

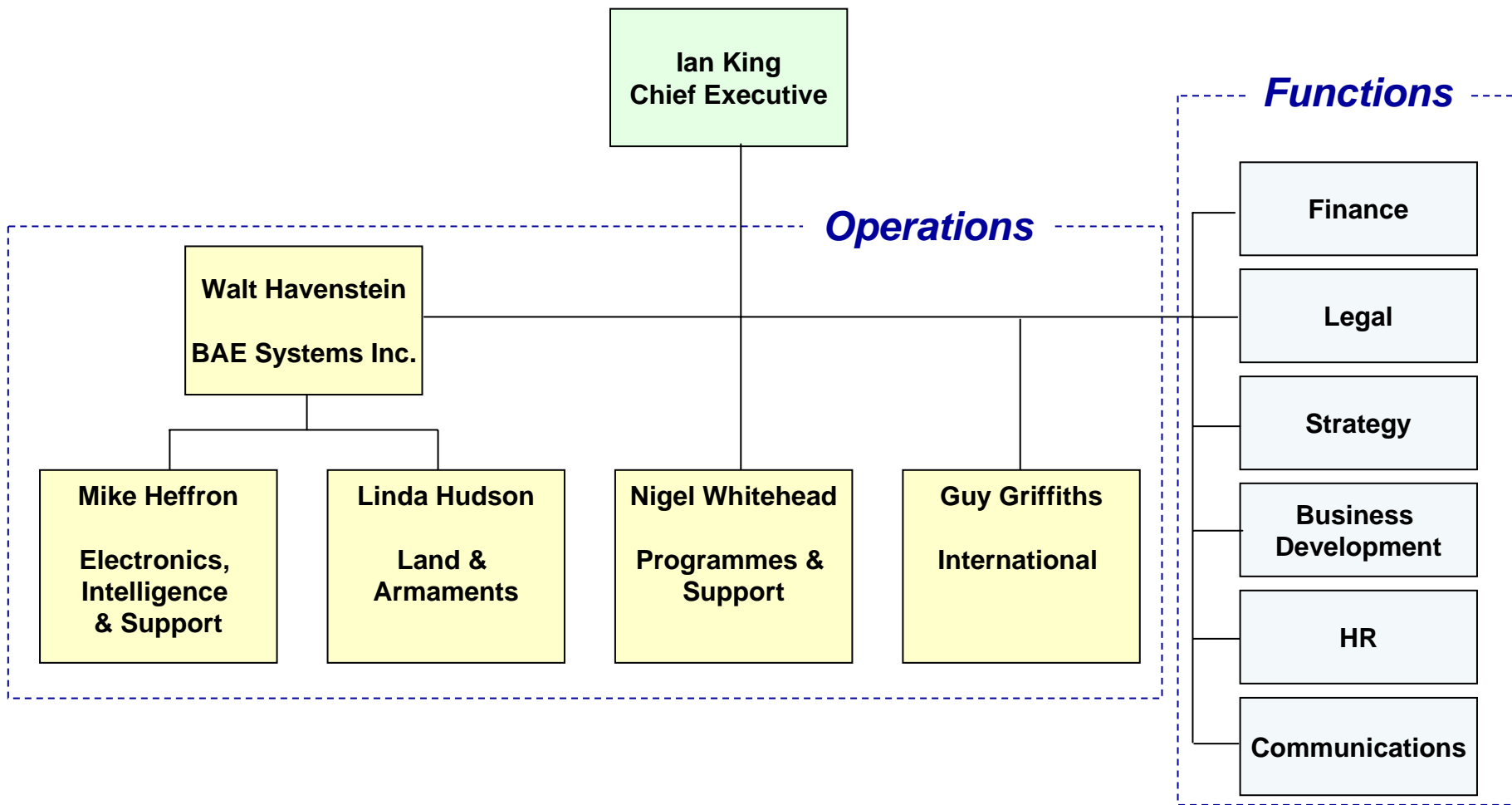
BAE Systems

2008 Preliminary Results

19 February 2009



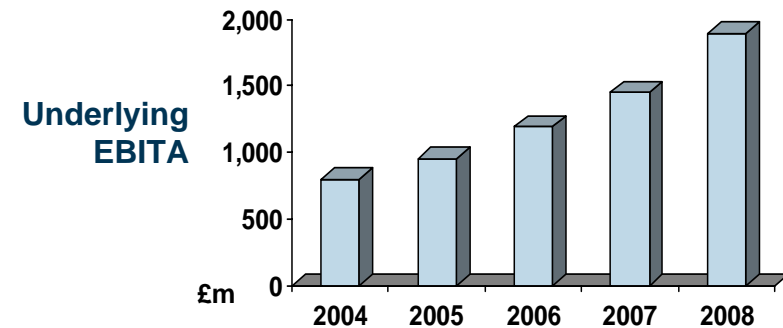
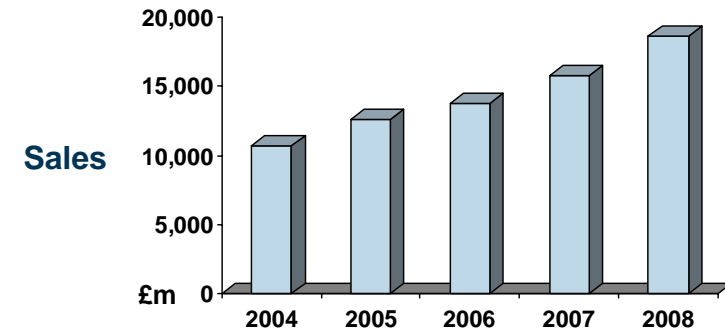
Organisation



Overview - 2008

- **Continued good performance**
 - Delivering against objectives
 - Establishing consistent track record

- **Well-positioned**
 - Large forward order book
 - Well-balanced spread of programmes
 - Realistically based plans
 - Broad base of geographic markets



