

BAE Systems

2009 Half Year Results

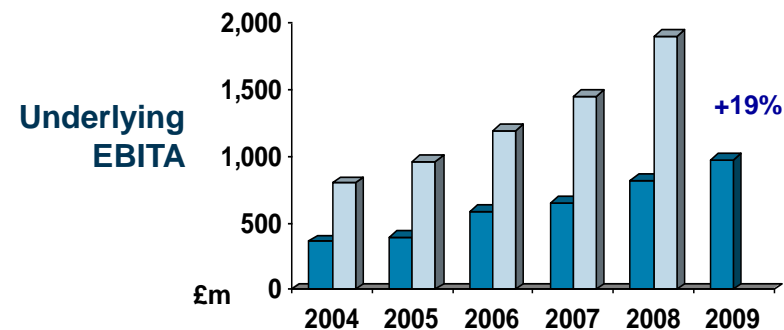
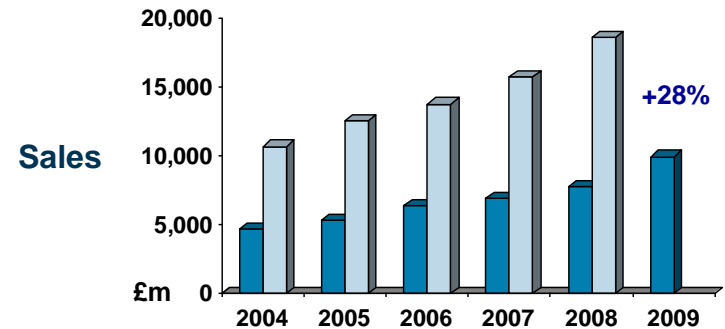
30 July 2009



Overview - First half 2009

- **Continued good performance**
 - Delivering against plan
 - Results underpin outlook for full year

- **Well positioned**
 - Large forward order book
 - Well balanced spread of programmes
 - Realistically based plans
 - Broad base of geographic markets



First half ■ Full year ■

Good basis for delivering sustainable growth in shareholder value

George Rose



Financial Highlights

• Sales - continuing	£9,941m
• Underlying EBITA *	£979m
• Underlying earnings per share **	17.8p
• Cash inflow from operating activities	£448m
• Net debt	£(316)m
• Order book	£45.0bn
• Dividend per share	6.4p



* earnings before amortisation/impairment of intangible assets, finance costs and taxation excluding profit/(loss) on disposal of businesses and uplift on acquired inventories

** excluding amortisation/impairment of intangible assets, non-cash finance movements, profit/(loss) on disposal of businesses and uplift on acquired inventories

Income Statement

- Continuing Operations

	First Half 2009 Underlying	First Half 2008 Underlying	First Half 2009 Reported	First Half 2008 Reported
Sales	9,941	7,751	9,941	7,751
Underlying EBITA *	979	820	979	820
(Loss) / profit on disposed businesses			(9)	61
EBITA			970	881
Finance (Expense)/Income	(535)	30	(535)	30
deduct: Pension Interest	66	(21)		
Mark-to-Market	379	(41)		
Underlying Finance Costs	(90)	(32)		
Amortisation/Impairment			(456)	(102)
Tax	(250)	(205)	(49)	(210)
Minority Interests	(12)	(13)		
Profit /(Loss) after tax	627	570	(70)	599

* earnings before amortisation/impairment of intangible assets, finance costs and taxation (EBITA) excluding profit/(loss) on disposal of businesses and uplift on acquired inventories

Balance Sheet

	30/06/09	31/12/08
Intangible fixed assets	11,025	12,306
Tangible fixed assets	2,442	2,558
Investments	893	1,040
Working capital	(5,354)	(5,825)
Pension deficit	(4,503)	(3,325)
Tax assets & liabilities	953	256
Financial assets & liabilities	(100)	240
Net (debt) / cash	(316)	39
Net assets	5,040	7,289

£ millions

Operating Business Cash Flow

	First Half 2009
Cash inflow from operating activities	448
Capital expenditure (net)	(246)
Dividends from equity accounted investments	14
Contribution to Trust (re pensions)	(125)
Operating business cash flow	<u>91</u>
Electronics, Intelligence & Support	127
Land & Armaments	164
Programmes & Support	(47)
International	125
HQ & Other Businesses	(278)
Operating business cash flow	<u>91</u>

