

2005 Interim Results

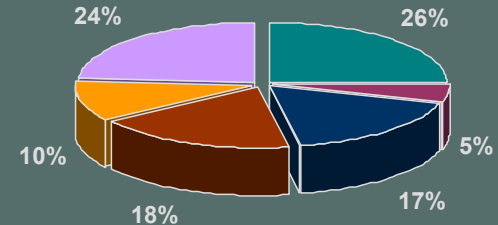
7 September 2005



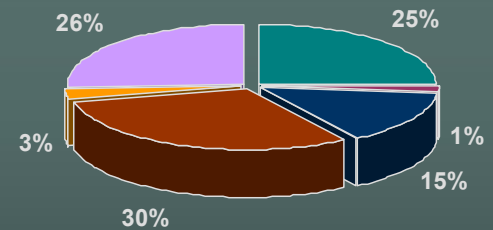
2005 - First Half Business Overview

- **Delivering financial plan**
 - Good first half performance supporting full year outlook
- **Successfully implementing strategy**
 - Strong US position established
 - Move to address Land sector opportunity
- **Progress on European restructuring**
 - EuroSystems completed
- **UK business recovery evident**
 - Programmes contribution
- **Airbus continues to perform well**
 - Market outlook remains good

2005 First half Sales



2005 First half EBITA

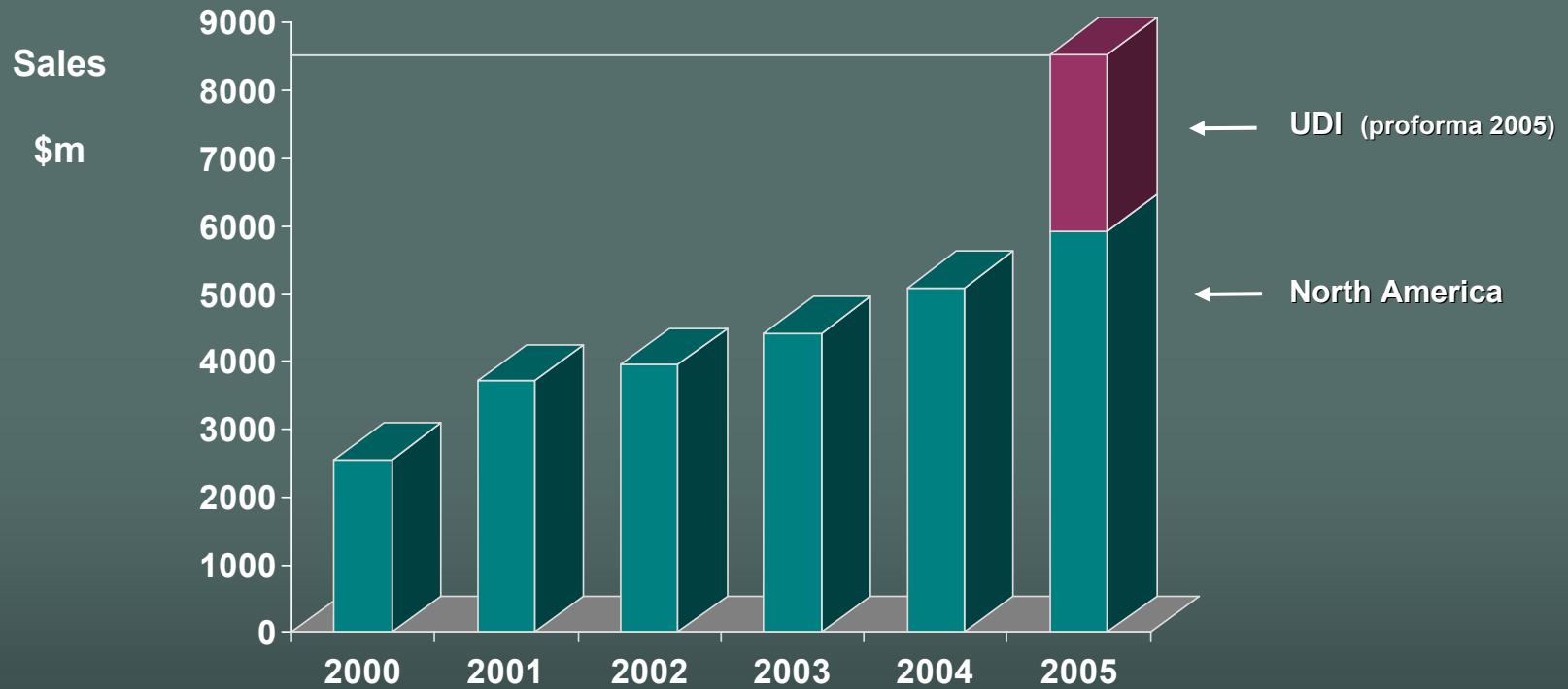


- Electronics, Intelligence & Support
- Land & Armaments
- Programmes
- Customer Solutions & Support
- Integrated Systems & Partnerships
- Commercial Aerospace

