

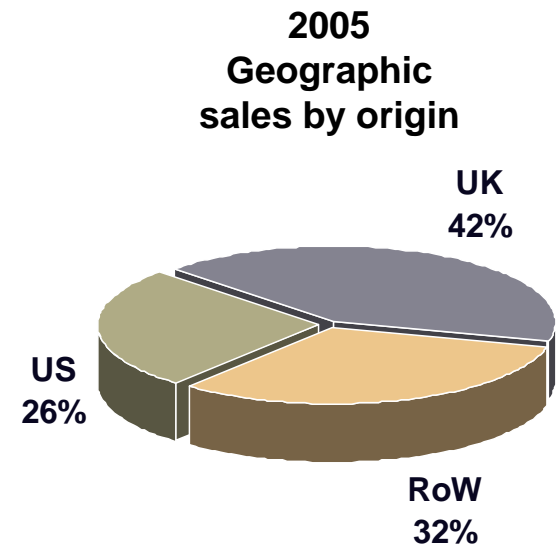
BAE SYSTEMS Presentation

6 March 2006



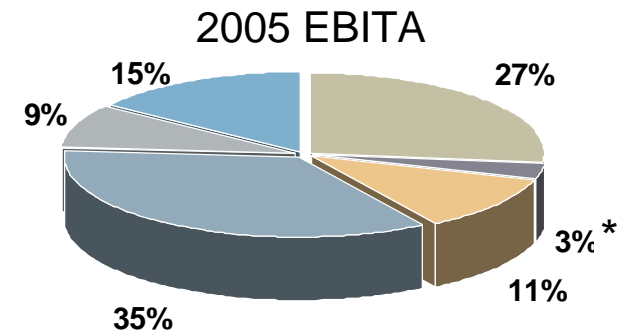
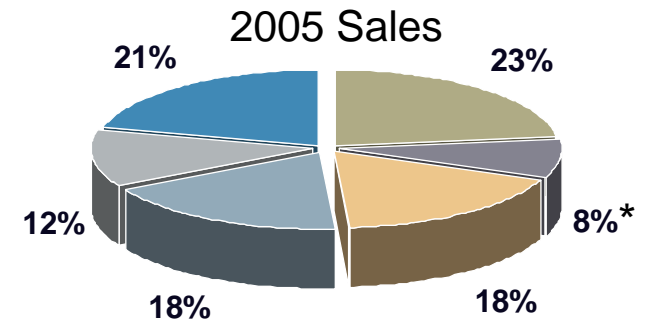
2005 – A Landmark Year

- Financial plan delivered
- US position strengthened
- European portfolio restructured
- UK business outlook enhanced
- New export business opportunities



Financial Performance

- Good project execution
- Improved terms of trade
- Acquisitions successfully integrated
- All sectors delivering



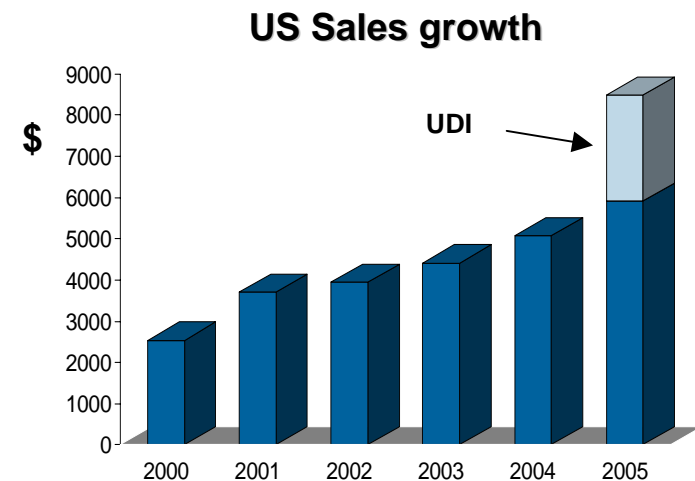
- Electronics, Intelligence & Support
- Land & Armaments
- Programmes
- Customer Solutions & Support
- Integrated Systems & Partnerships
- Commercial Aerospace