Good basis for delivering sustainable growth in shareholder value

George Rose



- **Acquisition contributions**
 - MTC Technologies completed 9 June 2008
 - Tenix Defence completed 27 June 2008
 - Detica completed 25 September 2008
 - Armor Holdings full year contribution

 - **Disposal gains**
 - Gains totalling £238m in 2008 excluded from underlying EBITA
 - Surveillance and Attack
 - Flagship Training
 - BVT
 - Disposal gains removed from 2007 comparatives

 - **Exchange translation**
 - \$1.85 / £ in 2008
 - \$2.00 / £ in 2007
-

Financial Highlights

• Sales - continuing	£18,543m
• Underlying EBITA *	£1,897m
• Underlying earnings per share **	37.1p
• Cash inflow from operating activities	£2,009m
• Net cash	£39m
• Order book	£46.5bn
• Dividend per share	14.5p



* earnings before amortisation/impairment of intangible assets, finance costs and taxation excluding profit on disposal of businesses and uplift on acquired inventories

** excluding amortisation/impairment of intangible assets, non-cash finance movements, profit on disposal of businesses and uplift on acquired inventories

Income Statement

- Continuing Operations

	2008 Underlying	2007 Underlying	2008 Reported	2007 Reported
Sales	18,543	15,710	18,543	15,710
Underlying EBITA *	1,897	1,449	1,897	1,449
Profit on disposed businesses			238	40
Uplift on acquired inventory			-	(12)
EBITA			2,135	1,477
Finance Income	697	93	697	93
deduct: Pension Interest	(53)	(92)		
Mark-to-Market	(746)	(39)		
Underlying Finance Costs	(102)	(38)		
Amortisation/Impairment			(424)	(297)
Tax	(467)	(371)	(640)	(373)
Minority Interests	(23)	(21)		
Profit after tax	1,305	1,019	1,768	900

* earnings before amortisation/impairment of intangible assets, finance costs and taxation (EBITA) excluding profit/(loss) on disposal of businesses and uplift on acquired inventories

Balance Sheet

	31/12/08	31/12/07
Intangible fixed assets	12,306	9,559
Tangible fixed assets	2,558	1,887
Investments	1,040	787
Working capital	(5,785)	(5,481)
Retirement benefit obligations	(3,365)	(1,629)
Tax assets & liabilities	256	63
Financial assets & liabilities	240	52
Assets held for resale	-	64
Net cash	39	700
Net assets	7,289	6,002

£ millions

Retirement Benefit Obligations

	2008
Deficit in defined benefit pension plans at 31.12.07	(1,999)
Asset returns	(3,724)
Discount rates	1,634
Mortality assumptions	(201)
Contributions over service cost	321
Exchange translation	(240)
Other movements	54
Deficit in defined benefit pension plans at 31.12.08	(4,155)
US Healthcare plans	(61)
Total IAS 19 deficit	(4,216)
Allocated to EAls and other participating employers	891
Group's share of IAS 19 deficit, net* (pre-tax)	(3,325)
Group's share of IAS 19 deficit, net (post-tax)	(2,210)

* Balance Sheet classification : £40m within Receivables, £(3,365)m Retirement Benefit Obligations

£ millions

Operating Business Cash Flow

2008

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

2,009
(503)
89
<hr/>
1,595

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

380
467
651
163
(66)
<hr/>
1,595

£ millions

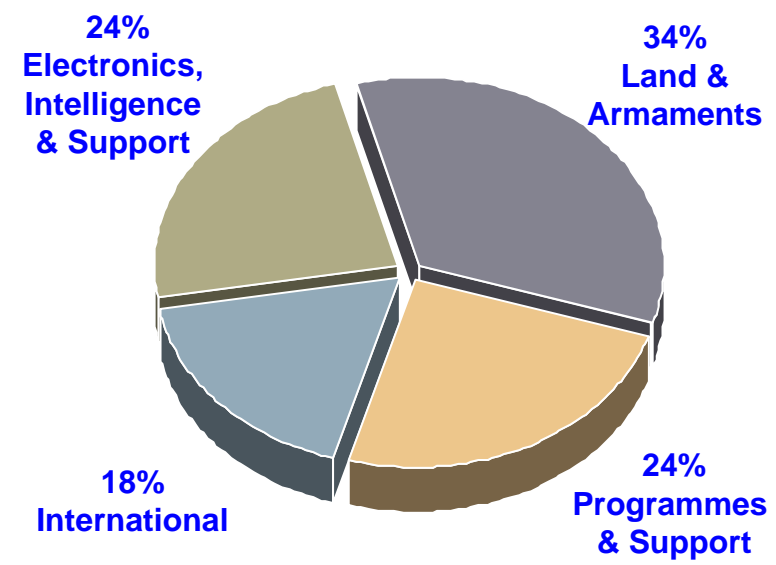
Movement in Net Cash

	2008
Net Cash 31.12.07	700
Operating business cash flow	1,595
Interest and taxation	(359)
Equity dividends paid	(478)
Acquisitions & disposals	(1,038)
Net purchase of equity shares	(27)
Foreign exchange	(374)
Other movements	20
Net Cash 31.12.08	39

