

BAE Systems

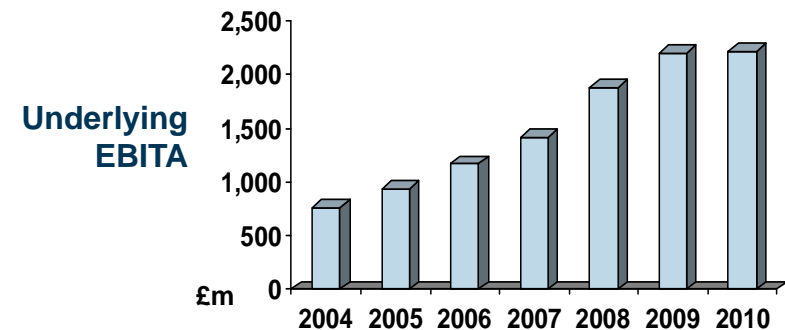
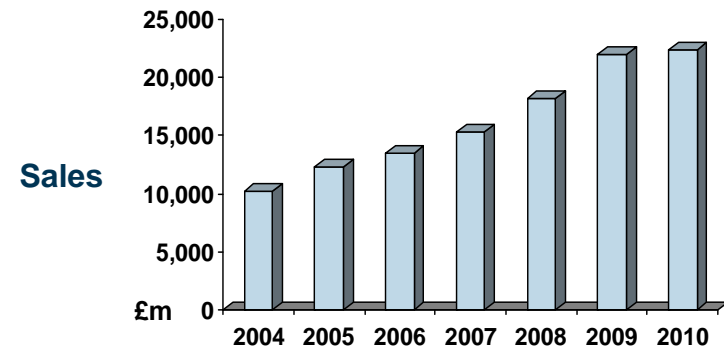
2010 Preliminary Results

17 February 2011



Overview - 2010

- **Performing well**
- **Significant change in markets**
 - Funding pressures
 - Some clarity emerging
 - Affordability / cost focus prevails
- **Resilient core defence business**
 - Underpinned by efficiency improvement
- **Strategy for growth**
 - Readiness & Sustainment
 - Cyber and Intelligence
 - Broadening geographic footprint



Successfully developing business in higher growth market sectors

George Rose



Financial Highlights

• Sales - continuing	£22,392m
• Underlying EBITA* - continuing	£2,214m
• Underlying earnings per share** - continuing	40.8p
• Cash flow from operating activities	£1,535m
• Net debt	£(242)m
• Order book	£39.7bn
• Dividend per share	17.5p

* earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) and non-recurring items

** earnings excluding amortisation and impairment of intangible assets, non-cash finance movements and non-recurring items

Income Statement

<i>Continuing Operations:</i>	2010 Underlying	2009 Underlying	2010 Reported	2009 Reported
Sales	22,392	21,990	22,392	21,990
Underlying EBITA	2,214	2,197	2,214	2,197
Profit on disposal of businesses			1	68
Pension accounting gains			2	261
Regulatory penalties			(18)	(278)
EBITA			2,199	2,248
Finance (Expense)/Income	(194)	(698)	(194)	(698)
deduct: Pension Interest / Mark-to-Market	3	505		
Underlying Finance Costs	(191)	(193)		
Amortisation			(392)	(286)
Impairment			(125)	(973)
Tax	(587)	(567)	(461)	(352)
Minority Interests	(29)	(22)		
Profit / (Loss) after Tax	1,407	1,415	1,027	(61)

£ millions

Balance Sheet

	31/12/10	31/12/09
Intangible fixed assets	11,216	11,306
Tangible fixed assets	2,848	2,663
Investments	798	852
Working capital	(6,641)	(7,002)
Pension deficit	(3,146)	(4,410)
Tax assets & liabilities	580	896
Financial assets & liabilities	(10)	(45)
Net (debt) / cash	(242)	403
Net assets	5,403	4,663

£ millions

Operating Business Cash Flow

	2010
Cash flow from operating activities	1,535
Capital expenditure (net)	(364)
Dividends from equity accounted investments	71
Contribution to Trust (re pensions)	(25)
Cash held for charitable contribution to Tanzania	(30)
Operating business cash flow	1,187
Electronics, Intelligence & Support	568
Land & Armaments	858
Programmes & Support	227
International	195
HQ & Other Businesses	(665)
Discontinued Operations	4
Operating business cash flow	1,187

