

BAE Systems

2009 Preliminary Results

18 February 2010



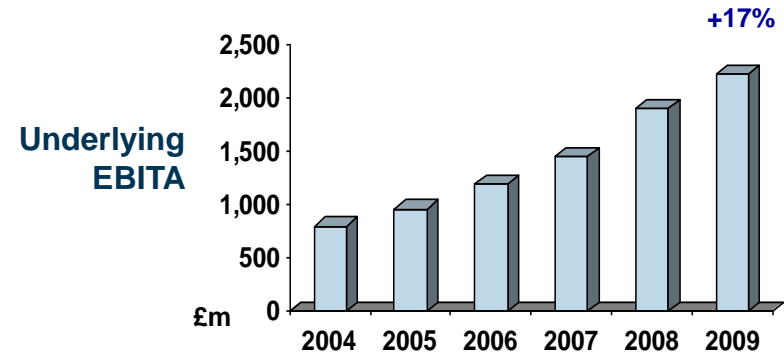
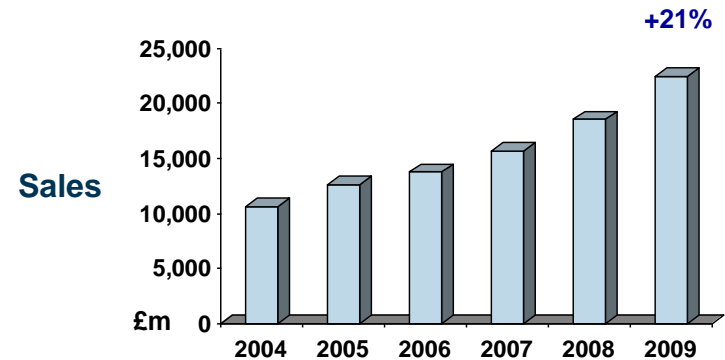
Overview - 2009

- **Continued good performance**

- Good programme execution
- Strong cash generation

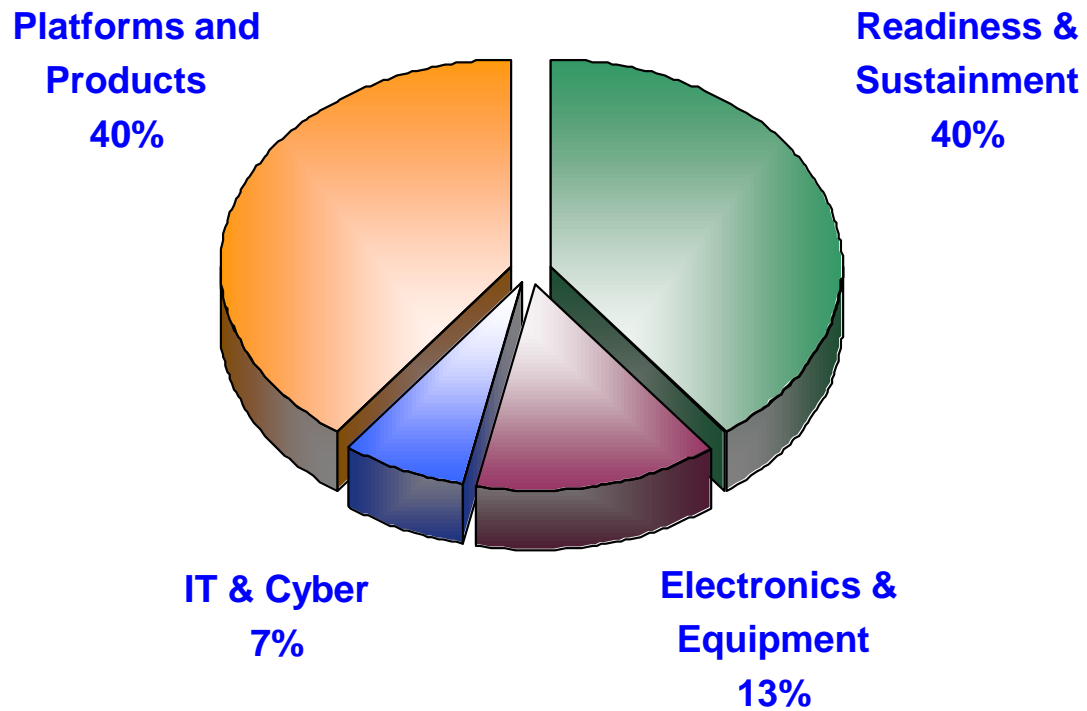
- **Well positioned**

- Large forward order book
- Broad portfolio of programmes
- Multiple long term contracts
- Wide base of geographic markets
- Key national capability provider



