

Segmental performance

We report our performance through five principal reporting segments.

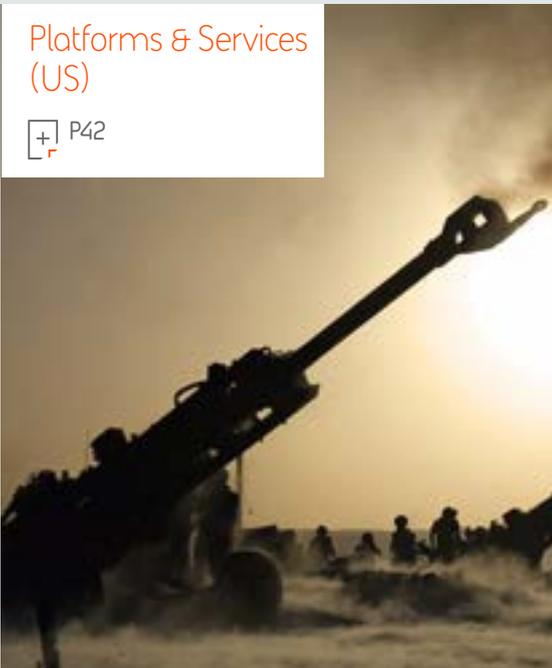
Electronic Systems
+ P34

A high-angle photograph of an F-35 fighter jet in flight, showing its stealthy design and delta-shaped wings against a clear sky.

Cyber & Intelligence
+ P38

A blurred image of blue digital code or data streams, representing cyber and intelligence operations.

Platforms & Services (US)
+ P42

A photograph of an artillery piece in a desert environment, with soldiers visible in the background and a bright sun in the sky.

Platforms & Services (UK)
+ P46

A photograph of an F-35 fighter jet on the tarmac in a hangar, with several people working on it.

Platforms & Services (International)
+ P50

A photograph of an F-35 fighter jet in a factory setting, with workers and equipment visible around it.

Financial performance measures as defined by the Group

	KPI	KPI		KPI	KPI		
	Sales £m	Underlying EBITA £m	Return on sales %	Operating business cash flow £m	Order intake ² £m	Order backlog ² £bn	Employees ² Number
Electronic Systems	3,282	494	15.1	469	3,322	5.2	13,800
Cyber & Intelligence	1,778	90	5.1	83	1,885	2.4	11,800
Platforms & Services (US)	2,874	211	7.3	58	3,308	4.6	11,300
Platforms & Services (UK)	7,806	810	10.4	199	8,024	17.8	30,100
Platforms & Services (International)	3,943	400	10.1	435	6,175	13.1	13,700
HQ ¹	233	(100)		(240)	226	–	2,400
Deduct Intra-group	(896)				(497)	(1.1)	
Total	19,020	1,905	10.0	1,004	22,443	42.0	83,100

We use these measures to monitor the underlying financial performance of the Group's reporting segments.

Financial performance measures defined in IFRS³

	Revenue £m	Operating profit/(loss) £m	Return on revenue %	Net cash flow from operating activities £m
Electronic Systems	3,282	474	14.4	568
Cyber & Intelligence	1,778	59	3.3	106
Platforms & Services (US)	2,783	182	6.5	129
Platforms & Services (UK)	7,699	780	10.1	385
Platforms & Services (International)	3,037	365	12.0	473
HQ ¹	–	(118)		(245)
Deduct Intra-group	(789)			
Deduct Taxation ⁴				(187)
Total	17,790	1,742	9.8	1,229

Reconciliations from the financial performance measures as defined by the Group to these measures are provided in the Financial review on pages 24 to 30.

Reconciliations by reporting segment for revenue and operating profit are included in note 1 to the Group accounts (see page 128) and for net cash flow from operating activities in note 23 to the Group accounts (see page 167).

1. HQ comprises the Group's head office activities, together with a 49% interest in Air Astana.
 2. Including share of equity accounted investments.
 3. International Financial Reporting Standards.
 4. Taxation is managed on a Group basis.

Segmental performance

Electronic Systems



Electronic Systems, with 13,800 employees¹, comprises the US and UK-based electronics activities, including electronic warfare systems, electro-optical sensors, military and commercial digital engine and flight controls, next-generation military communications systems and data links, persistent surveillance capabilities, and hybrid electric drive systems.

Electronic Combat includes the Electronic Protection, Electronic Warfare and Electronic Attack product lines, and provides a depth of capability in integrated electromagnetic systems for airborne applications, mission planning and battle management solutions, secure networked communications and navigation systems, radio frequency communication and data links.

Survivability, Targeting & Sensing exploits the electro-optical and infrared spectrum to provide leading threat warning and infrared countermeasures systems, precision guidance and seeker solutions, advanced targeting solutions, head-up displays and state-of-the-art tactical imaging systems.

Intelligence, Surveillance & Reconnaissance addresses the market for actionable intelligence through innovative technical solutions for airborne persistent surveillance, identification systems, signals intelligence, underwater and surface warfare solutions, and space products.

Controls & Avionics addresses the military and commercial aircraft electronics markets, including fly-by-wire flight controls, full authority digital engine controls, flight deck systems, cabin management systems and mission computers.

Power & Propulsion Solutions delivers electric propulsion and power management performance, with innovative products and solutions that advance vehicle mobility, efficiency and capability in the transit, military, marine and rail markets.

Our strategy in action

Continue to grow our electronic systems business

Increasing production of electronic warfare systems

In September, we delivered the 250th electronic warfare suite for the F-35 Lightning II combat aircraft programme, the world's largest defence programme. The advanced technology helps pilots to identify, monitor, analyse and respond to potential threats.

Driven by growth in our electronic warfare programmes, the business is making an investment of more than \$100m (£81m) in our 'Ramp 2 Rate' initiative to improve our efficiency and capacity in defence electronics production over the next decade. This investment includes the construction of an Electronic Warfare Integrated Manufacturing Centre, modernised with advanced manufacturing capabilities in robotics and automation.

1. Including share of equity accounted investments.

2. International Financial Reporting Standards.

3. Re-presented for the transfer of the GEOINT-ISR (Geospatial Intelligence – Intelligence, Surveillance and Reconnaissance) business from Cyber & Intelligence to Electronic Systems.

Operational and strategic highlights

- Delivered the 250th electronic warfare suite for the F-35 Lightning II combat aircraft programme
- Initiated our 'Ramp 2 Rate' capital investment strategy to support growth in defence electronics production
- Awarded a \$146m (£118m) engineering and manufacturing development contract for the US Air Force's Eagle Passive Active Warning Survivability System
- Signed a three-year Indefinite Delivery, Indefinite Quantity contract for Advanced Precision Kill Weapon System (APKWS™) Full-Rate Production Lots 5 to 7, worth up to \$600m (£486m)
- Awarded a \$249m (£201m) contract modification on the Common Missile Warning System programme
- Awarded a contract on the US Army's Family of Weapon Sights – Crew Served programme worth up to \$384m (£311m)
- Integration of the GEOINT-ISR business transferred from Cyber & Intelligence completed

Financial performance

Financial performance measures as defined by the Group

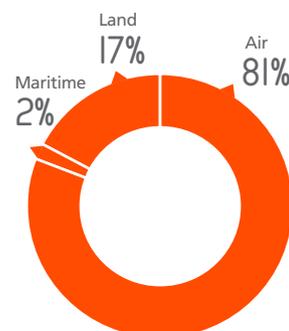
		2016	2015 ³
Sales	KPI	£3,282m	£2,922m
Underlying EBITA	KPI	£494m	£437m
Return on sales		15.1%	15.0%
Operating business cash flow	KPI	£469m	£370m
Order intake ¹	KPI	£3,322m	£2,799m
Order backlog ¹		£5.2bn	£4.4bn

Financial performance measures defined in IFRS²

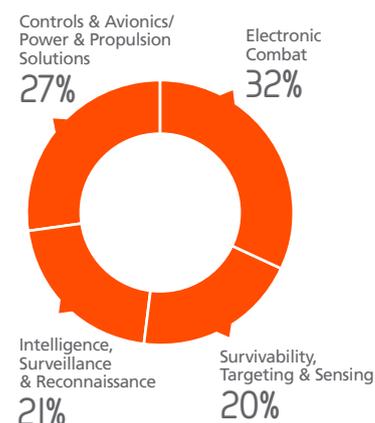
	2016	2015 ³
Revenue	£3,282m	£2,922m
Operating profit	£474m	£419m
Return on revenue	14.4%	14.3%
Cash flow from operating activities	£568m	£445m

- Sales compared with 2015 were almost unchanged at \$4.4bn (£3.3bn). The commercial areas of the business now amount to 24%, having seen sales growth in the year of 11% primarily in HybriDrive® systems. On the defence side, sales were slightly down on timing of production deliveries on the Digital Electronic Warfare System and other electronic warfare programmes.
- The return on sales achieved of 15.1% (2015 15.0%) was largely from continued strong programme execution and risk retirement.
- Cash conversion of underlying EBITA for the year was at 97%, excluding pension deficit funding.
- Order backlog¹ was sustained at \$6.5bn (£5.2bn) benefiting from awards for F-35 Lightning II electronic warfare systems, the F-15 Eagle Passive Active Warning Survivability System programme and APKWS™.

