

BAE Systems

2010 Half Year Results

29 July 2010



Introduction - First half 2010

Continued good performance

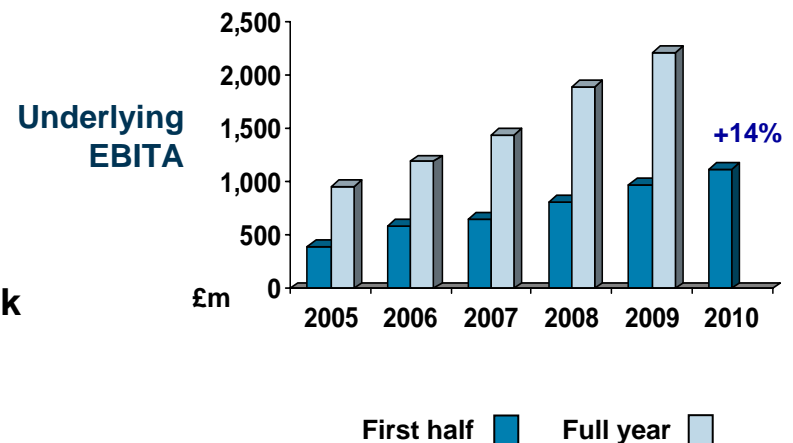
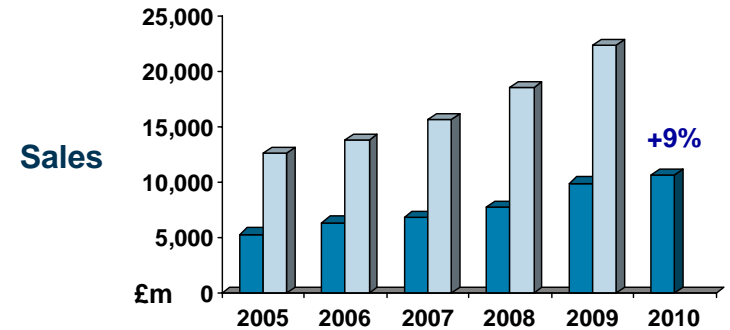
- Good programme execution
- Delivering planned performance
- Supports outlook for full year

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 |
| 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 | <u>(329)</u> |
| | |
| Electronics, Intelligence & Support | 267 |
| Land & Armaments | 465 |
| Programmes & Support | (50) |
| International | (553) |
| HQ & Other Businesses | (462) |
| Discontinued Operations | 4 |
| Operating business cash flow | <u>(329)</u> |

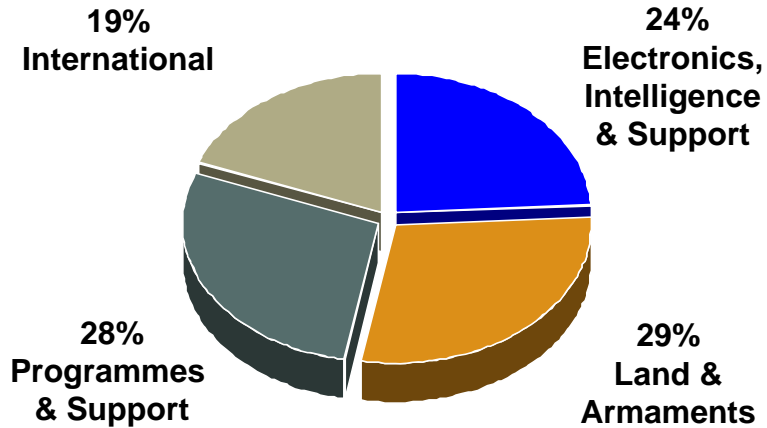
£ millions

Movement in Net Cash/(Debt)