£ millions

Movement in Net Cash/(Debt)

	2010
Net Cash 31 December 2009	403
Operating business cash flow	1,187
Interest and taxation	(525)
Acquisitions and disposals	(88)
Equity dividends paid	(574)
Net purchase of equity shares	(520)
Foreign exchange and other movements	(125)
Net Debt 31 December 2010	(242)

£ millions

Pension Deficit - IAS 19

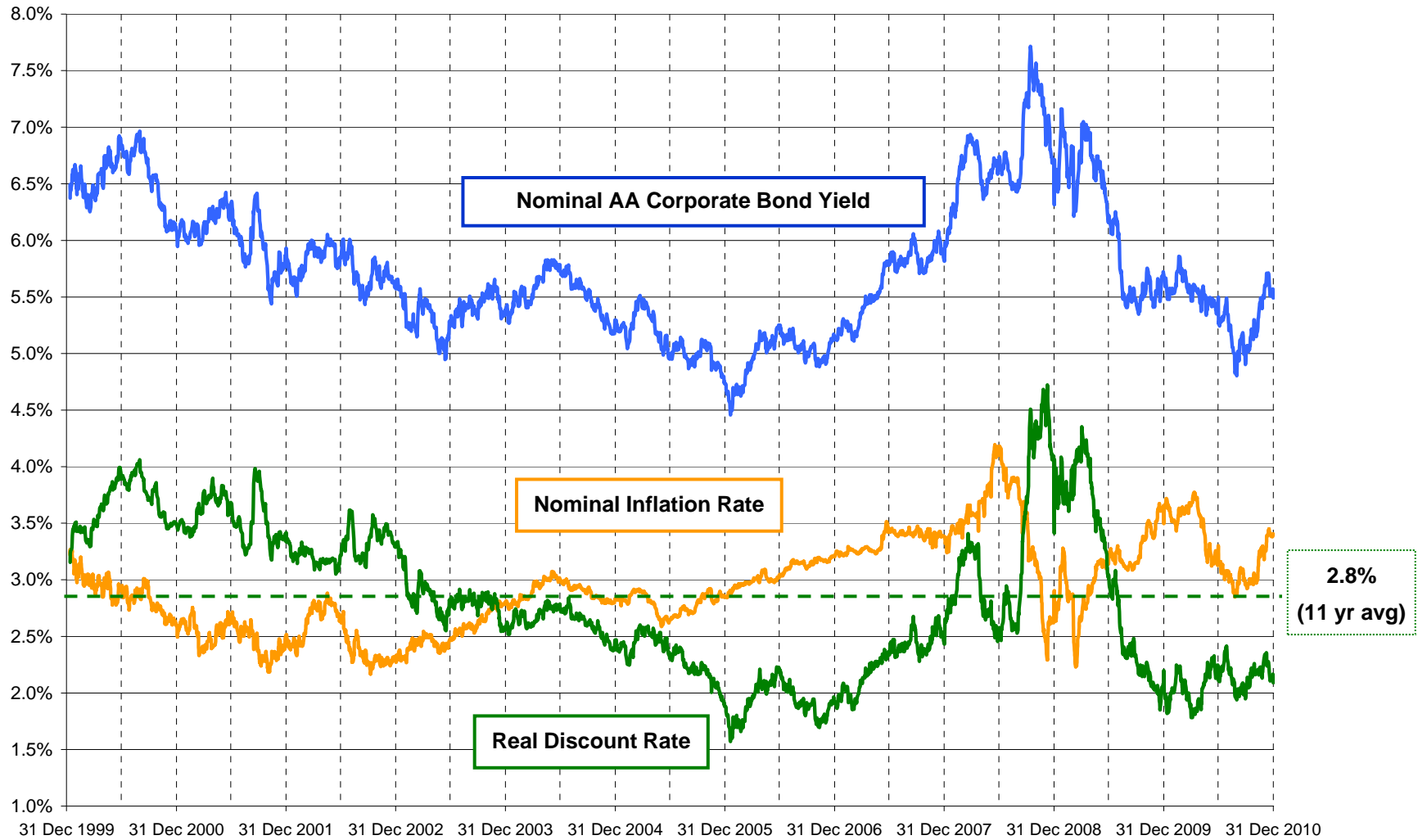
<i>£bn</i>	31 Dec 10	30 Jun 10	31 Dec 09
Pension assets	17.2	15.0	15.0
Pension liabilities	(21.3)	(21.3)	(20.6)
Pension deficit, net	(4.1)	(6.3)	(5.6)
Group share of deficit, pre-tax *	(3.1)	(4.9)	(4.4)
Group share of deficit, post-tax	(2.1)	(3.4)	(3.0)

