

BAE Systems

2010 Half Year Results

29 July 2010



Introduction - First half 2010

Continued good performance

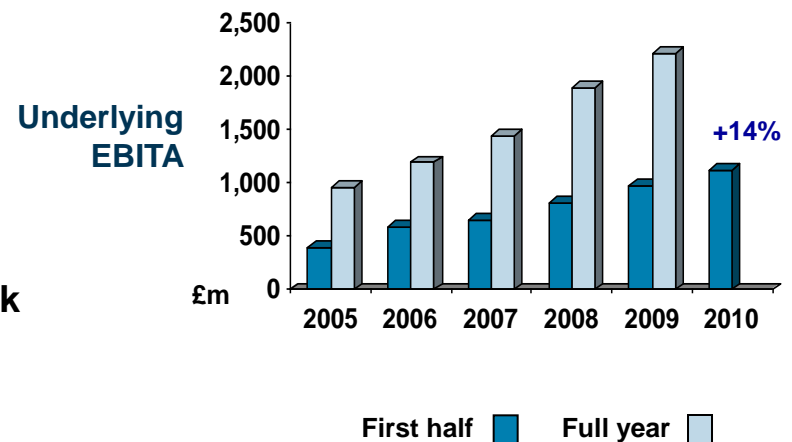
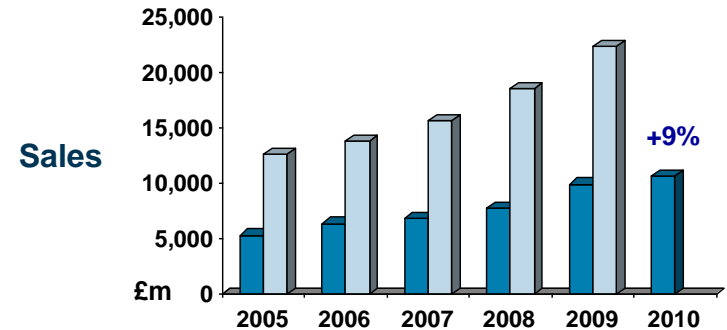
- Good programme execution
- Delivering planned performance
- Supports outlook for full year

Market environment

- Government expenditure constraints
- SDSR publication in the autumn
- Re-prioritisation of programmes?

Business resilience

- Customer support and services
- New growth markets - security
- Key programme participation - large order book
- Broad home market base
- Efficiency improvements



Focus on efficiency improvements to benefit customers and shareholders

George Rose



Financial Highlights

• Sales - continuing	£10,643m
• Underlying EBITA* - continuing	£1,114m
• Underlying earnings per share** - continuing	20.4p
• Cash flow from operating activities	£(185)m
• Net debt	£(1,202)m
• Order book	£43.6bn
• Dividend per share	7.0p

* 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

	First Half 2010 Underlying	First Half 2009 Underlying	First Half 2010 Reported	First Half 2009 Reported
<i>Continuing Operations:</i>				
Sales	10,643	9,747	10,643	9,747
Underlying EBITA	1,114	978	1,114	978
Loss on disposal of business			-	(9)
Regulatory penalties			(18)	-
EBITA	1,096	969	1,096	969
Finance Expense	(66)	(528)	(66)	(528)
deduct: Pension Interest / Mark-to-Market	(30)	439		
Underlying Finance Costs	(96)	(89)		
Amortisation			(211)	(154)
Impairment			(8)	(302)
Tax	(296)	(247)	(240)	(48)
Minority Interests	(7)	(12)		
Profit / (Loss) after Tax	715	630	571	(63)

£ millions

Balance Sheet

	30/06/10	31/12/09
Intangible fixed assets	11,547	11,302
Tangible fixed assets	2,758	2,663
Investments	698	852
Working capital	(5,668)	(6,974)
Pension deficit	(4,950)	(4,410)
Tax assets & liabilities	1,140	877
Financial assets & liabilities	(125)	(45)
Net (debt) / cash	(1,202)	403
Net assets	4,198	4,668

£ millions

Pension Deficit - (IAS 19)

<i>£bn</i>	30 Jun 10	31 Dec 09	30 Jun 09
Pension assets	15.0	15.0	12.6
Pension liabilities	(21.3)	(20.6)	(18.5)
Pension deficit, net	(6.3)	(5.6)	(5.9)
Group share of deficit, pre-tax *	(4.9)	(4.4)	(4.5)
Group share of deficit, post-tax	(3.4)	(3.0)	(3.1)

