b>	42.6	101.2
Translation differences on investments in overseas subsidiaries		(3.3)	3.2	10.1
Actuarial loss on pensions	*	–	–	(4.7)
Movement on deferred tax relating to pension liability		–	(0.5)	1.4
<b>Total recognised income for the period</b>		<b>34.9</b>	45.3	108.0

\* Actuarial gains/losses on pensions are only recognised on performance of an actuarial valuation at each year end.

# Statement of changes in equity

For the half year ended 30 June 2005

£m	Note	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
<b>Total equity at start of period as previously stated</b>		<b>541.2</b>	470.8	470.8
Initial application of IFRS accounting for currency instruments	5	12.5	–	–
Initial application of IFRS accounting for financial instruments		(4.4)	–	–
<b>Total equity at start of period as restated</b>		<b>549.3</b>	470.8	470.8
Total recognised income for the period		34.9	45.3	108.0
Profit attributable to minority interest		(0.5)	(0.2)	(0.3)
Dividends authorised		(24.5)	(22.0)	(32.3)
Increase in called up share capital		0.1	0.1	0.1
Increase in share premium account		5.9	5.2	6.7
Increase/(decrease) in other reserves		(1.6)	(7.0)	(12.0)
Increase in minority interest		0.5	–	0.2
<b>Total equity at end of period</b>		<b>564.1</b>	492.2	541.2

## 1. Accounting policies

Accounting policies remain as published in the financial statements for the year ended 31 December 2004 except as noted below.

### Accounting convention

These unaudited financial statements have been prepared in accordance with those International Financial Reporting Standards (IFRS) that are anticipated to be used in preparation of the forthcoming annual financial statements. These include standards both endorsed and yet to be endorsed by the European Union.

All prior period comparatives have been restated in accordance with IFRS and are unaudited. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows, and details of exemptions taken under IFRS1 have been provided in a news release dated 7 June 2005. Reconciliations of comparative data as shown in these unaudited financial statements to that previously prepared on a UK GAAP basis and a reconciliation of net assets at 1 January 2005 have been presented in a news release dated 13 September 2005. Copies of these news releases are available on the company's website at [www.cobham.com](http://www.cobham.com).

These unaudited financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed and current assets, financial assets and financial liabilities held for trading and derivative contracts.

### Basis of consolidation

The Group financial statements include the financial statements of the parent company and of all its subsidiaries made up to the end of the financial period. Joint ventures and associates are accounted for using the equity method and include the Group's share of the total recognised gains and losses of joint ventures and associates from the date that significant influence or joint control commences until the date significant influence ceases.

Businesses acquired are accounted for as acquisitions, with effect from the date control passes. Those disposed of are accounted for up until the point of their disposal.

### Deferred taxation

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 financial statements. Timing differences arise primarily from the recognition of the provision for the deficit on Group's defined benefit pension schemes and the difference between accelerated capital allowances and depreciation. In principle deferred tax liabilities are recognised for all taxable temporary differences and 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.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### Dividends

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

### Intangible fixed assets

#### Goodwill

Goodwill arising on consolidation represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture at the date of acquisition.

Goodwill arising on acquisitions of subsidiary undertakings and joint ventures is capitalised and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and cannot be subsequently reversed.

On disposal of a subsidiary or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill arising on acquisitions prior to 1998 has been written off to reserves, but will be charged to the income statement on any subsequent disposal of the business to which it is related.

#### Research and Development

Research expenditure not chargeable to customers is written off as incurred. Development costs are written off as incurred until it can be demonstrated that the conditions for capitalisation as described in IAS38 are met, at which point further costs are capitalised as intangible assets and amortised over the asset's estimated useful life.

#### Other intangible fixed assets

Intangible assets other than goodwill which are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Such intangible assets are amortised over the asset's estimated useful life.

#### Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. These items are so classified if their carrying amount will be recovered through a sale transaction rather than through continuing use.

#### Share-based remuneration

For grants made under the Group's share-based remuneration schemes, amounts which reflect the fair value of options awarded as at the time of grant are charged to the Income Statement. The valuation of the options utilises a methodology based on the Black-Scholes model, modified where required to allow for the impact of market-related performance criteria.