A strong portfolio of performing businesses

* Includes United Defense from 24 June 05

Delivering the US strategy

- Successful acquisition record
 - 13 US businesses integrated since 2000
- Good organic growth
 - 7% in 2005
- United Defense
 - Delivering global land strategy

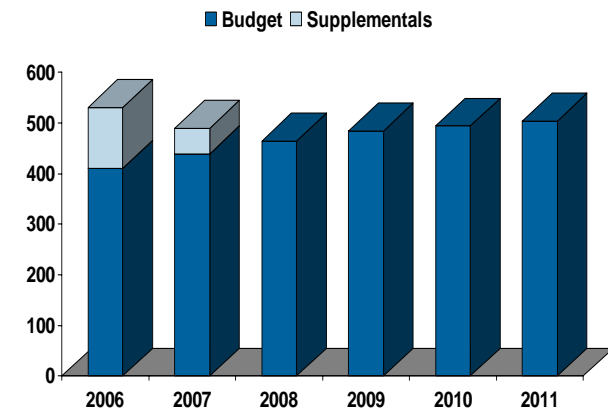


BAE Systems is the 7th largest US defense supplier

US market environment

- Quadrennial Defense Review
 - Defence investment priorities reaffirmed
 - No big surprises
- 2007 budget allocation
 - Good growth maintained
 - Land sector benefit from supplemental awards

US Defence budget outlook



Conservative planning assumptions despite continued market growth

European business Portfolio

- EuroSystems
 - UK sensor systems and EW activities sold
 - AMS restructured
 - Integrated System Technologies formed
- Saab
 - Gripen marketing re-aligned
 - Shareholding reduced
- Atlas
 - Sale agreed
- MBDA
 - Performing well
- Airbus
 - Performing well
 - Strong order intake



UK MoD business

- **UK Programmes**

- Typhoon - performing well
- Nimrod - production pricing underway
- Hawk - UK Mk 128 production pricing underway
- JSF - first airframe assemblies delivered
- Type 45 - HMS Daring launched on schedule
- LSD(A) - Mounts Bay handover in December
- Astute - bonus targets met, production pricing underway
- CVF - revised alliancing structure agreed



UK MoD business

- **UK Support**
 - DLO partnered support successes continue
 - Tornado ATTAC way forward agreed
 - Harrier support contracts awarded
 - Progressing AFV land support agreement



UK Defence Industrial Strategy

- **Defence Industrial Strategy published in December following extensive consultation with industry**
 - Recognises need for partnership between industry and MoD
 - Identifies key UK technologies required to deliver capability
 - Recognises need for UK control of key offshore technologies
- **DIS calls for more transparent dialogue between MoD and industry on investment in skills and technologies**
 - To align industrial capability with demand – end ‘boom & bust’
 - To sustain high level system integration skills in UK
 - To ensure healthy, innovative and profitable UK industry
- **Primary responsibility is to support the UK’s armed forces and deliver value for money solutions**



George Rose



Financial Highlights

• Sales - Continuing	£15,411m
• EBITA* - Continuing Underlying	£1,226m
• - Discontinued	£(24)m
• Underlying earnings per share **	22.5p
• Net cash flow from operating activities	£2,099m
• Net debt	£1,277m
• Order book	£59.8bn
• Dividend per share	10.3p



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

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

Income Statement - Continuing Operations

	2005 Underlying	2004 Underlying	2005 Reported	2004 Reported
Sales	15,411	13,222	15,411	13,222
EBITA *	1,182	1,016	1,182	1,016
Profit in acquired inventories	44	6		
Underlying EBITA	1,226	1,022		
Finance Costs	(215)	(176)	(215)	(176)
add back :				
Pension Interest	1	(24)		
Mark to Market	4	-		
Preference Dividends		(21)		
Underlying Finance Costs	(210)	(221)		
Amortisation/Impairment			(122)	(110)
Tax	(299)	(266)	(262)	(273)
Minority Interests	(2)	(1)		
Profit	715	534	583	457