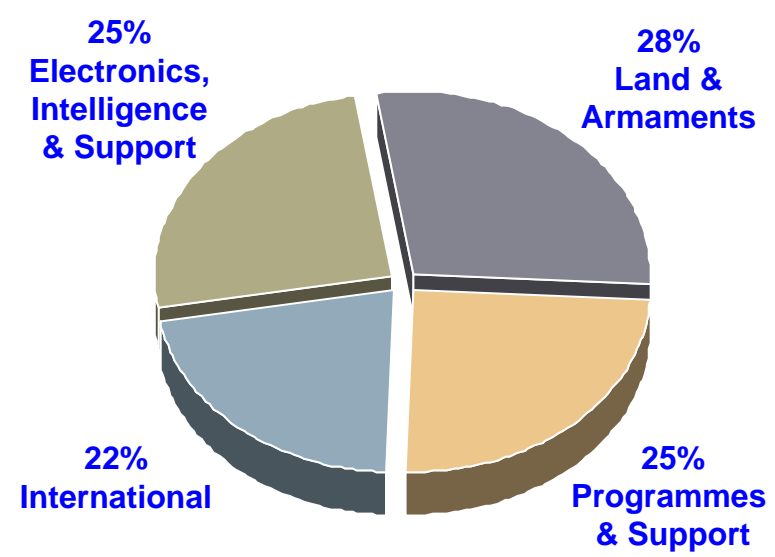
£ millions

Operating Groups

2008
Sales by sector *



2008
Underlying EBITA by sector *



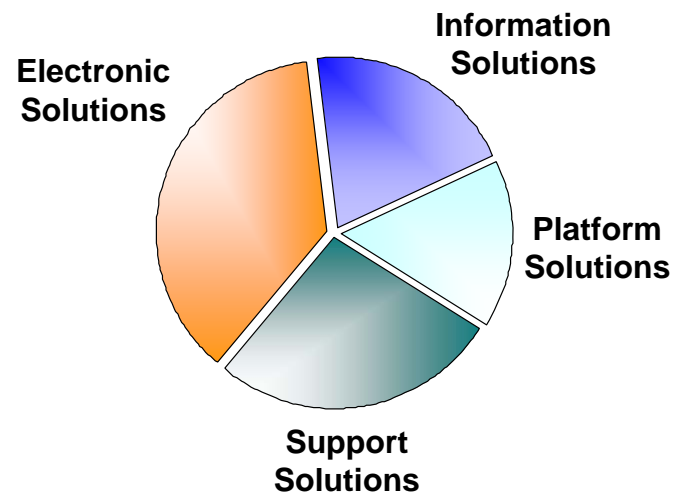
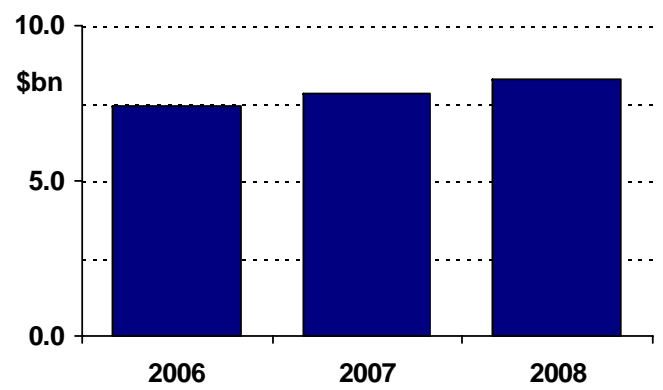
Strong performance – well-balanced business

* excluding HQ & Other Businesses

Electronics, Intelligence & Support

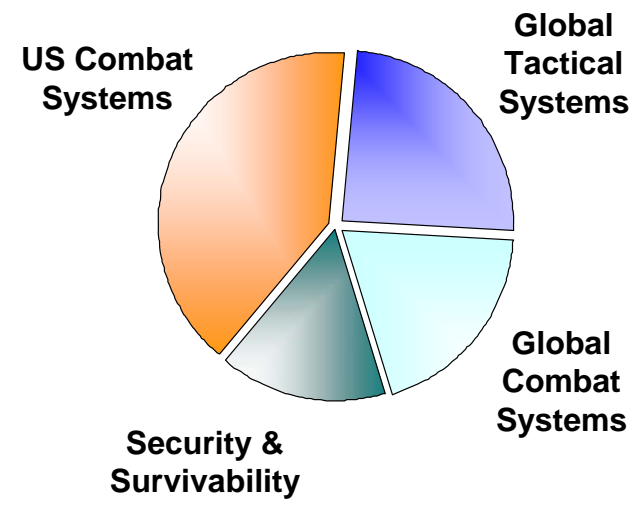
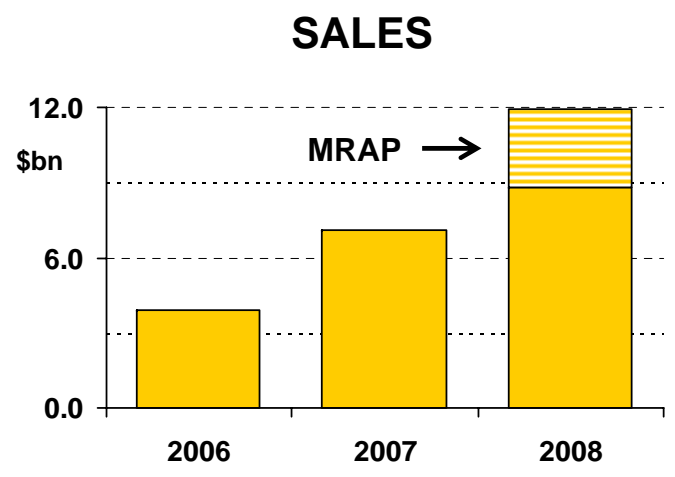
	2008	2007
Sales	\$8,260m	\$7,838m
Underlying EBITA	\$937m	\$875m
Margin	11.3%	11.2%
Order book	\$7.5bn	\$6.9bn
Cash flow	\$704m	\$604m

