

BAE Systems

2007 Interim Results

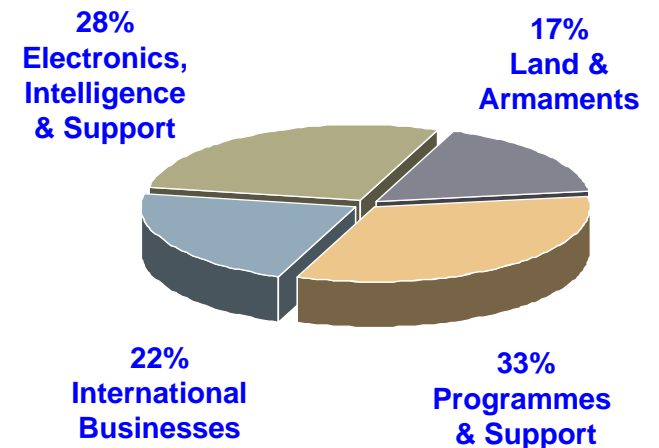
9 August 2007



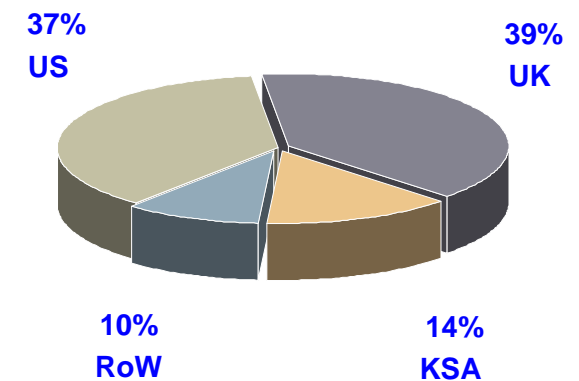
2007 First Half - Overview

- All Businesses performing well
- Strong recovery in UK continues
 - good programme execution
 - recovery in UK land systems
- Strategy implementation
 - delivering growth in key US market
 - developing multi-home market strategy
- New programmes in Saudi Arabia progressing
- Establishing leadership position in land sector
 - Armor Holdings acquisition

Sales by Sector



Sales by origin



Good results delivered across the company

UK businesses

- **Air**
 - Typhoon capability
 - Military air support successes
- **Land**
 - Urgent Operational Requirements
 - FRES opportunity
- **Naval**
 - Type 45
 - Daring sea trials commenced
 - Six ship contract
 - Astute
 - Successful roll-out and launch
 - Follow-on boat pricing agreed
 - CVF
 - Naval consolidation



Implementation of UK Defence Industrial Strategy well underway

UK Naval Consolidation

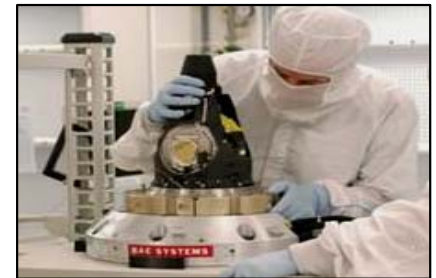
- **Joint Venture with VT Group**
 - consolidates Portsmouth and Clydeside warship build and support
 - joint venture to be owned 45% VT / 55% BAE Systems
 - Call on VT's JV interest in 2010 for minimum value of £380m
- **MoD benefits**
 - synergy cost reductions
- **Industry benefits**
 - new naval Terms of Business
 - secure workload
- **50% interest in Flagship Training to be sold to VT**



Naval consolidation consistent with UK DIS

US businesses

- **Electronics, Intelligence & Support**
 - Strong demand for EW systems continues
 - 1,000th CMWS delivered
 - Thermal Weapon Sight follow-on contract
 - THAAD seeker award
 - Successful Technical Support recompetes
- **Land & Armaments**
 - Further Bradley, M88 and M113 reset contract awards
 - New RG33 wheeled vehicle assembly facility established
 - Orders for 535 RG33 US MRAP vehicles
 - Armor Holdings acquisition



BAE Systems is the 6th largest US defence supplier

Armor Holdings



- Leading producer of medium tactical vehicles
- Major supplier of armour technology



- \$4.5bn acquisition of Armor Holdings completed 31 July
- Significant further step in BAE Systems' strategy
 - to grow as the premier global defence and aerospace company
- Enhances position as leading global land systems business
- Addresses wheeled support vehicle growth opportunities
- Complements established strong tracked combat vehicle position



Other Home Markets

- **Saudi Arabia**
 - Investments in-Kingdom
 - industrialisation plan
 - new super-compounds
 - Modernisation programme underway
 - C4I and armoured vehicles orders secured
 - Typhoon negotiations progressing
- **Sweden**
 - Dutch CV90 deliveries underway
- **South Africa**
 - RG31 vehicle exports
- **Australia**
 - Through-life capability provision
 - Hawk
 - Wedgetail subcontract