Good basis for delivering sustainable growth in shareholder value

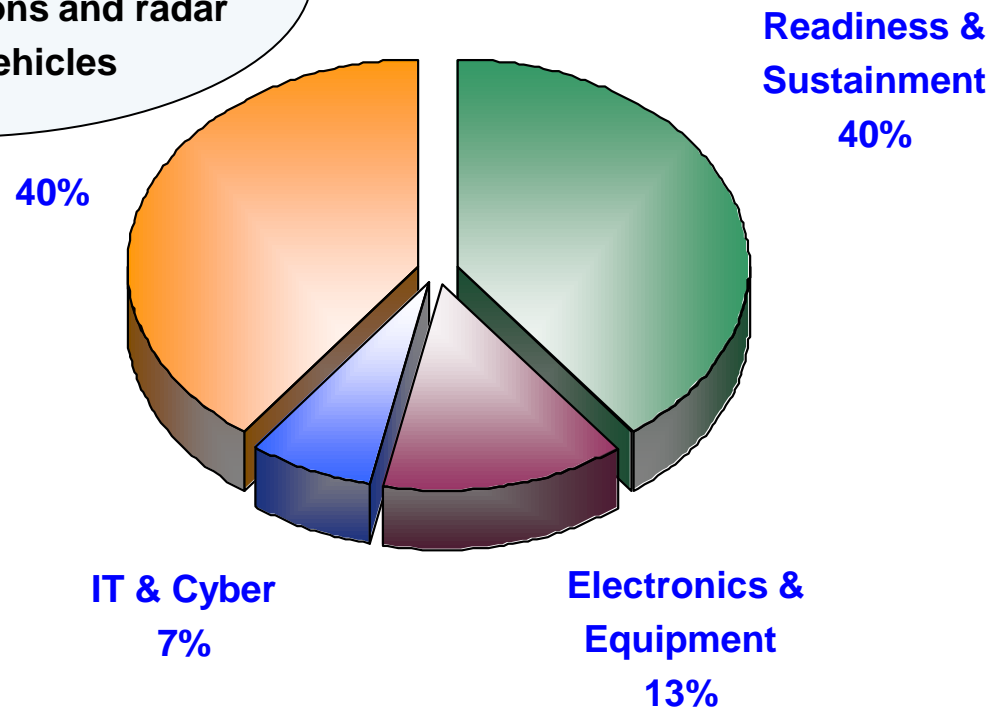
Business characteristics



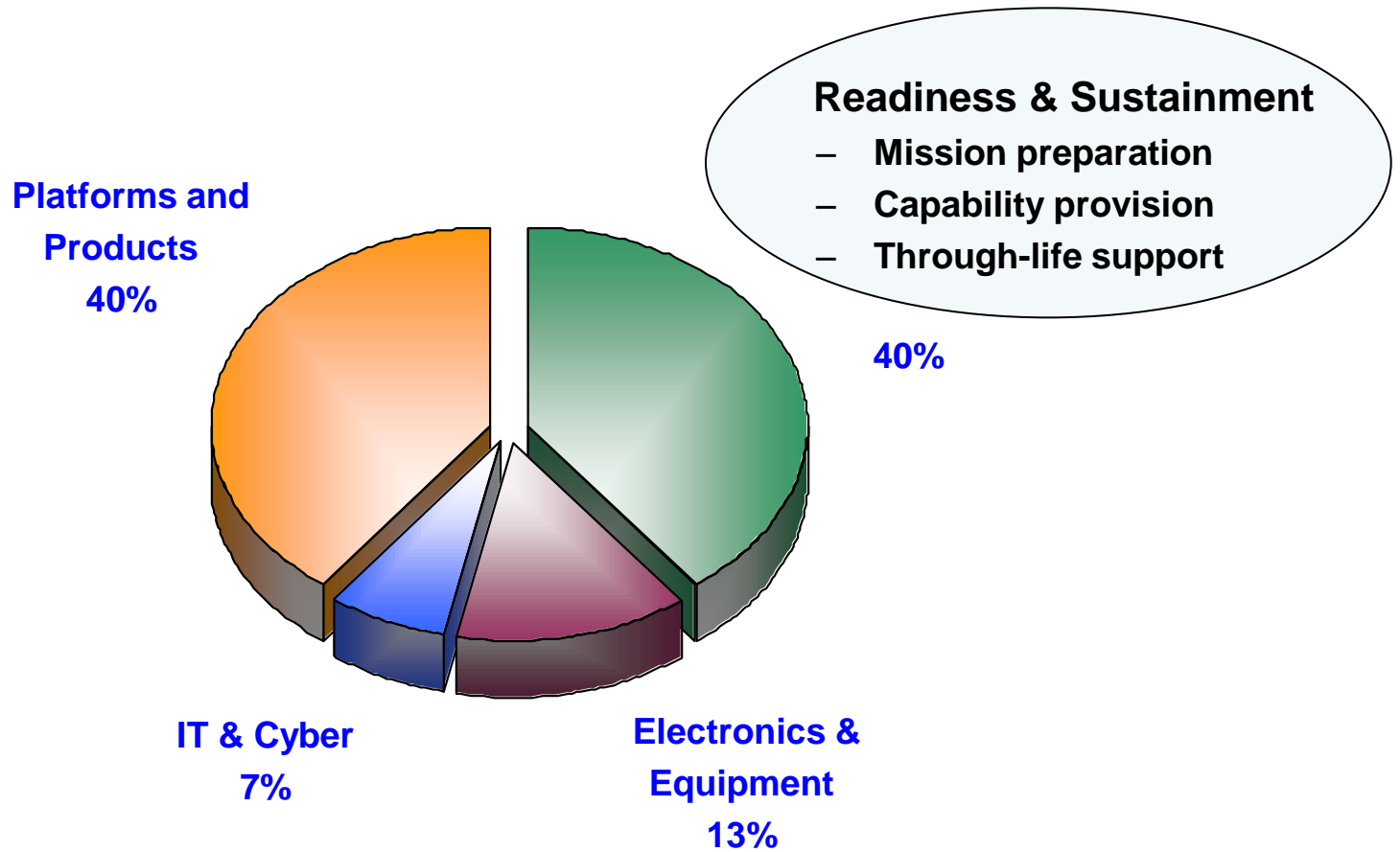
Business characteristics

Platforms & Products

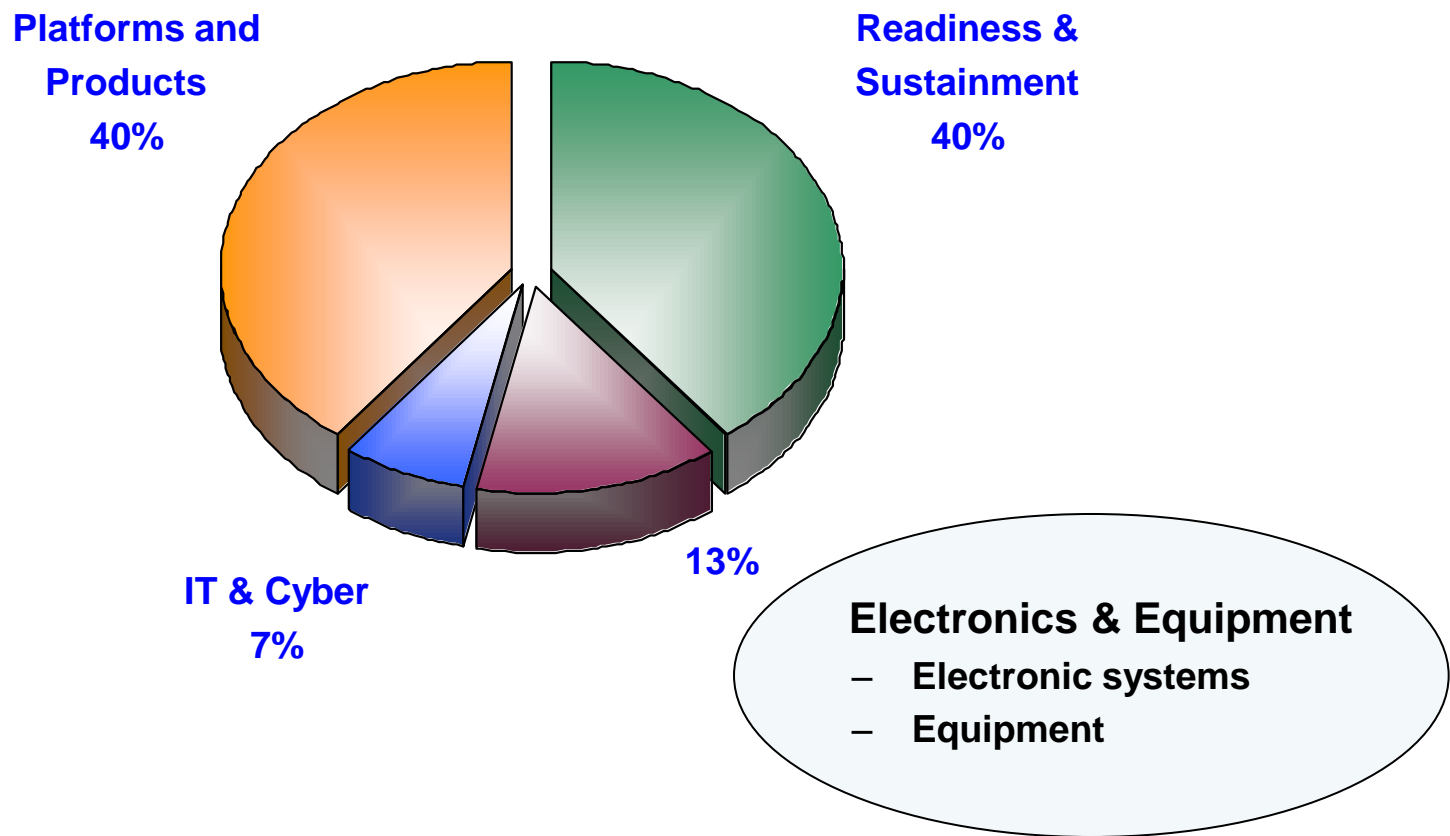
- Surface ships and submarines
- Guided weapons and radar
- Aircraft and vehicles



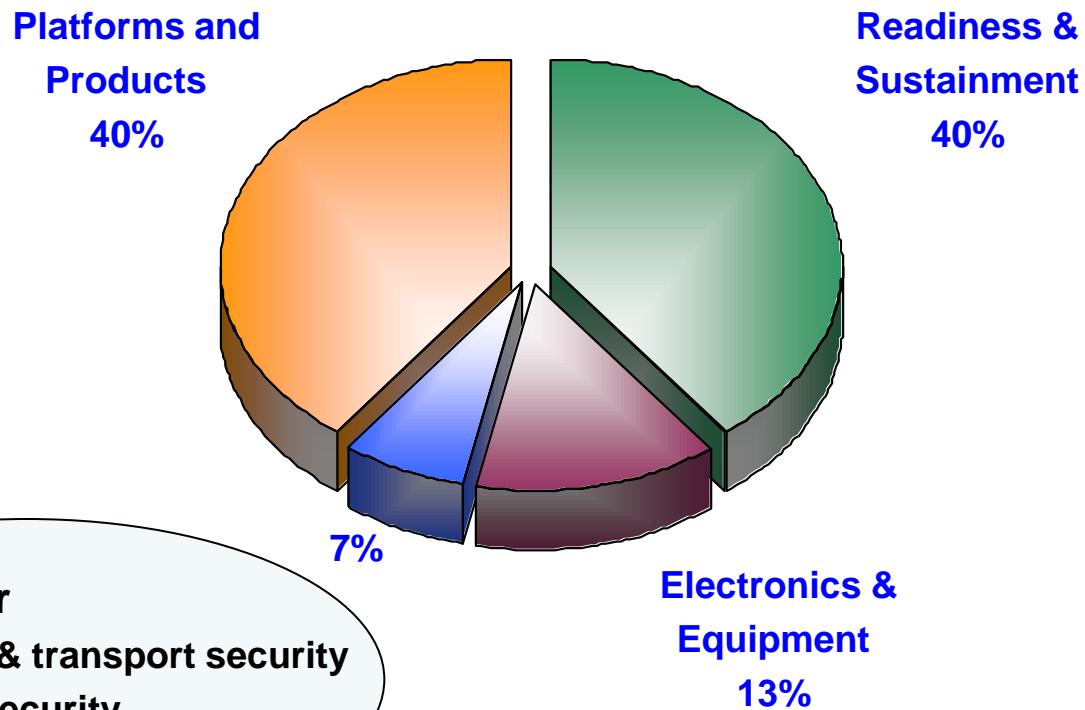
Business characteristics



Business characteristics



Business characteristics



IT & Cyber

- Border & transport security
- Cyber security
- IT products & services

George Rose



Financial Highlights

- Sales **£22,415m**
- Underlying EBITA * **£2,220m**
- Underlying earnings per share ** **40.7p**
- Cash inflow from operating activities **£2,232m**
- Net cash **£403m**
- Order book **£46.9bn**
- Dividend per share **16.0p**

* earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items

** earnings excluding amortisation and impairment of intangible assets, non-cash finance movements and non-recurring items