SALES



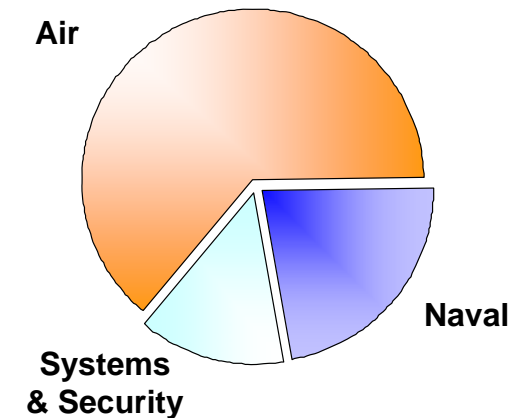
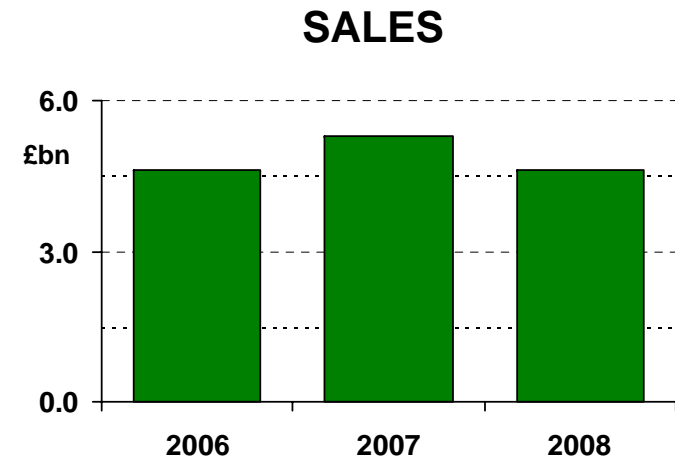
Land & Armaments

	2008	2007
Sales	\$11,869m	\$7,082m
Underlying EBITA	\$1,049m	\$649m
Margin	8.8%	9.2%
Order book	\$16.7bn	\$14.5bn
Cash flow	\$865m	\$20m



Programmes & Support

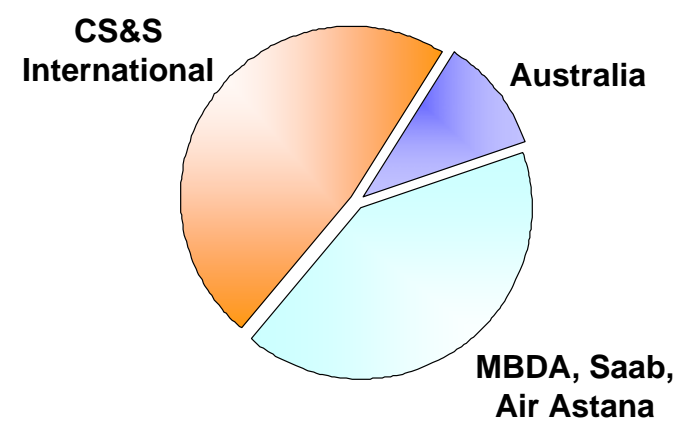
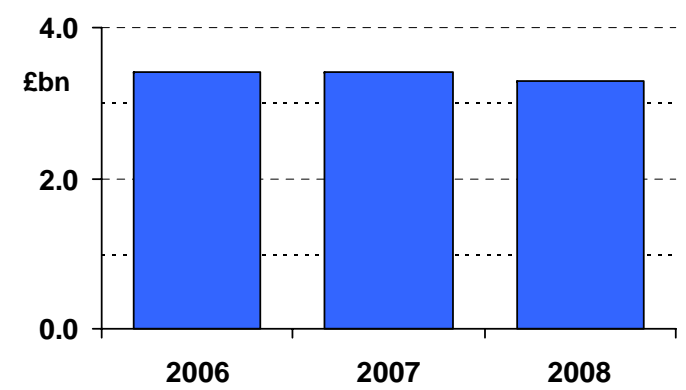
	2008	2007
Sales	£4,638m	£5,327m
Underlying EBITA	£491m	£456m
Margin	10.6%	8.6%
Order book	£19.8bn	£20.9bn
Cash flow	£651m	£807m



International

	2008	2007
Sales	£3,333m	£3,359m
Underlying EBITA	£435m	£435m
Margin	13.1%	13.0%
Order book	£11.0bn	£7.9bn
Cash flow	£163m	£678m

SALES



HQ & Other Businesses

	2008	2007
Sales	£235m	£243m
Underlying EBITA	£(101)m	£(203)m
Cash flow	£(66)m	£181m

- **Regional Aircraft**
- **Shared Services**
 - Research Centres
 - Property Management
- **Head Office**

Pension Schemes – Funding Valuations

	Main Scheme	2000 Plan	ROPS	SIPS	US Plans
Valuation Date	5 Apr '08	5 Apr '07	31 Dec '07	31 Mar '07	31 Dec '08
	£bn	£bn	£bn	£bn	\$bn
Liabilities	9.80	3.31	1.04	1.05	3.7
Assets	7.41	3.02	0.94	1.09	3.3
(Deficit) / Surplus	(2.39)	(0.29)	(0.10)	0.04	(0.4)
Funding Level	76%	91%	90%	104%	89%
Deficit recovery period	20 yrs	10 yrs	10 yrs	n/a	9 yrs
% invested in equities	70%	49%	38%	73%	68%

£ millions

Pensions summary

UK scheme funding

- **Triennial valuations for UK schemes**
- **Major restructuring undertaken in 2006**
- **Previously agreed 20 year recovery plan for Main Scheme to continue**
 - **additional £200m in 2009**