Real Discount Rates

UK	2.1%	2.2%	2.2%
US	2.5%	2.5%	2.9%

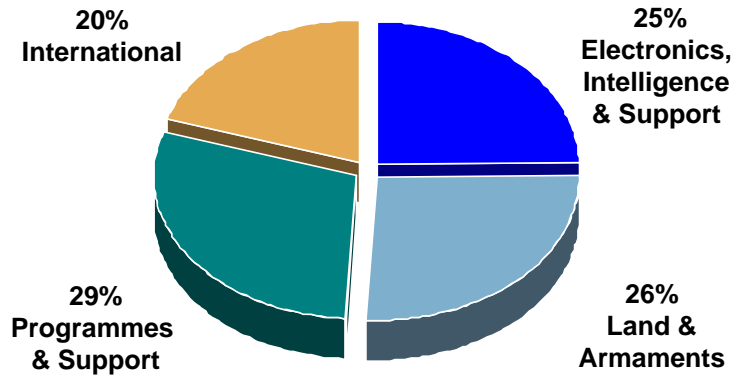
* includes assets contributed into Trust

UK Discount Rates and Inflation

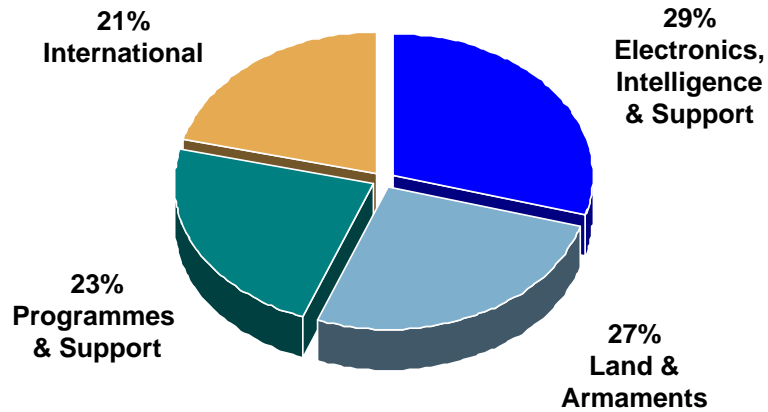


Operating Groups

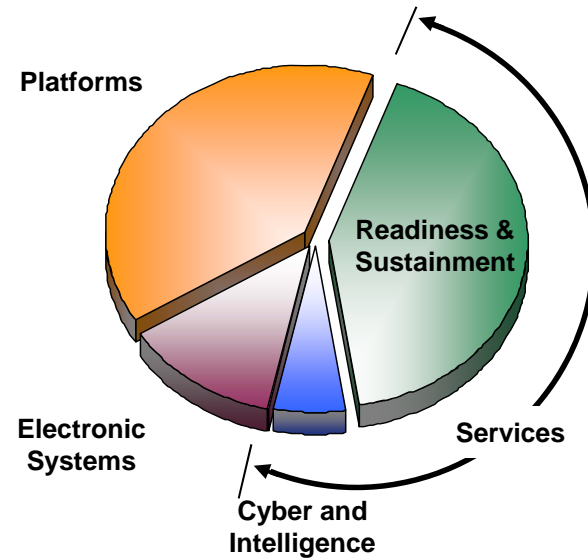
*Sales **



*Underlying EBITA **



Group sales by activity

