

**Total Performance
across our markets**

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Results in brief

	2010	Restated ¹ 2009
Results from continuing operations		
Sales ²	£22,392m	£21,990m
Underlying EBITA ³	£2,214m	£2,197m
Operating profit	£1,636m	£966m
Underlying earnings ⁴ per share	40.8p	40.1p
Basic earnings/(loss) per share ⁵	28.9p	(2.3)p
Order book ⁶	£39.7bn	£46.3bn
Other results including discontinued operations		
Dividend per share	17.5p	16.0p
Cash inflow from operating activities	£1,535m	£2,232m
Net (debt)/cash (as defined by the Group) ⁷	£(242)m	£403m

Highlights

- Headline sales² increased by 1.8%
- Underlying EBITA³ up 0.8% to £2,214m (2009 £2,197m) after a charge of £100m taken in respect of the terminated Trinidad and Tobago ship contract
- Underlying earnings⁴ per share increased by 1.7% to 40.8p (2009 40.1p)
- The total dividend has increased by 9.4% to 17.5p (2009 16.0p)
- £500m market purchase of shares completed

Outlook

In 2011, a reduction in sales² is anticipated as the volume reduction in Land & Armaments is expected to complete and as the changes arising from the Strategic Defence and Security Review reduce activity in the UK businesses. The continuing actions to reduce cost and improve efficiency are expected to benefit return on sales and mitigate the impact of that lower activity. In addition, the 2011 results will benefit from the non-recurrence of the Trinidad and Tobago charge. The 2011 performance is expected to be weighted to the second half of the year. With the re-basing of the Land business in 2011, and the cost and efficiency actions, the Group will have established a resilient platform for future growth.

1 Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation.

2 Including share of equity accounted investments.

3 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).

4 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 5).

5 Basic earnings/(loss) per share in accordance with International Accounting Standard 33.

6 Including share of equity accounted investments' order books and after the elimination of intra-group orders of £1.5bn (2009 £1.7bn).

7 See page 5.

Preliminary results statement

“BAE Systems is one of the world’s leading defence and security companies.”

BAE Systems has business operations providing key national capabilities in many of the world’s larger defence and security markets. Although the Group faces a more challenging trading environment as governments look for cost savings to address budgetary pressures, our broad base of activity results in a resilient business that is well positioned to withstand near-term market pressures.

Affordability and value for money are increasingly the priorities for customers. Early recognition by the Group of customer budgetary pressures resulted in significant cost reduction and efficiency actions being taken in 2009 which have continued throughout 2010. These actions have resulted in net headcount reduction of approximately 15,100 (including contractors) in the past two years. This cost reduction programme will enhance competitiveness, deliver further improved value for customers, and be of sustained benefit to the Group’s performance.

BAE Systems has a substantial presence in Services activities in its defence and security markets. These activities, which represented 48% of sales in 2010, include Readiness & Sustainment business in the air, land and maritime defence domains, and provision of Cyber & Intelligence services. The Group is successfully growing its Services businesses, delivering enhanced capabilities whilst reducing costs for its customers.

BAE Systems’ business is based around home markets where the Group has established, or seeks to establish, a strong position in the defence industrial base. The Group’s key home markets are in Australia, India, Saudi Arabia, the UK and the US. Sweden and South Africa remain an important part of the Group’s Land & Armaments business.

US

Following a review of markets and customers’ needs in the US, changes to the Group’s organisation were implemented in the first half of the year to realign BAE Systems, Inc. to better deliver on its strategy. Reductions in costs, benefiting both the Group’s customers and shareholders, are flowing from the simplified organisation. These changes enable BAE Systems to be more competitive in a challenging environment and more agile in responding effectively to customers’ needs. In July, following changes to the Group’s US organisation, Larry Prior was appointed Executive Vice President, Service Sectors and Bob Murphy was appointed Executive Vice President, Product Sectors, both reporting to Linda Hudson, President and Chief Executive Officer of BAE Systems, Inc.. Larry and Bob are also members of the Group’s Executive Committee.

In early February 2010, the US Quadrennial Defense Review (QDR) was released. The accompanying US defence budget for Fiscal Year 2011 identified growth in the allocation to the investment account element. The QDR restated the US’s commitment to the large, next generation, F-35 combat aircraft programme. BAE Systems, through both its US and UK businesses, is a significant participant on this programme.

The US defence and security markets continue to generate a number of business opportunities, despite budgetary pressures. These pressures are leading to Department of Defense programme reprioritisations and a drive for greater efficiencies in procurement. These efficiencies are expected to help fund continued modest growth on investment in defence capability.

We are deeply saddened to report the death of one of our employees at our York facility in the US. We are reviewing the cause of this accident and co-operating fully with the regulatory investigation.

UK

Pressure to reduce government expenditure in the UK was reflected in the Comprehensive Spending Review and the findings of the UK Strategic Defence and Security Review (SDSR) were published in October. The review identified a number of changes to UK defence and security priorities over the coming years.

The Group continues to work with the UK Ministry of Defence to address the detailed implications of the changes identified by the SDSR. The Group believes that it can continue to help in delivering efficiency improvements and value for money in the way capability is generated and delivered. In aggregate, the changes resulted in some modest impact on the performance of the Group’s UK business in 2010 and, thereafter, are expected to result in a reduction of approximately one pence in earnings per share, per annum, when compared with the Group’s prior financial planning assumptions.

Other home markets

The Group continues to seek growth in Australia and the Kingdom of Saudi Arabia where it has strong, established home market positions.

In Australia, the defence budget is expected to grow following publication in 2009 of a Defence White Paper outlining the key areas for defence spend over the coming years.

In the Kingdom of Saudi Arabia, defence spending is expected to continue to be a high priority, representing some 10.9% of GDP in 2009.

Defence spending in India is expected to grow substantially. In the year, the Group has taken a number of steps to develop India as one of its home markets. A second major contract for the supply of Hawk aircraft to India was received, with local assembly to be undertaken by Hindustan Aeronautics Limited. A land systems joint venture with Mahindra & Mahindra Limited was established, which is currently developing and marketing several vehicles with the support of other BAE Systems’ businesses.

M&A activity

In addition to pursuing organic growth, the Group has continued to make progress in developing its business through targeted acquisitions. Notably, acquisitions have been made since January 2010 in Services and Electronic Systems, specifically high technology electronic and electro-optic systems. BAE Systems continues to target these areas, which are identified as priorities for customers and offer prospects for growth.

In July 2010, the Group completed the acquisition of Atlantic Marine Holding Company, a naval services business, for \$372m (£245m). The business employs approximately 1,500 people at Mayport and Jacksonville, Florida; Moss Point, Mississippi; and Mobile, Alabama. The acquisition complements BAE Systems’ existing ship repair and upgrade capabilities serving the US Navy. The Group anticipates continued strong demand for naval support capabilities in the US, and the acquisition is consistent with our strategy to address anticipated growth in Services activities.

In October, BAE Systems completed the acquisition of OASYS Technology, LLC, a US manufacturer of electro-optical systems and sub-assemblies, for an initial cash consideration of \$24m (£15m) and a potential earn out of up to \$29m (£18m). The acquisition complements BAE Systems' existing electro-optical capabilities, technologies and product offerings.

In January 2011, the Group completed the acquisition of stratsec.net Pty Limited, an Australian information security company supplying government and commercial customers. The A\$24m (£16m) acquisition supports the Group's strategy to add capabilities and footprint in the growing area of Cyber & Intelligence.

In February 2011, BAE Systems completed the acquisition of L-1 Identity Solutions, Inc.'s Intelligence Services Group, a leading provider of security and counter threat capabilities to the US government, for a cash consideration of approximately \$297m (£190m).

In December, the Group entered into a definitive agreement to acquire ETI A/S, a leading Danish Cyber & Intelligence company providing advanced technology products and services to government and commercial clients worldwide, for a cash consideration of DKK1.2bn (£138m).

In January 2011, the Group entered into an agreement to acquire the 91.3% outstanding equity of Fairchild Imaging, Inc. for a cash consideration of \$86m (£55m). The California-based business provides solid-state electronic imaging components, cameras, and systems for aerospace, industrial, medical and scientific imaging applications. The acquisition complements the Group's electro-optics and night vision capabilities.

The proposed acquisitions of ETI A/S and Fairchild are conditional, among other things, upon receiving regulatory approval.

In January 2011, the Group announced a recommended €217m (£186m) cash offer for Norkom Group plc, a provider of innovative counter-fraud and anti-money laundering solutions to the global financial services industry.

In June, BAE Systems completed the sale of half of its non-strategic 20.5% shareholding in Saab AB for a cash consideration of SEK1,041m (£92m). The sale of the Group's remaining investment in Saab is expected in due course.

In September, BAE Systems announced that it was reviewing strategic options with regard to its Platform Solutions business. In January 2011, the Group announced that the sale of the business was no longer being pursued.

Global settlement

In February 2010, the Company announced a global settlement of certain regulatory investigations with the US Department of Justice (DoJ) and the UK Serious Fraud Office (SFO), including an agreement with the SFO which provided for a payment of £30m for the benefit of the people of Tanzania less any penalty imposed by the Court in connection with the agreed basis of settlement. A penalty of £500,000 (together with costs of £225,000) was imposed by the Court in December 2010. The remaining balance of £29.5m (together with interest) will be applied by the Company for the benefit of the people of Tanzania in accordance with the applicable Company policies, including those relating to business conduct and the making of charitable contributions. The Company is in the process of creating an advisory board comprising suitably qualified and experienced individuals to guide the Company as to the possible approaches to the realisation of this objective.

Following the settlement with the DoJ, dialogue continues with other US regulatory agencies in order to address their concerns regarding matters arising from the settlement.

Cash flow

Good cash generation has been achieved in the year, and is expected to continue, notwithstanding any short-term volatility. Use of this cash flow is expected to include a focus on pursuing opportunities for enhanced equity returns through investment in the business by way of organic development or precisely targeted acquisitions. In addition, the Group will continue to meet its pension funding obligations. Accelerated returns of capital to shareholders remain an option to address extended periods of balance sheet inefficiency.

Board

Ravi Uppal, a non-executive director, has advised the Company that he wishes to dedicate more time to his business activities in India and will therefore stand down from the Board at the end of his three-year term of appointment on 1 April this year.

BAE Systems remains a broadly-based and resilient business, with a focus on business opportunities in Services, Electronic Systems and Platforms. In addition, cost efficiency will continue to be a priority focus for management to the benefit of customers and to extract greater performance from the Group's large order book.