Real Discount Rates

UK	2.2%	2.2%	2.8%
US	2.5%	2.9%	3.5%

* includes assets contributed into Trust

Operating Business Cash Flow

	First Half 2010
Cash flow from operating activities	(185)
Capital expenditure (net)	(143)
Dividends from equity accounted investments	24
Contribution to Trust (re pensions)	(25)
Operating business cash flow	(329)
Electronics, Intelligence & Support	267
Land & Armaments	465
Programmes & Support	(50)
International	(553)
HQ & Other Businesses	(462)
Discontinued Operations	4
Operating business cash flow	(329)

£ millions

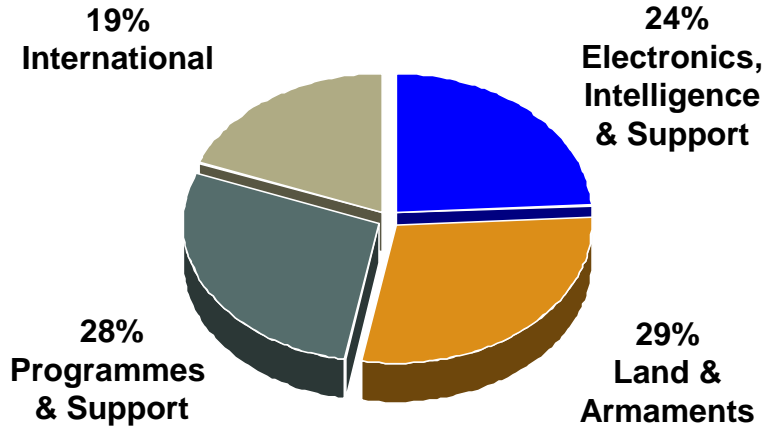
Movement in Net Cash/(Debt)

	First Half 2010
Net Cash 31 December 2009	403
Operating business cash flow	(329)
Interest and taxation	(340)
Equity dividends paid	(335)
Acquisitions and disposals	90
Net purchase of equity shares	(466)
Foreign exchange and other movements	(225)
Net Debt 30 June 2010	(1,202)