Top Ten Objectives - 2007

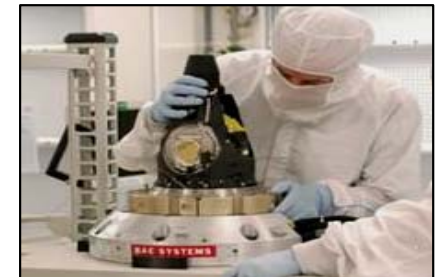
- 1. Meet 2007 financial targets and set realistic/challenging longer term plans**
 - 2. Ensure continued quality application of our mandated business processes**
 - 3. Further enhance programme execution - schedule and cost performance**
 - 4. Continue to grow our US business**
 - 5. Continue to implement the UK defence industrial strategy**
 - 6. Progress business and investment in the Kingdom of Saudi Arabia**
 - 7. Develop export opportunities from each of our home markets**
 - 8. Demonstrate commitment to working together across our global businesses**
 - 9. Maximise development and growth of existing and potential new home markets**
 - 10. Demonstrate leadership at all levels in our company**
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George Rose



Financial Highlights

- Sales - continuing **£6,891m**
- EBITA - continuing * **£700m**
- Underlying earnings per share - continuing ** **15.3p**
- Cash inflow from operating activities **£165m**
- Net cash **£1,266m**
- Order book **£31.7bn**
- Interim dividend per share **5.0p**



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

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

Income Statement

- Continuing Operations

	First Half 2007 Underlying	First Half 2006 Underlying	First Half 2007 Reported	First Half 2006 Restated**
Sales	6,891	6,376	6,891	6,376
EBITA *	700	600	700	600
Finance Costs	31	(150)	31	(150)
(deduct) / add back: Pension Interest	(49)	(15)		
Mark to Market	(2)	72		
Underlying Finance Costs	(20)	(93)		
Amortisation/Impairment			(50)	(53)
Tax	(179)	(131)	(180)	(104)
Minority Interests	(3)	(1)		
Profit after Tax	498	375	501	293

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

** restated following the disposal of Airbus in October 2006

£ millions

Balance Sheet

	30/06/07	31/12/06
Intangible fixed assets	7,445	7,595
Tangible fixed assets	1,755	1,869
Investments	680	678
Working capital	(3,963)	(4,598)
Retirement benefit obligations	(1,788)	(2,499)
Tax assets & liabilities	255	648
Financial assets & liabilities	41	6
Assets held for resale	72	-
Net cash	1,266	435
Net assets	5,763	4,134

£ millions

Retirement Benefit Obligations

	First Half 2007
Deficit in defined benefit pension plans at 31.12.06	(3,167)
Asset returns	116
Discount rates	1,047
Mortality assumptions	(198)
Contributions over service cost	150
Other movements	53
Deficit in defined benefit pension plans at 30.06.07	(1,999)
US Healthcare plans	(19)
Total IAS 19 deficit	(2,018)
Allocated to EAls and other participating employers	525
Group's share of IAS 19 deficit * (pre-tax)	(1,493)
Group's share of IAS 19 deficit (post-tax)	(1,064)

* Balance Sheet classification : £295m within Receivables, £(1,788)m Retirement Benefit Obligations

Operating Business Cash Flow

**First Half
2007**

Cash inflow from operating activities
 Capital expenditure (net) & financial investment
 Dividends from equity accounted investments
 Operating business cash flow

165

(82)

41

124

Electronics, Intelligence & Support
 Land & Armaments
 Programmes & Support
 International Businesses
 HQ & Other Businesses
 Operating business cash flow

95

(47)

184

26

(134)