Summary income statement – continuing operations

	2010 £m	Restated ¹ 2009 £m
Sales²	22,392	21,990
Underlying EBITA³	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
Amortisation of intangible assets	(392)	(286)
Impairment of intangible assets	(125)	(973)
Finance costs ²	(194)	(698)
Taxation expense ²	(461)	(352)
Profit/(loss) for the year	1,027	(61)
Basic earnings/(loss) per share	28.9p	(2.3)p
Underlying earnings ⁴ per share	40.8p	40.1p
Dividend per share	17.5p	16.0p

Exchange rates

	2010	2009
£/\$ – average	1.545	1.566
£/\$ – year end	1.565	1.615
£/€ – average	1.166	1.123
£/€ – year end	1.166	1.125
£/A\$ – average	1.682	1.990
£/A\$ – year end	1.526	1.795

Segmental analysis – continuing operations

	Sales ²		Underlying EBITA ³	
	2010 £m	Restated ¹ 2009 £m	2010 £m	Restated ¹ 2009 £m
Electronics, Intelligence & Support	5,653	5,637	668	575
Land & Armaments	5,930	6,738	604	604
Programmes & Support	6,680	6,298	529	670
International	4,534	3,828	478	419
HQ & Other Businesses	278	254	(65)	(71)
Intra-group	(683)	(765)	–	–
	22,392	21,990	2,214	2,197

Following the sale of half of the Group's 20.5% shareholding in Saab AB, its share of the results of Saab AB to the date of disposal are now shown within discontinued operations for the current and prior periods (see note 4).

- 1 Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation.
- 2 Including share of equity accounted investments.
- 3 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.
- 4 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 5).
- 5 Cash received on customers' account is the unexpended cash received from customers in advance of delivery which is subject to advance payment guarantees unrelated to Group performance. It is included within trade and other payables in the Group's balance sheet.

Sales² increased by 1.8% to £22.4bn (2009 £22.0bn). Like-for-like sales², after adjusting for the impact of exchange translation, and acquisitions and disposals, reduced by 1.9% as increased Typhoon deliveries and support activities in the Kingdom of Saudi Arabia were more than offset by the planned lower level of land vehicle sales in the US.

US-led businesses were responsible for 51% (2009 55%) of sales². Sales² generated from home markets represented 92% (2009 92%) of sales².

Underlying EBITA³ Management uses an underlying profit measure to monitor the year-on-year profitability of the Group. This is defined as earnings before amortisation of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.

Underlying EBITA³ increased by 0.8% to £2,214m (2009 £2,197m). This increase includes favourable exchange translation of £25m. A charge of £100m was taken in the year in respect of the terminated Trinidad and Tobago ship contract. Excluding that charge, return on sales increased to 10.3%.

US-led businesses delivered 56% (2009 52%) of the Group's underlying EBITA³.

Non-recurring items are defined as items that are relevant to an understanding of the Group's performance with reference to their materiality and nature. The non-recurring items, which are unchanged from the prior year, are as follows:

In the prior year, **profit on disposal of businesses** of £68m included £58m for the finalisation of the accounting gain arising from the BVT joint venture transaction.

The **pension accounting gain** in the prior year of £261m resulted from pension benefit restructuring in the US.

The **regulatory penalties** of £278m in the prior year reflect the global settlement of the regulatory investigations by the US Department of Justice (DoJ) and the UK's Serious Fraud Office. The £18m charge in the current year reflects the US dollar exchange rate movement on payment of the penalty in respect of the DoJ.

Amortisation of intangible assets is £106m higher at £392m mainly reflecting the profile of vehicle deliveries under the Family of Medium Tactical Vehicles (FMTV) contract.

Impairment of intangible assets of £125m includes £70m relating to the Surface Ships business primarily arising from the underperformance of the ex-VT Group export ship contracts. The £973m charge in the prior year primarily reflected the non-award of the follow-on FMTV production contract (£592m) and the weaker outlook for the US-based Products Group business (£264m).

Finance costs² were £194m (2009 £698m). The underlying interest charge was £191m (2009 £193m). A net expense of £3m (2009 £505m) arose from pension accounting, marked-to-market revaluation of financial instruments and foreign currency movements. The net expense in the prior year arose from movements in exchange rates on the unhedged element of an intercompany loan from the UK to the US business. That loan has subsequently been capitalised.

Taxation expense² reflects an effective tax rate of 29% (2009 28%). The effective tax rate is based on profit before taxation excluding goodwill impairment of £84m (2009 £725m) and regulatory penalties of £18m (2009 £278m). The underlying tax rate for 2011 is expected to be around 30%, with the final number dependent on the mix of profits between the UK and US.

Reconciliation of cash inflow from operating activities to net (debt)/cash (as defined by the Group)

	2010 £m	2009 £m
Cash inflow from operating activities	1,535	2,232
Capital expenditure (net) and financial investment	(364)	(489)
Dividends received from equity accounted investments	71	77
Assets contributed to Trust	(25)	(225)
Cash held for charitable contribution to Tanzania	(30)	–
Operating business cash flow	1,187	1,595
Interest	(173)	(186)
Taxation	(352)	(350)
Free cash flow	662	1,059
Acquisitions and disposals	(88)	(253)
Debt acquired on acquisition of subsidiary	–	(1)
Purchase of equity shares (net)	(520)	(20)
Equity dividends paid	(574)	(534)
Dividends paid to non-controlling interests	(32)	(5)
Cash (outflow)/inflow from matured derivative financial instruments	(123)	36
Movement in cash collateral	11	(11)
Movement in cash received on customers' account ⁵	7	(12)
Foreign exchange translation	(20)	262
Other non-cash movements	32	(157)
Total cash (outflow)/inflow	(645)	364
Opening net cash (as defined by the Group)	403	39
Closing net (debt)/cash (as defined by the Group)	(242)	403

Components of net (debt)/cash (as defined by the Group)

Debt-related derivative financial assets	45	39
Other investments – current	260	211
Cash and cash equivalents	2,813	3,693
Loans – non-current	(2,133)	(2,840)
Loans and overdrafts – current	(920)	(453)
Cash received on customers' account ⁵	(16)	(20)
Less: Assets held in Trust	(261)	(227)
Less: Cash held for charitable contribution to Tanzania	(30)	–
Net (debt)/cash (as defined by the Group)	(242)	403

Operating business cash flow

Electronics, Intelligence & Support	568	380
Land & Armaments	858	480
Programmes & Support	227	285
International	195	813
HQ & Other Businesses	(665)	(366)
Discontinued operations	4	3
Operating business cash flow	1,187	1,595

Underlying earnings⁴ per share was 40.8p (2009 40.1p), an increase of 1.7%. The effect of the Trinidad and Tobago £100m charge taken in 2010, net of tax, amounts to an earnings per share reduction of 2.1p. Excluding that charge, underlying earnings⁴ per share increased by 7.0% compared with 2009.

Basic earnings per share, in accordance with IAS 33, *Earnings per Share*, increased to 28.9p compared with a loss in 2009 of 2.3p.

Dividends The Board is recommending a final dividend of 10.5p per share (2009 9.6p), bringing the total dividend for the year to 17.5p per share (2009 16.0p), an increase of 9.4%.

The proposed dividend is covered 2.3 times by underlying earnings⁴ from continuing operations (2009 2.5 times), which is consistent with the Group's policy of growing the dividend whilst maintaining a long-term sustainable earnings cover of approximately two times.

Cash inflow from operating activities was £1,535m (2009 £2,232m), which includes contributions in excess of service costs for the UK and US pension schemes totalling £554m (2009 £475m), and the payment of the regulatory penalty to the US Department of Justice (£266m).

There was an outflow from **net capital expenditure and financial investment** of £364m (2009 £489m). The prior year included £94m in respect of new residential and office facilities in Saudi Arabia.

Dividends received from equity accounted investments, primarily MBDA, FNSS, Air Astana, Advanced Electronics Company and Eurofighter GmbH, totalled £71m (2009 £77m).

Assets contributed to Trust comprise a £25m payment made during the year for the benefit of the Group's main pension scheme (2009 £225m).

Cash held for charitable contribution to Tanzania Whilst the £29.5m charitable contribution for the benefit of the people of Tanzania (referred to on page 3) had not been made at the date of this report, the amount has been deducted from the Group's stated net debt at 31 December 2010 and, with effect from 1 January 2011, is being held by the Company in a notional deposit account accruing interest for the benefit of the people of Tanzania at the Sterling London Interbank Bid Rate.

Taxation payments were £352m (2009 £350m).

Net cash outflow in respect of **acquisitions and disposals** of £88m mainly comprises the acquisition of Atlantic Marine and OASYS Technology (£260m), less the disposal of half of the Group's 20.5% shareholding in Saab AB (£92m) and an initial payment of A\$112.5m (£65m, net of legal fees) received from the former owners of the Tenix Defence business relating to the resolution of outstanding issues from the 2008 acquisition. The prior year outflow of £253m mainly reflects £315m paid to acquire VT Group's 45% interest in BVT, less £70m deferred consideration received relating to the 2008 disposal of a 50% interest in Flagship Training.

The **net purchase of equity shares** of £520m (2009 £20m) includes 144 million shares purchased under the buyback programme at a cost of £500m (excluding transaction costs of £3m).

As a consequence of movements in the US dollar and Euro exchange rates during the year, there has been a **cash outflow from matured derivative financial instruments** of £123m (2009 inflow £36m) from rolling hedges on balances with the Group's subsidiaries and equity accounted investments.

Foreign exchange translation primarily arises in respect of the Group's US dollar-denominated borrowing.

Electronics, Intelligence & Support, with 30,800 employees¹, provides a wide range of electronic systems and subsystems for military and commercial applications, technical and professional services for US national security and federal markets, and ship repair and modernisation services.

Financial highlights

- Order intake¹ growth of 7.5%
- Return on sales increased to 11.8%
- Cash flow³ conversion of underlying EBITA² at 85%

Performance

	2010	2009	2008
Order intake ¹	£5,823m	£5,416m	£4,904m
Order book ¹	£4.8bn	£4.5bn	£5.2bn
Sales ¹	£5,653m	£5,637m	£4,459m
Underlying EBITA ²	£668m	£575m	£506m
Return on sales	11.8%	10.2%	11.3%
Cash inflow ³	£568m	£380m	£380m

Operational highlights

- Acquisitions of Atlantic Marine and OASYS Technology completed
- Central operating group headquarters closed as part of the restructuring of BAE Systems, Inc.
- Continued to perform on legacy programmes and secured several strategic contract awards in new markets
- US Army qualified IMX-101 as a safer and effective alternative for the potential replacement of TNT in artillery
- Strong ship repair performance continued, with order intake totalling \$1bn (£0.6bn) in 2010

Outlook

Pressures continue on the US defence budget. The US Secretary of Defense recently announced a directive aimed at reducing funding for multiple programmes and services. Whilst these funding reductions and expected slowing or ultimate cancellations of new programmes could impact the business, BAE Systems remains well positioned to support its US customers with a balance of products, technologies and services. In recognition of the growing importance of affordability and efficiencies, BAE Systems streamlined the organisation of its US business in 2010 to reduce costs and improve flexibility. BAE Systems expects to benefit from its presence in markets that are forecast to grow despite general market pressures, such as Cyber & Intelligence and ship repair services. The business will continue to focus its investment in market areas where growth is expected.

In 2010, Electronics, Intelligence & Support sales¹ were **£5,653m** (2009 **£5,637m**). On a like-for-like basis, sales¹ decreased by **2.4% over 2009** primarily reflecting the impact of contracting delays caused by the extended Continuing Resolution funding at the end of 2009.

Return on sales increased to 11.8% (2009 10.2%) reflecting good programme execution on certain maturing programmes, and ongoing cost reduction and efficiency programmes.