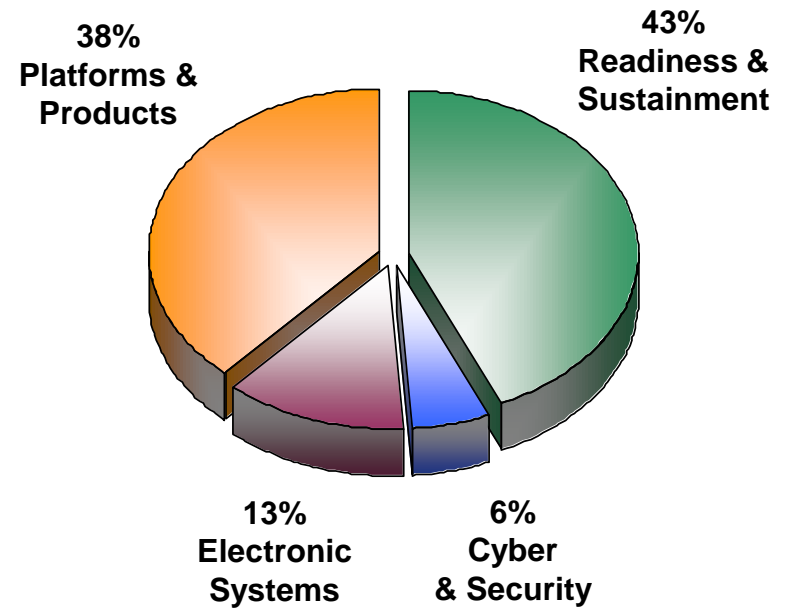
£ millions

Operating Groups

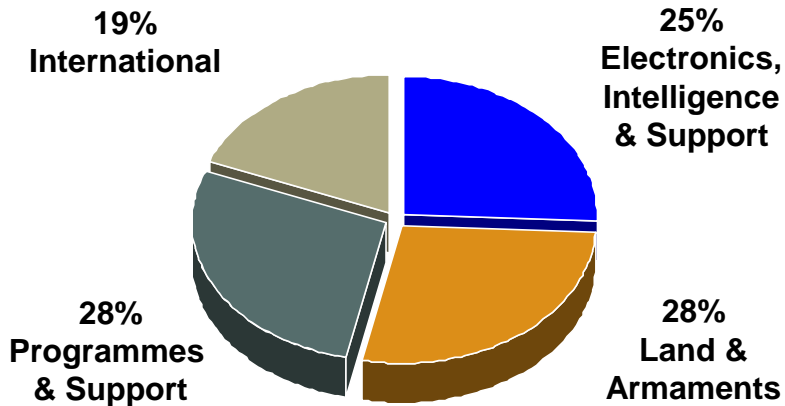
Sales *



Sales by activity



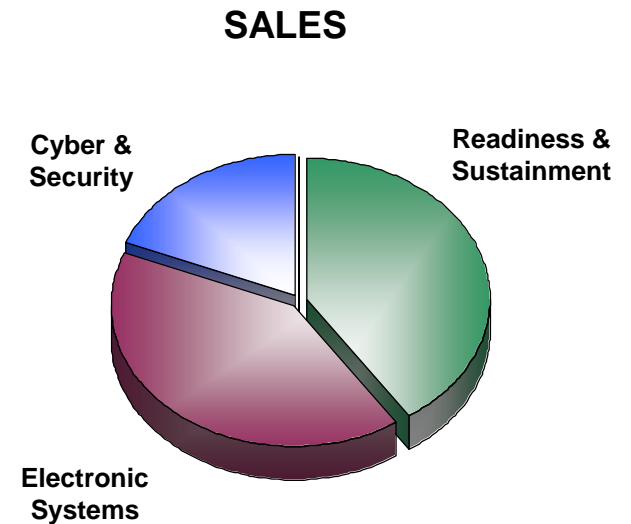
Underlying EBITA *



* excluding HQ & Other Businesses

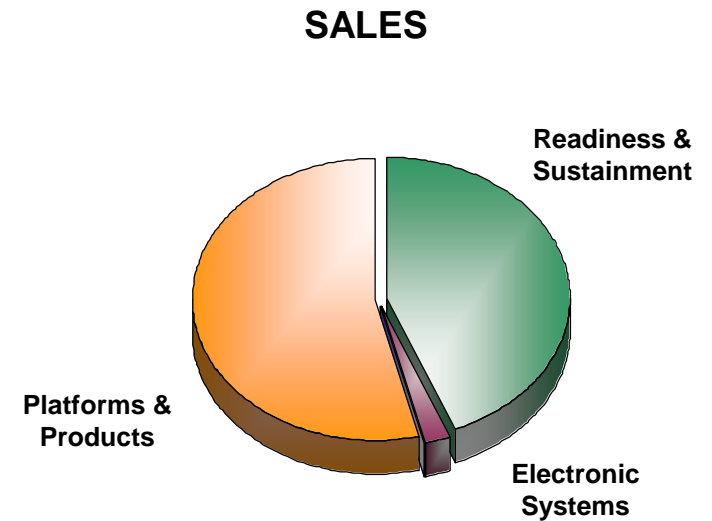
Electronics, Intelligence & Support

	First Half 2010	First Half 2009
Sales	\$3,998m	\$4,274m
Underlying EBITA	\$451m	\$400m
Margin	11.3%	9.4%
Order book	\$7.2bn	\$7.4bn
Cash flow	\$407m	\$190m



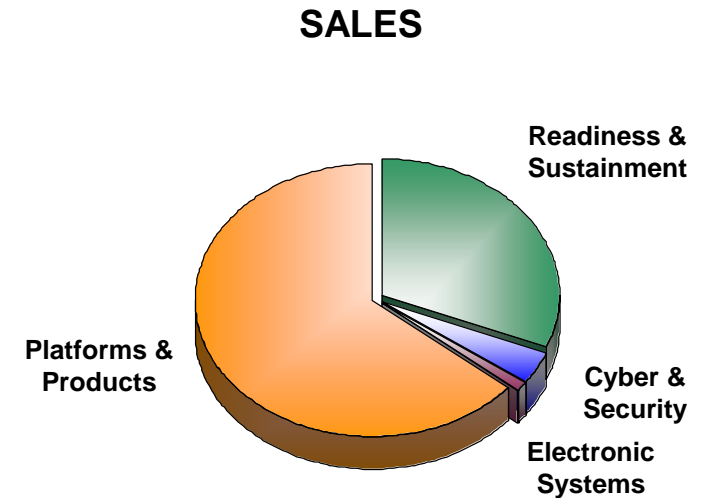
Land & Armaments

	First Half 2010	First Half 2009
Sales	\$4,684m	\$4,807m
Underlying EBITA	\$481m	\$391m
Margin	10.3%	8.1%
Order book	\$10.3bn	\$15.3bn
Cash flow	\$708m	\$245m