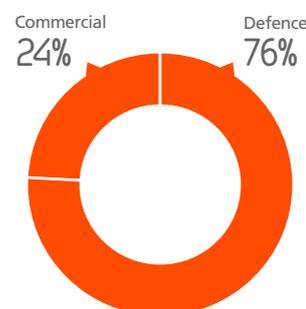
Sales by domain (%)



Sales by line of business (%)



Sales analysis: Defence and commercial (%)



Segmental performance

Electronic Systems

Operational performance

Electronic Combat

BAE Systems has sustained its leadership position in the US electronic warfare and communications and navigation markets. Production is ramping up across a number of programmes. Low-Rate Initial Production hardware deliveries on the F-35 Lightning II programme continue with Lot 9 and 10 deliveries. We have received initial funding for Lot 11 with deliveries expected to commence in 2018.

The business is under contracts, from Boeing and Warner Robins Air Logistics Complex, totalling more than \$1.0bn (£0.8bn) to install the Digital Electronic Warfare System on 84 new F-15 aircraft, upgrade 70 existing F-15 aircraft, and provide spare units and modules for an international customer. The programme remains on schedule.

In 2015, we were selected by Boeing to develop and manufacture the next-generation digital electronic warfare system for the US Air Force's Eagle Passive Active Warning Survivability System programme to upgrade up to 400 F-15 aircraft. In 2016, we received the engineering and manufacturing development contract, worth \$146m (£118m), as a follow-on to the technology maturation and risk reduction phase. The programme could be worth more than \$1.0bn (£0.8bn) over its life.

In January 2017, BAE Systems was awarded a \$67m (£54m) modification to exercise the option on a previously awarded contract for an electronic warfare system for the US Air Force Special Operations Command's fleet of C-130J aircraft. The award is currently under protest with the Government Accountability Office.

Due to the sensitive nature of electronic combat systems and technology, many of our programmes are classified. As a world leader in electronic warfare, communications and navigation solutions, the business continues to experience growth in these increasingly important areas.

Survivability, Targeting & Sensing

Our Advanced Precision Kill Weapon System (APKWS™) laser-guided rocket is experiencing growing demand, with deliveries exceeding 8,000 units through 2016. In addition to expanding its use in the US military, the system is generating strong international attention, with 16 nations expressing interest. In October, the US Navy awarded us a three-year Indefinite Delivery, Indefinite Quantity contract for Full-Rate Production Lots 5 to 7 worth up to \$600m (£486m) that could increase production to 10,000 units per year.

We continue to perform well on the Terminal High-Altitude Area Defence programme, delivering over 90 seekers in 2016 following the \$80m (£65m) contract received for Lots 7 and 8 during the year.

On the Common Missile Warning System programme, the business was awarded a \$249m (£201m) Indefinite Delivery, Indefinite Quantity contract modification to fulfil increased demand from our customers, the US Army and allied nations, extending the current five-year contract by two years.

On the Enhanced Night Vision Goggle III and Family of Weapon Sights – Individual programme, we completed the first round of qualification and reliability testing in September under a five-year, \$434m (£351m) Indefinite Delivery, Indefinite Quantity contract.

On the US Army's Family of Weapon Sights – Crew Served programme, we were awarded a seven-year contract with a potential value of up to \$384m (£311m) in September. The sight is designed to allow soldiers to acquire and engage targets at extended range.

We continue to leverage our technology and engineering capabilities, and the LiteHUD® head-up display has been selected by critical launch customers for integration on multiple platforms.

The next-generation Striker® II helmet-mounted display has completed the second phase of flight trials to integrate the system's technology with the Typhoon combat aircraft.

Our strategy in action

Continue to grow our electronic systems business

Growing demand for APKWS™ laser-guided rockets



Electronic Systems' Advanced Precision Kill Weapon System (APKWS™) supports fixed and rotary-wing platforms, and is the only US government programme of record for 2.75-inch guided rockets. Offering a low-cost surgical strike capability, the system was successfully used in theatre on the US Air Force F-16 and A-10 aircraft, as well as the US Marine Corps AV-8B Harrier in 2016. We were awarded a contract worth up to \$600m (£486m) to meet the needs of the US Navy, Marine Corps, Army and Air Force, and a growing number of allied nations.

 More online
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Intelligence, Surveillance & Reconnaissance

In 2016, Cyber & Intelligence's Geospatial Intelligence – Intelligence, Surveillance and Reconnaissance (GEOINT-ISR) business transferred to Electronic Systems and was merged with the sector's existing Intelligence, Surveillance & Reconnaissance business.

Since winning the Geospatial Data Services Foundational GEOINT Content Management programme in 2014, we have been awarded orders valued at \$170m (£138m) and the business is meeting all delivery orders to date. The programme assists US intelligence community customers with the development of advanced geospatial intelligence data collection and processing solutions.

We provide signals intelligence capability for the US Army and other US Department of Defense customers and have received incremental funding for additional production and a technical refresh of Tactical Signals Intelligence Payloads for the US Army's Gray Eagle unmanned aircraft, bringing the total contract value to approximately \$116m (£94m).

The business is in Full-Rate Production on the US Navy's P-8A Poseidon maritime surveillance aircraft programme, providing state-of-the-art processing capabilities. We delivered 18 mission computer and display systems in 2016, and received a \$60m (£49m) contract for Full-Rate Production Lot 4 in December.

Controls & Avionics

BAE Systems is a major supplier to Boeing for flight controls, and cabin and flight deck systems. Development of the integrated flight control electronics and remote electronic units for Boeing's next-generation 777X aircraft is on schedule, with the Critical Design Reviews for all system components complete and systems integration testing in progress. On the Boeing 737 MAX aircraft, flight testing of our spoiler controls, flight deck systems and utilities is progressing well, with the first production hardware delivered in November. The Bombardier C Series aircraft entered service equipped with BAE Systems' flight control electronics.

FADEC Alliance, a joint venture between FADEC International (the Group's joint venture with Safran Electronics & Defense) and GE Aviation, is now on contract to provide the full authority digital engine controls (FADEC) for: the Leap engine on the Airbus A320neo, Boeing 737 MAX and Comac C919; the Passport 20 engine on the Bombardier Global 7000/8000; the GE9x engine on the Boeing 777X; and a new generation of advanced turboprop engines.

We completed qualification of an active control side-stick for the Gulfstream G500/G600 aircraft, with testing nearing completion for the Embraer KC-390. The product will be the first civil-certified active control side-stick with application across both commercial and military markets.

On the F-35 Lightning II programme, the business completed Low-Rate Initial Production Lot 9 deliveries of 57 production shipsets, plus spares, of the vehicle management computer and active inceptor system equipment. Both systems are now in production for Lot 10 and we expect to be under contract for Lot 11 in 2017.

Power & Propulsion Solutions

In 2016, the business delivered more than 1,000 hybrid-electric propulsion systems to transit agencies around the world and, in November, achieved the milestone of having 7,000 hybrid-electric propulsion systems in service.

Cities including London, Paris, Seattle and Boston are using our hybrid and electric drive systems to save fuel and prevent CO₂ emissions.

We continued to increase our global presence with Solaris Bus & Coach in Poland offering our hybrid-electric system on its buses from September.

Looking forward

In the US, following the two-year Bipartisan Budget Act signed in 2015, there are signs of a return to growth in defence budgets, with the new administration expected to further increase defence and security spending.

Electronic Systems is well positioned to address current and evolving priority programmes from its strong franchise positions in electronic warfare, electro-optics and Intelligence, Surveillance and Reconnaissance. Electronic Systems has a long-standing programme of research and development, and its focus remains on maintaining a diverse portfolio of defence and commercial products and capabilities for US and international customers.

The business expects to benefit from its franchise positions, particularly on the F-35 Lightning II and F-15 upgrade programmes, and its ability to apply innovative technology solutions that meet defence customers' changing requirements. In the commercial aviation market, Electronic Systems' technology innovations are enabling the business to renew long-standing customer positions and to compete for and win new business.

Segmental performance

Cyber & Intelligence



Cyber & Intelligence, with 11,800 employees¹, comprises the US-based Intelligence & Security business and UK-headquartered Applied Intelligence business, and covers the Group's cyber security, secure government, and commercial and financial security activities.

Intelligence & Security delivers a broad range of services to the US military and government.

Global Analysis & Operations provides innovative, mission-enabling analytic solutions and support to the US government.

Integrated Electronics & Warfare Systems provides systems engineering, integration and through-life support services for US defence and coalition partner customers.