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

£ millions

Balance Sheet

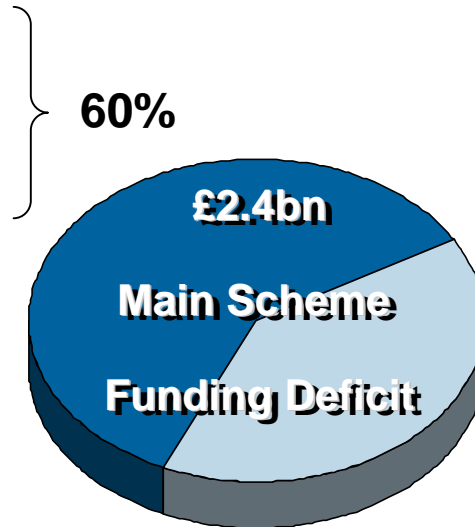
	31/12/05	01/01/05	31/12/04
Intangible fixed assets	8,217	6,115	6,115
Tangible fixed assets	1,922	1,901	1,901
Investments	1,730	2,305	1,535
Working capital	(4,829)	(3,907)	(3,884)
Retirement benefit obligation	(4,101)	(3,210)	(3,210)
Tax assets & liabilities	1,012	882	876
Financial assets & liabilities	(7)	(48)	-
Assets held for resale	137	-	-
Net debt	(1,277)	(951)	(668)
Net assets	2,804	3,087	2,665

£ millions

Pension funding

Company

- One-off cash contribution
- Letter of Credit
- Increased annual contributions



Employees

- 40%**
- Reduced early retirement benefit
 - Average final salary over 3 years
 - Longevity increases for future service