Operating cash inflow³ was **£568m** (2009 **£380m**) reflecting good working capital management.

Electronic Solutions

Electronic Solutions completed the \$53m (£33m) acquisition of OASYS Technology, an electro-optical systems manufacturer, which strengthens BAE Systems' Electronic Systems capabilities, providing a wide range of night vision, soldier-borne imaging systems.

The business maintained its leadership position in electronic warfare, with strong performance on Low-Rate Initial Production (LRIP) of electronic warfare suites for F-35. The initial countermeasures system was delivered, with significant improvements made to its mission systems flight testing software.

The F-22 electronic warfare programme completed its required deliveries, retired all risk items as planned and exceeded its cost reduction expectations.

The US Army continues to order the Common Missile Warning System, a helicopter missile warning system, with contract awards of \$34m (£22m) in 2010. The business also unveiled its directable, infrared countermeasures suite, Boldstroke™, an integrated aircraft survivability system for protecting aircraft from infrared-guided missiles and other threats.

A \$46m (£29m) LRIP contract was signed with the US Navy for the Advanced Precision Kill Weapon System. BAE Systems designed the laser guidance and controls on this cost-effective guidance kit that transforms standard unguided rockets into highly precise laser-guided missiles.

The business continues to invest in research and development. As part of a three-year, \$70m (£45m) investment in the development of state-of-the-art manufacturing and systems engineering facilities for integrated aircraft survivability equipment, the Worrell/Weeks Aircrew Protection Center, a new testing and equipment evaluation laboratory, was dedicated during the year.

Following strong performance by the business on legacy contracts, US Army demand for thermal weapon sights continued in 2010 with the award of an additional \$123m (£79m) contract under a five-year, Indefinite-Delivery/Indefinite-Quantity contract. The order increases the total thermal weapon sight contract value to more than \$1bn (£0.6bn) since 2004.

¹ Including share of equity accounted investments.

² Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).

³ Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

In 2010, the Driver's Vision Enhancer Family of Systems completed the hardware qualification phase and began production deliveries, with orders totalling more than \$92m (£59m). The combat-proven Check-6® thermal camera system received additional contracts worth more than \$120m (£77m) and deliveries exceeded 21,000 units.

In an emerging market related to unmanned aerial vehicle opportunities, BAE Systems was awarded several wide-area persistent surveillance contracts totalling over \$100m (£64m).

In export markets, the business secured a \$67m (£43m) contract with the Slovak Ministry of Defence for a newly designed mobile military communications system (MOKYS). The system supports secure transfer of information in the form of voice, data and images at both operational and tactical levels of command.

Intelligence & Security

In February 2011, BAE Systems completed the acquisition of L-1 Identity Solutions, Inc.'s Intelligence Services Group, which expands its existing presence in the US intelligence community, for a cash consideration of approximately \$297m (£190m).

Within the Services market segment, Intelligence & Security continues to support US and international government and commercial clients in the collection and management of information to gather intelligence, maintain security, manage risks and strengthen resilience in today's complex operating environments. Key focus areas are intelligence and counterintelligence, homeland security, law enforcement, and support of military operations.

With sustained intelligence and security operations around the world, the business captured significant, indefinite-quantity contract vehicles to provide knowledge management, cyber, information technology, and analysis support to defence and intelligence agencies, and the US Federal Bureau of Investigation (FBI).

Other key contract awards included: Next Generation Desktop for up to \$300m (£192m) that will deploy over 12,000 analyst workstations across the intelligence community; a \$40m (£26m) contract for the FBI supporting enterprise network operations and information assurance; and a command and control system contract for the US Navy with an estimated value of \$100m (£64m) that leverages BAE Systems' market-leading capabilities in full-motion video analysis, geospatial imagery analysis and mission planning.

Platform Solutions

In the air domain, the business extended a long-term agreement with Boeing, securing its exclusive position for Boeing original equipment and aftermarket work through to 2019. The contract covers commercial electronics for the Boeing 737, 747, 767 and 777 aircraft, with a potential value of \$800m (£511m).

In the UK, the business delivered the first order of new helmet-mounted optical sighting systems to the Royal Navy, addressing a mission-critical need for increased air door gunner situational awareness.

BAE Systems began production deliveries of its HybriDrive® propulsion system to British bus builder Alexander Dennis under the UK Green Bus Fund initiative, with over 100 systems in service to date. The business began the development of a hydrogen fuel cell system for SunLine Transit, delivered its first production bus to the Seattle Transit System, and was selected to power New Flyer hybrid buses in Atlanta, Georgia and Everett, Washington. Transit buses powered by BAE Systems' HybriDrive® green propulsion systems surpassed 200 million miles of clean, reliable revenue service.

Support Solutions

Consistent with the Group's strategy to grow its Readiness & Sustainment activities, Atlantic Marine was acquired in July for \$372m (£245m). The acquisition enhances the Group's ability to meet ongoing demand for ship maintenance, repair, overhaul and conversion services; marine fabrication; and construction. Integration of the business is largely complete.

A five-year, \$400m (£256m) Multi-Ship, Multi-Option contract was secured to repair and modernise eight combatant ships for the US Navy. The contract includes docking and non-docking work on four CG-47 Ticonderoga class cruisers and four DDG-51 Arleigh Burke class destroyers.

In another Services market, the US Army awarded the business a contract worth up to \$95m (£61m) to install and maintain automated access control systems at US Army bases and other installations. This award expands BAE Systems' support of physical security at US government sites.

BAE Systems has been approved to provide engineering and technical services to the US Army and other federal customers under the Rapid Response – 3rd Generation \$16.4bn (£10.5bn) government-wide contract, making it eligible to bid on a range of task orders during the ten-year life of the contract.

Land & Armaments, with 16,100 employees¹, designs, develops, produces, supports and upgrades armoured combat vehicles, tactical wheeled vehicles, naval guns, missile launchers, artillery systems, munitions and law enforcement products.

Financial highlights

- Return on sales increased to 10.2% (2009 9.0%)
- Cash flow³ conversion of underlying EBITA² at 142.1%

Performance

	2010	2009	2008
Order intake ¹	£3,707m	£3,934m	£8,568m
Order book ¹	£5.9bn	£7.8bn	£11.5bn
Sales ¹	£5,930m	£6,738m	£6,407m
Underlying EBITA ²	£604m	£604m	£566m
Return on sales	10.2%	9.0%	8.8%
Cash inflow ³	£858m	£480m	£467m

Operational highlights

- Restructured to create a leaner, more responsive business to meet customers' needs
- Net headcount reduced by 5,500 (including contractors)
- Demand continues for land vehicle Readiness & Sustainment
- Continued progress in pursuit of supply chain efficiencies
- Continued Mine Resistant Ambush Protected vehicle activity

Outlook

Land & Armaments faces a challenging market environment. It is expected that pressures on defence budgets, particularly in the US and UK, will continue. Recent statements by the US Secretary of Defense indicated that the 2011 US defence budget is likely to include anticipated cost efficiencies, programme reductions and potential cancellations. However, the business is well positioned to compete for sustainment and upgrade work on its existing platforms in the event of new vehicle programme terminations.

Sales in 2011 will be impacted by approximately \$1.6bn (£1.0bn) on completion of the current FMTV contract and by approximately \$1.0bn (£0.6bn) for the lower level of Bradley reset/remanufacture activity.

Going forward, the focus will be on securing key new programmes, pursuing export opportunities, and sustaining the margin improvement from the business's ongoing restructuring and efficiency initiatives.

In 2010, Land & Armaments sales⁴ were £5,930m (2009 £6,738m). On a like-for-like basis, and as expected, sales¹ were 13.7% below 2009 reflecting the lower level of land vehicle activity, primarily Bradley and Family of Medium Tactical Vehicles (FMTV).

Underlying EBITA² was £604m (2009 £604m). Return on sales increased to 10.2% (2009 9.0%) benefiting from both performance on the FMTV and Bradley programmes, and continuing rationalisation and efficiency activities. Underlying EBITA² in the prior year included £42m of costs associated with the unsuccessful Mine Resistant Ambush Protected (MRAP) All-Terrain Vehicle (ATV) bid.

Operating cash inflow³ was £858m (2009 £480m) reflecting strong working capital management.

In 2010, Land & Armaments restructured its operations to reflect the expected lower demand for new vehicles. As a result of the rationalisation programmes, total headcount (including contractors) was reduced by 5,500.

United States

BAE Systems has reset and upgraded more than 3,390 Bradley vehicles to support its customers since 2007. The business is extending the lives of 552 Bradley Fighting Vehicles by replacing old and damaged components under a \$91m (£58m) contract modification from the US Army Tank-automotive and Armaments Command Life Cycle Management Command. This is in addition to contracts totalling \$440m (£281m) awarded on other Bradley and HERCULES upgrades. The January statements by the US Secretary of Defense included the need to continue to upgrade the Bradley family of vehicles.

Early in 2010, following a rapid design and development process, BAE Systems introduced the Caiman Multi-Terrain Vehicle to provide an effective combination of interior capacity, tactical mobility, operator comfort and survivability. The business was awarded a \$629m (£402m) contract from the US MRAP Joint Program Office to upgrade 1,700 Caiman MRAP vehicles.

BAE Systems is on schedule to deliver seven Paladin Integrated Management prototype vehicles to the US Army under the existing research and development contract. The upgraded vehicles use combat-proven technologies from the Bradley vehicle family and feature the Group's enhanced on-board power management capability.

BAE Systems received orders from the US Marine Corps Systems Command worth \$170m (£109m) to produce 32 US Special Operations Command (SOCOM) Armored Utility Vehicles (AUV) and provide major upgrades to existing vehicles. The US SOCOM AUV is one of several MRAP variants based on the RG33 family of vehicles. To date, nearly 350 SOCOM MRAP vehicles have been produced and, in total, the business has delivered more than 6,400 MRAP vehicles to support urgent needs in Iraq and Afghanistan, with nearly \$5bn (£3.2bn) in contract awards for the production and service of MRAPs.

1 Including share of equity accounted investments.

2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).

3 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

Two new Services facilities were opened to provide the US Army with work areas to maintain the RG33 SOCOM vehicles in theatre. These facilities provide complete maintenance and service capabilities in support of the Group's products in the field, training classrooms to assist soldiers, and living quarters for workers. Expansion plans include support of all the Group's products in service with the US armed forces in the region.

During the year, the US business was awarded over \$30m (£19m) in orders to deliver armour protection kits for Armored Security Vehicles (ASV), demonstrating BAE Systems' position as a leader in innovative armouring technologies. BAE Systems has produced more than 2,500 armour kits for the highly manoeuvrable, four-wheel drive ASV.

BAE Systems opened a new state-of-the-art design and prototyping centre in Sterling Heights, Michigan, housing facilities for vehicle and subsystem modifications, integration and testing, electrical assembly fabrication, software development, and system integration of vehicle control and crew station electronics.

The business continues to deliver ahead of schedule and to cost under its existing FMTV contract, producing over 7,000 vehicles at a record high quality level, with sales of some \$2bn (£1.3bn) in 2010. This contract is expected to complete in the first quarter of 2011.