£ millions

Movement in Net Cash

	First Half 2009
Net Cash 31.12.08	39
Operating business cash flow	91
Interest and taxation	(320)
Equity dividends paid	(307)
Acquisitions & disposals	(8)
Net purchase of equity shares	(20)
Foreign exchange	260
Other movements	(51)
Net Debt 30.06.09	(316)

£ millions

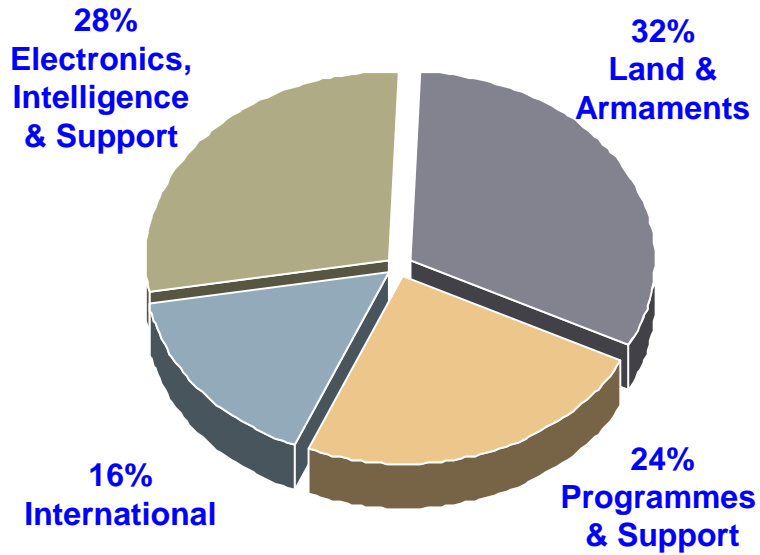
Retirement Benefit Obligations

	First Half 2009
IAS 19 deficit at 31 December 2008	(4,216)
Asset returns	(623)
Discount rates	(1,311)
Contributions over service cost	167
Exchange translation and other movements	57
IAS 19 deficit at 30 June 2009	(5,926)
Allocated to EAls and other participating employers	1,299
Group's share of IAS 19 deficit, net* (pre-tax)	(4,627)
Assets held in Trust	124
Pension deficit as defined by the Group (pre-tax)	(4,503)
Pension deficit as defined by the Group (post-tax)	(3,104)

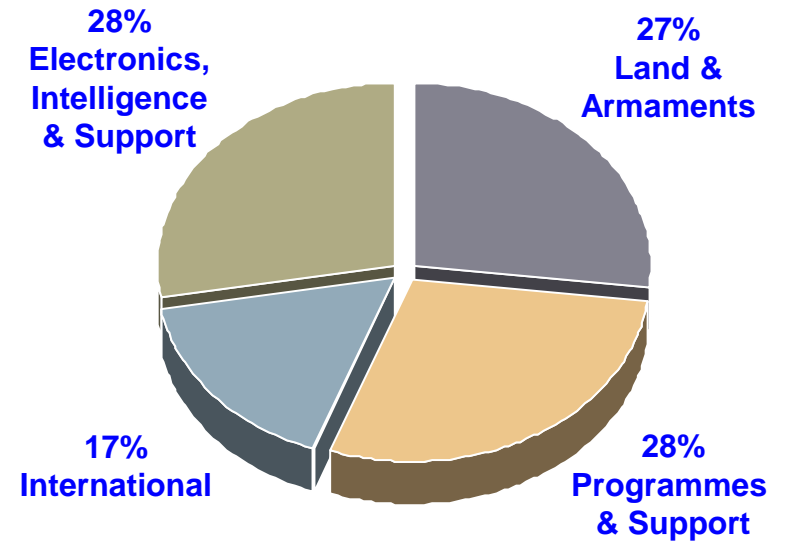
* Balance Sheet classification : £35m within Receivables, £(4,662)m Retirement Benefit Obligations