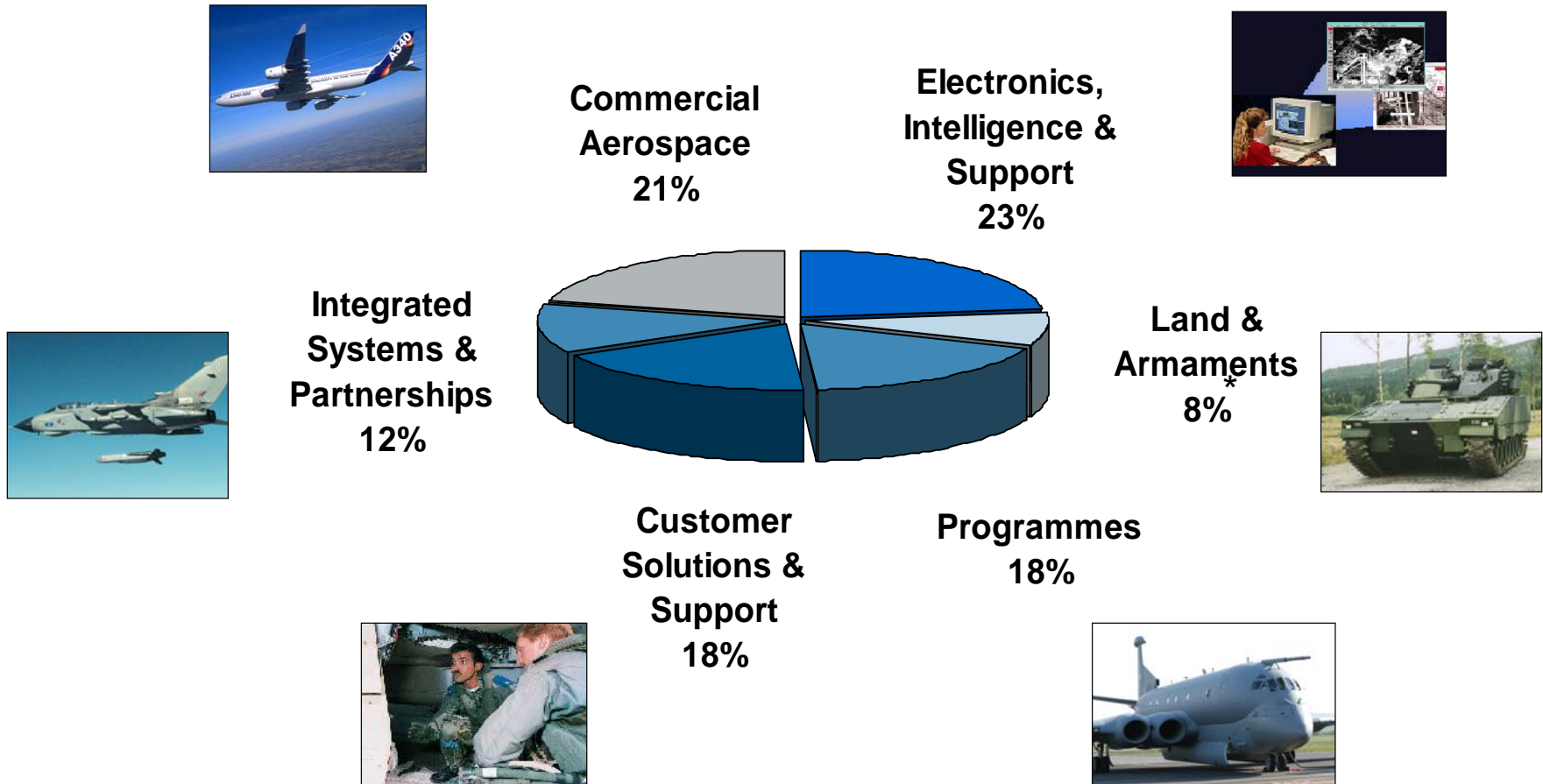
Operating Business Cash Flow

	2005
Cash flow from operating activities	2,099
Capital expenditure (net) & financial investment	(250)
Dividends from equity accounted investments	88
Operating business cash flow	<u>1,937</u>
Electronics, Intelligence & Support	323
Land & Armaments	168
Programmes	285
Customer Solutions & Support	850
Integrated Systems & Partnerships	17
Commercial Aerospace	327
HQ and other businesses	(3)
Discontinued businesses	(30)
Operating business cash flow	<u>1,937</u>

Movement in Net Debt

	2005
Net Debt 31.12.04	(668)
IAS 32 & 39 opening balance adjustments	(283)
Opening Net Debt	(951)
Operating business cash flow	1,937
Interest, preference dividend and taxation	(179)
Equity dividends paid	(315)
Acquisitions and disposals (including acquired cash/loans)	(1,836)
Proceeds from issue of share capital	373
Non-cash movements	(52)
Foreign currency translation	(219)
Movement in cash on customers' account	(35)
Closing Net Debt 31.12.05	(1,277)

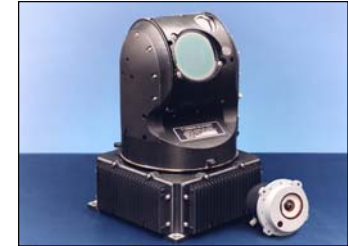
Sales by Business Group



* Includes United Defense from 24 June 05

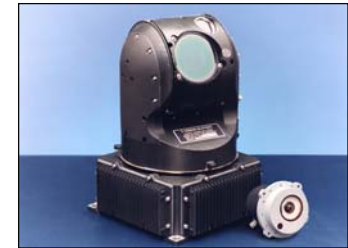
Electronics, Intelligence & Support

	2005	2004
Sales	£3,697m	£3,063m
EBITA	£324m	£256m
Margin	8.8%	8.4%
Order book	£3.5bn	£3.1bn
Cash flow	£323m	£190m



Electronics, Intelligence & Support

	2005	2004
Sales	\$6,726m	\$5,613m
EBITA	\$590m	\$469m
Margin	8.8%	8.4%
Order book	\$6.0bn	\$6.0bn
Cash flow	\$588m	\$348m



Land & Armaments

	2005	2004
Sales	£1,270m	£482m
EBITA	£42m	£(8)m
Underlying EBITA	£86m	£(2)m
Underlying Margin	6.8%	(0.4)%
Order book	£4.4bn	£2.2bn
Cash flow	£168m	£60m