Following the submission of a bid for the development phase of the US Army's new Ground Combat Vehicle programme in May, the business was notified of a change in the customer's requirements and re-submitted its bid. The technology demonstration phase of the programme is expected to be awarded late in 2011.

United Kingdom

The munitions business has seen significant investment and transformation activity during the year, with work on new facilities at Radway Green and Washington. Throughout this period, the business has continued to perform under its 15-year partnership with the UK Ministry of Defence (MoD) to deliver small arms ammunition, achieving cumulative schedule adherence of 99% and sales of £302m in 2010.

The vehicles business received Readiness & Sustainment contracts from the UK MoD, valued at £30m, for the design, production and embodiment of upgrade kits for 78 British Army Warrior infantry fighting vehicles. In March, the business delivered the last of the latest tranche of BVs10 Viking Mk2 vehicles.

In March, the UK government announced that it had not selected BAE Systems' proposal for the Future Rapid Effect System (FRES) Specialist Vehicles requirement.

The weapons business received an order for 93 additional M777 howitzers, taking total cumulative orders since product launch to 955 systems, worth in excess of £1bn.

Sweden

The weapons business was awarded a £135m contract for the production of 48 Archer 155mm self-propelled artillery gun systems for the Swedish and Norwegian armed forces.

The vehicles business was awarded a long-term contract from the Dutch MoD to supply spares for their CV9035 infantry fighting vehicles.

In June, BAE Systems launched the latest member of the CV90 family, the CV90 Armadillo, which has been modified to provide a higher degree of payload and flexibility to address new threats, and adapt to rapidly changing operational environments, thereby introducing a new build standard.

Despite its upheld legal appeal against the decision of the Swedish Defence Materiel Administration, the Group's proposed modular 8x8 vehicle, named Alligator, was not selected for the Armoured Wheeled Vehicle programme.

South Africa

Through a partnership with General Dynamics Land Systems Canada, the business received a \$160m (£102m) follow-on contract award to build 250 RG31 Mk5E vehicles in support of the MRAP vehicle programme for use in Afghanistan.

In December, the business received a contract for \$130m (£83m) for the upgrade of approximately 700 MRAP RG31 vehicles. The upgrade includes new engines, and new independent suspension and tyre inflation systems.

Joint ventures

FNSS, a 49% owned joint venture with NuroI Group of Turkey, signed a letter of intent for approximately \$500m (£320m) with DEFTECH of Malaysia for the design and manufacture of 250 armoured wheeled vehicles for the Malaysian armed forces.

Programmes & Support, with 31,600 employees¹, primarily comprises the Group's UK-based air, maritime and Cyber & Intelligence activities.

Financial highlights

- Underlying EBITA² includes a charge of £100m on the terminated Trinidad and Tobago Offshore Patrol Vessel (OPV) programme

Performance

	2010	2009	2008
Order intake ¹	£4,139m	£8,789m	£4,195m
Order book ¹	£21.1bn	£24.3bn	£19.8bn
Sales ¹	£6,680m	£6,298m	£4,638m
Underlying EBITA ²	£529m	£670m	£491m
Return on sales	7.9%	10.6%	10.6%
Cash inflow ³	£227m	£285m	£651m

Operational highlights

- £537m Hawk India contract secured
- Third Type 45 destroyer accepted off contract and sixth launched
- HMS Astute acceptance completed and second boat, Ambush, launched
- Nimrod MRA4 programme terminated and Harrier to be taken out of service in 2011 following Strategic Defence and Security Review (SDSR)
- Continued rationalisation and efficiency activity across the operating group and alignment of cost base post SDR

Outlook

Anticipating the impact of pressure on government spending and the SDR, the business has worked closely with the MoD to align objectives and transformation plans. Programmes & Support was re-organised with effect from 1 January 2011. A new Maritime business has been created, encompassing all UK naval activities, and the new Military Air & Information line of business integrates the military air and information systems activities.

Maritime is underpinned by the Type 45, Queen Elizabeth carrier and Astute class submarine manufacturing programmes, the 15-year Terms of Business Agreement (ToBA), and the concept design of the successor submarine.

In Military Air & Information, growth is linked to increasing combat aircraft production. The business is underpinned by the Typhoon and F-35 programmes.

Detica's position in the UK market, and its development as a solutions integrator and provider of cyber security services, means that it is well positioned to support the UK government's National Security Strategy, the increased focus on intelligence and security in the UK and overseas, and growing commercial markets.

Order intake¹ in the year was £4.1bn (2009 £8.8bn). The prior year intake included long-term orders for production of Typhoon Tranche 3A aircraft, and support for Typhoon, Harrier, Type 45 and Spearfish and Sting Ray torpedoes.

Sales¹ in 2010 were £6.7bn, which, on a like-for-like basis, were broadly unchanged from 2009.

Underlying EBITA² was £529m (2009 £670m) with a return on sales of 7.9% (2009 10.6%). Underlying EBITA² in 2010 includes a £100m charge on the terminated Trinidad and Tobago OPV programme. As expected, margins were impacted by higher pension service costs arising from a fall in the discount rates applied to pension liabilities.

In addition to approximately 1,750 redundancies announced in 2009, a further 2,900 were announced across the operating group in 2010 to continue to deliver efficiencies and align the cost base following the SDR.

Military Air Solutions

Delivery of Typhoon Tranche 2 aircraft to the four partner nations continued with 41 aircraft delivered in the year. Deliveries to the Royal Saudi Air Force (RSAF) were made in accordance with the programme, with 18 of the 72 contracted aircraft delivered to date.

A £111m, four and a half-year Services contract was awarded on the Hawk Advanced Jet Trainer (AJT) fleet at RAF Valley. Twenty-five of the 28 Hawk AJT aircraft for the RAF have now been accepted.

BAE Systems has secured a £537m contract from Hindustan Aeronautics Limited to supply products and services to enable an additional 57 Hawk AJT aircraft to be built under licence in India.

On F-35, major unit deliveries to Lockheed Martin have been completed for the development programme and the first two production contract lots. Production continues to schedule on Lot 3, which includes the first two UK operational test and evaluation aircraft. The SDR decision to acquire the F-35 Carrier variant instead of the F-35 Short Take Off and Vertical Landing variant will not change BAE Systems' role on the programme. BAE Systems' workshare arrangements are not matched against the UK government's decisions on aircraft type or quantities.

On the Tornado and Harrier programmes, operational requirements continued to be met through the delivery of contractual milestones and Urgent Operational Requirements.

BAE Systems continues to show good progress in its Unmanned Aircraft Systems activities, with the roll out of the joint MoD and industry Taranis Unmanned Combat Aircraft System demonstrator in July.

¹ Including share of equity accounted investments.

² Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).

³ Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

Surface Ships

Programmes for the Royal Navy have progressed to plan, with construction well advanced on sections of the first Queen Elizabeth Class aircraft carrier in Portsmouth and Glasgow.

The Type 45 build programme continues, with delivery of third of class, Diamond, sea trials for fourth of class, Dragon, and launch of the sixth and final ship, Duncan, during 2010. The Type 45 support solution has been contracted for and established in Portsmouth.

Considerable achievements have been made to transform the business and drive cost savings under the Terms of Business Agreement (ToBA) with the MoD, including efficiency savings generated in the year to March 2010 for the MoD of £66m.

BAE Systems was awarded a four-year, £127m contract by the MoD to develop a highly flexible, multi-role frigate for the Royal Navy, the Type 26.

The export contracts for Oman, and Trinidad and Tobago have encountered significant difficulties during construction that have led to further delays and losses of £163m. The fair values of these contracts have been updated accordingly (see note 8).

In September, BAE Systems received written notice from the Government of the Republic of Trinidad and Tobago (GORTT) of its intention to cancel the contract for three OPVs. The Group has challenged GORTT's entitlement to cancel and has itself issued a termination for default notice on GORTT. The parties are now proceeding in accordance with the contract's dispute resolution provisions and a charge of £100m has been taken.

Submarine Solutions

HMS Astute, the first of class attack submarine for the Royal Navy, was accepted by the MoD in November. Ambush, the second of class, was launched in January 2011 and will now undertake commissioning activities prior to commencing sea trials. Construction continues on the third and fourth boats. A £360m order, which includes commencement of construction of the fifth boat and long lead procurement for the sixth boat, has been received.

The concept phase for the successor to the Vanguard class submarine is scheduled to complete in March 2011, with the assessment, design and development phases then to follow.

Detica

Detica's Cyber & Intelligence activity, which focuses on cyber security and information assurance, countering terrorism and

organised crime, and border security, has maintained sales growth despite reduced UK government spending. Growth opportunities in other BAE Systems home markets, and elsewhere in the Middle East and Europe, have secured sales into the law enforcement, telecommunications and financial services sectors.

In the UK, cyber security has been highlighted as a significant threat in the National Security Strategy. Detica continues to be well placed as a strategic partner to UK government. In 2010, Detica launched a new cyber security service, Detica Treidan™, and is advising commercial and government customers on preventing and responding to attacks on their networks.

The Detica NetReveal® solution continues to show global sales growth with some key wins, particularly in the financial services sector.

In July 2010, the Home Office terminated the e-Borders contract. Detica was a subcontractor to Raytheon on that programme and has submitted a claim in connection with the termination for convenience of its subcontract.

In December 2010 and January 2011, respectively, the Group announced the proposed acquisitions of ETI A/S and Norkom Group plc in the Cyber & Intelligence domain.

Integrated System Technologies (Insyte)

The FALCON secure deployable broadband communication system for the British Army and RAF completed Technical Field Evaluation in July. The contract provides for the initial operational capability to be accepted in 2011. The business is in discussions with the customer with regard to a revision to the programme schedule.

A re-baselined programme on the Maritime Composite Training System has been agreed with the customer. A revised ready for training date is planned for September 2011.

The ARTISAN 3D radar successfully completed Customer Critical Design Review in June, allowing the programme to progress towards full production.

The Sting Ray lightweight torpedo main production order for the Royal Navy completed production deliveries in May. The delivery contract for the government of Norway is on schedule, with initial deliveries achieved in December.

International, with 17,200 employees¹, comprises the Group's businesses in Australia, India and Saudi Arabia, together with interests in the pan-European MBDA joint venture and Air Astana.

Financial highlights

- Like-for-like sales¹ growth of 15.3% over 2009
- Settlement achieved with the former owners of Tenix Defence

Performance

	2010	Restated ⁴ 2009	Restated ⁴ 2008
Order intake ¹	£2,908m	£4,564m	£3,559m
Order book ¹	£9.1bn	£11.0bn	£10.2bn
Sales ¹	£4,534m	£3,828m	£2,926m
Underlying EBITA ²	£478m	£419m	£417m
Return on sales	10.5%	10.9%	14.3%
Cash inflow ³	£195m	£813m	£163m

Operational highlights

- A further ten Typhoon aircraft delivered under the Salam programme
- Typhoon operational capability being provided under the support contract
- 157 Tactica vehicles accepted by the Saudi Arabia National Guard
- BAE Systems Australia selected as Lockheed Martin's partner for maintenance and upgrade support on the Australian F-35 programme
- Defence Land Systems India Private Limited joint venture became operational

Outlook

The Group seeks to sustain its long-term presence in the Kingdom of Saudi Arabia through delivering current programmes and industrialisation, and developing new business in support of all Saudi military and paramilitary forces.