IT Solutions delivers operational secure solutions that enable US national security customers to perform operations and protect their data and networks.

Applied Intelligence provides data intelligence solutions which enable governments and commercial organisations to defend against national-scale threats, protect their networks and data against sophisticated attacks and operate successfully in cyberspace. Its solutions are delivered as licensed technologies, software-as-a-service subscriptions, through outsourced managed services, and via consulting and systems integration projects.

Commercial Solutions provides cyber defence, counter-fraud and financial compliance products to commercial organisations globally.

UK Services delivers cyber security, data analytics, and digital transformation consulting and systems integration services to national security, government and large enterprises in the UK.

International Services & Solutions provides cyber intelligence and defence solutions to international government agencies and communications service providers.

Our strategy in action

Accelerate the growth of our cyber, intelligence and security business

Strategic alliances to drive cyber growth

We are accelerating the growth of our cyber security business through the creation of strategic alliances with organisations in adjacent markets. Our alliance partners include telecommunications providers Vodafone and Telefonica, and CSC in the IT services industry.

We offer our technology, consultancy and managed security services to our partners and their customers. This enables us to monitor their networks for attempted data breaches and malware to identify and respond to suspicious activity, keeping their networks safe.

1. Including share of equity accounted investments.

2. International Financial Reporting Standards.

3. Re-presented for the transfer of the GEOINT-ISR (Geospatial Intelligence – Intelligence, Surveillance and Reconnaissance) business from Cyber & Intelligence to Electronic Systems.

Operational and strategic highlights

Intelligence & Security

- Established prime positions under a five-year imagery analysis, training and support contract worth an estimated \$350m (£283m)
- Awarded a five-year contract valued at up to \$368m (£298m) to integrate weapon systems aboard US and UK submarines
- Awarded task orders totalling more than \$240m (£194m) to provide information technology services to the US government

Applied Intelligence

- Second year of expanded investment in product development, and sales and marketing driving continued growth in commercial cyber security and counter-fraud
- 'Business Defence' marketing campaign is generating new leads in the commercial business
- Continued shift towards multi-year managed services and subscription-based, cloud-delivered products in the commercial sector
- Good execution of cyber defence and intelligence programmes for UK and international government customers

Financial performance

Financial performance measures as defined by the Group

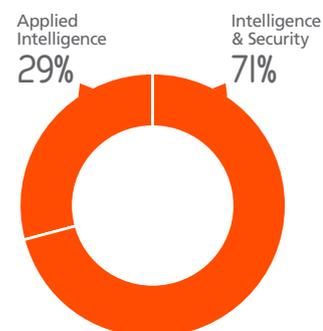
		2016	2015 ³
Sales	KPI	£1,778m	£1,564m
Underlying EBITA	KPI	£90m	£104m
Return on sales		5.1%	6.6%
Operating business cash flow	KPI	£83m	£46m
Order intake ¹	KPI	£1,885m	£1,753m
Order backlog ¹		£2.4bn	£2.2bn

Financial performance measures defined in IFRS²

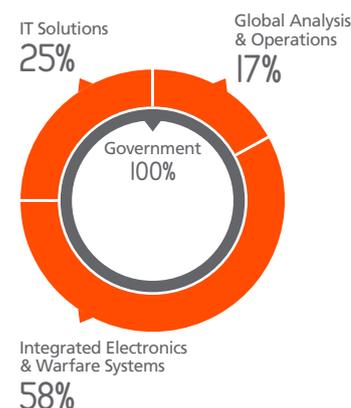
	2016	2015 ³
Revenue	£1,778m	£1,564m
Operating profit/(loss)	£59m	£(31)m
Return on revenue	3.3%	(2.0)%
Cash flow from operating activities	£106m	£70m

- In aggregate, sales were marginally higher at \$2.4bn (£1.8bn). The Intelligence & Security business saw a 2% increase largely in the area of provision of managed services to the intelligence community. Growth in the Applied Intelligence business was at 11%, benefiting from increases in the Commercial Solutions and UK Services divisions.
- The return on sales achieved was 5.1% (2015 6.6%). Higher levels of costs expensed in the Applied Intelligence business, together with delays in securing software licence sales, meant that there was a loss recorded in the business of £19m. In the year, the total cost base of the business (labour and overheads) amounted to more than £480m, all of which was expensed through the income statement.
- There was an operating loss in the prior year due to the impairment of goodwill in the Intelligence & Security business reflecting lower business growth assumptions.
- Cash conversion of underlying EBITA for the year was in excess of 100%, excluding pension deficit funding.
- In aggregate, order backlog¹ reduced to \$3.0bn (£2.4bn). Order backlog in the Intelligence & Security business was 5% lower on trading out of certain longer-term contracts. In the Applied Intelligence business, order backlog increased by 9% over the year driven mainly by UK government services and commercial awards.

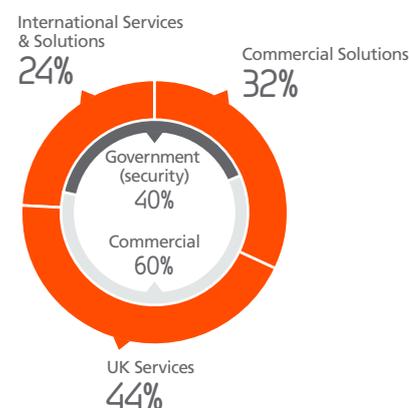
Sales by business (%)



Sales analysis: Intelligence & Security (%)



Sales analysis: Applied Intelligence (%)



Segmental performance

Cyber & Intelligence

Operational performance

Intelligence & Security Global Analysis & Operations

In Full-Motion Video and Intelligence, Surveillance and Reconnaissance analysis, we have more than 500 analysts sustaining mission-critical activities globally. These security-cleared analysts are currently executing on programmes with a combined value of more than \$400m (£324m). Re-compete awards for many of these programmes are being awarded under a new Indefinite Delivery, Indefinite Quantity contract. We have established a prime position on two of the three functional areas under this contract, worth an estimated \$350m (£283m) over five years, which could enable us to expand our work in motion-imagery analysis, analytic training, multi-media support and research. Award of a third functional area under this contract is expected in 2017.

We are currently performing under the first year of a five-year contract with an estimated ceiling value of \$75m (£61m) to provide the US Army with geospatial intelligence data analysis support services and the business is fulfilling the third year of a five-year contract worth up to \$143m (£116m) to provide counter-terrorism analysis services to the US government.

Integrated Electronics & Warfare Systems

We have been awarded a five-year, sole-source contract worth up to \$368m (£298m) by the US Navy to assist with system integration and provide test engineering services and special test equipment for weapons systems on board US Ohio and UK Vanguard Class submarines.

Other US Navy awards in the year include: a five-year contract worth up to \$86m (£70m) to provide management, engineering, maintenance and IT support services for critical mission equipment and combat services used by Naval Sea Systems Command; a two-year, \$73m (£59m) contract from the Naval Air Warfare Center Aircraft Division to provide lifecycle support services for communications and electronics equipment and subsystems; and a five-year, \$52m (£42m) contract to provide essential maintenance and testing support for various air traffic control and landing systems.

Our strategy in action

Accelerate the growth of our cyber, intelligence and security business

International cyber defence partnering



More online
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Under a partnership with Fujitsu of Japan, our cyber security engineers developed a new set of tools to enable and improve Cyber Threat Intelligence (CTI) sharing across national and organisational boundaries. This is one of the first times actual fused intelligence has been shared between international companies. Our unique approach supports the introduction of machine learning techniques enabling the automation of policy enforcement to ensure CTI sharing complies with requirements related to sensitive information. This innovative project has resulted in a key cyber defence discriminator that we can leverage in pursuit of future cyber defence opportunities with the US Army and Air Force.

We continued to support the US Navy's Space and Naval Warfare Systems Center Atlantic, to integrate new C4I (Command, Control, Communications, Computers and Intelligence) equipment on approximately 6,000 Mine Resistant Ambush Protected vehicles over a five-year period, with more than 2,000 vehicles serviced in 2016.

We were awarded a two-year, \$16m (£13m) task order by the US Army's Space and Missile Defense Command/Army Strategic Command to continue the development of specialised cyber vulnerability assessment tools to harden and protect space assets. We also secured a two-year, \$13m (£11m) task order to build a Cyber Warrior Training Capability in support of the Missile Defense Agency.

Under the US Air Force's Intercontinental Ballistic Missile Integration Support Contractor programme, we were awarded more than \$190m (£154m) in additional engineering scope change proposals in 2016, which has resulted in the total contract lifecycle value reaching nearly \$900m (£728m) since we began managing the programme in 2013.

IT Solutions

We are executing the first of several task orders to provide IT services to high-priority US government agencies under a ten-year, single-award Indefinite Delivery, Indefinite Quantity contract awarded in 2015 with a potential value of more than \$1.0bn (£0.8bn), under which task orders totalling approximately \$240m (£194m) have been awarded to date.

