

BAE Systems

2006 Preliminary Results

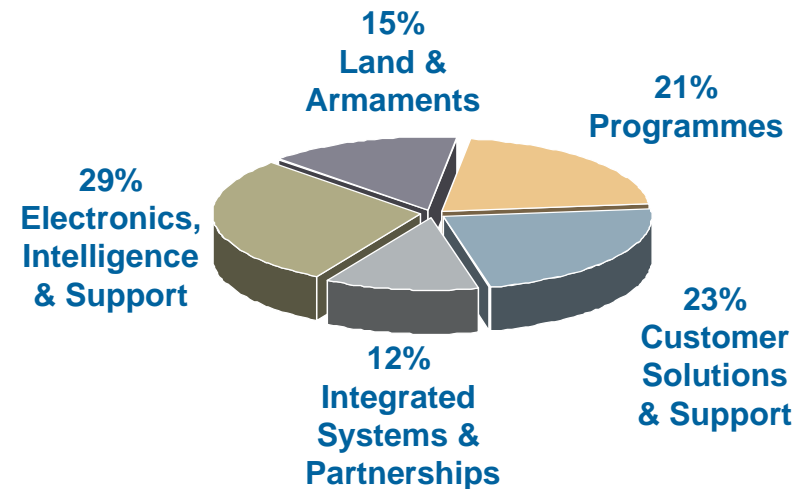
22 February 2007



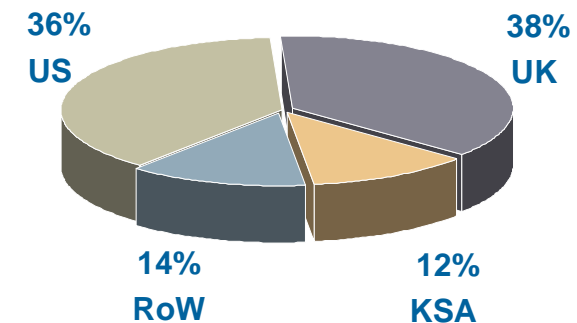
2006 – Performance overview

- Another strong performance
- US businesses
 - performing well
 - good order intake
- UK businesses
 - good programme execution
 - delivering through-life capability
- Pension funding issues addressed
- Airbus disposal completed
- New Saudi Arabia programme progressing