US scheme funding

- **Annual valuations for US schemes**
 - **additional \$250m in 2009**

Financial Highlights

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Ian King

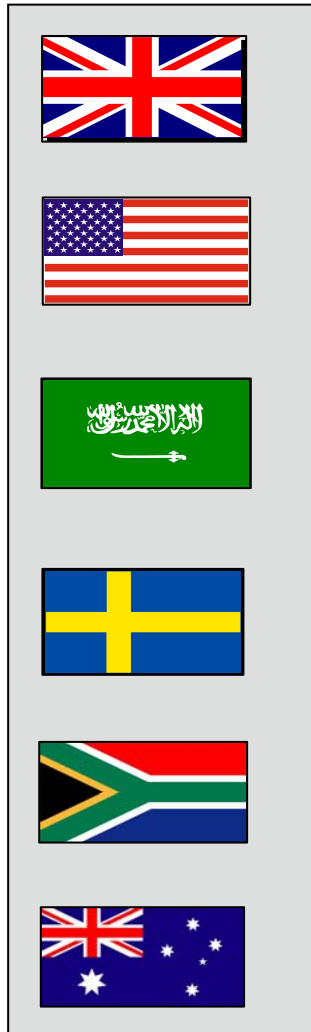


Top Ten Objectives - 2008

- 1. Meet 2008 financial targets and set challenging/realistic longer term plans**
 - 2. Develop partnering approach to meet customers' capability requirements**
 - 3. Ensure continued quality application of our mandated business processes**
 - 4. Further enhance programme execution - schedule and cost performance**
 - 5. Progress development of security capabilities in our home markets**
 - 6. Grow our US business including execution of planned investments**
 - 7. Progress industrialisation plan and further business in Kingdom of Saudi Arabia**
 - 8. Continue to implement the UK Defence Industrial Strategy**
 - 9. Progress export opportunities from each of our home markets**
 - 10. Continue to drive performance in Safety, Ethics and Diversity**
-

- **Organisation**
- **Performance**
- **Markets**
- **Strategy**
- **Business development**