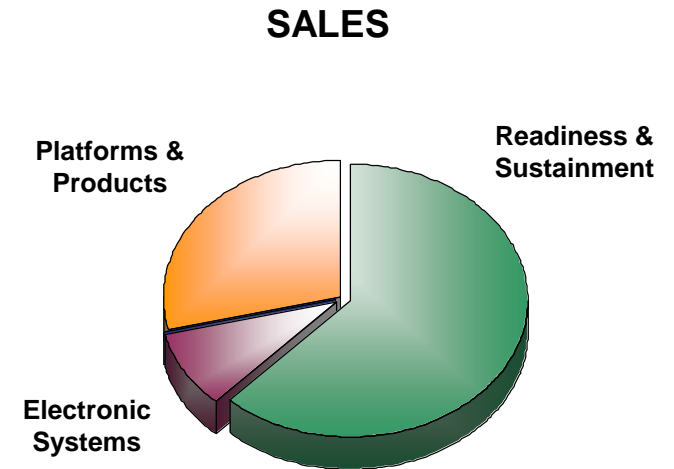
Programmes & Support

	First Half 2010	First Half 2009
Sales	£3,035m	£2,399m
Underlying EBITA	£316m	£277m
Margin	10.4%	11.5%
Order book	£23.7bn	£21.2bn
Cash flow	£(50)m	£(47)m



International

	First Half 2010	First Half 2009
Sales	£2,078m	£1,416m
Underlying EBITA	£218m	£160m
Margin	10.5%	11.3%
Order book	£9.6bn	£10.8bn
Cash flow	£(553)m	£122m



HQ & Other Businesses

	First Half 2010	First Half 2009
Sales	£141m	£133m
Underlying EBITA	£(32)m	£11m
Cash flow *	£(462)m	£(278)m

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

* 2010 includes payment of the US regulatory penalty (£266m)

Financial Summary

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Ian King



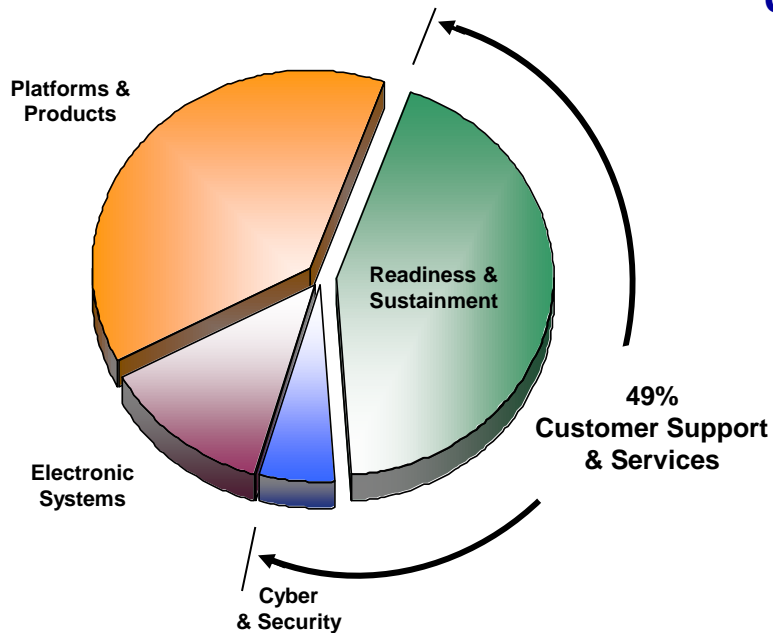
Business resilience

- **Customer support and services**
- **New growth markets – security**
- **Key programme participation - large order book**
- **Broad home market base**
- **Performance focus**

Continued efficiency improvements to benefit customers and shareholders

Customer support and services

Sales* by activity



Customer support and services characteristics

- Multi-year contracts
- Strong incumbent positions
- Intimacy with end-user
- Track record of delivering savings
- Further growth opportunities

49% of Group sales* in customer support and services provision

Readiness and Sustainment activities

- **Provision of spares, repairs**
- **Management of bases and facilities**
 - Holston in the US and Portsmouth dockyard in the UK
- **Combined maintenance and upgrade**
 - Military aircraft
 - Vehicle reset, eg Bradley and Bulldog
 - UK naval refit and US naval sustainment
- **Operational / fleet availability**
 - Tornado and Typhoon