124

£ millions

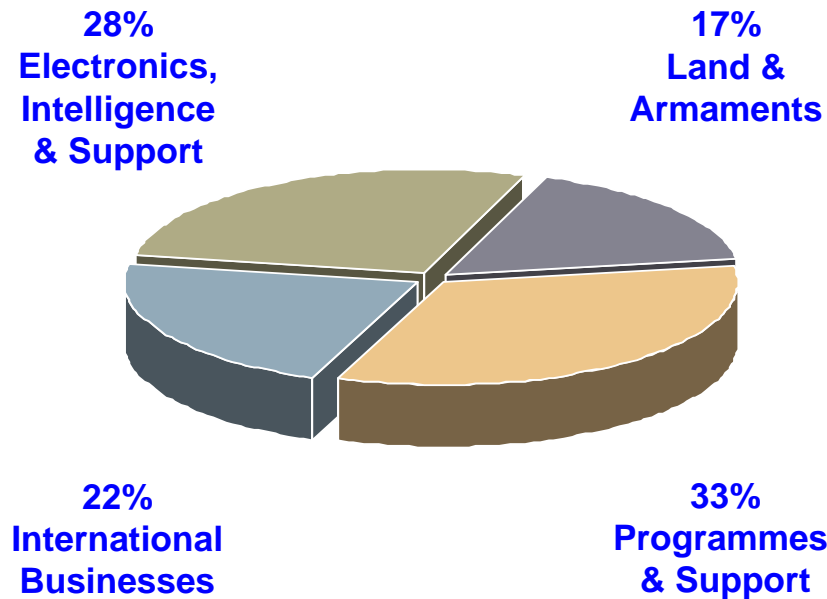
Movement in Net Cash

	First Half 2007
Net Cash 31.12.06	435
Operating business cash flow	124
Interest, preference dividends and taxation	(72)
Equity dividends paid	(221)
Acquisitions & disposals	75
Other non-cash movements	6
Net issue of equity shares	604
Preference share conversion	242
Foreign exchange	50
Movement in cash on customers' account	23
Net Cash 30.06.07	1,266

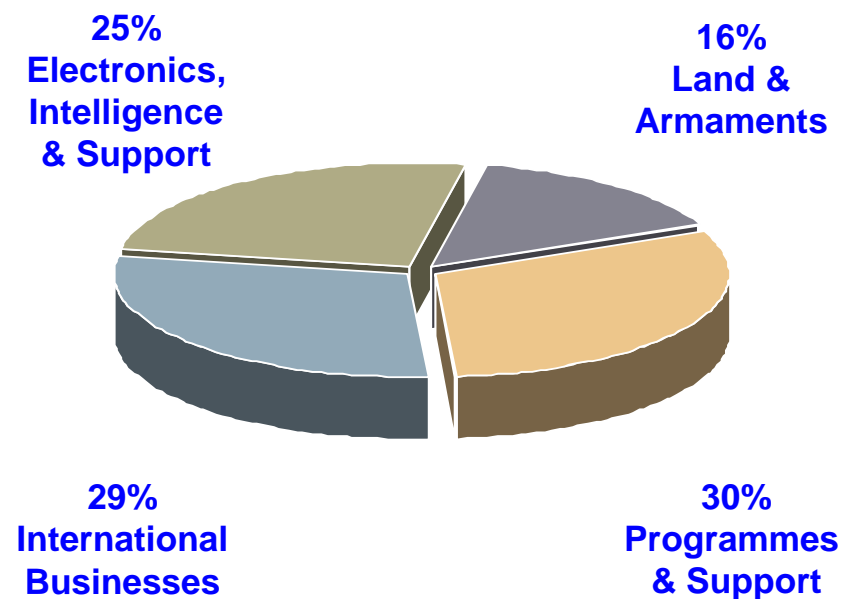
£ millions

Business Groups

**First Half 2007
Sales by Sector ***



**First Half 2007
EBITA by Sector ***



Strong performance – well balanced business

* excludes HQ & Other Businesses

Electronics, Intelligence & Support

	First Half 2007	First Half 2006
Sales	\$3,857m	\$3,743m
EBITA	\$380m	\$466m *
Margin	9.9%	12.4% *
Order book	\$6.7bn	\$6.1bn
Cash flow	\$187m	\$315m



* includes \$113m pension accounting gain

Land & Armaments

	First Half 2007	First Half 2006
Sales	\$2,366m	\$1,598m
EBITA	\$230m	\$136m
Margin	9.7%	8.5%
Order book	\$10.0bn	\$7.8bn
Cash flow	\$(93)m	\$(90)m



Programmes & Support

	First Half 2007	First Half 2006
Sales	£2,354m	£2,018m
EBITA	£231m	£153m
Margin	9.8%	7.6%
Order book	£17.3bn	£16.6bn
Cash flow	£184m	£55m



International Businesses

	First Half 2007	First Half 2006
Sales	£1,550m	£1,545m
EBITA	£221m	£176m
Margin	14.3%	11.4%
Order book	£7.2bn	£7.0bn
Cash flow	£26m	£(119)m



HQ & Other Businesses

	First Half 2007	First Half 2006
Sales	£124m	£178m
EBITA	£(62)m	£(65)m
Cash flow	£(134)m	£(287)m



Financial Summary

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• EBITA - continuing *	£700m
• Underlying earnings per share - continuing **	15.3p
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• Net cash	£1,266m
• Order book	£31.7bn
• Interim dividend per share	5.0p



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Mike Turner



Summary

- **The company is performing well**
- **Delivering cost effective capability for our customers**
- **Delivering good growth and returns for our shareholders**