Sales by Sector



Sales by origin

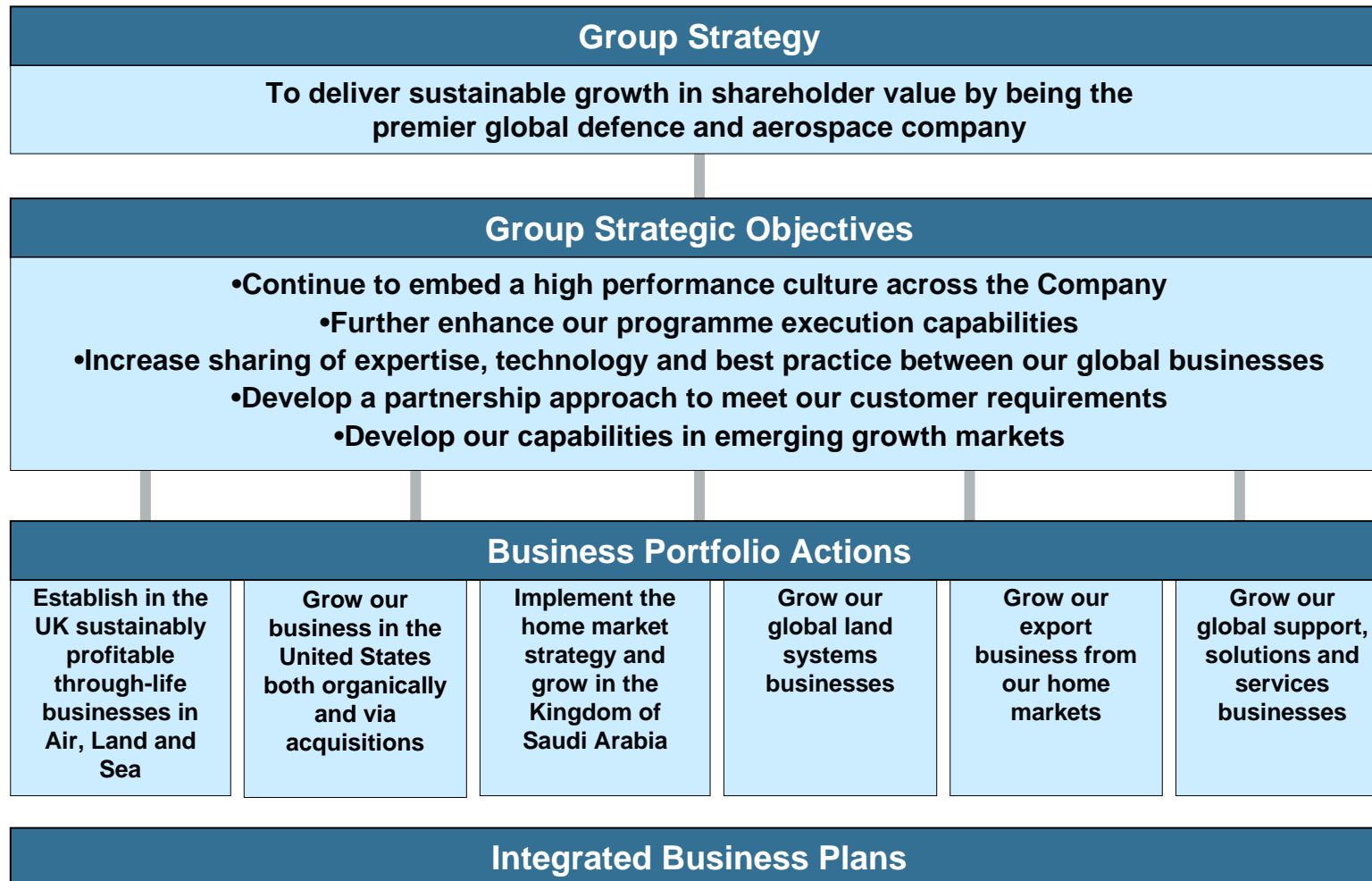


Good results delivered across the company

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 embed a high performance culture by clear and strong leadership**
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2007 Strategic Framework



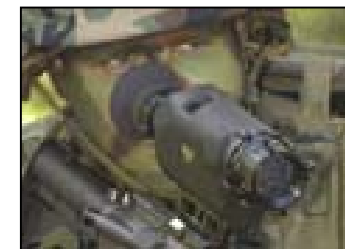
Through-life business in UK

- **Through-life capability management**
 - AFV Long Term Partnering Agreement
 - Tornado ATTAC
- **Typhoon**
- **FRES**
- **Naval programmes**
 - Type 45
 - Astute
 - CVF
- **Naval consolidation opportunity**



US

- **Land & Armaments**
 - UDI integration complete
 - Bradley, M113 and M88 reset activity continuing at high level
 - Light Armoured Vehicle order for Iraqi armed forces
- **EI&S**
 - Strong demand for EW systems
 - Federal IT wins
 - Development of support solutions – eg FastTrack



BAE Systems is the 7th largest US defence supplier



Home market strategy in the Kingdom of Saudi Arabia

- **Saudisation**
 - Transition from export market to home market
 - Establish indigenous capability
- **Modernisation of existing assets**
- **Typhoon negotiations progressing**
- **Through-life support**
- **Other new business opportunities**



Other Home Markets

- **Sweden**
 - Export successes in
 - CV 90 medium tank
 - All terrain vehicles
 - Strong domestic customer support
 - SEP
- **South Africa**
 - Growing mine-protected vehicle exports
- **Australia**
 - Hawk Lead-in Fighter support



Grow exports from home markets

- **UK**
 - Hawk
 - M 777
 - Naval ships
- **Australia**
 - Wedgetail subcontracts
- **Sweden**
 - CV 90
 - All-terrain vehicles
- **South Africa**
 - Mine protected vehicles
- **Saudi Arabia**
 - Regional opportunities
- **US**
 - Armoured vehicles
 - EW systems

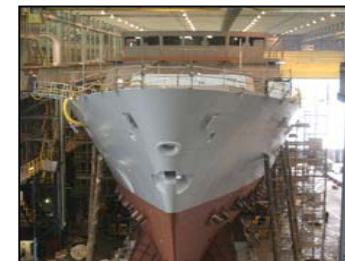


George Rose



Financial Highlights

• Sales - continuing	£13,765m
• EBITA - continuing *	£1,207m
• Underlying earnings per share - continuing **	23.8p
• Net cash flow from operating activities	£778m
• Net cash	£435m
• Order book	£31.7bn
• Dividend per share	11.3p