Land & Armaments

	2005	2004
Sales	\$2,311m	\$883m
EBITA	\$76m	\$(15)m
Underlying EBITA	\$156m	\$(4)m
Underlying Margin	6.8%	(0.4)%
Order book	\$7.6bn	\$4.2bn
Cash flow	\$306m	\$110m



Programmes

	2005	2004
Sales	£2,819m	£2,219m
EBITA	£133m	£10m
Margin	4.7%	0.5%
Order book	£12.3bn	£13.0bn
Cash flow	£285m	£442m



Customer Solutions & Support

	2005	2004
Sales	£2,923m	£2,856m
EBITA	£419m	£497m
Margin	14.3%	17.4%
Order book	£5.0bn	£4.6bn
Cash flow	£850m	£1,102m



Integrated Systems & Partnerships

	2005	2004
Sales	£1,834m	£2,022m
EBITA	£109m	£95m
Margin	5.9%	4.7%
Order book	£5.9bn	£7.0bn
Cash flow	£17m	£59m



MBDA 37.5%



Integrated System Technologies



Saab 20.5%



Atlas Elektronik

Commercial Aerospace

	2005	2004
Sales	£3,232m	£2,924m
EBITA	£179m	£201m
Margin	5.5%	6.9%
Order book	£29.5bn	£20.9bn
Cash flow	£327m	£226m



Financial Highlights

• Sales - Continuing	£15,411m
• EBITA* - Continuing Underlying	£1,226m
• - Discontinued	£(24)m
• Margin	8.0%
• Underlying earnings per share **	22.5p
• Net cash flow from operating activities	£2,099m
• Net debt	£1,277m
• Order book	£59.8bn
• Dividend per share	10.3p



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

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

Summary



Top ten objectives - 2005

- | | |
|---|-----------------------------------|
| 1. Deliver operational performance plan | Achieved |
| 2. Enhance focus on internal processes | Centre for Performance Excellence |
| 3. Continue to grow US position | UDI acquisition |
| 4. Progress US / UK technology sharing | Progressing slowly |
| 5. Progress business in Kingdom of Saudi Arabia | Typhoon |
| 6. Continue to address terms of trade with UK MoD | Defence Industrial Strategy |
| 7. Continue to grow support business | Delivering growth and savings |
| 8. Finalise consultations on pension schemes | Good progress |
| 9. Integration of UK AMS and C4ISR business | Successfully completed |
| 10. Pursue export opportunities | Record order book |
-

Top ten objectives - 2006

- 1. Deliver 2006 financial targets**
 - 2. Ensure application of mandated business processes**
 - 3. Increase focus on schedule and cost commitments**
 - 4. Continue to grow US business**
 - 5. Implementation of UK Defence Industrial Strategy**
 - 6. Focus on key export opportunities**
 - 7. Progress business in Kingdom of Saudi Arabia**
 - 8. Continue to grow support business**
 - 9. Implement way forward on pension schemes**
 - 10. Drive to performance culture**
-

Summary

- **Good financial performance**
- **US position strengthened**
- **European portfolio restructured**
- **UK business outlook enhanced**
- **Well balanced base of performing businesses**



Set to deliver steady and reliable growth

Handouts

Underlying Earnings per Share

Continuing Operations

	2005	2004
EBITA	1,182	1,016
- Add back fair value on acquired inventories	44	6
	<u>1,226</u>	<u>1,022</u>
Interest	(215)	(176)
- exclude pension financing credit	1	(24)
- exclude market value movements on instruments	4	-
- preference dividends restatement	-	(21)
	<u>(210)</u>	<u>(221)</u>
Tax	(262)	(273)
- impact of fair value on acquired inventories	(13)	(2)
- impact of pension financing credit	-	9
- impact of market value movements on instruments	(1)	-
- exclude tax on intangibles	(23)	-
	<u>(299)</u>	<u>(266)</u>
Minority Interests	(2)	(1)
Underlying earnings	<u>715</u>	<u>534</u>
Weighted average number of shares in issue	3,183	3,058
Underlying earnings per share	22.5p	17.4p