The Salam programme changes referred to will necessitate contract and pricing revisions that will need to be concluded in 2011. These will bias both sales and profits to the second half of 2011.

In Australia, BAE Systems aims to capture its share of the growth in defence spending through delivery of innovative, value for money solutions across both new and existing programmes in close co-operation with its major customer, the Australian Defence Materiel Organisation.

In India, BAE Systems plans to develop its home market strategy through existing and, if appropriate, additional joint ventures and partnerships to address the future requirements of the Indian armed forces, in new product and support activities.

During 2010, International sales¹ were £4,534m (2009 £3,828m). The increase in sales was predominantly a result of increased activity on the Saudi British Defence Co-operation Programme (SBDCP) in the Kingdom of Saudi Arabia and progress on the Landing Helicopter Dock programme in Australia.

Underlying EBITA² of £478m (2009 £419m) generated a return on sales of 10.5% (2009 10.9%). The reduction in return on sales is due to the low margin being traded on increased activity on the early stages of the Salam and Landing Helicopter Dock programmes.

Operating cash inflow³ was £195m (2009 £813m) reflecting the expected utilisation of advance funding on the Salam programme.

Saudi Arabia

The business continues to develop its presence in Saudi Arabia and remains committed to developing a greater indigenous capability in the Kingdom. This strategy is being enhanced by the entry into service of Typhoon aircraft and subsequent development of the Typhoon in-country industrial base. Of the 72 Typhoon aircraft contracted under the Salam programme, 18 have been delivered to the customer. Six of the ten aircraft delivered this year are the twin-seat variant which will allow the Royal Saudi Air Force (RSAF) to conduct their own training missions.

Whilst deliveries on the Salam programme remain on schedule, the programme is likely to be adjusted to accommodate some customer changes. These may include relocating final assembly of the last 48 of the 72 aircraft, the creation of a maintenance and upgrade facility in the Kingdom of Saudi Arabia and, in addition, the last 24 of the 72 aircraft might be delivered with modifications to allow future incorporation of Tranche 3 capability.

The business continues to provide support to the operational capability of both the RSAF and Royal Saudi Naval Force through the SBDCP. Customer discussions are ongoing for the next phases of SBDCP and the Salam programme. The Group expects the customer to place a greater emphasis on performance-based contracting and use of the Saudi industrial base.

All 200 Tactica land vehicles have been delivered to the Saudi Arabia National Guard. In 2010, 157 vehicles were accepted by the customer and entered into service. The remaining 43 vehicles are expected to be accepted in the first quarter of 2011. The business continues to support these vehicles in accordance with a separate contract.

The C4I⁵ programme remains challenging, but good progress continues towards design completion.

¹ Including share of equity accounted investments.

² Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).

³ Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

⁴ Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation.

⁵ Command, Control, Communications, Computers and Intelligence.

Australia

In 2010, BAE Systems consolidated its position as a strategic support provider to the Australian Defence Force (ADF). The Australian government's parallel commitments to maintain defence funding in real terms until 2018 and achieve A\$20bn (£13.1bn) of savings through its ten-year Strategic Reform Programme represent both an opportunity and a challenge to the business.

The business has formally presented a proposal to the customer that is expected to deliver savings of at least 20% on the support contract for the Royal Australian Air Force's (RAAF) Hawk Lead-In Fighter fleet without impacting aircraft availability.

A Memorandum of Understanding was signed with Lockheed Martin to establish BAE Systems as the preferred Australian partner for maintenance and upgrade support for the F-35 that will form the mainstay of the RAAF's air combat capability later this decade.

The business is a sub-contractor to Boeing on the Wedgetail Early Warning and Control aircraft programme. During the year, the business completed delivery of the airborne components of the Electronic Support Measures package under the programme.

The maritime business achieved on-schedule performance for the Landing Helicopter Dock project. On the Air Warfare Destroyer programme, work continues to recover the schedule for the construction of hull blocks following initial fabrication difficulties.

The business was not down-selected as a preferred tenderer for the Land 121 Phase 3 project to supply medium and heavy tactical vehicles to the ADF.

Outstanding issues concerning the acquisition of the Tenix Defence business in 2008 have been resolved. Payments totalling A\$127.5m (£74m, net of legal fees) are to be made to us by the former owners of the business.

MBDA

MBDA has delivered increased sales and increased return on sales compared to 2009.

Order intake in 2010 was below the level achieved in 2009 as global budgetary constraints meant certain export contracts were delayed. Order intake with domestic customers was good with new production orders received for additional Mistral surface-to-air missiles in France, the development and early manufacture contract for Fire Shadow loitering munitions, and the assessment phase, development and early manufacture for SPEAR (Selectable

Precision Effects At Range) weapons under the Complex Weapons contract in the UK.

Key deliveries included Aster surface-to-air missiles, Mica air-to-air missiles, Eryx anti-armour missiles, Taurus stand-off missiles, Milan anti-armour missiles and Exocet anti-ship missiles.

Development programmes continue to progress well, with key milestones being passed on the MEADS air-defence programme, SCALP Naval stand-off missile programme, Meteor beyond visual range air-to-air missile, and all assessment and development phases of the UK Complex Weapons Programmes.

The issues arising during last year's Sea Viper firings have been resolved, culminating in a number of successful trial test firings of the Aster missile. A successful system firing involving an Aster 30 missile was also made in October, to achieve Europe's first ever intercept of a tactical ballistic missile.

India

In 2010, Defence Land Systems India Private Limited, the Group's 26% joint venture with Mahindra & Mahindra Limited, became operational, giving BAE Systems a domestic capability in the land sector. The first new product, Mine Protected Vehicle India, was unveiled in Delhi in February.

BAeHAL Software Limited, the Group's 40% joint venture with Hindustan Aeronautics Limited, has undertaken a series of initiatives to expand its scope of operations and provide IT solutions to a wider range of customers.

Air Astana

Air Astana achieved another year of strong performance. The Group's share of revenue increased by 18% to \$321m (£208m), with an improvement in profit driven by rising passenger demand and strong cost base control across its portfolio of international and domestic routes.

Oman

The business has strengthened its presence in Oman during the year and significant activity is ongoing to agree an order for the supply of Typhoon aircraft to the Royal Air Force of Oman. A number of other longer-term prospects are being pursued, and the business is also developing strategies to improve its Services offerings across the significant installed and anticipated future product base.

HQ & Other Businesses, with 2,500 employees¹, comprises the regional aircraft asset management and support activities, head office and UK shared services activity, including research centres and property management.

Financial highlights

- Regional Aircraft underlying EBITA² of £35m in the year
- Payment of the regulatory penalty to the US Department of Justice

Performance

	2010	2009	2008
Order intake ¹	£207m	£175m	£212m
Order book ¹	£0.3bn	£0.4bn	£0.4bn
Sales ¹	£278m	£254m	£235m
Underlying EBITA ²	£(65)m	£(71)m	£(101)m
Cash outflow ³	£(665)m	£(366)m	£(66)m

Operational highlights

- 52 aircraft placements contracted
- Long-term lease of six RJ100 aircraft with Swiss International Airlines

Outlook

Trading conditions for the commercial aircraft market are anticipated to remain challenging given the restricted availability of credit to smaller operators and competition from surplus used aircraft.

In 2010, HQ & Other Businesses reported a loss² of £65m (2009 £71m) on sales¹ of £278m (2009 £254m).

Operating cash outflow³ in 2010 was £665m (2009 £366m). This includes the payment of the regulatory penalty to the US Department of Justice (£266m) and additional contributions in respect of UK pension schemes totalling £326m (2009 £310m).

Regional Aircraft

Conditions in the commercial aviation sector remain challenging. Despite this, the business has secured 52 aircraft placements to new and existing customers in the year, including a long-term lease of six RJ100 aircraft with Swiss International Airlines.

Lease and sale discussions continue with operators with regard to both current and future fleet requirements and support needs. Marketing activity continues to focus on both uncontracted idle aircraft and those returning off lease.

Whilst market conditions have continued to impact airline profitability, the portfolio customer base remains relatively robust and the business continues to closely monitor operator performance against default risk.

Support revenues have remained under pressure reflecting the current trading conditions. This has been partially offset by good performance within the engineering business.

The balance sheet carrying value of aircraft in the Regional Aircraft business (£166m) is based on the net present value of forecast net leasing or disposal income.

¹ Including share of equity accounted investments.

² Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).

³ Net cash outflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

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Preliminary Announcement
Consolidated income statement
for the year ended 31 December

	Notes	2010		Restated ¹ 2009	
		£m	Total £m	£m	Total £m
Continuing operations					
Combined sales of Group and equity accounted investments	2		22,392		21,990
Less: share of sales of equity accounted investments	2		(1,295)		(1,616)
Revenue	2		21,097		20,374
Operating costs			(19,761)		(20,060)
Other income			169		465
<i>Group operating profit excluding amortisation and impairment of intangible assets</i>					
		2,022		2,038	
<i>Amortisation</i>		(392)		(286)	
<i>Impairment</i>		(125)		(973)	
Group operating profit			1,505		779
<i>Share of results of equity accounted investments excluding finance costs and taxation expense</i>					
		177		210	
<i>Financial (expense)/income of equity accounted investments</i>	3	(2)		2	
<i>Taxation expense of equity accounted investments</i>		(44)		(25)	
Share of results of equity accounted investments			131		187
<i>EBITA² excluding non-recurring items</i>					
		2,214		2,197	
<i>Profit on disposal of businesses³</i>	4	1		68	
<i>Pension curtailment gains³</i>		2		261	
<i>Regulatory penalties⁴</i>		(18)		(278)	
<i>EBITA²</i>		2,199		2,248	
<i>Amortisation</i>		(392)		(286)	
<i>Impairment</i>		(125)		(973)	
<i>Financial (expense)/income of equity accounted investments</i>	3	(2)		2	
<i>Taxation expense of equity accounted investments</i>		(44)		(25)	
Operating profit	2		1,636		966
Finance costs	3				
Financial income		1,358		1,573	
Financial expense		(1,550)		(2,273)	
			(192)		(700)
Profit before taxation			1,444		266
Taxation expense					
UK taxation		(152)		(105)	
Overseas taxation		(265)		(222)	
			(417)		(327)
Profit/(loss) for the year – continuing operations			1,027		(61)
Profit for the year – discontinued operations	4		54		16
Profit/(loss) for the year			1,081		(45)
Attributable to:					
BAE Systems shareholders			1,052		(67)
Non-controlling interests			29		22
			1,081		(45)
Earnings/(loss) per share					
	5				
Basic earnings/(loss) per share			30.5p		(1.9)p
Diluted earnings/(loss) per share			30.3p		(1.9)p
Earnings/(loss) per share – continuing operations					
Basic earnings/(loss) per share			28.9p		(2.3)p
Diluted earnings/(loss) per share			28.7p		(2.3)p

1 Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation (see note 4).

2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense.