Under the Enhanced Solutions for the Information Technology Enterprise (e-SITE) Indefinite Delivery, Indefinite Quantity contract for the Defense Intelligence Agency, we were awarded a five-year, \$58m (£47m) re-compete task order to continue designing, developing, engineering, installing and sustaining information technology resources.

The US Air Force Research Laboratory awarded the business a five-year contract worth up to \$49m (£40m) to develop, deploy and maintain cross-domain solutions for safeguarding the sharing of sensitive information between government networks.

Applied Intelligence

The business has continued to invest in commercial cyber security and counter-fraud product development, and sales and marketing to drive revenue growth. A 'Business Defence' marketing campaign, launched initially in the US, is generating new leads in the commercial business. We have continued to build our cyber skills and engineering capabilities internationally. During the year, we opened a 'Nerve Centre' in Malaysia, a state-of-the-art facility that supports our global cyber security, anti-financial crime and threat intelligence capabilities.

Commercial Solutions

The business continues to shift towards more multi-year managed services and subscription-based, cloud-delivered products. During the year, an enhanced Managed Security Services offering to enterprise-class customers was launched in the US, building on the success of our existing mid-market offering. We have seen growth in managed security services through partnerships with regional communications service providers in the UK and North America.

The business continues to sell licensed 'on premise' software products, with awards in the year including a pilot with a major UK financial institution for the CyberReveal™ threat analytics solution, which defends large enterprises against sophisticated cyber-attacks.

We have continued to extend our position in counter-fraud and financial compliance with further sales of multi-year service offerings, including a five-year contract to provide a customised NetReveal™ counter-fraud analytics solution for HM Revenue & Customs in the UK and the extension of the managed fraud detection service for the Insurance Fraud Bureau in the UK to 2020. The business was appointed by SWIFT, the world's leading provider of secure financial messaging services, to join its new Customer Security Intelligence team and has announced an Incident Response partnership with Allianz Global Corporate & Specialty.

UK Services

The business has maintained its position as a key supplier to national security agencies in the UK, with a number of new framework agreements and contract wins, including follow-on work for existing customer programmes.

Demand for cyber security services from large enterprises has continued, with a two-year cyber security support contract in the transport sector and the extension of a team delivering cyber security advisory services for a UK telecommunications operator.

The data and digital transformation business continues to grow, with new contracts covering a team delivering aspects of IT transformational change in HM Revenue & Customs to the final quarter of 2017 and collaboration in the Digital Railway programme helping to develop an industry architecture and capability development framework for the UK rail industry. We have won a number of service integration and management advisory contracts in central government departments.

International Services & Solutions

We have seen continued demand in Asia-Pacific, Europe and the Middle East for protection against national threats. A pilot advanced cyber threat analytics and investigation solution on a national telecommunications network in Asia was successfully implemented during the year and there has been growth in business with top-tier telecommunications providers in Australia.

The latest release of the IntelligenceReveal™ all-source analysis solution, which enables customers to view a single, unified intelligence picture, has supported the implementation of a large programme for a strategic law enforcement customer. We have also won a contract to build a technology demonstrator in the UK that allows users to move information between security domains without compromising confidentiality, integrity or availability.

Looking forward

Intelligence & Security

Following a period of market contraction in the US government services sector, the Group believes the outlook is now stable with market conditions remaining highly competitive.

The Intelligence & Security business has continued to reduce costs to address government budget pressures, whilst pursuing growth opportunities, particularly in critical, mission-focused areas.

Applied Intelligence

Investment continues in product development, sales and marketing, and building cyber and engineering capabilities in the UK and international markets.

The business continues to migrate towards a multi-year managed service and subscription-based model, providing enhanced predictability of revenues, and growing further the order backlog and pipeline of opportunities from commercial and government customers in North America, Europe, Asia-Pacific and the Middle East.

Segmental performance

Platforms & Services (US)



Platforms & Services (US), with 11,300 employees¹, has operations in the US, UK and Sweden. It produces combat vehicles, weapons and munitions, and delivers services and sustainment activities, including ship repair and the management of government-owned munitions facilities.

US Combat Vehicles focuses on a portfolio of tracked combat vehicles, amphibious vehicles, accessories, protection systems and tactical support services for the US military and international customers.

Weapon Systems and Munition Operations focuses on naval weapons, artillery, advanced weapons, precision munitions, high explosives and propellants for US, UK and international customers.

Services include complex munition site management for the US Army's Holston and Radford facilities.

US Ship Repair and Modernisation is a major provider of non-nuclear ship repair, modernisation, overhaul and conversions to the US Navy, government and commercial maritime customers. It has six operational sites in the US on the Atlantic, Gulf of Mexico and Pacific coasts, as well as in Hawaii.

BAE Systems Hägglunds focuses on the tracked vehicle market for Swedish and international customers.

FNSS, the Turkish land systems business in which BAE Systems holds a 49% interest, produces and upgrades tracked and wheeled military vehicles for domestic and international customers.

Our strategy in action
Continue to win new international orders

Expanding our international footprint

In 2016, Platforms & Services (US) increased its international profile in the land domain, with awards for M113 vehicle upgrade kits and upgraded M109A5+ self-propelled howitzers to Brazil; Assault Amphibious Vehicles to Japan; BvS10 vehicles to Austria; refurbished CV90 vehicles for Sweden; and M777 lightweight howitzers to India in January 2017.

1. Including share of equity accounted investments.
2. International Financial Reporting Standards.

Operational and strategic highlights

- Roll-out of the first prototype Armored Multi-Purpose Vehicle for the US Army and delivery of the first prototype Amphibious Combat Vehicles for the US Marine Corps
- 34 vehicle sets delivered to the US Army under the M109A7 Paladin self-propelled howitzer programme
- Commenced production of 30 Assault Amphibious Vehicles for Japan under a \$160m (£129m) contract
- £183m contract received in July for the gun system on the UK Type 26 frigate
- Secured a \$542m (£439m) contract to provide 145 M777 lightweight howitzers to India in January 2017
- Received a \$182m (£147m) contract to refurbish and upgrade 262 CV90 Infantry Fighting Vehicles for Sweden
- FNSS awarded a contract to supply 260 Anti-Tank Vehicles to the Turkish Land Forces worth more than €278m (£237m)
- The arrival of a new dry dock at the San Diego shipyard to expand capabilities for servicing US Navy ships

Financial performance

Financial performance measures as defined by the Group

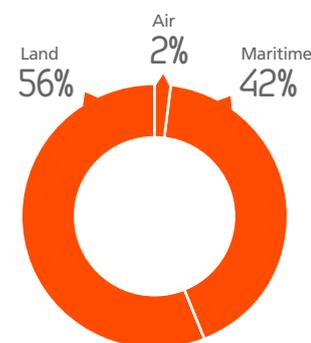
		2016	2015
Sales	KPI	£2,874m	£2,779m
Underlying EBITA	KPI	£211m	£177m
Return on sales		7.3%	6.4%
Operating business cash flow	KPI	£58m	£100m
Order intake ¹	KPI	£3,308m	£2,737m
Order backlog ¹		£4.6bn	£3.9bn

Financial performance measures defined in IFRS²

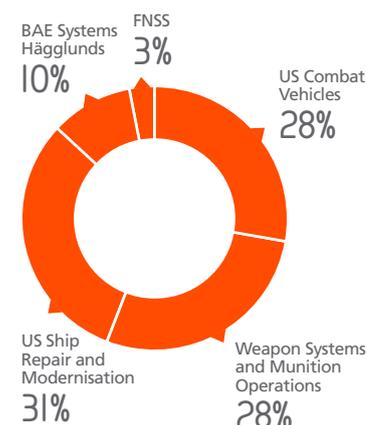
	2016	2015
Revenue	£2,783m	£2,678m
Operating profit	£182m	£142m
Return on revenue	6.5%	5.3%
Cash flow from operating activities	£129m	£144m

- Sales in the year declined by 8% to \$3.9bn (£2.9bn). The sales reduction in the naval ship repair business was less than expected, with stronger volumes through our Norfolk yard.
- The business has delivered an improved return on sales of 7.3% (2015 6.4%). Whilst further charges had to be taken in the year on the commercial shipbuilding programmes, these were partly offset by provision releases, primarily on the Radford munitions contract. The net impact of these charges and releases was 1.3 percentage points on return on sales.
- Cash conversion of underlying EBITA was impacted by the use of provisions on the commercial shipbuilding programmes and of customer advances on the CV90 Norway contract, along with the investment, now completed, on the new floating dry dock facilities in San Diego.
- Order backlog¹ was almost unchanged at \$5.7bn (£4.6bn). The trading out of the five-year Multi-Ship, Multi-Option contracts in the ship repair business and on the CV90 Norway programme were largely offset by multiple domestic and international land vehicle awards along with the gun contract for the UK's Type 26 frigate. The Indian M777 lightweight howitzer award for \$542m (£439m) was not contracted until January 2017.