#### Leasing

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

#### Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denoted in foreign currencies are retranslated at the exchange rate ruling at the balance sheet date and any exchange differences arising are taken to the income statement.

In order to manage its exposure to certain foreign exchange risks the Group enters into forward contracts and options which are accounted for as derivative financial instruments.

For consolidation purposes the assets and liabilities of overseas subsidiary undertakings and joint ventures are translated at the closing exchange rates. Income statements of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves.

#### Financial instruments

Receipts and payments on financial instruments are recognised on an accruals basis, over the life of the instruments. Finance costs associated with debt issuances are charged to the income statement over the life of the instruments.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts, interest rate swap contracts and net asset hedges to reduce these exposures. The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting principles are used for interest rate swaps and net investment hedges. For net asset hedges and cash flow interest rate swaps, movements in fair value are held in equity until such time as the underlying amounts in the contracts crystallise. At that time, amounts held in equity will be recycled to the income statement. Movements in fair value of fair value interest rate swaps are recognised through the income statement.

The Group manages foreign currency exposures on a macro basis and is unable to apply hedge accounting to these instruments. Thus contracts which give rise to an asset or liability are recognised at fair value at the balance sheet date and any change in the fair value is recognised in the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

#### Impairment losses

The carrying amounts of the Group's assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated.

An impairment loss is recognised where the carrying value of an asset or its cash generating unit exceeds its recoverable amount. Such losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

An impairment loss is reversed 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. A reversal is recognised in the income statement unless the asset is recorded at a revalued amount in which case it is treated as a revaluation increase.

# Notes to the Interim Report

for the half year ended 30 June 2005

## 2. Notes to the consolidated IFRS cash flow statement

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
<b>Cash flows from operating activities</b>			
Profit after taxation for the period	38.2	42.6	101.2
Adjustments for:			
Tax	14.7	17.1	40.2
Finance income	(5.1)	(2.7)	(23.5)
Finance expense	9.8	7.4	31.2
Loss on revaluation of currency instruments	14.0	–	–
Share of post tax profits from joint ventures and associates	(1.6)	(1.1)	(2.6)
Depreciation	22.9	19.6	42.7
Amortisation of intangibles	4.3	1.3	3.2
Profit on sale of fixed assets	–	(0.2)	(0.1)
Pension credit	(2.7)	(1.5)	(7.3)
Share-based payments	1.4	–	1.3
Operating cash flows before movements in working capital	95.9	82.5	186.3
Increase in working capital	(20.7)	(5.4)	(22.4)
<b>Cash generated by operations</b>	<b>75.2</b>	<b>77.1</b>	<b>163.9</b>
<b>Cash flows from investing activities</b>			
Interest received	5.1	0.7	4.3
Dividends received from joint venture	0.7	5.0	5.0
Proceeds on disposal of fixed assets	0.4	0.1	1.1
Purchase of property, plant and machinery	(17.2)	(22.0)	(40.6)
Purchase of intangible fixed assets	–	(0.2)	(0.2)
Acquisition of subsidiaries net of cash acquired	(178.4)	(36.5)	(69.5)
Investment in joint ventures	–	–	(4.3)
Expenditure on product development	(1.6)	(0.5)	(1.0)
Short-term investments held for sale	–	0.2	0.2
<b>Net cash used in investing activities</b>	<b>(191.0)</b>	<b>(53.2)</b>	<b>(105.0)</b>

## 3. Earnings reconciliation

To assist with the understanding of earnings trends, trading profit and underlying earnings have been defined to exclude the impact of the amortisation of intangible assets arising on acquisition and the impact of the marking to market of foreign exchange derivatives not realised in the period.