3 Included in other income.

4 Included in operating costs.

Preliminary Announcement
Consolidated statement of comprehensive income
for the year ended 31 December

	Notes	2010			Restated ¹
		Other reserves £m	Retained earnings £m	Total £m	Total £m
Profit/(loss) for the year		–	1,081	1,081	(45)
Other comprehensive income					
Currency translation on foreign currency net investments:					
Subsidiaries		160	–	160	(246)
Equity accounted investments		(6)	–	(6)	(56)
Amounts charged to hedging reserve		(84)	–	(84)	(393)
Gain on revaluation of step acquisition		–	–	–	14
Net actuarial gains/(losses) on defined benefit pension schemes ² :					
Subsidiaries		–	874	874	(2,008)
Equity accounted investments		–	40	40	(54)
Fair value movements on available-for-sale investments		–	14	14	2
Recycling of cumulative currency translation reserve on disposal	4	(17)	–	(17)	–
Recycling of cumulative net hedging reserve on disposal	4	(4)	–	(4)	–
Current tax on items taken directly to equity		(2)	70	68	78
Deferred tax on items taken directly to equity:					
Subsidiaries		24	(309)	(285)	573
Tax rate adjustment ³		–	(23)	(23)	–
Equity accounted investments		–	(12)	(12)	16
Total other comprehensive income for the year (net of tax)		71	654	725	(2,074)
Total comprehensive income for the year		71	1,735	1,806	(2,119)
Attributable to:					
Equity shareholders		71	1,706	1,777	(2,141)
Non-controlling interests		–	29	29	22
		71	1,735	1,806	(2,119)

Consolidated statement of changes in equity
for the year ended 31 December

	Attributable to equity holders of the parent					Non-controlling interests £m	Total equity £m
	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 January 2010	90	1,243	5,399	(2,141)	4,591	72	4,663
Profit for the year	–	–	–	1,052	1,052	29	1,081
Total other comprehensive income for the year	–	–	71	654	725	–	725
Share-based payments	–	–	–	58	58	–	58
Share options:							
Proceeds from shares issued	–	6	–	–	6	–	6
Purchase of own shares	–	–	–	(23)	(23)	–	(23)
Purchase of treasury shares ⁴	–	–	–	(503)	(503)	–	(503)
Other	–	–	–	–	–	2	2
Ordinary share dividends	–	–	–	(574)	(574)	(32)	(606)
At 31 December 2010	90	1,249	5,470	(1,477)	5,332	71	5,403
At 1 January 2009	90	1,238	5,974	(68)	7,234	55	7,289
(Loss)/profit for the year	–	–	–	(67)	(67)	22	(45)
Total other comprehensive income for the year	–	–	(575)	(1,499)	(2,074)	–	(2,074)
Share-based payments	–	–	–	52	52	–	52
Share options:							
Proceeds from shares issued	–	5	–	–	5	–	5
Purchase of own shares	–	–	–	(25)	(25)	–	(25)
Ordinary share dividends	–	–	–	(534)	(534)	(5)	(539)
At 31 December 2009 (restated ¹)	90	1,243	5,399	(2,141)	4,591	72	4,663

1 Other reserves reduced by £64m following finalisation of the fair values recognised on acquisition of the 45% shareholding in BVT Surface Fleet Limited (see note 8).

2 Includes a £348m benefit arising from the change from the Retail Prices Index to the Consumer Prices Index as the measure for determining minimum statutory pension increases (see note 6).

3 The UK current tax rate will be reduced from 28% to 27% with effect from 1 April 2011, which creates a tax rate adjustment.

4 Includes transaction costs of £3m.

Preliminary Announcement
Consolidated balance sheet
as at 31 December

	Notes	2010 £m	Restated ¹ 2009 £m
Non-current assets			
Intangible assets		11,216	11,306
Property, plant and equipment		2,714	2,552
Investment property		134	111
Equity accounted investments		787	846
Other investments		11	6
Other receivables		282	201
Other financial assets		110	133
Deferred tax assets		1,160	1,531
		16,414	16,686
Current assets			
Inventories		644	887
Trade and other receivables including amounts due from customers for contract work		3,559	3,764
Current tax		51	32
Other investments		260	211
Other financial assets		289	216
Cash and cash equivalents		2,813	3,693
		7,616	8,803
Total assets		24,030	25,489
Non-current liabilities			
Loans		(2,133)	(2,840)
Trade and other payables		(694)	(522)
Retirement benefit obligations	6	(3,456)	(4,679)
Other financial liabilities		(255)	(261)
Deferred tax liabilities		(6)	(8)
Provisions		(425)	(377)
		(6,969)	(8,687)
Current liabilities			
Loans and overdrafts		(920)	(453)
Trade and other payables		(9,352)	(10,381)
Other financial liabilities		(109)	(94)
Current tax		(625)	(659)
Provisions		(652)	(552)
		(11,658)	(12,139)
Total liabilities		(18,627)	(20,826)
Net assets		5,403	4,663
Capital and reserves			
Issued share capital		90	90
Share premium		1,249	1,243
Other reserves		5,470	5,399
Accumulated losses		(1,477)	(2,141)
Total equity attributable to equity holders of the parent		5,332	4,591
Non-controlling interests		71	72
Total equity		5,403	4,663

1 Restated following finalisation of the fair values recognised on acquisition of the 45% shareholding in BVT Surface Fleet Limited (see note 8).

Approved by the Board on 16 February 2011 and signed on its behalf by:

I G King
Chief Executive

G W Rose
Group Finance Director

Preliminary Announcement
Consolidated cash flow statement
for the year ended 31 December

	Notes	2010 £m	Restated ¹ 2009 £m
Profit/(loss) for the year – continuing operations		1,027	(61)
Profit for the year – discontinued operations		54	16
Profit/(loss) for the year		1,081	(45)
Taxation expense		417	327
Share of results of equity accounted investments – continuing operations		(131)	(187)
Share of results of equity accounted investments – discontinued operations	4	(2)	(16)
Net finance costs		192	700
Depreciation, amortisation and impairment		899	1,600
Gain on disposal of property, plant and equipment		(13)	(17)
Gain on disposal of businesses – continuing operations		(1)	(68)
Gain on disposal of businesses – discontinued operations	4	(52)	–
Cost of equity-settled employee share schemes		58	52
Movements in provisions		101	52
Decrease in liabilities for retirement benefit obligations		(452)	(657)
Decrease/(increase) in working capital:			
Inventories		318	6
Trade and other receivables		183	52
Trade and other payables		(1,063)	433
Cash inflow from operating activities		1,535	2,232
Interest paid		(220)	(250)
Interest element of finance lease rental payments		(1)	(2)
Taxation paid		(352)	(350)
Net cash inflow from operating activities		962	1,630
Dividends received from equity accounted investments – continuing operations		67	74
Dividends received from equity accounted investments – discontinued operations		4	3
Interest received		48	66
Purchases of property, plant and equipment		(394)	(483)
Purchases of investment property		(14)	–
Purchases of intangible assets		(19)	(42)
Proceeds from sale of property, plant and equipment		68	36
Proceeds from sale of investment property		2	–
Purchase of subsidiary undertakings		(198)	(357)
Cash and cash equivalents acquired with subsidiary undertakings		19	33
Purchase of equity accounted investments		(2)	(1)
Equity accounted investment funding		(7)	–
Proceeds from sale of subsidiary undertakings – continuing operations	4	–	2
Proceeds from sale of equity accounted investments – continuing operations	4	1	70
Proceeds from sale of equity accounted investments – discontinued operations	4	92	–
Purchase of other deposits/securities		(40)	(209)
Net cash outflow from investing activities		(373)	(808)
Capital element of finance lease rental payments		(7)	(13)
Proceeds from issue of share capital		6	5
Purchase of treasury shares		(503)	–
Purchase of own shares		(23)	(25)
Equity dividends paid		(574)	(534)
Dividends paid to non-controlling interests		(32)	(5)
Cash (outflow)/inflow from matured derivative financial instruments		(123)	36
Cash inflow/(outflow) from movement in cash collateral		11	(11)
Cash inflow from loans		1,317	920
Cash outflow from repayment of loans		(1,576)	(133)
Net cash (outflow)/inflow from financing activities		(1,504)	240
Net (decrease)/increase in cash and cash equivalents		(915)	1,062
Cash and cash equivalents at 1 January		3,678	2,605
Effect of foreign exchange rate changes on cash and cash equivalents		39	11
Cash and cash equivalents at 31 December		2,802	3,678
Comprising:			
Cash and cash equivalents		2,813	3,693
Overdrafts		(11)	(15)
Cash and cash equivalents at 31 December		2,802	3,678

1 Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation (see note 4).

1. Accounting policies

Statement of compliance

The consolidated financial statements of BAE Systems plc have been prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee interpretations (IFRICs) and the Companies Act 2006 applicable to companies reporting under IFRS.

With effect from 1 January 2010, the Group early adopted *Improvements to IFRSs 2010* which makes minor amendments to seven existing standards. These amendments impact disclosures and, therefore, have had no impact on the reported results or financial position of the Group. The amendment to IAS 1, *Presentation of Financial Statements*, allows the presentation either in the statement of changes in equity, or within the notes, of an analysis of the components of other comprehensive income by item.

With effect from 1 January 2010, the Group adopted the following amendments to existing standards:

- IFRS 3, *Business Combinations*, introduces changes in the accounting treatment of acquisitions, such as the accounting for acquisition-related costs, the initial recognition and subsequent measurement of contingent consideration, and business combinations achieved in stages. The change in accounting policy has been applied prospectively and has not had a material impact on reported results. The impact on future years will depend on the specific acquisitions undertaken; and
- Amendment to IAS 27, *Consolidated and Separate Financial Statements*, requires that acquisitions of non-controlling interests that do not result in a change of control are accounted for as transactions with equity holders and, therefore, no goodwill is recognised as a result. The change in accounting policy has been applied prospectively and has not had a material impact on reported results.

In addition, the Group has reviewed the effect of the following amendments and interpretations effective from 1 January 2010, and has concluded that they have no impact on the Group's accounts:

- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement: Eligible Hedged Items*;
- Amendment to IFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*;
- *Improvements to IFRSs 2009*;
- IFRIC 17, *Distributions of Non-cash Assets to Owners*; and
- IFRIC 18, *Transfers of Assets from Customers*.

Basis of preparation

The consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and other relevant financial assets and financial liabilities (including derivative instruments).