Income Statement

	2009 Underlying	2008 Underlying	2009 Reported	2008 Reported
Sales	22,415	18,543	22,415	18,543
Underlying EBITA	2,220	1,897	2,220	1,897
Profit on disposed businesses			68	238
Pension accounting gain			261	
Regulatory penalties			(278)	
EBITA			2,271	2,135
Finance (Expense)/Income	(707)	697	(707)	697
deduct: Pension Interest / Mark-to-Market	512	(799)		
Underlying Finance Costs	(195)	(102)		
Amortisation			(286)	(247)
Impairment			(973)	(177)
Tax	(567)	(467)	(350)	(640)
Minority Interests	(22)	(23)		
Profit / (Loss) after Tax	1,436	1,305	(45)	1,768

£ millions

Balance Sheet

	31/12/09	31/12/08
Intangible fixed assets	11,253	12,306
Tangible fixed assets	2,663	2,558
Investments	852	1,040
Working capital	(6,839)	(5,825)
Pension deficit	(4,410)	(3,325)
Tax assets & liabilities	850	256
Financial assets & liabilities	(45)	240
Net cash	403	39
Net assets	4,727	7,289

£ millions

Operating Business Cash Flow

	2009
Cash inflow from operating activities	2,232
Capital expenditure (net)	(489)
Dividends from equity accounted investments	77
Contribution to Trust (re pensions)	(225)
Operating business cash flow	1,595
Electronics, Intelligence & Support	380
Land & Armaments	480
Programmes & Support	285
International	816
HQ & Other Businesses	(366)
Operating business cash flow	1,595

£ millions

Movement in Net Cash

	2009
Net Cash 31 December 2008	39
Operating business cash flow	1,595
Interest and taxation	(536)
Equity dividends paid	(534)
Acquisitions and disposals	(254)
Net purchase of equity shares	(20)
Foreign exchange and other movements	113
Net Cash 31 December 2009	403

£ millions

Pension Deficit - (IAS 19)

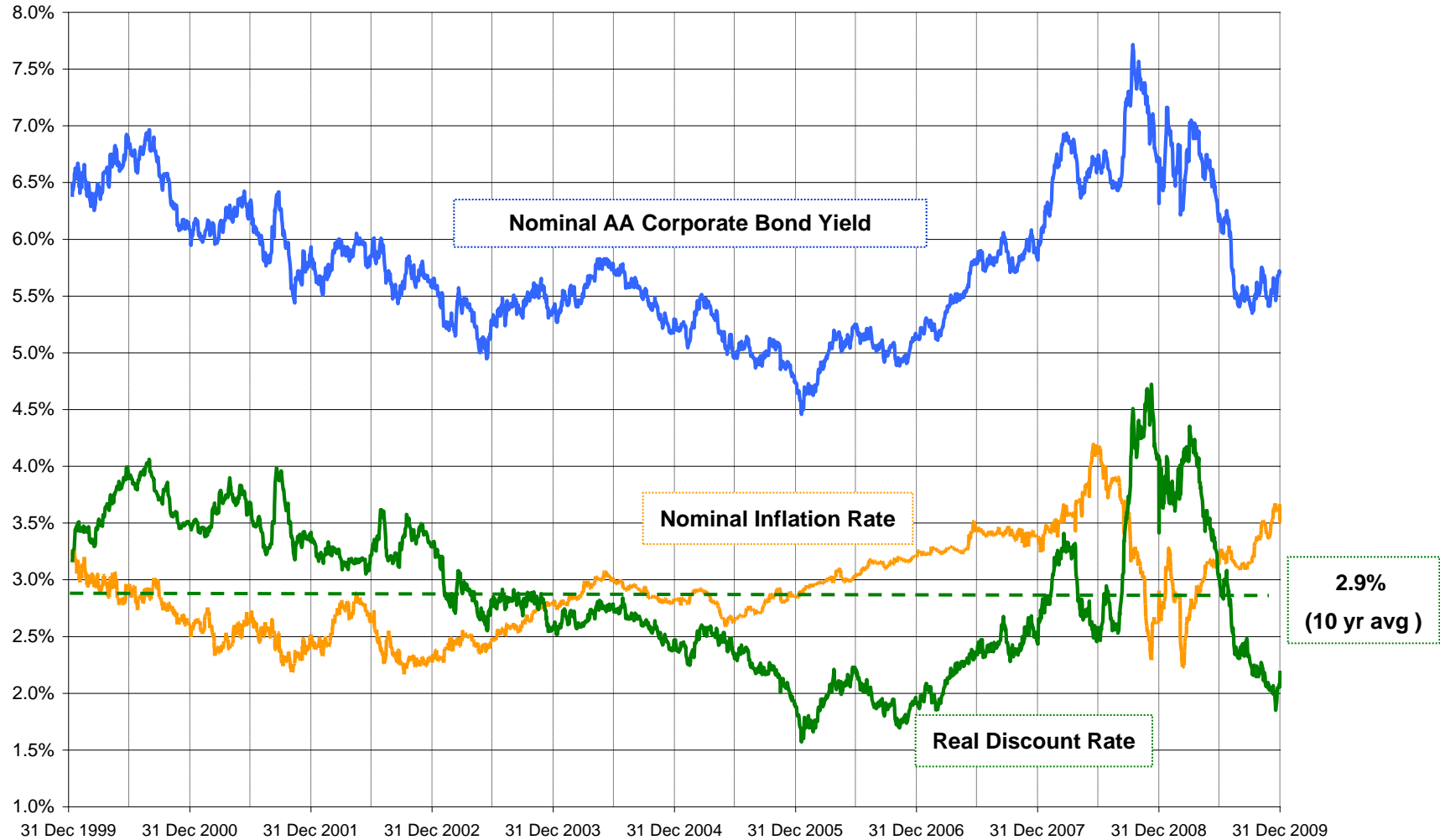
<i>£bn</i>	31 Dec 08	30 Jun 09	31 Dec 09
Pension assets	13.1	12.6	15.0
Pension liabilities	(17.3)	(18.5)	(20.6)
Pension deficit, net	<u>(4.2)</u>	<u>(5.9)</u>	<u>(5.6)</u>
Group share of deficit, pre-tax *	(3.3)	(4.5)	(4.4)
Group share of deficit, post-tax	(2.2)	(3.1)	(3.0)