Operating Groups

**First Half 2009
Sales ***



**First Half 2009
Underlying EBITA ***

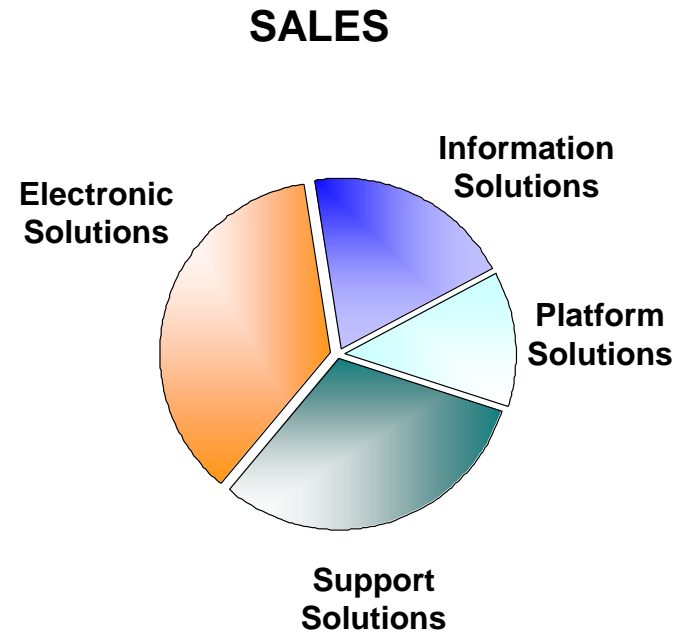


Strong performance – well-balanced business

* excluding HQ & Other Businesses

Electronics, Intelligence & Support

	First Half 2009	First Half 2008
Sales	\$4,274m	\$3,870m
Underlying EBITA	\$400m	\$392m
Margin	9.4%	10.1%
Order book	\$7.4bn	\$7.2bn
Cash flow	\$190m	\$55m



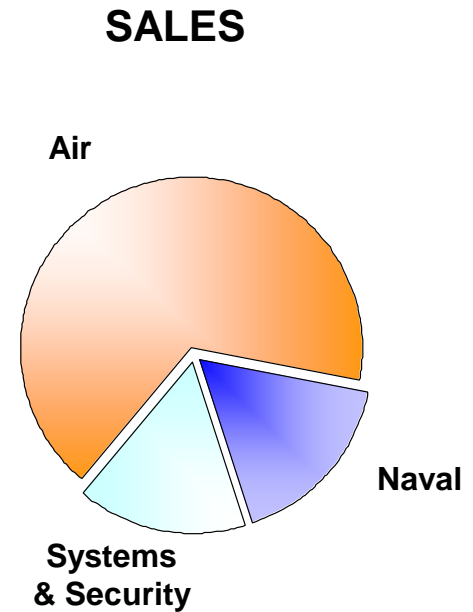
Land & Armaments

	First Half 2009	First Half 2008
Sales	\$4,807m	\$5,126m
Underlying EBITA	\$391m	\$476m
Margin	8.1%	9.3%
Order book	\$15.3bn	\$15.8bn
Cash flow	\$245m	\$166m



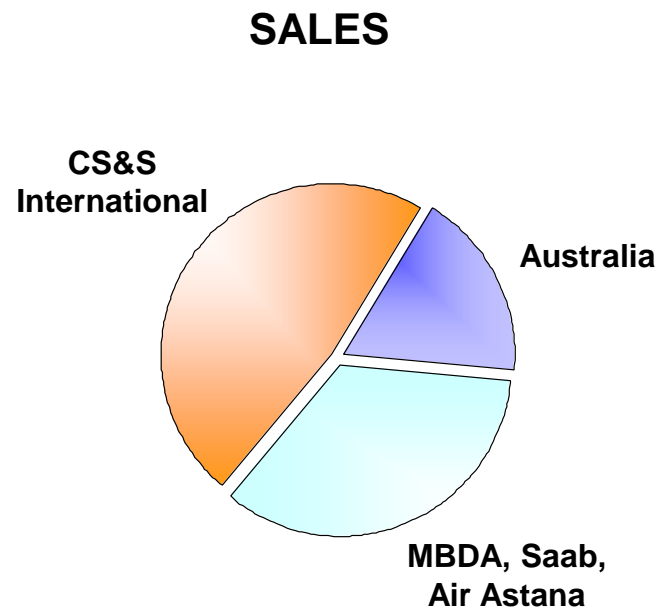
Programmes & Support

	First Half 2009	First Half 2008
Sales	£2,399m	£1,917m
Underlying EBITA	£277m	£191m
Margin	11.5%	10.0%
Order book	£21.2bn	£20.7bn
Cash flow	£(47)m	£134m