above excludes HQ and other businesses

A strong portfolio of performing businesses

Delivering the US strategy



BAE Systems has grown its US businesses to circa:-

- **\$8.5bn proforma annual sales**
- **35,700 employees**

US Organisation

\$10 billion sales
43,100 Employees
(incl. 35,700 in US)

BAE Systems Inc.

Electronics, Intelligence & Support

Land & Armaments

Electronics & Integrated Solutions	Customer Solutions
<ul style="list-style-type: none">Platform SolutionsSensor SystemsAdvanced Systems & TechnologyElectronic Protection <ul style="list-style-type: none">Communication, Navigation, Ident. & ReconnaissanceInformation WarfareNational Security SolutionsCenter for Transformation	<ul style="list-style-type: none">BAE-ITTechnology Solutions & ServicesBAE Systems Ship Repair
\$4.4 billion sales 19,200 employees (incl. 16,900 in US)	\$2.5 billion sales 13,600 employees

Land & Armaments
<ul style="list-style-type: none">Armament SystemsGround SystemsSteel ProductsInternational Division<ul style="list-style-type: none">• FNSSBofors <ul style="list-style-type: none">Land Systems<ul style="list-style-type: none">• Hagglunds• Weapons & Vehicles• Munitions & Ordnance• South Africa (OMC)
\$3.4 billion sales 10,300 employees (incl. 5,200 in US)

Electronics, Intelligence & Support

- **2004 Acquisitions successfully integrated**
 - DigitalNet and Alphatec contributing to National Security Solutions business
 - BCE integrated with Platform Solutions business
- **Electronics and Integrated Solutions**
 - Building strong transformational technology presence
 - Further C4ISR* contract wins
 - FCS systems participation
 - LRIP of 448 ATIRCM/CMWS infra-red countermeasures
 - Wolfpack demonstration for DARPA completed
- **Customer Solutions**
 - 5 year network support prime contract to FBI
 - Integration of Navy technical support business with naval ship repair activity
 - New and re-compete contract wins



Land & Armaments

- **Integration of UDI and UK land systems underway**
 - US headquartered business
 - operations in:
 - US (United Defense, RO Defence)
 - UK (RO Defence, Alvis)
 - Sweden (Bofors, Hägglunds)
 - South Africa (OMC)
- **Recent order wins underpinning acquisition strategy**
 - \$1,127m to upgrade Bradley including 450 to M2A3 standard
 - \$141m to upgrade M88A2 Hercules recovery vehicles
 - \$210m to upgrade 356 M113 family of vehicles to A3 standard
 - \$843m M777 howitzer full rate production for US Army



Land & Armaments

- US Current Force Programmes

Tracked combat vehicles

**>\$3.5bn sales
FY'06-11**

- **Combat vehicle reset, upgrades and support**
 - Bradley family of vehicles
 - M113
 - Hercules recovery vehicle
- **Modularity**
 - Bradley, Hercules and Paladin are key to US Army's modularity effort



Current fleet weapon systems

>\$200m annual sales

- **Large and minor calibre guns**
 - production, upgrades, overhaul and support
- **Vertical launching system**
 - canister production and refurbishment



Land & Armaments

- US Future Force Programmes

Advanced armaments for future ships
>\$4.0bn

- **DD(X), LCS, Deepwater**
 - Automated, 155mm naval land attack system
 - Sole-source developer on AGS
 - Advanced Vertical Launch System (AVLS)
 - 57mm Bofors Weapon System



Future Combat Systems
>\$7.0bn

- **FCS**
 - NLOS-Cannon
 - NLOS-Mortar
 - Infantry Carrier Vehicle
 - Maintenance & Repair Vehicle
 - Medical Vehicle
 - Armed Robotics Vehicle (Unmanned)