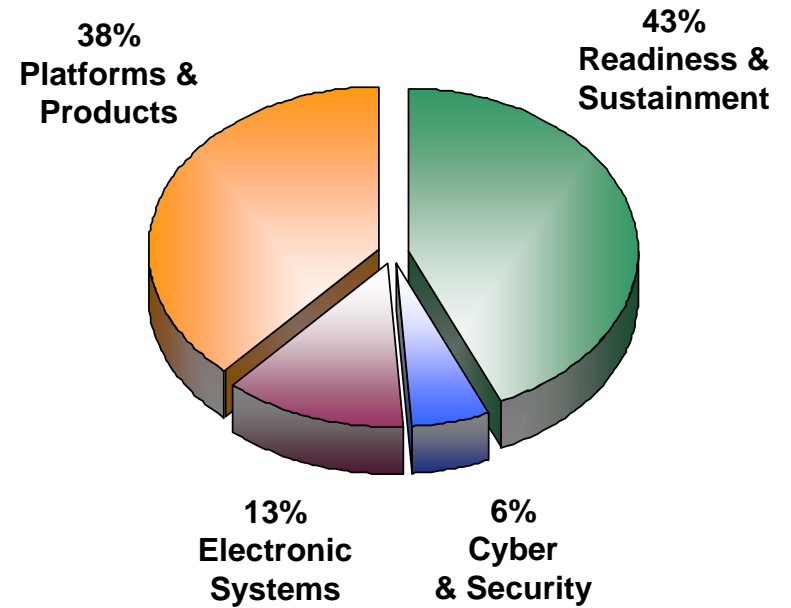
| | First Half 2010 |
|--------------------------------------|--------------------|
| Net Cash 31 December 2009 | 403 |
| Operating business cash flow | (329) |
| Interest and taxation | (340) |
| Equity dividends paid | (335) |
| Acquisitions and disposals | 90 |
| Net purchase of equity shares | (466)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