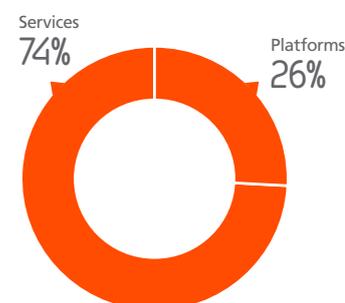
Sales by domain (%)



Sales by line of business (%)



Sales analysis: Platforms and services (%)



Segmental performance Platforms & Services (US)

Operational performance

US Combat Vehicles

The business continues to hold a number of key franchise programmes, including the long-standing Bradley Infantry Fighting Vehicle, the M109 family of vehicles, the M88 Heavy Recovery Vehicle, the Assault Amphibious Vehicle and the more recent Armored Multi-Purpose Vehicle, with future prospects including the Amphibious Combat Vehicle 1.1 programme.

We have rolled out the first of 29 vehicles under the engineering and manufacturing development phase of the US Army's Armored Multi-Purpose Vehicle programme. The potential contract value for the initial phase of the programme is \$1.2bn (£1.0bn), including options for 289 vehicles in Low-Rate Initial Production. Anticipated Full-Rate Production is expected to approach 3,000 vehicles.

We continue to execute on the \$670m (£542m) Low-Rate Initial Production phase of the M109A7 Paladin self-propelled howitzer programme to deliver 66 vehicle sets and an additional howitzer. At 31 December, 34 vehicle sets, together with the additional howitzer, had been delivered. The US Army's total acquisition objective through all programme phases is for 581 vehicle sets.

The business is executing a \$286m (£231m) Engineering Change Proposal to address the space, weight, power and cooling limitations of the Bradley family of vehicles as well as preparing the vehicle for communication network upgrades. In 2017, the customer's production decision is expected regarding the upgrade of approximately 500 vehicles over a three-year period from 2019.

In April, we received a contract valued at \$110m (£89m) from the US Army to convert 36 M88A1 recovery vehicles to the M88A2 Heavy Equipment Recovery Combat Utility Lift Evacuation Systems (HERCULES) configuration. Deliveries are scheduled to begin in November 2017.

Along with industry partner Iveco Defence, BAE Systems has begun deliveries of the first of 16 Amphibious Combat Vehicle 1.1 prototypes under a \$104m (£84m) contract for the engineering and manufacturing development phase of the programme. Testing by the US Marine Corps will start in the first half of 2017 and final down-selection to a single manufacturer is expected in 2018.

Leveraging our expertise in amphibious capabilities, we were awarded contracts totalling \$160m (£129m) for the production of 30 new Assault Amphibious Vehicles (AAV) and the upgrade of two AAV for the Japanese Ministry of Defence.

Our strategy in action
Leverage our technology and engineering capabilities

Next-generation Bradley focuses on the future



[More online
baesystems.com](http://baesystems.com)

In October, BAE Systems unveiled its Next-Generation Bradley Infantry Fighting Vehicle demonstrator. Internally funded, the Bradley demonstrator leverages current and new technologies to significantly improve mobility, force protection and lethality.

The vehicle was engineered to adapt solutions from other BAE Systems platforms to support commonality across the US Army's fleet of combat vehicles. It features an upgraded chassis to increase the protection of troops, and more space to accommodate larger soldiers and electrical power for future technology insertion to help to ensure that the US Army can successfully execute its missions in the coming decades.

In April, we received a contract valued at \$50m (£40m) to deliver 236 M113 upgrade kits and technical support for the Brazilian Army, with contract deliveries scheduled to complete in 2018. In September, the Brazilian government awarded the business a \$54m (£44m) contract to provide 32 upgraded M109A5+ self-propelled howitzers.

Weapon Systems and Munition Operations

BAE Systems remains a leading provider of gun systems and precision strike capabilities, and continues work with the US Navy on the development of the Hyper Velocity Projectile and the Electromagnetic Railgun.

In April, we received multiple awards from the US Navy, including a \$38m (£31m) contract modification to provide additional missile canisters for the Mk 41 Vertical Launching System and a \$72m (£58m) contract to produce and deliver propulsor systems for Block IV Virginia Class submarines.

In August, the US Navy exercised a \$50m (£40m) contract option to upgrade four additional Mk 45 gun systems, bringing the total value of the contract to \$130m (£105m) for ten systems.

In July, we received a £183m contract from the UK Ministry of Defence to provide the gun system known as the Maritime Indirect Fire System for the Royal Navy's Type 26 frigate.

Deliveries to the Swedish government of the 24 Archer artillery systems were completed in December. In September, the Swedish government announced its intent to purchase the additional 24 Archer systems originally contracted for Norway.

In February 2017, we completed the acquisition of IAP Research, an engineering company focused on the development and production of electromagnetic launchers, power electronics and advanced materials.

In the complex infrastructure operations business, we manage the US Army's Radford and Holston munitions facilities. In the year, we were awarded \$85m (£69m) in contract modifications at Holston for waste water management, followed by a \$146m (£118m) contract in October to construct a nitric acid recovery facility to increase capacity for producing insensitive munitions. In September, we received a \$69m (£56m) contract for continued production of MK 90 propellant grain.

In November, the US and Indian governments signed a Letter of Agreement for the Foreign Military Sale of 145 M777 lightweight howitzers and, in January 2017, we received the \$542m (£439m) contract from the US government to supply these howitzers to the Indian Army. We have selected Mahindra & Mahindra as our supplier to establish an assembly, integration and test facility in India in support of the Indian Prime Minister's 'Make in India' initiative.

US Ship Repair and Modernisation

We are a leading provider of ship repair and modernisation services. In 2016, we secured firm orders across our US shipyards totalling approximately \$1.1bn (£0.9bn) and the business remains well positioned to compete for future contracts in the maritime domain.

We continue to adjust our workforce and facilities to meet the evolving demand for US Navy ship repair. To support the US Navy's re-balance to the Asia-Pacific region, a new dry dock arrived in our San Diego shipyard in December and became operational in February 2017. The USS New Orleans, an amphibious dock landing ship, will be the first vessel to be serviced in the dry dock under a \$37m (£30m) contract received in November.

In commercial shipbuilding, we continued to experience challenges in the year, taking a \$73m (£54m) charge against ongoing contracts. Workforce adjustments continue as these contracts near completion. Six ships have now been accepted by customers, with the remaining two ships expected to complete in 2017.

In January 2017, we completed the sale of our BAE Systems San Francisco Ship Repair business enabling us to focus on our larger, retained shipyards providing strong capabilities and support to our key maritime customers, including the US Navy.

BAE Systems Hägglunds

Series production continues on the \$865m (£700m) contract awarded in 2012 for the supply of CV90 Infantry Fighting Vehicles to Norway.

In addition to production of CV90 vehicles, we have been awarded contracts for refurbishment and upgrade. In March, we were awarded a contract valued at \$182m (£147m) to refurbish 262 CV90 vehicles for the Swedish Army and, in September and October, two contracts from the Danish government for sustainment and upgrade of its CV90 fleet. In December, the Swedish government awarded us a \$68m (£55m) contract for the integration of Mjölner mortar systems on 40 CV90s, and we received a contract from the Dutch government for testing and verification of Active Protection Systems on CV90s.

In June, we were awarded a contract to produce 32 BvS10 military vehicles for Austria, the fifth nation to acquire the all-terrain vehicle.

FNSS

FNSS, our land systems joint venture based in Turkey, has continued to perform under its \$524m (£424m) programme to produce 259 8x8 wheeled armoured vehicles for the Royal Malaysian Army.

Production remains on schedule under a contract to upgrade M113 tracked armoured personnel carriers for the Royal Saudi Land Forces and, in 2016, the business received a contract to integrate mortar systems.

In support of a customer contract awarded in 2015 to supply the PARS Wheeled Armoured Vehicle, work has begun to deliver 8x8 and 6x6 vehicles in a number of configurations.

In June, FNSS was awarded a contract worth more than €278m (£237m) to supply 260 Anti-Tank Vehicles to the Turkish Land Forces. The scope of the project includes both tracked and wheeled vehicles equipped with anti-tank guided missile system turrets.

In December, FNSS signed an €84m (£72m) contract with ASELSAN, a Turkish defence electronics company, for amphibious tracked armoured vehicles for the Turkish Land Forces.

Looking forward

In the US, following the two-year Bipartisan Budget Act signed in 2015, there are signs of a return to growth in defence budgets, with the new administration expected to further increase defence and security spending.

The business is underpinned by strong positions on key franchise programmes. In the land domain, this includes the US Army's Armored Multi-Purpose Vehicle, Bradley and Paladin programmes and the CV90 and BvS10 export programmes from our BAE Systems Hägglunds business.

FNSS has grown its order book with both domestic and international orders secured during 2016.