2. Segmental analysis – continuing operations

	Combined sales of Group and equity accounted investments		Less: sales by equity accounted investments		Add: sales to equity accounted investments		Revenue	
	2010	Restated ¹ 2009	2010	Restated ¹ 2009	2010	2009	2010	2009
	£m	£m	£m	£m	£m	£m	£m	£m
Electronics, Intelligence & Support	5,653	5,637	(49)	–	49	–	5,653	5,637
Land & Armaments	5,930	6,738	(42)	(6)	–	–	5,888	6,732
Programmes & Support	6,680	6,298	(1,445)	(1,779)	1,339	1,166	6,574	5,685
International	4,534	3,828	(1,221)	(1,088)	–	–	3,313	2,740
HQ & Other Businesses	278	254	–	–	–	–	278	254
	23,075	22,755	(2,757)	(2,873)	1,388	1,166	21,706	21,048
Intra-operating group sales/revenue	(683)	(765)	21	16	53	75	(609)	(674)
	22,392	21,990	(2,736)	(2,857)	1,441	1,241	21,097	20,374

	Underlying EBITA ²		Non-recurring items ³		Amortisation of intangible assets		Impairment of intangible assets		Operating group result	
	2010	Restated ¹ 2009	2010	2009	2010	2009	2010	2009	2010	Restated ¹ 2009
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Electronics, Intelligence & Support	668	575	2	202	(27)	(27)	(8)	(8)	635	742
Land & Armaments	604	604	–	59	(281)	(177)	(25)	(927)	298	(441)
Programmes & Support	529	670	1	68	(58)	(49)	(85)	(34)	387	655
International	478	419	–	–	(25)	(32)	(7)	(4)	446	383
HQ & Other Businesses	(65)	(71)	(18)	(278)	(1)	(1)	–	–	(84)	(350)
	2,214	2,197	(15)	51	(392)	(286)	(125)	(973)	1,682	989
Financial (expense)/income of equity accounted investments									(2)	2
Taxation expense of equity accounted investments									(44)	(25)
Operating profit									1,636	966
Finance costs									(192)	(700)
Profit before taxation									1,444	266
Taxation expense									(417)	(327)
Profit/(loss) for the year – continuing operations									1,027	(61)

1 Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation (see note 4).

2 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 4).

3 Non-recurring items comprise profit on disposal of businesses of £1m (2009 £68m), pension curtailment gains of £2m (2009 £261m) and regulatory penalties of £18m (2009 £278m).

3. Finance costs

	2010 £m	2009 £m
Interest income	40	66
Net present value adjustments	–	5
Expected return on pension scheme assets	916	777
Gain on remeasurement of financial instruments at fair value through profit or loss ¹	176	408
Foreign exchange gains	226	317
Financial income	1,358	1,573
Interest expense:		
On bank loans and overdrafts	–	(1)
On finance leases	(1)	(2)
On bonds and other financial instruments	(203)	(225)
	(204)	(228)
Facility fees	(4)	(4)
Net present value adjustments	(28)	(40)
Interest charge on pension scheme liabilities	(996)	(900)
Loss on remeasurement of financial instruments at fair value through profit or loss	(225)	(467)
Foreign exchange losses	(93)	(634)
Financial expense	(1,550)	(2,273)
Net finance costs	(192)	(700)

1 Includes a £26m (translated at average exchange rates) fair value movement in 2010 in respect of the remaining 10.25% shareholding in Saab AB.

Additional analysis of finance costs

	2010 £m	Restated ² 2009 £m
Net finance costs:		
Group	(192)	(700)
Share of equity accounted investments – continuing operations	(2)	2
	(194)	(698)
Analysed as:		
Net interest:		
Interest income	40	66
Interest expense	(204)	(228)
Facility fees	(4)	(4)
Net present value adjustments	(28)	(35)
Share of equity accounted investments – continuing operations	5	8
	(191)	(193)
Other finance costs:		
Group:		
Net financing charge on pensions	(80)	(123)
Market value and foreign exchange movements on financial instruments and investments ³	84	(376)
Share of equity accounted investments – continuing operations	(7)	(6)
	(194)	(698)

2 Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation (see note 4).

3 The loss in 2009 primarily reflected net foreign exchange movements on the unhedged portion of an intercompany loan from the UK to the US businesses.

Borrowing costs capitalised during the year were £nil (2009 £nil).

4. Disposals

Discontinued operations for the year ended 31 December 2010

On 3 June 2010, the Group sold half of its 20.5% shareholding in Saab AB to Investor AB for a cash consideration of SEK1,041m (£92m). Following the loss of significant influence over the company, the Group has discontinued the use of the equity method and the remaining shareholding in Saab is shown within other financial assets as a financial asset at fair value through profit or loss at 31 December 2010. The Group's share of the results of Saab to the date of disposal is shown within discontinued operations for the current and prior periods.

The results from discontinued operations which have been included in the consolidated income statement are as follows:

	2010 £m	2009 £m
Share of results of equity accounted investments	2	16
Profit on disposal of discontinued operations	52	–
Profit for the year – discontinued operations	54	16

The profit on disposal of discontinued operations is calculated as follows:

	£m
Cash consideration	92
Fair value of retained 10.25% investment	97
Transaction costs	(3)
Carrying value of 20.5% shareholding	(155)
Cumulative net hedging gain	4
Cumulative currency translation gain	17
Profit on disposal of discontinued operations	52

Following the classification of Saab as a discontinued operation, combined sales of Group and equity accounted investments in the comparatives for the year ended 31 December 2009 have been reduced by £425m.

Continuing operations for the year ended 31 December 2010

During 2010, the Group completed the disposal of its Sistemas y Desarrollos Funcionales Limitada (SISDEF) joint venture for total cash consideration of £1m. Profit on disposal is £1m.

Continuing operations for the year ended 31 December 2009

Profit on disposal of businesses of £68m comprised the finalisation of the accounting gain recognised in 2008 on the disposal of the Group's interests in the businesses contributed to the BVT joint venture following acquisition of VT Group's 45% interest in 2009 (£58m) and additional proceeds received in respect of the disposal in 2008 of the Group's interest in Flagship Training (£10m).

The Group received deferred consideration of £72m in the year ended 31 December 2009 in respect of the disposals of Flagship Training Limited in 2008 (£70m) and the Inertial Products business in 2007 (£2m).

5. Earnings per share

	2010			Restated ¹ 2009		
	£m	Basic pence per share	Diluted pence per share	£m	Basic pence per share	Diluted pence per share
Profit/(loss) for the year attributable to equity shareholders	1,052	30.5	30.3	(67)	(1.9)	(1.9)
Represented by:						
<i>Continuing operations</i>	998	28.9	28.7	(83)	(2.3)	(2.3)
<i>Discontinued operations</i>	54	1.6	1.6	16	0.4	0.4
Add back/(deduct):						
Profit on disposal of businesses, post tax	(1)			(65)		
Pension curtailment gains, post tax	(1)			(188)		
Regulatory penalties	18			278		
Net financing charge on pensions, post tax	59			91		
Market value movements on derivatives, post tax	(57)			278		
Amortisation and impairment of intangible assets, post tax	307			384		
Impairment of goodwill	84			725		
Underlying earnings, post tax	1,461	42.4	42.1	1,436	40.7	40.6
Represented by:						
Continuing operations	1,407	40.8	40.5	1,415	40.1	40.0
Discontinued operations	54	1.6	1.6	21	0.6	0.6
	1,461	42.4	42.1	1,436	40.7	40.6
		Millions	Millions		Millions	Millions
Weighted average number of shares used in calculating basic earnings per share		3,451	3,451		3,532	3,532
Incremental shares in respect of employee share schemes			20			4
Weighted average number of shares used in calculating diluted earnings per share			3,471			3,536

1 Restated following the sale of half of the Group's 20.5% shareholding in Saab AB and subsequent classification as a discontinued operation (see note 4).

Underlying earnings per share is presented in addition to that required by IAS 33, *Earnings per Share*, to align the adjusted earnings measure with the performance measure reviewed by the directors. The directors consider that this gives a more appropriate indication of underlying performance.

In the 12 months to 31 December 2009, outstanding share options were anti-dilutive and so were excluded from the diluted loss per share in accordance with IAS 33.

6. Retirement benefit obligations

	UK £m	US and other £m	Total £m
Total IAS 19 deficit at 1 January 2010	(5,006)	(610)	(5,616)
Actual return on assets above expected return	917	126	1,043
Decrease/(increase) in liabilities due to changes in assumptions	314	(259)	55
Additional contributions	301	–	301
Recurring contributions in excess of service cost	193	60	253
Past service cost	(39)	–	(39)
Curtailement gains	–	2	2
Net financing (charge)/credit	(118)	15	(103)
Exchange translation	–	(21)	(21)
Movement in US healthcare plans	–	22	22
Total IAS 19 deficit at 31 December 2010	(3,438)	(665)	(4,103)
Allocated to equity accounted investments and other participating employers	696	–	696
Group's share of IAS 19 deficit excluding Group's share of amounts allocated to equity accounted investments and other participating employers at 31 December 2010	(2,742)	(665)	(3,407)
Represented by:			
Pension prepayments (within trade and other receivables)	–	49	49
Retirement benefit obligations	(2,742)	(714)	(3,456)
	(2,742)	(665)	(3,407)

The decrease in UK liabilities due to changes in assumptions includes a benefit of £348m arising from the change from the Retail Prices Index to the Consumer Prices Index as the measure of price inflation for the purposes of determining minimum statutory pension increases. With the exception of the BAE Systems 2000 Pension Plan (2000 Plan), this change has affected all of the Group's UK pension schemes for deferred pension increases, but has only affected two of the Group's smaller schemes for increases to pensions in payment.

Certain of the Group's equity accounted investments participate in the Group's defined benefit plans as well as Airbus SAS, the Group's share of which was disposed of during 2006. As these plans are multi-employer plans the Group has allocated an appropriate share of the IAS 19 pension deficit to the equity accounted investments and to Airbus SAS based upon a reasonable and consistent allocation method intended to reflect a reasonable approximation of their share of the deficit. The Group's share of the IAS 19 pension deficit allocated to the equity accounted investments is included in the balance sheet within equity accounted investments. In the event that an employer who participates in the Group's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Group considers the likelihood of this event arising as remote.

The Group's share of the IAS 19 deficit excluding the Group's share of amounts allocated to equity accounted investments and other participating employers is £2.4bn (31 December 2009 £3.2bn) after tax.

Contributions

The Group contributions made to the defined benefit plans in the year ended 31 December 2010 were £695m (2009 £546m) excluding those amounts allocated to equity accounted investments and participating employers (£71m). This includes contributions of £157m into the UK schemes relating to the £500m share buyback programme completed in July 2010 and £51m into the 2000 Plan following the triennial actuarial valuation of that scheme. In 2011, the Group expects to make regular contributions at a similar level to those made in 2010.

The Group incurred a charge in respect of the cash contributions of £110m (2009 £127m) paid to defined contribution plans for employees. It expects to make contributions of £108m to these plans in 2011.

During the year, the Group contributed an additional £25m into Trust for the benefit of the Group's main pension scheme (2009 £225m). The cumulative contributions totalling £250m are reported within other investments (£260m after cumulative fair value gains of £11m) and cash and cash equivalents (£1m) at 31 December 2010, and the use of these assets is restricted under the terms of the Trust. The Group considers these contributions to be equivalent to the other lump sum contributions it makes into the Group's pension schemes and, accordingly, presents below a definition of the pension deficit including them.