Operating Groups

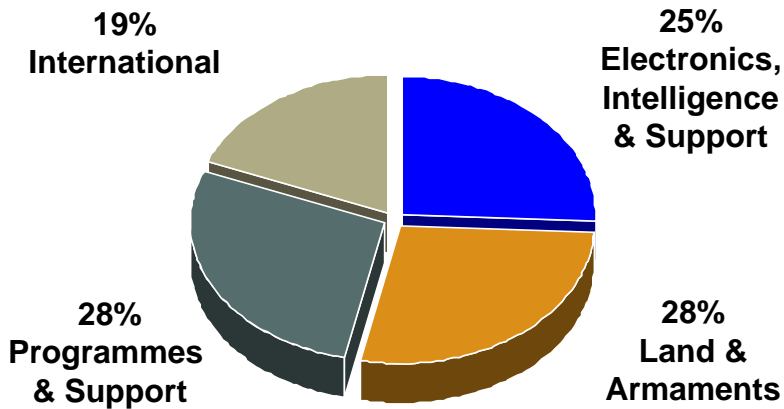
Sales *



Sales by activity



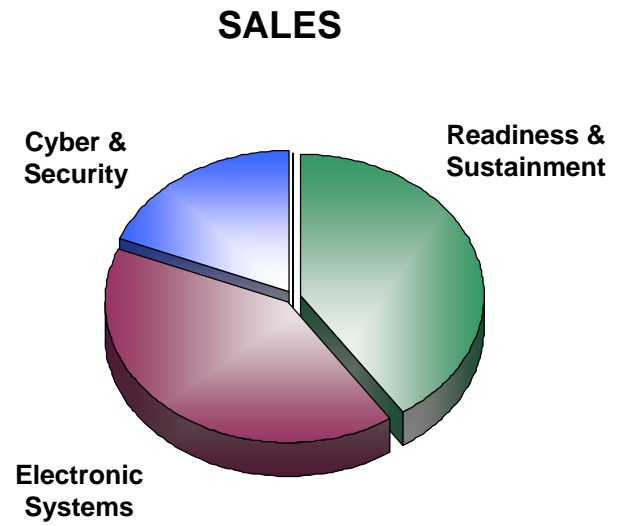
Underlying EBITA *



* excluding HQ & Other Businesses

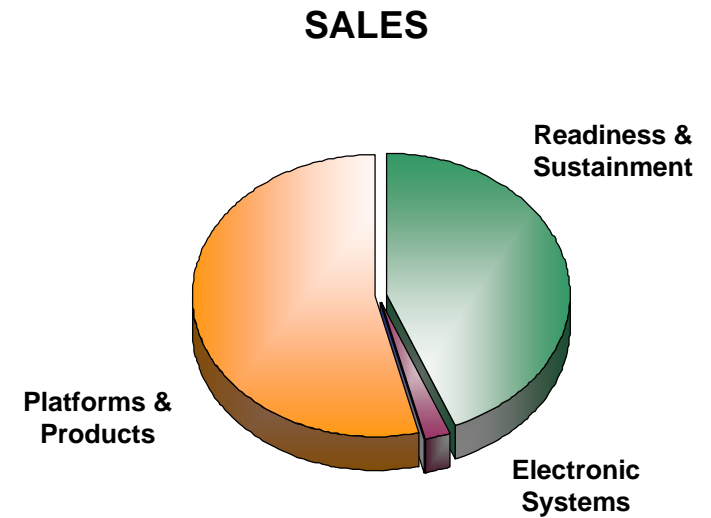
Electronics, Intelligence & Support

| | 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 |



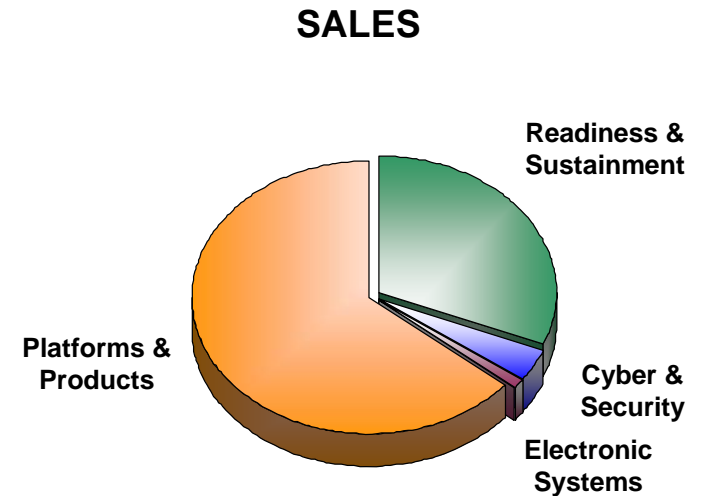
Land & Armaments

| | 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 |



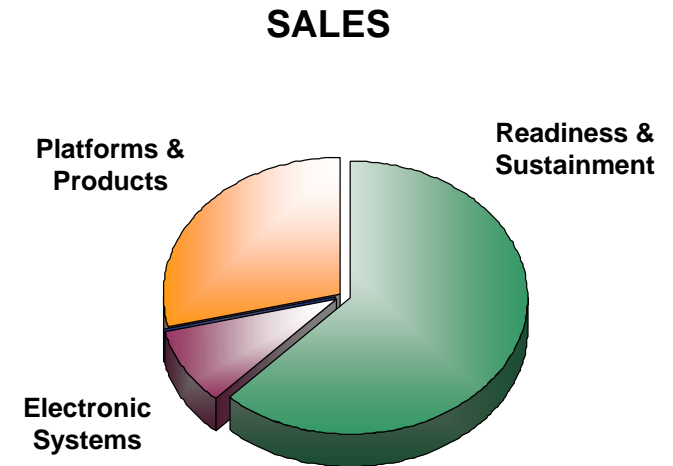
Programmes & Support

