

2004 Preliminary Results

Mike Turner
Chief Executive



2004 - Overview

- **North America**
 - Performing well
 - Delivering growth
- **Support solutions**
 - UK partnering successes continue
 - AY progress
- **Programmes**
 - Air Systems de-risked
 - Outlook much improved

North America

- Participation in US transformational programmes

- **Defence Electronics**
 - JSF Outstanding Contractor Award
 - Electronic countermeasures and missile warning
- **C4ISR***
 - FCS integrated air/ground communications suite
 - Joint Tactical Radio System
- **Homeland Security**
 - Phase 2 airline missile threat countermeasures
 - FEMA multi-hazard mapping
- **Technical services and solutions**
 - Naval Undersea Warfare Center contract award
 - FAA surveillance systems support



US Acquisitions

- completed in 2004

- **STI Government Systems** **\$26m**
 - Hyperspectral imaging and sensor fusion
- **Practical Imagineering** **\$9m**
 - Digital signal processing
- **Boeing Commercial Electronics** **\$61m**
 - Flight deck, control and monitoring systems
 - Data and electrical distribution
- **DigitalNet** **\$616m**
 - Federal IT services
 - Network engineering, information assurance
- **Alphatech** **\$88m**
 - Signal and Image processing
 - Data fusion and intelligent systems

(purchase prices including cash/debt acquired)

Europe

- **MBDA**
 - Performing and delivering growth
- **Eurosystems**
 - Transaction agreement signed
 - Completion expected by half year
- **Saab**
 - Gripen marketing re-aligned
 - Shareholding reduction announced
- **Airbus**
 - Performing well
 - Delivery outlook rising



UK

- **Air**
 - Typhoon way forward agreed
 - Nimrod first flights
 - Hawk successes
 - DLO partnered support successes
- **Naval**
 - Astute progressing well
 - Type 45 design on track
 - 2nd ship in build
 - Romanian frigate delivered on schedule
 - Carrier alliancing progress
- **Land**
 - Hägglunds CV90 contract award
 - RO Defence and Alvis integration on plan



2004 – Progress Against Objectives

- | | | |
|----|---|---|
| 1 | Deliver financial plan | Delivered |
| 2 | Continue to remove excessive contract risk | Successfully addressed |
| 3 | Strengthen UK systems architecture position | Progressing |
| 4 | Continue to grow US position | Five US acquisitions |
| 5 | Establish US technology transfer agreements | JSF TAA 9 signed |
| 6 | Support - develop DLO partnership | Delivering savings and growth |
| 7 | Export - finalise Indian Hawk | Contract signed and effective |
| 8 | Pursue excellence in business processes | Advances demonstrated |
| 9 | Conclude Eurosystems negotiations | Concluded in Jan 2005 |
| 10 | Establish way ahead for Typhoon | Tranche 2 signed and new commercial terms agreed |

2004 Preliminary Results

George Rose
Group Finance Director



Financial Highlights

- **Profit before interest*** £1,013m
- **Fully diluted earnings per share*** 18.0p
- **Dividend per share** 9.5p
- **Operating cash flow** £2,071m
- **Net cash** £5m
- **Order book** £50.1bn

* before goodwill amortisation, impairment and exceptional items



Profit and Loss Account

	2004	2003
Sales (including share of JV sales)	13,479	12,572
Profit before interest *	1,013	980
Interest	(207)	(220)
Profit before tax*	806	760
Exceptional items	-	(9)

* before goodwill amortisation, impairment and exceptional items

£ millions

Balance Sheet

	31/12/04	31/12/03
Fixed assets	9,072	9,409
Working capital	(3,322)	(2,033)
Net cash / (debt)	5	(870)
Provisions	(1,017)	(900)
Net assets	4,738	5,606
Minority interest	(14)	(15)
Shareholders' funds	4,724	5,591

£ millions

FRS 17 - Pensions

	2004
Deficit in UK and US pension schemes at 1 Jan 2004	(3,032)
Actual return on assets in excess of expected return	264
Increase in liabilities due to changes in assumptions	(1,510)
Other movements	17
Deficit in UK and US pension schemes at 31 Dec 2004	(4,261)
Net (after tax) pension liability at 31 Dec 2004	(2,990)