Broadening the base of Home Markets



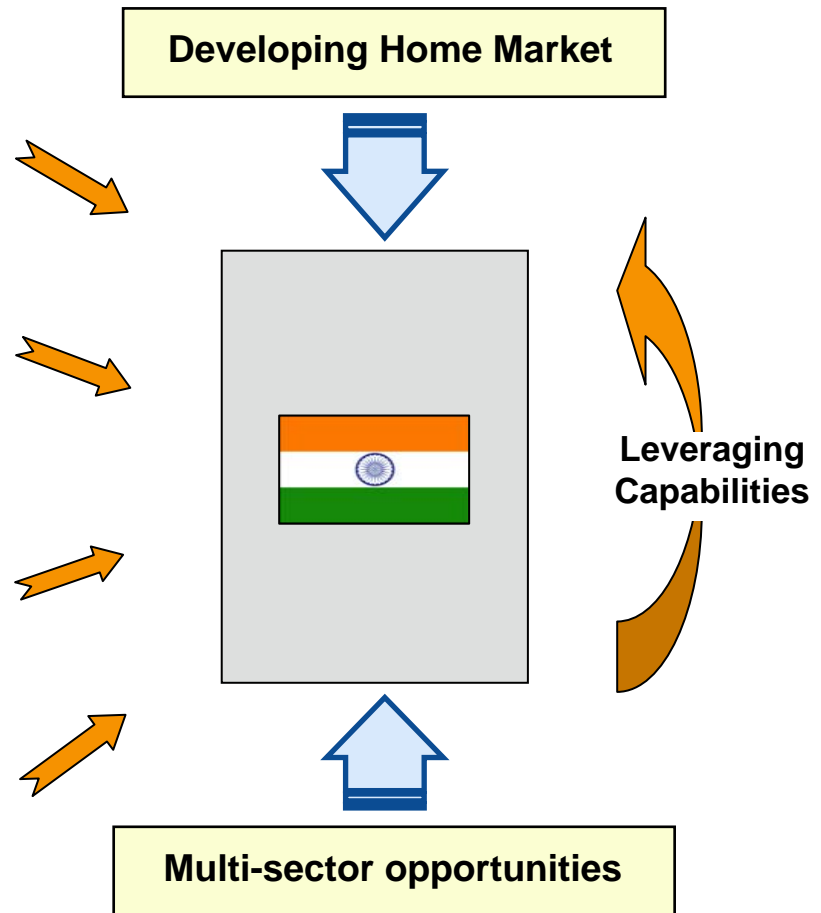
- Drivers and Requirements

Foreign investment and management involvement in defence industry acceptable

Country has economic strength and growth

Country has increasing security requirements and defence needs

Defence industry seeking to expand its technological capability



Programme portfolio

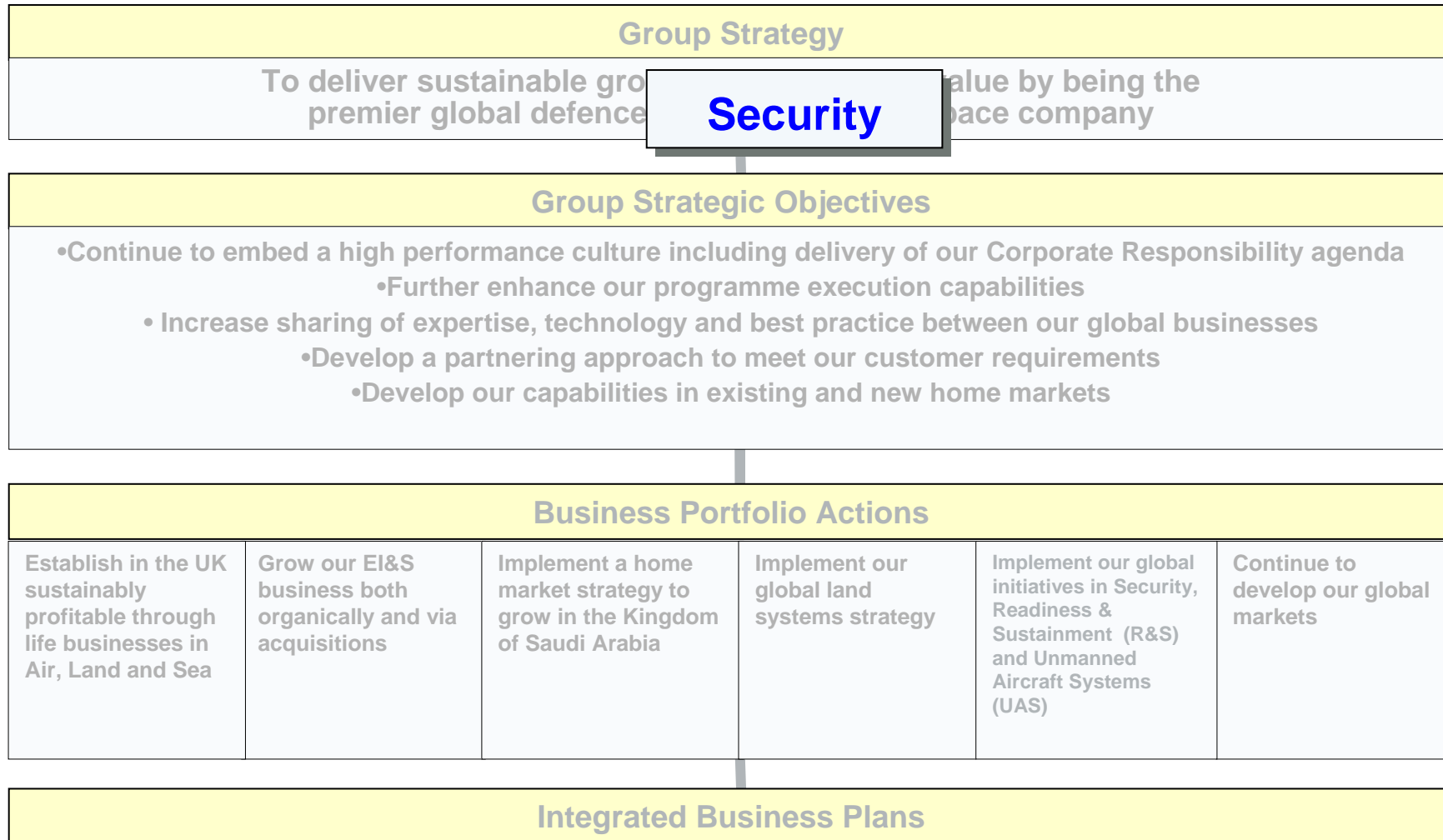


Broad based portfolio of programme involvement

Group Strategic Framework - 2009



Group Strategic Framework - 2009



Security business now embedded in Group Strategy

Group Strategic Framework - 2009



Enhanced focus on embedding Total Performance culture

Group Strategic Framework - 2009



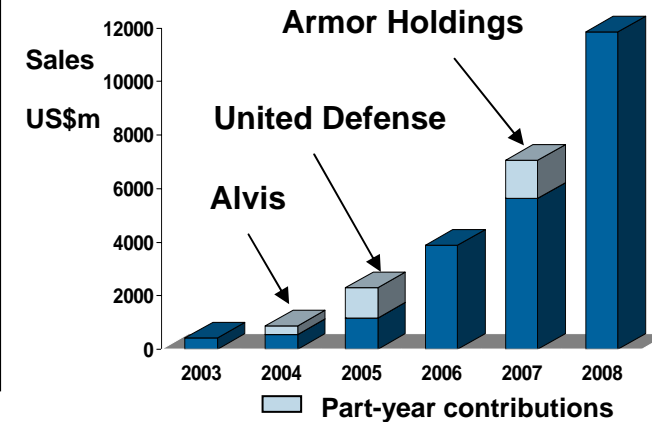
Implement four initiatives to maximise position in Global Markets

Land sector development

Strategy evolution

- 2004 - Alvis**
Through-life capability provision in UK AFV fleet
- 2005 - United Defense**
US tracked combat vehicles reset and upgrade
- 2007 - Armor Holdings**
Demand for Enhanced wheeled vehicle survivability

Land sector growth



Future business

- FMTV** - Core medium utility vehicle programme
- M-ATV** - New enhanced mobility mine protected vehicle
- JLTV** - HMMWV replacement
- Bradley** - Strong continuing demand
- FCS** - Replacement tracked vehicle requirements



Successfully establishing position as the global leader in land systems

Security business

- Evolving and growing security market
- Opportunities to leverage large scale system integration capabilities
- Focus on information and intelligence sector

UK

- UK addressable market set to double to over £3.0bn by 2011
- Detica acquisition
 - leading counter-threat consultancy
 - accelerates implementation of security market strategy

US and other Home Markets

- BAE Systems' existing activities provide a fast track route to achieving scale in Detica's US business
- Combined businesses well placed to address emerging national security opportunities in other home markets

National Security an increasing priority government sector

Readiness & Sustainment

- **Well established as trusted partner supporting UK armed forces**
 - Delivering enhanced availability / capability at lower cost
 - Business model driven by customer affordability constraints
 - Further opportunities across Air, Land & Sea domains
- **Extensive experience in KSA**
 - RSAF support over several decades
 - Preparing for Typhoon introduction
- **Australia adopting through-life model**
 - Hawk & F/A-18 support
 - Tenix acquisition expands opportunities to Land and Sea
- **Significant opportunity in US**
 - Established naval support business now addressing upgrade market
 - Key provider of land systems reset and upgrade
 - MTC acquisition enhances airborne 'readiness and sustainment' position








Provision of common processes through pan-company Support Council

Unmanned Air Systems

- **Group experience in:-**
 - Air systems – UAS
 - Underwater systems – UUS
 - Ground vehicles – UGS
 - Encrypted datalink technology
- **Addressing global demand for UAS to provide range of capabilities;-**
 - Persistent intelligence, surveillance and reconnaissance
 - Provide route map to combat capable systems
- **Focus on fully autonomous mission capabilities**
 - Interoperability with manned systems



