

BAE Systems

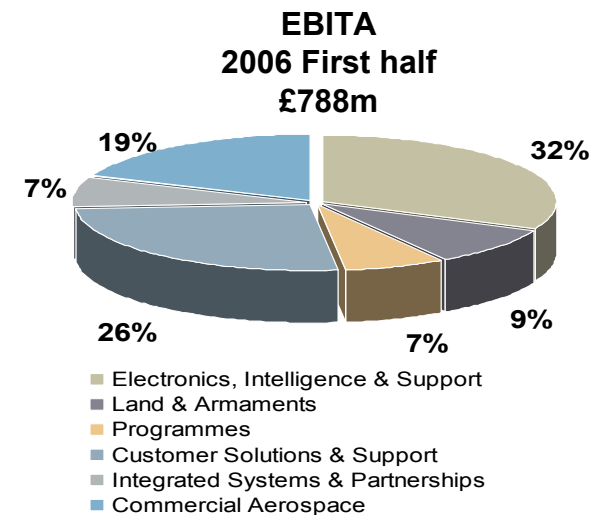
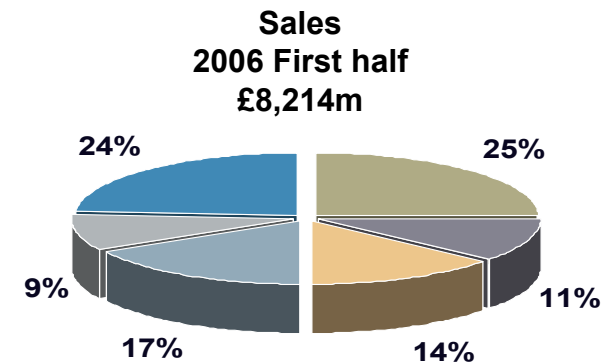
2006 Interim Results

13 September 2006



2006 – First half

- **Good first half performance**
- **US businesses**
 - performing strongly
 - growth outlook continues
- **UK businesses**
 - programmes execution on track
 - DIS implementation
- **Pension funding addressed**
- **Export opportunities progressing**
 - Typhoon for Saudi Arabia
- **Airbus strategy resolved**



Good first half results underpinning full year outlook

US businesses

- **Acquisition integration complete**
 - Former UDI activities performing well
- **Land & Armaments**
 - Reset activity continuing at high level
 - Light Armoured Vehicle order for Iraqi armed forces
- **EI&S**
 - good organic growth continues, sales up 8%
 - Strong demand for EW systems
 - APKWS II contract award



BAE Systems is the 7th largest US defence supplier

US market - near term drivers

- **Focus on Iraq & Afghanistan operations**
 - Equipment reset
 - Force protection (e.g. counter - Improvised Explosive Devices)
 - Urban and counter-insurgency warfare
- **Continued funding of modernisation programs**
 - Future Combat System and US Army modularity
 - Next generation aircraft & ships
- **Force transformation**
 - Capability-driven requirements
 - Technology (e.g. networks, autonomous systems, Intelligence, Surveillance & Reconnaissance)

Continued investment in both modernisation and transformation

UK businesses

UK Programmes

- Nimrod - production contract awarded
- JSF - first pre-production aircraft rolled-out in US
- Type 45 - Daring progressing well, Dauntless on berth
- LSD(A) - supporting completion of 4th ship
- Astute - continuing to hit or exceed milestones
- FV430 - in-service date achieved

Export Programmes

- Malaysia - 2nd batch frigate agreement
- Typhoon - commitment in Saudi Arabia



UK businesses

Through life capability enhancement

- Reducing in-service costs
- Enhancing military capability
- Establishing 'Through Life Capability Partnerships'
 - Military air support
 - Armoured Fighting Vehicle support



UK Defence Industrial Strategy

- **Air**
 - Good progress in partnered air support continues
 - Tornado support agreements underway
- **Land**
 - Armoured fighting vehicle support framework agreed
 - Initial vehicle support programmes underway
 - FRES way forward not yet clear
- **Naval**
 - Strategy creates framework for UK Naval sector
 - Continue to seek consolidation opportunities
 - Good forward work plan despite funding pressures