| | 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



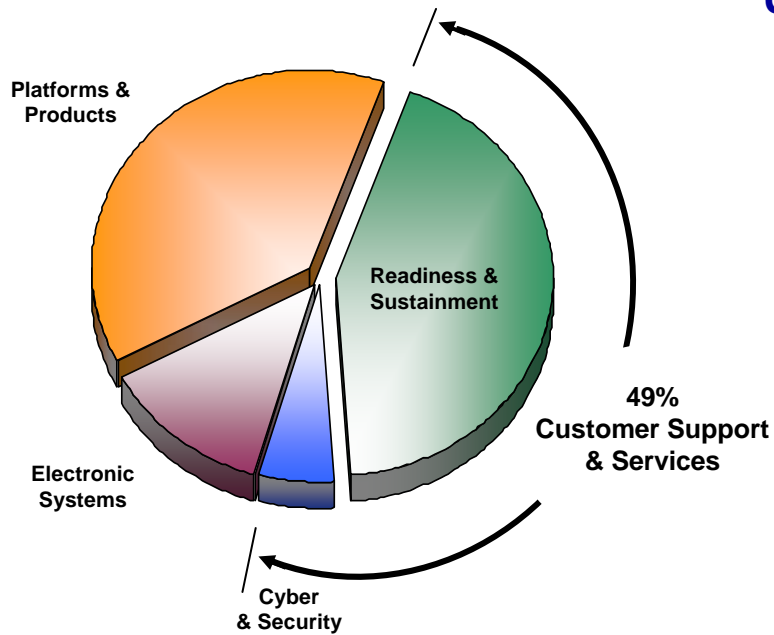
Business resilience

- **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

* First half 2010 sales

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



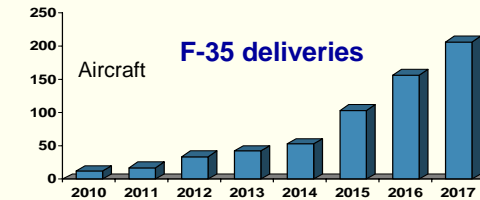
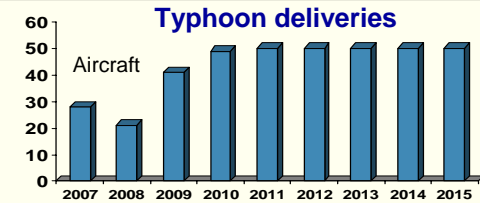
Cyber & Security

- **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

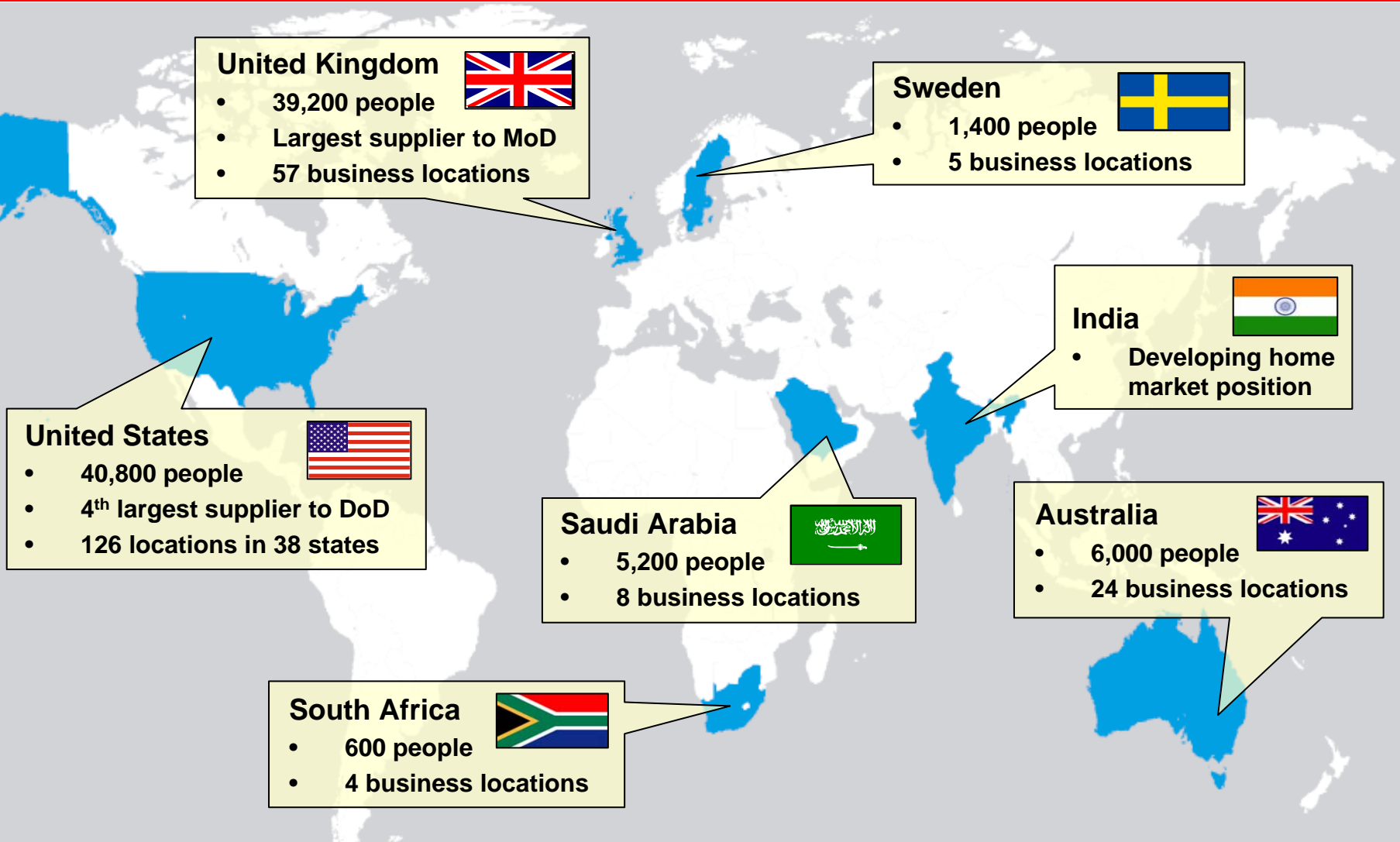
Multi-year contracted programmes and long term support agreements