	2010 £m	2009 £m
Group's share of IAS 19 deficit, net	(3,407)	(4,637)
Assets held in Trust	261	227
Pension deficit (as defined by the Group)	(3,146)	(4,410)

7. Dividends

	2010 £m	2009 £m
Equity dividends		
Prior year final 9.6p dividend per ordinary share paid in the year (2009 8.7p)	335	307
Interim 7.0p dividend per ordinary share paid in the year (2009 6.4p)	239	227
	574	534

After the balance sheet date, the directors proposed a final dividend of 10.5p (2009 9.6p). The dividend, which is subject to shareholder approval, will be paid on 1 June 2011 to shareholders registered on 26 April 2011. The ex-dividend date is 20 April 2011.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars no later than 10 May 2011.

8. Acquisitions

Acquisition of subsidiaries for the year ended 31 December 2010

In 2010, the Group acquired Atlantic Marine Holding Company (Atlantic Marine) and OASYS Technology, LLC (OASYS). If the acquisitions had occurred on 1 January 2010, combined sales of Group and equity accounted investments would have been £22.5bn, revenue £21.2bn and profit £1,022m from continuing operations for the year ended 31 December 2010.

For all acquisitions made in the year, fair values remain provisional, but will be finalised within 12 months of acquisition.

Acquisition	Acquisition date	Percentage share	Total consideration £m	Goodwill £m	Consolidated results for the period from acquisition to 31 December 2010	
					Revenue £m	Profit after tax £m
Atlantic Marine	13 July 2010	100%	245	133	74	3
OASYS	19 October 2010	100%	33	28	7	1
			278	161	81	4

Atlantic Marine

On 13 July 2010, the Group completed the acquisition of Atlantic Marine, a naval services and marine fabrication business, for \$372m (headline price of \$352m, plus purchase price adjustments of \$20m) (£245m). The business employs approximately 1,500 people at Mayport and Jacksonville, Florida, Moss Point, Mississippi, and Mobile, Alabama.

The acquisition complements BAE Systems' existing ship repair and upgrade capabilities serving the US Navy. The Group anticipates continued strong demand for naval support capabilities in the US and the acquisition is consistent with BAE Systems' strategy to address anticipated growth in Services activity in its home markets. Atlantic Marine operates two facilities in Jacksonville and Mobile, both of which are situated in deep water ports along some of the busiest trade routes in the US. Additionally, Atlantic Marine operates a facility located on the Mayport Naval Station near Jacksonville, the second largest homeport of US Navy surface combatants on the East and Gulf Coasts, and proposed as the new homeport for an aircraft carrier in the 2010 Quadrennial Defense Review. These opportunities do not translate into separately identifiable intangible assets, but represent much of the assessed value within Atlantic Marine supporting the recognised goodwill.

The goodwill is not expected to be deductible for tax purposes.

The Atlantic Marine acquisition had the following effect on the Group's assets and liabilities:

	Book value £m	Accounting policy alignments £m	Fair value adjustments £m	Fair value £m
Intangible assets	1	–	36	37
Property, plant and equipment	94	(1)	20	113
Inventories	–	1	–	1
Receivables	15	(1)	–	14
Deferred tax assets	1	–	–	1
Payables	(13)	(1)	(1)	(15)
Deferred tax liabilities	(23)	–	(18)	(41)
Provisions	(14)	–	(2)	(16)
Cash and cash equivalents	18	–	–	18
Net assets/(liabilities) acquired	79	(2)	35	112
Goodwill				133
Consideration – cash				245

The Group incurred acquisition-related costs of £5m related to external legal fees and due diligence costs. These costs have been included in operating costs.

The intangible assets acquired as part of the acquisition of Atlantic Marine of £37m primarily relate to customer relationships.

Receivables include trade receivables with a fair value and gross contractual value of £13m, which are expected to be fully recoverable.

8. Acquisitions continued

OASYS

On 19 October 2010, the Group completed the acquisition of OASYS, a US manufacturer of electro-optical systems and sub-assemblies based in Manchester, New Hampshire, for cash consideration of \$24m (£15m) and a potential earn-out of up to \$29m (£18m). The fair value of the contingent consideration at the acquisition date is \$29m (£18m). Payment of the contingent consideration is dependent on the business achieving certain revenue targets for 2010 and 2011.

The net assets and goodwill included in the consolidated balance sheet as a result of this acquisition are £5m and £28m, respectively.

The acquisition of OASYS complements the existing Electronic Solutions business in the US and enhances the Group's product offerings in growing electro-optical markets. These opportunities do not translate to separately identifiable intangible assets, but represent much of the assessed value within OASYS supporting the recognised goodwill.

Adjustments to goodwill in respect of prior year acquisitions

Tenix Defence Holdings Pty Limited (Tenix Defence)

Outstanding issues concerning the acquisition of the Tenix Defence business in 2008, including the completion accounting process, have been resolved successfully with agreement of contingent payments totalling A\$127.5m (£74m, net of legal fees) from the former owners of the business. In September 2010, the Group received a payment of A\$112.5m (£65m, net of legal fees) with the remainder due in 2011. These payments reduce purchase consideration and, therefore, the amount of goodwill arising on consolidation is reduced by £64m (£74m, less £10m deferred tax) from £323m to £259m.

Acquisition of subsidiaries for the year ended 31 December 2009

The most significant acquisition made by the Group during the year ended 31 December 2009 was of the 45% shareholding in BVT Surface Fleet Limited (BVT) held by VT Group plc (VT). If the acquisition had occurred on 1 January 2009, combined sales of Group and equity accounted investments, revenue and loss for the year ended 31 December 2009 from continuing operations would have been £22.4bn, £21.3bn and £74m, respectively.

BVT (now BAE Systems Surface Ships)

On 30 October 2009, the BVT joint venture became a wholly-owned subsidiary of the Group after VT Group plc exercised its option to sell its 45% shareholding in BVT to BAE Systems. Consideration paid including transaction costs for the remaining 45% interest was £348m. The now wholly-owned company has been renamed BAE Systems Surface Ships Limited (Surface Ships). The Group previously held a 55% interest in BVT, and accounted for its share of the results and net assets of BVT in accordance with IAS 31, *Interests in Joint Ventures*.

Total goodwill arising amounted to £584m, which comprised £225m on the initial formation of the BVT joint venture in the year ended 31 December 2008 and £359m arising on the acquisition of the 45% interest.

A final update of the fair values arising on acquisition has been undertaken, with the main adjustment being for additional losses identified on the export ship contracts amounting to £163m. The losses have arisen due to circumstances in existence prior to 1 July 2008, but those losses have only been identified in the current year. Goodwill has increased by £53m to £637m primarily reflecting 45% of the post-tax losses. In accordance with IFRS 3 (2004), the portion of these losses relating to the Group's original 55% interest in the joint venture has been reflected in the revaluation reserve (£64m), leaving a cumulative credit on that reserve of £10m. Comparatives for the year ended 31 December 2009 have been restated accordingly.

8. Acquisitions continued

In the period from acquisition to 31 December 2009, Surface Ships contributed revenue and profit after tax of £338m and £34m, respectively, to the Group's consolidated results as a wholly-owned subsidiary.

The acquisition of BVT has had the following effect on the Group's assets and liabilities. The figures in the table below represent a 100% interest in BVT.

	Book value (30 October 2009) £m	Accounting policy alignments £m	Restated	
			Fair value adjustments £m	Fair value £m
Intangible assets	–	–	225	225
Property, plant and equipment	136	–	–	136
Inventories	61	–	–	61
Receivables	225	–	–	225
Deferred tax assets	2	–	22	24
Payables	(433)	–	(327)	(760)
Current tax (liabilities)/assets	(16)	–	27	11
Deferred tax liabilities	(6)	–	(63)	(69)
Provisions	(12)	–	–	(12)
Cash and cash equivalents	33	–	–	33
Net liabilities acquired	(10)	–	(116)	(126)
Goodwill				637
Fair value of net liabilities acquired and goodwill arising				511

Components of cost of acquisitions:

Fair value of consideration for initial 55% shareholding in 2008	189
Fair value of consideration for remaining 45% shareholding in 2009	348
Total cost of acquisition	537
Losses under equity method of initial 55% shareholding	(36)
Gain on revaluation of step acquisition	10
Fair value of net liabilities acquired and goodwill arising	511

Consideration satisfied by:

Cash paid on acquisition of remaining 45% shareholding in 2009	346
Directly attributable costs:	
Paid	2
Cash consideration	348
Fair value of net assets contributed to BVT joint venture for initial 55% shareholding in 2008	178
Directly attributable costs:	
Paid	11
Total cost of acquisition	537

The intangible assets acquired as part of the acquisition of BVT of £225m represented order backlog.

Advanced Ceramics Research

The Group acquired Advanced Ceramics Research, Inc. in the US on 8 June 2009 for a consideration of \$14m (£9m). The net assets and goodwill included in the Group's Consolidated balance sheet as a result of this acquisition were £1m and £8m, respectively.

8. Acquisitions continued

Cash flows in relation to acquisitions and disposals

	Cash (consideration)/ proceeds £m	Cash and cash equivalents acquired £m	Total £m
Subsidiaries			
Atlantic Marine	(245)	18	(227)
Tenix Defence	65	–	65
OASYS	(15)	1	(14)
Other	(3)	–	(3)
Purchase of subsidiary undertakings	(198)	19	(179)
Equity accounted investments			
Other	(2)	–	(2)
Purchase of equity accounted investments	(2)	–	(2)
Other	1	–	1
Proceeds from sale of equity accounted investments – continuing operations	1	–	1
Saab	92	–	92
Proceeds from sale of equity accounted investments – discontinued operations	92	–	92
Total cash flows in relation to acquisitions and disposals	(107)	19	(88)

9. Related party transactions

The Group has a related party relationship with its directors and key management, its equity accounted investments and the pension plans.

Transactions occur with the equity accounted investments in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The more significant transactions are disclosed below:

	31 December 2010 £m	31 December 2009 £m
Sales to related parties	1,444	1,241
Purchases from related parties	424	426
Amounts owed by related parties	307	207
Amounts owed to related parties	1,232	1,353

10. Events after the balance sheet date

In January 2011, the Group entered into an agreement to acquire the 91.3% outstanding equity of Fairchild Imaging, Inc. for a cash consideration of \$86m (£55m). The California-based business provides solid-state electronic imaging components, cameras, and systems for aerospace, industrial, medical and scientific imaging applications. The acquisition complements the Group's electro-optics and night vision capabilities. The acquisition is conditional, among other things, upon receiving regulatory approval.

In January 2011, the Group announced a recommended €217m (£186m) cash offer for Norkom Group plc, a provider of innovative counter-fraud and anti-money laundering solutions to the global financial services industry.

On 15 February 2011, the Group acquired 100% of L-1 Identity Solutions, Inc.'s Intelligence Services Group, a leading provider of security and counter threat capabilities to the US government, for a cash consideration of approximately \$297m (£190m). The acquisition accounting exercise is yet to be undertaken.

11. Annual General Meeting

This year's Annual General Meeting will be held on 4 May 2011. Details of the resolutions to be proposed at that meeting will be included in the notice of Annual General Meeting that will be sent to shareholders at the end of March 2011.

12. Other information

The financial information for the year ended 31 December 2010 contained in this preliminary announcement was approved by the Board on 16 February 2011. This announcement does not constitute statutory accounts of the Company within the meaning of section 435 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2010 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors have reported on those accounts. Their reports were not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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