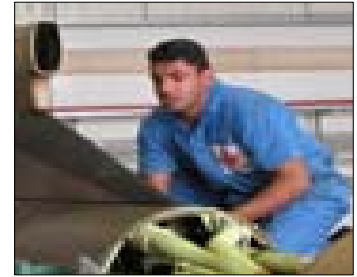


A framework for change in both industry and MoD

Pension funding

- **UK pension schemes**
 - £3.1bn pension funding deficit addressed
 - Shared approach to resolution
 - Increased employee contributions
 - Increased company contributions
 - Benefit reductions
 - Salary sacrifice
 - Company 'one-off' payments
- **US pension schemes**
 - Basis of calculating final pensionable pay revised

A good outcome achieved for all parties



Domestic markets

		Defence Procurement*	Employees ***	Market position
	US	\$159.1bn**	35,400	No.7
	UK	\$13.0bn	32,400	No.1
	Saudi Arabia	\$5.0bn +	4,600	-
	Australia	\$3.3bn	2,600	No. 3
	Sweden	\$2.9bn	1,700	No. 2
	South Africa	\$1.4bn	500	-

* Defence procurement expenditure 2005/6

** Procurement and RTD&E

*** excluding EAI's

BAE Systems in Saudi Arabia

In-Kingdom presence

- **4,600 employees + 1,610 dependents**
 - including 2,275 Saudi Nationals
- **New domestic and office accommodation**
 - Central area (Riyadh) - occupation 2007
 - Eastern area (Dhahran) - occupation 2009
- **Total welfare and recreational provision**
- **In-Kingdom investments**
 - Over \$200m invested in local companies



In-Kingdom programmes

- **Defence force modernisation understanding**
 - Industrialisation plan
 - Tornado and Typhoon



European business portfolio

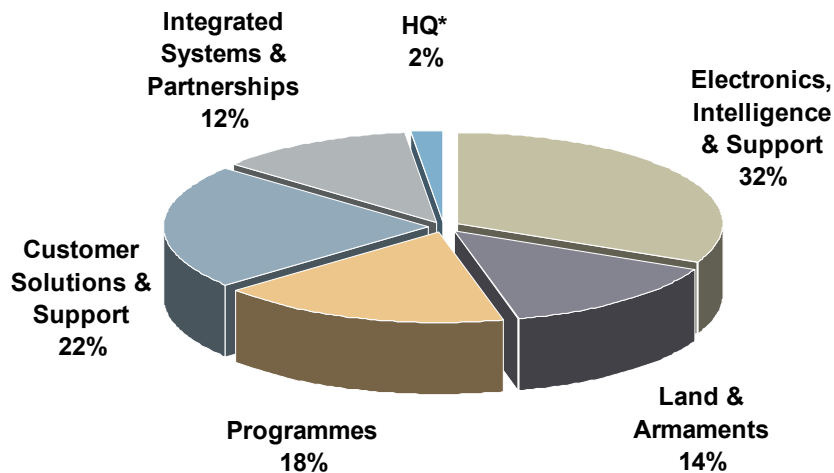
- **Saab**
 - Good contribution from reduced shareholding
- **MBDA**
 - Continuing to perform well
- **Atlas**
 - Sale completed in August
- **Airbus**
 - Strategy addressed



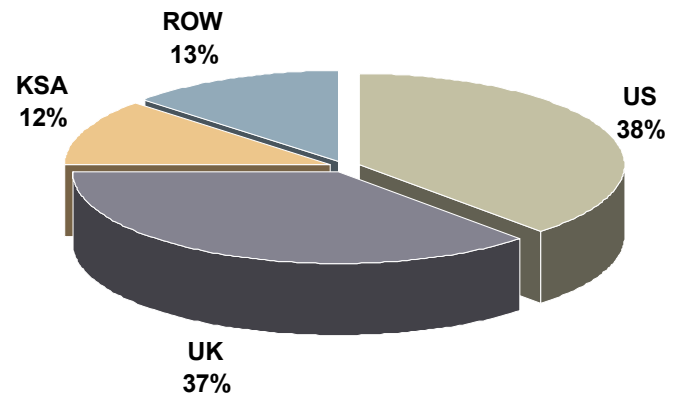
First half 2006 pro forma - Restated to exclude Airbus

Restated Sales £6.4bn

Sales by sector



Sales by origin



Focussed defence business in key global markets

* Includes Regional Aircraft

George Rose



Financial Highlights

• Sales	£8,214m
• EBITA*	£788m
• Underlying earnings per share **	15.4p
• Net cash flow from operating activities	£(293)m
• Net debt	£(1,582)m
• Order book	£56.9bn
• Dividend per share	4.4p