£ millions

Operating Cash Flow

	2004
Profit before interest*	1,013
Less JVs	(322)
Add depreciation	202
Profit on disposal of fixed assets	(27)
Impairment on fixed asset investment	5
Mvt in liability provisions	(71)
Mvt in stocks	(70)
Mvt in debtors	727
Mvt in creditors	89
Mvt in customer stage payments	525
Operating cash flow (FRS 1)	2,071

* before goodwill amortisation, impairment and exceptional items

£ millions

Sector Cash Flow

	2004
Operating cash flow (FRS 1)	2,071
Capital expenditure (net) & financial investment	(256)
JV dividends	69
Sector cash flow	1,884
Programmes	505
Customer Solutions & Support	1,001
International Partnerships	48
Avionics	(16)
North America	204
Commercial Aerospace	(24)
HQ and other businesses	166
Sector cash flow	1,884

£ millions

Free Cash Flow

	2004
Operating cash flow	2,071
Capital expenditure (net) & financial investment	(256)
JV dividends	69
Interest and preference dividend	(120)
Taxation	(31)
Free cash flow	1,733

£ millions

Movement in Net Debt

	2004
Opening net debt	(870)
Free cash flow	1,733
Equity dividends paid	(281)
Acquisitions and disposals (including acquired cash/loans)	(630)
Non cash movements (including Exchange Property)	9
Foreign currency translation	57
Movement in cash on customers' account	(13)
Closing net cash	5

£ millions

Programmes

	2004	2003
Sales	£2,867m	£2,436m
PBIT	£64m	£56m
Margin	2.2%	2.3%
Order book	£14.3bn	£11.3bn
Cash flow	£505m	£33m



Customer Solutions & Support

	2004	2003
Sales	£2,243m	£2,166m
PBIT	£413m	£411m
Margin	18.4%	19.0%
Order book	£2.9bn	£2.6bn
Cash flow	£1,001m	£518m



International Partnerships

	2004	2003
Sales	£1,907m	£1,685m
PBIT	£109m	£65m
Margin	5.7%	3.9%
Order book	£6.5bn	£6.8bn
Cash flow	£48m	£69m



Avionics

	2004	2003
Sales	£1,103m	£1,127m
PBIT	£32m	£12m
Margin	2.9%	1.1%
Order book	£2.5bn	£2.3bn
Cash flow	£(16)m	£(28)m



North America

	2004	2003
Sales	£2,771m	£2,700m
PBIT	£233m	£232m
Margin	8.4%	8.6%
Order book	£2.5bn	£2.4bn
Cash flow	£204m	£162m



North America

	2004	2003
Sales	\$5,078m	\$4,416m
PBIT	\$427m	\$379m
Margin	8.4%	8.6%
Order book	\$4.9n	\$4.2bn
Cash flow	\$374m	\$264m



Commercial Aerospace

	2004	2003
Sales	£2,880m	£2,924m
PBIT	£176m	£204m
Margin	6.1%	7.0%
Order book	£20.9bn	£21.4bn
Cash flow	£(24)m	£(143)m



Financial Summary

• Profit before interest*	£1,013m
• Margin	7.5%
• Fully diluted earnings per share*	18.0p
• Dividend per share	9.5p
• Operating cash flow	£2,071m
• Net cash	£5m
• Order book	£50.1bn

* before goodwill amortisation, impairment and exceptional items



Mike Turner
Chief Executive



Confirmation of Company Strategy

- Defence and aerospace business
- Uniquely positioned on both sides of the Atlantic
 - Grow as premier transatlantic defence business
- UK programmes
 - Address excessive risk
 - Deliver improving returns
- Growth from high technology systems integration and network skills
- Growth from provision of support solutions to Armed Forces
- Valuable stakes in Airbus and MBDA



Top ten objectives - 2005

- **Deliver operational performance plan**
- **Enhance focus on internal processes**
- **Continue to grow business in North America**
- **Progress US / UK technology transfer agreements**
- **Progress business in Kingdom of Saudi Arabia**
- **Continue to address terms of trade with UK MoD DPA**
- **Continue to grow partnered support business with UK MoD DLO**
- **Finalise consultations on pension schemes**
- **Build on Eurosystems with integration of UK AMS and C4ISR business**
- **Pursue export opportunities**

Today's shareholder proposition

- **Good global market position**
 - leading defence company in Europe
 - growing in US market
- **World-class technology resources and capabilities**
- **Lead in support solutions on both sides of the Atlantic**
- **Visibility provided by £50bn order book**
- **Excellent cash generation**

Transitioning from recovery to growth and delivery of sustainable returns