* Earnings before amortisation and impairment of intangible assets, finance costs and taxation
 ** excluding amortisation and impairment of intangible assets and non-cash finance movements

Balance Sheet

	31/12/06	31/12/05
Intangible fixed assets	7,595	8,217
Tangible fixed assets	1,869	1,922
Investments	678	1,730
Working capital	(4,598)	(4,829)
Retirement benefit obligation	(2,499)	(4,101)
Tax assets & liabilities	648	1,012
Financial assets & liabilities	6	(7)
Assets held for resale	-	137
Net cash/(debt)	435	(1,277)
Net assets	4,134	2,804

£ millions

Retirement Benefit Obligations

	2006	
Deficit in defined benefit pension plans at 31.12.05	(5,306)	
Discount rates	473	
Asset returns	521	
One-off contributions	733	
Recurring contributions over service cost	131	
Curtailment gains	113	
Disposals	66	
Other movements	102	
Deficit in defined benefit pension plans at 31.12.06	(3,167)	
US Healthcare plans	(35)	
Total IAS 19 deficit	(3,202)	
Allocated to EAls and other participating employers	774	
Group's share of IAS 19 deficit	(2,428)	
		£ millions

Deficit reduced to £1.7bn post tax

Operating Business Cash Flow

	2006		
Cash flow from operating activities	778		
Capital expenditure (net) & financial investment	(141)		
Dividends from equity accounted investments	145		
Operating business cash flow	782	(253)	1,035
Electronics, Intelligence & Support	273		
Land & Armaments	137		
Programmes	173		
Customer Solutions & Support	289		
Integrated Systems & Partnerships	158		
HQ and other businesses	(225)		
Discontinued businesses	(23)		
Operating business cash flow	782		