International

	First Half 2009	First Half 2008
Sales	£1,610m	£1,397m
Underlying EBITA	£161m	£219m
Margin	10.0%	15.7%
Order book	£11.5bn	£9.8bn
Cash flow	£125m	£(739)m



HQ & Other Businesses

	First Half 2009	First Half 2008
Sales	£133m	£113m
Underlying EBITA	£11m	£(29)m
Cash flow	£(278)m	£(93)m

- **Regional Aircraft**
- **Shared Services**
 - Research Centres
 - Property Management
- **Head Office**

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Ian King



Agenda

- **Business overview**
- **Markets**
 - US
 - UK
- **Land business**
- **Growth drivers**
 - Tactical combat aircraft
 - Strategic developments

Broadly based business

- **Well defined strategy**
 - Focus on defence, security and aerospace
- **Programme diversity**
 - Large portfolio of programmes
 - Through-life support
- **Market diversity**
 - Leading positions in multiple home markets
 - All armed forces, government security

- **Continuously evolving capabilities**
 - Addressing high growth opportunities
 - Adapting to future priority requirements
- **Active strategic development**
 - Organic investments
 - Acquisitions and Disposals
- **Performance is key**
 - Programme execution
 - Integrated 'Total Performance' approach

Strength of business from diversity within clearly bounded strategy

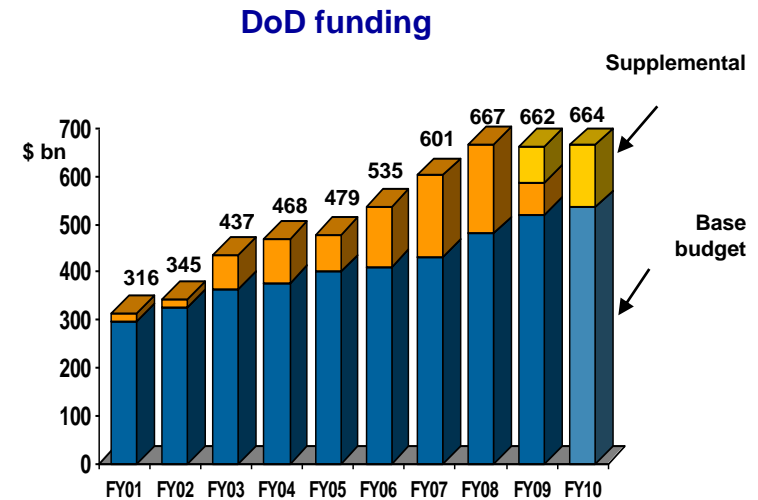
US defence reprioritisation

- **Secretary Gates programme reprioritisations**
 - Underperforming programmes targeted
 - Relevance to operational needs tested
- **BAE Systems**
 - Neutral to most changes
 - JSF priority increased
 - FCS re-launch awaited
- **Cyber given increased focus**
 - Significant BAE Systems opportunity
- **QDR underway this autumn**

US defence

- **Core FY10 budget**
 - aligned with internal planning assumptions
- **Supplemental procurement spend continues**
 - MRAP reduction anticipated
- **Support for deployments continues**

- **Continuing to derive good growth from key technology positions**



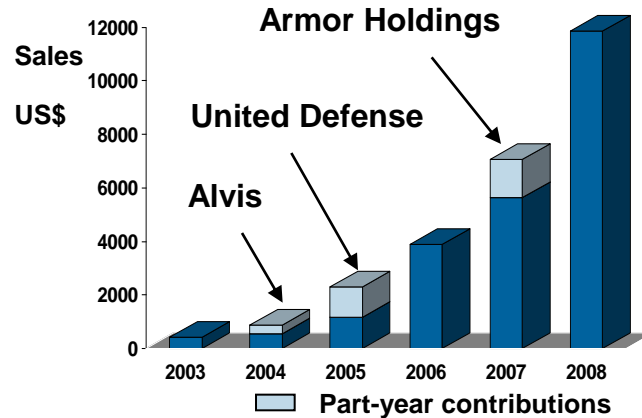
UK defence

- **Significant budget constraint continues**
- **Progressive approach to align procurement to budget**
 - Programme stretch - eg CVF
 - Salam Typhoon diversions a significant alleviation
- **Industrial strategy for naval shipbuilding**
 - New Terms of Business Agreement signed