Real Discount Rates

UK	3.4%	2.8%	2.2%
US	3.5%	3.5%	2.9%

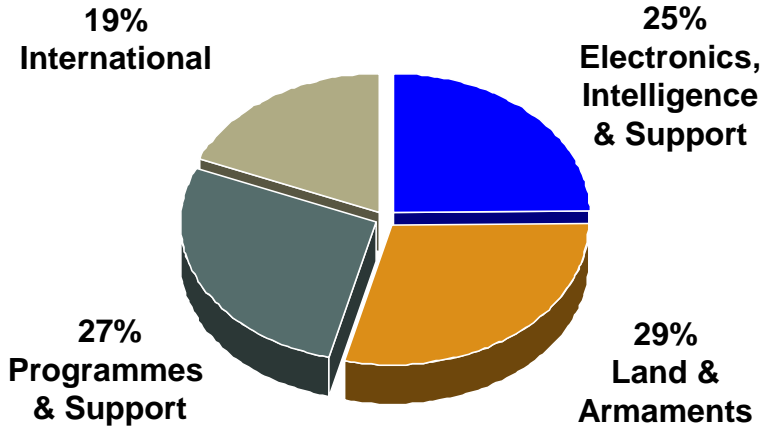
* 30 June 2009 and 31 December 2009 include assets contributed into Trust

UK Discount Rates and Inflation

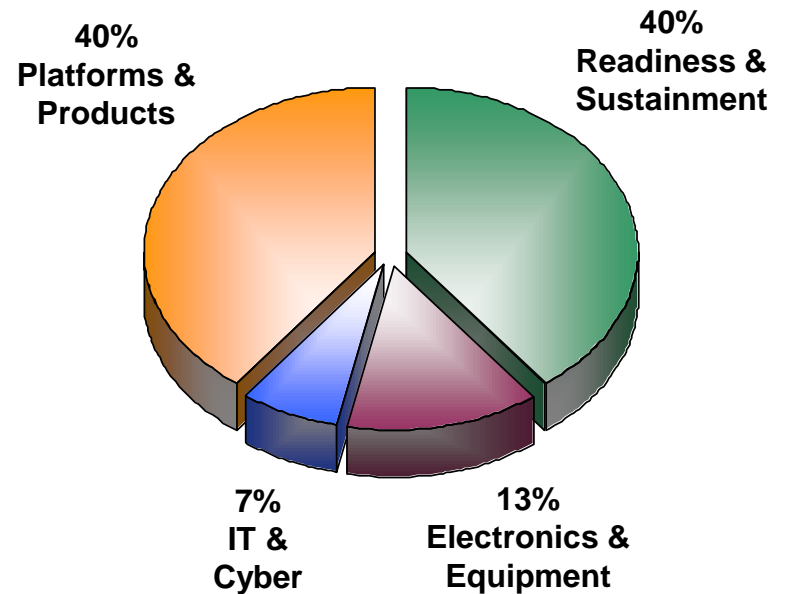


Operating Groups

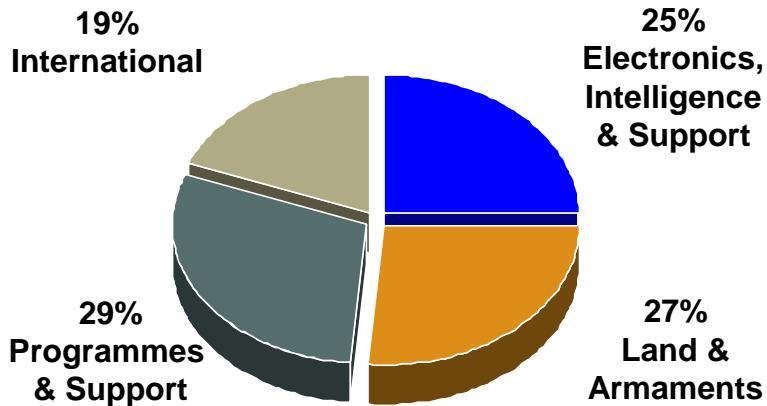
Sales *



Sales by activity



Underlying EBITA *

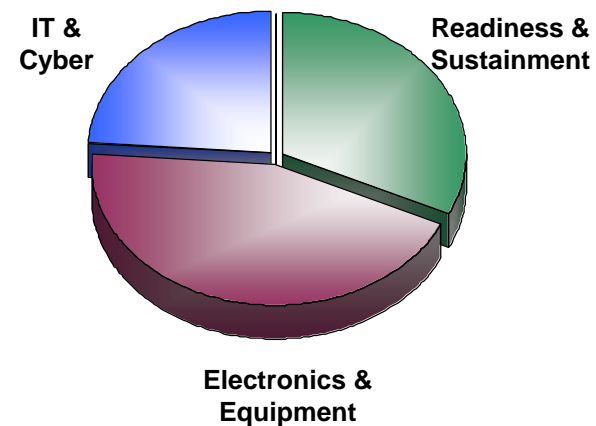
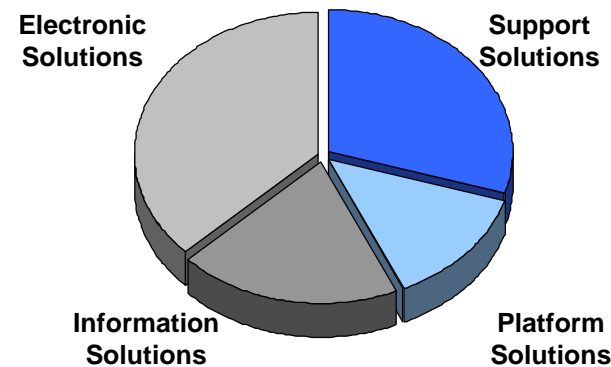


* excluding HQ & Other Businesses

Electronics, Intelligence & Support

	2009	2008
Sales	\$8,826m	\$8,260m
Underlying EBITA *	\$900m	\$937m
Margin	10.2%	11.3%
Order book	\$7.3bn	\$7.5bn
Cash flow	\$595m	\$704m