These long-term contracts, our strong franchise in tracked vehicles and opportunities in international markets, position the land business for a return to growth in the medium term.

In the maritime domain, the Group has a strong position on naval gun programmes and US Navy ship repair. Additional dry dock ship repair capacity has been established in San Diego to support the US Navy's re-balance to the Asia-Pacific region.

The business continues to pursue a range of domestic and international opportunities in combat and amphibious vehicles, weapons systems and maritime support services.

Segmental performance

Platforms & Services (UK)



Platforms & Services (UK), with 30,100 employees¹, comprises the Group's UK-based air, maritime, land and shared services activities.

Military Air & Information includes programmes for the production of Typhoon combat and Hawk trainer aircraft, F-35 Lightning II manufacture and support, support and upgrades for Typhoon, Tornado and Hawk aircraft, and development of next-generation Unmanned Air Systems and defence information systems.

Maritime programmes include the construction of two Queen Elizabeth Class aircraft carriers, five River Class Offshore Patrol Vessels and seven Astute Class submarines for the Royal Navy, the design and production of the Dreadnought Class submarine and Type 26 frigate, and in-service support, including the five-year contract secured in 2014 for the delivery of services at HM Naval Base, Portsmouth.

Land (UK) provides combat vehicle upgrades and support to the British Army and international customers, and designs, develops and manufactures a comprehensive range of munitions products servicing its main customer, the UK Ministry of Defence, as well as international customers. The business also develops and manufactures cased-telescoped weapons through its CTA International joint venture.

Our strategy in action

Continuously improve efficiency and competitiveness

UK Typhoon support contract

In July, we announced an innovative ten-year partnership arrangement, expected to be worth at least £2.1bn, to support the Royal Air Force's fleet of Typhoon combat aircraft. Working closely with the Royal Air Force, we aim to substantially reduce current support and maintenance cost. Under the terms of the arrangement, there is potential for a proportion of these savings to be reinvested to develop new capabilities for the aircraft.

1. Including share of equity accounted investments.
2. International Financial Reporting Standards.

Operational and strategic highlights

- £1.0bn of orders for our workshare on 28 Typhoon aircraft for Kuwait
- Partnership arrangement for support to the UK Typhoon fleet expected to be worth at least £2.1bn over a ten-year period
- F-35 Lightning II orders worth £637m, including Lot 10 production and construction of engineering and training facilities in the UK, and the UK selected as European regional avionics and component repair hub
- £472m extension to the Type 26 frigate demonstration phase contract and UK government commitment to manufacture eight ships
- £287m contract awarded for two additional Offshore Patrol Vessels, including support services for the five-ship programme
- Reactor core successfully loaded on the fourth Astute Class submarine
- £1.3bn of funding received for Dreadnought Class submarine design, initial manufacture, materials and facilities investment
- Down-selected as one of two contenders for the Challenger 2 Life Extension Programme
- £445m order on the Munitions Acquisition Supply Solution partnering agreement for five years of supply

Financial performance

Financial performance measures as defined by the Group

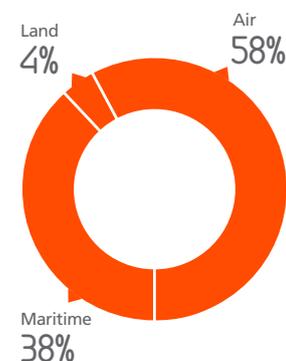
		2016	2015
Sales	KPI	£7,806m	£7,405m
Underlying EBITA	KPI	£810m	£721m
Return on sales		10.4%	9.7%
Operating business cash flow	KPI	£199m	£220m
Order intake ¹	KPI	£8,024m	£4,944m
Order backlog ¹		£17.8bn	£17.8bn

Financial performance measures defined in IFRS²

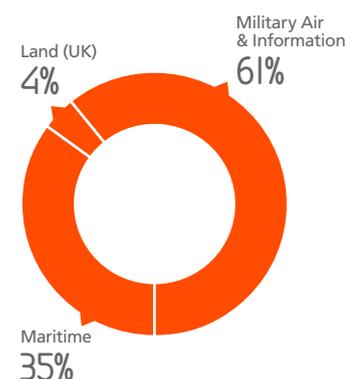
	2016	2015
Revenue	£7,699m	£7,319m
Operating profit	£780m	£756m
Return on revenue	10.1%	10.3%
Cash flow from operating activities	£385m	£289m

- The year's sales of £7.8bn were 5% higher than 2015. The increase came from the expected ramp up on F-35 Lightning II deliveries and Saudi trainer aircraft. Activity and milestone performance on the submarine programmes was ahead of plan. There was also a higher level of intercompany activity under the Saudi support contracts which is eliminated at the Group level.
- The return on sales was 10.4% (2015 9.7%).
- Cash performance was better than expected, with an operating business cash inflow of £199m (2015 £220m). Consumption of customer advances occurred on the Omani, Saudi and European Typhoon contracts, albeit some early receipts on the Omani contract mitigated that to a limited extent.
- Order backlog¹ was stable at £17.8bn (2015 £17.8bn). Sales trading on the Typhoon aircraft and aircraft carrier programmes was replaced by the ten-year UK Typhoon support award and Kuwait Typhoon subcontract.

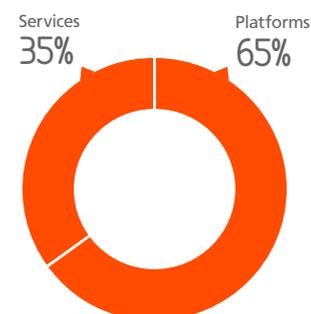
Sales by domain (%)



Sales by line of business (%)



Sales analysis: Platforms and services (%)



Segmental performance Platforms & Services (UK)

Operational performance

Military Air & Information

In the year, 16 Typhoon aircraft were delivered from the UK final assembly facility, of which 11 were delivered to Saudi Arabia. Cumulative aircraft deliveries to the UK, Germany, Italy and Spain total 232 of the contracted 236 Tranche 2 aircraft and 33 of the contracted 88 Tranche 3 aircraft.

The Oman Typhoon and Hawk aircraft programme is on track for commencement of deliveries in 2017.

Orders totalling £1.0bn have been received via Eurofighter from our Italian Eurofighter partner, Leonardo, for BAE Systems' share of work on the 28 Typhoon aircraft for Kuwait covering airframe manufacture, support, capability upgrade and Electronically Scanned (E-Scan) radar integration work.

Typhoon's capabilities continue to be enhanced with the ongoing integration of the Captor E-Scan radar and the Storm Shadow, Meteor and Brimstone 2 missiles as part of European capability delivery programmes. Development towards the Royal Air Force Centurion standard continues, which will enable transition of capability from Tornado to Typhoon.

We have continued to support our UK and European customers' Typhoon and Tornado aircraft and their operational commitments. A ten-year partnership arrangement with the Ministry of Defence to support the UK Typhoon fleet, expected to be worth at least £2.1bn, was signed in July.

On the F-35 Lightning II programme, we completed delivery of 55 aft fuselage assemblies for the Low-Rate Initial Production Lot 9 and 10 contracts. Additional orders were received for Lot 10 during the year, worth £168m, with full contract award expected in 2017 following agreement of the front-end contract between Lockheed Martin and the US government. The proposal for Lot 11 has been submitted to Lockheed Martin in advance of negotiations expected to complete in 2017. A £118m contract to build engineering and training facilities at RAF Marham in Norfolk, UK, has been secured, with work scheduled to be completed in 2018 in readiness for the arrival of the UK's first F-35 Lightning II aircraft. In November, the F-35 Joint Programme Office announced that it had chosen the UK as a major repair hub for the maintenance, repair, overhaul and upgrade of F-35 Lightning II avionics and components, during the period 2021 to 2025 on a global basis and from 2025 onwards for the Europe region.

Support continues to be provided to users of Hawk trainer aircraft around the world. A long-term support contract for the Royal Air Force's UK fleet of Hawk fast jet trainer aircraft was announced in the year and we continue to deliver against all contractual milestones.

In 2016, the Indian Navy and Air Force received three and ten Hawk aircraft, respectively, completing the delivery of all 57 aircraft built under licence by Hindustan Aeronautics Limited (HAL). Negotiations continue with HAL for the supply of 32 aircraft kit sets which will result in aircraft built under licence by HAL for the Indian Air Force and Indian Navy.

In March, we welcomed the announcement by the UK and French governments of a €2bn (£1.7bn) programme to build operationally representative unmanned combat air system demonstrators. This will secure highly-skilled engineering jobs and the first phase is anticipated to commence in 2018.

The UK technology programme for the air sector continues to progress with a successful set of demonstrations in 2016 and further order intake has been received to develop critical systems and capabilities for future unmanned systems and other aircraft.

In Turkey, following a pre-contract study phase between BAE Systems and Turkish Aerospace Industries, we have signed a heads of agreement to collaborate on the first design and development phase of an indigenous fifth-generation fighter jet for the Turkish Air Force. When on contract, this will have a value in excess of £100m.