£ millions

Basic & Diluted EPS - Continuing Operations

	2005	2004
Profit for the period	581	456
Preference dividends	-	(21)
	<hr/>	<hr/>
Profit for the period after preference dividends	581	435
Weighted average number of shares used in calculating EPS	3,183	3,058
Basic Earnings per Share (IAS 33)	18.3p	14.2p
Profit for the period	581	456
Preference dividends	27	(21)
	<hr/>	<hr/>
Profit for the period after adjusting for preference dividends	608	435
Weighted average number of shares used in calculating EPS	3,332	3,058
Diluted Earnings per Share (IAS 33)	18.2p	14.2p

£ millions

Finance Costs

		2005	2004
Financial Income:-			
Interest Income		123	57
Net present value adjustments		23	10
Expected return on pension scheme assets		632	542
Net gain on remeasurement of financial instruments at fair value	(A)	159	-
Other fair value movements	(B)	59	-
Foreign exchange gains	(C)	228	-
Financial Expense:-			
On bank loans, overdrafts, finance leases, bonds, preference debt and other financial instruments		(310)	(226)
Facility Fees		(10)	-
Net present value adjustments		(25)	(11)
Interest charge on pension scheme liabilities		(633)	(521)
Net loss on remeasurement of financial instruments at fair value	(D)	(75)	-
Net loss on remeasurement of embedded derivatives at fair value	(E)	(217)	-
Foreign exchange losses	(F)	(158)	-
Finance Costs (excluding equity accounted investments)		<u>(204)</u>	<u>(149)</u>
Share of Finance Costs of equity accounted investments *		<u>(11)</u>	<u>(27)</u>
	£ millions	(215)	(176)

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

Retirement Benefit Obligations

Deficit in defined benefit pension plans at 1 Jan 2005	(4,339)
Transfers arising on acquisitions	(89)
Actual return on assets above expected return	1,138
Increase in liabilities due to changes in assumptions	(2,100)
Other movements	84
Deficit in defined benefit pension plans at 31 Dec 2005	(5,306)
US Healthcare plans	(52)
Allocated to equity accounted investments	1,210
Group's share of IAS 19 deficit	(4,148)

£ millions

Operating Cash Flow

	2005	
EBITA*	1,182	
Discontinued Operations	(24)	
Less share of equity accounted investments	(373)	
Add depreciation	402	
Gain on disposal of fixed assets	(41)	
Loss on disposal of business	20	
Impairment of other investments	2	
Cost of equity-settled employee share schemes	16	
Movements in retirement benefit obligations	(98)	
Movements in liability provisions	99	
Movements in inventories	54	
Movements in trade and other receivables	(4)	
Movements in trade and other payables	864	
Cash flow from operating activities	2,099	£ millions

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

Working Capital Movements

Reconciliation to Cash Flow

	31/12/05	1/1/05	Mvt	Acq/Dis *	F/X	Other **	Cash Flow
Inventories (A)	485	498	13	(4)	43	2	54
Receivables - current	1,877	2,126					
Receivables - non current	912	500					
Total receivables (B)	2,789	2,626	(163)	120	114	(75)	(4)
Payables - current	(7,006)	(6,090)					
Payables - non current	(432)	(464)					
Total payables *** (C)	(7,438)	(6,554)	884	70	(103)	13	864
Liability provisions - current	(343)	(250)					
Liability provisions - non current	(375)	(245)					
Total liability provisions (D)	(718)	(495)	223	(99)	(17)	(8)	99
Working capital per cash flow	(4,882)	(3,925)	957				
Cash on customers' account (E)	53	18	(35)				
Working capital per balance sheet ****	(4,829)	(3,907)	922				

* Includes Assets Held for Resale

** 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		3,697	324
Land & Armaments		1,270	42
Programmes		2,819	133
Customer Solutions & Support		2,923	419
Integrated Systems & Partnerships		1,834	109
Commercial Aerospace		3,232	179
HQ and other businesses		69	(24)
Intra-group		(433)	-
Total	£ millions	15,411	1,182

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