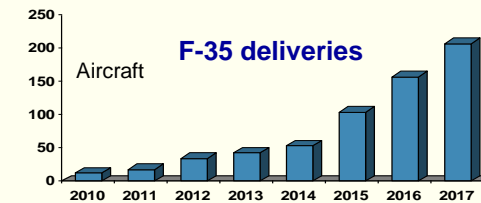
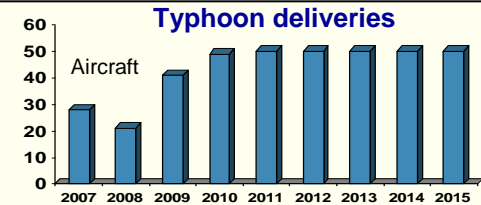
Cyber & Security

- **Strong position in high priority cyber sector**
- **Focus on information based intelligence solutions**
 - Intercept, retention and monitoring
 - Intelligence-led operations
 - Counter-fraud
 - Cyber security
 - Counter IED
- **Key capability provider to US, UK and Australian agencies**
- **Pursuing opportunities in other home markets**

Key programmes

Combat aircraft programmes

- Typhoon
- F-35



Naval programmes

- Type 45
- QEII Carrier
- Type 26



Type 45 QEII Carrier Type 26

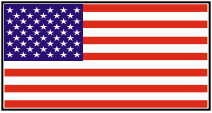
Submarine programmes

- Astute
- Successor programme



Astute Successor

Multi-year contracted programmes and long term support agreements



US defence

- **US market remains strong**
- **Significant changes in programme priorities already announced**
- **Further growth in modernisation spend to be funded from cost savings**
- **BAE Systems efficiency enhancement actions already underway**

Global Home Market Positions

United Kingdom

- 39,200 people
- Largest supplier to MoD
- 57 business locations

Sweden

- 1,400 people
- 5 business locations

India

- Developing home market position

United States

- 40,800 people
- 4th largest supplier to DoD
- 126 locations in 38 states

Saudi Arabia

- 5,200 people
- 8 business locations

Australia

- 6,000 people
- 24 business locations

South Africa

- 600 people
- 4 business locations

Seven home markets generated 91% of Group sales*

* Sales by destination

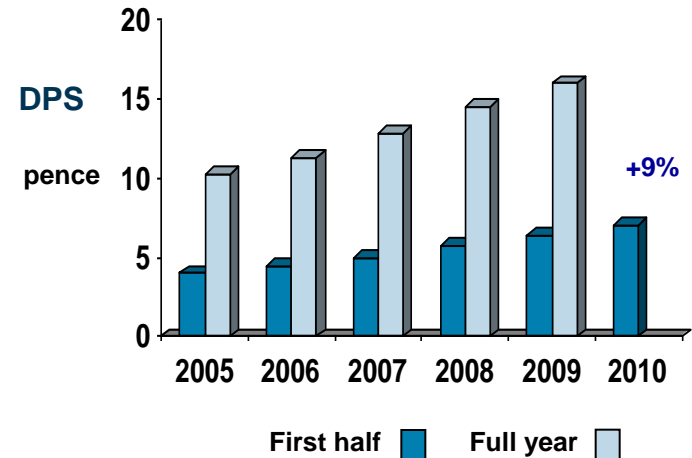
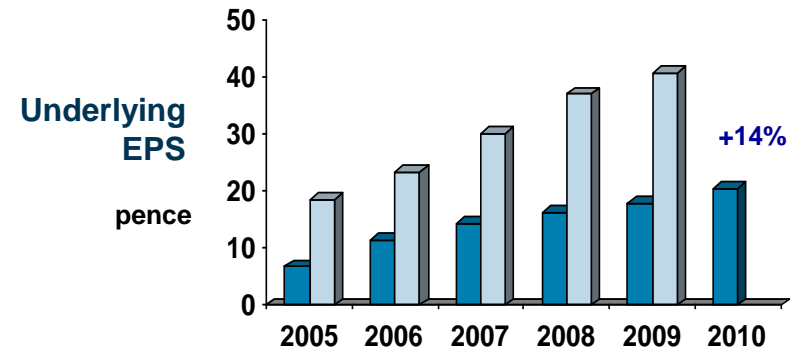
Efficiency improvement

- **Cost reduction measures driven by**
 - Drive to improve efficiency
 - Reducing volumes in land sector
- **Pre-emptive actions already generating benefits**
 - Improving RoS in business
 - Savings flowing to customers
- **Rationalisation actions underway**
 - Reduced manpower and overhead
 - Site closure and facility footprint reduction

Summary

Key growth drivers

- Customer support and services
- Cyber and security
- Combat aircraft programmes
- Electronic systems
- Home market and export opportunities
- Enhanced performance



High relevance to national defence and security capabilities