Maritime

On the aircraft carrier programme, good progress has been made on commissioning HMS Queen Elizabeth's key systems and the business is working with the Ministry of Defence to prepare the support solution in advance of her expected arrival at HM Naval Base, Portsmouth, in 2017. On HMS Prince of Wales, all of the blocks are now assembled, with large volume installation activities under way. Sea trials on the aircraft carriers are expected to complete in 2017 and 2019, respectively.

In preparation for the manufacturing contract for the Type 26 frigate, a £472m extension to the demonstration phase contract was secured in March, covering detailed design activities and enabling us to subcontract for key equipment with companies throughout the supply chain. The engineering design programme continues to progress to enable commencement of manufacture of the first ship in 2017. The programme currently employs more than 1,000 staff.

Under a heads of terms signed in November, BAE Systems and the Ministry of Defence reached agreement in principle on the award of a contract reflecting the government's intention to build eight Type 26 frigates on the Clyde and a further two River Class Offshore Patrol Vessels. The Offshore Patrol Vessels were contracted in December for £287m, including support services for the five-ship programme.

Our strategy in action

Leverage our technology and engineering capabilities

Developing unmanned boat technology



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In 2016, we successfully demonstrated unmanned boat technology and a bespoke transportable command and control system. A modified Pacific Class 950 Rigid Inflatable Boat took part in the Royal Navy's Unmanned Warrior naval exercise. This system is capable of speeds up to 47 knots and would allow longer duration operations than manned boats. The multi-role vessel could carry out reconnaissance and remote surveillance operations while keeping sailors out of harm's way.

The technology will enable end-to-end command and control of unmanned vehicles and, together with the unmanned boat technology, can track, monitor and intercept threats as they happen. This supports decision-making and helps to keep Royal Navy personnel safe during deployment.

Progress has been maintained on the manufacture of the first three Offshore Patrol Vessels, FORTH, MEDWAY and TRENT. The programme supports shipbuilding skills and provides a bridge for the business between the aircraft carrier programme and manufacture of the Type 26 frigate.

Under the Maritime Support Delivery Framework contract, in place until March 2019, we provide services at HM Naval Base, Portsmouth, and support to half of the Royal Navy's surface fleet. Achievement of target cost remains on track.

BAE Systems manages the support, maintenance and upgrade of the Royal Navy's fleet of Type 45 destroyers.

Progress continues on the £270m Spearfish torpedo upgrade demonstration and manufacture phases, with the demonstration phase currently forecast to complete in 2019.

The first three of seven Astute Class submarines are in operational service with the Royal Navy, with the reactor core load on boat four completed in the second half of the year. Further funding of £228m for the sixth and seventh boats was received in the year. Negotiations for full pricing of the sixth and seventh boats have commenced.

The Ministry of Defence, BAE Systems and Rolls-Royce have signed a heads of terms to set up a Dreadnought Build Alliance documenting the UK government and industry's commitment to the delivery of the Dreadnought Class submarine programme, the replacement for the Royal Navy's Vanguard Class submarine fleet, and setting out an organisational and managerial structure and series of commercial principles necessary to deliver it.

Functional and spatial design continues to advance on the Dreadnought Class submarine. During 2016, £1.3bn of funding was received for continued design, initial manufacture of the first boat, material commitment and facilities investment. Preparations for the manufacture of Dreadnought include a major programme of building works at the Barrow site, with contracts in place totalling more than £300m. The UK government's commitment to the Dreadnought programme was endorsed by Parliament during the year.

Land (UK)

The business provides ongoing support to previously-supplied armoured vehicles and bridging systems, with orders of £56m received in the year. In the UK, the business has been down-selected as one of two contenders to deliver the first stage of the Challenger 2 Life Extension Programme and, in the overseas market, the business secured a multi-year contract for support and maintenance to the Latvian fleet of Combat Vehicle Reconnaissance (Tracked) vehicles purchased from the UK Ministry of Defence.

The first 29 of 515 40mm cased-telescopic cannons were delivered to the Ministry of Defence by CTA International, a 50% joint venture between BAE Systems and Nexter.

The business continues to provide UK and international customers with a full range of light and heavy munitions. We have concluded pricing negotiations on our 15-year Munitions Acquisition Supply Solution partnering agreement with the Ministry of Defence, worth £445m.

Looking forward

Platforms & Services (UK) has an order backlog of long-term committed programmes and an enduring support business. The Strategic Defence and Security Review announced in November 2015 provided clarity, continuity and stability for the UK contracted business and has been consistently implemented through long-term contract awards and commitments.

In Military Air & Information, sales are underpinned by Typhoon and F-35 Lightning II aircraft production and in-service support. There are opportunities to secure further Typhoon export sales building on the purchase of 28 aircraft by Kuwait.

In Maritime, sales are underpinned by the design and subsequent manufacture of the Type 26 frigate and long-term contracts on Queen Elizabeth Class aircraft carriers, River Class Offshore Patrol Vessels, and Astute and Dreadnought Class submarines. The through-life support of existing and new platforms, together with their associated command and combat systems, provides a sustainable business in technical services and mid-life upgrades.

The Land (UK) business is underpinned by the 15-year Munitions Acquisition Supply Solution partnering agreement with the Ministry of Defence secured in 2008 and continues to pursue upgrade programmes with a focus on the Challenger 2 main battle tank.

Segmental performance

Platforms & Services (International)



Platforms & Services (International), with 13,700 employees¹, comprises the Group's businesses in Saudi Arabia, Australia and Oman, together with its 37.5% interest in the pan-European MBDA joint venture.

In **Saudi Arabia**, the business provides operational capability support to the country's air and naval forces through UK/Saudi government-to-government programmes. The Saudi British Defence Co-operation Programme and Salam Typhoon project provide for multi-year contracts between the governments.

In **Australia**, the business delivers production, upgrade and support programmes for customers in the defence and commercial sectors across the air, maritime and land domains. Services contracts include the provision of sustainment, training solutions and upgrades.

In **Oman**, the business is developing its position building on a long history of relationships with the Omani armed forces through the provision, support and upgrade of defence platforms and cyber security services. Business generated in Oman is executed through our relevant reporting segments.

MBDA is a leading global prime contractor of missiles and missile systems across the air, maritime and land domains.

Our strategy in action

Drive value and growth from our defence platforms and services

Supporting industrialisation in Saudi Arabia

The Kingdom of Saudi Arabia recently set out its Vision 2030 – ambitious plans to transform its economy and further develop thriving national industries. We are committed to supporting this agenda.

During 2016, there has been further capability and knowledge transfer on the Typhoon platform, and planning is well advanced for the transfer of other capabilities and work into our In-Kingdom partner companies. These partner companies include providers of training, supply chain and IT services, as well as an aircraft equipment and maintenance supplier and a firm specialising in modern electronics manufacturing, system integration, and repair and maintenance.

1. Including share of equity accounted investments.
2. International Financial Reporting Standards.

Operational and strategic highlights

- BAE Systems celebrated 50 years in Saudi Arabia
- 11 Typhoon aircraft delivered on the Salam programme in the year
- Continued provision of support agreed under the Saudi British Defence Co-operation Programme to the Royal Saudi Air Force and Royal Saudi Naval Forces through to 2021, against which we have booked initial order intake in 2016
- BAE Systems Australia selected to provide maintenance, repair, overhaul and upgrade to support a range of F-35 Lightning II system components
- Awarded a contract for the Risk Mitigation Activity phase of the Land 400 vehicle competition in Australia
- Contracts totalling A\$430m (£252m) awarded for sustainment and upgrade of Anzac Class frigates under the Warship Asset Management Alliance
- UK Ministry of Defence awarded MBDA a contract for additional Common Anti-air Modular Missiles
- MBDA signed two significant contracts in Qatar for naval air defence and coastal battery defence systems
- MBDA secured weapons package orders with India as part of agreed export contracts for Rafale aircraft

Financial performance

Financial performance measures as defined by the Group

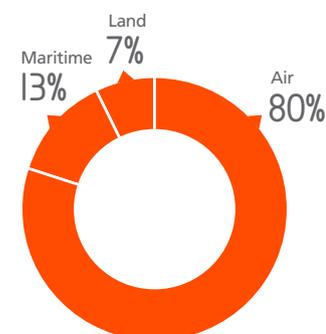
		2016	2015
Sales	KPI	£3,943m	£3,742m
Underlying EBITA	KPI	£400m	£335m
Return on sales		10.1%	9.0%
Operating business cash flow	KPI	£435m	£164m
Order intake ¹	KPI	£6,175m	£3,046m
Order backlog ¹		£13.1bn	£10.2bn

Financial performance measures defined in IFRS²

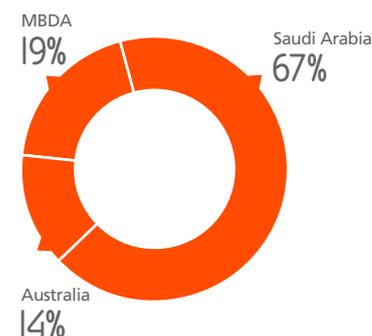
	2016	2015
Revenue	£3,037m	£2,957m
Operating profit	£365m	£299m
Return on revenue	12.0%	10.1%
Cash flow from operating activities	£473m	£193m

- Sales of £3.9bn were 5% up over 2015. The trading increase comes from the higher levels of support to the Salam Typhoon aircraft now in service and weapon volumes from MBDA.
- Underlying EBITA of £400m (2015 £335m) has moved the return on sales back above 10% (2015 9.0%). The 2015 result included charges totalling £53m in respect of the impairment and rationalisation taken in the Australian business.
- Operating business cash flow was strong at £435m (2015 £164m), although accelerated receipts from 2017 on Saudi support and the MBDA Qatar programme were major factors.
- Order backlog¹ increased to £13.1bn (2015 £10.2bn) as initial order intake was booked for the renewal of the five-year support contract in Saudi Arabia.