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

** excluding amortisation of intangible assets and non-cash finance movements



Income Statement - Continuing Operations

	First Half 2006 Underlying	First Half 2005 Underlying	First Half 2006 Reported	First Half 2005 Reported
Sales	8,214	6,773	8,214	6,773
EBITA *	788	566	788	566
Profit in acquired inventories	-	6		
Underlying EBITA	788	572		
Finance Costs	(174)	(56)	(174)	(56)
add back : Pension Interest	(15)	1		
Mark to Market	87	(41)		
Underlying Finance Costs	(102)	(96)		
Amortisation/Impairment			(53)	(19)
Tax	(189)	(138)	(155)	(147)
Minority Interests	(1)	(1)		
Profit after Tax	496	337	406	344

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

£ millions

Balance Sheet

	30/06/06	31/12/05
Intangible fixed assets	7,888	8,217
Tangible fixed assets	1,805	1,922
Investments	1,950	1,730
Working capital	(4,627)	(4,829)
Retirement benefit obligation	(3,044)	(4,101)
Tax assets & liabilities	866	1,012
Financial assets & liabilities	53	(7)
Assets held for resale	55	137
Net debt	(1,582)	(1,277)
Net assets	3,364	2,804

£ millions

Retirement Benefit Obligations

**First Half
2006**

Deficit in defined benefit pension plans at 31.12.05	(5,306)
Asset returns	(217)
Discount rates	681
One-off contributions	644
Other movements	178
Deficit in defined benefit pension plans at 30.06.06	(4,020)
US Healthcare plans	(37)
Total IAS 19 deficit	(4,057)
Allocated to equity accounted investments	989
Group's share of IAS 19 deficit	(3,068)

Operating Business Cash Flow

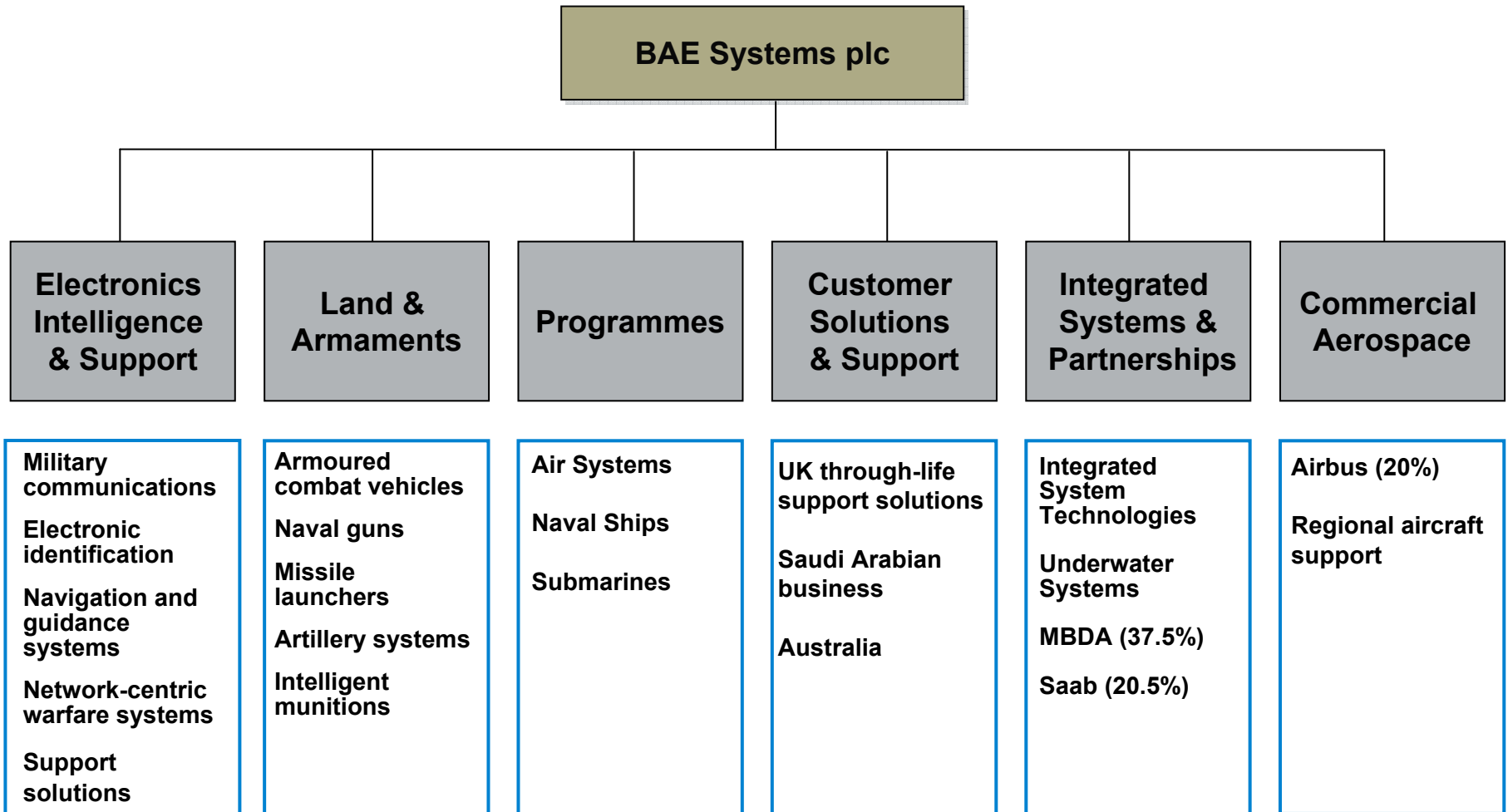
	First Half 2006	'One-off' Pension contributions	Excluding Pension 'One-off'
Cash flow from operating activities	(293)		
Capital expenditure (net) & financial investment	63		
Dividends from equity accounted investments	110		
Operating business cash flow	(120)	(164)	44
Electronics, Intelligence & Support	176		
Land & Armaments	(50)		
Programmes	(33)		
Customer Solutions & Support	2		
Integrated Systems & Partnerships	(33)		
Commercial Aerospace	57		
HQ and other businesses	(239)		
Operating business cash flow	(120)		