The trading profit is as follows:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Operating profit from continuing operations	59.3	64.4	147.6
Realised exchange gains in the period	10.6	–	–
Amortisation of intangible assets arising on acquisition	2.7	0.8	1.7
Trading profit from continuing operations	72.6	65.2	149.3
Trading profit from discontinued operations	1.7	0.0	1.5
<b>Trading profit (underlying operating profit)</b>	<b>74.3</b>	<b>65.2</b>	<b>150.8</b>

The underlying profit before tax is as follows:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Profit on continuing operations before taxation	52.5	60.5	141.6
Amortisation of intangible assets arising on acquisition	2.7	0.8	1.7
Loss on revaluation of currency instruments	14.0	–	–
Underlying profit before taxation from continuing operations	69.2	61.3	143.3
Underlying profit before taxation from discontinued operations	0.4	(0.8)	(0.2)
Underlying profit before taxation	69.6	60.5	143.1

The underlying profit as used in the calculation of underlying EPS is as follows:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Profit after taxation attributable to equity shareholders	37.7	42.4	100.9
Amortisation of intangible assets arising on acquisition (after tax)	1.9	0.5	1.2
Loss on revaluation of currency instruments (after tax)	9.8	–	–
<b>Underlying profit after taxation</b>	<b>49.4</b>	<b>42.9</b>	<b>102.1</b>
<b>Underlying earnings per ordinary share</b>	<b>4.41p</b>	<b>3.85p</b>	<b>9.16p</b>

#### 4. Analysis of trading profit by division

£m	Note	Aerospace Systems	Chelton	Flight Operations & Services	FSTA Bid costs	Total
<b>Unaudited half year to 30 June 2005</b>						
Operating profit from continuing operations		18.6	33.2	8.8	(1.3)	59.3
Realised exchange gains in the period		5.7	4.9	–	–	10.6
Amortisation of intangible assets arising on acquisition		–	2.7	–	–	2.7
Trading profit from continuing operations		24.3	40.8	8.8	(1.3)	72.6
Trading profit from discontinued operations		1.7	–	–	–	1.7
<b>Total trading profit</b>		<b>26.0</b>	<b>40.8</b>	<b>8.8</b>	<b>(1.3)</b>	<b>74.3</b>
<b>Unaudited restated half year to 30 June 2004</b>						
Operating profit from continuing operations		24.5	31.2	10.0	(1.3)	64.4
Amortisation of intangible assets arising on acquisition		–	0.8	–	–	0.8
Trading profit from continuing operations		24.5	32.0	10.0	(1.3)	65.2
Trading profit from discontinued operations		0.0	–	–	–	0.0
<b>Total trading profit</b>		<b>24.5</b>	<b>32.0</b>	<b>10.0</b>	<b>(1.3)</b>	<b>65.2</b>
<b>Unaudited restated year to 31 December 2004</b> *						
Operating profit from continuing operations		59.3	69.3	21.3	(2.3)	147.6
Amortisation of intangible assets arising on acquisition		–	1.7	–	–	1.7
Trading profit from continuing operations		59.3	71.0	21.3	(2.3)	149.3
Trading profit from discontinued operations		1.5	–	–	–	1.5
<b>Total trading profit</b>		<b>60.8</b>	<b>71.0</b>	<b>21.3</b>	<b>(2.3)</b>	<b>150.8</b>

\* Divisional analysis for full year 2004 updated from that published on 13 September. Group numbers are unaffected by this change.

# Notes to the Interim Report

for the half year ended 30 June 2005

## 5. Derivative financial instruments

£m	Currency translation derivatives	Net investment hedge	Other interest derivative	Unaudited half year to 30.6.05
<b>Movement in fair values</b>				
Initial application of IFRS accounting for currency instruments	17.9	0.9	–	<b>18.8</b>
Fair value gain/(loss) in period	(14.0)	0.8	(2.1)	<b>(15.3)</b>
<b>Fair value at 30 June 2005</b>	<b>3.9</b>	<b>1.7</b>	<b>(2.1)</b>	<b>3.5</b>
<b>Balance sheet analysis</b>				
Derivative financial instruments – assets	3.9	1.7	–	<b>5.6</b>
Derivative financial instruments – liabilities	–	–	(2.1)	<b>(2.1)</b>
<b>Fair value at 30 June 2005</b>	<b>3.9</b>	<b>1.7</b>	<b>(2.1)</b>	<b>3.5</b>
<b>Effect of initial application of IFRS accounting for currency instruments</b>				
Initial application of IFRS accounting for currency instruments	17.9	0.9	–	<b>18.8</b>
Initial application of IFRS hedge accounting	–	(0.9)	–	<b>(0.9)</b>
	17.9	–	–	<b>17.9</b>
Deferred tax impact	(5.4)	–	–	<b>(5.4)</b>
Net impact to Total Equity at start of period	12.5	–	–	<b>12.5</b>

Net asset and other interest derivatives are accounted for using IFRS hedge accounting. Movements in fair values are matched against the corresponding liabilities or reflected in reserves as appropriate.