SALES

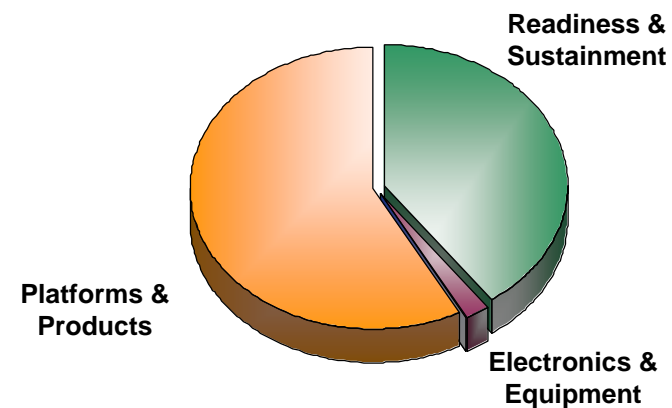
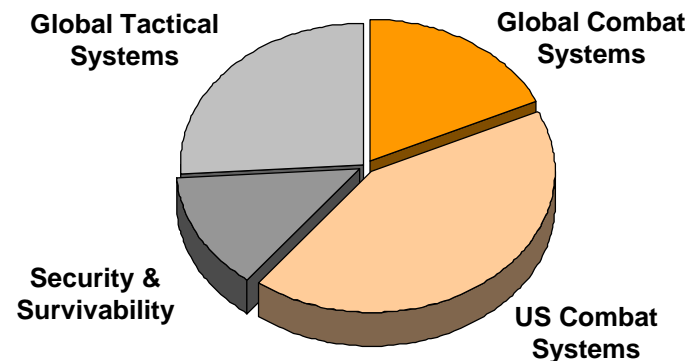


* excludes US pension accounting gain of \$315m

Land & Armaments

	2009	2008
Sales	\$10,550m	\$11,869m
Underlying EBITA *	\$946m	\$1,049m
Margin	9.0%	8.8%
Order book	\$12.6bn	\$16.7bn
Cash flow	\$752m	\$865m

SALES

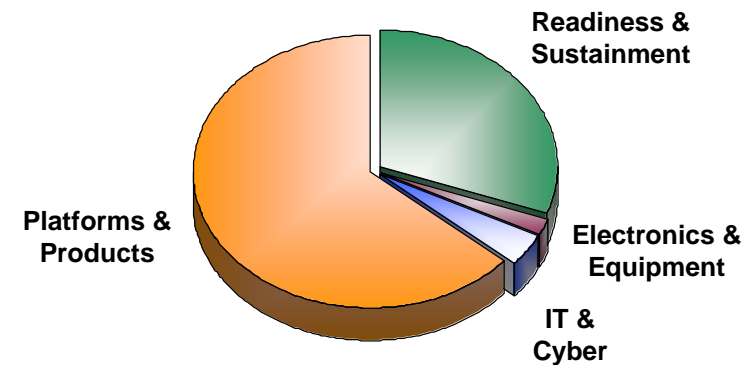
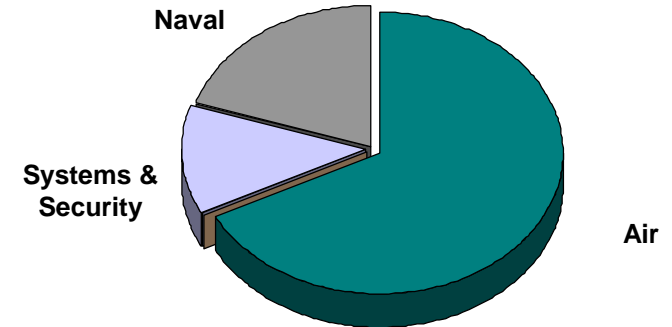


* excludes US pension accounting gain of \$93m

Programmes & Support

	2009	2008
Sales	£6,298m	£4,638m
Underlying EBITA	£670m	£491m
Margin	10.6%	10.6%
Order book	£24.3bn	£19.8bn
Cash flow	£285m	£651m

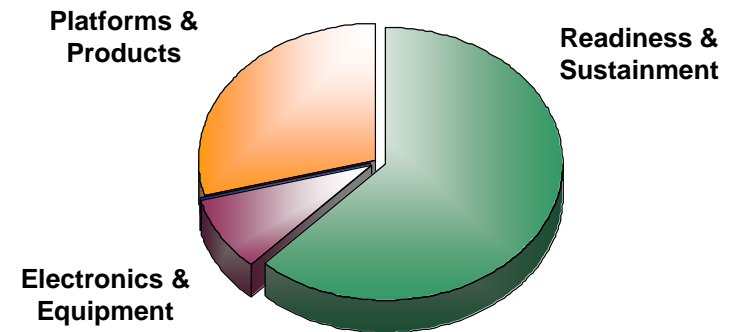
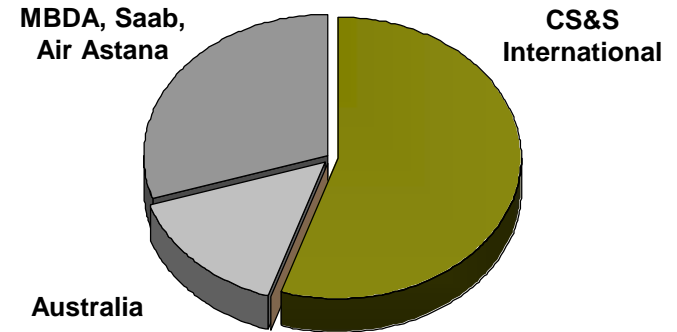
SALES



International

	2009	2008
Sales	£4,253m	£3,333m
Underlying EBITA	£442m	£435m
Margin	10.4%	13.1%
Order book	£11.6bn	£11.0bn
Cash flow	£816m	£163m

SALES



HQ & Other Businesses

	2009	2008
Sales	£254m	£235m
Underlying EBITA *	£(71)m	£(101)m
Cash flow	£(366)m	£(66)m

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

* excludes regulatory penalties of £278m

Financial Summary

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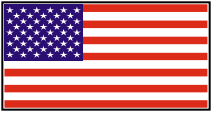
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Ian King