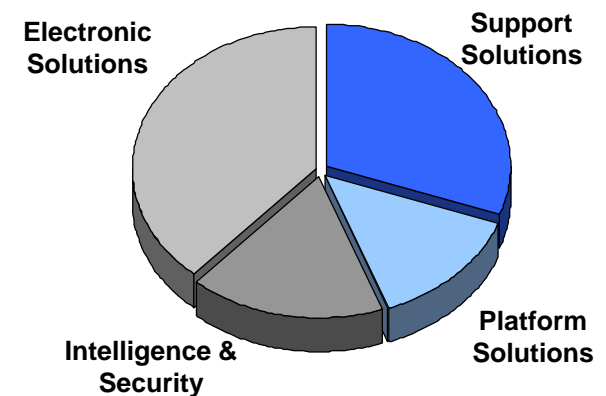
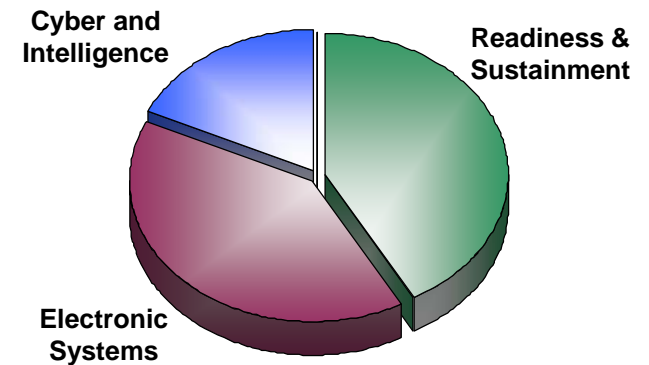


* excluding HQ & Other Businesses

Electronics, Intelligence & Support

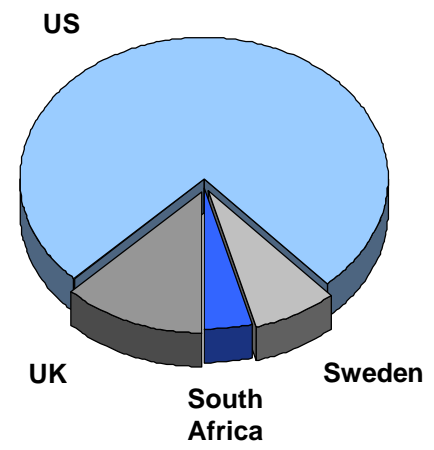
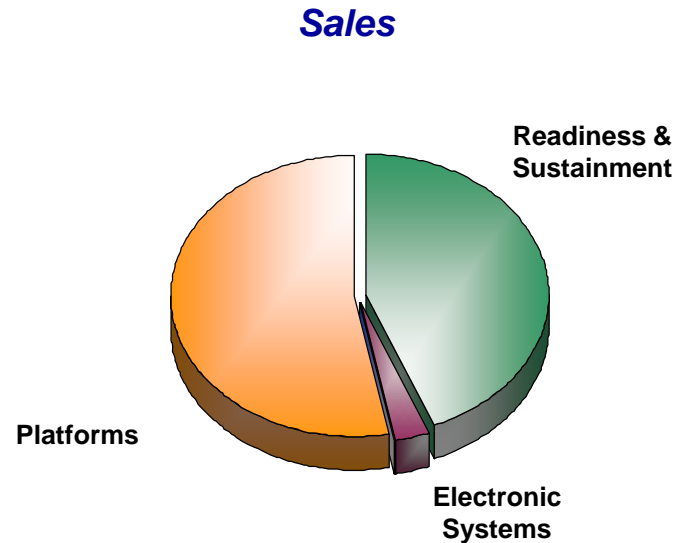
	2010	2009
Sales	\$8,734m	\$8,826m
Underlying EBITA	\$1,032m	\$900m
Margin	11.8%	10.2%
Order book	\$7.5bn	\$7.3bn
Cash flow	\$878m	\$595m