Currency instruments are not accounted for using IFRS hedge accounting and movements in fair values are reflected in the Income Statement.

## 6. Events after the balance sheet date

On 8 July 2005 the ordinary shares of Cobham plc were subdivided such that each existing ordinary share was replaced by ten new ordinary shares. The new subdivision of share capital has been made to improve liquidity in the trading of Cobham plc shares.

On 27 June 2005, the company announced the sale, subject to regulatory approval, of the trade and assets of its Cobham Fluid Systems Products Division. This sale was successfully completed on 29 July 2005.

On 1 August 2005 the company announced the purchase of selected assets of Microwave Development Company for a consideration of US\$13.6m.

On 1 August 2005 a new £300m revolving credit facility was announced which replaced existing facilities. The new facility takes advantage of favourable market conditions and will result in reduced annual costs.

## 7. Acquisitions of subsidiaries

The acquisitions during the half year to 30 June 2005 were as follows:

By the Chelton Group

- Remec Defense and Space Inc in the USA in May for US\$256m
- Vector Fields Ltd in the UK in June for £1.7m
- WA Systems Ltd in the UK in January for £1m plus £350k contingent consideration
- Mastsystem Int'l Oy in Finland in February for €12m
- TCRMA in France In January for €475k

By the Aerospace Systems Group

- H Koch & Sons in the USA in June for US\$51m

All acquisitions were for 100% of the share capital of the acquired company.

As at 30 June 2005, fair values of assets and liabilities acquired relating to Remec, Vector Fields and Koch acquisitions are provisional and subject to potential subsequent adjustment.

## 8. Discontinued operations

A decision was taken on 28 June 2005 to dispose of the Group's Countermeasures operations and negotiations with several interested parties are taking place. These operations, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and presented separately in the balance sheet. The operations are included in the Aerospace Systems Group in Cobham's segmental analysis. The proceeds of disposal are expected to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale. The results of this business are reported within discontinued operations.

Further, as described in note 6, the sale of the trade and assets of the Cobham Fluid Systems Products Division was announced on 27 June 2005. The results of this division have therefore also been included within discontinued operations.

The results of the discontinued operations as described above which have been included in the consolidated income statements are as follows:

£m	Unaudited half year to 30.6.05	Unaudited restated half year to 30.6.04	Unaudited restated year to 31.12.04
Revenue	14.5	10.8	26.9
Expenses	(14.1)	(11.6)	(27.1)
Profit from discontinued operations before tax	0.4	(0.8)	(0.2)
Tax	–	0.3	0.3
<b>Post tax results from discontinued operations</b>	<b>0.4</b>	<b>(0.5)</b>	<b>0.1</b>
<b>Cash flows from discontinued operations</b>			
Net cash used in operating activities	(2.4)	1.9	5.7
Net cash used in investing activities	(1.6)	(6.4)	(8.2)
Net cash used in financing activities	(1.2)	0.4	(0.2)
	(5.2)	(4.1)	(2.7)
<b>Earnings per ordinary share of discontinued operations</b>			
– basic	0.04p	-0.04p	0.01p
– fully diluted	0.04p	-0.04p	0.01p

The major classes of assets and liabilities of the Countermeasures operations classified as held for sale are as follows:

£m	Unaudited half year to 30.6.05
Property, plant and equipment	18.5
Inventories	2.2
Trade and other receivables	4.9
Cash and cash equivalents	3.3
Total assets classified as held for sale	28.9
Loans and overdrafts	(0.1)
Trade and other payables	(14.0)
Corporation tax liabilities	(0.7)
Total liabilities associated with assets classified as held for sale	(14.8)
Book value of related net assets held for sale	14.1

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