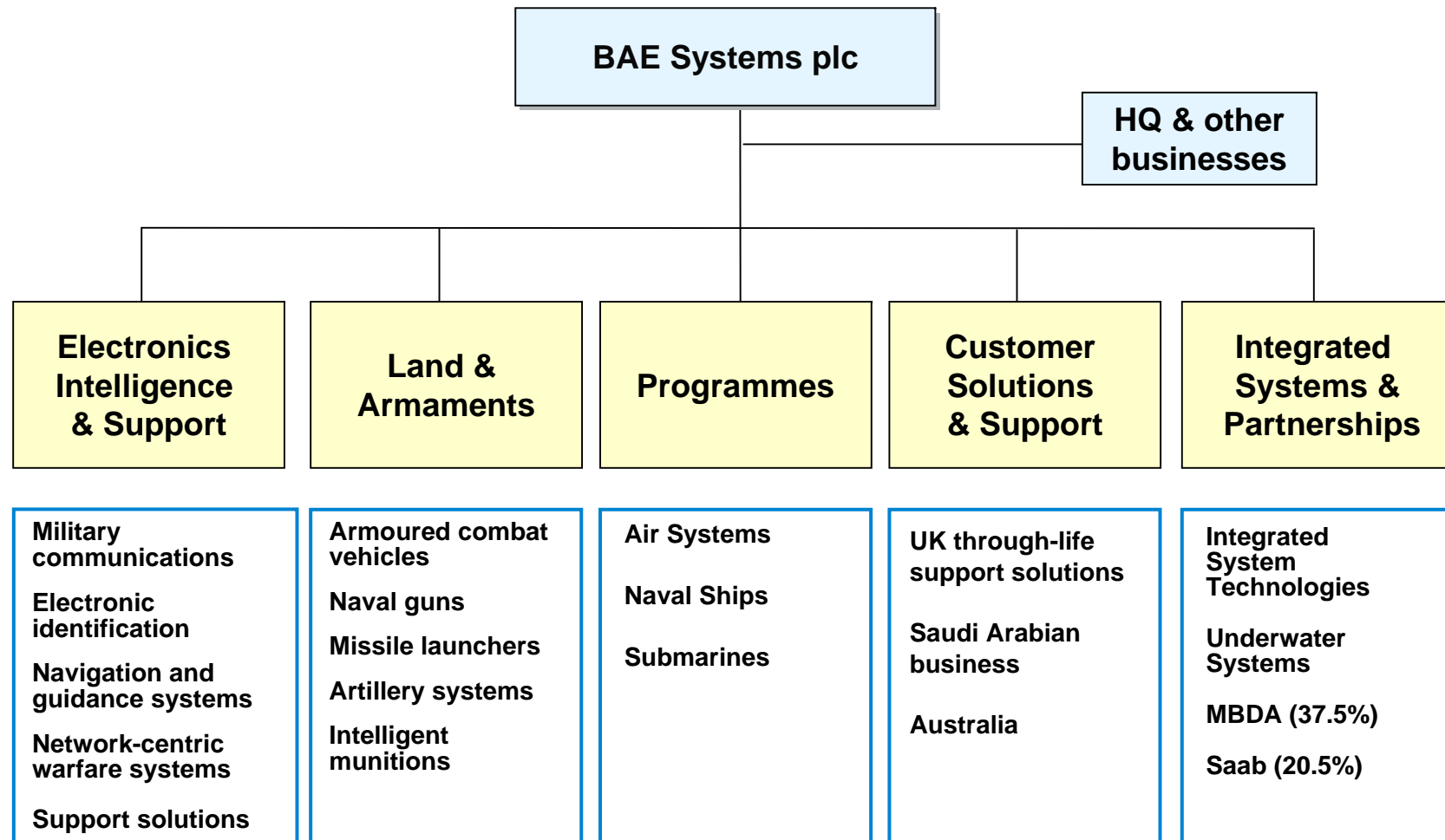
£ millions

Movement in Net Cash/(Debt)

	2006
Net Debt 31.12.05	(1,277)
Operating business cash flow	782
Interest, preference dividends and taxation	(292)
Equity dividends paid	(346)
Acquisitions & disposals	1,330
Other non-cash movements	(5)
Net purchase of equity shares	(71)
Foreign exchange	323
Movement in cash on customers' account	(9)
Closing Net Cash 31.12.06	435

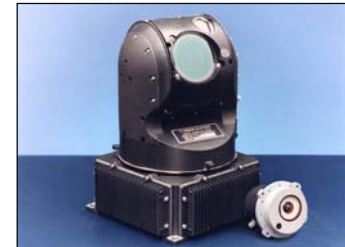
£ millions

Business Groups



Electronics, Intelligence & Support

	2006	2005
Sales	\$7,387m	\$6,726m
EBITA	\$790m	\$590m
Margin	10.7%	8.8%
Order book	\$6.7bn	\$6.0bn
Cash flow	\$503m	\$588m



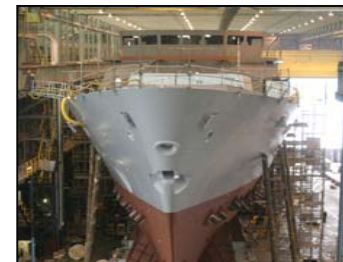
Land & Armaments

	2006	2005
Sales	\$3,899m	\$2,311m
EBITA	\$310m	\$76m
Underlying EBITA	\$310m	\$156m
Underlying Margin	7.9%	6.8%
Order book	\$9.6bn	\$7.6bn
Cash flow	\$253m	\$306m



Programmes

	2006	2005
Sales	£2,927m	£2,819m
EBITA	£167m	£133m
Margin	5.7%	4.7%
Order book	£12.1bn	£12.3bn
Cash flow	£173m	£285m



Customer Solutions & Support

	2006	2005
Sales	£3,180m	£2,923m
EBITA	£477m	£419m
Margin	15.0%	14.3%
Order book	£6.0bn	£5.0bn
Cash flow	£289m	£850m

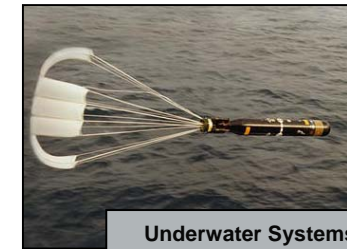


Integrated Systems & Partnerships

	2006	2005
Sales	£1,748m	£1,834m
EBITA	£113m	£109m
Margin	6.5%	5.9%
Order book	£5.8bn	£5.9bn
Cash flow	£158m	£17m