Sales



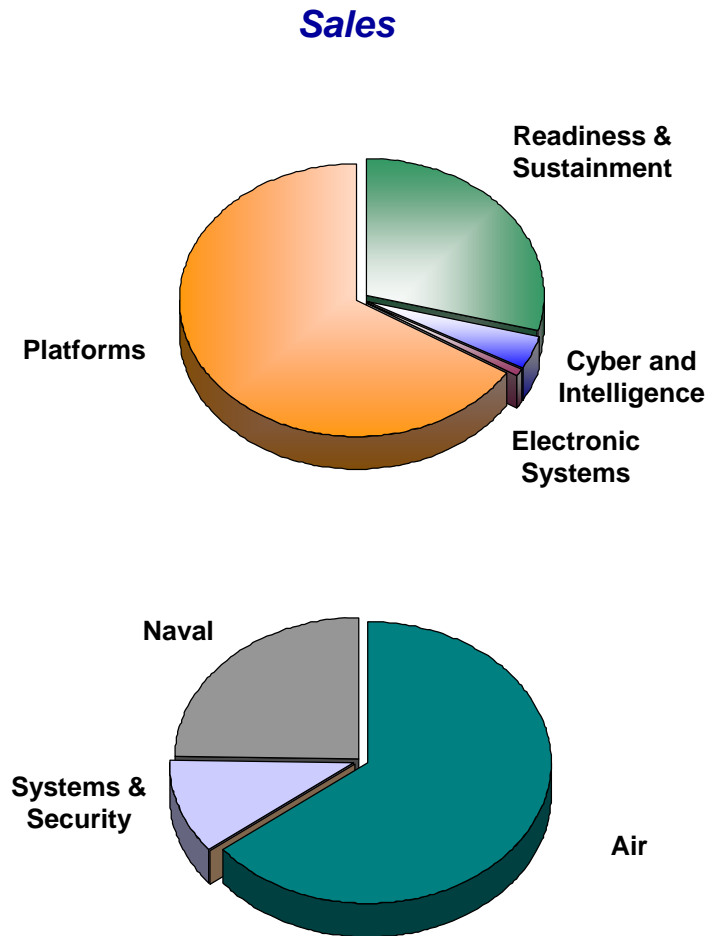
Land & Armaments

	2010	2009
Sales	\$9,162m	\$10,550m
Underlying EBITA	\$933m	\$946m
Margin	10.2%	9.0%
Order book	\$9.2bn	\$12.6bn
Cash flow	\$1,326m	\$752m



Programmes & Support

	2010	2009
Sales	£6,680m	£6,298m
Underlying EBITA*	£529m	£670m
Margin*	7.9%	10.6%
Order book	£21.1bn	£24.3bn
Cash flow	£227m	£285m

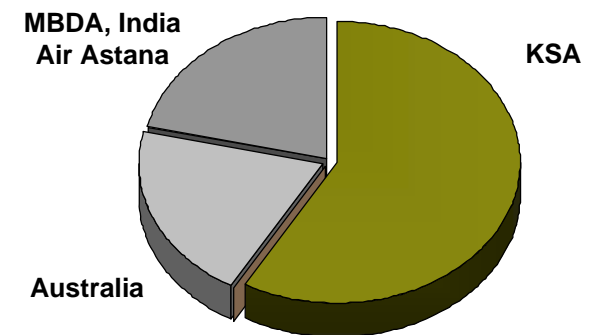
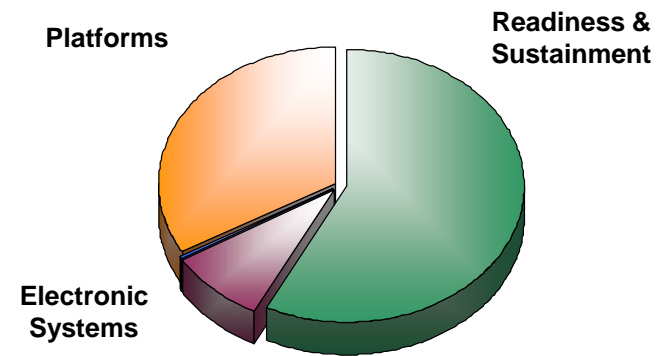


* 2010 includes T&T OPV charge (£100m)

International

	2010	2009
Sales	£4,534m	£3,828m
Underlying EBITA	£478m	£419m
Margin	10.5%	10.9%
Order book	£9.1bn	£11.0bn
Cash flow	£195m	£813m

Sales



HQ & Other Businesses

	2010	2009
Sales	£278m	£254m
Underlying EBITA	£(65)m	£(71)m
Cash flow *	£(665)m	£(366)m

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

* 2010 includes payment of regulatory penalties (£296m)