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



Seven home markets generated 91% of Group sales*

* Sales by destination

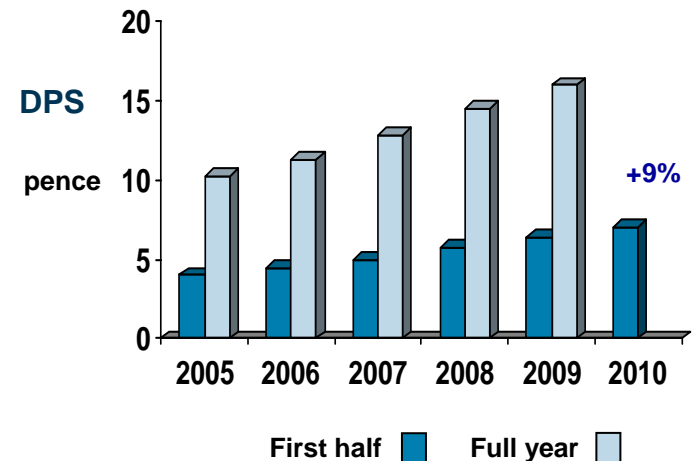
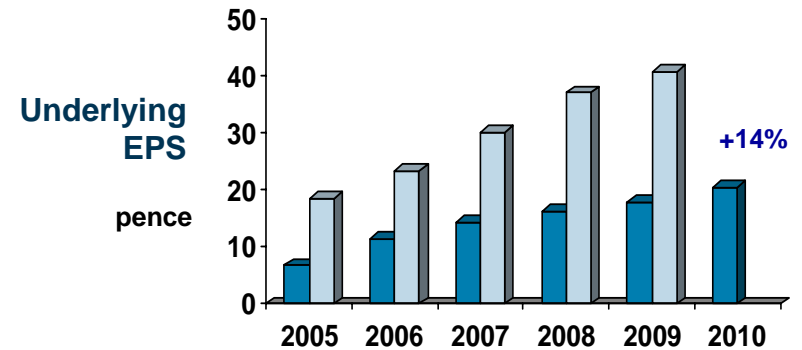
Efficiency improvement

- **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