Developing a Global business

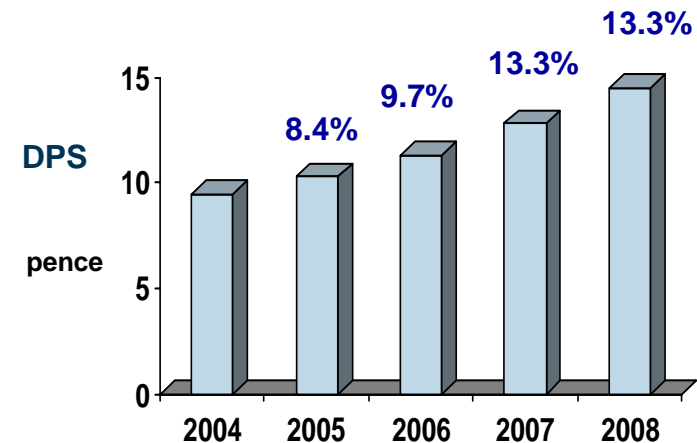
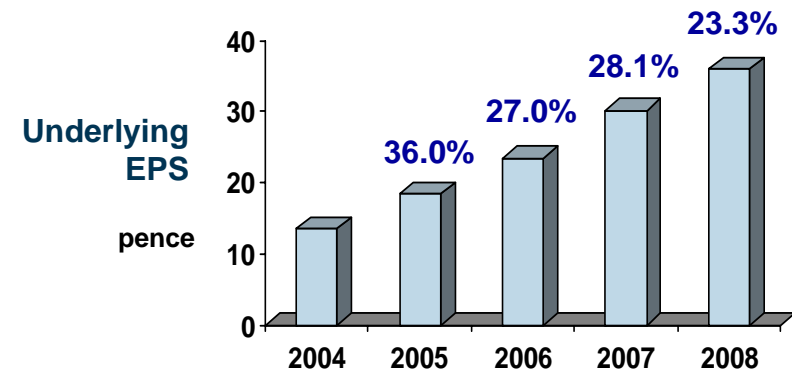
	Land	Readiness & Sustainment	Security	Unmanned Air Systems
	Alvis acquired 2004	Air, Naval and land Systems through-life capability provision	Organic development, Detica acquired 2008	HERTI Mantis Taranis
	United Defense acquired 2005 Armor Holdings acquired 2007	Ship repair acquired 2005 MTC acquired 2008	DigitalNet acquired 2004	Datalinks, ground stations
		RSAF and RSNF support	C4I	
	Hagglunds acquired 2005 Bofors acquired 2007			
	OMC acquired 2004			
	Tenix acquired 2008	Hawk, F/A-18 support Tenix acquired 2008		UAS trials
	Mahindra & Mahindra joint venture proposed			

Summary - 2008

- **Continued good performance**
 - good programme execution

- **Further progress against strategy**
 - broad base of business
 - multi-Home Market positions

- **Good visibility**
 - large order book
 - appropriate terms of trade
 - realistic plans



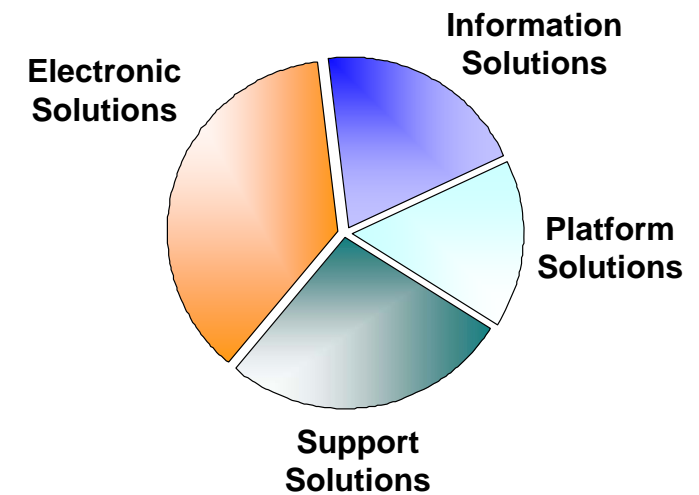
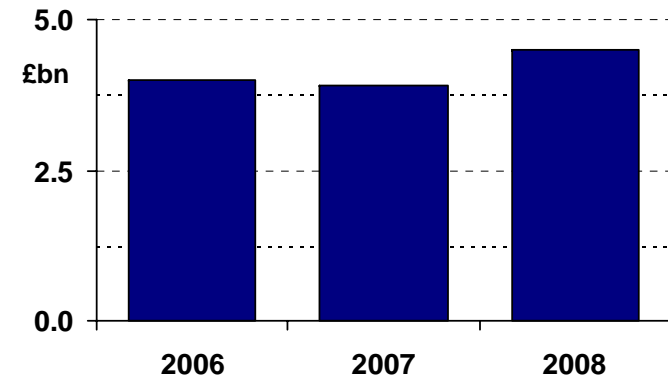
Delivering growth in shareholder value

Handouts

Electronics, Intelligence & Support

	2008	2007
Sales	£4,459m	£3,916m
Underlying EBITA	£506m	£437m
Margin	11.3%	11.2%
Order book	£5.2bn	£3.5bn
Cash flow	£380m	£302m