- **Through Life Support**
 - Multi-year commitments
 - Successfully delivering savings and improved availability
 - Key to long term programme affordability
- **New support agreements for Typhoon and Harrier**
- **UK Strategic Defence Review**

Land business development

Strong growth from global land systems business



Future US Land programme opportunities

- Bradley** - Continuing demand for reset and upgrade
- FMTV** - Core medium utility vehicle programme re-compete
- JLTV** - HMMWV replacement competition
- GCV** - Replacement for FCS tracked vehicle requirements

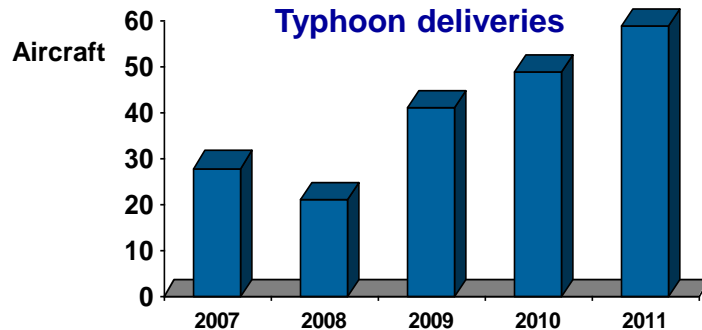
Continued good demand for land systems in home and export markets

Key growth drivers

- **Tactical Combat Aircraft**
 - Typhoon - T2 rate increase and Salam
 - F-35 - development ➡ LRIP ➡ high rate production

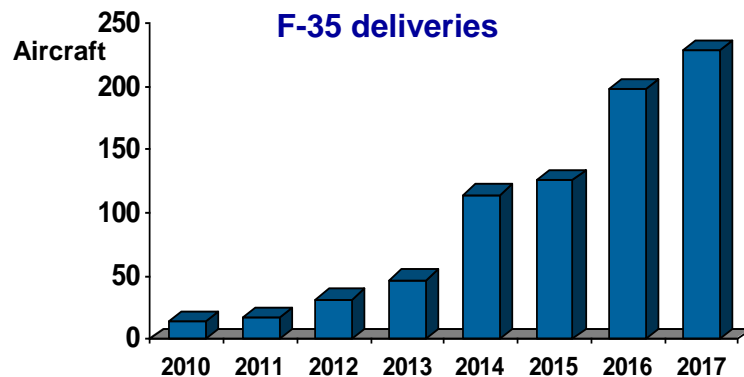
- **Strategic initiatives**
 - Develop positions in evolving home markets
 - Migrate capabilities across global market positions
 - Eg Readiness & Sustainment and Security
 - Address security growth opportunity

Tactical combat aircraft



37% of Eurofighter programme

- front fuselage manufacture
- UK and first 24 RSAF aircraft assembly



16-18% of production programme

- electronic warfare suite
- rear fuselage and tail surfaces



Through-life support workshare agreement

Unrivalled position on new generation tactical combat aircraft programmes

Developing a global business



- **Four strands of global development**
 - **Land**
 - opportunities across established positions
 - developing approach to KSA, Australian and Indian opportunities
 - **Security**
 - US opportunities to build on Detica's UK capabilities
 - Growing multi-market opportunities
 - **UAS**
 - technology demonstration programmes in UK
 - ACR acquisition in US
 - **Readiness & Sustainment**
 - strong positions in UK and KSA
 - developing nascent US position
 - supportive Australian Defence White Paper

Strategic initiatives target sustained growth in outer years

Summary - First half 2009

- **Continued good performance**
 - delivering against plan
 - results underpin full year outlook

- **Further progress against strategy**
 - broad base of business
 - multi-Home Market positions

- **Good visibility**
 - large order book
 - realistically based plans