Financial Summary

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Ian King



Key Points

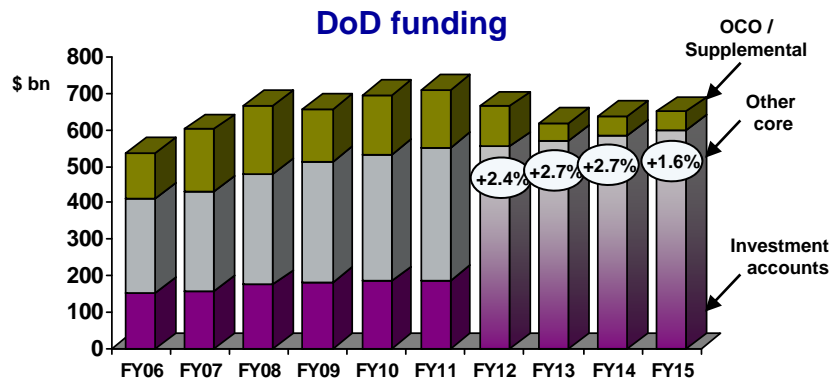
- **Core business resilience and strength**
 - UK and US market outlook
 - Sustainable business positions
 - underpinned by strength in Readiness & Sustainment
 - Underpinned by cost reduction and efficiencies

- **New business**
 - Services
 - Growing position in Cyber and Intelligence
 - Home market development
 - Exports




US defence market environment

- Tough environment
- Increased procurement emphasis on:
 - programme performance and relevance
 - cost not capability driven
- 2011 Budget
 - remains subject to ‘continuing resolution’
- 2012 request
 - core budget flattening but growth still in early years
- Cost savings targeting inefficiencies





Programme opportunities
<ul style="list-style-type: none"> • Further Bradley modernisation • AAV upgrade • Next generation jammer • F-35 <ul style="list-style-type: none"> - Programme well supported - Production ramp slowed - F-35B ‘on probation’ - More R&D spend • Growth in Cyber



Cost is now key - BAE Systems responding well to the affordability challenge



UK Strategic Defence and Security Review - Summary

Royal Air Force	Royal Navy	Army	Security
<ul style="list-style-type: none">• Typhoon and JSF fast jet fleet• Harrier retired by 2011• Tornado fleet reduced• Typhoon capability expansion• Nimrod MRA4 not in-service• More unmanned systems	<ul style="list-style-type: none">• 7 Astute class submarines• Successor programme (CASD)• QE Class – 2 ships<ul style="list-style-type: none">- Carrier strike in 2020• 19 Frigates and Destroyers<ul style="list-style-type: none">- Type 45, Type 23, Type 26	<ul style="list-style-type: none">• Restructured Army (5 brigades)• One high readiness brigade• Reduce Challenger II by 40%• Reduce heavy artillery by 35%• Munitions partnering continues• New FRES SV and UV vehicles• Greater role for special forces, ISTAR and unmanned systems	<ul style="list-style-type: none">• Focus on counter-terrorism• Review of civil liberties• Enhance ability to detect and defend against cyber attack• Address shortcomings in protection of critical national infrastructure• £650m National Cyber Security Programme
			

Identifies opportunities for increasing role for industry

Group Strategic Framework - 2011

Our vision is to be the premier global defence and security company

Our mission is to deliver sustainable growth in shareholder value through our commitment to Total Performance

Our values are - Trusted, Innovative and Bold

Our Strategy

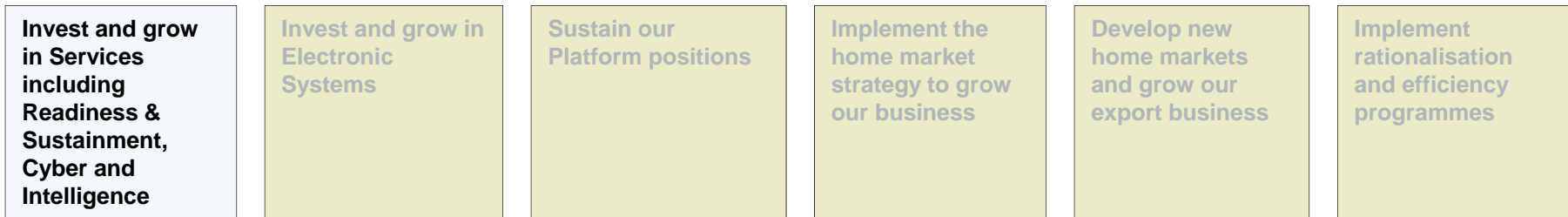
- Operate and grow in the defence and security markets in the segments of Services, Electronic Systems and Platforms
- Grow in existing and develop new home markets
- Grow our export business