Intelligent Munitions
>\$1.5bn

- **Munitions**
 - Excalibur
 - BONUS
 - 3P program – Smart Munition



Europe

- **EuroSystems**
 - Transaction completed
 - £357m consideration received in phase 1
 - £268m consideration due on sell down of 25% of Selex
 - AMS UK and UK C4ISR integrated as Integrated System Technologies
- **Airbus**
 - Performing well
 - Delivery outlook rising
- **MBDA**
 - Performing well
- **Saab**
 - Gripen marketing re-aligned
 - Shareholding reduced
- **Atlas**
 - Possible sale



UK

- **MoD Support**
 - DLO partnered support successes continue
 - Tornado ATTAC way forward agreed
- **Programmes**
 - Typhoon
 - ‘Case White’ service introduction completed ahead of target
 - Nimrod
 - flight development progressing well
 - production pricing proposals tabled
 - Hawk
 - UK Mk 128 standard flown
 - Type 45
 - assembly of all major blocks for FoC underway
 - Astute
 - good progress continues
 - JSF
 - first SDD airframe assemblies delivered
- **Integrated System Technologies**
 - Falcon and Shaman down selects



2005 Interim Results



2005 Interim Results

George Rose
Group Finance Director



Financial Highlights

• Sales - Continuing Operations	£6,773m
• EBITA* - Continuing Operations	£566m
• - Discontinued Operations	£(22)m
• Underlying earnings per share**	10.7p
• Net cash flow from operating activities	£586m
• Net debt	£2,239m
• Order book	£52.5bn
• Dividend per share	4.0p



* Earnings before amortisation and impairment of intangible assets, finance costs and taxation

** excluding amortisation of intangible assets, non-cash finance mvts and profit in acquired inventories

Income Statement - Continuing Operations

	First Half 2005 Underlying	First Half 2004 Underlying	First Half 2005 Reported	First Half 2004 Reported
Sales	<u>6,773</u>	<u>5,962</u>	<u>6,773</u>	<u>5,962</u>
EBITA *	566	470	566	470
Profit in acquired inventories	<u>6</u>	<u>-</u>		
Underlying EBITA	572	470		
Finance Costs	(56)	(85)	(56)	(85)
add back :				
Pension Interest	1	(13)		
Mark to Market	(41)	-		
Preference Dividends		(10)		
Underlying Finance Costs	<u>(96)</u>	<u>(108)</u>		
Amortisation/Impairment			(19)	(18)
Tax	(138)	(126)	(147)	(130)
Minority Interests	<u>(1)</u>	<u>-</u>		
Profit	<u>337</u>	<u>236</u>	<u>344</u>	<u>237</u>

* Earnings before amortisation and impairment of intangible assets, finance costs and taxation

£ millions

Balance Sheet

	30/06/05	01/01/05	31/12/04
Intangible fixed assets	8,220	6,115	6,115
Tangible fixed assets	2,064	1,901	1,901
Investments	1,815	2,305	1,535
Working capital	(3,842)	(3,907)	(3,884)
Retirement benefit obligation	(4,112)	(3,210)	(3,210)
Tax assets & liabilities	1,067	882	876
Financial assets & liabilities	(49)	(48)	-
Net debt	(2,239)	(951)	(668)
Net assets	2,924	3,087	2,665

Operating Business Cash Flow

First Half 2005

Cash flow from operating activities	586
Capital expenditure (net) & financial investment	(175)
Dividends from equity accounted investments	82
Operating business cash flow	493
Electronics, Intelligence & Support	173
Land & Armaments	(50)
Programmes	(88)
Customer Solutions & Support	429
Integrated Systems & Partnerships	(106)
Commercial Aerospace	294
HQ and other businesses	(130)
Discontinued businesses	(29)
Operating business cash flow	493

Movement in Net Debt

First Half 2005

Net Debt 31.12.04	(668)
IAS 32 & 39 opening balance adjustments	(283)
Opening Net Debt	(951)
Operating business cash flow	493
Interest, preference dividend and taxation	(72)
Equity dividends paid	(186)
Acquisitions and disposals (including acquired cash/loans)	(1,800)
Proceeds from issue of share capital	358
Non-cash movements	56
Foreign currency translation	(131)
Movement in cash on customers' account	(6)
Closing Net Debt 30.06.05	(2,239)