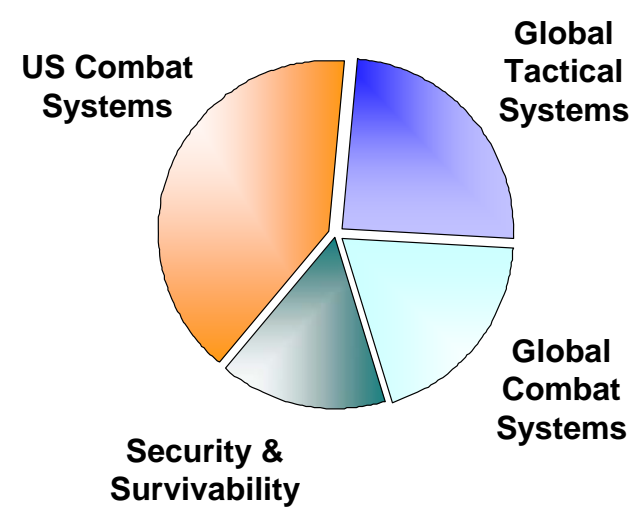
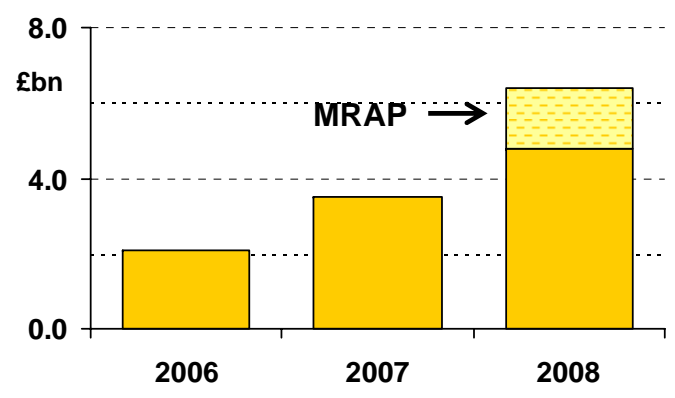
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Land & Armaments

	2008	2007
Sales	£6,407m	£3,538m
Underlying EBITA	£566m	£324m
Margin	8.8%	9.2%
Order book	£11.5bn	£7.3bn
Cash flow	£467m	£10m

SALES



Underlying Earnings per Share

Continuing Operations

	2008	2007
Underlying EBITA	1,897	1,449
Interest	697	93
- exclude pension financing credit	(53)	(92)
- exclude market value movements on derivatives	(746)	(39)
	<u>(102)</u>	<u>(38)</u>
Tax	(640)	(373)
- impact of pension financing credit	14	24
- impact of market value movements on derivatives	194	10
- impact of fair value on acquired intangibles	-	(3)
- exclude tax on profit on disposal of businesses	30	10
- exclude tax on intangible amortisation / impairments	(65)	(39)
	<u>(467)</u>	<u>(371)</u>
Minority interests	(23)	(21)
Underlying earnings	<u>1,305</u>	<u>1,019</u>
Weighted average number of shares in issue	3,519	3,386
Underlying earnings per share	37.1p	30.1p

£ millions

Operating Cash Flow

2008

Underlying EBITA	1,897
Less share of equity accounted investments	(132)
Add depreciation & impairment	331
Gain on disposal of fixed assets & investments	(38)
Cost of equity-settled employee share schemes	51
Movements in retirement benefit obligations	(272)
Movements in provisions	(115)
Movements in inventories	46
Movements in trade and other receivables	(5)
Movements in trade and other payables	246
Cash inflow from operating activities	<u>2,009</u>

£ millions

Working Capital Movements

Reconciliation to Cash Flow

BAE SYSTEMS

	31/12/08	31/12/07	Mvt	Acq/Dis	F/X	Other	Cash Flow
Inventories (A)	926	701	(225)	(9)	283	(3)	46
Receivables - current	3,831	2,933					
Receivables - non-current	162	322					
Total receivables (B)	3,993	3,255	(738)	159	686	(112)	(5)
Payables - current	(9,165)	(8,245)					
Payables - non-current	(701)	(413)					
Total payables * (C)	(9,866)	(8,658)	1,208	(32)	(901)	(29)	246
Liability provisions - current	(386)	(410)					
Liability provisions - non-current	(459)	(399)					
Total liability provisions (D)	(845)	(809)	36	(17)	(123)	(11)	(115)
Working capital per cash flow	(5,792)	(5,511)	281				
Cash on customers' account (E)	7	30	23				
Working capital per balance sheet **	(5,785)	(5,481)	304				

* includes cash on customers' account

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

£ millions

Like-for-Like Sales & Underlying EBITA - Group

	Sales			Underlying EBITA		
	2008	2007	<i>Growth</i>	2008	2007	<i>Growth</i>
Continuing Businesses	18,543	15,710	+18%	1,897	1,449	+31%
Foreign Exchange:						
USD		415			43	
Other		221			18	
Adjusted for foreign exchange	18,543	16,346	+13%	1,897	1,510	+26%
Transactions:						
Armor Holdings	(2,309)	(725)		(236)	(89)	
Other	(292)	(95)		3	(16)	
Adjusted for f/x and transactions	15,942	15,526	+3%	1,664	1,405	+18%

£ millions

Like-for-Like Sales & Underlying EBITA by segment

	Sales			Underlying EBITA		
	2008	2007		2008	2007	
<i>Electronics, Intelligence & Support</i>						
Reported (USD)	8,260	7,838	+5%	937	875	+7%
Foreign Exchange		(40)			(7)	
Transactions:						
Surveillance & Attack, MTC	(198)	(176)		-	(29)	
Adjusted (USD)	8,062	7,622	+6%	937	839	+12%
<i>Land & Armaments</i>						
Reported (USD)	11,869	7,082	+68%	1,049	649	+62%
Foreign Exchange		(139)			(11)	
Transactions:						
Armor	(4,277)	(1,452)		(438)	(179)	
Adjusted (USD)	7,592	5,491	+38%	611	459	+33%

\$ millions

Like-for-Like Sales & Underlying EBITA by segment

	Sales			Underlying EBITA		
	2008	2007		2008	2007	
<i>Programmes & Support</i>						
Reported	4,638	5,327	(13)%	491	456	+8%
Transactions:						
Detica	(55)			(9)		
Adjusted	4,583	5,327	(14)%	482	456	+6%
<i>International</i>						
Reported	3,333	3,359	(1)%	435	435	0%
Foreign Exchange		184			16	
Transactions:						
Tenix Defence	(130)			12		
Adjusted	3,203	3,543	(10)%	447	451	(1)%

£ millions