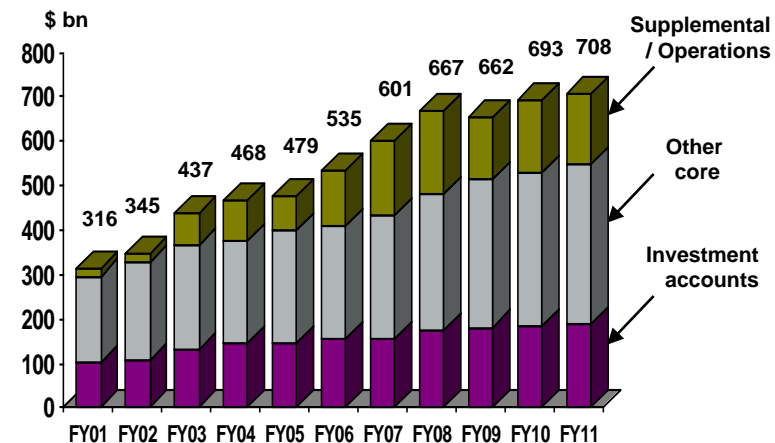
Agenda

- **Markets**
 - US
 - UK
- **Strategy update**
 - Framework
 - Actions



- **Overall FY10 defence budget better than anticipated**
 - addressing higher manpower related costs
 - continued high cost of overseas operations
- **Core investment account spend**
 - internal planning assumes flat / reducing
 - FY11 slightly up
- **Increased procurement emphasis on:-**
 - programme performance
 - programme relevance

DoD funding





UK defence market

Challenging environment

- **Significant budget constraints continue**
 - Public expenditure constraints
 - Meeting cost of overseas operations
- **Progressive approach to align procurement to budget**
 - Programme stretch - eg Carriers
 - Salam Typhoon diversions a significant alleviation
- **Reductions in legacy fleets announced**
 - Anticipate Tornado and Harrier reductions
 - Nimrod MR2 Out of Service date accelerated

Post election Strategic Defence Review planned

UK defence market

... but successes continue

- **Industrial strategy for naval shipbuilding determined**
 - New Terms of Business Agreement signed
 - Carrier manufacturing contracts signed
- **New support agreements for Typhoon, Harrier, torpedoes and Type 45**
- **Through-life support strategy delivering for all stakeholders**
 - Multi-year commitments
 - Successfully delivering savings and improved availability
 - Key to long term programme affordability

... and opportunities remain

- **Continuing to expand scope of support to UK armed forces**

Group Strategic Framework - 2010

Our vision is to be the premier global defence, security and aerospace company

Our mission is to deliver sustainable growth in shareholder value through our commitment to Total Performance for all our customers

Our Strategy

Our Group Strategic Objective is Total Performance Through:-

Customer focus

Financial performance

Programme execution

Responsible behaviour

Our values are - Trusted, Innovative and Bold

Strategic Actions

Grow our EI&S business both organically and via acquisitions and improve efficiency.

Implement our global land systems strategy and deliver on our efficiency and rationalisation plans.

Establish in the UK sustainably profitable through-life business in air, land and sea.

Grow our home markets in the Kingdom of Saudi Arabia, Australia and India.

Implement our global initiatives in Security, Readiness & Sustainment and Unmanned Aircraft Systems.

Continue to develop our global markets

Integrated Business Plans

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Integrated Business Plans

EI&S - Driving growth from innovation and technology

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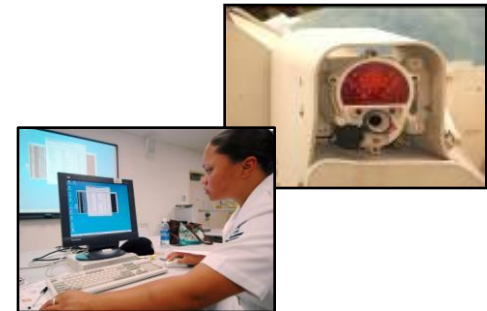
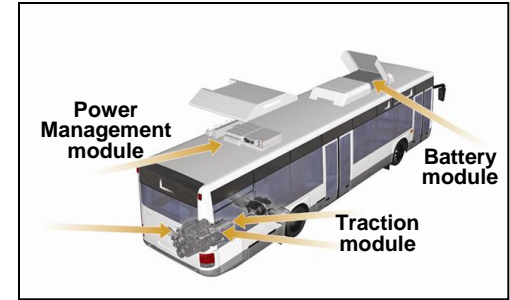
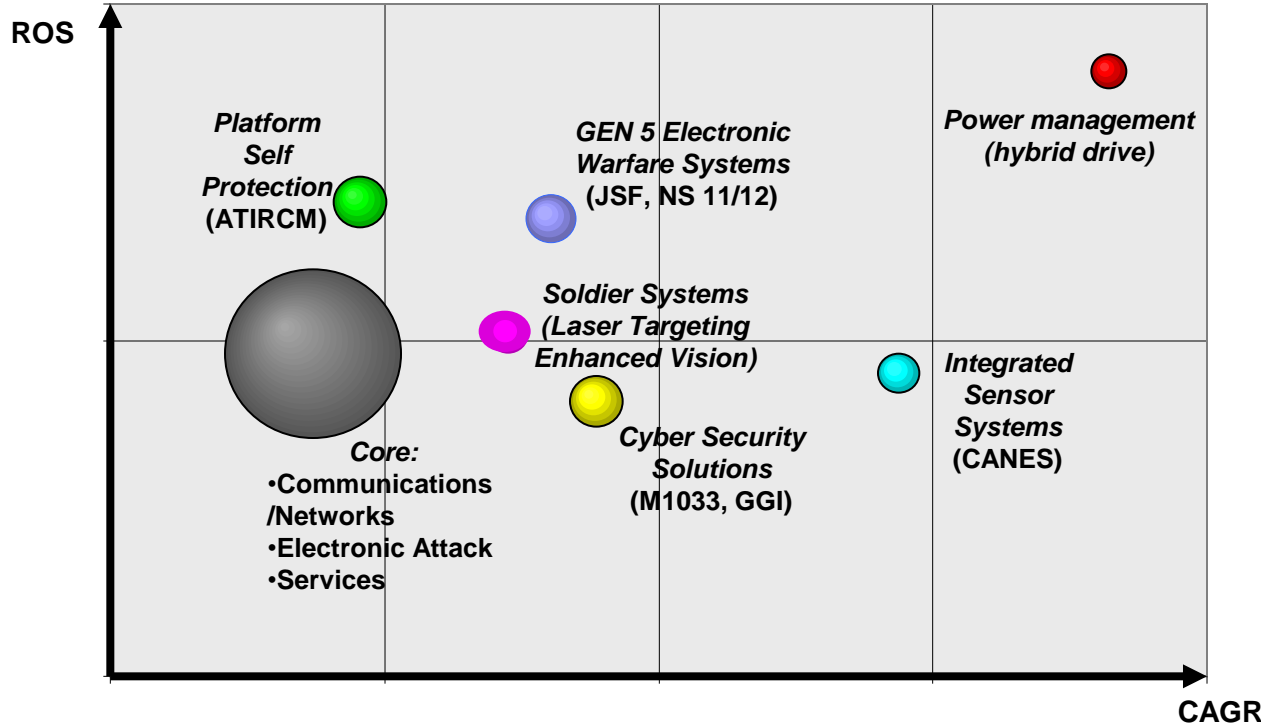
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Continue to develop our global markets