Strategic Actions

Invest and grow in Services including Readiness & Sustainment, Cyber and Intelligence	Invest and grow in Electronic Systems	Sustain our Platform positions	Implement the home market strategy to grow our business	Develop new home markets and grow our export business	Implement rationalisation and efficiency programmes
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Integrated Business Plans

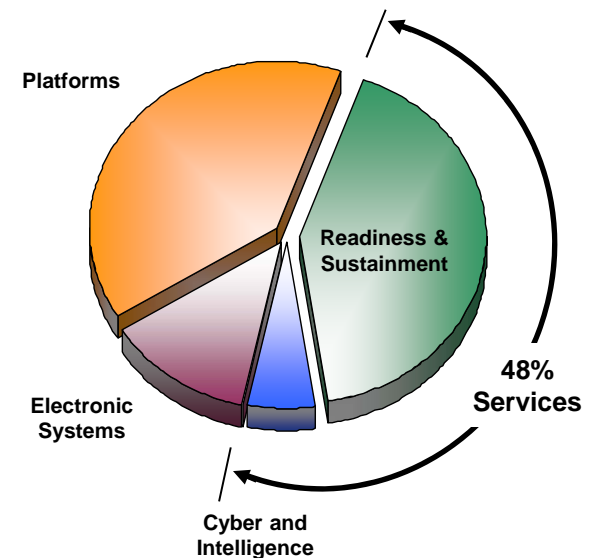
Strategic Actions - 2011



Acquisitions further enhancing Services offering

- **Atlantic Marine**
 - Expanding strong position in US Naval sustainment
- **Stratsec**
 - Integrated with Australian business
- **L-1 Intelligence Services Group**
 - Complementary to established US Cyber business
- **ETI A/S**
 - Complementary to Detica’s intercept capabilities
- **Norkom**
 - Opportunity to cross-sell Detica’s NetReveal® etc

Group sales by activity



Strategic Actions - 2011



- **Growth in Electronic Systems**
 - **High-end Electronic Warfare systems**
 - e.g. F-35
 - F-15 upgrade
 - **Electro-optic sensor systems**
 - e.g. Thermal weapon sights
 - Acquisition of OASYS
 - Proposed acquisition of Fairchild Imaging
 - **Survivability & Situational Awareness**
 - Common Missile Warning System
 - Check Six
 - Tactical communications



Strategic Actions - 2011

Invest and grow in Services including Readiness & Sustainment, Cyber and Intelligence	Invest and grow in Electronic Systems	Sustain our Platform positions	Implement the home market strategy to grow our business	Develop new home markets and grow our export business	Implement rationalisation and efficiency programmes
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- Military air**