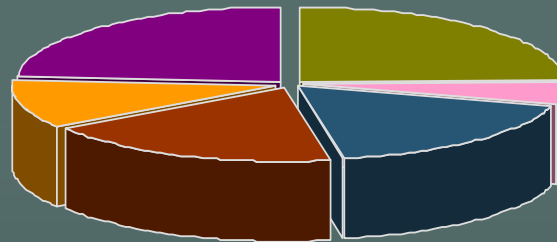
Sales by Business Group



**Commercial
Aerospace**
24%



**Electronics,
Intelligence &
Support**
26%



**Integrated
Systems &
Partnerships**
10%

**Land &
Armaments**
5%



**Customer
Solutions &
Support**
18%

Programmes
17%



Electronics, Intelligence & Support

	First Half 2005	First Half 2004
Sales	£1,715m	£1,468m
EBITA	£151m	£117m
Margin	8.8%	8.0%
Order book	£3.4bn	£3.2bn
Cash flow	£173m	£118m



Electronics, Intelligence & Support

	First Half 2005	First Half 2004
Sales	\$3,213m	\$2,675m
EBITA	\$283m	\$213m
Margin	8.8%	8.0%
Order book	\$6.0bn	\$5.8bn
Cash flow	\$324m	\$215m



Land & Armaments

	First Half 2005	First Half 2004
Sales	£337m	£133m
EBITA	£8m	£(2)m
Underlying EBITA	£14m	£(2)m
Underlying Margin	4.2%	(1.5)%
Order book	£4.4bn	£0.9bn
Cash flow	£(50)m	£(54)m



Programmes

	First Half 2005	First Half 2004
Sales	£1,207m	£834m
EBITA	£88m	£(7)m
Margin	7.3%	(0.8)%
Order book	£12.9bn	£10.9bn
Cash flow	£(88)m	£(145)m



Customer Solutions & Support

	First Half 2005	First Half 2004
Sales	£1,279m	£1,444m
EBITA	£185m	£249m
Margin	14.5%	17.2%
Order book	£4.2bn	£3.8bn
Cash flow	£429m	£332m



Integrated Systems & Partnerships

	First Half 2005	First Half 2004
Sales	£722m	£810m
EBITA	£17m	£24m
Margin	2.4%	3.0%
Order book	£6.0bn	£7.2bn
Cash flow	£(106)m	£(40)m



MBDA 37.5%



Integrated System Technologies



Saab 20.5%



Atlas Elektronik

Commercial Aerospace

	First Half 2005	First Half 2004
Sales	£1,660m	£1,446m
EBITA	£154m	£117m
Margin	9.3%	8.1%
Order book	£22.4bn	£19.9bn
Cash flow	£294m	£120m



Financial Summary

• Sales - Continuing Operations	£6,773m
• EBITA* - Continuing Operations	£566m
• - Discontinued Operations	(£22)m
• Margin	8.4%
• Underlying earnings per share**	10.7p
• Net cash flow from operating activities	£586m
• Net debt	£2,239m
• Order book	£52.5bn
• Dividend per share	4.0p



* Earnings before amortisation and impairment of intangible assets, finance costs and taxation
 ** excluding amortisation of intangible assets, non-cash finance mvts and profit in acquired inventories

2005 Interim Results

Mike Turner
Chief Executive



Top ten objectives - 2005

- progress to date

- Deliver operational performance plan **On track**
- Enhance focus on internal processes **Centre for Performance Excellence**
- Continue to grow US position **UDI acquisition**
- Progress US / UK technology sharing **Progressing slowly**
- Progress business in Kingdom of Saudi Arabia **On track**
- Continue to address terms of trade with UK MoD DPA **Delivering**
- Continue to grow support business **Delivering growth and savings**
- Finalise consultations on pension schemes **Under discussion**
- Integration of UK AMS and C4ISR business **Successfully completed**
- Pursue export opportunities **Warship reactivation**

Conclusion

- **Excellent first half**
- **Delivering financial performance**
- **Executing transatlantic strategy**
- **Accessing high value, high growth market sectors**
- **Performance being delivered across the company**
- **Balanced business portfolio**
- **Set to deliver good growth**



Handouts

Underlying Earnings per Share

Continuing Operations

	First Half 2005	First Half 2004
EBITA	566	470
- Add back fair value on acquired inventories	6	-
	<u>572</u>	<u>470</u>
Interest	(56)	(85)
- exclude pension financing credit	1	(13)
- exclude market value movements on instruments	(41)	-
- preference dividends restatement	-	(10)
	<u>(96)</u>	<u>(108)</u>
Tax	(147)	(130)
- impact of fair value on acquired inventories	(2)	-
- impact of pension financing credit	-	4
- impact of market value movements on instruments	11	-
	<u>(138)</u>	<u>(126)</u>
Minority Interests	(1)	-
	<u>337</u>	<u>236</u>
Underlying earnings	337	236
Weighted average number of shares in issue	<u>3,152</u>	<u>3,057</u>
Underlying earnings per share	10.7p	7.7p