- EI&S has a strong track record of generating good returns from innovative new technologies

Land & Armaments

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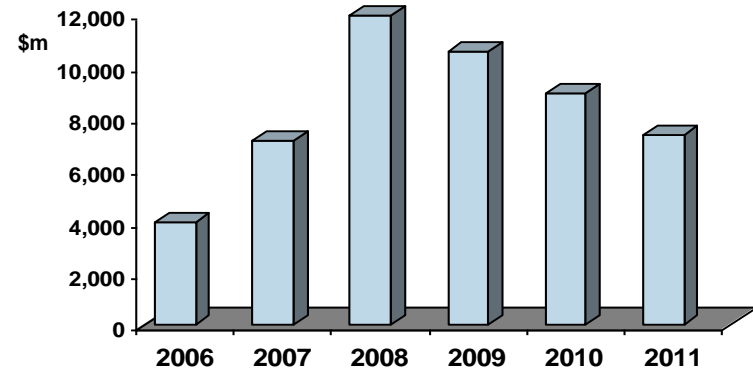
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Continue to develop our global markets

- **Land programme activity reducing**
 - Correction for operations-driven growth (eg MRAP)
 - Loss of FMTV programmes
- **Efficiency improvement drive underway**
- **New programme and export opportunities eg**
 - FRES SV / Warrior upgrade

Sales



NB Chart is indicative of trends only and does not represent a forecast

Sustainable business in the UK

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Continue to develop our global markets

- **Air systems**
 - Typhoon - Tranche 2, Tranche 3 & export
 - JSF - transition from development to production
 - Partnered air support



- **Surface ships**
 - Type 45 - Carrier - Future Surface Combatant
 - New Terms of Business implementation
 - Export ship programmes
 - Naval support



- **Submarines**
 - Astute - secure follow on boats
 - Successor programme





Kingdom of Saudi Arabia

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Continue to develop our global markets

Defence environment

- **Continued commitment to defence**
 - circa 7.7%GDP
- **UK Govt to Govt Salam agreement signed in 2005**
 - Modernisation of Saudi Armed forces
- **Typhoon service entry with 8 aircraft delivered**
 - related contracts agreed
 - Industrialisation plans being developed

BAE Systems in KSA

- **Approximately 4,900 employees**
 - Approx. 50% Saudi Nationals
 - RSAF support operations at 7 bases
- **Air and ground based training services**
- **Ongoing support and upgrade of Tornado fleet**
- **Support and upgrade of RSN minehunters**



Australia

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Continue to develop our global markets

Defence environment

- **New Defence White Paper**
 - committed to 3% real growth in defence spend
 - plans reconfirmed by new government
 - industry role in delivering capability to armed forces

BAE Systems in Australia

- **Largest defence contractor in Australia**
 - 6,100 employees,
 - Operations at 24 locations
- **Major supplier of logistics support to armed forces**
- **Programmes across air, land and sea sectors**



India

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Continue to develop our global markets

Defence environment

- **Significant growth market**
- **Possible expansion of budget from 2% of GDP to 3%**
- **Likely to become highly competitive**
- **Plans to upgrade capabilities of armed forces**

BAE Systems in India

- **Joint venture agreement with Mahindra & Mahindra**
 - Land systems
- **In-country production of Hawk and Jaguar with HAL**
- **Software and government security opportunities**

Implementing the global initiatives

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Continue to develop our global markets

- **Security**
 - Focus on information based intelligence solutions
 - Strong position in high priority cyber sector
 - Key capability provider to US and UK agencies
 - Pursuing opportunities in other home markets
- **Readiness & Sustainment**
 - Strong established position in UK and KSA
 - Increasing scope of support activity
 - Budget constraint expected to drive further opportunities
 - Australian market developing
 - Large potential in US
- **Unmanned Air Systems**
 - Focus on autonomous systems and application of advanced sensors
 - UAS platform developments progressing well
 - Herti demonstrations, Mantis first flight, Coyote first flight

Rest of World markets

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Continue to develop our global markets

- **9% of 2009 sales outside Home Markets**
- **Significant export opportunities including in:-**
 - Oman
 - Canada
 - Japan

- **Major campaigns underway including for:-**
 - Typhoon
 - M-777
 - CV90
 - Mine protected vehicles

- **Exportability expected to become an increasingly important criteria in affordability of UK defence procurements eg:-**
 - Tranche 3 Typhoon
 - Future Surface Combatant

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

Summary

- **Further progress against strategy**
 - broad base of business
 - multi-Home Market positions
- **Good visibility**
 - large order book
 - realistically based plans
- **Continued good performance**
 - delivering against plan