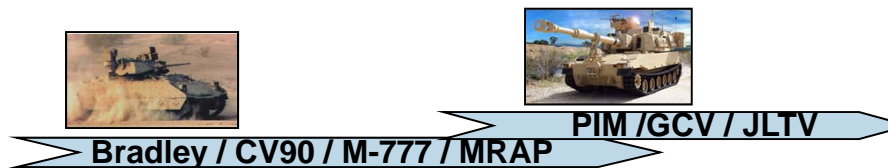
- Naval**



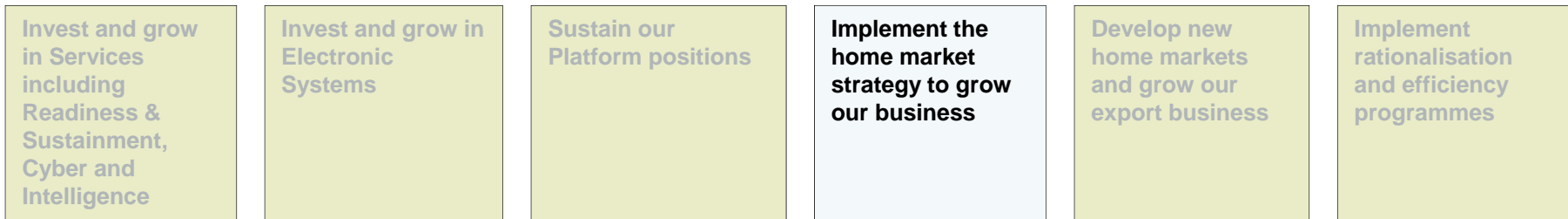
- Submarine**



- Land**



Strategic Actions - 2011



- **LHD programme progressing well**
- **Australian F-35 support provision agreed**

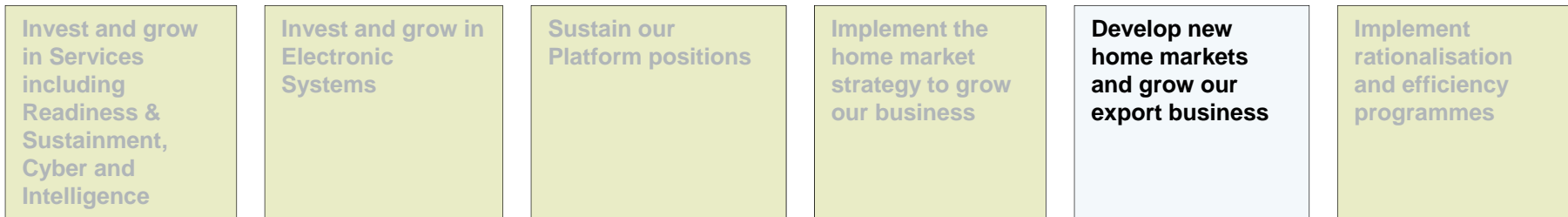


- **Defence industrialisation programme**
 - Typhoon combined maintenance and upgrade facility
 - Build on success of in-Kingdom Tornado Sustainment Programme
 - Land forces upgrade opportunities



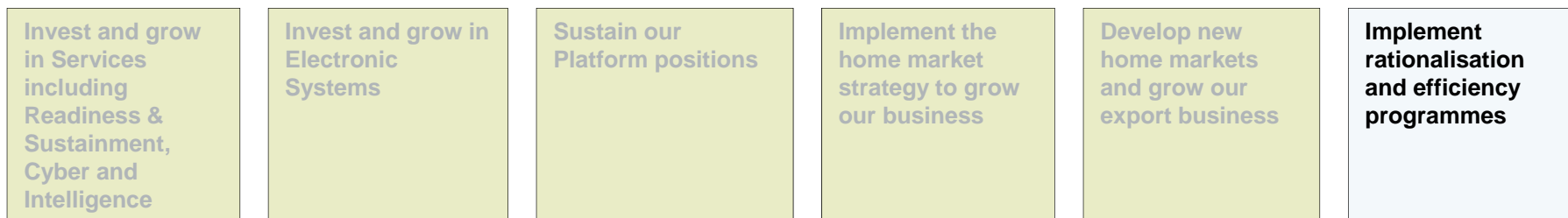
- **Mahindra & Mahindra joint venture established**
 - **Hawk contracts with Hindustan Aeronautics**
 - **Developing BAeHAL software joint venture**
-

Strategic Actions - 2011



- **Active consideration to developing other growth markets**
 - e.g. naval opportunities in Brazil
- **Significant export activity**
 - e.g. Typhoon, Hawk and land systems campaigns
 - **Global Combat Ship opportunities**

Strategic Actions - 2011



Significant rationalisation and efficiency programme underway

- Addressing volume reduction in Land
- Priority changes from UK SDSR
- Efficiency improvement
 - improving returns for shareholders
 - enhancing affordability for customers
- Substantial headcount reduction
 - 15,000* reduction over two years (2009/2010)
 - programme continues in 2011

* Net excluding M&A

Summary

Performing well

- Good financial performance
- Strong cash flow
 - enabling £1.1bn return of capital

Outlook

- Improving market visibility
- Rebasing Land business
- Cost reduction
 - mitigate near term top line reduction
 - address affordability challenge
- A resilient platform for future growth