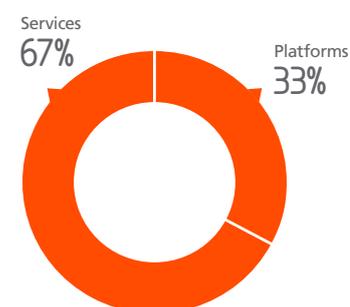
Sales by domain (%)



Sales by line of business (%)



Sales analysis: Platforms and services (%)



Segmental performance

Platforms & Services (International)

Operational performance

Saudi Arabia

On the Salam Typhoon programme, 68 of the contracted 72 aircraft had been delivered at 31 December. Typhoon capability expansion is progressing to schedule.

The Typhoon support contracts are operating well, meeting all contractual metrics.

Through the Saudi British Defence Co-operation Programme, the business continues to support the operational capabilities of the Royal Saudi Air Force and Royal Saudi Naval Forces. The contract for Hawk aircraft signed in 2012 continues on schedule, with 14 aircraft delivered and accepted at 31 December. Manufacturing for the second batch of 22 aircraft, awarded in 2015, is progressing to schedule. Under this contract, we will undertake the final assembly of these aircraft in Saudi Arabia.

Under the Royal Saudi Naval Forces' Minehunter mid-life update programme, acceptance of the second ship was completed in the second half of the year. Work on the third and final ship is progressing to plan, with acceptance expected in the second half of 2017.

Agreement has been reached with the Saudi Arabian government for BAE Systems to continue to provide support services to the Royal Saudi Air Force and Royal Saudi Naval Forces under the Saudi British Defence Co-operation Programme for a further five years, against which we have booked initial order intake in 2016. Discussions with the UK government and the Saudi Arabian customer are under way to define the details of this follow-on contract.

Under the planned reorganisation of our portfolio of interests in a number of industrial companies in Saudi Arabia, Riyadh Wings Aviation Academy LLC has acquired a 4.1% shareholding in a Group subsidiary, Overhaul and Maintenance Company, and is expected to acquire a further interest up to a maximum of 49%. The reorganisation supports our strategy to expand the customer base of our In-Kingdom Industrial Participation programme, promoting training, development and employment opportunities in line with Vision 2030.

The Saudi Arabian In-Kingdom Industrial Participation programme continues to make progress. During 2016, there has been further capability and knowledge transfer on the Typhoon platform and planning is well advanced for the transfer of other capabilities and work into our In-Kingdom partner companies. All of these activities are aligned with our long-term industrialisation strategy, as well as the Saudi Arabian government's National Transformation Plan and Vision 2030.

Our strategy in action
Continue to win new international orders

Australian Hawk support contract



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We provide support to the Royal Australian Air Force's (RAAF) Hawk fleet at its bases in Williamtown and Pearce. Working alongside the RAAF, we ensure that the aircraft are available for training when required and have continued to deliver significant savings. Since 2013, we have achieved all contract key performance indicators for deep maintenance of the fleet. In 2016, we expanded our long-standing relationship with the RAAF to include operational maintenance and secured an A\$200m (£117m) contract, extending our support to 2020, and ensuring that Australia's combat pilots continue to receive the best training possible.

Australia

The consolidation of operating divisions announced in 2015, from three to two, was completed during the year.

We have continued to provide in-service support to the Navy's two Landing Helicopter Docks under a four-year support contract awarded in 2014. Final acceptance of these vessels is scheduled in 2017.

The fifth Anzac Class frigate to be modernised under the current Anti-Ship Missile Defence programme, HMAS Parramatta, has completed final sea trials and has been accepted into service by the Commonwealth. Completion of the upgrade programme is expected in 2017.

In April, the Australian government signed an agreement for the sustainment and upgrade of the Anzac Class frigates under the Warship Asset Management Alliance. We are a significant participant and the agreement underpins our engineering and complex project management capabilities. We were awarded contracts totalling A\$430m (£252m) in the year.

In April, the Australian government announced that our Type 26 Global Combat Ship had been shortlisted as one of three designs for its SEA 5000 Future Frigate programme and, in August, a contract was signed with the Commonwealth to further refine the design as part of a competitive evaluation process.

In November, BAE Systems was chosen to provide maintenance, repair, overhaul and upgrade services to support a range of system components on the F-35 Lightning II aircraft. Our scope of work involves global sustainment services for life support components and sustainment services for the South Pacific region across avionics and digital mission systems and electrical systems components. This award follows our selection, in 2015, as the Pacific regional prime contractor to undertake airframe maintenance, repair, overhaul and upgrade.

In May, the Royal Australian Air Force celebrated its Hawk aircraft fleet achieving the significant milestone of more than 100,000 flying hours. We support the fleet as the systems integrator, including logistics, maintenance, repair, overhaul and upgrade. From July, our scope of work was expanded to include operational maintenance, a reflection of this successful long-term partnering arrangement.

In 2016, the government announced that we were one of two tenderers successfully down-selected on the Land 400 Phase 2 Combat Reconnaissance Vehicle programme.

We are engaged in discussions with the Australian government regarding the forward delivery schedule for the delayed JP 2008 Phase 3F programme for enhanced satellite communications services to the Australian Defence Force.

Oman

The Oman Typhoon and Hawk aircraft programme, being undertaken by Platforms & Services (UK), is on track for commencement of aircraft deliveries in 2017. Separately, we continue to fulfil our legacy industrial participation obligations in Oman through delivery of an agreed training and knowledge transfer programme.

MBDA

In 2015, the German government announced its intention to acquire a ground-based air defence system based upon the Medium Extended Air Defence System missile defence system being developed by MBDA in partnership with Lockheed Martin. MBDA has now submitted its proposal for the development of this system.

In a significant development for the Aster surface-to-air missile family, France and Italy have jointly launched development of the Aster 30 Block 1 NT (New Technologies) missile which will provide enhanced capabilities against the ballistic missile threat.

MBDA is responsible for the delivery of the majority of the UK's complex weapons requirements. During the year, a number of contracts have been awarded to MBDA, including a contract to supply Advanced Short-Range Air-to-Air Missiles (ASRAAM) for F-35 Lightning II aircraft, a development phase contract for SPEAR 3 (a multi-purpose stand-off strike weapon for the F-35 Lightning II aircraft), and a demonstration and manufacture contract for the supply of the Sea Ceptor air defence weapon system for the Type 26 frigate.

The UK Ministry of Defence awarded MBDA a contract for additional Common Anti-air Modular Missiles to support its land requirements.

The Meteor Beyond Visual Range Air-to-Air Missile achieved its most significant milestone to date during the Farnborough International Airshow in 2016 when it was officially declared in operational service on Swedish Air Force Gripen JAS 39 combat jets.

Two significant contracts were signed with Qatar, including the supply of Aster/VL Mica air defence systems and the Exocet MM40 Block 3 anti-ship missile for the Naval surface fleet, as well as a Missile Coastal Defence System.

MBDA has secured an aircraft weapons package contract from India and continues to pursue weapons package orders as part of export contracts for Typhoon and other aircraft platforms.

Looking forward

In the Kingdom of Saudi Arabia, following agreement of the budget for the next five years of the Saudi British Defence Co-operation Programme, we expect to sustain our long-term presence through delivering current programmes, further industrialisation and developing new business in support of the Saudi military forces. We are focused on our ongoing commitment to support the national objectives of local skills and technology, increasing employment and developing an indigenous defence industry, and will structure our business and portfolio of interests in Saudi Arabia to meet this long-term strategy.

In Australia, the business is now structured around long-term sustainment and upgrade activities and we are progressing further opportunities with the Australian government to provide leading defence build and support capabilities.

MBDA has a strong order book that underpins future growth built on the effective partnerships it has established with its domestic customers and recent export success. The business will look to further this domestic and export strategy in the air, maritime and land domains.