Basic & Diluted EPS

Continuing Operations

	First Half 2005	First Half 2004
Profit for the period	343	237
Preference dividends	-	(10)
Profit for the period after preference dividends	343	227
Weighted average number of shares used in calculating EPS	3,152	3,057
Basic Earnings per Share (IAS 33)	10.9p	7.4p
Profit for the period	343	237
Preference dividends	14	(10)
Profit for the period after adjusting for preference dividends	357	227
Weighted average number of shares used in calculating EPS	3,298	3,057
Diluted Earnings per Share (IAS 33)	10.8p	7.4p

Note : 2004 Diluted EPS not restated for preference dividend adjustment

Finance Costs

	First Half 2005	First Half 2004
Financial Income:-		
Interest Income	76	26
Expected return on pension scheme assets	334	238
Net present value adjustments	6	5
Net gain on remeasurement of financial instruments at fair value (A)	147	-
Foreign exchange gains (B)	47	-
Financial Expense:-		
On bank loans, overdrafts, finance leases, bonds and other financial instruments	(154)	(115)
Interest charge on pension scheme liabilities	(335)	(226)
Net present value adjustments	-	(4)
Interest on debt element of preference shares	(14)	-
Net loss on remeasurement of investments at fair value (C)	(23)	-
Net loss on remeasurement of financial liabilities at fair value (D)	(121)	-
Foreign exchange losses (E)	(25)	-
Finance Costs (excluding equity accounted investments)	(62)	(76)
Share of Finance Costs of equity accounted investments *	6	(9)
	(56)	(85)

* Includes £16m mark to market in First Half 2005 (F)

Note : underlying earnings restatement for mark to market = (A)+(B)+(C)+(D)+(E)+(F)

£ millions

Retirement Benefit Obligations

Deficit in UK and US pension schemes at 1 Jan 2005	(4,261)
Transfers arising on acquisitions	(92)
Actual return on assets above expected return	221
Increase in liabilities due to changes in assumptions	(884)
Other movements	17
Deficit in UK and US pension schemes at 30 June 2005	(4,999)
Other schemes	(135)
Allocated to equity accounted investments	1,024
Group's share of IAS 19 deficit	(4,110)
Net (after tax) pension liability at 30 June 2005	(2,813)

Operating Cash Flow

First Half 2005

EBITA*	566
Discontinued Operations	(22)
Less share of equity accounted investments	(203)
Add depreciation	162
Gain on disposal of fixed assets	(6)
Loss on disposal of business	11
Cost of equity-settled employee share schemes	26
Movements in liability provisions	(3)
Movements in inventories	35
Movements in debtors	(52)
Movements in creditors	72
Cash flow from operating activities	586

* Earnings before amortisation and impairment of intangible assets, finance costs and taxation

Working Capital Movements

Reconciliation to Cash Flow

	30/6/05	1/1/05	Mvt	Acq/Dis	F/X	Other *	Cash Flow
Inventories (A)	578	498	(80)	88	27	-	35
Debtors - current	2,588	2,126					
Debtors - non current	526	500					
Total debtors (B)	3,114	2,626	(488)	310	64	62	(52)
Creditors - current	(6,162)	(6,090)					
Creditors - non current	(787)	(464)					
Total creditors ** (C)	(6,949)	(6,554)	395	(123)	(105)	(95)	72
Liability provisions - current	(185)	(250)					
Liability provisions - non current	(424)	(245)					
Total liability provisions (D)	(609)	(495)	114	(84)	(33)	-	(3)
Working capital per cash flow	(3,866)	(3,925)	(59)				
Cash on customers' account (E)	24	18	(6)				
Working capital per balance sheet ***	(3,842)	(3,907)	(65)				

* includes movement on Interest Receivable/Payable balances

** includes cash on customers' account

*** equals A+B+C+D+E

£ millions

Performance by Business Group

	Sales	EBITA *
Electronics, Intelligence & Support	1,715	151
Land & Armaments	337	8
Programmes	1,207	88
Customer Solutions & Support	1,279	185
Integrated Systems & Partnerships	722	17
Commercial Aerospace	1,660	154
HQ and other businesses	34	(37)
Intra-group	(181)	-
Total	6,773	566

* Earnings before amortisation and impairment of intangible assets, finance costs and taxation

£ millions