Integrated System Technologies



Underwater Systems



MBDA 37.5%



Saab 20.5%

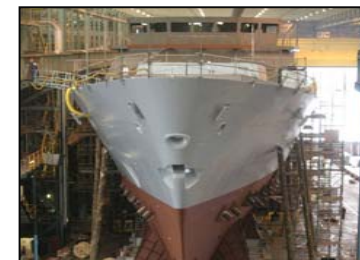
HQ & Other Businesses

	2006	2005
Sales	£295m	£471m
EBITA	£(147)m	£(118)m
Cash flow	£(225)m	£(79)m



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Mike Turner



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. **Focus on export opportunities from each of our home markets**
 8. **Demonstrate our commitment to working together across our global businesses**
 9. **Maximise development and growth of existing and potentially new home markets**
 10. **Demonstrate leadership at all levels in our company**
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Summary

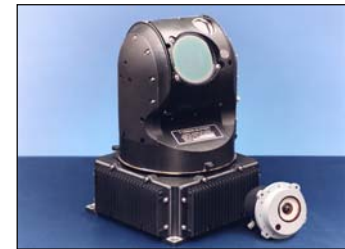
- **Continuing to deliver our strategy**
- **Good financial and programme performance**
- **Delivering value for money for customers**
- **Strong footprint in six home markets**

A quality business with a strong portfolio

Handouts

Electronics, Intelligence & Support

	2006	2005
Sales	£4,007m	£3,697m
EBITA	£429m	£324m
Margin	10.7%	8.8%
Order book	£3.4bn	£3.5bn
Cash flow	£273m	£323m



Land & Armaments

	2006	2005
Sales	£2,115m	£1,270m
EBITA	£168m	£42m
Underlying EBITA	£168m	£86m
Underlying Margin	7.9%	6.8%
Order book	£4.9bn	£4.4bn
Cash flow	£137m	£168m



Underlying Earnings per Share

Continuing Operations

	2006	2005
EBITA	1,207	909
- Add back fair value on acquired inventories	-	44
	<u>1,207</u>	<u>953</u>
Interest	(174)	(196)
- exclude pension financing credit	(45)	1
- exclude market value movements on derivatives	62	4
	<u>(157)</u>	<u>(191)</u>
Tax	(248)	(147)
- impact of fair value on acquired inventories	-	(10)
- impact of pension financing credit	12	-
- impact of market value movements on derivatives	(16)	(1)
- exclude tax on intangibles	(28)	(17)
	<u>(280)</u>	<u>(175)</u>
Minority Interests	(3)	(2)
	<u>767</u>	<u>585</u>
Underlying earnings	767	585
Weighted average number of shares in issue	3,225	3,183
Underlying earnings per share	23.8p	18.4p

£ millions

Operating Cash Flow

	2006
EBITA*	1,207
Less share of equity accounted investments	(127)
Add depreciation	283
Gain on disposal of fixed assets	(144)
Gain on disposal of business	(13)
Impairment of other investments	2
Cost of equity-settled employee share schemes	21
Movements in retirement benefit obligations	(834)
Movements in provisions	47
Movements in inventories	28
Movements in trade and other receivables	(187)
Movements in trade and other payables	495
Cash flow from operating activities	778

£ millions

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

Working Capital Movements

Reconciliation to Cash Flow

	31/12/06	31/12/05	Mvt	Acq/Dis *	F/X	Other	Cash Flow
Inventories (A)	395	485	90	(8)	(54)	-	28
Receivables - current	2,253	1,877					
Receivables - non current	569	912					
Total receivables (B)	2,822	2,789	(33)	16	(165)	(5)	(187)
Payables - current	(6,717)	(7,006)					
Payables - non current	(465)	(432)					
Total payables ** (C)	(7,182)	(7,438)	(256)	600	167	(16)	495
Liability provisions - current	(424)	(343)					
Liability provisions - non current	(271)	(375)					
Total liability provisions (D)	(695)	(718)	(23)	2	41	27	47
Working capital per cash flow	(4,660)	(4,882)	(222)				
Cash on customers' account (E)	62	53	(9)				
Working capital per balance sheet ***	(4,598)	(4,829)	(233)				

* 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	4,007	429
Land & Armaments	2,115	168
Programmes	2,927	167
Customer Solutions & Support	3,180	477
Integrated Systems & Partnerships	1,748	113
HQ and other businesses	295	(147)
Intra-group	(507)	
	<hr/>	<hr/>
Total	13,765	1,207

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

£ millions