Movement in Net Debt

First Half
2006

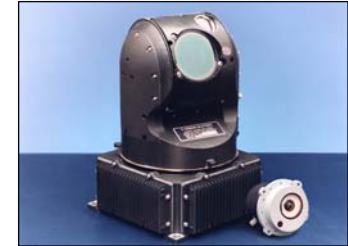
Net Debt 31.12.05	(1,277)
Operating business cash flow	(120)
Interest, preference dividends and taxation	(167)
Equity dividends paid	(203)
Disposals	80
Proceeds from issue of share capital	26
Other non-cash movements	(95)
Foreign exchange	188
Movement in cash on customers' account	(14)
Closing Net Debt 30.06.06	(1,582)

Group Structure



Electronics, Intelligence & Support

	First Half 2006	First Half 2005
Sales	\$3,743m	\$3,213m
EBITA	\$466m	\$283m
Margin	12.4%	8.8%
Order book	\$6.1bn	\$6.0bn
Cash flow	\$315m	\$324m



Land & Armaments

	First Half 2006	First Half 2005
Sales	\$1,598m	\$631m
EBITA	\$136m	\$15m
Underlying EBITA	\$136m	\$26m
Underlying Margin	8.5%	4.1%
Order book	\$7.8bn	\$7.9bn
Cash flow	\$(90)m	\$(94)m



Programmes

	First Half 2006	First Half 2005
Sales	£1,186m	£1,207m
EBITA	£57m	£88m
Margin	4.8%	7.3%
Order book	£12.0bn	£12.9bn
Cash flow	£(33)m	£(88)m



Customer Solutions & Support

	First Half 2006	First Half 2005
Sales	£1,462m	£1,279m
EBITA	£215m	£185m
Margin	14.7%	14.5%
Order book	£4.8bn	£4.2bn
Cash flow	£2m	£429m



Integrated Systems & Partnerships

	First Half 2006	First Half 2005
Sales	£798m	£722m
EBITA	£57m	£17m
Margin	7.1%	2.4%
Order book	£6.4bn	£6.0bn
Cash flow	£(33)m	£(106)m



Commercial Aerospace

	First Half 2006	First Half 2005
Sales	£1,984m	£1,660m
EBITA	£155m	£154m
Margin	7.8%	9.3%
Order book	£27.0bn	£22.4bn
Cash flow	£57m	£294m



Financial Highlights

• Sales	£8,214m
• EBITA*	£788m
• Margin	9.6%
• Underlying earnings per share **	15.4p
• Net cash flow from operating activities	£(293)m
• Net debt	£(1,582)m
• Order book	£56.9bn
• Dividend per share	4.4p



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

** excluding amortisation of intangible assets and non-cash finance movements

Mike Turner



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. Progress US/UK technology sharing**
 - 9. Implement way forward on pension schemes**
 - 10. Drive to performance culture**
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Summary

- **Good domestic market positions**
- **Good programme schedule and cost adherence**
- **Good financial performance**

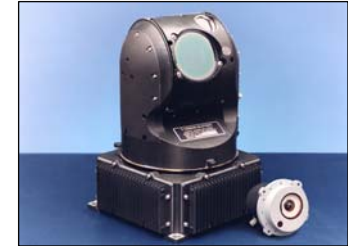
Delivering planned growth



Handouts

Electronics, Intelligence & Support

	First Half 2006	First Half 2005
Sales	£2,090m	£1,715m
EBITA	£260m	£151m
Margin	12.4%	8.8%
Order book	£3.3bn	£3.4bn
Cash flow	£176m	£173m



Land & Armaments

	First Half 2006	First Half 2005
Sales	£892m	£337m
EBITA	£76m	£8m
Underlying EBITA	£76m	£14m
Underlying Margin	8.5%	4.2%
Order book	£4.2bn	£4.4bn
Cash flow	£(50)m	£(50)m



Underlying Earnings per Share

Continuing Operations

	First Half 2006	First Half 2005
EBITA	788	566
- Add back fair value on acquired inventories	-	6
	<u>788</u>	<u>572</u>
Interest	(174)	(56)
- exclude pension financing credit	(15)	1
- exclude market value movements on instruments	87	(41)
	<u>(102)</u>	<u>(96)</u>
Tax	(155)	(147)
- impact of fair value on acquired inventories	-	(2)
- impact of pension financing credit	4	-
- impact of market value movements on instruments	(24)	11
- exclude tax on intangibles	(14)	-
	<u>(189)</u>	<u>(138)</u>
Minority Interests	(1)	(1)
	<u>496</u>	<u>337</u>
Underlying earnings	496	337
Weighted average number of shares in issue	3,220	3,152
Underlying earnings per share	15.4p	10.7p

£ millions

Operating Cash Flow

First Half 2006

EBITA*	788
Less share of equity accounted investments	(236)
Add depreciation	120
Gain on disposal of fixed assets	(109)
Gain on disposal of business	(11)
Impairment of other investments	(1)
Cost of equity-settled employee share schemes	10
Movements in retirement benefit obligations	(642)
Movements in provisions	(37)
Movements in inventories	(10)
Movements in trade and other receivables	(165)
Movements in trade and other payables	-
Cash flow from operating activities	(293)

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

£ millions

Working Capital Movements

Reconciliation to Cash Flow

	30/6/06	31/12/05	Mvt	Acq/Dis *	F/X	Other	Cash Flow
Inventories (A)	456	485	29	(8)	(32)	1	(10)
Receivables - current	2,245	1,877					
Receivables - non current	616	912					
Total receivables (B)	2,861	2,789	(72)	20	(98)	(15)	(165)
Payables - current	(6,855)	(7,006)					
Payables - non current	(498)	(432)					
Total payables ** (C)	(7,353)	(7,438)	(85)	6	62	17	-
Liability provisions - current	(331)	(343)					
Liability provisions - non current	(327)	(375)					
Total liability provisions (D)	(658)	(718)	(60)	(2)	25	-	(37)
Working capital per cash flow	(4,694)	(4,882)	(188)				
Cash on customers' account (E)	67	53	(14)				
Working capital per balance sheet ***	(4,627)	(4,829)	(202)				

* Includes Assets Held for Resale

** includes cash on customers' account

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

£ millions

Performance by Business Group

	Sales	EBITA *
Electronics, Intelligence & Support	2,090	260
Land & Armaments	892	76
Programmes	1,186	57
Customer Solutions & Support	1,462	215
Integrated Systems & Partnerships	798	57
Commercial Aerospace	1,984	155
HQ and other businesses	32	(32)
Intra-group	(230)	-
Total	8,214	788

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

£ millions

Airbus sale

- **Timetable**
 - EGM and shareholder approval
 - share buy-back
 - **Tax rate**
 - **Shares in issue**
 - **Accounting**
 - discontinued activity on approval
 - pro forma 2006 EPS
 - **Sector reporting**
 - Regional Aircraft results reported in HQ and other businesses
-